Journal of Contemporary Accounting & Economics 13 (2017) 225–243

Contents lists available at ScienceDirect

Journal of Contemporary Accounting & Economics

journal homepage: www.elsevier.com/locate/jcae

Are CSR activities associated with shareholder voting in director elections and say-on-pay votes?

Charles P. Cullinan [a,*], Lois Mahoney [b], Pamela B. Roush [c]

[a] Bryant University, Smithfield, RI 02917, USA
[b] Eastern Michigan University, USA
[c] University of Central Florida, USA

ARTICLE INFO

Article history:
Received 28 February 2016
Revised 22 June 2017
Accepted 7 July 2017
Available online 18 September 2017

JEL classification:
G34
M12

Keywords:
Boards of directors
Corporate social responsibility
Director elections
Say-on-pay
Shareholder voting

ABSTRACT

When making investment decisions, many investors now regularly consider a company's CSR activities along with traditional financial performance measures (Elliott et al., 2014). Our study considers whether shareholders may also consider CSR activities when voting in director elections and say-on-pay votes. We find that CSR performance is associated with shareholder support in both director elections and say-on-pay votes. In particular, we find higher support for both director elections and executive compensation when there are more CSR strengths. Additionally, we find that the social strength aspect of CSR is the most important component in the relationships between CSR and director elections and that the environmental strengths aspect is the most important component in the relationship between CSR and executive compensation. Our results suggest that shareholders may value certain types of CSR and are more supportive of boards and management when CSR performance is stronger.

1. Introduction

Corporate social responsibility (CSR) relates to a company's actions that address social and environmental goals (Clarkson, 1995). CSR strategy guides corporate efforts to do good deeds or avoid bad deeds and involves multiple levels of motivation for management actions. Firms are investing additional resources into CSR in response to stakeholder pressure (Matten and Moon, 2008; McWilliams and Siegel, 2000), and some boards are altering their social and environmental agenda to acknowledge their responsibilities to a variety of stakeholder groups with diverse interests (Berthelot et al., 2003; Jones and Wicks, 1999). The question of whether CSR activities enhance company economic value has yielded mixed results (Aggarwal, 2013), with the balance of evidence suggesting a positive relationship between CSR activities and financial performance.

Shareholders may consider how a company responds to various stakeholders in the wider social environment (i.e., CSR) to be as an important component of the company's success (KPMG, 2011; Van der Laan et al., 2008). Research suggests that

* Corresponding author.
E-mail addresses: cullinan@bryant.edu (C.P. Cullinan), lois.mahoney@emich.edu (L. Mahoney), proush@ucf.edu (P.B. Roush).

https://doi.org/10.1016/j.jcae.2017.09.003
1815-5669/

investors have begun to incorporate CSR performance, along with the traditional financial performance measures, into their investment decisions (Clarkson, 1995; Griffin and Mahon, 1997; Hillman and Keim, 2001; Elliott et al., 2014).[1] We expand on the line of investor decision research by considering whether CSR performance may influence shareholder voting decisions for director nominees and management compensation at annual shareholder meetings.[2] Yermack (2010) notes that "... shareholders use voting as a channel of communication with boards of directors" (Yermack, 2010, p. 2.1). Such voting could therefore communicate shareholders' preferences regarding companies' CSR performance.

Shareholders may view CSR activities positively because they increase financial performance (e.g., Guenster et al., 2011) and/or because the shareholders prefer companies with stronger CSR performance (Mackey et al., 2007). Shareholders may also view CSR investments as an appropriate use of resources to reduce the free cash flow problem (Jensen, 1986) of managers misallocating resources to benefit managers, rather than shareholders. Shareholders may, therefore, be more supportive of boards and/or management that have made decisions to engage in CSR activities. Alternatively, if shareholders view CSR activities as harmful to the organization or a distraction from the organization's core objectives (e.g., Friedman, 1970), they may be less supportive of boards and management when companies have stronger CSR performance.

We examine prior-year CSR performance as a possible factor influencing shareholder voting.[3] We consider two different types of shareholders votes. First, we assess voting for director candidates who are nominated by the current board of directors,[4] as boards play a material role in setting a company's CSR strategy (Post et al., 2011). Second, using say-on-pay votes, we consider shareholder support for the level and nature of executive compensation, which can be related to CSR performance (Callan and Thomas, 2010; Mahoney and Thorne, 2006).

For both director and say-on-pay voting, we find evidence that CSR strengths are positively associated with shareholder support for both director nominees and for executive compensation. In particular, we find that the social strengths component of CSR strengths has the strongest positive association with director voting, while the environmental strengths component of CSR strengths has the strongly positive association with say-on-pay voting. We find no association between CSR concerns and shareholder support for directors or say-on-pay. Overall, these results indicate that shareholders may view CSR performance favorably and may be more supportive of boards and management when a company has stronger CSR performance.

This article is organized as follows: the next sections provide an overview of the literature and the study's research questions followed by a discussion of the research methods used. We then present the results of our analyses and the final section contains our summary and implications.

2. Background literature and hypotheses

CSR research has traditionally considered two broad perspectives (Moser and Martin, 2012). The first perspective reasons that companies should engage in CSR activities only when doing so maximizes shareholder value (Friedman, 1970; Dhaliwal et al., 2011). Previous research examining whether CSR activities enhance company value/performance has produced mixed results (Aggarwal, 2013), with the balance of research favoring a positive relationship between CSR activities and company value/performance.[5] Researchers have measured company value or performance based on (a) cross-sectional market measures, such as Tobin's Q (e.g., Nakao et al., 2007; King and Lenox, 2001; Guenster et al., 2011), (b) market movements, including market reactions to CSR disclosures (e.g., Arya and Zhang, 2009; Griffin and Sun, 2013; Lee et al., 2015), and (c) accounting-based measurements, such as ROA (e.g., Guenster et al., 2011). Research also indicates that financial analysts' stock recommendations have become more optimistic for companies with stronger CSR performance (Ioannou and Serafeim, 2015).

The second perspective suggests that shareholders may value CSR activities even if such activities do not lead to stronger financial performance. Mackey et al. (2007), note that even if CSR activities harm company financial performance, shareholders could view such CSR activities positively and they suggest that:

> ...equity holders may sometimes have interests besides maximizing their wealth when they make investment decisions. Sometimes, they may want to pursue socially responsible activities, even if these activities reduce the present value of the cash flows generated by these companies (p. 820).

---

[1] Thomson Reuters Nelson estimates that 11.3% of the $33.3 trillion in total assets under management they tracked in the U.S. markets are invested in the sustainable and responsible investing market. Compared to the 1995 tracking levels, investment in the sustainable and responsible investing market has risen 486%. This growth in the sustainable and responsible market far exceeds the 376% growth of investment in the market involving a broader universe of assets under professional management (The Forum for Sustainable and Responsible Investments, 2012).

[2] Most shareholders do not actually attend the meeting to vote, but vote by mail through a proxy process. Solicitation of such votes is done through the company's proxy statement, also known as a "14A filing" by the SEC.

[3] Prior-year CSR performance is the most recent information available to shareholders when voting, which typically takes place 3 to 4 months after the end of the previous year.

[4] For the director nomination task, boards often use a nominating committee comprised of a group of current directors.

[5] Financial condition/performance can be enhanced by CSR either directly (i.e., direct CSR benefits exceed direct CSR costs) or indirectly through the customer preferences for products or services produced by companies with stronger CSR performance. For example, Lamberti and Lettieri (2009, p. 166), note that positive CSR performance can reduce "stakeholders' [e.g., customers'] uncertainty regarding products and firms' behavior ... and win their trust."