

Seattle University Center for Environmental Justice and Sustainability

2016-2017 CEJS Fellow Final Report

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Revised Title: The Role of CSR Information Characteristics and Information-Processing in Investor Judgments

Project summary:

Prior research speculates that compared to financial information, CSR information requires higher information-processing by users. This claim is used by those arguing that investors demand but do not directly use CSR information factors in their judgments. We thus draw from cognitive psychology research to examine (1) how investors process information characteristics that prior research suggests they increasingly demand from CSR disclosures – conciseness, comprehensiveness, credibility, and comparability – and (2) whether investors’ information-processing impacts their judgments. Consistent with our expectations, results from a web-based, mixed-design experiment indicate that investors favor comprehensive over concise information, and comparable, preference-consistent over credibility-enhanced information. We also find that investors evaluate as more reliable and relevant comprehensive over concise information, and that they positively weight these evaluations in their CSR performance appraisals, which in turn positively impact their stock price estimates and investment dollar allocations. Taken together, these results suggest that investors systematically process and use these CSR information characteristics, and that their information-processing ultimately affects their judgments. These findings provide support for greater CSR disclosures, and highlight the need for policymakers to carefully consider what CSR information characteristics to require, recommend, or remove with regards to CSR disclosures.

Activities since the midyear report and progress to date:

In Spring 2017, my co-authors and I circulated this first study to more private readers, as planned. We expect feedback in the first week of June, so we will revise it for journal submission soon thereafter.

Also in Spring 2017, another co-author and I embarked on a second study about how CSR disclosure factors impact *shareholding voting judgments*. This is a natural extension of the first study examining *investment judgments*. This second study is an important and timely concern in light of the current administration’s intent to repeal regulations that increase shareholder engagement and voice vis-à-vis their advisory voting over executive compensation in publicly-traded companies.¹ We drew from seminal agency theory and recent CSR disclosure models to design a controlled experiment. We hypothesize that shareholder votes will be most positive with a profitable (versus unprofitable) CSR investment and a sustainability (versus marketing)-focused CEO; and that this relationship will be at least partially mediated by shareholders’ compensation fairness perceptions. We administered the experiment and the results therefrom strongly support our expectations. We have now outlined the study and tabulated the results.

Post-fellowship plans:

- Await and respond to feedback from the journal submission of first study.
- Draft a working paper of the second study, circulate to private readers, and submit to conferences.
- Develop a module on ‘Shareholders and CSR’ as part of a new course called Corporate Governance.

¹ <https://www.bloomberg.com/news/articles/2016-11-15/say-on-pay-rules-seen-at-risk-as-trump-takes-aim-at-dodd-frank>.