

Online Appendix

This online appendix includes the results of a series of robustness tests and additional analyses. A summary of the additional tests is as follows:

- Table OA-1: This table provides a mapping between material SASB topics and KLD data items in the 53 CSR subcategories for four sectors: Resource Transformation, Consumption, Renewable Resources & Alternative Energy, and Infrastructure.
- Table OA-2: This table provides OLS regression tests for the effect of institutional ownership on firms' total CSR performance, as measured by *CSR*, the CSR strengths, measured by *Strengths*, and the CSR concerns, measured by *Concerns*.
- Table OA-3: This table provides various robustness tests for the effect of institutional ownership, instrumented by membership in the Russell 2000 index, on firms' total CSR performance, as measured by *CSR*, and the CSR concerns, measured by *Concerns*.
- Table OA-4: This table presents the results of the analysis of the effect of different types of ownership on portfolio firms' CSR performance.
- Table OA-5: This table presents the firm characteristics according to high or low distraction. We use an inverse measure of monitoring intensity, i.e., *Distraction*, which is the weighted average exposure of firm shareholders to the shocked industries.
- Table OA-6: This table presents the results of the analysis of the effect of shareholder distraction on firms' CSR performance in the 1991 and 2012 period, conditional on the quality of corporate governance.

Table OA-1. Sector-Level Material CSR Issues in KLD Data

This table provides a mapping between material SASB topics and KLD data items in the 53 CSR subcategories for four sectors: Resource Transformation, Consumption, Renewable Resources & Alternative Energy, and Infrastructure. Not all of the topics are material for all of the industries within a sector.

Resource Transformation		Consumption	
KLD Code	SASB Topic	KLD Code	SASB Topic
EMP-str-G	Employee Health & Safety	DIV-str-C	Workforce Diversity & Inclusion
ENV-str-B	Greenhouse Gas Emissions	DIV-str-E	Workforce Diversity& Inclusion
ENV-str-C	Packaging Lifecycle Management	EMP-str-A	Labor Relations
PRO-str-A	Product Safety and Quality	EMP-str-G	Workforce Health Safety
		ENV-str-B	Waste Management
		ENV-str-C	Packaging Lifecycle Management
		ENV-str-D	Greenhouse Gas Emissions
		PRO-str-A	Food Safety Health Concerns
		PRO-str-C	Health & Nutrition
EMP-con-B	Workforce Health & Safety	DIV-con-A	Workforce Diversity & Inclusion
ENV-con-D	Air Quality	DIV-con-C	Workforce Diversity& Inclusion
ENV-con-F	Energy and Climate Change	EMP-con-B	Workforce Health & Safety
PRO-con-A	Product Safety & Health Concerns	ENV-con-D	Toxic Emissions and Waste Management
PRO-con-E	Business Ethics & Competitive Behavior	ENV-con-F	Energy and Climate Change
		PRO-con-A	Product Safety & Health Concerns
		PRO-con-D	Product Labeling & Marketing

Renewable Resources & Alternative Energy		Infrastructure	
KLD Code	SASB Topic	KLD Code	SASB Topic
COM-str-H	Community Engagement	COM-Str-C	Community Relation
ENV-str-B	Toxic Emissions and Waste Management	COM-Str-D	Community Impacts of Project Siting
ENV-str-C	Packaging Lifecycle Management	EMP-str-A	Labor Relations
EMP-str-G	Workforce Health & Safety	EMP-str-G	Workforce Health & Safety
		ENV-str-B	Hazardous Waste Management
		ENV-str-D	Greenhouse Gas Emissions
COM-con-B	Management of the Legal & Regulatory Environment	COM-con-B	Management of the Legal & Regulatory Environment
EMP-con-B	Workforce Health & Safety	EMP-con-A	Labor Relations
ENV-con-D	Toxic Emissions and Waste Management	EMP-con-B	Workforce Health & Safety
ENV-con-F	Energy Efficiency	ENV-con-B	Non-Compliance
		ENV-con-D	Air Quality
		PRO-con-E	Business Ethics

Table OA-2. IO and CSR: Baseline Results

This table presents the effect of institutional ownership on CSR ratings in the 2003 to 2006 period using bandwidth ± 250 . The dependent variables are *CSR*, *Strengths*, and *Concerns* from the MSCI ESG KLD database. Institutional ownership is the fraction of the firm's stock owned by institutional investors. All of the regressions are controlled for industry and year fixed effects. The control variables include *Size*, *Leverage*, *ROA*, *M/B*, *Cash Holdings*, *Advertising*, *R&D Intensity*, *Sale Growth*, *Dividends*, *BoardIndep*, *AnaCov*, *8-KFilingNum*, and *JuneReturn*. Standard errors clustered at the firm level are reported in parentheses. Definitions for all of the variables are provided in Appendix A. *, **, and *** represent statistical significance at the 10%, 5%, and 1% levels, respectively.

	CSR	Strengths	Concerns
Institutional ownership	0.357 (0.359)	-0.158 (0.238)	-0.511** (0.222)
Size	0.237 (0.165)	0.365*** (0.125)	0.123 (0.095)
Lev	-0.774** (0.305)	-0.387** (0.192)	0.391* (0.217)
ROA	-0.930 (0.769)	-1.069* (0.576)	-0.201 (0.510)
M/B	0.008 (0.052)	-0.057 (0.040)	-0.060* (0.034)
Advertising	-0.185 (2.479)	1.103 (1.958)	1.225 (1.610)
R&D Intensity	4.966*** (1.505)	1.748 (1.102)	-3.155*** (0.993)
Dividends	0.084 (0.128)	0.122 (0.087)	0.052 (0.091)
Cash Holding	0.549 (0.352)	0.536** (0.256)	-0.045 (0.216)
Sales Growth	0.067 (0.318)	-0.310 (0.223)	-0.335 (0.221)
BoardIndep	-0.743*** (0.277)	-0.463** (0.188)	0.271 (0.193)
AnaCov	0.001 (0.008)	0.006 (0.005)	0.004 (0.007)
8-KFilingNum	0.125 (0.108)	0.101 (0.068)	-0.019 (0.070)
JuneReturn	-0.402 (0.400)	-0.337 (0.289)	0.085 (0.260)
Industry (FF12) FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Obs.	1,631	1,631	1,631
Adj. R ²	0.103	0.076	0.156

Table OA-3. IO and CSR: Robustness Tests

This table provides various robustness tests for the effect of institutional ownership, instrumented by membership in the Russell 2000 index, on firms' total CSR performance, as measured by *CSR*, and the CSR concerns, measured by *Concerns*. Panel A presents the results of the falsification tests, in which we choose placebo thresholds of 500, 800, 1200, and 1500 in the Russell 3000 index. Panel B presents results using alternative estimation model based on Appel, Gormley, and Keim (2016). Standard errors clustered at the firm level are reported in parentheses. Definitions for all of the variables are provided in Appendix A. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A. Placebo Thresholds (using Bandwidth ± 250)								
<i>Cutoff</i>	500		800		1200		1500	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	IO							
$D_{i,t}$	-0.003 (0.036)	-0.020 (0.043)	-0.000 (0.030)	0.014 (0.039)	0.011 (0.043)	-0.023 (0.066)	-0.024 (0.042)	-0.032 (0.062)
κ	2	3	2	3	2	3	2	3
Panel B. IO and CSR: Alternative Model								
	Bandwidth ± 50		Bandwidth ± 150		Bandwidth ± 250			
	(1)	(2)	(3)	(4)	(5)	(6)		
<i>First-stage</i>	IO		IO		IO		IO	
$D_{i,t}$	0.071*** (0.025)	0.083*** (0.025)	0.089*** (0.012)	0.089*** (0.011)	0.088*** (0.011)	0.083*** (0.010)		
<i>Second-stage</i>	CSR		CSR		CSR		CSR	
$\widehat{IO}_{i,t}$	6.428* (3.632)	6.514** (3.080)	3.484** (1.598)	3.492** (1.532)	2.715* (1.468)	2.571* (1.413)		
<i>Second-stage</i>	Strengths		Strengths		Strengths		Strengths	
$\widehat{IO}_{i,t}$	0.061 (3.050)	1.066 (2.477)	-0.450 (1.071)	-0.435 (1.012)	-0.885 (1.006)	-1.16 (0.967)		
<i>Second-stage</i>	Concerns		Concerns		Concerns		Concerns	
$\widehat{IO}_{i,t}$	-6.367*** (2.196)	-5.447*** (1.925)	-3.934*** (1.093)	-3.927*** (1.082)	-3.600*** (0.942)	-3.731*** (0.993)		
Polynomial order, κ	2	3	2	3	2	3		
Controls	Yes	Yes	Yes	Yes	Yes	Yes		
FloatAdj.	Yes	Yes	Yes	Yes	Yes	Yes		
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes		
Year FE	Yes	Yes	Yes	Yes	Yes	Yes		
Obs.	314	314	983	983	1,631	1,631		

Table OA-4. The Effect of Different Types of Ownership (using $\kappa=2$ and Bandwidth ± 250)

This table presents the results of the analysis of the effect of different types of ownership on portfolio firms' CSR performance. In column (1), we define quasi-indexers as in Bushee (2001). In column (2), we follow Appel, Gormley, and Keim (2016) and flag a fund as passively managed if its fund name includes a string that identifies it as an index fund or if the CRSP Mutual Fund Database classifies the fund as an index fund. In column (3), we identify the pension funds and endowments of universities and foundations (P&E) by keywords in the fund names including "employee", "pension", "teacher", "public", "institute", and "college". The control variables include *Size* rank in its polynomial form, *Leverage*, *ROA*, *M/B*, *Cash Holdings*, *Advertising*, *R&D Intensity*, *Sale Growth*, *Dividends*, *BoardIndep*, *AnaCov*, *8-KFilingNum*, and *JuneReturn*. *FloatAdj* is the difference between the rank implied by the end-of-May market capitalization and the actual rank assigned by Russell in June. In the first stage, we report the regression coefficients and standard errors clustered at the firm level in parentheses. In the second stage, we report the economic magnitude of the second stage tests with *p*-value reported in parentheses. Definitions for all of the variables are provided in Appendix A. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	Quasi-Indexers	Passive Mutual Funds	P&E
	(1)	(2)	(3)
First stage		IO	
$D_{i,t}$	0.155*** (0.042)	0.008*** (0.003)	0.010*** (0.001)
Second stage		CSR	
$\widehat{IO}_{i,t}$ (Economic magnitude)	1.098** (0.026)	1.239** (0.026)	0.513** (0.026)
(p-value)			
Controls	Yes	Yes	Yes
FloatAdj.	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Obs.	1,631	1,631	1,631

Table OA-5. Firm Characteristics According to High or Low Distraction

This table presents the firm characteristics according to high or low distraction. We use an inverse measure of monitoring intensity, i.e., *Distraction*, which is the weighted average exposure of firm shareholders to the shocked industries. First, we use exogenous shocks to the unrelated industries held by a given firm's institutional shareholders to identify the time periods during which shareholders are likely to be distracted and shift their attention away from the firm. We define an industry shock if the industry has the highest or lowest return across all 12 Fama-French industries in a given quarter. Then we construct firm-level distraction measures by aggregating distraction measures across all of the institutional investors for each firm. Finally, we calculate an average to get an annual measure for each firm. Higher *Distraction* implies higher levels of attention distracted from shareholders and lower levels of monitoring intensity. High and Low Distraction are defined as subsamples with distraction values above or below the sample median, respectively.

	Low Distraction			High Distraction			Mean Diff (p-value)
	Mean	Median	StDev	Mean	Median	StDev	
IO	0.653	0.686	0.229	0.654	0.686	0.227	0.759
Size	7.341	7.306	1.682	7.363	7.268	1.689	0.280
Leverage	0.222	0.198	0.197	0.225	0.206	0.197	0.157
ROA	0.112	0.123	0.128	0.114	0.121	0.121	0.173
M/B	2.041	1.564	1.379	1.984	1.519	1.342	0.001
Cash Holdings	0.169	0.087	0.201	0.162	0.079	0.195	0.002
Advertising	0.012	0.000	0.030	0.012	0.000	0.029	0.911
R&D Intensity	0.037	0.000	0.071	0.035	0.000	0.068	0.026
Sales Growth	0.087	0.051	0.232	0.119	0.070	0.234	0.000
Dividends	0.529	1.000	0.499	0.515	1.000	0.500	0.017

Table OA-6. Shareholder Attention and CSR: Cross-sectional Tests

This table presents the results of the cross-sectional analysis of the effect of shareholder distraction on firms' CSR performance in the 1991 and 2012 period, conditional on the quality of corporate governance. If a firm's board independence (*BoardIndep*), executive incentive compensation, or analyst coverage (*AnaCov*) are in the bottom tercile of the sample or its E-index is in the top tercile of the sample, the firm has a low level of corporate governance; otherwise if top (bottom) tercile for *AnaCov*, *BoardIndep*, executive incentive compensation (E-index), it has a high level of corporate governance. *BoardIndep* is the percentage of independent directors on the board. E-Index is the index of six shareholder rights introduced by Bebchuk, Cohen, and Ferrell (2009). Executive incentive compensation is measured as the ratio of value of stock option grants to total compensation for the firm's top five executives, which is calculated by the sum of the Black-Scholes value of stock options granted to the top five executives, divided by the sum of the value of stock options, salary, bonus, other annual compensation, total value of restricted stock granted, long-term incentive payouts, and all other total for the top five executives, in a given fiscal year. *AnaCov* is the total number of stock analysts following the firm during the year. We use an inverse measure of monitoring intensity, i.e., *Distraction*, which is the weighted average exposure of firm shareholders to the shocked industries. First, we use exogenous shocks to the unrelated industries held by a given firm's institutional shareholders to identify the time periods during which shareholders are likely to be distracted and shift their attention away from the focal firm. We define an industry shock if the industry has the highest or lowest return across all Fama-French 12 industries in a given quarter. Then we construct firm-level distraction measures by aggregating distraction measures across all of the institutional investors for each firm. Finally, we calculate an average to get an annual measure for each firm. Higher *Distraction* implies higher levels of attention distracted from shareholders and lower levels of monitoring intensity. The control variables include *Size*, *Leverage*, *ROA*, *M/B*, *Cash Holdings*, *Advertising*, *R&D Intensity*, *Sale Growth*, and *Dividends*, and are defined in Appendix A. Heteroskedasticity-consistent standard errors clustered at the firm level are reported in parentheses. Test "high = low" reports the Wald test of equality of the *Distraction* coefficients between the firms with high and low levels of corporate governance. *, **, and *** represent statistical significance at the 10%, 5%, and 1% levels, respectively.

	BoardIndep		E-Index		Executive Incentive Compensation		AnaCov	
	High	Low	Low	High	High	Low	High	Low
	(1)	(2)	(3)	(4)	(5)	(6)	(5)	(6)
Distraction	-5.562 (4.902)	-22.433*** (6.204)	-16.393 (10.775)	-38.377*** (8.196)	5.691 (5.135)	-28.652*** (3.792)	-1.708 (2.472)	-19.140*** (5.855)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Test "high = low"	6.70***		3.77*		27.89***		9.52***	
Industry × Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R ²	0.719	0.702	0.711	0.605	0.702	0.606	0.678	0.642
Obs.	5,955	4,739	2,632	4,925	6,920	9,641	7,941	9,106