

# The Politicization of Social Responsibility<sup>¶</sup>

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## ABSTRACT

Institutional investors' support for socially responsible investment (SRI) proposals is lower for firms headquartered in Republican-led states. The lower support concentrates in recent years, which coincides with when politicians became more vocal regarding firms' SRI activities, among larger institutions and firms, and during months of high political polarization. The shift in investor support also occurs within states following changes in political leadership. Support for SRI proposals is 10 percentage points lower in the same state when it is led by Republicans instead of Democrats. The findings suggest that state-level politics and the politicization of SRI impacts institutional investors' voting decisions.

*JEL classification: G23, G30, G34, M14*

**Keywords:** CSR, institutional investors, partisanship, political polarization, socially responsible investment

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*"You don't feed a dog that bites your hand."*

— David Ralston, 73rd Speaker of the Georgia House

## 1. Introduction

As views on corporate social responsibility (CSR) and socially responsible investing (SRI) become politically polarized, investors and firms increasingly face a dilemma. Democrats often urge divestment from specific industries (fossil fuels, firearms) and regions (Iran, Sudan), while Republicans criticize such moves. These competing views are particularly acute for institutional investors who must cast votes on SRI proposals for firms in various locations, where political views can vary greatly. Table 1 lists examples of US governors espousing competing views regarding the CSR and SRI activities of firms and investors in their states. The politicization of CSR/SRI raises the question of whether investors respond to political pressures and, if so, how. To shed light on this question, this paper analyzes whether institutional investors' votes on SRI proposals differ with which political party currently controls the government of the firm's headquarters state.

There are several reasons why institutions' votes might vary with a state's political leadership. State governments decide policies, tax exemptions, and contracts, which impact the profitability of firms headquartered in those states, and politicians could retaliate against firms undertaking actions that contrast with their priorities.<sup>1</sup> Moreover, a firm's local sales or hiring might suffer if the priorities of a state's leaders mirror those of its populace. Aware of the potential harm to firm value, investors might be less inclined to support CSR/SRI initiatives when they do not align with local political views.

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<sup>1</sup> For example, following Delta Airlines' opposition to Georgia's Election Integrity Act of 2021, the Georgia House of Representatives passed a retaliatory bill ending a tax break on jet fuel. House Speaker David Ralston remarked, "You don't feed a dog that bites your hand." A similar form of political retaliation occurred in 2018 when Delta Airlines ended a discount for National Rifle Association members following the deadly school shooting in Parkland, Florida.

Institutions might also seek to avoid casting votes that could invite direct retaliation from local politicians, which can divest state-controlled assets from those institutions.<sup>2</sup>

On the other hand, there are also reasons why institutions' votes might be independent of state politics. Mutual fund families often have small governance teams that decide proxy voting choices across many companies, casting doubt on their ability to monitor the politics of each firm's home state. Moreover, voting differently on similar proposals across firms could lead to unwanted press and claims of inconsistency.

To assess the potential impact of state-level politics on institutions' proxy voting, we analyze whether the political party of a state's governor correlates with an institution's level of support for SRI proposals at firms headquartered in that state. We focus on SRI-related proposals because polls consistently show that Democrats are more likely to prioritize SRI-related issues (e.g., climate change, human rights, equity, etc.) during our sample period.<sup>3</sup> We focus on the governor's political party because governors are the state's top executive, with the power to affect local firms through state-level appointments (e.g., treasurer or comptroller), legislation vetoes, and proposed budgets. Moreover, because state-level elections decide governors, their affiliation will reflect the political leaning of the state's workers and consumers. In robustness tests, we show that our findings hold if we instead focus on cases where one party holds unified control in the state, defined as controlling both the governorship and state-level legislative bodies.

We start by constructing a proposal-by-institution-level dataset of how institutions voted on every shareholder proposal from January 2006 to June 2021. We then pair this

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<sup>2</sup> For example, on December 1, 2022, Florida pulled \$2b from BlackRock, citing the institution's focus on ESG-related factors, and in 2022, *The New York Times* reported that Republican lawmakers in 15 states were promoting similar legislation to divest from institutions that prioritize combating climate change (Gelles and Tabuchi, 2022; Kerber, 2022).

<sup>3</sup> E.g., see Dunlap (2008), McCarthy (2020), and Saad (2022).

data with the political party of the residing governor in the firm's headquarters state. We then regress the institution's support for a proposal onto an interaction between an indicator variable for SRI proposals and an indicator variable for whether the state governor is a Republican. The interaction coefficient tests whether institutions' support for SRI proposals differs for firms headquartered in Republican-led states.

To mitigate omitted variable bias concerns, we use a high-dimensional fixed effects estimation to partial out many potential confounding factors that might correlate with the political affiliation of a state's governor and drive differences in support for a proposal. Specifically, we include meeting-level fixed effects to control for any firm- or time-level characteristics that affect institutions' overall likelihood of voting in favor of a meeting's proposals. The meeting fixed effects allow us to isolate how votes within a meeting vary as a function of the proposal's SRI status. We also include institution-by-month-by-SRI fixed effects to control for each institution's monthly tendency to support SRI proposals. In other words, we only use within-institution variation in SRI votes each month for our identification. Lastly, we include industry-by-month-by-SRI fixed effects to control for differences in industry composition across states and variations in institutions' tendency to support SRI proposals across different industries.

To control for possible differences in the composition of SRI proposals across states, we also include proposal-level controls for the ISS and management vote recommendations. However, our main finding holds if we exclude these controls, and we find no evidence that ISS and management vote recommendations differ systematically for SRI proposals in Republican-led states. Nor do we find evidence that the likelihood of facing an SRI proposal differs in Republican-led states. Including controls for proposal sponsor type (e.g., individual, institution, etc.) also does not impact our findings.

Using this within-meeting, within-institution-by-month-by-SRI, and within-industry-by-month-by-SRI variation in votes, we find a negative association between institutions' support for SRI proposals and Republican party rule in a firm's home state. Institutions' likelihood of supporting an SRI proposal is 2.5 to 4.1 percentage points lower, on average, for firms headquartered in Republican-led states. The decrease is economically significant, corresponding to an 8% to 13% decline relative to the sample average support level. Such a decline can be pivotal in vote outcomes; 10.2% of SRI proposals during 2019-2021 passed/failed within a five-percentage point margin.

The observed association between governors' party affiliation and SRI votes started in recent years, coinciding with increased political polarization and state-level politicians' focus on SRI- and CSR-related activities (e.g., see Table 1). The lower support for SRI proposals in Republican-led states is statistically significant at the 5% level during President Obama's second term (2013-2016), and the estimated magnitude and statistical significance increases during Trump's presidency (2017-2020). Prior to 2013, we find a negative association between Republican governorships and institutions' support for SRI proposals, but the coefficient is half the magnitude and not statistically significant.

We also analyze whether our results vary across firms and institutions based on their size. If political considerations drive our findings, we might expect the lower SRI support in Republican-led states to be more pronounced among larger firms and institutions, which tend to get more attention for their political activities. Consistent with this possibility, the lower support for SRI proposals in Republican-led states concentrates on firms in the top decile or quintile for total assets and the biggest institutions, as measured using assets under management. We also find evidence of a larger decrease in SRI support at firms and institutions more widely covered by the media.

Consistent with political considerations affecting institutions' support for SRI proposals, the state-level differences in SRI support are amplified in months with higher political polarization. To identify periods of high political polarization for CSR/SRI issues, we use partisan beliefs on environmental concerns, as reported by the PEW Research Center. Using the gap in partisan beliefs as a proxy for polarization, we find that institutional investors' support for SRI proposals is an additional 3.8 percentage points lower in Republican-led states during high political polarization months.

The observed shift in investor support for SRI proposals also occurs within states following changes in their political leadership. Our baseline finding continues to hold even after adding state-by-SRI fixed effects, which converts our baseline estimation into a staggered triple-difference estimation that utilizes within-state changes in leadership for identification. However, because the staggered triple-difference estimation could suffer from violations of the parallel trend's assumption (e.g., see Baker et al., 2022), we also estimate a stacked triple-difference following the approach of Gormley and Matsa (2011, 2016). We flag states that experience a political transition as treated and use never-treated states as controls. We continue to include meeting, institution-by-month-by-SRI, industry-by-month-by-SRI, and state-by-SRI fixed effects in the stacked specification. Even in this narrower, within-state specification, we continue to find a decline in SRI support under Republican governors, and our findings become larger in magnitude. Investor support for SRI proposals is ten percentage points lower in the same state when it is led by a Republican ( $p$ -value < 0.01), a 30% reduction relative to the sample average.

The within-state shift in support occurs for both political transitions: Democratic to Republican and Republican to Democratic. Relative to untreated states, the support for SRI proposals decreases by 19.6 percentage points in states that switch from a Democrat

to a Republican governor. Moreover, the timing of this shift coincides with the change in leadership and shows no pre-existing differential trend. For states that switch from Republican to Democratic governorship, the support for SRI proposals increases by 6.9 percentage points relative to support levels observed in untreated states. However, in the latter political transitions, the timing of the shift is less clearly aligned with the election. Instead, the increased support appears driven by a post-election reversal of particularly low SRI support in the year before the Republican's election loss.

There are several mechanisms by which politics might influence investor votes. One possibility is that investors tailor their SRI votes to avoid misalignment between the firm and the political views of the state's workers and consumers. Alternatively, investors might directly care about the political influence of the newly elected leaders. In support of the latter mechanism, we find that the observed within-state shift in investor support is similar in magnitude when the political transition coincides with a closer election or a smaller state-level shift in the popularity of the winning party. The concentration of our finding among bigger firms, which likely have significant operations outside the state, also suggests that a concern about local hiring and sales is not the primary mechanism.

Overall, our findings contribute to recent work that explores the connections between political partisanship and economic choices. Kempf et al. (2023) finds that US corporate executives are growing increasingly partisan, and recent evidence shows that individuals' political affiliation can affect both their own economic choices (e.g., Engelberg et al., 2022; Meeuwis et al., 2022; Pan et al., 2023) and those of their firms (e.g., Hong and Kostovetsky, 2012; Duchin et al., 2019; Cassidy and Vorsatz, 2021; Kempf and Tsoutsoura, 2021; Dagostino et al., 2023). Our findings provide evidence that external political factors also matter for companies and their shareholders. Investors'

support for certain economic activities varies with changes in local political leadership.

These findings also expand our understanding of how politics affect institutional investors' engagement. There are many possible factors that might affect institutions' level of SRI engagement, including self-dealing, attracting fund flows from socially minded investors, and staving off regulation (Barzuza et al., 2020; Fisch, 2020; Kahan and Rock, 2019). Our findings suggest that political considerations are an important determinant of institutional investors' SRI choices. In this regard, our findings build upon prior work that focuses on how political appointments and pressure can influence public pension funds' portfolio holdings and votes (e.g., Romano, 1993; Hochberg and Rauh, 2013; Brown et al., 2015; Bradley et al., 2016; Andonov et al., 2018; Duan et al., 2021). Our findings provide evidence that politicians' influence extends to even private, out-of-state institutional investors that are not directly under their control.

Finally, our findings provide evidence that the political leanings in a state might influence firms' ability to incorporate SRI- and CSR-related activities. While prior work emphasizes the potential importance of stakeholders (Di Giuli and Kostovetsky, 2014), legal liabilities (Akey and Appel, 2020), and judges (Gormley et al., 2021) for companies' social and environmental actions, our evidence suggests an additional consideration firms face—a lack of support from investors when local politicians oppose such activities. The lower institutional support could also have important implications for CSR activities as a push from institutional investors can be a crucial driver of firms undertaking such initiatives (e.g., Dyck et al., 2019; Chen et al., 2020; Yegen, 2020; Gormley et al., 2023).

We organize the paper as follows. Section 2 describes our data. Section 3 presents our empirical specification and main findings, including those that analyze heterogeneity in the importance of political affiliation across time, firms, and institutional investors.



Section 4 examines our baseline results in a staggered triple-differences setting; Section 5 investigates additional robustness; and Section 6 concludes.

## 2. Data and Summary Statistics

### 2.1 Data sources and variable construction

#### 2.1.1 *Mutual fund voting records*

Our institutional voting data comes from ISS Voting Analytics, which collects fund voting records from the mandated N-PX forms that institutions file with the SEC annually. The N-PX data contains fund-level vote decisions for all proposals. Following Iliev and Lowry (2015), Gilje et al. (2020), and Gormley and Jha (2023), we restrict our sample to shareholder proposals. Voting Analytics classifies shareholder proposals into two categories: Socially Responsible Investing (SRI) and Governance (GOV). We use this classification to identify which proposals are SRI-related. Our sample starts in 2006, as there are few SRI proposals before that year, and ends in June 2021.

SRI proposals encompass many issues. Some proposals ask firms to disclose their political expenditures, while others ask firms to disclose their sustainability plans and emission levels or targets. Yet other proposals ask firms to disclose their gender- and race-based pay gaps or to disclose their supply chain due diligence efforts pertaining to human rights. To illustrate this variety, Appendix Table A1 classifies SRI proposals into 20 distinct topics using SRI proposal titles and BERTopic (Devlin et al., 2018), a pre-trained natural language processing model. Appendix Table A2 provides a similar topic classification for governance proposals, which tend to focus on issues related to special meetings, director elections, voting, and executive pay.

To calculate an institution's overall level of support for a given proposal, we aggregate fund-level votes to the fund-family level, following the approach of Gilje et al.

(2020) and Gormley and Jha (2023). Specifically, we construct our proposal-institution measure, *Likelihood of voting in support*, using the share of the institution's funds that cast votes in support of the proposal. For 87.2% of our proposal-by-institution observations, *Likelihood of voting in support* equals either zero or one, as most funds within a fund family vote in the same direction on individual proposals.

### 2.1.2 Firms' headquarters state

We identify the state of a firm's headquarter using the business address provided in the header of the firm's 10-K/Q filings. We download the augmented 10-K/Q header data from The Notre Dame Software Repository for Accounting and Finance (SRAF).<sup>4</sup> If a business address is missing from the header a firm' 10-K/Q filing, we use the headquarters state for a firm as reported in the Compustat database.<sup>5</sup>

### 2.1.3 Gubernatorial election data

To determine the political party of a state's governor each year, we compile data on state gubernatorial election results from Ballotpedia and the Correlates of State Policy Project (CSPP) for the period spanning 1999 to 2021. Because gubernatorial elections typically take place in November with governor's terms starting early in the next calendar year, we assign the election results to the years following an election, up through the next election for that state. For instance, a Republican won the Georgia gubernatorial election held on November 4, 2014. Because the subsequent Georgia gubernatorial election occurred on November 6, 2018, we set the state-by-year-level indicator variable *Republican* to one for Georgia for the years 2015 to 2018. We also collect state senate and house election results from the same source. We define a state as having unified controlled

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<sup>4</sup> The data is available at <https://sraf.nd.edu/data/augmented-10-x-header-data/>.

<sup>5</sup> Compustat database only includes information on the current location of a firm's headquarters. In our sample, about 4% of location data are missing from the 10-K/Q header and thus filled in with Compustat records. Our subsequent findings are robust to excluding firms lacking 10-K/Q header data.

by a political party if the governorship, state house, and state senate are all dominated by the same party (i.e., the office of the governor and seat majorities in both state-level legislative bodies are held by members of that party).

#### 2.1.4 Polarization

We identify periods of heightened political polarization using data on partisan beliefs related to environmental concerns, as compiled by the PEW Research Center.<sup>6</sup> Specifically, we construct an indicator *PolarizedMonth* that equals one in months with an above median partisan difference in beliefs regarding environment quality. We focus on polarization involving environmental concerns (rather than PEW's more general measures of polarization) because it is more directly connected to SRI proposals, which focus on either environmental or social issues.

## 2.2 Summary statistics

The share of shareholder meetings with an SRI proposal is similar in both Democratic and Republican States and exhibits a slight downward trend during our sample period. Figure 1, which plots the likelihood of having an SRI proposal in shareholder meetings for firms in Democratic- versus Republican-led states from 2006 to June 2021, illustrates this finding. On average, about 40% of shareholder meetings contained an SRI proposal in 2006 for both Republican- and Democrat-led states, and this share drops for both type of states to around 31% in 2021.

However, the frequency at which SRI proposals are closely contested or receive support exceeding the approval threshold is increasing during our sample period. Table 2, which tabulates the number of SRI proposals and voting outcomes by year, shows this

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<sup>6</sup> The full report is available at [https://www.pewresearch.org/politics/wp-content/uploads/sites/4/2022/08/PP\\_2022.09.08\\_partisan-hostility\\_REPORT.pdf](https://www.pewresearch.org/politics/wp-content/uploads/sites/4/2022/08/PP_2022.09.08_partisan-hostility_REPORT.pdf)

finding. We flag a proposal as “contested” if the support for the proposal was within five percentage points of the approval threshold. Doing so, we see that around 10% of SRI proposals fall within a 5-percentage point margin of the approval threshold from 2019-2021, compared to an average of about 1% in years before 2012. The rising frequency of contested SRI proposals highlights the importance in understanding what factors might affect institutions’ voting decisions as even small shifts in support could shape the final voting outcomes for many SRI proposals. The share of “passed” SRI proposals (i.e., those receiving investor support exceeding the approval threshold) also increased beginning in 2018. Before 2018, around 1-2 percent of SRI proposals received such support, but in 2018, the share of such SRI proposals jumps to 8.28% and by 2021, it was 22.31%.

Table 3 reports the summary statistics of variables used in our proposal-by-institution-level analysis. Our final sample includes 779,906 institutional investor votes, out of which 252,473 (32%) are votes for SRI proposals. The sample is associated with 5,129 shareholder meetings, 10,787 shareholder proposals, and 2,610 SRI proposals. 43.1% of the votes for all shareholder proposals and 46.2% of votes for SRI proposals are from firms located in Republican states. On average, the likelihood of institution voting in support of shareholder proposals is 44.1%, while the level of institutional support for SRI proposals is 31.7%. The likelihood of management recommending support is 6.4% for all shareholder proposals but only 0.4% for SRI proposals; the likelihood of ISS recommending support is 67.4% for shareholder proposals and 57.4% for SRI proposals.

### 3. Empirical Analysis of Institutional Votes and State-Level Politics

#### 3.1 Specification

To examine whether the likelihood of an institution voting in favor of an SRI proposal varies with the political affiliation of the governor in the firm's headquarters state, we employ a high-dimensional fixed effects difference-in-differences specification.

The specification compares differences in investor support for SRI vs. non-SRI proposals across Republican- vs. Democrat-led states. Specifically, we estimate:

$$\begin{aligned} \text{Likelihood of voting in support}_{i,j,m,t} = & \beta \text{Republican}_{j,t} \times \text{SRI}_j + \gamma X_j \\ & + \theta_m + \mu_{i,t,\text{SRI}} + \pi_{\text{ind},t,\text{SRI}} + \varepsilon_{i,j,m,t}, \quad (1) \end{aligned}$$

where *Likelihood of voting in support* is the share of institution *i*'s funds voting in support for proposal *j* at shareholder meeting *m* in month *t*. *Republican* is an indicator variable that equals one if the firm is headquartered in a state with a Republican governor. *SRI* is an indicator variable that equals one if the shareholder proposal is classified as SRI by ISS. We cluster standard errors at the state-level to account for any heteroskedasticity and possible state-level correlations among observations.

To mitigate potential omitted variable biases, we include several fixed effects to partial out confounding factors that might correlate with a state's political affiliation and drive differences in proposal support at the firm-, industry-, institution-, SRI-, or time-level. First, we include meeting-level fixed effects,  $\theta_m$ . Their inclusion controls for any firm- or time-level characteristics (e.g., a firm's current profitability, the firm's recent stock returns, the day or month of the vote, etc.) that affect institutions' overall likelihood of voting in favor of a meeting's proposals. They also control for any possible direct effect of *Republican* on institutions' overall level of support for proposals at the meeting and allow us to isolate how votes within a meeting vary as a function of the proposal's SRI classification. Second, we use institution-by-month-by-SRI fixed effects,  $\mu_{i,t,\text{SRI}}$ , to control for each institution's monthly tendency to support SRI proposals. In other words, the estimation only uses within-month variation in how each individual institution votes across SRI proposals. Lastly, we include industry-by-month-by-SRI fixed effects,  $\pi_{\text{ind},t,\text{SRI}}$ , to control for differences in industry concentrations across states and institutions' varying tendency to support SRI proposals across different industries. We

set industries using firms' 2-digit Standard Industrial Classification (SIC) codes.

$X$  represents two proposal-level controls: an indicator variable for whether management recommends supporting the proposal (*Management recommends support*) and an indicator variable for whether ISS recommends supporting the proposal (*ISS recommends support*). We include these two control variables because vote recommendations, especially those of ISS, can significantly influence institutions' voting decisions (e.g., Malenko and Shen, 2016). Their inclusion also controls for possible differences in proposal composition in Republican-led states, though in later analysis we find no evidence that state-level politics correlates with vote recommendations.

In our baseline specification, the coefficient of main interest is  $\beta$ . This coefficient captures the average difference in the likelihood of an institution voting in support of SRI proposals when the governor of the firm's home state is affiliated with the Republican party (as compared to Democratic party) after controlling for vote recommendations, SRI classification, and other firm-, industry-, institution-, and time-level factors that might affect institutional investors' votes. If state-level politics matters for an institution's proxy decisions on SRI proposals,  $\beta$  would be negative given the Republican party is more likely to oppose SRI-related initiatives during our sample period (e.g., see Table 1). Because they are collinear with the fixed effects in our baseline estimation, we do not include the individual controls for *Republican* and *SRI*.

### 3.2 Baseline Results

We find that institutions are less likely to support SRI proposals overall, and especially so in states with a Republican governor. Estimates of eq. (1) are reported in Table 4. In Column 1, we start with a specification that only includes meeting and institution-by-month fixed effects. This specification allows us to observe how the likelihood of institutions' support varies for SRI proposals overall (coefficient on *SRI*),

helping benchmark the economic magnitude of incremental support rates for SRI proposals in Republican-led states (coefficient on *Republican*×*SRI*). Overall, institutions are 8.32 percentage points less likely to support SRI proposals relative to other shareholder proposals. However, in Republican-led states, an institution's support for SRI proposals is, on average, an additional 2.51 percentage points lower ( $p$ -value < 0.05). In Column 2, we add industry-by-month-by-SRI fixed effects to control for differences in industry composition across states and institutions' varying tendency to support SRI proposals across different industries. Controlling for industry, the decline in SRI support in Republican-led states increases to 4.0 percentage points ( $p$ -value < 0.01).

We continue to find less SRI support when we replace the institution-by-month fixed effects with institution-by-month-by-SRI fixed effects, as specified in eq. (1). Table 4, Column 3, reports these estimates. The switch from institution-by-month to institution-by-month-by-SRI fixed effects ensures that the estimation is identified using within-month variation in institutions' SRI votes across states. The switch has little impact on the estimates. Within a given month, institutions are 4.07 percentage points less likely to support SRI proposals in Republican-led states ( $p$ -value < 0.01).

The observed decline in support for SRI proposals is economically significant. The 4.07 percentage point decrease in Republican-led states corresponds to a 13% decline relative to the sample average level of support for SRI proposals, 31.5%.<sup>7</sup> The decline in support could also be pivotal in many vote outcomes, especially in recent years. 10.2% of SRI proposals during 2019-2021 passed/failed within a five-percentage point margin.

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<sup>7</sup> Both "against" votes and withheld votes (where the ISS records the vote as "abstain," "do not vote," or "withhold") drive the decline in support for SRI proposals. In untabulated estimates, we find that institutions are 0.5–1.0 percentage points more likely to withhold a vote on SRI proposals in Republican-led states, corresponding to a 7.1% to 14.3% increase relative to the sample average for SRI proposals (7.0%). Institutions are 1.3–3.6 percentage points more likely to vote against the SRI proposal in Republican-led states, corresponding to a 2.1% to 5.9% increase relative to the sample average (60.7%).

### 3.3 Heterogeneity Analysis

If state-level politics are influencing institutional investors' votes, we might expect to observe heterogeneity in our baseline result both over time and across firms and institutional investors. For example, the negative association between institutional investors' support for SRI proposals and state-level Republican leadership might concentrate in periods where political partisanship is greater and among firms more exposed to partisanship issues. In this section, we test for such heterogeneity. We first analyze how this association has evolved over time. We then analyze how it varies with firm size and media coverage and in months of greater political polarization.

#### 3.3.1 Heterogeneity over time

Views on SRI-related matters became particularly partisan in the latter years of our sample when politicians at the state level increasingly emphasized the CSR- and SRI-related activities of firms and institutions.<sup>8</sup> The increased partisanship around these issues might further raise investor's concerns when voting on SRI proposals, especially as state-level politicians increasingly highlight investor SRI votes and company CSR policies they disagree with (Table 1). If true, we might expect our findings to concentrate in the latter half our sample period. To analyze whether institutions' support for SRI proposals in Republican-led states has evolved over time, we estimate the same specification as in eq. (1) but segmented by presidential terms. Specifically, we separately estimate eq. (1) for each presidential term with at least one year of observations: 2006-2008, 2009-2012, 2013-2016, and 2017-2020. Table 5 presents the results.

The lower support for SRI proposals in Republican-led states concentrates in the

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<sup>8</sup> Pew Research reports that both parties have moved further away from the ideological center since the early 1970s. Democrats on average have become somewhat more liberal, while Republicans on average have become much more conservative (DeSilver, 2022). Engelberg et al. (2023) show that partisanship among SEC Commissioners also recently reached an all-time high.



latter half of our sample. We begin to detect a statistically significant difference in SRI support in Republican-led states during President Obama's second term (2013-2016). On average, institutions are 4.9 percentage points less likely to support SRI proposals in Republican-led states during those years (Table 5, Column 3;  $p$ -value < 0.05). The observed difference in support increases to 6.9 percentage points during President Trump's term from 2017-2020 (Column 4;  $p$ -value < 0.01). We find little evidence of a difference in investor support during the last years of the Bush presidency, 2006-2008, and only suggestive evidence during President Obama's first term, 2009-2012 (Columns 1-2). In Column 5, we repeat our estimates for the full sample but include an additional interaction with *Post2012*, which is an indicator variable that equals one for sample years after 2012. The statistically significant interaction term in Column 5 confirms that the observed difference in post-2012 years is statistically different than the smaller (and statistically insignificant) difference observed in earlier years. Overall, these findings are consistent with the possibility that recent increases in political polarization and state-level politicians' focus on SRI-related activities is affecting institutions' voting choices.

### 3.3.2 *Heterogeneity by size and media coverage*

We next analyze whether our results vary across firms and institutions based on their size. State politics could affect an institution's support for SRI proposals through multiple channels. For example, institutions might worry about Republican-led state leaders taking actions that are detrimental to the firm's value if the firm implements the SRI proposal. The institution might also worry about direct actions against supportive institutions, including the withdrawal of state-owned assets from the institution (as occurred for BlackRock in both Florida and Texas in 2021 and 2022, respectively). If political considerations drive our findings, we might expect the lower SRI support in

Republican-led states to be more pronounced among larger firms and institutions because the actions of larger companies tend to garner more political attention. To assess this possibility, we move to a triple-difference specification and estimate:

$$\begin{aligned}
 \text{Likelihood of voting in support}_{i,j,m,t} = & \beta_1 \text{Republican}_{j,t} \times \text{SRI}_j + \beta_2 \text{SRI}_j \times \text{Large} \\
 & + \beta_3 \text{Republican}_{j,t} \times \text{Large} \quad (2) \\
 & + \beta_4 \text{Republican}_{j,t} \times \text{SRI}_j \times \text{Large} \\
 & + \gamma X_j + \theta_m + \mu_{i,t,\text{SRI}} + \pi_{\text{ind},t,\text{SRI}} + \varepsilon_{i,j,m,t},
 \end{aligned}$$

where we add our independent variables of interest, *SRI*, *Republican*, *Republican*×*SRI*, and their interaction with an indicator variable, *Large*, that equals one for firms and institutions in the top quintile (or decile) of size each year. We define firm size using total values of assets, as reported in Compustat, and institutional investor size using assets under management, as calculated using the CRSP Mutual Funds database. All other variables and fixed effects remain the same as in eq. (1). Table 6 displays the results.

Consistent with politicians tending to exert greater political pressure on larger firms, the observed differences in support for SRI proposals concentrates among bigger firms. Institutional investor support for SRI proposals is 3.12 percentage points lower for firms in the top quintile of size (Table 6, Column 1; *p*-value < 0.10) and 8.74 percentage points lower for firms in the top decile of size (Column 2; *p*-value < 0.01). We find no evidence of differences in SRI support among smaller firms (see Columns 1-2 coefficients for *Republican*×*SRI*). Interestingly, we find also find that support for SRI proposals tends to be higher overall for the largest firms (see coefficients for *SRI*×*Large*), but as indicated by the negative triple interaction, this is less true in Republican-led states. The coefficient on *Republican*×*Large* is not identified in this specification because it varies at the firm-year level, making it collinear with the included meeting-level fixed effects.

The observed differences in investor support are also more prominent among the largest institutions. Support for SRI proposals in Republican-led states is 2.66 to 2.83 percentage points lower for non-large institutions (Columns 3-4). However, support for SRI proposals in Republican-led states is an additional 2.77 percentage points lower for institutions in the top quintile of size (Column 3;  $p$ -value  $< 0.05$ ) and 3.80 percentage points lower for institutions in the top decile of size (Column 4;  $p$ -value  $< 0.05$ ). Interestingly, support for non-SRI shareholder proposals is higher in Republican-led states (see coefficients on *Republican* $\times$ *Large*). The coefficient on *SRI* $\times$ *Large* is not identified in this specification because it varies at the institution-by-proposal-type level, making it collinear with the included institution-by-month-by-SRI fixed effects.

Greater media coverage might also increase the likelihood of politicians becoming aware of a firm's SRI-related activities. If true, firms and institutions more frequently covered by the media could also be more sensitive to political considerations. Consistent with this possibility, we find suggestive evidence that the decline in SRI support also concentrates among firms and institutions with a greater past media coverage, as calculated using the number of recent media articles found in Factiva that mention either the firm or institution's name. Appendix Table A3 reports these findings.<sup>9</sup>

### 3.3.3 Heterogeneity by extent of prevailing political polarization

To further examine whether political considerations might drive our findings, we next explore whether our baseline results differ in magnitude during periods of greater political polarization. If political considerations affect institutions' support for SRI proposals, we might observe larger differences in support across states during periods of

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<sup>9</sup> Interestingly, we find no evidence that our findings vary with whether the institution is headquartered in a Republican-led state. In our baseline estimation, the decline in support for SRI proposals in Republican-led states is similar for both institutions headquartered in Republican-led states and institutions headquartered in Democrat-led states. We also find little evidence that the political affiliation of an institution's headquarter state directly predicts its overall level of SRI support.

greater political polarization. To assess this possibility, we estimate:

$$\begin{aligned}
 \text{Likelihood of voting in support}_{i,j,m,t} = & \beta_1 \text{Republican}_{j,t} \times \text{SRI}_j \\
 & + \beta_2 \text{Republican}_{j,t} \times \text{SRI}_j \times \text{PolarizedMonth}_t \quad (3) \\
 & + \gamma X_j + \theta_m + \mu_{i,t,\text{SRI}} + \pi_{\text{ind},t,\text{SRI}} + \varepsilon_{i,j,m,t},
 \end{aligned}$$

which adds an interaction between our main independent variable, *Republican* × *SRI*, and an indicator variable, *PolarizedMonth*, that equals one in months with an above-median partisan difference in beliefs regarding quality of the environment.<sup>10</sup> The estimation otherwise remains the same as eq. (1). Table 7 presents the findings.

The observed difference in institutional support for SRI proposals in Republican-led states becomes amplified in politically polarized months. In non-polarized months, institutional investor support for SRI proposals is 2.38 percentage points lower in Republican-led states (Table 7, Column 1; *p*-value < 0.05). However, institutional investor support is an additional 3.82 percentage points lower for Republican-led states in more polarized months (*p*-value < 0.05). Overall, these results reinforce the possibility that political considerations drive our baseline result.<sup>11</sup>

#### 4. Stacked Triple-Difference Estimation

To further mitigate identification concerns, we next conduct a stacked triple-difference estimation that utilizes within-state variation as a source of identification. While the inclusion of several high-dimensional fixed effects in our baseline estimation

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<sup>10</sup> The data is compiled by PEW Research Center. Specifically, the data is related to the survey question: “With regard to the quality of environment, please tell me if you personally worry about this problem a great deal, a fair amount, only a little or not at all?”

<sup>11</sup> Because we construct the measure of political polarization using partisan differences in views regarding the environment, one might also expect the observed differences in Table 7 to be larger for the environmental SRI proposals. Indeed, in untabulated results that separately analyze environmental and social SRI proposals, we find that the observed difference in support is almost twice as large for environmental proposals. However, this difference across proposal types is not statistically significant (*p*-value = 0.20), and we cannot reject the null hypothesis that the larger decrease in support during polarized months is the same for both SRI proposal types.

narrows the potential for omitted variable biases, one remaining source of concern are omitted variables at the state-by-SRI level. For example, if states that tend to have Republican governors also tend to be states with firms where SRI proposals are less likely to enhance value, our estimates might instead reflect this possibility rather than institutions responding to state-level politics. While it is unclear what this potential state-by-SRI omitted variable might be, especially because we already control for industry-by-month-by-SRI differences in investor support, we can directly address this potential concern by utilizing within-state variation for identification purposes.

To isolate such within-state variation, we will need to focus on states that experience a change in the political party of the governor during our sample period. By comparing changes in support before and after such leadership transitions to changes in support in states not experiencing a leadership transition at that time, we can control for state-by-SRI omitted variables. In total, there are 48 cases where the party of the governor changes during our sample, of which 21 cases involve a change from a Republican to a Democratic governor. Figure 2, which depicts the political affiliation of state governors by year during our sample period, illustrates these changes. Thirty-one states experience a change in political affiliation between 2006 and 2021, while 19 states do not.

#### 4.1 Estimations using within-state changes in political affiliation

We begin our within-state analysis by adding a state-by-SRI fixed effect to our baseline specification. The inclusion of such fixed effects allows us to focus on within-state variation in the governor's political affiliation and partial out potential state-level confounding factors. Table 8, Column 1 reports the results. Despite the additional fixed effects, the estimated coefficient of *Republican*  $\times$  *SRI* remains significantly negative ( $p$ -value  $< 0.05$ ), and the estimate is similar in magnitude to the baseline result (Table 4,

Column 3). On average, institutional investor support for SRI proposals is 3.15 percentage points lower in a state when it has a Republican governor (Table 8, Column 1).

The addition of state-by-SRI fixed effects essentially converts our estimation into a staggered triple-difference estimation. Our point estimate is identified using three differences: (1) pre- versus post-election change in a state's political affiliation, (2) Republican versus Democrat governor, and (3) non-SRI proposal versus SRI proposal. However, unlike a standard triple difference, our estimation uses switches in a state's political affiliation that occur in both directions. Some states switch from Republican to Democrat; other states switch from Democrat to Republican.

One concern with the above within-state estimation is that the controls for states that experience a change in leadership are all other states that do not experience a change in leadership that same year. In other words, previously treated states can act as controls for later treated states. Such comparison can be problematic if there exists a dynamic treatment effect, where treatment magnitude varies with time since treatment (Baker et al., 2022). Such comparisons can introduce violations of the underlying parallel trends assumption (i.e., that, absent treatment, the outcome variable for treated and non-treated states would otherwise be trending the same at time of treatment).

To avoid any potential "bad comparisons" problem, we next follow Gormley and Matsa (2011, 2016) and estimate a stacked triple-difference. Specifically, for each event year  $e$  where a state experiences a change in the political party of the governor, we define treatment states as those where the governorship party changes. The control group observations for each treatment event are states where there is no change in the governorship during the sample period, 2006-2021. For each event year, we restrict the sample window to the three pre-election years, year of election, and the four years post-election. We choose this window because gubernatorial elections typically occur every

four years.<sup>12</sup> We then construct the stacked sample and estimate:

$$\begin{aligned}
 \text{Likelihood of voting in support}_{e,i,j,m,s,t} &= \beta_1 \text{Republican}_{j,t} \times \text{SRI}_j \\
 &+ \gamma X_j + \theta_{e,m} + \mu_{e,i,t,\text{SRI}} \\
 &+ \pi_{e,\text{ind},t,\text{SRI}} + \vartheta_{e,s,\text{SRI}} + \varepsilon_{e,i,j,m,s,t}, \quad (4)
 \end{aligned}$$

where *Likelihood of voting in support* is the share of institution *i*'s funds voting in support for proposal *j* at shareholder meeting *m* in month *t* for the firm headquartered in state *s*. The *e* subscript denotes to which event-year stack each observation belongs. To account for the stacked nature of the dataset, we modify the fixed effects to be meeting-by-event fixed effects, institution-by-month-by-SRI-by-event fixed effects, industry-by-month-by-event fixed effects, and state-by-SRI-by-event fixed effects. We continue to include controls for ISS and management recommendations, *X*, and we continue to cluster our standard errors at the state level. Table 8, Column 2 presents the results.

The within-state shift in support for SRI proposals persists in the stacked triple-difference estimation. When a state has a Republican governor, institutional investors are 10 percentage points less likely to support SRI proposals than when that same state has a Democrat governor (Table 8, Column 2; *p*-value < 0.01). Compared to our baseline, cross-sectional results (Table 4, Column 3), the economic magnitude is nearly twice as large when using within-state variation and never-treated states as controls. The estimate suggests about a 30% reduction in support relative to the sample average.

#### 4.2 Estimation by direction of a state's political transition

We next use our stacked triple-difference estimation to analyze whether the direction of the state's political transition matters. The specification in eq. (4) incorporates events associated with both types of governorship transitions: (1) states

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<sup>12</sup> Note that since gubernatorial elections usually take place in November, the election year is considered as pre-election period in our analysis, which is consistent with the approach taken in prior tests.

experiencing a change in the governor's political party from Democratic to Republican, and (2) states experiencing a change in the governor's political party from Republican to Democratic. If both events drive our findings in Table 8, we should observe opposing effects when restricting our treated sample to states transitioning from Democratic to Republican versus when we restrict it those states experiencing the opposition transition.

To test whether the observed shift varies across these two types of transitions, we investigate them separately by estimating the following:

$$\begin{aligned}
 \text{Likelihood of voting in support}_{e,i,j,m,s,t} = & \beta_1 Treated_{e,i} \times Post_{e,t} \times SRI_j \\
 & + \gamma X_{e,j} + \theta_{e,m} + \mu_{e,i,t,SRI} + \pi_{e,ind,t,SRI} \\
 & + \vartheta_{e,s,SRI} + \varepsilon_{e,i,j,m,s,t}, \quad (5)
 \end{aligned}$$

where *Treated* is an indicator variable that equals one if the state's observation belongs in the treatment group for event-year *e* [i.e., a state that experiences a political transition in year *e*] and equals zero otherwise [i.e., a never-treated state]. *Post* is an indicator variable that equals one for post-event periods and zero for pre-event periods. We continue to use the same 8-year event window for each transition year, and we continue to include the same set of fixed effects. The individual explanatory variables (*Treated*, *Post*, and *SRI*) and their other interactions (*Treated*×*Post*, *Treated*×*SRI*, and *Post*×*SRI*) are not included as they are each collinear with the fixed effects. We then estimate the eq. (5) separately for the two sets of transitions. Table 9 reports the results.

Both types of political transitions associate with within-state shifts in investor support for SRI proposals. When we restrict the treated sample to the set of state events where there is a switch from a Democrat to Republican governor, we observe a post-switch decrease in investors' support for SRI proposals that 19.6 percentage points larger than post-switch change in SRI support observed in states not experiencing a transition (Table 9, Column 1; *p*-value < 0.01). However, when we instead restrict the treated sample



to states that switch from a Republican to Democrat governor, we observe a post-switch increase in SRI support that is 6.94 percentage points larger than the change in SRI support observed in states not experiencing a transition (Column 2;  $p$ -value < 0.010). Combined, these findings show that the direction of the within-state political transition is largely unimportant; in both cases, support for SRI proposals was lower in the state when a Republican held the governorship. While the point estimate for Democrat to Republican transitions is larger in magnitude, that should be interpreted with caution given the relatively small number of events and the different timing of various transitions, which could be important for the estimated magnitudes (e.g., see Table 5).

#### 4.3 Timing of observed within-state changes

We next assess the timing of the observed within-state shifts for states undergoing a political transition by modifying the estimation in eq. (5) to estimate a treatment effect in each event year. We use the year of the election as the excluded baseline and estimate:

$$\begin{aligned}
 \text{Likelihood of voting in support}_{e,i,j,m,s,t} = & (\beta_1 \text{Pre3} + \beta_2 \text{Pre2} + \beta_3 \text{Pre1} \\
 & + \beta_4 \text{Post1} + \beta_5 \text{Post2} + \beta_6 \text{Post3} + \beta_7 \text{Post4}) \times \text{Treated}_{e,i} \times \text{SRI}_j \\
 & + \gamma X_{e,j} + \theta_{e,m} + \mu_{e,i,t,\text{SRI}} + \pi_{e,\text{ind},t,\text{SRI}} + \vartheta_{e,s,\text{SRI}} + \varepsilon_{e,i,j,m,s,t}, \quad (6)
 \end{aligned}$$

where  $\text{Pre3}$ ,  $\text{Pre2}$ , and  $\text{Pre1}$  are indicator variables that equal one if the observation corresponds to 3, 2, or 1 year before the election year, respectively. Likewise,  $\text{Post1}$ ,  $\text{Post2}$ ,  $\text{Post3}$ , and  $\text{Post4}$  are indicator variables that equal one if the observation corresponds to 1, 2, 3, or 4 years after the election year. All other controls remain the same, and like Table 9, we estimate eq. (6) separately for each direction of political transition. Figure 3 plots the resulting point estimates and 95% confidence intervals.

For Democrat to Republican transitions, the timing of the relative decrease in support for SRI proposals coincides with the timing of the transition. Figure 3, Panel A

shows this finding. In the years before the election, we observe no pre-existing differential trend in SRI support for states that later switch from a Democrat to Republican governor. Instead, the decrease in support only begins in the year after the election and continues to grow in the later years of the elected Republican's first term. This finding provides support for the underlying parallel trends assumption of the triple-difference estimation.

However, the timing of the relative increase in support for SRI proposals that occurs around Republican to Democrat transitions is less closely aligned with the election. For these transitions, there is an upward drift in SRI support after the Democrat takes office, but the stacked triple-difference point estimate found in Table 9, Column 2, seems to largely reflect a post-election reversal of relatively low SRI support in the year before the Republican party loses the governorship (Figure 3, Panel B).

#### 4.4 Restricting to closer elections and smaller shifts in party popularity

There are several mechanisms by which a within-state political shift might influence institutional investor votes. One possibility is that the change in political party holding the governorship reflects a shift in the view of the state's populace regarding CSR- and SRI-related issues. If so, firms (and their investors) might change their support for SRI proposals not because of the new governor but rather because such a change might affect the firm's standing with the state's populace, which could then affect the firm's sales or the ability to hire workers in that state. If true, we might expect our within-state findings to be weaker in states where the winning party exhibits a smaller victory margin or experiences a smaller increase in their popularity, relative to the last election. Alternatively, firms (and their investors) might directly care about the political influence of the newly elected governor. If so, we would not necessarily expect our findings to differ for closer elections or for elections where there was a smaller shift in support for the

winning party. We try to tease out these possible mechanisms by next analyzing how our findings vary with the victory margin and the shift in popularity of the winning party.

The observed within-state shift in investor support for SRI proposals is similar in states where the political transition coincides with a closer election or a smaller shift in the popularity of the winning party. Appendix Table A4, which repeats the stacked estimation after restricting the treated sample of events to those with a below median victory margin (Panel A) or a below-median shift in the relative popularity of the winning political party (Panel B), reports these findings. The point estimates in these subsamples (Appendix Table A4) are similar in magnitude to those found when using the full set of political transitions (Tables 8 & 9). The similarity in estimates suggests that the likely political mechanism for our finding is the state-level shift in political leadership rather than the underlying state-level shift in the popularity of the winning political party.<sup>13</sup>

## 5. Robustness Tests and Additional Analysis

In this section, we conduct additional tests and examine the robustness of our findings. We start by analyzing whether Republican leadership correlates with changes in the vote recommendations. We then analyze the robustness of our baseline findings to excluding controls and to changing how we define a state's political affiliation. We also analyze whether our findings differ across environmental and social proposals.

### 5.1 Likelihood that management or ISS support the proposal

We first investigate whether the proposal-level control variables used in our study, *Management recommends support* and *ISS recommends support*, vary in Republican-led states. Differences in support might occur if the composition of SRI proposals varies

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<sup>13</sup> The greater shift in voting for bigger firms (see Table 6) also suggests that concerns about the political views of the state's populace are unlikely to drive our findings. Larger firms are more likely to sell products and employ workers in other states, making them less sensitive to that potential mechanism.

in Republican-led states. Such variation in proposal composition might occur if shareholders tend to promote different types of SRI proposals in those states.

We find no evidence that management or ISS recommendations vary in Republican-led states. Table 10 reports these estimates. Using the same proposal-by-institution data structure and baseline specification as in our earlier analysis, we find no evidence that the average level of support from managers varies for SRI proposals in Republican-led states (Table 10, Column 1). There is also no evidence of a difference in ISS's recommendation (Column 3). Beyond lacking statistical significance, both point estimates are also economically small, with each being less than one percentage point. We find similar non-results when we repeat the analysis at the proposal-level, which is the unit of analysis by which each outcome is constructed. Controlling for firm and month fixed effects in a proposal-level estimation, there is no evidence that ISS or management support for SRI proposals varies in Republican states (Columns 2 and 4). Overall, these findings are consistent with evidence that activists often file the same type of proposals across firms, irrespective of the location (Gantchev and Giannetti, 2021).<sup>14</sup>

## 5.2 Robustness to alternative controls

These non-results also suggest that the inclusion of proposal-level controls in our baseline specification is unlikely to introduce a bias related to “bad controls” (e.g., see Angrist and Pischke, 2009). Consistent with a lack of bias, our baseline finding (Table 4, Column 3) is robust to dropping the proposal-level controls. The point estimate is nearly unchanged when dropping the controls, and the main change is an increase in the

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<sup>14</sup> In untabulated estimates, we also find no evidence that firms are more likely to face SRI proposals in Republican-led states. The likelihood of a shareholder meeting having at least one SRI proposal is not statistically different in Republican-led states, nor is the likelihood of a proposal being classified as SRI. We also find no evidence of a change in the likelihood that either ISS or management recommend investors “abstain,” “withhold,” or “do not vote” on SRI proposals. Such recommendations are uncommon, accounting for less than 4% of ISS recommendations and less than 1% of management recommendations.

estimated standard errors (see Appendix Table A5, Column 1). The decreased precision of the estimate likely reflects that vote recommendations are key determinants of institutional votes. A reduction in precision but similar point estimates is also seen when restricting our estimation to post-2012 years (Appendix Table A5, Columns 2-3).

In untabulated analysis, we also find that including controls for proposal sponsor type (e.g., individual, institution, etc.) does not impact our findings. In most cases, there is no residual variation in proposal sponsors after we partial out the fixed effects. We also find no evidence that proposal sponsors differ in Republican-led states.

### 5.3 Alternative measure on political control over states

Our baseline finding is also robust to using an alternative measure of a state's political affiliation. To illustrate this robustness, we re-estimate eq. (1) after replacing *Republican* with *Republican Control*, an indicator variable that equals one if the corresponding firm is in a state with unified Republican control (i.e., Republicans hold the governorship and seat majorities in both the state house and senate). Table 11, Column 1 displays the results of this estimation. Compared with the baseline result (Table 4, Column 3), the estimated coefficient is of similar magnitude and statistical significance. In states with unified Republican control, institutional investors are 4.04 percentage points less likely to support SRI proposals (Table 11, Column 1;  $p$ -value < 0.01).

However, there is suggestive evidence that the observed decline in SRI support is larger in states with unified Republican control. Table 11, Column 2, shows this finding. In Column 2, we add interactions for *Republican Governor Only*, which flags states where Republicans hold the governor's office but do not control both the house and senate, and *Democrat Governor Only*, which flags states where Democrats hold the governor's office but do not control both the house and senate. The excluded category is states where the

Democrat party holds both the governorship and majorities in the house and senate. The point estimate for unified Republican control is nearly 50% larger than for states where Republicans hold only the governorship (Table 11, Column 2), but the difference is not statistically significant ( $p$ -value of difference = 0.29). There is little evidence that institutional investors' support for SRI proposals differs between states with unified Democrat control or states where the Democrat party only holds the governorship.

#### 5.4 Heterogeneity by SRI proposal type

We next investigate whether our baseline result is driven by a particular type of SRI proposal. To assess this possibility, we further classify each SRI proposal as either environmental- and social-related following guidance from the Sustainability Accounting Standards Board (SASB) standards. Specifically, we manually align each of the 1,599 unique SRI resolutions in our sample with topics categorized under the SASB ESG framework, and we use its framework to classify SRI proposals as either environmental (E) or social (S).<sup>15</sup> We then estimate:

$$\begin{aligned}
 \text{Likelihood of voting in support}_{i,j,m,t} = & \beta_1 SRI\_E_j + \beta_2 SRI\_S_j + \beta_3 Republican_{j,t} \times SRI\_E_j \\
 & + \beta_4 Republican_{j,t} \times SRI\_S_j + \gamma X_j \\
 & + \theta_m + \mu_{i,t,SRI} + \pi_{ind,t,SRI} + \varepsilon_{i,j,m,t}, \quad (7)
 \end{aligned}$$

where  $SRI\_E$  is an indicator variable that equals one if the SRI proposal  $j$  is connected to environmental issues and  $SRI\_S$  is an indicator variable equal to one if the proposal is instead connected to social issues. The rest of variables are defined as before. The modified specification is consistent with the spirit of our baseline approach but allows us to examine each SRI proposal separately. Appendix Table A6 reports the results.

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<sup>15</sup> The SASB Standards have been widely adopted by corporations, investors, and analysts to identify and classify ESG issues that could impact companies' financial performance and investor decision-making. Khan, Serafeim, and Yoon (2016) also use SASB metrics to identify material ESG issues.

Both environmental and social SRI proposal drive the baseline result. We start by including the same set of fixed effects to the baseline specification. The estimated coefficient of *Republican* × *SRI\_E* and *Republican* × *SRI\_S* are -0.0456 and -0.0334, respectively, indicating that institutional investor support for environmental proposals is 4.56 percentage points lower in Republican-led states (Appendix Table A6, Column 1; *p*-value < 0.05) and 3.34 percentage points lower for social proposals (*p*-value < 0.01). Additionally, we cannot reject the null hypothesis that the two coefficients are the same (*p*-value = 0.30). Next, we further partial out concerns on potential confounding factors at the proposal-type-level by replacing the institution-by-month-by-SRI fixed effects with institution-by-month-by-SRI\_E and institution-by-month-by-SRI\_S fixed effects. We make a similar adjustment to the industry-level fixed effects. While the coefficient for the *SRI\_E* interaction is no longer statistically significant, its magnitude is similar to that of the *SRI\_S* interaction, and we cannot reject the null hypothesis that the two coefficients are equal (Column 2; *p*-value of 0.69). Overall, these results suggest that our main findings are not driven solely by either environmental or social SRI proposals.

## 6. Conclusion

Institutional investors can be a key driver of firms undertaking CSR and SRI-related activities (e.g., Dyck et al., 2019; Chen et al., 2020; Yegen, 2020; Gormley et al., 2023). However, institutions themselves face pressure regarding what activities to promote. The increasing political polarization of views surrounding CSR and SRI has placed institutional investors and firms in a complex predicament. Supporting CSR and SRI-related initiatives could win investors (and their firms) praise from one political party but scorn from the other. Our study delves into the intricate interplay between state-level political affiliations and institutional investors' proxy voting choices on SRI proposals.

Consistent with institutional investors being responsive to political pressures, we find a negative association between institutional investors' support for SRI proposals and Republican party rule in a firm's home state. On average, institutional investors are four percentage points less likely to support SRI proposals in Republican-led states. The negative association holds even after we partial out confounding factors that might drive differences in support for SRI proposals at the firm-, industry-, institution-, or time-level. The lower support for SRI in Republican-led states also concentrates on (i) more recent years, coinciding with the increase in political polarization and state-level politicians' focus on SRI-related activities, (ii) larger firms and institutions, which are more likely to be sensitive to political considerations, and (iii) periods of greater political polarization.

Our baseline results hold if we instead use within-state changes in political leadership as an additional source of identification. Using a staggered triple-difference estimation, we find that institutional investor's support for SRI proposals is 10 percentage points lower in the same state when it is led by a Republican instead of a Democrat. Moreover, the observed within-state shift in institutional investors' SRI support occurs for both types of political transitions: support increases when a Democrat replaces a Republican governor, and support decreases when a Republican replaces a Democrat governor. The observed shift also coincides with the timing of the election and holds in elections with a smaller victory margin or smaller shift in the popularity of the winning party, suggesting that investors are responding to newly elected leaders rather than a shift in the underlying political tilt of the state's populace.

Our findings highlight that the determinants of institutional investor proxy voting choices can be complicated. Institutions must balance several competing interests, and there are many possible factors that might affect their level of engagement on SRI issues, including self-dealing, attracting fund flows from socially minded investors, and staving



off regulation (Barzuza et al., 2020; Fisch, 2020; Kahan and Rock, 2019). Our findings suggest that political pressures and the political leanings in a state are an increasingly important determinant of institutional investors' SRI engagement. Our findings also suggest an additional obstacle firms might face when pursuing CSR activities—a lack of support from investors when local politicians oppose such activities.

Overall, the findings point to a significant influence of the political environment on institutional investors' decisions. By identifying the role of state-level politics in shaping proxy voting choices, we provide valuable insights for policymakers, practitioners, and researchers interested in understanding the intricate connections between politics and finance in the context of CSR and SRI.

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Figure 1  
 Likelihood of SRI proposals by year and type of governor.  
 This figure plots the likelihood of having an SRI proposal in shareholder meetings for firms in Democratic- versus Republican-led states from 2006 to June 2021.

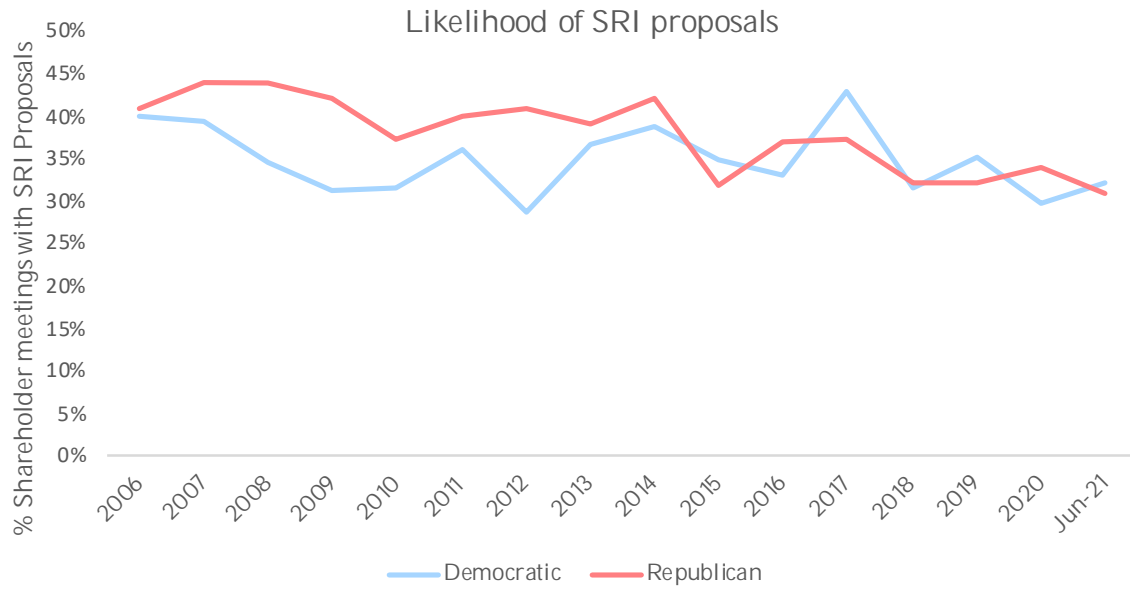


Figure 2

Political affiliations of state governors by year.

This figure depicts the political affiliations of state governors by year, with blue indicating Democrats and red representing Republicans. As gubernatorial elections are commonly conducted in November, we attribute election outcomes to the years succeeding an election year, extending until the subsequent election year for that specific state.

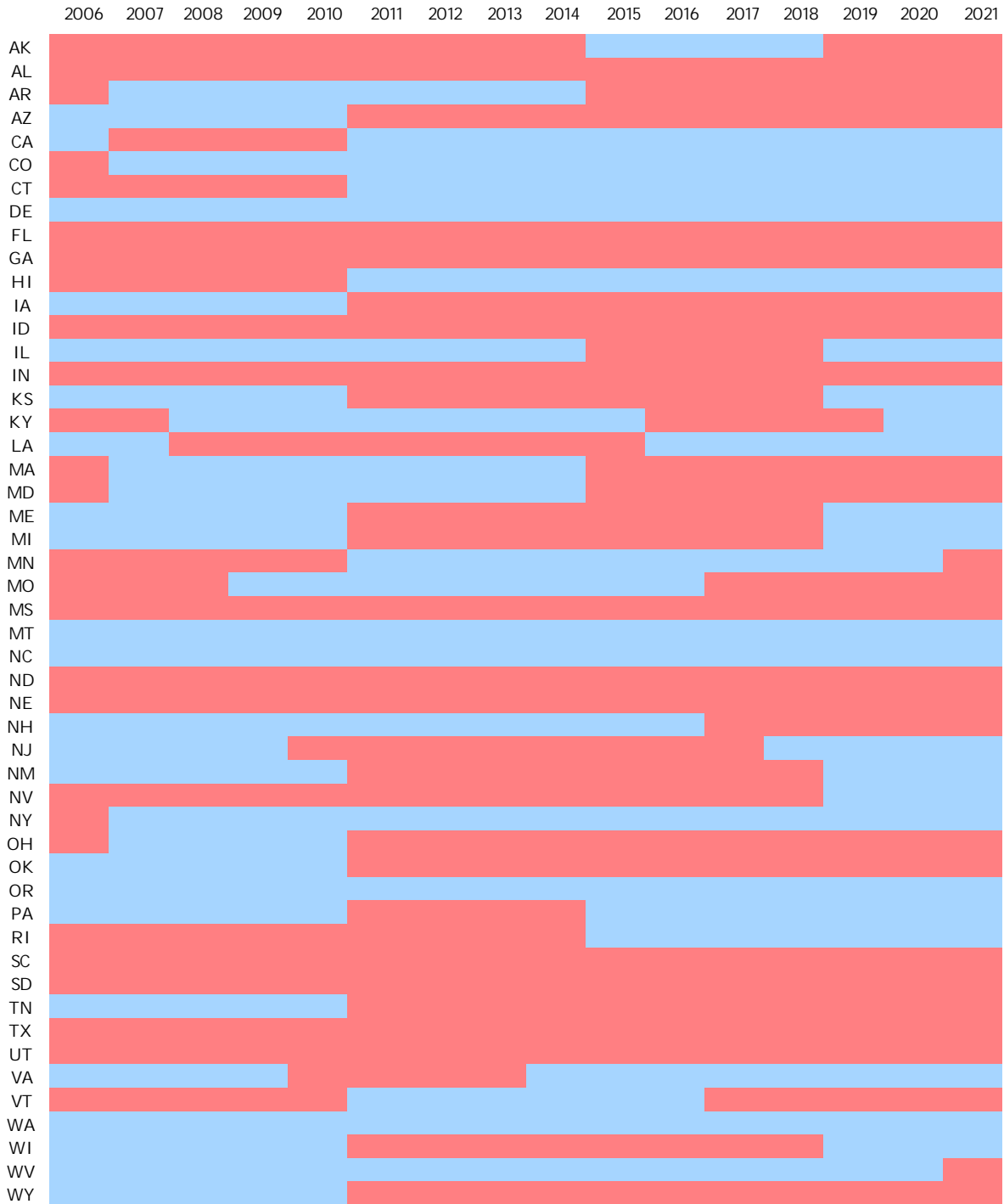


Figure 3

Timing of observed change in within-state SRI support.

This figure displays the 95% confidence interval of estimated  $\hat{\beta}'s$  derived from the following regression,

$$\text{Likelihood of voting in support}_{e,i,j,m,s,t} = (\beta_1 \text{Pre3} + \beta_2 \text{Pre2} + \beta_3 \text{Pre1} + \beta_4 \text{Post1} + \beta_5 \text{Post2} + \beta_6 \text{Post3} + \beta_7 \text{Post4}) * \text{Treated}_{e,i} * \text{SRI}_{e,j} + \gamma X_j + \theta_{e,m} + \mu_{e,i,t,\text{SRI}} + \pi_{e,\text{ind},t,\text{SRI}} + \vartheta_{e,s,\text{SRI}} + \varepsilon_{e,i,j,m,s,t}$$

where *Likelihood of voting in support* is the share of institution *i*'s funds voting in support for proposal *j* at meeting *m* in month *t* for the set of observations pertaining to event year *e* and state *s*. For each event year *e* where a state experiences a change in the political party of the governor, we define treatment states as those where the governorship party changes. The control group observations for each treatment event are states where there is no change in the governorship during the sample period, 2006-2021, and for each event, we restrict the sample window to the three pre-election years, year of election, and the to four years post-election. For each event, *Pre3*, *Pre2*, and *Pre1* equals 1 if the sample correspond to 3, 2, or 1 years before the election year; similarly, *Post1*, *Post2*, *Post3*, and *Post4* equals 1 if the sample correspond to 1, 2, 3, or 4 years after the election year. In Panel A, we restrict the set of events to states that switch from Democrat to Republican, and in Panel B, we restrict the set of events to states that switch from Republican to Democrat. *SRI* equals 1 if the proposal *j* is related to socially responsible issues. *X* represents the proposal-level controls for whether management and ISS recommend supporting the proposal, *Management recommends support* and *ISS recommends support*. We include meeting-by-event fixed effects, institution-by-month-by-SRI-by-event fixed effects, industry-by-month-by-event fixed effects (where industry is defined at the 2-digit SIC level), and state-by-SRI-by-event fixed effects. The sample includes all shareholder proposals that were voted on from 2006 to June 2021. Standard errors are adjusted for heteroskedasticity and clustered at the state level. *t* statistics are in parentheses. \* indicates significance at the 10% level; \*\* at the 5% level; and \*\*\*, at the 1% level.

Pointestimate

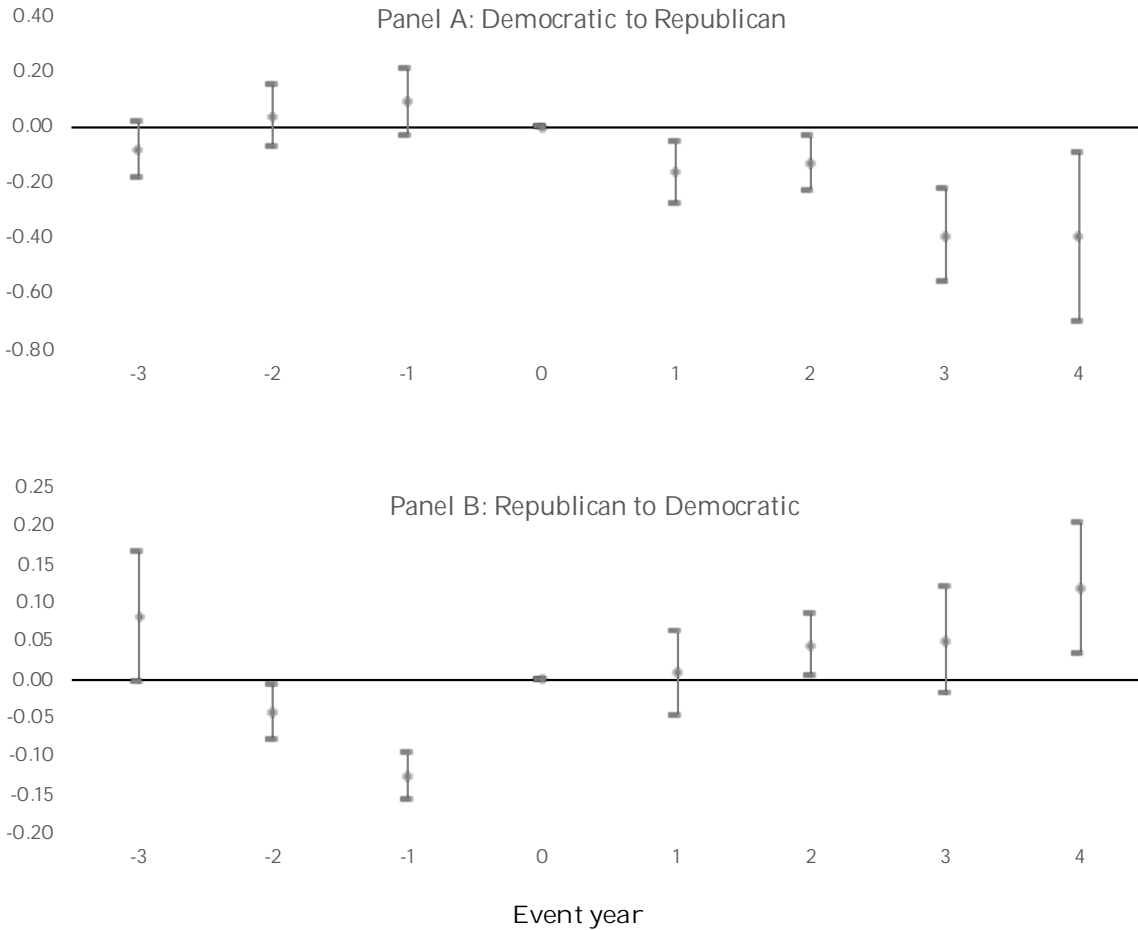




Table 1

Example political disputes between governors, firms, and institutions.

This table lists sample anecdotes related to political disputes involving Governors with firms (Panel A) and institutions (Panel B).

Year	Party	State	Governor	Firms/MFF	Issue
<i>Panel A: Disputes with firms</i>					
2011	Republican	WI	Scott Walker	Trek Bicycle	Criticize for supporting collective bargaining rights
2012	Republican	KS	Sam Brownback	YRC	Criticize for supporting Affordable Care Act
2013	Republican	AL	Robert Bentley	Mercedes-Benz	Criticize for supporting emission regulations
2013	Republican	OK	Mary Fallin	General Electric	Criticize for supporting emission regulations
2013	Republican	PA	Tom Corbett	HP	Criticize for supporting GHG
2013	Republican	LA	Bobby Jindal	Royal Dutch Shell	Criticize for supporting GHG
2013	Republican	NJ	Chris Christie	ExxonMobil	Criticize for supporting climate change transparency
2014	Democrat	NY	Andrew Cuomo	Fracking	Ban fracking due to health and environmental concerns
2014	Republican	AZ	Jan Brewer	Apple	Criticize for supporting climate change transparency
2015	Republican	IN	Mike Pence	Salesforce	Criticize for supporting climate change transparency
2016	Republican	NC	Pat McCrory	Bank of America; Lowe's	Bill preventing anti-discrimination LGBT laws
2018	Democrat	NY	Andrew Cuomo	Amazon	Citing gentrification and tax incentives
2019	Republican	TX	Greg Abbott	Dell	Criticize for supporting carbon emission reduction
2021	Republican	FL	Ron DeSantis	Airbnb	Bill fining for removing Israeli settlement listings
<i>Panel B: Disputes with institutions</i>					
2005	Republican	CA	Arnold Schwarzenegger	CalPERS	Criticize for not addressing social, environmental issues
2007	Democrat	NJ	Jon Corzine	State Farm	Sign law requiring divestment from Iran
2011	Republican	FL	Rick Scott	CalPERS	Criticize for divestment from Sudan
2012	Independent	RI	Lincoln Chafee	BlackRock; Vanguard	Criticize for not addressing climate change
2012	Republican	AZ	Jan Brewer	BlackRock; Vanguard	Divestment from Iran
2013	Democrat	WA	Jay Inslee	BlackRock; Vanguard	Divestment from fossil fuels
2013	Democrat	IL	Pat Quinn	State Farm	Divestment from Iran
2014	Democrat	NY	Andrew Cuomo	BlackRock; Vanguard	Divestment from Sudan
2018	Democrat	CA	Jerry Brown	State Farm	Criticize for supporting climate change transparency
2018	Republican	OH	John Kasich	JPMorgan Chase	Criticize for supporting climate change transparency
2019	Democrat	NY	Andrew Cuomo	BlackRock; Vanguard	Criticize for not addressing climate change
2019	Democrat	IL	J.B. Pritzker	BlackRock; Vanguard	Sign law requiring divestment from human rights violators
2022	Republican	FL	Ron DeSantis	BlackRock	Pulled \$2b citing institution's focus on ESG

Table 2

Number of SRI proposals and vote outcomes by year.

This table presents the number of SRI proposals, percentage of SRI proposals that crossed approval threshold, and percentage of SRI proposals where the support for the proposal was within five percentage points of the approval threshold from 2006 to June 2021 in our sample.

Year	# SRI Proposals	% passed	% contested
2006	163	1.23%	0.61%
2007	180	0.56%	0.56%
2008	190	1.05%	1.58%
2009	157	0.64%	1.27%
2010	134	0.75%	0.75%
2011	127	0.79%	1.57%
2012	144	0.00%	1.39%
2013	158	3.16%	1.90%
2014	196	1.02%	1.02%
2015	195	0.00%	0.00%
2016	196	2.04%	2.55%
2017	199	2.01%	3.02%
2018	145	8.28%	7.59%
2019	142	3.52%	8.45%
2020	154	11.69%	12.99%
2021	130	22.31%	9.23%
Total	2,610	3.69%	3.40%

Table 3

Summary statistics.

This table describes the summary statistics of variables used in our proposal-by-institution-level analysis. The sample includes all shareholder proposals that were voted on from 2006 to June 2021. *Likelihood of voting in support* is measured at the institution (i.e., fund family) level using the share of the institution's funds that cast votes in support of the proposal. *Republican* is an indicator variable that equals 1 if the focal firm is located in a state where the Republican party holds the office of governor at the time the proposal is voted on. *SRI* is an indicator variable that equals 1 if the proposal is related to socially responsible issues. *Management recommends support* and *ISS recommends support* are indicator variables set to 1 if management or ISS recommend supporting for the focal proposal. The number of observations (Obs.), mean, and standard deviation (SD) are reported both for the full sample (Panel A) and for the subsample of SRI proposals (Panel B).

	Obs.	Mean	SD
<u>Panel A: Full sample of shareholder proposals</u>			
<i>Likelihood of voting in support</i>	779,906	44.4%	47.4%
<i>SRI</i>	779,906	32.4%	46.8%
<i>Republican</i>	779,906	43.1%	49.5%
<i>Management recommends support</i>	779,906	6.4%	24.4%
<i>ISS recommends support</i>	779,906	67.4%	46.9%
<u>Panel B: SRI proposals only</u>			
<i>Likelihood of voting in support</i>	252,473	31.5%	44.0%
<i>Republican</i>	252,473	46.2%	49.9%
<i>Management recommends support</i>	252,473	0.4%	6.0%
<i>ISS recommends support</i>	252,473	57.4%	49.4%

Table 4

Institutions' support for SRI proposals in Republican-led states.

This table displays coefficients from a proposal-by-institution-level regression that examines the likelihood of an institution voting in favor of a SRI proposal based on the political affiliation of the governor in the firm's headquarters state. Specifically, we estimate

$$\text{Likelihood of voting in support}_{i,j,m,t} = \beta_1 \text{SRI}_j + \beta_2 \text{Republican}_{j,t} \times \text{SRI}_j + \gamma X_j + \theta_m + \mu_{i,t,\text{SRI}} + \pi_{\text{ind},t,\text{SRI}} + \varepsilon_{i,j,m,t}$$

where *Likelihood of voting in support* is the share of institution *i*'s funds voting in support for proposal *j* at meeting *m* in month *t*. *Republican* is a dummy that equals 1 if the corresponding firm is located in a state where the Republican party controls the office of governor in month *t* when proposal *j* is being voted on. *SRI* equals 1 if the proposal *j* is related to socially responsible issues. *X* represents the proposal-level controls for whether management and ISS recommend supporting the proposal, *Management recommends support* and *ISS recommends support*. We include meeting fixed effects, institution-by-month-by-SRI fixed effects, and industry-by-month-by-SRI fixed effects, where industry is defined at the 2-digit SIC level. The sample includes all shareholder proposals that were voted on from 2006 to June 2021. Standard errors are adjusted for heteroskedasticity and clustered at the state level. *t* statistics are in parentheses. \* indicates significance at the 10% level; \*\* at the 5% level; and \*\*\*, at the 1% level.

	Dep. variable =		
	<i>Likelihood of voting in support</i>		
	(1)	(2)	(3)
<i>SRI</i>	-0.0832*** (-11.95)		
<i>Republican</i> × <i>SRI</i>	-0.0251** (-2.51)	-0.0400*** (-3.54)	-0.0407*** (-3.66)
Controls	Y	Y	Y
Meeting fixed effects	Y	Y	Y
Institution-by-month fixed effects	Y	Y	
Institution-by-month-by-SRI fixed effects			Y
Industry-by-month-by-SRI fixed effects		Y	Y
<i>N</i>	768,201	768,201	761,302
<i>R-squared</i>	0.54	0.545	0.583

Table 5

Institutions' support for SRI proposals in Republican-led states over time.

This table examines the likelihood of an institution voting in favor of a SRI proposal based on the political affiliation of the governor of the firm's home state, segmented by presidential election term. Specifically, we estimate

$$\text{Likelihood of voting in support}_{i,j,m,t} = \beta_1 \text{Republican}_{j,t} \times \text{SRI}_j \\ + \gamma X_j + \theta_m + \mu_{i,t,\text{SRI}} + \pi_{\text{ind},t,\text{SRI}} + \varepsilon_{i,j,m,t},$$

where *Likelihood of voting in support* is the share of institution *i*'s funds voting in support for proposal *j* at meeting *m* in month *t*. *Republican* is a dummy that equals 1 if the corresponding firm is located in a state where the Republican party controls the office of governor in month *t* when proposal *j* is being voted on. *SRI* equals 1 if the proposal *j* is related to socially responsible issues. *X* represents the proposal-level controls for whether management and ISS recommend supporting the proposal, *Management recommends support* and *ISS recommends support*. We include meeting fixed effect, institution-by-month-by-SRI fixed effect, and industry-by-month-by-SRI fixed effect throughout, where industry is defined at the 2-digit SIC level. The sample includes all shareholder proposals that were voted on from 2006 to June 2021. Columns 1-4 report estimates using the subsample observations that occur during each presidential term with at least one year of coverage: 2006-2008, 2009-2012, 2013-2016, 2017-2020. In Column 5, we report our estimates for the full sample but include an additional interaction with *Post2012*, which is a dummy that equals 1 if the sample is after year 2012. Standard errors are adjusted for heteroskedasticity and clustered at the state level. *t* statistics are in parentheses. \* indicates significance at the 10% level; \*\* at the 5% level; and \*\*\*, at the 1% level.

	Dep. variable =				
	<i>Likelihood of voting in support</i>				
	(1)	(2)	(3)	(4)	(5)
<i>Republican</i> × <i>SRI</i>	-0.007 (-0.30)	-0.020 (-1.13)	-0.049** (-2.38)	-0.069*** (-4.43)	-0.014 (-1.27)
<i>Republican</i> × <i>SRI</i> × <i>Post2012</i>					-0.052*** (-3.16)
Sample	2006- 2008	2009- 2012	2013- 2016	2017- 2020	All years
Controls	Y	Y	Y	Y	Y
Meeting fixed effects	Y	Y	Y	Y	Y
Institution-by-month-by-SRI fixed effects	Y	Y	Y	Y	Y
Industry-by-month-by-SRI fixed effects	Y	Y	Y	Y	Y
<i>N</i>	131,452	186,219	213,646	193,792	761,302
<i>R-squared</i>	0.597	0.586	0.573	0.581	0.583

Table 6

Heterogeneity in support based on firm and institutional investor size.

This table explores whether the association between an institution's SRI votes and the political climate in the firm's home state varies across size of firms or institutions. Specifically, we estimate

$$\text{Likelihood of voting in support}_{i,j,m,t} = \beta_1 \text{Republican}_{j,t} \times \text{SRI}_j + \beta_2 \text{SRI}_j \times \text{Large} + \beta_3 \text{Republican}_{j,t} \times \text{Large} + \beta_4 \text{Republican}_{j,t} \times \text{SRI}_j \times \text{Large} + \gamma X_j + \theta_m + \mu_{i,t,\text{SRI}} + \pi_{\text{ind},t,\text{SRI}} + \varepsilon_{i,j,m,t}$$

where *Likelihood of voting in support* is the share of institution *i*'s funds voting in support for proposal *j* at meeting *m* in month *t*. *Republican* is a dummy that equals 1 if the corresponding firm is located in a state where the Republican party controls the office of governor in month *m* when proposal *j* is being voted on. *SRI* equals 1 if the proposal *j* is related to socially responsible issues. *X* represents the proposal-level controls for whether management and ISS recommend supporting the proposal, *Management recommends support* and *ISS recommends support*. In Columns 1 and 2, *Large* equals 1 if the firm size is in the top quintile or decile (by year); in Columns 3 and 4, *Large* equals 1 if the institution size is in the top quintile or decile (by year). We include meeting fixed effects, institution-by-month-by-SRI fixed effects, and industry-by-month-by-SRI fixed effects, where industry is defined at the 2-digit SIC level. The sample includes all shareholder proposals that were voted on from 2006 to June 2021. Standard errors are adjusted for heteroskedasticity and clustered at the state level. *t* statistics are in parentheses. \* indicates significance at the 10% level; \*\* at the 5% level; and \*\*\*, at the 1% level.

	Dep. variable = <i>Likelihood of voting in support</i>			
	(1)	(2)	(3)	(4)
<i>Republican</i> × <i>SRI</i>	-0.0012 (-0.12)	0.0008 (0.07)	-0.0266 (-1.60)	-0.0283* (-1.71)
<i>SRI</i> × <i>Large</i>	0.0624*** (5.83)	0.0897*** (7.04)		
<i>Republican</i> × <i>Large</i>			0.0156** (2.28)	0.0184** (2.34)
<i>Republican</i> × <i>SRI</i> × <i>Large</i>	-0.0312* (-1.83)	-0.0874*** (-2.71)	-0.0277** (-2.35)	-0.0380** (-2.41)
Definition for <i>Large</i> indicator (by year)	Firm size in top quintile	Firm size in top decile	Institution size in top quintile	Institution size in top decile
Controls	Y	Y	Y	Y
Meeting fixed effects	Y	Y	Y	Y
Institution-by-month-by-SRI fixed effects	Y	Y	Y	Y
Industry-by-month-by-SRI fixed effects	Y	Y	Y	Y
<i>N</i>	761,300	761,300	620,384	620,384
<i>R-squared</i>	0.580	0.580	0.580	0.580

Table 7

Heterogeneity based on political polarization.

This table examines whether the association between an institution's voting on SRI proposals and the political climate in the firm's home state differs during periods of varying political polarization. Specifically, we estimate

$$Likelihood\ of\ voting\ in\ support_{i,j,m,t} = \beta_1 Republican_{j,t} \times SRI_j + \beta_2 Republican_{j,t} \times SRI_j \times PolarizedMonths_t + \gamma X_j + \theta_m + \mu_{i,t,SRI} + \pi_{ind,t,SRI} + \varepsilon_{i,j,m,t},$$

where *Likelihood of voting in support* is the share of institution *i*'s funds voting in support for proposal *j* at meeting *m* in month *t*. *Republican* is a dummy that equals 1 if the corresponding firm is located in a state where the Republican Party controls the office of governor in month *t* when proposal *j* is being voted on. *SRI* equals 1 if the proposal *j* is related to socially responsible issues. *X* represents proposal-level control variables including management and ISS recommendation. *PolarizedMonths* is an indicator set to 1 in months with an above median partisan difference in beliefs regarding quality of the environment. *X* represents the proposal-level controls for whether management and ISS recommend supporting the proposal, *Management recommends support* and *ISS recommends support*. We include meeting fixed effects, institution-by-month-by-SRI fixed effects, and industry-by-month-by-SRI fixed effects, where industry is defined at the 2-digit SIC level. The sample includes all shareholder proposals that were voted on from 2006 to June 2021. Standard errors are adjusted for heteroskedasticity and clustered at the state level. *t* statistics are in parentheses. \* indicates significance at the 10% level; \*\* at the 5% level; and \*\*\*, at the 1% level.

	Dep. variable = <i>Likelihood of voting in support</i> (1)
<i>Republican</i> × <i>SRI</i>	-0.0238** (-2.38)
<i>Republican</i> × <i>SRI</i> × <i>PolarizedMonths</i>	-0.0382** (-2.38)
Controls	Y
Meeting fixed effects	Y
Institution-by-month-by-SRI fixed effects	Y
Industry-by-month-by-SRI fixed effects	Y
<i>N</i>	761,302
<i>R-squared</i>	0.583

Table 8

Estimations using within-state changes in the governor's political affiliation.

This table reports within-state panel estimations that analyze the likelihood of an institution voting in favor of a SRI proposal based on the political affiliation of the governor of the firm's home state. Column 1 shows our baseline regression (Table 4, Column 3) after adding state-by-SRI fixed effects. For Column 2, we estimate a stacked difference-in-differences estimation that utilizes within-state variation in governors' political affiliations. Specifically, for each event year  $e$  where a state experiences a change in the political party of the governor, we define treatment states as those where the governorship party changes. The control group observations for each treatment event are states where there is no change in the governorship during the sample period, 2006-2021, and for each event, we restrict the sample window to the three pre-election years, year of election, and the four years post-election. We then estimate

$$\begin{aligned} \text{Likelihood of voting in support}_{e,i,j,m,s,t} = & \beta_1 \text{Republican}_{e,j,t} \times \text{SRI}_{e,j} + \gamma X_{e,j} \\ & + \theta_{e,m} + \mu_{e,i,t,SRI} + \pi_{e,ind,t,SRI} + \vartheta_{e,s,SRI} + \varepsilon_{e,i,j,m,s,t} \end{aligned}$$

where *Likelihood of voting in support* is the share of institution  $i$ 's funds voting in support for proposal  $j$  at meeting  $m$  in month  $t$  for the set of observations pertaining to event year  $e$  and state  $s$ . *Republican* is a dummy that equals 1 if the corresponding firm is located in a state where the Republican party controls the office of governor in month  $t$  when proposal  $j$  is being voted on. *SRI* equals 1 if the proposal  $j$  is related to socially responsible issues.  $X$  represents the proposal-level controls for whether management and ISS recommend supporting the proposal, *Management recommends support* and *ISS recommends support*. We include meeting-by-event fixed effects, institution-by-month-by-SRI-by-event fixed effects, industry-by-month-by-event fixed effects (where industry is defined at the 2-digit SIC level), and state-by-SRI-by-event fixed effects. The sample includes all shareholder proposals that were voted on from 2006 to June 2021. Standard errors are adjusted for heteroskedasticity and clustered at the state level.  $t$  statistics are in parentheses. \* indicates significance at the 10% level; \*\* at the 5% level; and \*\*\*, at the 1% level.

	Dep. variable =	
	<i>Likelihood of voting in support</i>	
	(1)	(2)
<i>Republican</i> × <i>SRI</i>	-0.0315** (-2.14)	-0.100*** (-4.03)
Controls	Y	Y
Meeting fixed effects	Y	
Institution-by-month-by-SRI fixed effects	Y	
Industry-by-month-by-SRI fixed effects	Y	
State-by-SRI fixed effects	Y	
Meeting-by-event fixed effects		Y
Institution-by-month-by-SRI-by-event fixed effects		Y
Industry-by-month-by-SRI-by-event fixed effects		Y
State-by-SRI-by-event fixed effects		Y
<i>N</i>	749,470	4,665,928
<i>R-squared</i>	0.584	0.613



Table 9

Stacked difference-in-difference estimates by direction of a state's political transition. This table presents the results from a stacked difference-in-differences regression that analyzes the likelihood of an institution voting in favor of a SRI proposal based on the political affiliation of the governor of the firm's home state, segmented by states switching from Republican to Democratic governor and vice versa. Specifically, we estimate

$$\text{Likelihood of voting in support}_{e,i,j,m,s,t} = \beta_1 \text{Treated}_{ei} \times \text{Post}_{et} \times \text{SRI}_{e,j} + \gamma X_j + \theta_{e,m} + \mu_{e,i,t,SRI} + \pi_{e,ind,t,SRI} + \vartheta_{e,s,SRI} + \varepsilon_{e,i,j,m,s,t}$$

where *Likelihood of voting in support* is the share of institution *i*'s funds voting in support for proposal *j* at meeting *m* in month *t* for the set of observations pertaining to event year *e* and state *s*. For each event year *e* where a state experiences a change in the political party of the governor, we define treatment states as those where the governorship party changes. Column 1 restricts the set of events to states that switch from Democrat to Republican, and Column 2 restricts the set of events to states that switch from Republican to Democrat. The control group observations for each treatment event are states where there is no change in the governorship during the sample period, 2006-2021, and for each event, we restrict the sample window to the three pre-election years, year of election, and to the four years post-election. *Treated* equals 1 if the sample belongs to treatment groups and 0 if control group. *Post* is set to 1 for post-event periods and 0 for pre-event periods. *SRI* equals 1 if the proposal *j* is related to socially responsible issues. *X* represents the proposal-level controls for whether management and ISS recommend supporting the proposal, *Management recommends support* and *ISS recommends support*. We include meeting-by-event fixed effects, institution-by-month-by-SRI-by-event fixed effects, industry-by-month-by-event fixed effects (where industry is defined at the 2-digit SIC level), and state-by-SRI-by-event fixed effects. The sample includes all shareholder proposals that were voted on from 2006 to June 2021. Standard errors are adjusted for heteroskedasticity and clustered at the state level. *t* statistics are in parentheses. \* indicates significance at the 10% level; \*\* at the 5% level; and \*\*\*, at the 1% level.

	Dep. variable =	
	(1)	(2)
<i>Treated</i> × <i>Post</i> × <i>SRI</i>	-0.196*** (-3.52)	0.0694*** (4.24)
Treatment Group	Dem to Rep	Rep to Dem
Controls	Y	Y
Meeting-by-event fixed effects	Y	Y
State-by-SRI-by-event fixed effects	Y	Y
Institution-by-month-by-SRI-by-event fixed effects	Y	Y
Industry-by-month-by-SRI-by-event fixed effects	Y	Y
<i>N</i>	2,492,776	2,173,152
<i>R-squared</i>	0.615	0.611

Table 10

Likelihood that management or ISS recommend supporting a SRI proposal.

This table presents examines the likelihood of management and ISS indicating support for SRI proposals based on the political affiliation of the governor of the firm's home state. Specifically, we estimate

$$Y_{j,m,t} = \beta_1 Republican_{j,t} + \beta_2 SRI_j + \beta_3 Republican_{j,t} \times SRI_j + \gamma X_j + \theta_m + \mu_{i,t,SRI} + \pi_{ind,t,SRI} + \varepsilon_{i,j,m,t}$$

where  $Y$  represents two proposal-level outcomes for whether management and ISS recommend supporting proposal  $j$ , *Management recommends support* and *ISS recommends support*. *Republican* is a dummy that equals 1 if the corresponding firm is located in a state where the Republican party controls the office of governor in month  $t$  when proposal  $j$  is being voted on. *SRI* equals 1 if the proposal  $j$  is related to socially responsible issues. Columns 1 and 3 estimate the coefficient using the same data structure to our baseline specification (proposal-institution-level), while in Columns 2 and 4 test for a shift in recommendations at the proposal level. In columns 1 and 3, we include meeting fixed effects, institution-by-month-by-SRI fixed effects, and industry-by-month-by-SRI fixed effects, where industry is defined at the 2-digit SIC level. In columns 2 and 4, we include firm and month fixed effects. The sample includes all shareholder proposals that were voted on from 2006 to June 2021. Standard errors are adjusted for heteroskedasticity and clustered at the state level.  $t$  statistics are in parentheses. \* indicates significance at the 10% level; \*\* at the 5% level; and \*\*\*, at the 1% level.

	Dependent variable			
	Management recommends support		ISS recommends support	
	(1)	(2)	(3)	(4)
<i>Republican</i>		0.0024 (0.22)		0.0031 (0.11)
<i>SRI</i>		-0.0230*** (-5.02)		-0.158*** (-5.30)
<i>Republican</i> × <i>SRI</i>	-0.0090 (-0.68)	-0.0067 (-0.62)	0.0061 (0.17)	0.0273 (0.44)
Meeting fixed effects	Y		Y	
Institution-by-month-by-SRI fixed effects	Y		Y	
Industry-by-month-by-SRI fixed effects	Y		Y	
Firm FE		Y		Y
Month FE		Y		Y
<i>N</i>	761,302	10,375	761,302	10,375
<i>R-squared</i>	0.871	0.750	0.646	0.358

Table 11

Estimates when differentiating the extent of state-level political control.

This table tests the importance of how we define a state's political status and whether one party controls both the governorship and legislative body in that state. Column 1 re-estimates the baseline specification in Table 4, Column 3 but replaces *Republican* with the indicator *Republican Control*, which equals 1 if the corresponding firm is located in a state where the Republican party holds the office of governor and majorities in both the house and senate in month  $t$  when proposal  $j$  is being voted on. In Column 2, we add interactions for *Republican Governor Only*, which flags states where Republicans hold the governor office but do not control both the house and senate, and *Democrat Governor Only*, which flags states where Democrats hold the governor office but do not control both the house and senate. The excluded category is states where the Democrat party holds both the governorship and majorities in the house and senate. The dependent variable, *Likelihood of voting in support*, continues to be the share of institution  $i$ 's funds voting in support for proposal  $j$  at meeting  $m$  in month  $t$ , and all other controls and included fixed effects remain the same as before. The sample includes all shareholder proposals that were voted on from 2006 to June 2021. Standard errors are adjusted for heteroskedasticity and clustered at the state level.  $t$  statistics are in parentheses. \* indicates significance at the 10% level; \*\* at the 5% level; and \*\*\*, at the 1% level.

	Dep. variable =	
	(1)	(2)
<i>Republican Control</i> × SRI	-0.0404*** (-3.11)	-0.0478*** (-3.09)
<i>Republican Governor Only</i> × SRI		-0.0326** (-2.51)
<i>Democrat Governor Only</i> × SRI		0.00385 (0.18)
$p$ -value for <i>Republican Control</i> × SRI - <i>Republican Governor Only</i> × SRI =		0.290
$p$ -value for <i>Republican Governor Only</i> × SRI - <i>Democrat Governor Only</i> × SRI =		0.078
Controls	Y	Y
Meeting fixed effects	Y	Y
Institution-by-month-by-SRI fixed effects	Y	Y
Industry-by-month-by-SRI fixed effects	Y	Y
$N$	761,302	761,302
$R$ -squared	0.583	0.583

# Appendix

Table A1

SRI proposal topics and frequency.

This table lists the proposal topics identified by BERTopic, a pre-trained natural language processing model, when asked to use SRI proposal titles from our sample to construct 20 topics. The second column reports the number of SRI proposals classified by BERTopic under each topic. The last row reports the number of proposals that could not be assigned a topic. The third column reports the four most common keywords identified by BERTopic for that topic.

Topic No.	Count	Topic Words Identified by BERTopic
1	768	lobbying, payments, political, contributions
2	704	human, rights, to, amend
3	304	emissions, energy, reduction, methane
4	206	sustainability, change, climate, prepare
5	88	ghg, goals, quantitative, operations
6	55	harassment, sexual, company, nondiscrimination
7	55	tobacco, marketing, health, poor
8	44	packaging, recycling, nonrecyclable, impact
9	42	charitable, contributions, disclose, taxexempt
10	40	gap, pay, gender, report
11	31	antibiotics, use, drug, opioids
12	31	consistency, values, corporate, between
13	26	land, holy, principles, adopt
14	23	deforestation, chain, supply, eliminate
15	23	genetically, label, modified, gmo
16	15	disclosure, political, contributions, report
17	15	eeo1, data, annually, disclose
18	13	eggs, cage, cagefree, phase
19	11	pesticides, pollinators, pesticide, asthma
20	11	macbride, implement, principles, the
-	163	of, risks, nonpartisanship, gestation

Table A2

Governance proposal topics and frequency.

This table lists the proposal topics identified by BERTopic, a pre-trained natural language processing model, when asked to use governance proposal titles from our sample to construct 20 topics. The second column reports the number of governance proposals classified by BERTopic under each topic. The last row reports the number of proposals that could not be assigned a topic. The third column reports the four most common keywords identified by BERTopic for that topic.

Topic No.	Count	Topic Words Identified by BERTopic
1	1,579	to, by, special, call
2	814	directors, the, election, of
3	590	independent, chairman, require, board
4	355	access, proxy, right, adopt
5	210	limit, executive, accelerated, compensation
6	198	performance, performancebased, superior, pay
7	158	supermajority, requirement, reduce, vote
8	143	cumulative, voting, provide, for
9	130	period, retentionholding, stock, retention
10	119	prorata, equity, vesting, awards
11	103	clawback, payments, under, restatements
12	96	simple, adopt, majority, vote
13	89	separate, positions, ceo, and
14	66	severance, agreement, changeincontrol, submit
15	39	serp, submit, shareholder, supplemental
16	33	lending, bonus, banking, on
17	28	reincorporate, dakota, north, delaware
18	19	sale, seek, companyassets, company
19	15	contest, expenses, reimburse, recover
20	15	requirements, amend, articlesbylawscharter, vote
-	85	director, disclose, on, policy

Table A3

Heterogeneity in support based on media coverage.

This table explores whether the association between an institution's voting on SRI proposals and the political climate in the firm's home state varies with the level of past media coverage for the firm or institution. Specifically, we estimate

$$\text{Likelihood of voting in support}_{i,j,m,t} = \beta_1 \text{Republican}_{j,t} \times \text{SRI}_j + \beta_2 \text{SRI}_j \times \text{HighMedia} + \beta_3 \text{Republican}_{j,t} \times \text{HighMedia} + \beta_4 \text{Republican}_{j,t} \times \text{SRI}_j \times \text{HighMedia} + \gamma X_j + \theta_m + \mu_{i,t,\text{SRI}} + \pi_{\text{ind},t,\text{SRI}} + \varepsilon_{i,j,m,t}$$

where *Likelihood of voting in support* is the share of institution *i*'s funds voting in support for proposal *j* at meeting *m* in month *t*. *Republican* is a dummy that equals 1 if the corresponding firm is located in a state where the Republican party controls the office of governor in month *m* when proposal *j* is being voted on. *SRI* equals 1 if the proposal *j* is related to socially responsible issues. *X* represents the proposal-level controls for whether management and ISS recommend supporting the proposal, *Management recommends support* and *ISS recommends support*. In Columns 1 and 2, *HighMedia* equals 1 if the number of year *t*-1 media articles including the firm's name is in the top quintile or decile; in Columns 3 and 4, *HighMedia* equals 1 if the number of year *t*-1 media articles including the institution's name is in the top quintile or decile. We tabulate the number of media articles each year using Factiva. We include meeting fixed effects, institution-by-month-by-SRI fixed effects, and industry-by-month-by-SRI fixed effects, where industry is defined at the 2-digit SIC level. The sample includes all shareholder proposals that were voted on from 2006 to June 2021. Standard errors are adjusted for heteroskedasticity and clustered at the state level. *t* statistics are in parentheses. \* indicates significance at the 10% level; \*\* at the 5% level; and \*\*\*, at the 1% level.

	Dep. variable = <i>Likelihood of voting in support</i>			
	(1)	(2)	(3)	(4)
<i>Republican</i> × <i>SRI</i>	-0.0305** (-2.37)	-0.0261** (-2.04)	-0.0295* (-1.95)	-0.0310** (-2.06)
<i>SRI</i> × <i>HighMedia</i>	0.00617 (0.34)	0.0228 (1.63)		
<i>Republican</i> × <i>HighMedia</i>			0.0194*** (3.21)	0.0176*** (2.79)
<i>Republican</i> × <i>SRI</i> × <i>HighMedia</i>	-0.00327 (-0.10)	-0.123*** (-4.32)	-0.0129* (-1.86)	-0.00739 (-0.81)
Definition for <i>HighMedia</i> (by year)	Firm coverage in top quintile	Firm coverage in top decile	Institution coverage in top quintile	Institution coverage in top decile
Controls	Y	Y	Y	Y
Meeting fixed effects	Y	Y	Y	Y
Institution-by-month-by-SRI fixed effects	Y	Y	Y	Y
Industry-by-month-by-SRI fixed effects	Y	Y	Y	Y
<i>N</i>	749,470	749,470	749,470	749,470
<i>R</i> -squared	0.584	0.584	0.584	0.584

Table A4

Robustness to using transitions with closer victory margins and smaller shifts in each party's popularity. This table presents the results from estimating the stacked difference-in-differences regression of Table 9, Column 2 and Table 10, after restricting the sample of treated states to those with closer elections or smaller shifts in the underlying popularity of the two parties. Specifically, Panel A restricts the treated sample to events with a below-median difference in the vote share of the Democrat and Republican gubernatorial candidates. Panel B restricts the treated sample to events with a below-median shift in the vote share of the two political parties, relative to the past election. For example, a state that shifts from where the Democrat loses by two percentage points in the last election to winning by three percentage points in the current election would have a shift in vote share of five percentage points. For the set of treated events, Column 1 uses all elections where there is a switch in the winning party. Column 2 restricts the set of treated events to states that switch from Democrat to Republican, and Column 3 restricts the set of treated events to states that switch from Republican to Democrat. The control group observations for each treatment event are states where there is no change in the governorship during the sample period, 2006-2021, and for each event, we restrict the sample window to the three pre-election years, year of election, and to the four years post-election. We include meeting-by-event fixed effects, institution-by-month-by-SRI-by-event fixed effects, industry-by-month-by-event fixed effects (where industry is defined at the 2-digit SIC level), and state-by-SRI-by-event fixed effects. The sample includes all shareholder proposals that were voted on from 2006 to June 2021. Standard errors are adjusted for heteroskedasticity and clustered at the state level. *t* statistics are in parentheses. \* indicates significance at the 10% level; \*\* at the 5% level; and \*\*\*, at the 1% level.

	Dep. variable = <i>Likelihood of voting in support</i>		
	(1)	(2)	(3)
<u>Panel A: Treated sample restricted to elections with a below-median victory margin</u>			
<i>Republican</i> × <i>SRI</i>	-0.142** (-2.24)		
<i>Treated</i> × <i>Post</i> × <i>SRI</i>		-0.217*** (-3.43)	0.0817 (0.99)
<i>N</i>	2,081,588	1,251,920	829,668
<i>R-squared</i>	0.613	0.614	0.612
<u>Panel B: Treated sample restricted to elections with a below-median shift in the party vote shares</u>			
<i>Republican</i> × <i>SRI</i>	-0.110*** (-3.38)		
<i>Treated</i> × <i>Post</i> × <i>SRI</i>		-0.137*** (-2.80)	0.0887* (1.78)
<i>N</i>	2,089,995	1,155,177	934,818
<i>R-squared</i>	0.612	0.614	0.610
Treatment Sample	All	Dem to Rep	Rep to Dem
Controls	Y	Y	Y
Meeting-by-event fixed effects	Y	Y	Y
State-by-SRI-by-event fixed effects	Y	Y	Y
Institution-by-month-by-SRI-by-event fixed effects	Y	Y	Y
Industry-by-month-by-SRI-by-event fixed effects	Y	Y	Y



Table A5

Robustness to excluding proposal-level controls and analyzing post-2012 observations. This table re-estimates the baseline specification in Table 4, Column 3 using alternative specifications as robustness check. Specifically, we re-estimate the following panel regression:

$$\text{Likelihood of voting in support}_{i,j,m,t} = \beta_1 \text{Republican}_{j,t} \times \text{SRI}_j + \gamma X_j + \theta_m + \mu_{i,t,\text{SRI}} + \pi_{\text{ind},t,\text{SRI}} + \varepsilon_{i,j,m,t}$$

where *Likelihood of voting in support* is the share of institution *i*'s funds voting in support for proposal *j* in month *m*. *Republican* is a dummy that equals 1 if the corresponding firm is located in a state where the Republican Party controls the office of governor in month *m* when proposal *j* is being voted on. *SRI* equals 1 if the proposal *j* is related to socially responsible issues. *X* represents the proposal-level controls for whether management and ISS recommend supporting the proposal, *Management recommends support* and *ISS recommends support*. In Column 1, we exclude the control variables from our baseline specification; in Column 2, we restrict sample to post-2012 period; in Column 3, we both exclude control variables and restrict sample to post-2012 period. We include meeting fixed effects, institution-by-month-by-SRI fixed effects, and industry-by-month-by-SRI fixed effects, where industry is defined at the 2-digit SIC level. The sample includes all shareholder proposals that were voted on from 2006 to June 2021. Standard errors are adjusted for heteroskedasticity and clustered at the state level. *t* statistics are in parentheses. \* indicates significance at the 10% level; \*\* at the 5% level; and \*\*\*, at the 1% level.

	Dep. variable =		
	<i>Likelihood of voting in support</i>		
	(1)	(2)	(3)
<i>Republican</i> × <i>SRI</i>	-0.0404* (-1.90)	-0.0654*** (-4.46)	-0.0695*** (-2.80)
Sample	All years	Post 2012	Post 2012
Controls		Y	
Meeting fixed effects	Y	Y	Y
Institution-by-month-by-SRI fixed effects	Y	Y	Y
Industry-by-month-by-SRI fixed effects	Y	Y	Y
<i>N</i>	761,302	443,631	443,631
<i>R-squared</i>	0.502	0.576	0.497

Table A6

Environmental- vs. social-issue SRI proposals.

This table investigates whether the relationship between an institution's voting on SRI proposals and the political climate in the firm's home state varies across SRI proposal types. Specifically, we estimate

$$\begin{aligned} \text{Likelihood of voting in support}_{i,j,m,t} = & \beta_1 \text{SRI\_E}_j + \beta_2 \text{SRI\_S}_j + \beta_3 \text{Republican}_{j,t} \times \text{SRI\_E}_j \\ & + \beta_4 \text{Republican}_{j,t} \times \text{SRI\_S}_j + \gamma X_j + \theta_m + \mu_{i,t,\text{SRI}} + \pi_{\text{ind},t,\text{SRI}} + \varepsilon_{i,j,m,t}, \end{aligned}$$

where *Likelihood of voting in support* is the share of institution *i*'s funds voting in support for proposal *j* at meeting *m* in month *t*. *Republican* is a dummy that equals 1 if the corresponding firm is located in a state where the Republican party controls the office of governor in month *t* when proposal *j* is being voted on. We classify SRI proposals into "E" or "S" based on the resolution information from Voting Analytics. *SRI\_E* equals 1 if proposal *j* is related to environmental issues; *SRI\_S* equals 1 if proposal *j* is related to social issues. *X* represents the proposal-level controls for whether management and ISS recommend supporting the proposal, *Management recommends support* and *ISS recommends support*. We include meeting fixed effects, institution-by-month-by-SRI fixed effects, and industry-by-month-by-SRI fixed effects, where industry is defined at the 2-digit SIC level. The sample includes all shareholder proposals that were voted on from 2006 to June 2021. Standard errors are adjusted for heteroskedasticity and clustered at the state level. *t* statistics are in parentheses.

\* indicates significance at the 10% level; \*\* at the 5% level; and \*\*\*, at the 1% level.

	Dep. variable =	
	<i>Likelihood of voting in support</i> (1)	<i>Likelihood of voting in support</i> (2)
<i>SRI_E</i>	-0.0457** (-2.48)	
<i>SRI_S</i>	-0.0512*** (-3.17)	
<i>Republican</i> × <i>SRI_E</i>	-0.0456*** (-3.02)	-0.0200 (-0.83)
<i>Republican</i> × <i>SRI_S</i>	-0.0334*** (-3.06)	-0.0300** (-2.43)
<i>p</i> -value of difference in interaction coefficients	0.30	0.69
Controls	Y	Y
Meeting fixed effects	Y	Y
Institution-by-month-by-SRI fixed effects	Y	
Industry-by-month-by-SRI fixed effects	Y	
Institution-by-month-by-SRI_E fixed effects		Y
Industry-by-month-by-SRI_E fixed effects		Y
Institution-by-month-by-SRI_S fixed effects		Y
Industry-by-month-by-SRI_S fixed effects		Y
<i>N</i>	761,302	755,001
<i>R</i> -squared	0.583	0.589