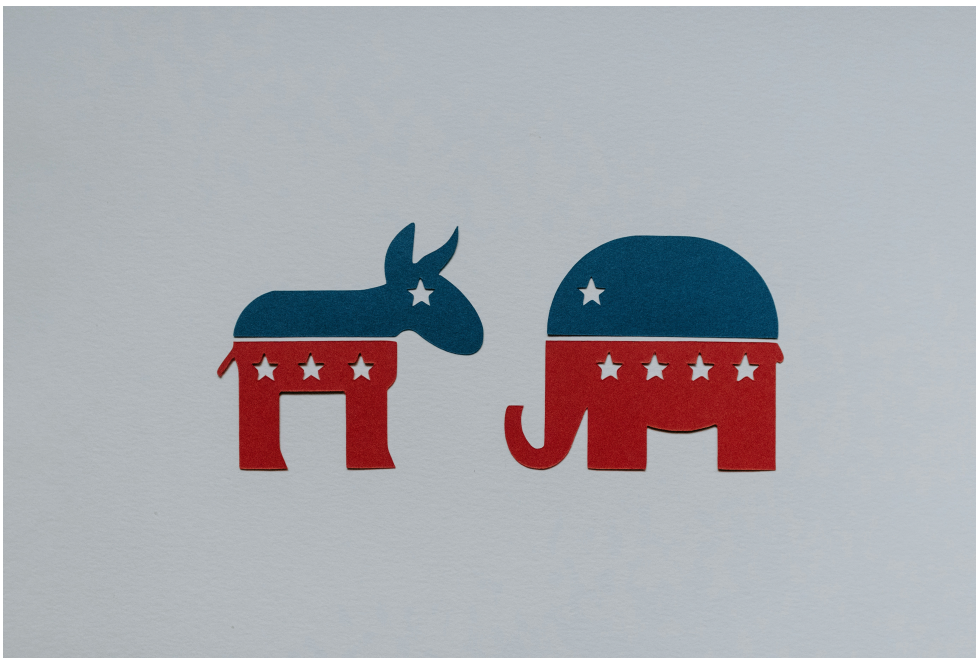




# Investors Vote on Corporate Social Responsibility, New Research Finds

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When a state flips from a Democratic to Republican governor, something starts happening in the world of big investing: major mutual funds begin quietly pulling back their support for environmental and social initiatives at companies headquartered there. By contrast, when states flip the other direction – from Republican to Democratic – support for such initiatives rises. A new study documents this pattern for the first time, and it highlights some interesting revelations about the intersection of politics and corporate America.

When you own stock in a public company, you get a vote on certain corporate decisions. Most ordinary investors never think much about this, but large institutional investors – the mutual funds that manage retirement accounts and savings for millions of Americans – cast millions of these votes every year. Some of those votes are on social responsibility investing (SRI)

proposals asking companies to take action on issues like climate change, gender pay gaps, human rights in supply chains, or political spending transparency.

Whether these SRI proposals pass or fail can meaningfully shape how companies operate, which makes understanding what drives investor votes an important question.

The study, *The Politicization of Social Responsibility*, forthcoming in the *Journal of Finance*, was developed by academic researchers at Washington University in St. Louis, Georgia State University, and the University of South Florida. The researchers wanted to know if political noise actually changes how investors vote. And if so, why?

In recent years, the debate over corporate responsibility has become deeply political. Republican governors in states like Florida and Texas have publicly attacked major investment firms for factoring environmental and social considerations into their decisions. Democratic leaders, meanwhile, have pushed investors to do more on climate and equity.

To examine how politics influences investor votes, the researchers tracked more than 768,000 votes cast by large institutional investors on shareholder proposals between 2006 and 2021.

The research team built a detailed database connecting mutual fund voting records to the political party of the governor in the state where each company is headquartered. They then used statistical tools to filter out other factors that might explain differences in voting, such as the industry in which a company operates, or the general tendencies of individual investment firms.

The researchers also did something methodologically important: rather than just comparing typically Republican states to typically Democratic ones, they tracked what happened within a state when it has a newly elected governor from a different party. This rules out the possibility that differences in voting simply reflect the fact that Texas and California are different in ways beyond their politics.

They found that on average, investors were about three percentage points less likely to support an environmental or social proposal at a company in a Republican-led state. When a state switched from a Democratic to a Republican governor, support for these proposals dropped by 12 percentage points in that same state. The drop happened right after the election and grew

during the new governor's term, with no significant trend that started before the political change. When states went the other direction — from Republican to Democratic — support rose.

“A surprising finding was that these large institutional investors, like Blackrock or Vanguard, that own shares in hundreds of companies around the country voted differently on the same SRI issue depending on what state the company operated and their votes aligned more with the political leaning of the state than the issue itself,” said Manish Jha, co-author and finance asst. professor at Georgia State’s Robinson College of Business. “But we also found that the conflicting votes wasn’t just politically influenced, but dependent on subsidies and tax breaks available in those different states.”





The researchers tested whether investors were simply trying to stay on the good side of powerful politicians to protect their own business relationships or if it was money motivated.

“It wasn't really about politics for these investors, it was about fiduciary duty. In states where political retaliation could cost a company real money through lost subsidies or tax breaks, supporting SRI proposals at the firms became a harder case to make for shareholder value,” said Jha

The evidence followed the money. Investors showed the strongest shift in voting behavior for companies that had recently received state subsidies or tax breaks — situations where political retaliation could genuinely hurt the company's bottom line and therefore its shareholders. Investors who owned larger stakes in a given company, and thus had more to lose, showed even more pronounced shifts.

“This pattern suggests investors were primarily trying to protect the value of the companies they owned on behalf of their clients, not simply currying political favor,” said Jha.

For ordinary Americans, this research illuminates something that rarely gets discussed openly: how the political environment in a company's home state may meaningfully shape whether large investors will back its environmental and social commitments.

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“This research shows how these investment companies work, which is important to understand because they have so much power and the way they vote decides the direction of corporate America,” said Jha. “It also unveils some of the constraints a company committed to social initiatives might face from the investor side if they are operating in a conservative state.”

Without passing a single law or regulation, a governor can shift the investment climate for companies in their state simply by making their opposition to corporate social responsibility loud and clear. As political polarization continues to deepen, that influence appears to be getting stronger.