The Influence of Institutional Investors on Firm ESG Performance

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Abstract

This paper seeks to identify the relation between the Environmental, Social, and Governance (ESG) score of institutional blockholders and the ESG score of their investee firms. I examine this relation using a unique dataset that identifies owners, their identities, their level of ownership, and their own ESG scores (which can be taken as a proxy of their stance on ESG). I find a relation between the identity and ownership of blockholder as well as the ESG scores of blockholders and the ESG scores of their investee firms. The results indicate that a higher ownership of active investors has a positive impact on the responsive CSR (RCSR) score of their investee firms and no clear impact on the adaptive CSR (ACSR) score. Higher ownership of passive investors, however, has a positive impact on ACSR scores and no clear impact on RCSR scores. I also find a concave relation between the RCSR scores of passive investors and the RCSR scores of their investee firms. Finally, I find some evidence of a negative relation between ACSR scores of active investors and those of their investee firms and a positive relation between the ACSR scores of passive investors and those of their investee firms. Overall, the results provide evidence of a connection between the identities, ownership levels, and CSR practices of institutional blockholders and those of their investee firms.

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1. Introduction

In the 2021 shareholder' annual meeting of Berkshire Hathaway, the Caisse de dépôt et placement du Québec, the California Public Employees Retirement System, and Federated Hermes proposed increasing the transparency of environmental, social and governance (ESG) practices in the company (Stempel, 2021).[1] The proposal failed, but the climate change proposal got over 25% of votes and the diversity proposal just over 24%. While this is an isolated example in a specific firm, financial institutions controlling over US$130 trillion pledged at the 2021 United Nations Climate Change Conference (COP26) to make combating climate change a priority in their work (Jessop and Shalal, 2021). Such incidents suggest that large shareholders will have an active interest in the ESG practices of the firms they own. Nevertheless, the evidence on how institutional blockholders impact ESG practices remains conflicting and unclear.[2] In this thesis, I attempt to address this concern.

Environmental, social, and governance responsibilities (ESG), or, equivalently, corporate social responsibilities (CSR), has become a major concern for individuals, organizations, and governments. The environmental dimension attempts to address this element of a corporation's responsibility to society and includes issues related to energy consumption, greenhouse gas emissions, other forms of pollution, resource and waste management, and recycling. The social

[1] Similar to prior literature in Finance where governance is typically addressed separately from environmental and social factors, I refer to the latter two by ESG. In keeping with this, I use scores for corporate social responsibility (CSR) and ESG interchangeably in this paper.

[2] For example, Borghesi, Houston, and Naranjo (2014) and Gillan, Hartzell, Koch, and Starks (2010) provide evidence that there is a negative correlation between institutional ownership and ESG scores, Chava (2014), Harjoto and Jo (2011), and Nofsinger, Sulaeman, and Varma (2019), find a potentially nonlinear and positive correlation. Finally, Barnea and Rubin (2010) find no correlation between the two.

dimension includes the fair treatment of all demographic groups and employees, donations, and contributions to local communities. The governance dimension includes company disclosures, ethical behavior, and the composition of the board of directors and committees. By disclosing their standing on ESG procedures, investors and society can assess their performance on those matters and act accordingly. The same way disclosures are used to minimize fraud in financial statements, disclosure of ESG measures can be used to minimize ESG misbehavior. Of these three dimensions, namely, environmental, social, and governance related, the governance aspect has been extensively studied by corporate finance and governance researchers who recognize that the governance of corporations is intricately related to corporate policies and valuation. As a result, in this paper, I confine my discussions of ESG to the environmental and social aspects which are considered less intrinsic to the core operations of firms.

With respect to investors who may potentially drive the ESG behavior of firms, this study is limited to an analysis of institutional investors, i.e., those that invest money on behalf of their clients. These include mutual funds, index funds, insurance companies, pension funds, endowment funds, hedge funds, and investment and commercial banks. Institutional investors have been growing in importance. Institutional ownership (IO) has grown from around 6% of the US equity market capitalization in 1950 to around 67% in 2010 (Aguilar, 2013; Blume & Keim, 2012). This means that a higher proportion of a firm's shares are held by a smaller group of investors and that this concentrated group of investors has a significantly growing voting power (Bebchuk, Cohen, & Hirst, 2017). Empirical studies have demonstrated that institutional investors influence firms' behavior (Aghion, Reenen, & Zingales, 2013). However, due to agency issues, they may or may not vote in the best interest of the clients on whose behalf they invest. Some institutions have less incentives than do others to be actively involved in the firms. For instance, index funds are passive

investment vehicles whose goal is to track indexes as closely as possible with the lowest fees possible and, therefore, are not directly evaluated based on the performance of their portfolio. Many mutual funds are not much different as they are tightly linked to index benchmarks. As a result, they do not have the same motivation to supervise the management teams leading their investee firms as their clients would want them to have (Bebchuk, Cohen, & Hirst, 2017). This disconnect between investors and the governance of firms has been further amplified by recent trends. Passive investments have simplified investing for retail investors by providing low fees and diversification and, as a result, have been growing in importance (Sushko & Turner, 2018; Bebchuk, Cohen, & Hirst, 2017). There is an ongoing transfer of wealth from actively managed funds towards passively managed ones that has been going on for over a decade. Worldwide, assets under management (AUM) of passive funds was USD$8 trillion by June 2017, which accounted for 20% of the aggregate investment fund assets, 8% more than the previous decade. The US has been subject to the largest increase in popularity of passive equity funds during that time. Their AUM has exceeded USD$4 trillion, which accounts for 43% of all US equity funds assets, and the proportion of US equity shares owned by passive funds as of 2017 accounts for about 15% of the outstanding total (Sushko & Turner, 2018). Furthermore, given the outperformance of passive investments over active ones after fees and expenses (Fama & French, 2010), the shift toward passive management can be expected to continue (Bebchuk, Cohen, & Hirst, 2017).

The link between the ESG practices of institutional investors and those of their investee firms is expected to be an increasingly important part of the forces driving firm ESG practices. Investors' demand for ESG investment options has been increasing considerably. Global sustainable assets increased from USD$23 trillion in 2016 to USD$31 trillion in 2018, and the US accounted for 39% of all these assets worldwide (Global Sustainable Investment Alliance (GSIA), 2018). Some

previous research has found a positive relation between long-term institutional investors and firm ESG performance (Fu, Tang, & Yan, 2019; Erhemjamts & Huang, 2019; Meng & Wang, 2020). If it turns out that institutional ownership affects firms' ESG scores, it is possible that institutional investors' ESG scores also affect them. Thus, if passive investors maintain high ESG scores themselves, an increase in passive investments may not necessarily be detrimental for corporate ESG practices. Additionally, it could open the door to new opportunities to massively implement ESG measures in a country, such as imposing higher ESG requirements on institutional investors that would cascade to their firms. For instance, regulators could impose more ESG disclosure and ESG performance requirements on both public and private institutional investors. To meet those requirements, institutional investors may put additional pressure on firms to increase their ESG performance while minimizing the costs. It means that institutions would either buy firms that already have high ESG scores, which is a motivation for firms to increase their ESG score given that increased demand increases firm value, or institutions can become experts at enhancing the ESG score of firms they already own that have the largest potential of improvement at the lowest costs. In other words, requiring higher ESG standards at the institutional level, instead of at the firm level, could result in a more efficient capital allocation (lower costs per marginal improvement in ESG practices).

In this paper, I employ a novel dataset to provide more definitive evidence on this issue. Similar to the large literature that indicates that the ownership of corporations influences their valuation and policies (Morck, Shleifer, & Vishny, 1988; McConnell & Servaes, 1990; Basu, Paeglis & Toffanin, 2017), I put together a panel dataset on the identities and ownership of institutional blockholders and the ESG behavior and financial characteristics of their investee firms.[3] Perhaps

[3] I refer to institutional investors who own more than 5% of a firm's common equity as institutional blockholders.

most importantly, by virtue of identifying the institutional blockholders, I am able to examine the ownership levels as well as the ESG scores of these investors and separately test the extent of the relationship between each of these and the ESG scores of their investee firms. I follow Prakash, Ravi, and Zhao (2017) in categorizing CSR activities of firms into responsive CSR (RCSR) and adaptive CSR (ACSR). In particular, I follow their logic and consider RCSR as firms reacting to a negative impact on their image by creating a different and positive impact through CSR spending. In contrast, ACSR is more discretionary and could represent either an agency problem whereby managers attempt to use corporate spending to enhance their personal wealth or an attempt by managers to create long term value by investing strategically in CSR activities. In addition to the methodological advantages, the partitioning of CSR activity into ACSR and RCSR using principal components, as recommended by Prakash, Ravi, and Zhao (2017), has the advantage of allowing me a more detailed focus on the motivations behind CSR activity.

I find that the impact of institutional blockholders differs markedly between active and passive ones as well as between ACSR and RCSR. My findings indicate that the ownership of active institutional blockholders is positively associated with RCSR by their investee firms while there is no clear relation between the ownership of passive institutional blockholders and firm RCSR. In contrast, there is no clear link between the ownership of active institutional blockholders and ACSR by investee firms. Turning to the link between institutional blockholder CSR and investee CSR, I find a nonlinear relation between institutional blockholder CSR and investee (or firm) CSR. Specifically, for active institutional blockholders, I find no relation for RCSR and a negative one for ACSR only at high levels of institutional blockholder ACSR. For passive institutional blockholders, I find a concave relation between investor RCSR and firm RCSR and a positive relation between institutional blockholder and firm ACSR only at high levels of institutional

blockholder ACSR. The results indicate a fairly complex relation between institutional blockholder presence and firm CSR activity that changes based on the type of investor (active or passive), their ownership and the type of CSR activity that is consistent with the contradictory results found in the prior literature.

The remainder of this paper is organized as follows. Section 2 reviews the prior literature connecting institutional ownership with ESG performance of investee firms and develops my hypotheses. Section 3 describes the data used in this study. Section 4 provides the empirical tests and discusses the results. Section 5 concludes.

2. Institutional Ownership and ESG

In analyzing the relation between institutional blockholders and the performance of firms on ESG scores, I draw on several streams of research. The first of these links the ownership of firms with the behavior and valuation of firms.[4] While there is a rich literature on the role of managerial ownership, usually analyzing the problem from the perspective of managers being agents of shareholders that maximize their own utility, there is relatively less empirical research on the role of blockholders, and more specifically institutional blockholders. Among the papers that address this issue, Konijn, Kraussl, and Lucas (2011) find that the dispersion of the ownership stakes of the five largest blockholders has a negative influence on the value of US index-listed firms.[5] However, the differences in the motivations and resultant actions of institutional blockholders remains unclear. In my analysis, therefore, I rely on the approach of Basu, Paeglis, and Toffanin

[4] Among other, Aghion, Reenen, & Zingales (2013), Aguilar (2013), Bebchuk, Cohen, & Hirst (2017), and Blume & Keim (2010) have highlighted various facets of the growing importance of institutional investors.
[5] It should be noted that Konijn et al. (2011) focus on the combined ownership of the five largest blockholders and not on the ownership of the largest. Also, they do not distinguish between individual and corporate blockholders.

(2017) in classifying institutional blockholders into active and passive ones in an attempt to model their impact on the ESG behavior of firms.[6]

I also draw on the stream of research that examines the impact of institutional investors on firm CSR. The findings in this literature are inconclusive. While Borghesi, Houston, and Naranjo (2014), Gillan, Hartzell, Koch, and Starks (2010) find a negative correlation between institutional ownership and firm CSR, Chava (2014), Chen et al. (2020), Harjoto and Jo (2011), and Nofsinger, Sulaeman, and Varma (2019) find evidence that is more consistent with a positive correlation and Barnea and Rubin (2010) fail to find any significant correlation.[7] I posit that a potential cause of this discord in the literature is due to the manner in which CSR and institutional ownership are measured. Extant studies have overwhelmingly relied on 13F data to uncover the ownership of institutions. This leads to two potential shortcomings. First, such an empirical approach, with much of the data consisting of institutions owning a very small fraction of the equity, implicitly encourages the researcher to focus on total ownership of all institutions as the variable that captures the ownership of institutions. In this context, consider two firms, the first with a significant ownership stake distributed among a large number of primarily passive index funds while the other has a similar ownership stake controlled by one activist investor. Unfortunately, total institutional ownership turns out to be an overly broad measure that treats these two situations as identical from the perspective of institutional ownership. The second is that this data does not provide information on all institutions, only the ones that are required to file form 13F. In our context, it is also meaningful to ask whether the block ownership of manufacturing and service corporations matter.

[6] As noted by Meng and Wang (2020) long (short)-term institutional ownership promotes (discourages) CSR.
[7] The relation between investors, CSR, and firm value has also been studied by Buchanan et al. (2018), Erhemjamts and Huang (2019) and Fu et al. (2019). A survey of the literature on ownership and CSR is provided by Gillan, Koch, and Starks (2021).

An alternative approach, outlined by Basu, Paeglis, and Toffanin (2017), focuses on blockholders. I adopt this approach and modify it to address institutional rather than individual blockholders. Consequently, I am able to identify each investor, whether they are active or passive, their ownership stakes, and also their CSR scores which allow me to gauge their stance on CSR activity. For example, as noted by Hong and Kacperczyk (2009), institutional investors, whose mandate requires them to be mindful of social commitments, have a lower propensity to invest in "sin" stocks. My approach, by identifying each institutional blockholder, allows me to categorize their CSR philosophy as revealed by their own CSR scores and so, arguably, gives me a clean measure of this effect.

Regarding ESG data sources, Bouten et al. (2017) compare three popular CSR data providers, i.e., MSCI ESG KLD, ASSET4 and Sustainalytics, using analytical techniques and interviews with professionals from those CSR rating agencies. They find that MSCI ESG KLD has been the most popular in academics and that the two others have being gaining popularity. They note that researchers do not have solid justifications for their choice of CSR data supplier and that the net score created by subtracting concerns from strengths has been the most important proxy of CSR performance. They also find that each agency has a different methodology for creating its ESG scores and that analysts within a same agency could assign different scores to a same company because of high subjectivity. They state that the different rating agencies evaluate different aspects with different weights and, therefore, are not necessarily comparable. They suggest that MSCI ESG KLD Strengths, ASSET4 Drivers and Sustainalytics Disclosure are indicators of company disclosure and that MSCI ESG KLD Concerns, ASSET4 Outcomes and Sustainalytics Performance are indicators of CSR performance, so disclosure and performance indicators should be analyzed separately and not in a combined net score. For this reason, I test for the sum of

strengths, the sum of concerns and each of the CSR dimensions in robustness tests in addition to the main RCSR and ACSR scores analysis. If there are different underlying patterns, I may be able to detect them there.

Several studies find that the relation between institutional ownership and CSR is likely to be nonlinear. Among others, Fernando, Sharfman, and Uysal (2017) analyze environmental strengths and concerns and conclude that the relation between institutional ownership and firm environmental performance varies depending on the level of CSR activity.[8] I, therefore, employ quadratic specifications in my tests to explore any such potential nonlinearity.

Finally, the measurement of CSR has been the subject of some dispute in the literature. Specifically, as noted by Prakash, Ravi and Zhao (2017), the common practice of adding up strengths and concerns, has severe drawbacks in terms of making implicit strong and potentially unwarranted assumptions on the comparability of different variables measured on different scales with potentially complex interactions. For example, a company with three strengths and three concerns would have the same net score as a company with no strengths and concerns. An alternative approach of analyzing each metric of strength or concern separately has the drawback of forcing the researcher to work with an overwhelming number of dimensions of CSR. I, therefore, follow their approach of using principal components analysis to reduce the large number of CSR metrics to two primary ones, namely, reactive CSR (RCSR) and adaptive CSR (ACSR). RCSR is based on a positive correlation between CSR strengths and concerns and weights three times higher than ACSR, and ACSR is based on a negative correlation between strengths and concerns with strengths being higher. These two CSR metrics have the additional advantage of

[8] The nonlinear behavior of CSR has also been noted by, among other, Siew et al. (2016).

lending themselves well to interpretation, with RCSR appearing to proxy for situations where firms may be reacting to a negative impact on their image by creating a different and positive impact and ACSR being a proxy for more proactive CSR activity. It is worth noting that the discretionary nature of ACSR allows it to take two forms. First, such investments in ACSR could be a long-term strategic move by the firm and, therefore, could be largely value enhancing. On the other hand, it could also be the result of attempts by top management to burnish their personal reputations at the expense of shareholders. Given our perspective of looking at CSR from the point of view of institutional investors, it is unclear whether investments in ACSR will be favored or opposed. The case of RCSR is relatively clearer in that it is a required expenditure and is unlikely to be opposed by institutions. However, managers, and by extension institutions, may be more or less likely to see investments in RCSR as urgent requirements based on their interest in the short-term vs. the long-term performance of the firm.

In summary, the relation between CSR and institutional ownership is likely to be complex and nonlinear, depending on the identity and ownership of the institution and the nature of CSR. Since there are no clear theoretical guidelines on which of the forces described above will dominate under which conditions, I treat the problem more as an exploratory and empirical one and therefore present my results more as preliminary assessments of correlation rather than definitive assessments of causal relations.

3. Data

My empirical strategy of focusing on institutional blockholders to measure the role of institutional investors is due to two reasons. First, prior research, for example Dimson, Karakas, and Li (2015) suggests that direct institutional activism may be connected to changes in firm actions, specifically firm CSR activity. Since an investor needs to control a significant number of votes to initiate such

changes, blockholders owning over 5% of common equity are more suitable subjects for investigation than institutions who may own a very small fraction of firm equity. Second, the disclosure rules in the US make it easy to track blockholders owning 5% or more of a firm's equity. As a result, I am able to obtain a reliable dataset of all such firms that has the merit of being unbiased in that it does not miss any institution that satisfies the criterion of owning over 5%. The common alternative of using data disclosed by certain financial institutions on form 13F suffers the twin drawbacks of including many small investments with negligible voting power as well as excluding large strategic investors who are not investment managers. Further, since I focus on these large investors, I am able to manually track down their identities and so classify them as active or passive investors. This has two advantages. First, as argued by prior research (see, e.g., Bushee, 2001), active and passive investors differ markedly in their approach to their investee firms. In my case, that would imply very different predictions on the impact of the presence of institutional blockholders on firm CSR as outlined in the previous section. Second, by identifying individual blockholders, I am able to collect data on their CSR activities and thus a proxy of their stance on CSR that is directly revealed by their actions. As a result, I am able to analyze the data at a far more detailed level than prior research that has largely been constrained by data obtained from 13F filings, which were only able to provide researchers with a mixed pool of investors with larger or smaller stakes, having different levels of activism, and having different stances on CSR. As a result, I am able to analyze the data at a more granular level and so try to get around the contradictory results in the prior literature.

I start from the sample of firms found on both the KLD and the Compustat databases and merge these with the database of institutional blockholders for firms in CRSP and Compustat as used by Basu, Paeglis, and Toffanin (2017). This gives me a total of 1,901 firm-years with data on firm

CSR, firm characteristics, and with positive institutional blockholder ownership.[9] The years are 1999, 2004 and 2009. I manually collect data on the largest institutional blockholder for each firm-year. First, I track down their identities and classify them as active or passive as follows. If the investor is identified by the dataset provided by Bushee (2001), I classify dedicated investors, as active investors, and transient and quasi-indexers as passive investors.[10] If the institutional blockholder is not available through this classification, I manually track down the institution and identify it as a venture capitalist, private equity firm, hedge fund, or a (manufacturing or service) corporation, which I classify as active investors. Similarly, other institutional investors or employee stock ownership plans are classified as passive investors. In the few cases where I am unable to track down these details, I classify them as other and consider them as passive investors.[11] Finally, I match my identified institutions to the KLD database to obtain the CSR scores of the institutional blockholders.

My final dataset consists of 914 firm-years as described in Table 1. A summary of the financial characteristics of these firms is provided in Table 2.

4. Results

4.1 Institutional Blockholder Ownership and Firm CSR

I start with the premise of Ferrell, Liang, and Renneboog (2016) that the extent of agency costs determines the level of CSR in a firm. Ownership of institutional blockholders is my proxy for

[9] Please see Fu, Tang, & Yan (2019) for the standard adjustments made for missing data with respect to human rights.
[10] I thank Brian Bushee for making his data publicly available at https://accounting-faculty.wharton.upenn.edu/bushee/
[11] The majority of these are entities in offshore tax havens that provide minimal information. These are relatively few in numbers and my results are robust to classifying them as active or passive.

mitigation of agency costs, and I test for the relation between the level of institutional blockholder ownership and CSR scores in Table 3 and Table 4. There is some disagreement in the literature on the set of control variables to be used. I decide to use the most common ones: the market to book of assets (proxy for Tobin's Q) as a measure of valuation, the log of the book value of assets as a measure of firm size, and the ratio of R&D expenditure to total revenue as a measure of expenditure on growth opportunities. Following the literature on ownership structure, I use the difference between voting and cash flow rights as a measure of any incentive effects due to the use of dual class share structures (Li, Jeong-Bon, & Lei, 2011). In addition, as discussed in section 2, I employ a quadratic specification to allow for nonlinearity in the relation between institutional blockholder ownership and RCSR.

Table 3 reports my results for RCSR. For active blockholders, I find a positive and significant coefficient estimate for ownership in the linear specification and a positive and significant coefficient estimate for the square of ownership in the quadratic specification. My findings indicate a positive relation between the ownership of blockholders and RCSR scores that is driven largely by firms in which institutional blockholder own a relatively large fraction of equity. They indicate support for the hypothesis that active investors, especially ones who own a significant stake nudge their investee firms to pay due attention to RCSR and so avoid potential problems associated with a poor CSR record. In contrast, I find no significant relation for passive investors. I test for the counterpart relation for ACSR in Table 4. My predictions here are relatively unclear as ACSR could be associated with either long-term strategic investing in CSR, and therefore higher firm value, or with greater agency problems, and therefore lower firm value. In my base case tests in Panel A, I do not find any statistically significant relation. One possibility is that ACSR is discretionary and therefore, as noted in Jensen (1986), constrained by the availability of resources

to the management of the firm. To allow for this possibility, I repeat my tests in Panel A for the subsample of firms that report a level of profitability as measured by the earnings before interest and taxes (EBIT) divided by revenue of at least 10%. The size of the sample falls considerably as a result of this cut-off, but my reported results show a potential positive relation between the ownership of passive blockholders and ACSR in that the linear specification finds a positive and significant coefficient estimate for ownership. However, I consider this result indicative rather than conclusive due to the small sample size. Overall, my results indicate that ownership of institutional blockholders matters in shaping a firm's CSR decisions and there is a clear difference between ownership by active investors and ownership by passive investors.

4.2 Institutional Blockholder CSR and Firm CSR

I turn now to the relation between the CSR scores of institutional blockholders and the CSR scores of their investee firms. My first set of results pertain to RCSR and are reported in Table 5. In panels A and B, I test for a linear relation between the CSR scores of the institution blockholder and that of the firm. While my results confirm those obtained earlier with respect to the ownership levels, I find no discernible linear relation. Based on the evidence of Fernando, Sharfman, and Uysal (2017) and Nofsinger, Sulaeman, and Varma (2019), I hypothesize that one possible explanation of this is the nonlinear nature of the relation, so I test for this in Panels C and D. I find no discernible relation for active investors, but I find a concave relation for passive ones implying a positive relation between blockholder RCSR and firm RCSR at low levels of RCSR, and a negative one at high levels of blockholder RCSR. For active investors, a possible explanation is that due to their focus on returns, the only variable that matters is ownership. Regardless of their individual inclinations towards CSR, they appear to influence firms to increase RCSR, and are more

successful when they have more voting power. For passive investors, a possible explanation is on the lines of that proposed by Hong and Kacperczyk (2009). Such investors are more concerned with their overall satisfaction of social commitments. As a result, those that have low levels of RCSR treat their own RCSR and their investee firm's RCSR as complements and attempt to rectify this state of affairs by simultaneously investing in their own RCSR as well as investing in firms with higher RCSR. At higher levels of RCSR, such investors are closer to satisfying their RCSR goals and, as a result, treat their own RCSR and the investee firm's RCSR as substitutes.

The corresponding results for ACSR are reported in Table 6. Once again, I fail to find any linear relation in the results reported in Panels A and B. The quadratic specifications in Panels C and D find a relation only at higher levels of blockholder ACSR. This is a negative one for active investors and a positive one for passive ones. As noted earlier, ACSR being a more discretionary form of CSR, it could be interpreted either as strategic investments in CSR or as the result of agency problems. One possible explanation is that for active blockholders, high investment in ACSR implies that they have most likely satisfied any social commitments. As a result, they gain little from high investments in ACSR by investee firms and therefore, on average, avoid them in favor of firms that may be deemed better investment opportunities. In contrast, the role of socially responsible index funds could be an explanation behind the positive relation between high ACSR of institutional blockholders and high ACSR investee firms. The presence of high ACSR blockholders that manage such funds and their investment in high ACSR investee firms is consistent with the observed result.

In Panels E and F, I follow my earlier results and run the same tests for the subsample of profitable firms with EBIT greater than 10% of revenue. While the signs of the coefficient estimates are qualitative like those in Panels C and D, I do not observe any statistical significance. A possible

reason is the reduced sample size. For active investors, the sample is reduced to 36 firms even though I still have 8 predictor variables and year fixed effects.

4.3 Institutional Blockholder Strengths and Concerns

As denoted by Bouten et al. (2017), the bulk of the literature uses simpler proxies for CSR than principal components in their analysis, with the most common proxy being the net score; the net score is calculated by subtracting the sum of concerns from the sum of strengths. However, he also suggests that strengths and concerns are indicators of disclosure and performance respectively and that they should be analyzed separately. Therefore, for robustness, I decide to test these two measures separately as suggested. I replace the measures of CSR by the sum of strengths in Table 7**.** Panels A and B report the linear relations, and panels C and D report the non-linear relations. Consistent with previous results, blockholder ownership has a positive relation with the sum of strengths for active investors. Nevertheless, it is for passive investors that there is a relation between the sum of strengths of the blockholder and the sum of strengths of the firm, positive at low levels and negative at high levels; there is no apparent relation for active investors. In other words, for active investors, higher institutional ownership is related with higher firm strengths, but institutional blockholder strengths have no relation with firm strengths; while, for passive investors, it is the institutional blockholders strengths that are related with firm strengths, and institutional ownership has no relation.

Table 8 reports the results when using the sum of concerns as a measure of CSR. Panels A and B report the linear relations, and panels C and D report the non-linear relations. There is a positive linear relation between blockholder ownership and concerns of firms for active investors; this same

relation for passive investors is unclear. Furthermore, there is no apparent relation between concerns of institutional blockholders and concerns of firms.

4.4 CSR Components

Finally, there is the possibility that different CSR categories have opposite correlations that offset each other. To verify that, I run the regressions again by using the raw score of each category and keep strengths and concerns separated. Table 9 reports the results. Panel A reports strengths of active investors, panel B reports strengths of passive investors, panel C reports concerns of active investors, and panel D reports concerns of passive investors. Regarding strengths of active investors, there is a convex relation for blockholder ownership with community, employee relations and product. Regarding strengths of passive investors, blockholder ownership has no significant relation, but there is a negative linear relation between the institutions and the firms for environmental and for product, and there is a positive linear relation for community and for diversity. Regarding the concerns of active investors, blockholder ownership has a concave relation with community, and a convex relation with product. The only positive linear relation between active institutions and concerns of firms is environmental. Regarding the concerns of passive investors, there is a convex relation for blockholder ownership with employee relations and with diversity, but a positive and linear relation with product; and there is a negative linear relation for institutions and firms regarding environmental, community, and diversity; and there is a positive linear relation with product. In summary, both blockholder ownership and CSR activities show relations with firm CSR activities but in different ways. The relations for each category seem different, sometimes positive, sometimes negative, and sometimes neutral. Given these results,

future researchers should consider whether to analyze each category independently rather than combining them all together in one measure.

5. Conclusion

In this paper, I analyze several dimensions of institutional blockholders' influence on CSR by firms. I find that the ownership and CSR characteristics of blockholders are correlated with the CSR activity of firms. In particular, I find that this relation is dependent on the nature of the blockholder, active or passive; on the nature of CSR activity, ACSR or RCSR; and that it is complex and nonlinear. My use of blockholders rather that the aggregate institutional investor data from 13F filings provides me with several advantages. I can identify the nature of the blockholder and classify them as active or passive, focus on blockholders with significant presence, and delve into the nature of the blockholders' CSR policies to better analyze this relation. In particular, the difference between active and passive blockholders and the difference between ACSR and RCSR are both striking and indicate an urgent need to differentiate between these categories. In these regards, I can get past the constraints imposed by 13F data on prior research.

Despite these contributions, my analysis is limited in several ways. First, unlike Dyck, Lins, Roth, Towner, and Wagner (2020) and Chen, Dong, and Lin (2020), I make no attempt to investigate the causality in my observed empirical relation between blockholder presence and firm CSR. Second, my ability to provide a more nuanced and complex analysis due to the availability of blockholder characteristics in terms of their stance as active or passive investors as well as in terms of their revealed CSR outlook, while allowing me to carry out a more detailed analysis, widens the scope of the investigation to the point that I am unable to provide definitive explanations of the observed phenomena. For example, it is not clear why certain institutions will feel pressure to invest in CSR while others will not, or when ACSR is a manifestation of an agency problem and when it is a

manifestation of strategic investment in long term CSR, or how passive and active investing are respectively related to the social pressures noted by Hong and Kacperczyk (2009). These are important questions and answering them require a deeper understanding of the motivations and characteristics of institutional blockholders.

Further research could investigate the relation between firms' and institutional investors' ESG behaviors using other sources of data such as Sustainalytics, ASSET4, Bloomberg and Truevalue labs to account for more recent time periods and more observations. As per Bouten et al. (2017), different rating agencies may be using different valuation methods, so it would be valuable to see if the same relations hold for these other agencies as well. Additionally, I suggest considering conducting a more granular analysis as well as using overall scores because the relations between institutions and firms seem to be different, and sometimes opposite, for the different CSR dimensions.

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7. Appendix – Variable Definitions

Variable Name	Definition
Cash Flows Ownership	Ratio of ownership of total cash flows
Voting Ownership	Ratio of ownership of total voting power
Wedge	Spread between Voting Ownership and Cash Flows Ownership
RCSR	Firm responsive CSR
ACSR	Adaptive CSR
IB RCSR	Institutional blockholder Responsive
IB ACSR	Institutional blockholder Adaptive CSR
Environmental Strengths	Firm total environmental strengths
Environmental Concerns	Firm total environmental concerns
Community Strengths	Firm total community Strengths
Community Concerns	Firm total community Concerns
Employee Relations Strengths	Firm total employee relations strengths
Employee Relations Concerns	Firm total employee relations concerns
Diversity Strengths	Firm total diversity strengths
Diversity Concerns	Firm total diversity concerns
Product Strengths	Firm total product strengths
Product Concerns	Firm total product concerns
IB Environmental Strengths	Institutional blockholder total environmental strengths
IB Environmental Concerns	Institutional blockholder total environmental concerns
IB Community Strengths	Institutional blockholder total community Strengths
IB Community Concerns	Institutional blockholder total community Concerns
IB Employee Relations Strengths	Institutional blockholder total employee relations strengths
IB Employee Relations Concerns	Institutional blockholder total employee relations concerns
IB Diversity Strengths	Institutional blockholder total diversity strengths
IB Diversity Concerns	Institutional blockholder total diversity concerns
IB Product Strengths	Institutional blockholder total product strengths
IB Product Concerns	Institutional blockholder total product concerns
Assets ($MM)	Firm natural log of the book value of assets
Total Liabilities ($MM)	Firm natural log of liabilities in millions
Revenue ($MM)	Firm natural log of total revenue in millions
Market Capitalization ($MM)	Firm natural log of share price times the number of shares
R&D/Revenue	R&D expenses divided by total revenue
MBassets	The ratio of the market value of assets to its book value where the market value of assets is defined as the book value of assets plus the market value of equity minus the book value of equity minus deferred taxes
IO Assets ($MM)	Institutional owner natural log of assets in millions
IO Liabilities ($MM)	Institutional owner natural log of liabilities in millions
IO Revenue ($MM)	Institutional owner natural log of total revenue in millions
IO Market Cap. ($MM)	Institutional owner natural log of share price times the number of shares

Table 1 – Sample Description

This table provides a summary of the dataset used in my regressions. Panel A has the information regarding the observations at different periods in the preparation of the final sample. Panel B has the number of observations per year of the final sample. Panel C has the number of observations with active or passive managers, and the number of observations missing data on at least one variable.

Panel A: Dataset	
Firm-years with non-zero institutional blockholders with data available in MSCI ESG KLD as well as in Compustat	1,901
Final Dataset with available CSR data on firm and institutional blockholder	914
Panel B: Sample per Year	
1999	18
2004	351
2009	545
Panel C: Manager	
Active	129
Passive	785

Table 2 - Summary Statistics

This table provides summary statistics for all the variables used in the regressions. Panel A has the information regarding the different definitions of ownership. Panel B has the information regarding the CSR measure related to the firms. Panel C has the information regarding the institutional blockholders. Panel D has the information regarding the other sample variables.

Panel A: Ownership Characteristics

	N	Mean	Std. Dev.	Min	Max
Cash Flows Ownership	914	9.68%	7.08%	0.01%	85.10%
Voting Ownership	914	9.63%	7.37%	1.01%	97.84%
Wedge	914	-0.05%	2.05%	-30.05%	22.77%

Panel B: Firm CSR Characteristics

	N	Mean	Std. Dev.	Min	Max
RCSR	914	-0.1443	0.7708	-0.9720	9.519
ACSR	914	0.0134	0.8972	-4.1710	3.9080
Environmental Strengths	914	0.0886	0.3683	0.0000	4.0000
Environmental Concerns	914	0.1433	0.4911	0.0000	4.000
Community Strengths	914	0.0514	0.3008	0.0000	4.000
Community Concerns	914	0.0449	0.2174	0.0000	2.0000
Employee Relations Strengths	914	0.2287	0.5550	0.0000	4.0000
Employee Relations Concerns	914	0.5241	0.6831	0.0000	3.0000
Diversity Strengths	914	0.4858	0.8895	0.0000	7.0000
Diversity Concerns	914	0.4037	0.5041	0.0000	2.0000
Product Strengths	914	0.0547	0.2370	0.0000	2.0000
Product Concerns	914	0.1368	0.4052	0.0000	3.0000

Panel C: Institutional Blockholder CSR Characteristics

	N	Mean	Std. Dev.	Min	Max
IB RCSR	914	0.5961	1.6552	-1.0500	6.7100
IB ACSR	914	0.5662	1.062	-6.9400	4.1000
IB Environmental Strengths	914	0.0470	0.3191	0.0000	4.0000
IB Environmental Concerns	914	0.0635	0.3600	0.0000	4.0000
IB Community Strengths	914	0.4934	1.0510	0.0000	4.0000
IB Community Concerns	914	0.1794	0.4220	0.0000	2.0000
IB Employee Relations Strengths	914	0.3206	0.6775	0.0000	5.0000
IB Employee Relations Concerns	914	0.2210	0.5350	0.0000	3.0000
IB Diversity Strengths	914	1.4092	1.5569	0.0000	6.0000
IB Diversity Concerns	914	0.2910	0.4545	0.0000	1.0000
IB Product Strengths	914	0.0197	0.1390	0.0000	1.0000
IB Product Concerns	914	0.8632	1.0835	0.0000	4.0000

Panel D: Other Firm Characteristics

	N	Mean	Std. Dev.	Min	Max
Total Assets ($MM)	914	2,305	6,649	17	109,183
Revenue ($MM)	912	2,144	6,528	0[12]	96,293
R&D/Revenue	914	0.31	2.43	0	0.56
MBassets	914	2.00	1.33	0.56	13.31

[12] The firm with the lowest revenue was Wynn Resorts limited which had a revenue of $0.2 in 2004 and was thus rounded down to 0. All firms in the sample had positive revenue in each year.

Table 3 – Blockholder Ownership and Firm RCSR

This table reports regressions of CSR measures on blockholder ownership and controls. Columns 1 and 2 report results for firm-years where the largest institutional blockholder is one that is classified as active. Columns 3 and 4 report results for firm-years where the largest institutional blockholder is one that is classified as passive. Heteroskedasticity-adjusted (White) standard errors are used in calculation of t-statistics that are reported in parentheses. ***, **, and * denote significance at 1%, 5%, and 10% levels, respectively.

VARIABLES	(1) RCSR Active	(2) RCSR Active	(3) RCSR Passive	(4) RCSR Passive
Voting Ownership	1.633***	-0.792	0.144	0.904
	(2.81)	(-0.64)	(0.34)	(0.84)
Voting Ownership squared		3.070*		-2.154
		(1.87)		(-1.05)
wedge	-1.804	-2.982**	-0.070	-0.002
	(-1.025)	(-2.32)	(-0.08)	(-0.00)
R&D/Revenue	-0.002	0.003	0.010***	0.010***
	(-0.46)	(0.63)	(2.79)	(2.79)
Assets	0.122**	0.123**	0.329***	0.330***
	(2.07)	(2.13)	(6.87)	(6.90)
MBassets	-0.015	-0.038	0.062***	0.064***
	(-0.41)	(-0.98)	(3.11)	(3.24)
Constant	-1.511**	-1.177*	-2.997***	-3.053***
	(-2.37)	(-1.78)	(-7.26)	(-7.40)
Year fixed effects	YES	YES	YES	YES
Observations	123	123	738	738
R-squared	0.3250	0.365	0.290	0.291

Table 4 – Blockholder Ownership and Firm ACSR

This table reports regressions of CSR measures on blockholder ownership and controls. Columns 1 and 2 report results for firm-years where the largest institutional blockholder is one that is classified as active. Columns 3 and 4 report results for firm-years where the largest institutional blockholder is one that is classified as passive. Panel A has the results for the full sample. Panel B has the results for a subsample of profitable firms. Heteroskedasticity-adjusted (White) standard errors are used in calculation of t-statistics that are reported in parentheses. ***, **, and * denote significance at 1%, 5%, and 10% levels, respectively.

Panel A: Full sample

VARIABLES	(1) ACSR Active	(2) ACSR Active	(3) ACSR Passive	(4) ACSR Passive
Voting Ownership	-0.348	-2.863	0.393	2.351
	(-0.43)	(-1.51)	(0.45)	(1.34)
Voting Ownership squared		3.183		-5.552
		(1.242)		(-1.27)
wedge	5.021*	3.800	-1.116	-0.940
	(1.85)	(1.364)	(-1.41)	(-1.09)
R&D/Revenue	0.029***	0.035***	-0.014**	-0.014**
	(4.54)	(4.84)	(-2.38)	(-2.41)
Assets	-0.070	-0.068	0.009	0.012
	(-0.86)	(-0.86)	(0.26)	(0.33)
MBassets	-0.035	-0.059	0.060**	0.065**
	(-0.52)	(-0.85)	(2.21)	(2.41)
Constant	1.527	1.874**	-0.359	-0.502
	(1.63)	(2.01)	(-1.00)	(-1.33)
Year fixed effects	YES	YES	YES	YES
Observations	123	123	738	738
R-squared	0.076	0.097	0.010	0.012

Panel B: Subsample Tests for Profitable Firms

VARIABLES	(1) ACSR Active	(2) ACSR Active	(3) ACSR Passive	(4) ACSR Passive
Voting Ownership	-1.041	2.057	2.315***	2.669
	(-1.39)	(0.88)	(2.64)	(1.14)
Voting Ownership squared		-4.118		-1.019
		(-1.64)		(-0.23)
wedge	8.795	17.269***	-1.808***	-1.746***
	(1.44)	(2.92)	(-3.02)	(-2.99)
R&D/Revenue	2.806**	2.813**	1.509**	1.507**
	(2.56)	(2.46)	(2.36)	(2.36)
Assets	0.376***	0.370***	0.058	0.058
	(4.04)	(3.81)	(0.97)	(0.981)
MBassets	-0.071	-0.067	0.054	0.055
	(-1.13)	(-1.11)	(1.51)	(1.55)
Constant	-0.722	-0.860	-0.978*	-1.005*
	(-0.71)	(-0.80)	(-1.67)	(-1.66)
Year fixed effects	YES	YES	YES	YES
Observations	36	36	288	288
R-squared	0.590	0.619	0.043	0.044

Table 5 – Blockholder RCSR and Firm RCSR

This table reports regressions of RCSR measures on blockholder ownership, blockholder RCSR measure and controls. Columns 1 and 2 report results for firm-years where the largest institutional blockholder is one that is classified as active. Columns 3 and 4 report results for firm-years where the largest institutional blockholder is one that is classified as passive. Panel A reports the results for the base case. Panel B reports the results after controlling for firm financial characteristics. Panel C reports the results allowing for a nonlinear influence of blockholder ACSR. Panel D reports the results allowing for nonlinear blockholder ACSR and controlling for firm financial characteristics. Heteroskedasticity-adjusted (White) standard errors are used in calculation of t-statistics that are reported in parentheses. ***, **, and * denote significance at 1%, 5%, and 10% levels, respectively.

Panel A: Base case

VARIABLES	(1) RCSR Active	(2) RCSR Active	(3) RCSR Passive	(4) RCSR Passive
Voting Ownership	2.083***	0.121	-1.038**	-1.774
	(3.75)	(0.09)	(-1.99)	(-1.30)
Voting Ownership squared		2.505		2.071
		(1.36)		(0.81)
IB RCSR	-0.013	-0.013	0.004	0.003
	(-0.42)	(-0.40)	(0.26)	(0.19)
wedge	-2.227	-3.281**	1.744**	1.692**
	(-1.14)	(-2.25)	(2.23)	(2.27)
Constant	-0.620***	-0.440**	-0.248*	-0.206
	(-3.93)	(-2.46)	(-1.96)	(-1.39)
Year fixed effects	YES	YES	YES	YES
Observations	129	129	785	785
R-squared	0.251	0.279	0.008	0.009

Panel B: With Controls for Firm Characteristics

VARIABLES	(1) RCSR Active	(2) RCSR Active	(3) RCSR Passive	(4) RCSR Passive
Voting Ownership	1.686***	-0.737	0.171	1.132
	(2.85)	(-0.59)	(0.40)	(1.07)
Voting Ownership squared		3.064*		-2.716
		(1.86)		(-1.304)
IB RCSR	-0.019	-0.019	0.02	0.021
	(-0.62)	(-0.57)	(1.30)	(1.41)
wedge	-2.040	-3.207**	-0.146	-0.067
	(-1.09)	(-2.22)	(-0.15)	(-0.07)
R&D/Revenue	0.000	0.006	0.010***	0.010***
	(0.01)	(0.88)	(2.85)	(2.86)
Assets	0.127**	0.128**	0.330***	0.331***
	(2.16)	(2.23)	(6.87)	(6.90)
MBassets	-0.009	-0.032	0.063***	0.065***
	(-0.24)	(-0.87)	(3.12)	(3.26)
Constant	-1.583**	-1.246*	-2.996***	-3.066***
	(-2.48)	(-1.90)	(-7.27)	(-7.38)
Year fixed effects	YES	YES	YES	YES
Observations	123	123	738	738
R-squared	0.327	0.367	0.292	0.292

Panel C: Nonlinear Specification for Blockholder RCSR

VARIABLES	(1) RCSR Active	(2) RCSR Active	(3) RCSR Passive	(4) RCSR Passive
Voting Ownership	2.056***	0.140	-1.009**	-1.545
	(3.74)	(0.10)	(-1.97)	(-1.17)
Voting Ownership squared		2.445		1.507
		(1.34)		(0.61)
IB RCSR	0.061	0.054	0.162**	0.160**
	(0.98)	(0.85)	(2.06)	(2.06)
IB RCSR Squared	-0.014	-0.013	-0.050**	-0.050**
	(-1.30)	(-1.16)	(-2.19)	(-2.19)
wedge	-2.190	-3.225**	1.666**	1.629**
	(-1.12)	(-2.23)	(2.08)	(2.10)
Constant	-0.644***	-0.466**	-0.122	-0.092
	(-4.17)	(-2.59)	(-0.81)	(-0.53)
Year fixed effects	YES	YES	YES	YES
Observations	129	129	785	785
R-squared	0.258	0.285	0.021	0.021

Panel D: Nonlinear Specification for Blockholder RCSR with Controls for Firm Characteristics

VARIABLES	(1) RCSR Active	(2) RCSR Active	(3) RCSR Passive	(4) RCSR Passive
Voting Ownership	1.662***	-0.737	0.208	1.318
	(2.84)	(-0.59)	(0.49)	(1.25)
Voting Ownership squared		3.04*		-3.136
		(1.87)		(-1.45)
IB RCSR	0.052	0.048	0.128**	0.132**
	(0.92)	(0.85)	(2.04)	(2.11)
IB RCSR Squared	-0.014	-0.013	-0.035*	-0.036*
	(-1.26)	(-1.19)	(-1.87)	(-1.91)
wedge	-2.004	-3.163**	-0.180	-0.089
	(-1.06)	(-2.22)	(-0.19)	(-0.09)
R&D/Revenue	0.003	0.009	0.010***	0.010***
	(0.48)	(1.18)	(2.88)	(2.88)
Assets	0.126**	0.128**	0.326***	0.327***
	(2.14)	(2.21)	(7.06)	(7.09)
MBassets	-0.010	-0.033	0.061***	0.063***
	(-0.29)	(-0.90)	(3.15)	(3.30)
Constant	-1.593**	-1.259*	-2.861***	-2.939***
	(-2.46)	(-1.90)	(-7.66)	(-7.74)
Year fixed effects	YES	YES	YES	YES
Observations	123	123	738	738
R-squared	0.333	0.372	0.298	0.299

Table 6 – Blockholder ACSR and Firm ACSR

This table reports regressions of ACSR measures on blockholder ownership, blockholder ACSR measure and controls. Columns 1 and 2 report results for firm-years where the largest institutional blockholder is one that is classified as active. Columns 3 and 4 report results for firm-years where the largest institutional blockholder is one that is classified as passive. Panel A reports the results for the base case. Panel B reports the results after controlling for firm financial characteristics. Panel C reports the results allowing for a nonlinear influence of blockholder ACSR. Panel D reports the results allowing for nonlinear blockholder ACSR and controlling for firm financial characteristics. Panel E reports results for the subsample of profitable firms. Panel F reports results for the subsample of profitable firms and controlling for firm financial characteristics Heteroskedasticity-adjusted (White) standard errors are used in calculation of t-statistics that are reported in parentheses. ***, **, and * denote significance at 1%, 5%, and 10% levels, respectively.

Panel A: Base Case

VARIABLES	(1) ACSR Active	(2) ACSR Active	(3) ACSR Passive	(4) ACSR Passive
Voting Ownership	-0.616	-2.371	0.228	1.290
	(-0.87)	(-1.29)	(0.31)	(0.75)
Voting Ownership squared		2.233		-2.990
		(0.91)		(-0.75)
IB ACSR	0.101	0.084	-0.000	0.000
	(1.34)	(1.12)	(-0.01)	(0.00)
wedge	4.355*	3.536	-0.967	-0.887
	(1.70)	(1.38)	(-1.23)	(-1.08)
Constant	0.389	0.577	-0.237	-0.298
	(0.73)	(1.05)	(-1.21)	(-1.36)
Year fixed effects	YES	YES	YES	YES
Observations	129	129	785	785
R-squared	0.069	0.080	0.002	0.003

Panel B: With Controls for Firm Characteristics

VARIABLES	(1) ACSR Active	(2) ACSR Active	(3) ACSR Passive	(4) ACSR Passive
Voting Ownership	-0.271	-2.245	0.397	2.380
	(-0.34)	(-1.17)	(0.45)	(1.36)
Voting Ownership squared		2.483		-5.622
		(0.97)		(-1.30)
IB ACSR	0.106	0.089	0.024	0.025
	(1.39)	(1.16)	(0.64)	(0.67)
Wedge	4.318	3.477	-1.215	-1.041
	(1.62)	(1.25)	(-1.52)	(-1.20)
R&D/Revenue	0.024***	0.030***	-0.014**	-0.014**
	(3.25)	(3.66)	(-2.27)	(-2.30)
Assets	-0.085	-0.081	0.009	0.012
	(-1.03)	(-0.99)	(0.26)	(0.34)
MBassets	-0.062	-0.076	0.061**	0.066**
	(-0.84)	(-1.02)	(2.26)	(2.47)
Constant	1.597*	1.856**	-0.363	-0.508
	(1.72)	(2.01)	(-1.01)	(-1.34)
Year fixed effects	YES	YES	YES	YES
Observations	123	123	738	738
R-squared	0.103	0.116	0.011	0.013

Panel C: Nonlinear Specification for Blockholder ACSR

VARIABLES	(1) ACSR Active	(2) ACSR Active	(3) ACSR Passive	(4) ACSR Passive
Voting Ownership	-0.560	-2.580	0.215	1.536
	(-0.76)	(-1.43)	(0.29)	(0.93)
Voting Ownership squared		2.573		-3.723
		(1.05)		(-1.00)
IB ACSR	0.077	0.058	-0.025	-0.025
	(1.14)	(0.84)	(-0.60)	(-0.61)
IB ACSR Squared	-0.043**	-0.045**	0.041*	0.042*
	(-2.10)	(-2.14)	(1.81)	(1.88)
Wedge	4.525*	3.588	-1.139	-1.045
	(1.73)	(1.26)	(-1.50)	(-1.29)
Constant	0.552	0.776	-0.296	-0.375*
	(1.01)	(1.38)	(-1.50)	(-1.71)
Year fixed effects	YES	YES	YES	YES
Observations	129	129	785	785
R-squared	0.116	0.129	0.008	0.008

Panel D: Nonlinear Specification for Blockholder ACSR with Controls for Firm Characteristics

VARIABLES	(1) ACSR Active	(2) ACSR Active	(3) ACSR Passive	(4) ACSR Passive
Voting Ownership	-0.379	-2.682	0.431	2.706
	(-0.48)	(-1.42)	(0.50)	(1.60)
Voting Ownership squared		2.887		-6.446
		(1.14)		(-1.61)
IB ACSR	0.082	0.061	-0.006	-0.006
	(1.12)	(0.83)	(-0.17)	(-0.17)
IB ACSR Squared	-0.038*	-0.040**	0.051**	0.053**
	(-1.94)	(-2.04)	(2.30)	(2.41)
wedge	4.531*	3.568	-1.426*	-1.235
	(1.67)	(1.22)	(-1.85)	(-1.45)
R&D/Revenue	0.027***	0.033***	-0.013**	-0.013**
	(3.62)	(4.24)	(-2.085)	(-2.10)
Assets	-0.041	-0.034	0.009	0.012
	(-0.49)	(-0.42)	(0.25)	(0.34)
MBassets	-0.043	-0.058	0.059**	0.065**
	(-0.59)	(-0.79)	(2.18)	(2.41)
Constant	1.295	1.576*	-0.428	-0.597
	(1.35)	(1.66)	(-1.19)	(-1.58)
Year fixed effects	YES	YES	YES	YES
Observations	123	123	738	738
R-squared	0.136	0.152	0.020	0.022

Panel E: Subsample Tests for Profitable Firms

VARIABLES	(1) ACSR Active	(2) ACSR Active	(3) ACSR Passive	(4) ACSR Passive
Voting Ownership	-1.795*	1.594	1.421	1.158
	(-1.91)	(0.66)	(1.40)	(0.46)
Voting Ownership squared		-4.469		0.771
		(-1.68)		(0.16)
IB ACSR	0.154	0.177	-0.040	-0.041
	(1.35)	(1.49)	(-0.57)	(-0.57)
IB ACSR Squared	-0.213**	-0.216**	0.052	0.051
	(-2.63)	(-2.43)	(1.19)	(1.19)
Wedge	23.336**	31.971***	-1.530**	-1.575**
	(2.50)	(3.62)	(-2.15)	(-2.29)
Constant	2.590***	2.386***	-0.453	-0.437
	(7.13)	(6.11)	(-1.63)	(-1.36)
Year fixed effects	YES	YES	YES	YES
Observations	37	37	300	300
R-squared	0.415	0.447	0.018	0.018

Panel F: Subsample Tests for Profitable Firms Controlling for Firm Characteristics

VARIABLES	(1) ACSR Active	(2) ACSR Active	(3) ACSR Passive	(4) ACSR Passive
Voting Ownership	-1.304	1.358	2.141**	3.213
	(-1.51)	(0.52)	(2.27)	(1.37)
Voting Ownership squared		-3.512		-3.098
		(-1.29)		(-0.70)
IB ACSR	-0.152	-0.124	0.018	0.020
	(-1.37)	(-1.03)	(0.29)	(0.32)
IB ACSR Squared	-0.003	-0.011	0.053	0.055
	(-0.04)	(-0.12)	(1.38)	(1.42)
Wedge	12.331*	19.391**	-2.208***	-2.038***
	(1.71)	(2.77)	(-2.82)	(-2.75)
R&D/Revenue	3.807***	3.624***	1.617**	1.615**
	(3.67)	(3.13)	(2.44)	(2.44)
Assets	0.440***	0.422***	0.051	0.053
	(4.27)	(3.73)	(0.93)	(0.96)
MBassets	-0.049	-0.046	0.049	0.051
	(-0.86)	(-0.85)	(1.37)	(1.42)
Constant	-1.126	-1.15	-1.017*	-1.100*
	(-1.08)	(-1.02)	(-1.76)	(-1.79)
Year fixed effects	YES	YES	YES	YES
Observations	36	36	288	288
R-squared	0.622	0.64	0.056	0.056

Table 7 – Robustness Test with Sum of Strengths

This table reports regressions of the sum of strengths on blockholder ownership, blockholder sum of strengths measure and controls. Columns 1 and 2 report results for firm-years where the largest institutional blockholder is one that is classified as active. Columns 3 and 4 report results for firm-years where the largest institutional blockholder is one that is classified as passive. Panel A reports the results for the strengths for the base case. Panel B reports the results after controlling for firm financial characteristics. Panel C reports the results allowing for a nonlinear influence of blockholder sum of strengths. Panel D reports the results allowing for nonlinear blockholder sum of strengths and controlling for firm financial characteristics. Heteroskedasticity-adjusted (White) standard errors are used in calculation of t-statistics that are reported in parentheses. ***, **, and * denote significance at 1%, 5%, and 10% levels, respectively.

Panel A: Base Case for Strengths

VARIABLES	(1) Strengths Active	(2) Strengths Active	(3) Strengths Passive	(4) Strengths Passive
Voting Ownership	2.051*	-1.790	-1.842	-4.081
	(1.91)	(0.15)	(-1.49)	(-1.32)
Voting Ownership Squared		4.929		6.303
		(1.35)		(1.01)
IB Strengths	-0.004	-0.008	-0.007	-0.008
	(-0.18)	(-0.30)	(-0.40)	(-0.48)
Wedge	-0.398	0.164	2.980*	2.819*
	(-0.13)	(0.06)	(1.69)	(1.77)
Constant	2.108**	1.872*	1.922***	2.055***
	(2.08)	(1.81)	(4.77)	(4.71)
Year fixed effects	YES	YES	YES	YES
Observations	129	129	785	785
R-squared	0.118	0.149	0.024	0.024

Panel B: Strengths with Controls for Firm Characteristics

VARIABLES	(1) Strengths Active	(2) Strengths Active	(3) Strengths Passive	(4) Strengths Passive
Voting Ownership	1.542	-2.912	0.070	1.395
	(1.47)	(-1.17)	(0.07)	(0.58)
Voting Ownership Squared		5.654		-3.747
		(1.61)		(-0.79)
IB Strengths	-0.017	-0.021	0.020	0.021
	(-0.64)	(-0.75)	(1.12)	(1.17)
Wedge	1.794	-0.415	-0.349	-0.237
	(0.50)	(-0.14)	(-0.19)	(-0.12)
R&D/Revenue	0.019*	0.031**	0.015*	0.015*
	(1.73)	(2.52)	(1.71)	(1.72)
Assets	0.174	0.179	0.534***	0.536***
	(1.46)	(1.52)	(5.40)	(5.43)
MBassets	0.046	0.006	0.188***	0.191***
	(0.43)	(0.05)	(3.62)	(3.70)
Constant	0.647	1.252	-2.644***	-2.744***
	(0.33)	(0.67)	(-2.78)	(2.88)
Year fixed effects	YES	YES	YES	YES
Observations	123	123	738	738
R-squared	0.214	0.174	0.197	0.197

Panel C: Nonlinear Specification for Strengths

VARIABLES	(1) Strengths Active	(2) Strengths Active	(3) Strengths Passive	(4) Strengths Passive
Voting Ownership	2.051*	-1.666	-1.661	-2.361
	(1.97)	(-0.68)	(-1.40)	(-0.82)
Voting Ownership Squared		4.769		1.967
		(1.35)		(0.35)
IB Strengths	0.092	0.079	0.318**	0.315**
	(1.30)	(1.15)	(2.56)	(2.56)
IB Strengths Squared	-0.009	-0.008	-0.033***	-0.033***
	(-1.64)	(-1.51)	(-2.83)	(-2.83)
Wedge	2.263	0.164	1.999	1.957
	(0.61)	(0.06)	(1.10)	(1.11)
Constant	1.488	1.872*	1.804***	1.847***
	(1.38)	(1.81)	(4.56)	(4.29)
Year fixed effects	YES	YES	YES	YES
Observations	129	129	785	785
R-squared	0.128	0.158	0.041	0.041

Panel D: Nonlinear Specification for Strengths with Controls for Firm Characteristics

VARIABLES	(1) Strengths Active	(2) Strengths Active	(3) Strengths Passive	(4) Strengths Passive
Voting Ownership	1.529	-2.845	0.189	2.089
	(1.50)	(-1.18)	(0.19)	(0.89)
Voting Ownership Squared		5.553*		-5.361
		(1.66)		(-1.15)
IB Strengths	0.089	0.079	0.166	0.174*
	(1.24)	(1.15)	(1.84)	(1.93)
IB Strengths Squared	-0.010*	-0.009*	-0.015*	-0.016*
	(-1.71)	(-1.68)	(-1.81)	(-1.89)
Wedge	2.443	0.234	-0.733	-0.590
	(0.69)	(0.08)	(-0.37)	(-0.28)
R&D/Revenue	0.025**	0.036***	0.017*	0.017*
	(2.03)	(2.71)	(1.74)	(1.76)
Assets	0.179	0.183	0.518***	0.520***
	(1.45)	(1.52)	(5.57)	(5.59)
MBassets	0.038	-0.001	0.178***	0.183***
	(0.35)	(-0.01)	(3.60)	(3.67)
Constant	0.374	0.983	-2.562***	-2.701***
	(0.18)	(0.50)	(-2.78)	(-2.89)
Year fixed effects	YES	YES	YES	YES
Observations	123	123	738	738
R-squared	0.187	0.225	0.201	0.201

Table 8 – Robustness Test with the Sum of Concerns

This table reports regressions of the sum of concerns on blockholder ownership, blockholder sum of concerns measure and controls. Columns 1 and 2 report results for firm-years where the largest institutional blockholder is one that is classified as active. Columns 3 and 4 report results for firm-years where the largest institutional blockholder is one that is classified as passive. Panel A reports the results for the concerns for the base case. Panel B reports the results after controlling for firm financial characteristics. Panel C reports the results allowing for a nonlinear influence of blockholder sum of concerns. Panel D reports the results allowing for nonlinear blockholder sum of concerns and controlling for firm financial characteristics. Heteroskedasticity-adjusted (White) standard errors are used in calculation of t-statistics that are reported in parentheses. ***, **, and * denote significance at 1%, 5%, and 10% levels, respectively.

Panel A: Base case for concerns

VARIABLES	(1) Concerns Active	(2) Concerns Active	(3) Concerns Passive	(4) Concerns Passive
Voting Ownership	3.139***	1.227	-1.583	-4.678**
	(3.08)	(0.43)	(-1.52)	(-2.07)
Voting Ownership Squared		2.419		8.712*
		(0.78)		(1.84)
IB Concerns	0.043	0.048	0.007	0.004
	(0.59)	(0.67)	(0.34)	(0.20)
Wedge	-4.434	-5.391		3.758***
	(-1.12)	(-1.32)		(2.99)
Constant	0.340	0.512		1.597***
	(1.36)	(1.32)		(5.53)
Year fixed effects	YES	YES	YES	YES
Observations	129	129	785	785
R-squared	0.132	0.138	0.024	0.026

Panel B: Concerns with Controls for Firm Characteristics

VARIABLES	(1) Concerns Active	(2) Concerns Active	(3) Concerns Passive	(4) Concerns Passive
Voting Ownership	2.237*	0.062	-0.517	-2.777
	(1.80)	(0.02)	(-0.45)	(-1.19)
Voting Ownership Squared		2.728		6.394
		(0.88)		(1.11)
IB Concerns	0.034	0.040	0.013	0.011
	(0.47)	(0.57)	(0.60)	(0.49)
Wedge	-4.298	-5.262	2.197	1.993
	(-1.07)	(-1.25)	(1.59)	(1.42)
R&D/Revenue	-0.044***	-0.040***	0.030***	0.030***
	(-4.09)	(-3.45)	(4.08)	(4.20)
Assets	0.259**	0.260**	0.346***	0.343***
	(2.43)	(2.42)	(6.87)	(6.77)
MBassets	0.080	0.058	0.014	0.008
	(1.24)	(0.86)	(0.42)	(0.25)
Constant	-2.189**	-1.878	-1.470***	-1.300**
	(-2.16)	(-1.56)	(-2.92)	(-2.47)
Year fixed effects	YES	YES	YES	YES
Observations	123	123	738	738
R-squared	0.204	0.211	0.140	0.141

Panel C: Nonlinear Specification for Strengths

VARIABLES	(1) Concerns Active	(2) Concerns Active	(3) Concerns Passive	(4) Concerns Passive
Voting Ownership	3.136***	1.450	-1.650	-4.397*
	(3.11)	(0.50)	(-1.61)	(-1.96)
Voting Ownership Squared		2.133		7.750
		(0.68)		(1.64)
IB Concerns	0.257	0.244	0.145	0.131
	(1.33)	(1.23)	(1.52)	(1.37)
IB Concerns Squared	-0.028	-0.026	-0.026	-0.024
	(-1.11)	(0.03)	(-1.50)	(-1.38)
Wedge	-4.657	-5.483	3.696***	3.511***
	(-1.17)	(-1.33)	(2.92)	(2.72)
Constant	0.193	0.356	1.298***	1.470***
	(0.64)	(0.81)	(4.76)	(4.92)
Year fixed effects	YES	YES	YES	YES
Observations	129	129	785	785
R-squared	0.141	0.145	0.027	0.029

Panel D: Nonlinear Specification for Concerns with Controls for Firm Characteristics

VARIABLES	(1) Concerns Active	(2) Concerns Active	(3) Concerns Passive	(4) Concerns Passive
Voting Ownership	2.206	0.210	-0.559	-2.375
	(1.79)	(0.08)	(-0.50)	(-1.01)
Voting Ownership Squared		2.505		5.145
		(0.81)		(0.88)
IB Concerns	0.299	0.292	0.184**	0.147*
	(1.55)	(1.50)	(2.06)	(1.94)
IB Concerns Squared	-0.035	-0.033	-0.033**	-0.031*
	(-1.42)	(-1.35)	(-2.00)	(-1.90)
Wedge	-4.456	-5.334	1.803	1.656
	(-1.09)	(-1.26)	(1.25)	(1.13)
R&D/Revenue	-0.043***	-0.039***	0.030***	0.030***
	(-4.14)	(-3.47)	(3.66)	(3.76)
Assets	0.263**	0.263**	0.347***	0.344***
	(2.47)	(2.45)	(6.95)	(6.85)
MBassets	0.061	0.041	0.013	0.008
	(0.92)	(0.60)	(0.40)	(0.26)
Constant	-2.298**	-2.007	-1.615	-1.472***
	(-2.21)	(-1.63)	(-3.13)	(-2.70)
Year fixed effects	YES	YES	YES	YES
Observations	123	123	738	738
R-squared	0.216	0.222	0.144	0.145

Table 9 – CSR Components

This table reports regressions of the CSR constituents on blockholder ownership, blockholder CSR constituent measure and controls. Panels A reports the results of the strengths when the blockholder is classified as active. Panel B reports results of the concerns when the blockholder is classified as passive. Panel C reports the results of the concerns when the blockholder is classified as active. Panel D reports results of the concerns when the blockholder is on that is classified as passive. Column 1 reports results for environmental, column 2 reports results for community, column 3 reports for employee relations, column 4 reports results for diversity, and column 5 reports results for product. Heteroskedasticity-adjusted (White) standard errors are used in calculation of t-statistics that are reported in parentheses. ***, **, and * denote significance at 1%, 5%, and 10% levels, respectively.

Panel A: Strengths of CSR Constituents of Active Blockholders

VARIABLES	(1) Environmental Strengths	(2) Community Strengths	(3) Employee Relations Strengths	(4) Diversity Strengths	(5) Product Strengths
Voting Ownership	0.181	-1.395**	-2.401***	0.944	-0.493*
	(0.50)	(-2.12)	(-2.67)	(0.61)	(-1.91)
Voting Ownership Squared	-0.376	1.997*	3.401***	0.342	0.284
	(-0.88)	(1.86)	(3.42)	(0.15)	(1.14)
IB Environmental Strengths	0.049				
	(1.12)				
IB Community Strengths		-0.024			
		(-1.30)			
IB Emp. Relations Strengths			0.018		
			(0.41)		
IB Diversity Strengths				0.069	
				(1.48)	
IB Product Strengths					0.032
					(0.47)
Wedge	0.232	0.548	-1.829	1.348	0.035
	(0.49)	(0.86)	(-0.85)	(0.84)	(0.21)
R&D/Revenue	-0.001	0.004**	-0.002	0.015	-0.004
	(-0.32)	(2.04)	(-0.31)	(1.69)	(-1.41)
Assets	0.006	0.044*	0.011	0.067	0.021
	(0.38)	(1.81)	(0.33)	(0.84)	(1.26)
MBassets	-0.000	-0.005	0.001	-0.083	0.068**
	(-0.02)	(-0.38)	(0.02)	(-1.49)	(2.05)
Constant	-0.065	-0.209	1.621**	-0.336	0.304
	(-0.37)	(-1.09)	(2.07)	(-0.35)	(0.97)
Year fixed effects	YES	YES	YES	YES	YES
Observations	123	123	123	123	123
R-squared	0.038	0.256	0.318	0.180	0.364

Panel B: Strengths of CSR constituents of Passive Blockholders

VARIABLES	(1) Environmental Strengths	(2) Community Strengths	(3) Employee Relations Strengths	(4) Diversity Strengths	(5) Product Strengths
Voting Ownership	-0.398	0.147	-0.131	1.442	0.233
	(-0.71)	(0.33)	(-0.15)	(0.89)	(0.55)
Voting Ownership Squared	0.394	-0.583	-0.541	-2.048	-0.694
	(0.36)	(-0.67)	(-0.32)	(-0.48)	(-0.83)
IB Environmental Strengths	-0.263**				
	(-2.55)				
IB Community Strengths		0.024*			
		(1.95)			
IB Emp. Relations Strengths			-0.036		
			(-1.61)		
IB Diversity Strengths				0.037*	
				(1.69)	
IB Product Strengths					-0.068*
					(-1.69)
Wedge	0.205	-0.475	-0.137	-0.342	0.533
	(0.59)	(-1.61)	(-0.27)	(-0.26)	(1.29)
R&D/Revenue	0.003*	0.002**	0.010	-0.000	0.000
	(1.81)	(2.13)	(1.62)	(-0.02)	(0.16)
Assets	0.088***	0.073***	0.156***	0.188***	0.032***
	(4.17)	(3.34)	(6.34)	(4.58)	(2.72)
MBassets	0.020**	0.023**	0.051***	0.089***	0.007
	(2.07)	(2.27)	(3.35)	(6.04)	(1.19)
Constant	-0.423**	-0.548***	-0.715**	-0.846*	-0.179
	(-2.03)	(-2.81)	(-2.41)	(-1.65)	(-1.22)
Year fixed effects	YES	YES	YES	YES	YES
Observations	738	738	738	738	738
R-squared	0.113	0.104	0.154	0.086	0.036

Panel C: Concerns of CSR Constituents of Active Blockholders

VARIABLES	(1) Environmental Concerns	(2) Community Concerns	(3) Employee Relations Concerns	(4) Diversity Concerns	(5) Product Concerns
Voting Ownership	0.551	1.245*	1.502	-0.981	-2.429***
	(0.58)	(1.97)	(1.12)	(-1.34)	(-2.94)
Voting Ownership Squared	-0.497	-1.276*	-2.166	1.223	4.854***
	(-0.49)	(-1.73)	(-1.51)	(1.55)	(6.03)
IB Environmental Concerns	0.163*				
	(1.87)				
IB Community Concerns		0.035			
		(0.71)			
IB Emp. Relations Concerns			-0.066		
			(0.66)		
IB Diversity Concerns				-0.050	
				(-0.49)	
IB Product Concerns					-0.024
					(-0.60)
Wedge	-2.273*	-1.678	-0.163	1.301	-0.283
	(-1.92)	(-1.13)	(-0.51)	(1.05)	(-0.29)
R&D/Revenue	-0.006	-0.001	-0.014**	-0.015***	0.005
	(-1.33)	(-0.36)	(-2.40)	(-2.94)	(1.26)
Assets	0.088**	0.049*	0.109**	0.008	0.059*
	(2.41)	(1.95)	(2.11)	(0.23)	(1.81)
MBassets	-0.007	0.018	0.035	0.079**	-0.022
	(-0.35)	(1.56)	(0.99)	(2.04)	(-1.21)
Constant	-0.526	-0.636**	-1.210**	-0.072	-0.236
	(-1.31)	(-2.28)	(-2.14)	(-0.17)	(-0.74)
Year fixed effects	YES	YES	YES	YES	YES
Observations	123	123	123	123	123
R-squared	0.214	0.160	0.094	0.105	0.470

Panel D: Concerns of CSR Constituents of Passive Blockholders

VARIABLES	(1) Environmental Concerns	(2) Community Concerns	(3) Employee Relations Concerns	(4) Diversity Concerns	(5) Product Concerns
Voting Ownership	1.355	0.036	-2.998**	-2.231**	1.071
	(1.52)	(0.11)	(-2.56)	(-2.22)	(1.59)
Voting Ownership Squared	-1.971	-0.005	6.877***	4.522*	-2.628*
	(-1.10)	(-0.01)	(2.94)	(1.82)	(-1.91)
IB Environmental Concerns	-0.102***				
	(-6.69)				
IB Community Concerns		-0.025**			
		(-2.14)			
IB Emp. Relations Concerns			0.002		
			(0.04)		
IB Diversity Concerns				-0.097**	
				(-2.31)	
IB Product Concerns					0.036**
					(2.25)
Wedge	-0.295	-0.608	1.649*	0.858	-0.004
	(-0.57)	(-1.43)	(1.83)	(1.34)	(-0.01)
R&D/Revenue	0.004**	0.002***	0.016***	0.007*	0.001
	(2.48)	(3.09)	(3.52)	(1.67)	(0.46)
Assets	0.132***	0.048***	0.097***	-0.065***	0.018***
	(5.93)	(4.24)	(4.56)	(-4.36)	(1.38)
MBassets	0.002	0.003	-0.010	-0.006	0.018
	(0.22)	(0.70)	(-0.61)	(-0.40)	(1.38)
Constant	-0.877***	-0.300***	-0.313	1.153***	-0.580***
	(-3.60)	(-2.70)	(-1.25)	(5.68)	(-3.36)
Year fixed effects	YES	YES	YES	YES	YES
Observations	738	738	738	738	738
R-squared	.	0.101	0.065	0.047	0.103