

The Role of Mutual Funds in Corporate Social Responsibility

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Abstract

This paper examines the influence of mutual funds on a firm's corporate social responsibility (CSR). Using a fund level holdings-based CSR score, we find that mutual funds' CSR score is positively related to their holding firms' future CSR standings. This relationship is not just driven by high-CSR funds selecting high-CSR firms (selection effect), but also by improving their holding firm's CSR afterwards (improvement effect). We further find that high-CSR funds are more likely to vote in favor of implementing CSR proposals in their holding firms, and that firms owned by high-CSR funds are more likely to link their CEO compensation to CSR outcomes. These results suggest that the social commitment of mutual funds is an important determinant of their holding firms' social performance.

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