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## The Politicization of Social Responsibility

BY TODD GORMLEY, MANISH JHA and MENG WANG *November 12, 2024*



Todd A. Gormley, Manish Jha and Meng Wang examine the impact of state-level political dynamics on the support institutional investors provide to socially responsible investing (SRI) proposals. The findings reveal that investors are less likely to support SRI initiatives at firms headquartered in Republican-led states, suggesting that regional political pressures are shaping corporate social responsibility trends.

On March 27, 2024, the Mississippi secretary of state issued an order accusing investment company BlackRock of “fraudulent and deceptive means” in promoting a political agenda through its environmental, social, and governance (ESG) investment strategy. This order against BlackRock is representative of the growing conflict between conservative-led state governments and large asset managers over ESG practices. It reflects a broader movement across states such as Florida, Texas, and West Virginia to divest state funds from firms over their ESG policies, which state governments view as a threat to vital industries in these states, including oil and gas. This issue highlights a larger trend of political polarization shaping corporate responsibility, particularly in socially responsible investing (SRI).

Our paper, *The Politicization of Social Responsibility*, looks at institutional investors' proxy votes on SRI proposals and the political climate of a firm's home state. With this data we find that institutional investors are less likely to support SRI proposals at firms headquartered in states with Republican leadership, with this reduced support particularly evident among larger institutions and high-profile firms that often draw media and political attention. These findings suggest that investors may consider local political dynamics as they balance fiduciary responsibilities with regional pressures.

## **Background and motivation**

The political divide in the United States around corporate environmental and social responsibility has placed institutional investors in a difficult position. While Democrat politicians often support corporate engagement on issues like equity, human rights, and sustainability, Republican leaders tend to resist such actions, labeling them as politically driven and counterproductive. This divergence forces institutional investors to navigate political tensions when voting on shareholder proposals related to social and environmental issues.

State governments can directly influence firms' profitability through tax policies, incentives, and regulations. With such power, state officials may retaliate against companies engaging in activities that contradict local political values, potentially affecting firms' operations and profitability. Institutional investors, cognizant of these risks, may vote against SRI initiatives in politically conservative states to avoid provoking state officials or risking their investments.

## **Data and methodology**

Our study examines the voting patterns of institutional investors on shareholder proposals from 2006 to mid-2021, focusing on those relating to SRI. These proposals encompass issues such as environmental sustainability, human rights, equity, and political contributions, which consistently attract more support from Democrats than Republicans. Using fixed effects to control for multiple influencing factors, we analyze the impact of state-level political dynamics on investor support for these proposals. Our analysis includes meeting-level controls for firm and time-specific factors, industry controls, and institution-specific trends to account for institutional variation in SRI support.

Our primary test assesses whether investors are less likely to support SRI proposals at firms headquartered in states with Republican governors. The governor's party affiliation serves as a proxy for the state's political leanings, with additional robustness checks based on states where one party controls both legislative and executive branches.

## **Key findings**

Our findings reveal that state-level politics significantly affect institutional investors' support for SRI proposals. Institutional investors are 4.1 percentage points less likely to support SRI proposals at firms based in Republican-led states, representing a 13% reduction from the average support level. This association has grown stronger in recent years, with heightened effects observed during politically polarized periods, such as the Trump administration (2017-2020).

Larger firms and institutions, which are more exposed to political scrutiny, demonstrate a stronger negative association between Republican leadership and SRI support, (can you define 'large firms' and insert the divergence statistic for them here?). The trend is also more pronounced for proposals that attract significant media attention or where the investor has a major ownership stake in the firm, suggesting that the visibility of these investments may influence the voting stance.

### **Within-state shifts in investor support and proposal outcomes**

Our findings are not just cross-sectional in nature. Within the same state, institutional investors are 10 percentage points less likely to support SRI proposals when a Republican holds that state's governorship. This within-state shift coincides with the timing of states' elections and occurs regardless of whether a state transitions from a Democratic to a Republican governor or vice versa.

These within-state political shifts also impact the likelihood of SRI proposal passage for firms located in the state. In states with Republican governors, SRI proposals are 17 percentage points less likely to pass. In close-call votes where proposals are within 10 percentage points of passing, the governor's political affiliation appears particularly influential.

### **Mechanisms behind political influence on investor behavior**

Several politically motivated factors could explain the variations in institutional support for SRI across states and time. One possible motivation is self-interest. Institutions might tailor their votes to avoid potential backlash from local politicians who could divest state-controlled assets from these institutions or use the media to criticize their voting stances publicly. This self-preservation approach could help shield institutions from political or financial repercussions.

Alternatively, fiduciary duty may play a role. Investors may hesitate to support SRI proposals that contradict the political stance of a firm's home state, especially if local politicians could reduce state-level subsidies or tax incentives or if local consumers might react unfavorably. Additionally, institutions managing state pension assets may aim to align with state-specific preferences on SRI activities, indirectly reflecting the political views of state leadership.

Disentangling these motivations is complex, and both explanations could be driving factors. However, further analysis suggests that fiduciary concerns weigh more heavily. By examining data on state-level subsidies and business support from the Subsidy Tracker, a [website](#) that tracks government financial assistance to businesses, we tested the sensitivity of institutional votes in states with higher levels of business subsidies. Consistent with fiduciary duty motivations, institutional support for SRI proposals was notably lower in Republican-led states with significant business subsidies. Specifically, for firms in the top ten states for subsidies, SRI support drops an additional 3.8 percentage points when the state is run by a Republican governor; in the top 25 states for subsidies, support decreases by 4.5 points. These findings indicate that institutions may adjust their voting behavior in response to local political and economic dynamics, particularly when state resources might play a critical role in firms' financial health.

### Implications and contributions

Our research contributes to the expanding literature on the influence of politics on economic and corporate decision-making. While prior studies have shown that political affiliations impact individual and corporate behaviors, our findings indicate that external political factors—particularly state-level dynamics—may also shape the decisions of corporate shareholders.

These findings have broader implications for institutional investor engagement and firms' corporate social responsibility (CSR) activities. For investors, the need to navigate state politics may influence decisions on SRI initiatives, alongside traditional factors like fiduciary duty and public reputation. For firms, pursuing CSR initiatives in politically conservative states may require a more cautious approach, as such actions risk alienating local investors and politicians.

By exploring the impact of state-level politics on investor behavior, our study highlights an important factor that firms and investors must consider in a polarized political landscape. As political partisanship continues to intensify in the U.S., institutional investors may increasingly face complex trade-offs between promoting socially responsible practices and protecting their financial interests amid local political pressures.

*Author Disclosure: the author reports no conflicts of interest. You can read our disclosure policy [here](#).*

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