

# Shareholder Influence on Corporate Social Responsibility

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EFI THE ECONOMIC RESEARCH INSTITUTE



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# Preface

This report is a result of a research project carried out at the Center for Marketing, Distribution and Industry Dynamics at the Economic Research Institute at the Stockholm School of Economics.

This volume is submitted as a doctor's thesis at the Stockholm School of Economics. As usual at the Economic Research Institute, the author has been entirely free to conduct and present her research in her own ways as an expression of her own ideas.

The institute is grateful for the financial support which has made it possible to fulfill the project.

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Emma Sjöström  
Stockholm, April 2009

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“By incorporating environmental, social and governance criteria into their investment decision-making and ownership practices, the signatories to the Principles [for Responsible Investment] are directly influencing companies to improve performance in these areas. This, in turn, is contributing to our efforts to promote good corporate citizenship and to build a more stable, sustainable and inclusive global economy.”

UN Secretary-General Ban Ki-moon

# The Financial Market and Corporate Social Responsibility

The intensification of economic globalisation that we have witnessed in the past few decades has changed the web of relationships between people, organisations, and communities; it has also changed the degree of connectedness and integration within, and between, market and non-market entities and systems.

Today, the sales of a t-shirt in Miami is linked to the workday of a seamstress in Shanghai; the health of a rainforest ecosystem in Brazil correlates to the energy demand in Scandinavia; and the human rights conditions in one country can depend upon its trade relations with another.

Some would also argue that economic globalisation has translated into a decreasing role of the state and increasing freedom for markets, which implicitly renders more power in the hands of corporations (e.g. Stiglitz, 2002, 2006; Korten, 2001).

At the pivot of economic globalisation, therefore, is the discourse on *corporate social responsibility*: also known as *CSR*. The role of corporations in society, and their responsibilities towards the environment, people, and principles such as human rights, has long been a topic for discussion.<sup>1</sup> The continuous debate about what CSR

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<sup>1</sup> In this thesis, *CSR* refers to the studied actors' own interpretations of the term, and not to any pre-set definition. More broadly, however, *CSR* means that a company addresses the expectations society has for business, balancing the claims of all key stakeholders, for example with regards to the environment, human rights, and labour conditions. For reviews of the evolution of the definitional construct of *CSR*, see e.g. Carroll (1999), Moir (2001), Windell (2006).

really means or ought to mean (e.g. for what, and to whom, are corporations responsible) takes place between groups of actors from a variety of sectors and sometimes with disparate interests: such as social activists, environmental groups, corporations, regulators, shareholders, and labour unions (Windell, 2006). Is a corporation responsible for its suppliers' environmental conduct? Are corporations responsible for the protection of human rights? What is the moral obligation of a corporation that operates in a context of weak law enforcement?

The processes of debating and enacting various facets of CSR ultimately generate norms and subsequent shifts in norms on corporate social responsibilities. Shared ideas and expectations on how corporations should act vis-à-vis environmental and social matters emerge, and change over time. A much-cited example of an industry-wide change in norms for CSR is the apparel industry, which, in the 1990s, was heavily criticised, by social activists and shareholders alike, for sweatshop conditions in its outsourced production in low-cost countries. While initially seeking to resist external pressure to address the issue, the industry gradually internalised a new norm of social responsibility, which encompasses its supply chain (e.g. Spar & La Mure, 2003; Zadek, 2004; Åhlström & Egels-Zandén, 2008; Åhlström, forthcoming).

Among the various types of actors that are involved in forming norms for corporate social responsibility, shareholders enjoy a unique position in that they are, in fact, owners. This ownership grants shareholders the right to express their opinions about corporate conduct, which can be achieved by voting in elections for membership on the board of directors, the board itself (which represents the shareholders), proposing and voting on shareholder resolutions, and by meeting with corporations, for example at road-shows or in personal meetings. Corporations are accountable to their shareholders, and are dependent on them for access to capital. This implies a potential leverage for shareholders to influence corporations.

The financial market has traditionally been viewed as decoupled from environmental and social dimensions. However, this is now changing. The role of the financial market for CSR, therefore, is of increasing interest and relevance – both within the academic research community and for policy makers. Public pension funds in a number of countries are now required to include social and environmental concerns in their investment decisions, and the United Nations has issued a document entitled “Principles for Responsible Investments”, which institutional investors can now sign. Since the late 1990s, there has been a surge in investment funds and market indexes whose investment criteria are not only financial, but are also based upon environmental and social parameters (Avanzi SRI Research, 2007; SIF, 2007; Eurosif, 2008). For example, a private or institutional investor might choose to only purchase stock in corporations that have an action plan for reaching certain environmental goals, have routines for handling employee complaints, demand adequate occupational health and safety standards of their suppliers, etc.

This investment approach is typically referred to as *socially responsible investment* (SRI). Historically, SRI has its origins in the church, and was focused on avoiding involvement in harmful activities. As early as the 18<sup>th</sup> century, the Methodist church had declared that one should not hurt one’s neighbour by profiting from harmful products, such as alcoholic beverages (Domini 2001). In the 1960s, 70s, and 80s, socially responsible investment increasingly included environmental and social concerns. The stock market became an arena for expressing concern, for example, with the Vietnam War, apartheid, and disasters caused by corporations, such as the Exxon Valdez oil spill or the fatal toxic gas accident at the Union Carbide plant in Bhopal. Through boycotts or divestments, shareholders protested these occurrences.

Since the 1990s, however, SRI has increasingly become an approach to use the position of ownership as a way to engage with corporations in order to create positive change, and not only as a means to avoid harmful sectors or protest through divestment. By clearly stating the social and environmental criteria to which corporations must live up in

order to be included in an investment fund or index, investors can quite effectively communicate to corporations what is expected of them. Shareholders, however, are going even further; they may also actively engage with corporations to voice their opinions and may, in the process, potentially influence norms and practices for corporate social responsibility. This can be achieved, for example, through personal meetings with corporate management or the board, or through raising issues at corporations' annual general meetings (e.g. through filing shareholder resolutions).

While SRI has North American and European antecedents, it has over time become adopted in markets around the world.<sup>2</sup>

Economist Petra Rivoli (2003) has expressed that “Perhaps the most striking claim of the SRI industry – and certainly the most appealing to many conscious investors and perhaps the most dubious critics – is the claim that SRI ‘makes a difference’ to society”.

A wider community of actors shares this expectation on shareholder influence as being a catalyst for change in favour of a better world. For example, *Mistra*, the Swedish Foundation for Strategic Environmental Research, has founded a research programme on socially responsible investment with the motivation that:

“Through their investment decisions, institutional investors have the potential to influence company behaviour: As these investors assess and value companies on their environmental, social and governance performance, this can lead companies in all sectors to take more actions in line with sustainable development” (*Effect*, 2008: 26)

Furthermore, the UN Secretary-General has officially expressed great hope in investors' capacity to directly influence corporations to perform better in environmental and social areas (PRI, undated). Corporations

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<sup>2</sup> See, for example, reports on SRI trends in different parts of the world from Asria (undated), AIIC (2004), SIF (2007), Eurosif (2008), and Mercer & IFC (2009).

seem to concur with the important role of investors in this area; business surveys show that shareholder expectations are one of the top motivators for corporations to address CSR (Arlbjørn *et al*, 2008; Amnesty Business Group, 2008).

There is an apparent expectation that socially responsible investment can influence corporations, in terms of environmental and social conduct. SRI, thus, may be one important inroad to supporting an ecologically, socially, and economically sustainable development, providing the quoted expectations are met.

### **Thesis Aim and Research Questions**

While research on socially responsible investment as a phenomenon is on the rise, there is limited research on its link(s) to corporate influence and, thus, as a potential way to ultimately make a difference to society. In a published literature review, which is included in its entirety in Article 1 of this thesis, I found that during the 25 years spanning from 1983 to 2007, less than 40 papers were published on the topic of shareholder activism for corporate social responsibility.

I also found that there were some limitations to these studies, such as a lack of investigations that base their conclusions upon empirical data; some studies were even speculative in nature. This motivates further research. Furthermore, some studies of shareholders' use of position of ownership in order to influence corporations are limited to descriptive research without a subsequent analysis, and refrains from using theoretical frameworks for a more thorough understanding and exploration of the studied phenomenon. While this may be symptomatic for a new research area, it is demonstrating a need for more solid research; this includes more theoretically and empirically grounded research that has higher analytical ambitions.

I also noted that papers that did, in fact, use empirical data to explore changes in corporate behaviour as a result of shareholder activism, sometimes used results from quantitative environmental and social ratings as a proxy for influence (Neubaum & Zahra, 2006; David *et al*,

2007). This type of measurement, however, may not capture more long-term, profound, or wider-reaching outcomes of shareholder influence. There is research within the more general field of corporate social responsibility, which shows that interest groups' efforts to influence corporations to change their business conduct can also re-shape more general ideas about appropriate business conduct (Spare & La Mure, 2003; Zadek, 2004; Ählström & Egels-Zandén, 2008; Ählström, forthcoming). Thus, the analysis should, in my view, not only be confined to dimensions that can be understood in terms of measuring social and environmental performance on a binary scale.

I would, therefore, like to extend previous research on shareholder influence by including a different perspective: one that is not only focused on changes in practice, but also on changes in norms. While shareholder influence may be geared towards changing corporate practices, it may also influence collective understandings about what corporate social responsibility entails or should entail; therefore, it is relevant to also explore shareholder influence from a norms perspective.

Norms are shared ideas about what constitutes appropriate practice; they are inter-subjective rules and expectations of behaviour within a group with a given identity, or in a society at large. Norms are interrelated and, in my view, inseparable from practice; practice is what actors do, and are enactments of norms. However, practice will also shape norms. A new practice that spreads widely may become established as a shared norm, as “the way things should be done”.

This thesis will empirically and conceptually treat the phenomenon of using shareholder position to be an active voice with regards to norms and practices for corporate social responsibility:

*The aim of the thesis is to explore how shareholders may influence norms and practices for corporate social responsibility, and to contribute towards conceptual development for studying this phenomenon.*

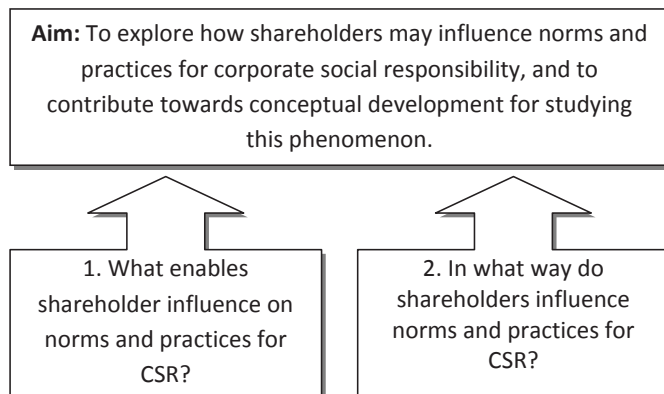


To achieve this aim, I am posing two more specific research questions, which the individual articles of this thesis seek to answer:

- 1. What enables shareholder influence on norms and practices for corporate social responsibility?*
- 2. In what way do shareholders influence norms and practices for corporate social responsibility?*

The thesis builds on six separate articles, which all help to answer the two research questions and contribute towards the overarching aim of the thesis.

Figure 1 illustrates the aim and research questions. These will guide the analytical discussion of my results, as presented in Chapter 6 of this thesis.



**FIGURE 1: THESIS AIM AND SUPPORTING RESEARCH QUESTIONS**

## **Norms and Practices Defined**

As norms and practices are central to this thesis, I will elaborate some more on them: what they are and how they relate to one and other.

Norms are inter-subjective agreements or shared views about what is appropriate (e.g. Finnemore & Sikkink, 1998; Segerlund, 2007); they are rules for how to carry out practice, in other words for how one should behave. Norms are often so deeply embedded in our minds that we only recognise them when they have been broken, and stigma is created. Practices, thus, may be enactments of norms, and refer to the concrete activities that are carried out by people and organisations. Practices are what we *do*.

Different norms are relevant for different contexts, and for different groups and communities (e.g. Fung, 2003; Acharya, 2004). For example, shareholders are guided by norms about how to make investment decisions (e.g. to do it based on financial evaluation, rather than on the colour of the CEO's shoes: something which most people would consider silly and breaking the norm for "normal" behaviour). Corporations are also guided by a multitude of norms, including social responsibilities. There are norms for what to do with wastewater, how to treat employees, what level of detail to communicate in sustainability reports, etc. Norms may work on a micro-level within a local group of individuals (such as the members of a corporate board or some other confined group), and on a macro-level (such as in an entire industry or geographical region).

Norms are, therefore, a form of rules for behaviour. Formal regulations, standards, and guidelines in business can sometimes be a manifestation of existing norms, or can be a tool to shape norms (Brunsson & Jacobsson, 2000). For example, to not bribe business partners is a norm that members of a business community are socialised to follow; however, not bribing business partners is also codified in business law, which can stifle norm-breaking behaviour. The six principles of the UN Global Compact is an example of formal standards that can shape norms; this is a codification of business practice with regards to social

responsibility, which signatories would like to see become norms for the wider business community. The six principles manifest signatories' commitment to certain business conduct, which can contribute to setting standards for other companies, and eventually become internalised as norms, providing the six principles become "normal" business conduct. If this were to be the case, the Global Compact principles would lose their importance as standard-setters, since their adherence would now be achieved through an internalised norm (Brunsson & Jacobsson, 2000).

Hence, when practices are well established and are not questioned, they may become norms; the appropriateness of a certain practice is not reflected upon because it is perceived as a given fact, and to act differently would cause stigma in the group that shares the widely established practice or "way of doing things". An entirely new practice that is not fully adopted as a norm may eventually become a norm; however, this is only if the practice is accepted as a proper way of doing things, and ultimately becomes internalised as a standard of appropriateness.

Norms about CSR include shared conceptions about for what, and to whom, corporations are or ought to be responsible; these norms are manifested through practices. By the same token, practices through which corporations choose to enact social responsibility, and that become widely used, can become an industry- or sector-wide norm.

### **Shareholders Defined**

As the term *shareholder* is central to the work I present in this thesis, I will clarify the way in which I use the term.

In this thesis, shareholder primarily refers to *institutional* shareholders. An institutional<sup>3</sup> shareholder is one who manages assets on behalf of

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<sup>3</sup> Institutional shareholder is a common term in business language; it should not be confused with *institutional* theory (which is used in this thesis) and where the term *institutional* has a sociological-theoretical meaning.

others by pooling large sums of money and, therefore, differs from retail (individual) shareholders. The reason behind the choice of focusing on institutional shareholders is that they, through their shared professional space, have a more extensive interface with corporate management than do most individual investors. Institutional investors, such as pension funds, mutual funds or insurance companies would, for example, typically have access to the board and can call for meetings with corporate management. Since institutional investors act on behalf of others (such as pension takers), they also typically manage large pools of assets, which make their relationships with corporations additionally legitimate. Furthermore, according to Eurosif (2008), 94% of European SRI-oriented investment is institutional.

At the same time, since institutional investors often manage assets on behalf of, for example, pension takers and owners of mutual funds, the aggregate interests of individual shareholders can be voiced through the activities of the institutional shareholders that represent them.

Furthermore, it is important to note that the term shareholder in this thesis refers to SRI-oriented shareholders. Public and corporate pension funds, religious groups, non-governmental organisations and charities, public authorities and governments, insurance companies, mutual funds, and universities are among the largest institutional investors with an SRI approach in Europe (Eurosif, 2008). SRI-oriented shareholders constitute a minority group, as most shareholders do not have an explicit SRI agenda<sup>4</sup>. When I refer to *shareholders*, thus, it is not the average shareholder that I have in mind; instead, it is those who explicitly involve facets of CSR into their investment activities.

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<sup>4</sup> According to Eurosif, SRI assets represent 17,6% of the asset management industry in Europe (Eurosif, 2008). In the US, 11% of assets under professional management are involved in SRI (SIF, 2007).

## **Thesis Outline**

Now that the subject topic has been introduced and the aim and research questions of the thesis are presented, I will go on, in Chapter 2, to position my research in relation to other studies within the topic of socially responsible investment.

Chapter 3 outlines the theoretical underpinnings for this thesis, and explains theoretical concepts, which are central to my research.

The six articles are summarised in Chapter 4, and the rationale behind the choice of launching each specific study is explained. The chapter also includes a section on methodological considerations.

In Chapter 5, the full-length versions of the articles are included.

The results are discussed in Chapter 6. This discussion is conducted on an aggregate level, and constitutes a meta-analysis of the individual studies. The conclusions are summarised in Chapter 7, and are followed by an elaboration on the contributions of the thesis in Chapter 8. Chapter 9 includes suggestions for future research.



## Positioning My Work within a Budding Research Area

Research on socially responsible investment is on the rise. The topic is not so widely researched yet that entire scientific journals are dedicated to it; however, an increasing amount of studies are being published, which indicates a growing research interest in this relatively new phenomenon. A search in the database Business Source Premier, for articles and papers on the topic of *socially responsible investment*, renders 86 hits between 1986 and 2008; of these, 74 articles (or 86%) were published in the last seven years.

Although the perspective on SRI that is employed in this thesis is focused on its relation to corporate social responsibility, this is not the area that has been researched the most; instead, the bulk of research on socially responsible investment has been concerned with the portfolio performance of investment funds that employ an SRI methodology. This research is based on a financial theoretical foundation.

Results are inconclusive: A large number of studies find that there is no significant difference in portfolio performance between socially responsible and conventional investment (e.g. Hamilton *et al*, 1993; Mill, 2006; Bauer *et al*, 2007; Schröder, 2007). Other research shows that socially responsible investment does earn higher than average returns (e.g. Derwall & Koedijk, 2005; Kempf & Osthoff, 2007). A smaller number of studies find that socially responsible investment underperforms the market (e.g. Jones *et al*, 2007). Results from these studies are highly dependent upon the data sampling and statistical analysis that the authors use; there is ongoing debate among the contributing authors about methodological issues for these kinds of studies.

Another prevalent research theme is that of the development of SRI as a new investment approach; these studies tend to be set in specific geographical contexts. Much of this research draws upon sociological institutional theory in order to explain the homogenising processes, which contribute towards establishing a coherent practice over time. Bengtsson's study of SRI in Scandinavia emphasises that societal developments at large and mimetic behaviour among actors have shaped the evolution of SRI (Bengtsson, 2007). A doctoral thesis written by Louche (2004) focuses on the development of SRI in the Netherlands stating that, while SRI has changed from being an activist-oriented activity to a commercial project, it is still in a maturing phase, and undergoing a process of becoming more established. Déjean et al (2004) and Leca and Naccache (2006) suggest that, it is through the quantitative measures launched by social rating agencies that SRI has become increasingly established in France. Given its emergence in a financial context where quantitative measures are viewed as appropriate and important, the ratings have provided SRI with legitimacy. An examination of SRI in the Spanish market finds that there is limited uptake of SRI in Spain. The authors attribute this to investors' limited sensitivity to social issues, as well as their unawareness of the performance potentials of SRI funds (Lozano *et al*, 2006). A final example is a study by Louche and Lydenberg (2006) that compares SRI in the US and Europe; they find that, while SRI is defined and practiced somewhat differently in different markets, there is a shared overarching goal of improving corporations' policies and practices with regards to social and environmental issues.

Additionally and most closely related to the topic of the present thesis, some researchers have been looking into the efforts of SRI-oriented shareholders to influence corporations. Much attention has been directed to shareholder proposals, which are formal suggestions that shareholders can submit for voting at corporate annual general meetings. These studies, which focus on the United States, have investigated how many resolutions have been passed at shareholder meetings during a certain number of years, what were the topics, the results of the voting, and which type of corporations is typically



targeted (Vogel, 1983; Campbell *et al*, 1999; Graves *et al*, 2001; Monks *et al*, 2004; Rehbein *et al*, 2004; Clark *et al*, 2006; Proffitt & Spicer, 2006; Tkac, 2006). On the aggregate level, this research reports that shareholder resolutions that concern CSR typically garner less than 10% of votes, and that, religious groups, individuals, and pension funds are the most active filers of such shareholder resolutions. Furthermore, due to their visibility and approach to critical social and environmental issues, large and well-known corporations are predominantly targeted by such activism.

Several scholars are sceptical about the power of SRI to instigate change in corporate behaviour. Haigh and Hazelton (2004) argue that the low vote of most shareholder resolutions indicates socially minded shareholders' lack of power. David *et al* (2007) find that shareholder activism negatively correlates with a quantitative social and environmental rating (by the rating firm KLD) that the authors used as proxy for the success of influence. Engle's (2006) scepticism is based on the non-binding status of shareholder resolutions (i.e. corporations are not obliged to comply with resolutions that get a majority vote). Vandekerckhove *et al* (2007) point to the difficulty of engaging with corporations, since the corporations included in their empirical study categorically denied allegations of misbehaviour.

Other authors are more optimistic about the impact of shareholders on corporations. Hoffman (1996) shows in a longitudinal case study that, although it can take time and involve a lot of negotiation, persistent shareholders can influence corporations with regards to CSR. Hoffman argues that strategic corporate response to shareholder pressure will depend upon the shareholders' influence and power, the corporate culture and the degree to which the shareholder requests are aligned with it, and the political environment in which the shareholder campaigning takes place.

Van Buren and Paul (2000) argue that, while they find the influence of SRI-oriented investors on corporations to be small, these investors have contributed to a business environment in which management is more

aware and mindful about corporate social responsibilities. In relation to this, O'Rourke (2003) sees an opportunity in shareholder activism to open up for a wider debate on corporate social responsibility; however, she also warns that efforts to influence corporations may not reach beyond corporate-specific changes to an industry level.

In a quantitative study, Neubaum and Zahra (2004) find that shareholder activism by long-term owners (e.g. pension funds) positively correlates to corporate social performance.

Sparkes and Cowton (2004) argue that the prospect for shareholder influence has increased because of the growing number of investors that engage with corporations on CSR. The authors, however, admit to a somewhat speculative character of their arguments. Southwood (2003), in turn, suggests that one might increase the prospects of successfully influencing corporations with regards to social and environmental issues if one relates shareholder proposals to long-term shareholder value ('the balance of reason'), rather than entering a struggle with the corporation.<sup>5</sup>

A large part of the research that treats the phenomenon of shareholder influence on CSR does not explicitly extract their theoretical perspective, and stop at a pre-theoretical understanding. Hence, there has not been an apparent theoretical tradition for me to join. Instead, I have chosen to draw upon a mix of theoretical concepts that I have found useful in answering my specific research questions. I will describe these in the next chapter.

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<sup>5</sup> A more thorough literature review of shareholder activism for corporate social responsibility is included in Article 1.

## Theoretical Underpinnings for Studying Shareholder Influence on Norms and Practices

My research aims to explore how shareholders may influence norms and practices for corporate social responsibility, and to contribute to conceptual development for studying this phenomenon; therefore, I have included concepts from different theoretical schools that create a platform to achieve this. When using different theories, it is vital that they harmonise well with one and other; I have, therefore, made a conscious choice to lean on theories that share a similar – largely social constructivist – ontological stance. Moreover, I have used concepts from theories that treat organisations and actors as connected with each other as well as with the surrounding environment. These theories also emphasise that expectations placed upon organisations emanate from their surrounding environment, and are formative for norms and practice. In this chapter, I will elaborate further on the theoretical strands, which are central to the thesis.

### **Shareholder Influence in a Social Context**

In order to address how shareholders may influence norms and practices, I found it fruitful to use a theory that could help me understand shareholder influence from the perspective of the social context in which shareholders, corporations, and related actors operate. This would allow me to see the opportunities and constraints that this environment poses on actors who seek to influence others, and on actors who may be influenced.

I also found it relevant to lean on theory that would support the analysis of a phenomenon, which greatly concerns shared norms (in this case, of corporate social responsibility), and for which a social constructivist perspective is helpful or even necessary. Social constructivism means

that social reality is seen as a human construction that is produced in social interaction (Berger & Luckmann, 1967).

The theoretical underpinnings of this thesis, therefore, are partly derived from sociological institutional theory. This school of thought is concerned with organisations' embeddedness in social and cultural contexts. *Institutional* refers to "a rule-like, social fact quality of an organised pattern of action" (Zucker, 1977: 728). A central thought within institutional theory is, in fact, that organisations and individuals do not act independently and based on rational choices, but are constrained by their institutional environment (but also that they reproduce this institutional environment).

Institutional theory has proved fruitful for numerous research endeavours in the empirical area of corporate social responsibility. One example is a study of how institutional forces formed industrial change in the context of the banning of an environmentally harmful substance (Sweet, 2000); another is a study exploring how the idea of CSR has been constructed and become widespread through the interplay of institutional forces (Windell, 2006). Institutional theory has also been used for the specific study of socially responsible investment, mainly to explain how SRI has become increasingly established as a new investment approach (Déjean *et al*, 2004; Louche, 2004; Leca & Naccache, 2006; Bengtsson, 2007).

I will here present the concepts from institutional theory that I primarily use in my research.

### *Institutional Logics*

In order to understand how shareholders influence norms and practices for corporate social responsibility, I find it necessary to take into account that such activity is produced in the intersection of societal sectors, which are guided by different understandings of reality. These societal sectors include: the corporate sector, the financial sector, and

the environmental and social justice<sup>6</sup> sectors. The term *societal sector* here refers to “a domain identified by similarity of service, product or function” (Scott & Meyer, 1983: 137). The different nature of these sectors has prompted me to draw on the concept of institutional logics.

*Institutional logics* are invisible assumptions about reality (Friedland & Alford, 1991), and include values, norms, beliefs, and shared meaning systems. Hence, institutional logics provide a sense of order by constituting an internalised and largely tacit roadmap for social action and interaction. In the words of Thornton and Ocasio (1999: 804), an institutional logic is “the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organise time and space, and provide meaning to their social reality”.

Society is built upon multiple institutional logics. These may be widely shared, such as the institutional logic of participation, which underlies democracy (Friedland & Alford, 1991). Institutional logic may also be shared in a more confined group: for example, within a certain profession, such as journalistic logic (Grafström, 2006). The relational spaces where organisations involve themselves with one another in order to develop collective understandings of reality have been conceptualised as *organisational fields* in institutional theory literature (Wooten & Hoffman, 2008). In a meta-case-analysis, Zietsma *et al* (2007) find that organisational fields can be understood as confined to a specific industry (e.g. Munir, 2005), to specific professions (e.g. Suddaby & Greenwood, 2005) or as defined by a common issue, which may cut across different industries or sectors (Hoffman, 1999).

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<sup>6</sup> *Social justice* is used here as an umbrella term for ideas and activity that is geared towards achieving a just (i.e. fair) society. This includes protection of human rights, gender equality, racial equality, access to health, etc. I am, thus, using the term social justice as the social counterpart to environmental protection. It should also be noted that these two broad areas overlap; for example, environmental protection may be vital to health issues or protection of human rights.

For the purpose of this thesis, I do not only view organisational fields as relational, where organisations interact in developing collective meaning systems; I also see them as functional, and constituted by individuals and organisations which are engaged in similar practices (Grafström, 2006). The sense in which I use organisational field, therefore, overlaps with the concept of sector, as defined here. In the analysis of my results in Chapter 6, I will refer to the logics of the corporate sector, the financial sector, the environmental protection and justice sectors, as well as to the logic of socially responsible investment, which I view as an organisational field situated in the intersection of these three sectors.

Shifts in logics can enable the emergence of new practices, strategies, and industries (e.g. Haveman & Rao, 1997; Ruef & Scott, 1998; Thornton & Ocasio, 1999). I will argue that rather than creating a shift in logics, actors can also actively attempt to find a commonality between two different logics, and find ways to establish congruence between them, which makes it possible for new norms and practices to be generated.

### *Translation*

As a consequence of understanding shareholder influence on norms and practices for CSR as being produced in a field situated in the intersection between different sectors, which in turn are guided by different logics, I find the concept of *translation* useful. Translation refers to a process through which foreign practices and beliefs come to resonate better with institutional logics in an intersecting field or sector (Czarniawska & Jorges, 1996; Boxenbaum, 2005). Translation is an adaptation of foreign ideas and practices to new institutional contexts; it connotes that the ideas and practices are not copied in an unchanged version as they are transferred between settings, but that they are, in fact, changed – or translated – in the process (Czarniawska & Jorges, 1996).

Sahlin-Andersson (1996) and Sahlin-Andersson and Wedlin (2008) suggest that central to the translation process is that models and

experience are “framed and presented in a familiar and commonly accepted terms, so that they will make sense to a reader or listener” (Sahlin & Wedlin, 2008: 225). The discursive process of translation can, thus, be used purposefully to serve the interests and values of actors who seek to influence others, across organisational fields and sectors. Suddaby and Greenwood (2005) suggests that this may be achieved through rhetorical strategies; this is the intentional use of pervasive language, which can legitimise ideas and practices that would otherwise be perceived as foreign to the prevailing logic. Since logics are an abstraction and something that is largely tacit, language can make logical elements tangible and explicit, and something that actors can strategically use for translation purposes. Translation can, therefore, be a matter of reconceptualising or reformulating ideas and practices to be congruent with the thought-world, or logic, of the recipient.<sup>7</sup>

#### *Institutional Theory: Old and New*

The concepts presented thus far are largely products of “new” institutional theory. The new institutional theory (e.g. Meyer & Rowan, 1977; DiMaggio & Powell, 1983) focuses on how organisational structure and practice become similar over time, and adopts an inter-organisational perspective, whereas the “old” institutionalism (e.g. Selznick, 1949, 1957) emphasises variation and differences, with an intra-organisational focus (for a discussion on the differences of the old and new, see e.g. DiMaggio & Powell 1991:11-15). Both versions, however, are sceptical to viewing organisations as rational. Additionally, both versions are focusing on the relationship between organisations and their environments, and are emphasising the significance of cultural aspects for how organisations develop (Johansson, 2002: 21).

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<sup>7</sup> Social movement theorists would refer to translation processes as *frame alignment*: a collective process of linking different schemata of interpretation of reality (Snow *et al*, 1986; McAdam & Scott, 2005).

Over time, authors have expressed that the differences between the new and old institutionalism may be exaggerated (e.g. Hirsch & Lounsbury, 1997; Johansson, 2002). In a recent publication on the future of institutional theory, Hirsch concludes that the distinction between old and new is increasingly “a thing of the past” (Hirsch, 2008). In my research, however, I draw on some of the dimensions that are typical for the “new” institutional theory.

It can also be noted, that, while many leading scholars within new institutional theory are based in North America, a Scandinavian branch has also developed (c.f. Johansson, 2002; Czarniawska, 2008). To a large extent, this group of researchers has focused their studies on the public sector, and initially looked at decision-making (e.g. Brunsson, 1989; Sahlin-Andersson, 1986). Over time, a stream of research has developed with a focus on rules (in its wider institutional definition) (e.g. Ahrne & Brunsson, 2004; Svedberg Nilsson *et al*, 2005), and is concerned with standards and standardisation as a form of regulation (e.g. Brunsson & Jacobsson, 2000). This relates to my own research, since norms can be understood as a type of rule. More recently, the related topic of transnational governance and regulation has been addressed (e.g. Djelic & Sahlin-Andersson, 2006).

It is also within Scandinavian institutionalism that the aforementioned concept of translation has been conceived, as scholars have suggested that ideas are translated (and, thus, changed) as they are diffused (Czarniawska & Sevón, 1996; 2005; Sahlin-Andersson & Engwall, 2002).

### **A Dynamic Norms Perspective on Shareholder Influence**

As explained in the early parts of this thesis, norms are inter-subjective agreements about what is appropriate. Institutional theory tends to view norms as something stable; much of the focus is on how norms and practices are sustained through habit, imitation, and other conformist behaviour (e.g. DiMaggio & Powell, 1983).



What is perceived to be appropriate behaviour, however, changes over time. For example, while a few years ago nobody may have questioned the lack of information in annual reports about how corporations address human rights issues, this has gradually become an issue that corporate stakeholders expect corporations to communicate. This is because there is an emerging norm within the business sector to include human rights perspectives in business operations. However, this norm is far from established: where some corporations adopt this practice as a natural extension of doing business, others find it to be outside the scope of their responsibilities.

This exemplifies that a norm can be more or less established and can evolve through different phases. This is important to my research; I argue that, as an implication of this, shareholder influence on norms and practices must be understood in relation to how well established a norm is. Shareholders may seek to influence corporations to follow a norm that is emergent and not many corporations have yet adopted, or norms that are more widely shared.

This is why I have chosen to complement institutional-theoretical elements with the norm life cycle model (Finnemore & Sikkink, 1998). The model allows for a more dynamic perspective on norms and practices.

### *Norm Life Cycle Model*

The norm life cycle model explains the development of a norm from its birth to its wider acceptance and ultimate internalisation as an established norm. Finnemore and Sikkink (1998) developed it in international relations literature as an extension of the writings of Sunstein (1996). The norm life cycle model takes its point of departure in the claim that norms do not arise in a vacuum; instead, new norms must transform or replace existing norms.

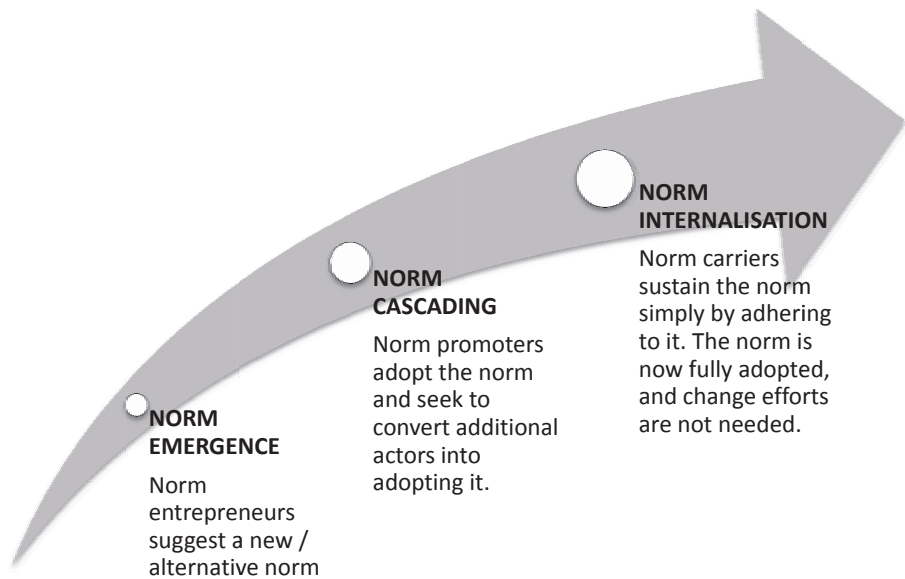
The model consists of a three-stage life cycle:

First: *Norm emergence* occurs when, through the efforts of *norm entrepreneurs*, a new norm sees the light of day. Norm entrepreneurs are actors that seek to persuade others to adopt a new standard of appropriateness for behaviour.<sup>8</sup> Second: If a critical mass of actors adopts the new norm, it can reach the next stage in the life cycle; this is referred to as the *norm cascading* phase. In this phase, *norm promoters* are important in order for the norm to be further established. Norm promoters seek to convert additional actors into adopting the norm. Third: The norm may eventually reach a stage where it is no longer debated; this is the *norm internalisation* phase. All actors with a given identity share the norm. They are sustaining the norm simply by adhering to it, and can analytically be understood as *norm carriers*.

Figure 2 illustrates the norm life cycle.

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<sup>8</sup> In political science and international relations literature, the concept of norm entrepreneurs has been used; for example, to explore how Scandinavian countries have influenced norms in global eco-politics, conflict resolution, and the provision of aid (Ingebritsen, 2002), and how the US Federal Trade Commission has acted as a norm entrepreneur for Internet privacy (Hetcher, 2000). Relating to the topic of the present thesis, Segerlund (2007) suggests that NGOs (non-governmental organisations) have been norm entrepreneurs in bringing the idea of CSR to the international agenda.



**FIGURE 2: STAGES OF NORMS AND CENTRAL ACTORS FOR EACH STAGE (ADAPTED FROM FINNEMORE & SIKKINK, 1998)**

At some point, an internalised norm may be challenged by new norm entrepreneurs, and a new life cycle is then set in motion.

According to Finnemore and Sikkink (1998), change agents who seek to transform norms are motivated by their strong convictions about an alternative standard for appropriate behaviour. They believe in the ideals and values embodied in the norm. Their pursuits to convert others to adopt a new norm are not necessarily based on self-interest; they can be spurred by empathy and altruism.

Homogenising (isomorphic) processes largely stimulate the cascading phase. In accordance with suggestions about conformist behaviour made in institutional theory, Finnemore and Sikkink (1998) suggest that when a norm has become more widely spread, additional actors will be compelled to adopt it as a way to gain legitimacy; that is to say, for

one's actions to be viewed as appropriate and desirable (Suchman, 1995).

When the norm is internalised (in the third stage), it is enacted through subconscious and habitual adherence (e.g. DiMaggio & Powell, 1983).

Many norms, however, will not reach beyond a norm emergence stage; similar to other entrepreneurial pursuits, some attempts will fail (Finnemore & Sikkink, 1998). Thus, it is not a given fact that all emerging norms will eventually reach an internalisation stage.

### *Norm Entrepreneurs or Institutional Entrepreneurs?*

In the norm dynamics model, influence is largely seen as something that is interest-driven. Norm entrepreneurs and norm promoters purposefully seek to influence other actors to change their practices and to adopt a new norm.

At the same time, it should be noted that non-interest driven behaviour has long been at the core of institutional theory. In the seminal article by DiMaggio and Powell (1983) the *iron cage* is used as a metaphor for humans and organisations as powerless and inert in the face of social process. Over time, however, scholars have begun to question institutional theory's deterministic view on actors and the absence of the interest and agency perspective, and sought to expand the theory to make room for this view (e.g. DiMaggio, 1988; Oliver, 1991; Goodrick & Salancik, 1996; Beckert, 1999).

The concept of *institutional entrepreneurs* is an outcome of such an effort; this has been the focus of a great deal of current research (e.g. Lawrence & Phillips, 2004; Munir & Phillips, 2005; Grafström, 2006; Greenwood & Suddaby, 2006). Institutional entrepreneurs have been defined as "actors who have an interest in particular institutional

arrangements and who leverage resources to create new institutions or to transform existing ones” (Maguire *et al*, 2004:657).<sup>9</sup>

In order to study shareholder influence on norms and practices for corporate social responsibility, I have chosen to use the concepts of norm entrepreneurs and norm promoters – over that of institutional entrepreneurs. The reason is that the focus of my thesis is the involvement of shareholders in influencing norms and practices, which are part of institutions but not their only element (Scott, 1995).

Institutional entrepreneurs form institutions. Norm entrepreneurs, on the other hand, are involved in inducing a norm shift, and are not necessarily primarily focused on institutions as such. Implicitly, however, changes in norms can change institutions. Yet, while shareholders can ultimately contribute to the institutionalisation of the concept of CSR, they are more directly involved in changing norms for corporate behaviour.

For example, shareholders may compel corporations to adopt environmental management systems and, therefore, establish a norm that such systems is a “must-have” for corporations; shareholders may pressure corporations to produce yearly sustainability reports with certain types of content, thus, establishing reporting norms. Shareholders may also require their portfolio companies to implement ethical codes of conducts for their suppliers, thereby, changing norms for supplier-producer relationships and responsibilities. Along with the

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<sup>9</sup> For example, Munir and Phillips (2005) suggested that Kodak was an institutional entrepreneur in transforming photography from a highly specialised activity to an everyday practice; Greenwood and Suddaby (2006) attributed the emergence and establishment of the multidivisional organisational form within the field of professional business services to institutional entrepreneurship conducted by elite accounting firms; and, Grafström (2006) argued that the organisational field of business journalism in Sweden was formed through the efforts of institutional entrepreneurs in the form of individuals (e.g. early business journalists) who crossed over from one institutional setting to another and created change through bringing old ideas into a new context.

efforts of other actor groups and activities, this influences ideas about CSR, and is part of the interpretative struggles that can change institutions (Windell, 2006; den Hond & de Bakker, 2007); but it also merits analytical attention on the norm-level.

In my view, there is not a contradiction between being engaged in the changing of norms and the changing of institutions; rather, one supports the other. Norm entrepreneurship may even be viewed as a *version* of institutional entrepreneurship. Both norms and institutions provide rule-like scripts for appropriate behaviour; however, while *norms* refer to single standards of behaviour (Finnemore & Sikkink, 1998), *institutions* refers to a higher-level system of not only norms (and values), but also cognitive and regulative elements (Scott, 1995). Norms are building blocks for institutions: part of what upholds institutions (Scott, 1995). Therefore, it is a matter of aggregation. According to Finnemore and Sikkink (1998:891), the use of norms the analytical use of norms rather than institutions “can help to steer scholars toward looking inside social institutions and considering the components of social institutions, as well as the way these elements are renegotiated into new arrangements over time”.

At the same time, it should be noted that some scholars have used the concept of institutional entrepreneur within a context of SRI, to explain the institutionalisation of the phenomenon of SRI as an investment approach (Déjean *et al*, 2004; Louche, 2004). This, however, differs from the scope of this thesis.

I do think that a more critical stance towards the use of the concept of institutional entrepreneurs is warranted. I would argue that the epithet of institutional entrepreneurs is sometimes too hastily attributed to all and any actors who are involved in change projects. While I would support the suggestion made by Déjean *et al* (2004) and Louche (2004) that the emergence and institutionalisation of socially responsible investment can (partly) be viewed as a result of the efforts of institutional entrepreneurs, I argue that a different analytical level to understand the role of shareholders with regards to CSR than that of

institutions, can be instrumental. This analytical level is norms, as I have elaborated on, and shareholders can be seen as norm entrepreneurs and norm promoters.

### **Shareholders and Stakeholders**

During the course of my research, it has become apparent to me that shareholders are joined by other actors in their efforts to influence corporations; the corporations are tuned into shareholders not only due to their ownership position, but also because SRI-oriented shareholders represent concerns of a wider circle of corporate constituents. Therefore, I also draw on stakeholder theory in order to analyse shareholder influence on norms and practices.

According to Freeman (to whom the breakthrough for stakeholder theory can be attributed), a *stakeholder* is “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman, 1984: 46). I find that this theory (or perspective, as some would call it) is both compatible with, and complementary to, institutional theory. Similar to institutional theory, stakeholder theory is based on the premise that organisations are constrained by the social environment in which they are part and, thus, do not operate as atomistic entities. Moreover, a central idea to stakeholder theory, as well as to institutional theory, is that organisations that do not respond to stakeholder pressures and social expectations risk losing legitimacy, and consequently put their own survival at stake (e.g. Meyer & Rowan, 1977; Freeman, 1984).

At the same time, the stakeholder approach ascribes far more agency to individual actors than much of institutional theory; it does not place emphasis on other forces that may also form organisational behaviour, such as isomorphic pressures (e.g. DiMaggio & Powell, 1983). Furthermore, stakeholder theorists typically talk about “managing” stakeholder relations, about diverging interests, and of conflicts between stakeholders and corporations. Thus, individuals and organisations are attributed interest, power, and ability to take faith into

their own hands. While this view differs from a lot of institutional theory, I still find it fruitful to employ a stakeholder approach in an institutional context, since the stakeholder relation is what renders legitimacy to investor claims vis-à-vis the corporation in the first place; it also does not contradict assumptions that institutional forces, such as a quest for legitimacy (through mimetic or other behaviour), causes organisations to adhere to external pressures that stem from stakeholders.

Stakeholder theory incorporates ethical considerations in its underpinnings, which makes this school of thought highly relevant for research on the topic of corporate social responsibility. The very idea of CSR is that corporations have responsibilities towards not only shareholders, but to other constituents as well, who are affected by the operations of the firm. Empirical observations also support the idea that the corporation, in turn, is affected by its constituents, for example, regulators who constrain environmental and social responsibilities, customers and employees whose endorsement is necessary for the continued activities of the company, and shareholders, whose opinions are vital on how the corporation ought to address issues that affect shareholder value.

The examples of studies on CSR leaning on stakeholder theory are numerous, as are research articles that seek to develop the theory itself beyond the initial idea that corporations have stakeholders at all (e.g. Donaldson & Preston, 1995; Jones, 1995; Mitchell et al, 1997; Rowley, 1997; Friedman & Miles, 2002; Stoney & Winstanley, 2002). With specific relevance to this thesis, Van Buren and Paul (2000) provide an example of how the influence of socially responsible investment on corporations can be understood using a stakeholder framework.

Although a great deal of stakeholder literature has been written from the vantage point of the firm, some researchers have looked at this from the other perspective: exploring stakeholder influence on the firm (rather than firm management of stakeholder relations). This is also the perspective upon which I draw in my analysis.



I have used a stakeholder perspective to widen my analytical focus beyond shareholders and corporations to include other constituents. I use stakeholder theory as a vehicle for examining what makes shareholder claims salient to corporations, and to discuss the importance of relations for shareholder influence.



## Introducing the Articles

Given the fact that this research field is still relatively new, I have found it appropriate to contribute to a broader understanding (rather than a more narrow, but detailed one). Therefore, I have chosen to launch six distinctly separate studies (of which one is a literature review). The studies are joined by the common overarching aim to explore how shareholders may influence norms and practices for corporate social responsibility.

### **Why These Studies?**

Before I present the articles, that this research has resulted in, will first say a few words about why I chose to conduct these particular studies.

In order to get an overview of previous research on the topic of my thesis, I conducted a literature review. This was necessary in order to learn what had already been accomplished in the general area of shareholder activism for CSR and to determine what was missing. I would then relate my ongoing research to this. Not only could I gain insight into which empirical topics had already been addressed; I could discover which theoretical and analytical approaches had (or had not) been employed.

In the literature review, I found that an emerging markets perspective was largely lacking from current research on shareholder influence. The study of socially responsible investment at large has been myopic; it primarily looked at the markets where this phenomenon is widespread – particularly those in the US and Europe. I have sought to broaden the geographical perspective by exploring shareholder influence in an Asian context.

I found the financial and corporate sectors in Hong Kong to be suitable for exploring enablers for shareholder influence. While Hong Kong stands out as a well-developed financial market, and environmental and social challenges within the Hong Kong SAR and mainland China are well-documented, Hong Kong shareholders have not extensively engaged themselves in influencing corporations with regards to CSR. By addressing what had facilitated SRI in other regions, and putting this in relation to Hong Kong, I sought to gain insight into enablers for shareholder influence – not only in Hong Kong, but on a more general level as well.

During my research on active shareholders, it became apparent to me that, to a certain extent, they share their agenda with socially and environmentally oriented civil society organisations (CSOs) - such as environmental groups and human rights activists. I sought to gain further insight into enablers for shareholder influence by including a CSO perspective and, more specifically, by focusing on how environmental and social stakeholder claims that are raised in a financial market context can come to resonate with corporate goals. I conducted two case studies of how CSOs temporarily became shareholders and/or teamed up with shareholders to influence norms and practices for corporate social responsibility. The focus on CSOs also added to what my literature review found to be a rarely included perspective in studies on shareholder influence.

When it came to my attention that a large number of shareholders had joined efforts to influence internet technology companies to change their practices with regards to freedom of expression on the internet in China, I saw an opportunity to study shareholder influence in a norm systems conflict. This provided me with a different contextual setting than my other studies; thereby, I hoped to further extend research insight into the phenomenon under study. While the empirical context was a case in the making and I would, therefore, not be able to assess the extent to which shareholders succeeded in ultimately changing norms, it did present a valuable opportunity to explore in what way shareholders seek to influence corporations when there is ambiguity

about which norm one should follow. Hence, I chose to launch a study into this topic.

Furthermore, as I outlined in Chapter 1, there is an expectation in society that shareholders can influence corporations; however few have empirically studied if, in fact, they do – and if so, how is it done. This motivated me to launch a study in which I aimed to capture corporations’ own perceptions of shareholder influence. Where the aforementioned Hong Kong study included accounts by corporate representatives on their views of shareholder influence, not many shareholders seek to engage with Hong Kong corporations with regard to CSR. Therefore, I wanted to launch a separate study in a market where shareholders are active in this respect. I did so in Sweden, a country that has, by comparison, a long history of SRI-oriented investment.

An additional study emerged out of my fascination with the observation that, while socially responsible investment is largely geared towards having a positive influence on corporate social responsibility, a large part of SRI investment funds and indexes employ avoidance screening (i.e. systematic avoidance of controversial sectors, such as tobacco and alcohol). This is arguably a passive approach that is not primarily aimed at inducing social and environmental change within these industries. This appears to be a paradox, given that the explicit aim of the modern version of SRI largely is to be a force for positive change. The exploration of the passive approach of avoidance screening can provide a contrast to studies on shareholders who actively seek to influence corporations, and help to understand why shareholders are not always change agents who pursue interests.

The six articles, in which my research has resulted, along with their main objectives, are summarised in Table 1. While these studies are guided by separate objectives, they all contribute to the overarching research questions for this thesis. As will be evident when I discuss the results from my work on a more aggregate level (in Chapter 6), the different studies contribute more explicitly to the analysis of either one

or the other of the two overarching research questions for this study: *What enables shareholder influence on norms and practices for CSR?* and *In what way do shareholders influence norms and practices for CSR?* The brackets on the sides of the table illustrate this (with the exception of the literature review, which mainly serves the purpose of mapping previous research).

**TABLE 1: PERSPECTIVES AND OBJECTIVES OF THE STUDIES FOR THIS THESIS**

TITLE	OBJECTIVE OF THE STUDY
<i>Shareholder Activism for Corporate Social Responsibility: What Do We Know?</i>	To map and comment on previous research on shareholder activism for corporate social responsibility.
<i>Facilitators and Impediments for Socially Responsible Investment: A Study of Hong Kong</i>	To explore why SRI as a way to influence corporations is limited in Hong Kong, and to identify facilitators and barriers to SRI.
<i>Translating Ideologically Based Concerns: How Civil Society Organisations Use the Financial Market to Protect Human Rights</i>	To explore how civil society organisations are using the financial market to pressure corporations to take social responsibility.
<i>Shareholders as Norm Entrepreneurs for Corporate Social Responsibility</i>	To explore the role of shareholders in shaping norms for corporate social responsibility.
<i>Shareholder Influence on CSR: A Study of the Swedish Corporate Sector</i>	To explore corporate perceptions of shareholder influence with regards to corporate social responsibility.
<i>Socially Responsible Investment and Avoidance of Controversial Sectors: On Isomorphic Processes and the Quest for Legitimacy</i>	To analyse why the methodology of avoidance screening is so prevalent today, despite its lack of influence on corporate social responsibility.

What enables shareholder influence on norms and practices for CSR?

In what way do shareholders influence norms and practices for CSR?

The articles in this thesis, hence, address shareholder influence on norms and practices for corporate social responsibility from different empirical angles, with the intention that they will all contribute to enhancing our understanding of this phenomenon.

The content of the articles are summarised in the last part of this chapter, and the full articles are included in Chapter 5.

### **Methodological Considerations**

Since there has been limited previous research available on the phenomenon of shareholder influence on norms and practices for CSR, I have found an explorative approach to be suitable. Exploratory research does not require (and should not build on) an anticipation of what to find through the research, but rather be open-ended (Fisher, 2007). The researcher is thus (metaphorically) a discoverer who travels into unknown territory, with a mission to make it known (Fisher, 2007). This is a different approach than studies which build on preconceived hypotheses, and that seek to test these.

The exploratory discovery, however, does not mean that my research does not build on theoretical frames of references; I have carried my theoretical lens with me (as described in Chapter 3) while designing the studies, which has influenced the interview questions I have posed to participants, as well as my analysis of interview material and documents from secondary sources. Furthermore, since I have conducted the studies one after the other (rather than all at the same time), I have carried experiences from my previous research with me for later studies – both in terms of how to best carry out data collection and analysis and in terms of theoretical insights. Therefore, it has not been a matter of exploration from *tabula rasa*, but from previous experience and knowledge.

The exploratory approach benefits from open-ended questions and from an emphasis on interpreting text data (Creswell, 2003). I have, therefore, employed such qualitative methods for data collection in my

work; this has been achieved through primary data through semi-structured interviews, and secondary data in the form of documents and texts.

I have used primary data accounts through semi-structured interviews for the prime benefit that the informants in my studies could elaborate rather freely on the topic. I use the term semi-structured because, although they were structured in the sense that I had prepared a fixed set of questions for the interviews, respondents were free to answer in any way they chose – rather than to pick from a given set of answers, for example. The interview method also allowed me to be flexible in the data collection; after the first interviews I would typically add, subtract or change a few questions based upon the answers I had received. During the interview, answers might also prompt me to follow up with new questions, and thus encourage respondents to elaborate in even greater depth on something that I deemed important to the study. I have conducted face-to-face interviews to the largest extent possible, as I find that informants elaborate more on the answers when meeting them in person than speaking over the phone.

Furthermore, I have used secondary data accounts in the form of written accounts from studied participants (e.g. shareholder resolutions, minutes from annual general meetings, press releases and reports from civil society organisations, reports from SRI membership associations, and corporate statements and public policies). This has allowed me to access participants' views on the studied phenomenon in their own words, without being restricted by my own pre-conceived meanings or understanding of the matter.

Another form of secondary data that I have used is media reports. While this is a third-party account, it has allowed me to get a contextual understanding of the issue at hand and a ground for further interpretative analysis. Secondary data has also provided me with an opportunity to adopt a longitudinal perspective. By collecting accounts that were issued over a period of months or years, I was able to access descriptions that had not changed with time (such as documents that



were issued several years ago). This might be more difficult to achieve through interviews (or surveys for that matter) as the informants' answers would be dependent upon the strength of their memories and the extent to which their memories may have changed over time. A limitation with secondary data is that I cannot control the data quality (e.g. Bryman & Bell, 2003), and that I am dependent on what others have chosen to write.

The interviews, as well as the accounts of which I have taken part through secondary data sources, have enabled me to be highly involved in the participants' respective experiences; this has been important since I have sought to access the study subjects' own experiences and perceptions about the issue at hand (for example, how companies have perceived dialogues with shareholders on CSR, or how shareholders have acted in the face of norm violations).

The interest in experiences and perceptions on my part stems from a social constructivism knowledge claim, which entails that actors develop subjective meanings of the world. In other words, knowledge is not something that is "out there", but something that is socially constructed through shared understandings and interpretations among individuals (c.f. Berger & Luckman, 1967). My intent as a researcher has been to interpret these subjective meanings.

I should also explain that each of my studies builds on a separate data set; I chose this approach so that I could tailor data collection to each specific study and its objective. Since I am building this thesis on studying a phenomenon from different angles, it has been important to design a separate data collection method, including the choice of informants, for each study. Different actors have been central in different studies; it has made sense to adjust the data collection to accommodate this. I deemed it appropriate to interview corporate representatives and financial market actors in Hong Kong to explore barriers and facilitators for SRI and shareholder influence in Hong Kong, for example; to explore how civil society organisations use the financial market to achieve goals that converge with those of

shareholders I deemed it appropriate to collect data about such processes, involving civil society organisations, shareholders, and corporations. I use these examples to illustrate that different studies have required different interview respondents, as well as different documents as input for my analysis. It would have been possible to seek to answer my overarching question with a single data set; however, this would have required me to address the issue from fewer angles than the way I have in this thesis. While this may have provided more depth to the studies, it would also have left some aspects unaddressed. Thus, I could not have studied as many contexts as the ones I have explored here.

Due to its different nature, the literature review I have conducted builds on a different approach than the other five studies. The article is based on searches in a total of nine databases for academic publications, using the terms *shareholder activism*, *shareholder engagement*, *shareholder advocacy*, *shareholder pressure*, *investor activism*, and *investor engagement*. I conducted a content analysis of these studies to identify articles that specifically focused on corporate social responsibility; this rendered a total of 34 studies. This research was then categorised thematically, according to their main empirical topics. I originally intended to categorise them according to theoretical frameworks as well; however, I found that many studies did not explicitly lean on theoretical concepts; thus, I resorted to an empirical focus only. The review was conducted with the broader focus of shareholder activism; shareholder influence was one of several dimensions included among the identified studies.

Table 2 outlines the type of data used in each article.

**TABLE 2: TYPES OF DATA IN THE RESPECTIVE STUDIES IN THE THESIS**

<b>ARTICLE</b>	<b>DATA</b>
Shareholder Activism for Corporate Social Responsibility: What Do We Know?	Published research papers and articles.
Facilitators and Impediments for Socially Responsible Investment: A Study of Hong Kong	<p>Semi-structured interviews with 7 respondents from publicly listed corporations and 5 respondents from the financial market, in Hong Kong.</p> <p>Written publicly available secondary data in the form of reports from SRI membership organisations, news articles from CSOs, and reports from HK authorities.</p>
Translating Ideologically Based Concerns: How Civil Society Organisations Use the Financial Market to Protect Human Rights	<p>Semi-structured interviews with 2 respondents from one civil society organisation.</p> <p>Written publicly available secondary data in the form of minutes from annual general meetings of targeted corporations; reports, investor briefings, and press releases from the involved CSOs; reports from standard setting bodies; and, media sources.</p>
Shareholders as Norm Entrepreneurs for Corporate Social Responsibility	Written publicly available secondary data from media sources; shareholder resolutions and press releases from investors; corporate human rights policies and statements; reports and news articles from CSOs; and, congressional testimonies.
Shareholder Influence on CSR: A Study of the Swedish Corporate Sector	Semi-structured interviews with 20 respondents from publicly listed corporations, with 6 respondents from asset management organisations, and 2 from “engagement consultancies”. All respondents were based in Sweden.
Socially Responsible Investment and Avoidance of Controversial Sectors: On Isomorphic Processes and the Quest for Legitimacy	Written publicly available secondary data from SRI index providers (e.g. on index compositions) and SRI membership associations (e.g. on regional data and trends for SRI methods).

## **The Articles: an Overview**

This thesis is comprised of six articles, which are published in their entirety in Chapter 5. A brief overview is provided here.

### *Article 1: Shareholder Activism for Corporate Social Responsibility: What Do We Know?*

*Published in: **Sustainable Development**, 2008, Vol. 16, Issue 3, pp. 141-154*

This article maps and comments upon previous research on shareholder activism for corporate social responsibility. The article has identified 34 studies, published during 1983–2007.

This research can be categorised in to five main themes: first, several studies address shareholder proposals in the US, including proposal topics, voting results, and typical targets for such activism; secondly, a number of studies focus on the effects of shareholder activism on corporate policy and practice; in a third and fourth theme, studies have been conducted on shareholder activism by non-governmental organisations and labour unions, respectively; a fifth and final theme specifically addresses shareholder activism by pension funds.

Article 1 presents the results from the individual studies. On the aggregate level, however, I found that a large part of this research is descriptive, and also refrains from seeking to explain the results within a theoretical context. Many of the studies that concerned shareholder influence upon corporations were not based on empirical data. Furthermore, it is geographically myopic, largely focusing on the US and other Anglo-Saxon countries. At the same time, I emphasise that the research field is nascent, and that there is ample opportunity for original research.

*Article 2: Facilitators and Impediments for Socially Responsible  
Investment: A Study of Hong Kong*

*Published in: Corporate Social Responsibility and Environmental Management,  
2009, Vol. 16, Issue 5*

*Co-authored with Prof. Richard Welford, The University of Hong Kong.*

The article analyses why SRI, in spite of Hong Kong's prominence as a financial market, and the mounting social and environmental challenges in the geographical area, has not proliferated in the region.

A main finding in this research is that many of the aspects that have facilitated SRI in other markets are not, in fact, in place in Hong Kong. These include the adoption of SRI by pension funds, minority shareholder rights that facilitate shareholder activism, an active CSO sector, the adoption of CSR and associated CSR disclosure by the corporate sector, and early pioneers such as religious investors who have created an initial market for SRI upon which the modern version of SRI could be built.

The article goes further to suggest that the "free market" version of market logic that dominates Hong Kong's corporate and financial sectors, has been an impediment to the idea of both CSR and SRI from gaining a foothold. Drawing on Article 3 in this thesis, which treats non-financial actors' use of the financial market, the study suggests that for CSR and SRI to proliferate in Hong Kong, these concepts may need to be profit-related to a larger extent.

*Article 3: Translating Ideologically Based Concerns:  
How Civil Society Organisations Use the Financial Market to  
Protect Human Rights*

*Published in: International Journal of Environment and Sustainable  
Development, 2007, Vol. 6, Issue 2, pp. 157-173*

Civil society organisations are increasingly using the financial market to put pressure on corporations regarding issues such as environmental protection, occupational health and safety, and respect for human rights. This article explores how this is done and how agreement can be reached despite the often-differing world-views, ideologies, and agendas between civil society organisations on the one hand, and financial actors and corporations on the other. One of the main conclusions is that actors can achieve a sought-after change by translating the problem, so that it fits the ideology (i.e. the organised collection of ideas based on core values) of actors who may be in a better position to resolve it.

The article includes two case studies; in both cases, the civil society organisations formulated their morally founded concerns in financial terms, which enabled them to make their goals fit with those of the corporate sector, as well as the financial sector. The translations enabled the organisations to piggyback onto the relationships that financial actors have with corporations, and, thus, instigating change. Hence, the article shows how actors from sectors with disparate logics can find common ground concerning goals - even when the original motivation for achieving the goals differs between the sectors.

*Article 4: Shareholders as Norm Entrepreneurs for Corporate Social Responsibility*

*To be revised and resubmitted for review for a third time to **Journal of Business Ethics***

This article furthers the idea that shareholders who seek to influence corporate behaviour can be analytically understood as norm entrepreneurs; these are actors who seek to persuade others to adopt a new standard of appropriateness.

The article employs the empirical example of US technology companies who face a norm systems conflict when entering the Chinese market, specifically with regards to freedom of expression on the internet. Shareholders have raised concerns in response to the technology companies' involvement in filtering of web sites, censoring, and helping the government trace "cyber dissidents". Through a number of measures, shareholders have sought to push for wider acceptance of a norm for corporate human rights responsibilities, entailing compliance with international conventions over national standards, when faced with a norms system conflict.

The article indicates that, by influencing deeply rooted ideas about corporate responsibilities, shareholders can have – or attempt to have – a more long-term impact on corporations than changing single events of behaviour.

*Article 5: Shareholder Influence on CSR: A Study of the Swedish  
Corporate Sector*

*Submitted for review to **Business & Society***

This interview study explores corporations' own assessments of the influence that shareholders can have on them, in terms of CSR. The article shows that corporations do not generally view shareholders as having a major influence on how they address CSR. Corporations mainly perceive shareholders as amplifying general pressure from a multitude of corporate stakeholders, and do not stand out as more influential than other corporate constituents.

An important exception to this is transparency, which shareholders have vigorously encouraged. This has led to more corporations reporting more extensively on their CSR activities, even if the CSR activities themselves have not been largely influenced by shareholders' engagement.

On a more indirect level and according to interviewed corporate representatives and financial actors alike, one of shareholders' most important roles – in terms of influencing corporations with regards to CSR – is that their explicit interest in how corporations address CSR contributes to strengthening the internal focus on CSR issues.

Although most corporations do not see shareholders as highly influential regarding how they handle CSR related matters, shareholders are unanimously deemed as a valued and important corporate stakeholder.



*Article 6: Socially Responsible Investment and Avoidance of Controversial Sectors: On Isomorphic Processes and the Quest for Legitimacy*

*Published in: Progress in Industrial Ecology, 2008, Vol. 5, Issue 3, pp. 180-197*

This article seeks to understand why the systematic avoidance controversial sectors (such as alcohol, weapons, gambling and tobacco) is so prevalent among SRI funds and indices, even though avoidance may not be an efficient method for influencing corporations with regards to social and environmental responsibility.

The article finds that the extensive use of the method can be understood as a means to gain legitimacy, and that the avoidance method's perceived appropriateness has worked as a self-sustaining mechanism. The article advances seven propositions about what makes it likely for SRI funds and indexes to adopt the avoidance method; the paper concludes that it is not an evaluation of the avoidance method's effectiveness in instigating change that primarily motivates its widespread use; rather, it is a pursuit for socially defined compliance as a way to gain legitimacy, and, hence, to improve the survival prospects of the SRI fund or index.



5

## The Articles



**Article 1**

**Shareholder Activism for Corporate Social Responsibility:  
What Do We Know?**

Emma Sjöström

*Published in **Sustainable Development**, 2008, Vol. 16, Issue 3, pp. 141-154*



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# Shareholder Activism for Corporate Social Responsibility: What Do We Know?

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## ABSTRACT

There is a growing body of research on shareholder activism for corporate social and environmental responsibility. This paper maps and synthesizes research on this topic during 1983–2007. Five key themes emerge. (1) Several studies address shareholder proposals in the US, including proposal topics, voting results, and typical targets for such activism. (2) Other studies focus on the effects of shareholder activism on corporate policy and practice. Further, studies have been conducted on shareholder activism by (3) NGOs, (4) unions and (5) pension funds respectively. Based on this review, missing perspectives are identified and suggestions are made for future research directions. Copyright © 2008 John Wiley & Sons, Ltd and ERP Environment.

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**Keywords:** activism; shareholder proposals; corporate social responsibility

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## Introduction

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CORPORATIONS ARE INHERENTLY CONNECTED TO THE WIDER SOCIETY THROUGH THEIR OPERATIONS, FOR example through their use of natural resources, the people they employ, the welfare to which they contribute and the pollutants they emit. The impacts of corporations can be favourable or detrimental, large or limited. Due to the centrality of corporations in our society, and their potential and actual influence on various societal aspects, actors in the surrounding environment have expectations on corporations to respect shared principles. At the same time, there are many dimensions to corporate activities and its effects, and different stakeholders may sometimes have conflicting goals. For example, a beverage company may on one hand be pressured by its owners to deliver better financial returns in the next quarter while at the same time consumers are filing a lawsuit against the health impacts of its products, or a manufacturing company may follow national laws on labour conditions while this at the same time breaches international conventions. This complexity fuels a continuous debate about the role and responsibility of the corporate sector in contributing to an ecologically and socially viable economy. A variety of actor-groups are involved in trying to shape norms about corporate responsibility in this area. For these actors, there are a number of inroads to influencing corporations. Legislation is one way of fostering certain corporate practice, pressure from environmental or social activist groups another and consumer boycotts yet another.

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In addition to this, the financial market is increasingly being used as a tool to influence corporate social and environmental responsibility. Since shareholders are owners, they have an interest in and a right to engage with corporations in order to optimize long-term or short-term shareholder value, and corporate directors have a fiduciary duty to act in the best interest of shareholders. This interest does not always limit itself to traditional financial aspects, but can also include environmental and social dimensions. Some investors pursue such matters for principle-based reasons (for example to safeguard human rights because it is a fundamental ethical principle), while others primarily do it for financial reasons, for example as a part of risk management or corporate brand enhancement.

In this paper, *shareholder activism* is defined as the use of ownership position to actively influence company policy and practice. Shareholder activism can be exerted through letter writing, through dialogue with corporate management or the board, through asking questions at open sessions at annual general meetings and through the filing of formal shareholder proposals.

Researchers have studied shareholder activism for corporate social and environmental responsibility for a number of years now, from different angles and with different approaches. It is therefore time to sum up, and to explore what we have learnt on this topic so far. This paper provides a review of academic articles and working papers published to date on the topic of shareholder activism for corporate social and environmental responsibility. As the paper will show, five key themes emerge, where proportionally many studies concern the topics and voting results of shareholder proposals in the US, as well as the effects of shareholder activism on corporate behaviour. Further, this paper includes a reflection over missing perspectives, and makes suggestions for future research directions.

This study contributes to the literature on socially responsible investment, being the first to provide a review of research to date on shareholder activism on social and environmental issues. The review is of use not only to other researchers in the field, but also to investors who are using shareholder activism as a tool, and to corporations who are or could be targeted by shareholder activism, as an addition to the knowledge base that underlies their strategies and tactics relating to the topic.

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## Method

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In order to find relevant academic articles, searches were performed in a number of electronic databases: SSRN, Repec, Wiley Interscience, Science Direct, Emerald Insight, Springerlink, Inderscience, JSTOR and Google Scholar. The searches were done on the following terms: shareholder activism, shareholder engagement, shareholder advocacy, shareholder pressure, investor activism and investor engagement. A content analysis was then performed in order to identify articles that specifically focused on corporate social and environmental responsibility. Further, in each of these articles, the reference list was studied in order to identify additional papers that could also be included in the review.

As previously stated, shareholder activism is here defined as the use of ownership position to actively influence company policy and practice. Therefore, studies on portfolio screening using social or environmental criteria are not included, nor are studies on exclusions (for example of socially harmful sectors), as these methods are not primarily an active pursuit of corporate influence. Studies on shareholder activism regarding corporate governance issues such as takeovers or board remuneration are also not included, as this review has a specific focus on environmental and social dimensions.

The search and screening for relevant studies resulted in a selection of 34 articles and working papers. The next section describes when and where these studies were published.



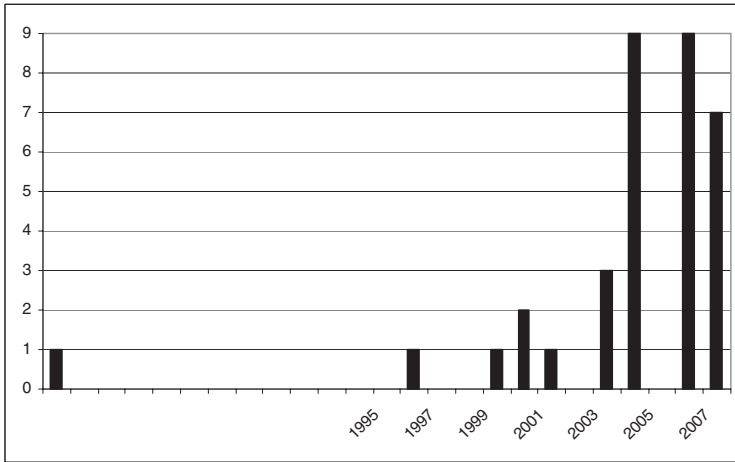


Figure 1. Number of articles per year

**Publishing Facts**

The identified studies were published between 1983 and 2007, with the majority published in 2004, 2006 and 2007. This may be an early sign of an increasing trend of published studies on this topic. The distribution over different years is summarized in Figure 1. As the document search was performed in October 2007, it is possible that more articles would be published by year-end, and the number for 2007 should therefore not be viewed as final.

Whereas there is a spread between a large number of journals and working paper series, a proportionally large part of the papers are published in the *Journal of Business Ethics* and in *Corporate Governance: an International Review* (see Table 1). For the *Journal of Business Ethics*, this is probably due to the fact that it had a special issue on socially responsible investment in 2004, which also positively affects the total number of articles for this year, as per Figure 1. As can be seen in Table 1, journal themes include everything from corporate governance to finance to strategy to environmental and societal issues.

In the next section, the papers are organized thematically, and a brief summary of the main points in each study is provided.

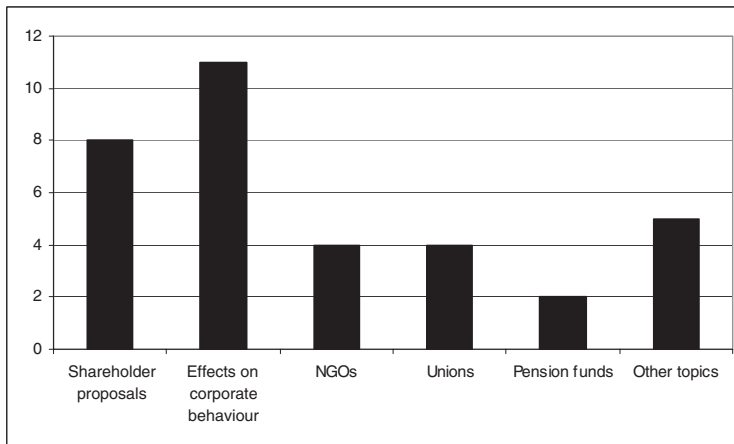
**Key Themes**

After having analysed the 34 papers, five key themes emerge. These are based on the empirical topics that the papers address. It was not possible to make a categorization based on theoretical frameworks, as many studies are purely empirical.

First, a number of studies address the filing of shareholder proposals at annual shareholder meetings, specifically in the US. These studies examine trends in terms of issues and voting results for such proposals and which corporations typically are targeted by such activism. Second, additional studies examine the effects of shareholder activism on corporate behaviour, with mixed results. Further, the role of NGOs as shareholder activists is addressed, followed by studies on the role of union shareholder activists. Studies on pension fund shareholder activism form another category. Finally, a sixth category sums up

<i>American Business Law Journal</i>	1
<i>Business and Society</i>	1
<i>Business and Society Review</i>	1
<i>Business Ethics: a European Review</i>	1
<i>Business Strategy and the Environment</i>	2
<i>California Management Review</i>	1
<i>Company and Securities Law Journal</i>	1
<i>Corporate Governance: an International Review</i>	4
<i>Economic Review</i>	1
<i>Financial Management</i>	1
<i>International Journal of Business Performance Management</i>	1
<i>International Journal of Environment and Sustainable Development</i>	1
<i>Journal of Business Ethics</i>	6
<i>Journal of Management</i>	1
<i>Natural Resources Forum</i>	1
<i>Pensions at Work</i> (research project)	1
<i>Relations Industrielles/Industrial Relations</i>	1
Ross School of Business Working Paper Series	1
<i>Sloan Management Review</i>	1
<i>Strategic Management Journal</i>	1
<i>Strategic Organization</i>	1
<i>Sydney Law Review</i>	1
<i>Syracuse Law Review</i>	1
Working paper, Graduate School of Management, UC Davis	1
Working paper, National University of Singapore and University of Groningen	1

**Table 1.** Outlets for the identified studies on shareholder activism and corporate social responsibility



**Figure 2.** Key themes and number of articles

studies for which there is only one article per topic, and several of these address country-specific matters.

Figure 2 sums up the key themes, and displays the number of articles within each theme.

In the following, the content and results of the articles in each theme are summarized.

### Shareholder Proposals: Issues, Voting Results and Targets

Eight of the identified articles systematically examine the record of filing and voting on shareholder proposals regarding social and environmental issues, and/or study which corporations typically are targeted by such proposals. All studies are set in the US. A shareholder proposal (or shareholder resolution) is a written demand that shareholders can forward to a company and that will be voted upon in the annual general meeting. For example, a proposal can ask a company to adopt a human rights policy, to issue a report on how it plans to mitigate risks pertaining to greenhouse gas emissions or to implement ethical codes of conducts for its supply chain. This procedure is especially common in the US, where shareholder proposals on social and environmental issues have been used as a way to foster corporate responsibility since the 1970s.

The most encompassing study in terms of the examined time period covers the proxy seasons of 1969–2003, and focuses on proposals regarding human rights and labour standards (Proffitt and Spicer, 2006). In 1970, a legal ruling in a lawsuit regarding a social issue proposal became the starting point for the allowing of social policy topics, which had previously been inadmissible. Hence, the time period covered in the article includes social proposals from their very beginning. It is also relevant to notice that the Investor Responsibility Research Centre, IRRC, has tracked all significant social and environmental policy proposals since 1973, providing a useful database since these proposals' early days. The authors detect a trend that shareholders were increasingly asking for general codes as a resolution to human rights and labour standard issues, rather than specific changes in designated regions. Further, the study shows that more than half of the proposals during the studied 35-year period were sponsored or co-sponsored by religious groups, with the second largest groups of filers being public pension funds, followed by individuals. Using a social movement perspective, the authors suggest that religious groups have played a critical innovator role in the development of the global social issues agenda, by generating campaign ideas, framing them in relation to important societal themes and building coalitions. These campaigns were further spurred through the advocacy by public pension funds. An implication from the empirical findings of this longitudinal research is that sponsors must commit for the long term if they are to influence corporate agendas.

Other studies have examined the same or similar questions during shorter time periods. In this review's oldest study on shareholder activism for corporate social and environmental responsibility, Vogel examines trends in shareholder proposals during its first 13 years, 1970–1982 (Vogel, 1983). The author describes the process through which socially and environmentally focused proposals have become increasingly common and relates much of this involvement to political and ideological processes and sentiments. There are also legal aspects to the development, with rulings at different points in time by the Securities and Exchange Commission, which have influenced shareholder access to the proxy mechanism. In the early days, the majority of proposals did not receive the 3% support that is necessary in order to be allowed to file again in the following year. Since 1975, however, more than half of proposals received at least 3%. The author also notes that a significant number of proposals were voluntarily withdrawn, which indicates that many issues were settled in negotiations prior to the annual general meetings.

The late 1980s is the starting point of a descriptive study that covers the 11 year period of 1988–1998 (Graves *et al.*, 2001). The authors study whether and how the issues addressed by shareholders change over time. In contrast to most other studies, this paper includes not only proposals that were voted on, but also those that were withdrawn and omitted.<sup>1</sup> On the aggregate level, the most common issues for

<sup>1</sup>Proposals may be *withdrawn* prior to the vote if the targeted company is willing to negotiate with the filing shareholders on the issue at hand. A proposal may be *omitted* prior to the vote, for example if it violates the rules of the securities exchange. A proposal might not be voted on also for other reasons, for example if it is not properly presented at the annual shareholder meeting.

proposals were South Africa and the environment. It is notable that the number of proposals regarding labour and tobacco increased over time, whereas the number of proposals on human rights remained fairly constant. The number of proposals on the environment as well as on diversity fluctuated, and sometimes decreased by half in one year only to double the following year. Over the period, the total number of proposals increased, although not in a constant upward curve. The authors conclude that some issues tend to be fads while others remain for a longer time.

A time period that overlaps with this study is covered in a paper that includes the 11 year period of 1992–2002 (Tkac, 2006). This study confirms that religious groups submitted the largest number of proposals. The author also detects a trend of increasing proposal submission by socially responsible mutual funds in this period. The three most common topics were international conduct, environmental issues and antidiscrimination. It is difficult to compare proposal topics between different studies as they tend to categorize topics differently, and they are not always clearly defined. It is possible that what the previous study calls ‘South Africa’ is included in this study as ‘antidiscrimination’, but we cannot be sure. This is one of only two studies in this category that touches upon what kinds of request shareholders make through the proposals (the other is the above-mentioned study by Proffitt and Spicer, 2006). There is a fairly equal distribution among proposals that ask for a well defined change in corporate policy, disclosure of information and a fundamental change in operations. The average support for proposals was 8.2%. Large and well-known corporations were most commonly targeted. Unlike other studies, Tkac has followed up on withdrawn proposals, and found that a majority of the 298 withdrawn proposals she studied resulted in dialogue between shareholders and corporate managers, and that in a majority of these cases the corporations agreed to the shareholders’ request. The fact that a third of proposals were withdrawn in the period is therefore a vital piece of information when examining the efforts and outcomes of shareholder activism.

In a descriptive study that specifically focuses the 1997 proxy season in the US, Campbell *et al.* (1999) find that of the social and environmental proposals submitted to vote, the mean result was 6.6%, with the highest result 19.2%. On average, proposals regarding the McBride Principles (on employment discrimination in Northern Ireland) got the highest voting results. Consistent with other studies, the majority of the proposals were submitted by religious groups, followed by individual shareholders. The authors abstain from further analysis of these results, but do reflect on possible outcomes of suggested rule changes regarding proposal submissions by the Securities and Exchange Commission.

A sixth study on the same theme addresses shareholder proposals to 81 large US corporations over the four year period of 2000–2003 (Monks *et al.*, 2004). The most common issues were global labour standards and equal employment. The highest votes were cast for climate change and renewable energy alternatives (with a high of 18%). The average support for the period is 7.7%. The most active filers were individuals and religious groups, again consistent with the results from earlier studies, which means that this has been a consistent trend over the entire time covered by the various studies. The article also includes a case study of Exxon Mobile, which gives a more contextualized picture than the aggregate data presented previously. The authors conclude that with 38% of proposals in the time period being purely concerned with social and environmental issues (as opposed to for example corporate governance), ‘SRI [socially responsible investment] is clearly a central feature of shareholder activism’ (Monks *et al.*, 2004, p. 324).

Finally, two studies specifically focus on who is targeted by shareholder proposals. Just like the previous studies, these are also set in the US.

First, Rehbein *et al.* (2004) find that large companies are more likely to be targeted with shareholder proposals, as they are more visible, as well as companies whose practices are of special concern to society, such as the food and tobacco, textiles and apparel industries. The authors mean that the choice of corporate targets is guided by two kinds of motive: interest-based motives, i.e. where shareholders feel that

their specific interests are not adhered to, and identity-based motives, i.e. as a way to solidify the activist group, by targeting visible companies and thereby creating external attention.

Clark *et al.* (2006) find that investors typically file one proposal for each targeted company, and for one year only rather than pursuing a long-term campaign. Campaigns where multiple proposals were filed with the same firm were however more common with large companies that are household names and that had received media attention over ethical issues. This is consistent with the findings of Graves *et al.* (2001), who in their aforementioned article on the 1988–1998 proxy season also find that targeted companies are typically large and well-known, and that each of the commonly targeted companies tends to receive proposals that spread among a range of issues. The study by Tkac (2006) makes a similar observation. Further, Clark *et al.* (2006) find that for firms with a high proportion of tangible assets those with poor financial performance receive more than four times as many proposals as firms with high financial performance. This is explained by shareholders wanting to promote efficiency and encourage higher social and environmental performance, given the inherent management costs associated with a significant volume of tangible assets. At the same time, for firms with a high proportion of intangible assets, those with high financial performance are more than four times as prone to be targeted, which the authors explain by shareholders wanting to realize the value associated with brand image and corporate reputation, which would be at risk in the face of sweatshops and other types of exploitation. The authors also seek to establish the impact of shareholder proposals on corporate environmental performance, concluding that the effects are modest or even negative (effects are measured as change from one year to the next in the environmental score calculated by a rating agency).

This leads to the next category, which contains studies that specifically focus the effects of shareholder activism on corporations.

### Effects on Corporate Behaviour

Whereas many studies focus on shareholder proposals in terms of issues and voting results, this does not really tell us anything in terms of the actual changes in corporate policy or behaviour. Ten of the studies do however address this topic, not only for shareholder proposals, but also for other forms of shareholder activism. There seems to be disagreement as to whether shareholder activism is an effective tool for change or not, with the majority however leaning towards a sceptical stance.

In a study that gives insights into the dynamic nature of corporate responses to shareholder pressure, Hoffman describes a case when Amoco Corporation was faced with a coalition of shareholders that wanted the company to adopt a number of environmental principles (Hoffman, 1996). The author shows how the outcome was a result of a negotiation process where both the shareholder coalition and the company accepted a compromise in order to come to an agreement. Shareholders were in other words able to influence the corporation, albeit with some tradeoffs. Hoffman (1996) concludes that corporations' strategic response to shareholder activism, and the probability for a successful shareholder campaign, can be understood through three factors: the shareholders' influence and power, the corporate culture and the degree to which the shareholder request is in line with it, and the political environment in which the shareholder campaigning takes place.

On a more general level, Sparkes and Cowton (2004) are optimistic about the role of shareholder activism, and purport that with a 'socially responsible investment' approach being adopted by an increasing number of institutional investors, the prospects of influencing corporations to take social and environmental responsibility have improved significantly. At the same time, the authors welcome more research on the topic, and acknowledge their own arguments as somewhat speculative.

In the same journal issue, Haigh and Hazelton (2004) on the other hand argue that shareholder activism 'lack[s] the power to create significant corporate change' (p. 59). The authors purport that most

shareholder proposals are 'unsuccessful', meaning that they receive a minority vote (which, on the other hand, is something that other authors claim is not necessarily a failure, e.g. Graves *et al.*, 2001). Further, even if a proposal were to receive a majority vote, the authors warn that the corporation-specific changes that shareholder advocacy can prompt will not be enough to create a more general and long-term industrial change. The authors urge large institutional investors to act in concert in order to achieve change on a broader level, and also to not only target companies but also lobby governments.

Scepticism is also finding ground in a study by David *et al.* (2007), who find that shareholder proposal activism can even be detrimental to corporate social performance (which in the study is measured as a composite of KLD's environmental and social ratings). This may be explained by the inclination of companies to face shareholder proposals (and the public indication of discontent that they represent) by spending more resources on resisting external pressures to the detriment of resources spent on corporate social performance. The study also finds that managers tend to settle with salient shareholders, but that this is just a symbolic form of acquiescence while more substantive changes are avoided.

Looking at the matter from a legal perspective, and with a specific focus on human rights, Engle (2006) is also sceptical about the effectiveness of shareholder proposals in shaping corporate policy. This is mainly based on the fact that resolutions are non-binding, but also that process constraints make it difficult to successfully pass resolutions. There are however other tools for shareholder influence that could prove effective, including different forms of lawsuits and shareholders' right to inspect corporate records, which can be used to find and expose human rights abuse.

Evidence also points to the difficulty of engaging with corporations in a study of a European investor initiative (Vandekerckhove *et al.*, 2007). The authors have studied the response rate and the content of the response to letters that a group of investors sent to 18 corporations regarding labour issues. The fact that most corporations sent a response and in many cases recognized their duty to handle labour issues (on a general level) indicates that corporations are willing to communicate with investors about issues of concern. At the same time, corporations tended to deny allegations of misbehaviour, stating that the investors had misinterpreted the case. The authors therefore contend that engagement processes must find a way to move beyond the truth-value of the issue at hand.

O'Rourke argues that one of the major merits of shareholder activism is the opportunity to open up the debate on corporate social and environmental responsibility to a broader audience, both within and outside companies (O'Rourke, 2003). On the other hand, says the author, shareholder activism is costly and resource intense, and might potentially lead to a hardened position on the part of companies. Just like Haigh and Hazelton (2004), referred to above, O'Rourke (2003) flags the issue of shareholder activism only achieving modest and corporate-specific adjustments, rather than more fundamental industrial change.

In a study that primarily looks at effects on shareholder value, rather than on social or environmental conduct, Barber (2006) has reviewed some of the social activism performed by the American fund CalPERS. In his review of a number of high-profile cases, the author cannot find that social activism has improved shareholder value. Barber argues that the lack of empirical and theoretical evidence that shareholder activism on social issues does lead to increased shareholder value indicates that such activism should be used with prudence, and should be firmly grounded in investor preferences to avoid fund managers advancing their personal agendas at the expense of their clients.

On a more positive note, Neubaum and Zahra (2006) find support for the hypothesis that long-term investment ownership (e.g. by pension funds) is positively correlated with corporate social performance (measured as social and environmental scores by a rating agency), and that this relationship grows stronger as activism (such as dialogue and public campaigning) increases. This effect is even stronger with coordinated action among investors.

In an article that describes the investment consultancy PIRC's engagement methods, Southwood (2003) concludes that the strategy most likely to be effective for successfully pursuing a social or environmental agenda through shareholder proposals is to relate the proposal to long-term shareholder value (what the author calls 'balance of reason'). This is a more effective driver for corporate change than enforcement through power struggles with the corporation.

Finally, McCabe (2000) addresses the effects of shareholder proposals only indirectly, but argues that shareholder activists without detailed professional knowledge of the policies and practices of companies are unlikely to pass a resolution that is tailored to the company's capabilities, and hence run a high risk of being rejected. This is exemplified by quotes from proposals passed by unions and religious groups. McCabe also voices the opinion that shareholder activists with a human rights agenda typically are expecting too much from multinational corporations.

## NGOs

NGOs (non-governmental organizations) have generally grown stronger in their role as corporate watchdogs since the 1980s. Nowadays, NGOs sometimes also enter the capital market to be able to exercise shareholder rights or to influence investors to campaign for certain issues. The role and impact of NGOs through shareholder activism is addressed in four of the identified articles. These do however also include a study of actors described as social and environmental 'activist' that are not necessarily part of an NGO.

Several of the studies purport that shareholder activism by NGOs is increasingly common, and contend that NGO intervention on the stock market can be successful in changing business strategy (Waygood and Wehrmeyer, 2003; Guay *et al.*, 2004; Sjöström, 2007). Waygood and Wehrmeyer (2003) develop a taxonomy for capital market intervention, where NGOs can use the financial market either directly by becoming share owners themselves, or indirectly by leveraging the power of financial institutions, and where their efforts are directed either at specific companies or investors, or at regulators. Guay *et al.* (2004) point out that due to the public profile and stakeholder status of NGOs they may influence corporate strategy to a degree disproportionate to the shares owned. Sjöström (2007) focuses on NGO shareholder activism for human rights, and makes the point that NGOs can successfully translate their ideologically based concerns into financial terms, thereby making the issue relevant for actors who have more power to push for a corporate change (Sjöström, 2007).

Riyanto and Toolsema (2007) have developed a theoretical model about different scenarios of environmental and social activists' pressures on shareholders to engage in corporations' handling of their social responsibility. According to the model, activists can succeed in influencing shareholders to in turn influence corporate management to change its focus from a non-CSR oriented project to a CSR project if the payoff to the shareholders is higher (given the incurred costs of this effort) than if they resist doing this. Further, the model shows that for a shareholder who benefits from activist pressure on corporations (because it can ultimately raise corporate profits) it can be optimal to sponsor an activist and thus enable continued pressure.

## Unions

Another group that is taking on a shareholder role is unions. Union-related issues have a natural place within the concept of corporate social responsibility, as they typically concern matters such as occupational health and safety, fair wages and equal opportunities. Four articles were identified in this area.

Three of these articles are set in an Australian context. A study by Anderson and Ramsay (2006) and a reworked version of this study by Anderson *et al.* (2007) indicate that Australian unions have resorted

to shareholder activism in the face of labour law changes that have constrained other means for unions to voice concern. Both articles contain a number of case studies that illustrate processes of union shareholder campaigns on social as well as governance issues. The authors find that shareholder activism is typically used as a last resort in industrial disputes, and that unions often seek to show how the interests of employees and shareholders are aligned, in order to garner support from a wider shareholder base. Finally, while no union-initiated shareholder resolution has managed to pass at a company's annual general meeting so far, the authors find that this activism has in some cases still exerted significant influence on companies by opening a dialogue between boards and unions, and by making issues known to other shareholders, media and the general public. In addition to these two articles, a third Australian study concurs that union shareholder activism in Australia is spurred by regressions in labour law (Rawling, 2006). Similar to the above-mentioned studies, the author finds that unions are strategically using the alignment in employee and shareholder interests. Further, the study points to governmental and corporate attempts to stifle union shareholder activism. The author argues that such hampering should be discouraged since it conflicts with the democratic theory of the corporation.

The fourth article offers a US perspective of union shareholder activism on social and governance issues (Marens, 2004). It provides an overview of how these activities have developed over time. The author finds that the main contribution of union financial activism over the last 20 years has not mainly been to organized labour, even if some significant successes have been achieved. Rather it has been to the general investor community, since efforts by union shareholder activists have made it legally and organizationally easier to successfully put forward proposals, to force changes in corporate behaviour and to oppose management proposals.

### Pension Funds

Two articles specifically address shareholder engagement by pension funds.

Hess (2007) argues that public pension funds are a potentially powerful catalyst for corporate social and environmental responsibility. The author's point of departure is that pension fund engagement is appropriate since environmental and social dimensions have consequences for long-term value creation, and since there are limits to traditional legal mechanisms. Hess concludes that public pension funds can serve as surrogate regulators if they engage in corporate social and environmental issues. At the same time, Hess finds that public pension funds are not as active shareholders as other sources claim (e.g. Social Investment Forum, 2006). As a motivation for more engagement, the author suggests that there should be a requirement on public pension funds to disclose the extent to which they consider such issues in their investment practices.

Clark and Hebb (2004) examine the underlying motivations for public pension funds' corporate engagement on social and environmental issues. The study identifies four drivers. First, pension funds are increasingly using passive index funds. This prevents the investor from exiting firms upon dissatisfaction, leaving engagement as an option to ensure long-term shareholder value. Second, corporate governance with some overlap to social and environmental issues through pressures for accountability and firm-level transparency has grown rapidly over the last 20 years, and pension funds are increasingly finding strength to influence such issues through investor coalitions. Third, the growing trend of 'socially responsible investment' has also spilled over to the pension fund sector, which can see long-term benefits in raising firm-level standards in the social and environmental area. Fourth, there is global pressure to respond to social and environmental issues, and new global regimes of social and environmental standards, which work as a somewhat diffuse but potentially powerful driver for pension fund engagement. The authors conclude that 'it is our contention that pension fund corporate engagement holds new possibilities for humanizing capital in the global arena' (Clark and Hebb, 2004, p. 164).



### Other Topics

Finally, in addition to the topics covered in the five themes above, a number of articles address a variety of other research questions, which tend to be of a country-specific character. These include regulatory issues with the filing of proposals in Canada, prospects of an increase in shareholder activism in the UK, outcomes of UK governmental encouragement for more shareholder engagement, socially responsible investment in Japan and the role of standards for shareholder engagement.

One of these studies examines recent amendments to the Canadian regulation on shareholder proposals, which potentially could make it easier to file proposals with a social or environmental content (Dhir, 2006). The author generally agrees that this will be the case, but at the same time finds some reason to be sceptical and suggests that in order to remedy these deficiencies Canada should look to the US system.

Another study investigates the prospects of UK investors wanting to engage in shareholder activism (Lewis and Mackenzie, 2000). Using a survey study, the authors find that investors are far more prone to actively avoiding companies that do harm rather than to investing in companies with a poor ethical record in order to influence them to improve. At the same time, investors are positive towards offering advice to companies on how to improve, quietly lobbying them and publicly campaigning for companies to adopt better policies.

The British context is also in focus in an article that addresses the Department of Trade and Industry's encouragement of shareholders to use their impact to influence corporate working practices (Deakin and Hobbs, 2007). The authors conclude that concrete results of this encouragement are limited, and that the interest from financial actors is low.

Lessons from the UK experience of socially responsible investment are put in a Japanese context by Solomon *et al.* (2004). The authors argue that Japanese investors should not put too much effort into excluding environmentally and socially undesirable companies from their portfolios (which they indicate is already an outdated approach in the UK) but rather use their ownership for active engagement, for example through dialogue with corporate management. The authors also emphasize the importance of disclosure policy in order to enhance the consciousness of shareholder responsibility for environmental and social outcomes of corporate activities. In the UK, non-governmental organizations have played an important role for the current level of corporate disclosure towards the investor community, but such organizations are not as active or developed in Japan.

Further, McLaren (2004) suggests that norms and standards would help investors who use an engagement approach, as it would enable assessment of the effectiveness and quality of engagement content, practice, reporting and governance. Standards would also build trust among investors that their fund managers are genuinely reflecting their social and environmental interests.

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### What Have We Learned?

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If we consolidate the results from the studies above, we can conclude the following.

- Religious groups have consistently been the most active filers of environmentally and socially focused shareholder proposals in the US. Individuals and public pension funds are other active groups.
- The issues forwarded through these proposals vary over time, and proposals tend to receive a minority vote, with a mean less than 10% and with highs not over 20%.
- Targets for shareholder activism tend to be large and well-known corporations, due to their visibility and their relation to critical environmental and social issues.

- It is debated whether shareholder activism can successfully change corporate behaviour, with several studies leaning towards a sceptical approach that such activism lacks the power for corporate change, and warning that it can only achieve modest and corporate-specific changes rather than more fundamental and industry-wide change.
- NGO shareholder activism is on the rise, as is union shareholder activism (at least in Australia), spurred by the fact that there is overlap between shareholder and stakeholder interests in and expectations on the firm.
- Authors are positive towards the role that pension funds can play in influencing corporate social and environmental responsibility.
- Last, we have gained insights into various country-specific issues, such as the effects on shareholder activism from regulatory changes in Canada, the potential evolution of shareholder activism in Japan and governmental initiatives in the UK.

This leads to the next and final section, which discusses missing perspectives and suggestions for future research.

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### Missing Perspectives—Opportunities for Future Research

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The research field of shareholder activism for corporate social and environmental responsibility is young, with a limited number of published articles to date. There is in other words ample opportunity to address new issues, as well as to challenge and further develop previous findings.

A critique against a majority of the studies on the issues and voting outcomes of shareholder proposals is their tendency to limit themselves to descriptive research, rather than venture on to analyse how and why certain trends arise: why does the interest in certain topics rise or fall?; why do certain issues get particularly high or low votes? etc. While descriptive research is also welcome, it is important that researchers on shareholder activism for corporate social responsibility do not disconnect from theoretical perspectives or refrain from deeper analysis that contributes towards valuable insights regarding the different dimensions of this topic.

Among the articles on shareholder proposals there is only limited analysis of what it is that shareholders are requesting—are they asking for codes of conduct, for corporate wide policies, for a company-specific activity to seize? Proffitt and Spicer (2006) as well as Tkac (2006) do address this to some extent, but there is room for further development, in order to gain a deeper understanding of strategies for shareholder activism.

Further, as pointed out by Proffitt and Spicer (2006, p. 173), withdrawals are an important indicator of success, given that the proposal is withdrawn due to a corporation's willingness to negotiate. It is therefore of concern that only one of the studies on shareholder proposals follows up on the outcomes of withdrawals (see Tkac, 2006). It is indeed relevant to follow up on withdrawals and explore where the negotiations lead, as a way to measure success of shareholder activism. To only focus on proposals submitted to vote does not give the full picture of shareholder activism through proposals.

In general, more research is needed on how companies are affected by shareholder activism. At the same time as this is the most common topic for studies in this review, there is a dearth of studies that base their conclusions on longitudinal empirical data (exceptions include Hoffman, 1996; Neubaum and Zahra, 2006; David *et al.*, 2007). The temporal aspect is relevant since outcomes may not be evident in the short-term perspective. Changes in corporate behaviour may also be more complex than what can be summarized in a score by a rating agency (see Neubaum and Zahra, 2006; David *et al.*, 2007). Interview-based case studies could therefore play a vital role for such research.

Another concern is that much of the research today only covers activism in the US, and to some extent the UK. It is important to notice that shareholder activism is on the rise in many European countries, with a report from Eurosif showing that regulatory changes is paving the way for increasingly active investors (Eurosif, 2006). There is hence a major research gap to fill in terms of studies on shareholder activism in European countries. Attention should also be turned to other well developed financial markets, which have received a disproportionately low degree of attention from academic research, such as Canada, South Africa, Australia (except on union activism), Hong Kong and Japan. The emerging market perspective is missing entirely, which may be due to a low level of shareholder activism in such markets (which in turn may be due to less developed financial markets and a lack of corporate governance mechanisms and standards to support shareholder activism), but should nevertheless be a relevant context to study, especially in terms of drivers and barriers.

Each of the investor groups that was under specific study here—NGOs, unions, and pension funds—merits more research, given the few published articles to date with this focus.

Further, there are important findings in the research on 'general' shareholder activism (for example on corporate governance), and researchers on activism for social responsibility can benefit from turning to this literature (as an indication of the extent of research in this area, a search in the SSRN database on 'shareholder activism' rendered 123 hits in November 2007). Today, little reference is made to such studies by the environmentally and socially focused papers, whereas studies on shareholder activism regarding corporate governance could most probably be an important contribution and input for future research on shareholder activism with specific regard to corporate and environmental issues as well.

Finally, Haigh and Hazelton (2004) claim that 'the limited amount of theoretical work done on the use of financial markets as a mechanism for social responsibility has been exploratory in nature, limited in scope, and largely, has accepted institutional investments as appropriate structures for social responsibility' (p. 65). I am bound to agree. At the same time it must be recognized that research on this topic is nascent, and there is hope that the future holds an abundance of solid research on shareholder activism for corporate social responsibility.

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**Article 2**

**Facilitators and Impediments for Socially Responsible Investment:  
A Study of Hong Kong**

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# Facilitators and Impediments for Socially Responsible Investment: A Study of Hong Kong

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## **ABSTRACT**

Through the practice of *socially responsible investment* (SRI), shareholders are involved in influencing corporations with regards to their social and environmental responsibilities. This article focuses on SRI in one of the world's most prominent financial centres, Hong Kong. The article explores why the role of SRI as a way of influencing corporate social responsibility in Hong Kong is limited. The study finds that many of the aspects that have facilitated SRI in North America and Europe are not in place in Hong Kong, and gives examples of such factors. The article also suggests that the institutional logic that dominates Hong Kong's corporate and financial sectors has not been receptive to the logic that underlies environmental protection and social justice, and that this is an impediment to SRI as well as CSR to gain a foothold in Hong Kong and the Asian region more generally.

**Keywords:** *Asia, CSR, corporate social responsibility, Hong Kong, shareholder activism, socially responsible investment*

## INTRODUCTION

Corporate social responsibility, or *CSR*, has become a strategic component for many multinational corporations today, and is increasingly attended to by the literature on global business (e.g. Porter and Kramer, 2006; Zadek, 2001; Welford, 1997). *CSR* broadly means that a company addresses society's expectations on environmental and social dimensions of their operations (such as pollution, energy consumption, labour conditions, and human rights) and balances the claims of key stakeholders.

Shared ideas about what corporate social responsibility entails are to some extent formed through corporate interaction with financial actors, for example through shareholders' efforts to influence corporate behaviour in this area (e.g. Hills and Welford, 2006; O'Rourke, 2003; Sparkes and Cowton, 2004).

Activities on the capital market that aim towards supporting or fostering corporate social responsibility fall under the umbrella term *socially responsible investment* (SRI). SRI entails that investors complement financial analysis with environmental and social criteria in order to evaluate companies for possible inclusion in an investment portfolio. SRI can also involve engagement activities in order to influence corporate behaviour, for example through dialogue with corporate management, or through proposing and voting on shareholder resolutions at annual general meetings. Sometimes NGOs (non-governmental organisations) such as environmental or human rights groups form a coalition with investors to pass a joint shareholder resolution.

While investors may be attracted to SRI a way to align a portfolio with certain ethical values, investors may also see it as a way to manage risk, or as a way to achieve higher returns (e.g. Beal *et al*, 2005; Schueth, 2003; SIF, 2006). To influence corporate behaviour with regards to *CSR* may serve all of these interests.

Since the 1990s, the number of SRI investment funds and indexes as well as SRI oriented shareholder resolutions has increased significantly, particularly in Europe and North America (Avanzi SRI Research, 2007; ISS 2006; SIF,



2006). In Asia, there are comparably less investments with an SRI approach, with Australia and Japan as exceptions (Asia, 2003, 2008). This may perhaps explain why there is limited academic research on SRI in Asia. Examples of previous studies include research on the development of SRI in Japan (Kawamura, 2002); what Japan can learn from the SRI experience in UK (Solomon *et al*, 2004); corporate environmental reporting to the financial sector in Hong Kong (Chan and Welford, 2005); the performance of Australian ethical funds (Bauer *et al*, 2006); and risk and return patterns of SRI indices for Japanese pension plans (Jin *et al*, 2006).

This paper adds to research on SRI in Asia by addressing one of the region's most prominent financial centres, namely Hong Kong. The Hong Kong stock exchange is the third largest in Asia and eight in the world, by market capitalisation (HKTDC, 2008). Consequently, there is a potential to utilise this large amount of invested capital in order to influence corporate norms and behaviour, e.g. through the voting rights and the opportunities for a dialogue with the board that share ownership entails.

Furthermore, encouraging corporate social responsibility (through the financial market or in other ways) is highly relevant in this region, which faces extensive environmental, labour standard and human rights challenges (Welford and Frost, 2006).

Shareholder influence through SRI may in other words have an important role to play in fostering increased corporate social responsibility in the Asian region.

Yet, the phenomenon of SRI which is widespread in many other developed financial markets has not gained a foothold in Hong Kong. Two domestic SRI funds were available in Hong Kong at the time data was collected (in 2006). This may be compared with 80 such funds in the UK, or 70 in Sweden (Avanzi SRI Research, 2007; Folksam, 2006). Further, shareholder activism as a way to influence corporations is not common in Hong Kong, except for a few

individuals who are vocal in pursuing corporate governance issues (Asria, 2003: 17).

The purpose of this paper is therefore to analyse why the role of the financial market in Hong Kong in influencing corporate social responsibility is so limited today. We will do this by first identifying facilitating factors for SRI in general, based on trends in countries where SRI has a comparably stronger foothold (which is mainly in Western markets), and subsequently analysing how these factors relate to Hong Kong. By *facilitators* we mean factors that have helped and stimulated the emergence and growth of SRI.

## **METHOD**

In order to identify facilitators for SRI, we have drawn on previous literature on this topic. There is however limited academic research on this issue, and we are therefore also drawing on empirical evidence.

For the Hong Kong context, we collected primary data through semi-structured interviews. This method was chosen because it allows for complex data, since the respondent has the opportunity to explain matters in detail and to bring up aspects that s/he finds most relevant and appropriate. This qualitative method was deemed appropriate since our study is of an exploratory nature.

Twelve semi-structured interviews were conducted in 2006. Seven respondents were investor relations officers for seven different corporations listed on the Hong Kong stock exchange. Investor relations officers function as a “window” between the company and the financial market (Hockerts and Moir, 2004), hence their relevance for this study. Access to corporate respondents proved difficult to obtain, and while we would have liked to include more respondents in the study, we feel that the seven interviews provided us with a satisfactory picture of the studied phenomenon.

Further, one respondent was a senior manager at Hong Kong’s public pension scheme, the Mandatory Provident Fund (MPF). One respondent was a financial consultant, and was involved in setting up the MPF. One respondent

was the director of a special interest organisation examining corporate governance in Asia. One respondent was the chief investment officer at an SRI investment fund in Hong Kong. One respondent was a senior research analyst at an Australian SRI research organisation who also evaluates Hong Kong-listed companies. We selected these respondents as a way to access a mix of experts on the financial market in Hong Kong and how it relates to SRI.

## **RESULTS**

In this section we present what our review of previous research as well as empirical evidence has revealed to be facilitators for SRI in general. This is followed by the results of our interview study of facilitating factors in the Hong Kong specific context.

### **Facilitators for socially responsible investment**

From literature on SRI, a number of factors emerge as particularly influential for the establishment or growth of SRI.

Several studies emphasise the active participation of pension funds in SRI-oriented investments (Amalric, 2006; Clark and Hebb, 2004; Friedman and Miles, 2001). This has resulted in growth of the SRI market, given the large pools of assets that pension fund represent. In the US, pension funds constitute the largest segment of institutional SRI investors, and are also some of the most active filers of shareholder resolutions (SIF, 2006). In the UK, 59% of the largest pension funds are using a SRI approach (UKSIF, 2000). Overall, pension funds tend to account for a large part of all investment assets in developed countries. This implies that if pension funds adopt a SRI approach, it will represent a comparably large part of total invested assets. Pension funds may be motivated to invest with an SRI approach due to their long-term investment perspectives and subsequent interest in the continuous well-being of the economy (Amalric, 2006; Clark and Hebb, 2004), but also due to regulation (Friedman and Miles, 2001). In several countries (including at least eight European countries, according to

Eurosif, 2008), there is regulation that requires pension funds to take ethical consideration in their investment decisions, and/or to disclose the extent of such considerations.

A second factor which spurs SRI, according to previous research, is the presence of NGOs (non-governmental organisations) on the financial arena (Guay *et al*, 2004; Sjöström, 2007; Waygood and Wehrmeyer, 2003). Environmentally and social justice oriented NGOs may share many concerns with SRI oriented investors, with regards to corporate responsibility. In some western markets, NGOs are involving themselves in SRI by persuading a critical mass of shareholders to engage in an issue, by building coalitions with shareholders (e.g. co-filing resolutions), and by temporarily becoming shareholders themselves and exercising shareholder rights (Guay *et al*, 2004; Sjöström, 2007; Waygood and Wehrmeyer, 2003).

Thirdly, studies highlight that in many Western countries, religious groups have provided a market for SRI-oriented investment for a long time (Kreander, 2001; Kreander *et al*, 2004; Sparkes, 2001; Williams, 2005), thus facilitating the growth for SRI. SRI as an investment approach can be traced back to the 18<sup>th</sup> century with the Methodist Church in the UK, and later with Quakers and other groups in both the UK and US. The Swedish Church has also been a pioneering force for SRI in Europe (Kreander, 2001). SRI remained dominated by religious groups until the 1960s, when the stock market was also influenced by broader political values (Sparkes, 2002). It is only in the last twenty years that SRI has come to focus on environmental and social issues to a significant extent (Sparkes, 2002), and now also religious groups are turning to these kinds of issues (e.g. SIF, 2006). In other words, groups that have historically been involved in SRI have contributed to a sustained market for this investment approach over time, also as its content has somewhat changed. The history of SRI facilitates a modern version of SRI because it provides something to build from.

A fourth facilitator for SRI, which is not explicitly highlighted in academic literature on SRI, but for which there is empirical evidence, is

corporate governance, which clarifies the roles and responsibilities of shareholders, companies, and company boards (Eurosif, 2004:8). A particularly important dimension for SRI concerns the rights of minority shareholders. Such rights are influencing with which ease shareholders can pursue environmental and social aspects of corporate matters via the stock market. In the US, every shareholder has the right to file shareholder resolutions provided that they hold a certain amount of shares over a certain amount of time. Minority shareholders tend to be active filers of resolutions with regard to social and environmental matters (Monks *et al*, 2004; SIF, 2006). In the UK, there is similar regulation, which makes it possible also for minority shareholders to voice concerns at company annual general meetings, and which has spurred an established culture for shareholder activism (Eurosif, 2006). In a number of other European countries, such as Germany, Netherlands, Sweden and France, shareholder activism is largely driven by minority owners (Eurosif, 2006).

Finally, an additional enabler for SRI which is not emphasised in academic literature, but for which there is empirical evidence, is that SRI is facilitated by the increased interest in CSR by the corporate sector. A crucial part of CSR is transparency and accountability which implies a greater emphasis on disclosure (again, a corporate governance issue). Solomon and Solomon (2006) find that investors consider corporate disclosure on social and environmental matters to be “decision-useful”, and wanting more of it as it is considered important to the investment process. According to Eurosif (2004:8), disclosure is an important enabler for SRI because it makes it possible for shareholders to ground a dialogue with companies based on facts rather than assumptions.

While yet other facilitators for SRI may exist, these stand out as particularly plausible based on previous literature and empirical evidence. Table 1 summarises the factors that we have identified as facilitating growth of SRI.

*Table 1. Factors that facilitate the growth of SRI*

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Pension funds
NGO movement
Historical roots / pioneers
Minority shareholder rights / opportunities for shareholder activism
CSR and disclosure

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We also suggest that facilitators often strengthen each other. An NGO movement which actively uses the financial market for its purposes is helped by strong minority shareholder rights, while interventions by pension funds to some extent rely on relevant corporate disclosure, which might in turn be improved through NGO pressure for transparency.

### **Facilitators for SRI in a Hong Kong context**

Based on our interviews, we will here explore how the main facilitators for SRI, identified here above, relate to the situation in Hong Kong.

#### *Pension funds*

In Hong Kong, a new pension system was introduced in 2000, the Mandatory Provident Fund (MPF), which has led to an increase from one third to 85% of the Hong Kong workforce being covered by retirement protection (MPFA, 2006). The new scheme does however not include ethical or environmental guidelines:

When we designed the MPF we looked to systems in other countries, and particularly the one in Australia. As for including environmental or social dimensions in the investments, we leave it to the market. *(Interview, senior manager at the MPF Authority)*

Within the MPF scheme, there are over 300 funds to choose from, and of these, one was an SRI fund at the time of writing. It can thus be concluded that the pension system is not a driver for SRI in Hong Kong, and will not be so unless

there is either a surge in SRI funds to choose from through the MPF scheme, or a decision by the authorities to enforce SRI methods in the pension fund investment process.

### *The NGO sector*

The interviewed corporations express that they are rarely or never targeted by pressure from NGOs. Further, the presence of environmental groups or other NGOs at corporate annual general meetings (AGMs) in Hong Kong is rare. In Hong Kong, NGOs tend to be dependent on corporate funding, which may be a reason why they do not seek to overtly influence corporate environmental and social behaviour via the stock market.

All NGOs target government. They feel that they have to monitor them. Business in Hong Kong is very powerful so the NGOs don't want to be on their bad side. Many of them get funding from business. *(Interview, IRO)*

One exception to this is Greenpeace, which attended the AGM of a utility company in Hong Kong and posed questions regarding the company's extensive use of coal. In addition to attending the AGM, Greenpeace placed a banner outside the meeting location, and handed out flyers. The company perceived that Greenpeace's approach was not constructive, since they chose a confrontational tactic that upset many shareholders (Interview, IRO).

It appears that the role of NGOs in targeting corporate behaviour is underdeveloped and too weak to have spread to the financial market. It might potentially be an opening to an increase in shareholder pressure if tactics are changed towards more corporation-focused efforts.

### *Historical roots*

In Hong Kong, the concept of SRI does not have the same historical, church-based or political antecedents, as we find in many Western countries. The market

for SRI that in some other countries has been created and sustained over a long time due to the investment approach of religious or other groups has not developed in Hong Kong. The facilitating role of such pioneers is not in place here. It should be noted, though, that there are indeed religious groups in Hong Kong, albeit not in a role as active shareholders.

*Minority shareholder rights and shareholder activism*

In Hong Kong the prevalent ownership structure tends to disfavour minority shareholders (Welford, 2007). Family-owned conglomerates and cross-holdings are common among the companies listed on the Hong Kong stock exchange. This means that for many companies, the majority of shares are held by one person, family or holding company, which leaves little room for minority shareholders to express views that differ from those of the major shareholder.

In addition to this, AGMs in Hong Kong are typically attended by only a few investors, and are not functioning as an arena for interested actors to express concern over environmental or social matters and to part-take in decision-making. Says one corporate respondent:

Very few people come to our AGMs. Maybe 20 people or so, and mostly people who have been shareholders for ages. (*Interview, IRO*)

There have even been reports of vocal shareholders being thrown out of such meetings (SCMP, 2006).

A representative of one of Hong Kong's domestic SRI funds argued that it does not see itself in the same role as interest-based organisations, and estimates that its potential impact on corporations in terms of CSR is limited:



It is difficult in Asia. We want to allocate capital and support certain principles, but we are not playing the role of Greenpeace or WWF. We don't have the status of them. It would be fruitless. We are a mid-sized company. We can't tell companies to plant more trees. Even when those groups try to influence companies it goes in one ear and out the other. We can pronounce what we believe in, but we are always a minority shareholder. *(Interview, Chief investment officer)*

The role of minority shareholders is thus too limited for it to be a significant facilitator for SRI in Hong Kong, not only because of ownership structures, but also because, as our interviews indicate, there is a *perception* among investors themselves that minority shareholder voices will not be heard.

#### *CSR and disclosure*

The corporate sector in Hong Kong has embraced the concept of CSR only to a limited extent (e.g. Welford, 2005), and the Hong Kong corporate sector does not seem inclined to address CSR issues through corporate voluntarism (CSR China, 2006). There is consensus among the respondents that the major motivation for addressing corporate social responsibilities is formal regulation, rather than voluntary initiatives:

Regulation is the main guideline for us. We would not overdo it, and we would not go under it. Regulation must be a benchmark to which we adjust when it changes. *(Interview, IRO a)*

People look to standards. And they are set by the government. If the government doesn't lead, it won't happen. A company won't do something that is not profitable. Particularly with China right next to you. A profit oriented company would not spend extra on meeting a level that is beyond the limits of the standard. *(Interview, IRO b)*

In all honesty, most business would do it for regulatory reasons. It is a compliance issue. *(Interview, IRO c)*

As for disclosure, studies find that Hong Kong trails behind other Asian economies when it comes to having written policies on typical CSR areas (Welford, 2004; 2005). Studies also show that few of the Hong Kong listed companies publicly report on social and environmental issues (Chan and Welford, 2005; China CSR, 2006).

Hong Kong corporations tend to view disclosure as a compliance issue rather than a strategic tool for risk management (Interview, Director of special interest organisation for corporate governance in Asia). Moreover, many Chinese companies are listed on the Hong Kong stock exchange, and these tend to have even lower levels of disclosure than Hong Kong companies (Interview, Chief investment officer). The low level of corporate disclosure is an obstacle for any investor who would like to include a CSR perspective into an analysis. By way of illustration, when asked about the biggest challenge in assessing Hong Kong-listed corporations, a representative of a foreign SRI analyst organisation responded:

Just general lack of information. There aren't many companies publishing CSR reports or dedicated publications. Plus, it is difficult to get feedback from the companies. The companies do not have a dedicated division or department and we need to contact Public Relations or Investor Relations which are unlikely to respond.

...

In general, information disclosure on human rights and labour issues is very poor. For most Hong Kong companies, information disclosure seems to be limited to financial aspects plus some corporate governance information included in the annual report. Lack of the companies' willingness to address or publish information on labour issues may be due to that they don't feel the necessity - that is, there is no pressure from investors, consumers, government or regulators. *(Interview, Senior research analyst)*

We can conclude that a low take-up of CSR and a lack of associated disclosure is an impediment to SRI in Hong Kong.

To conclude, we find that the facilitators for SRI that we identified in the previous section are for the most part missing in Hong Kong. This is something which is not necessarily market-bound, but perhaps tied to a particular institutional context, which we will expand on here below. As mentioned in the previous section, many of the facilitators are inter-related, which can explain why so many of them are not in place in Hong Kong. At the same time, this creates opportunity for SRI in the sense that if only one or a few of these factors gain a stronger foothold in the Hong Kong market they may function as catalysts for other facilitators as well, and ultimately strengthen the position for SRI overall.

## **DISCUSSION: INSTITUTIONAL LOGICS**

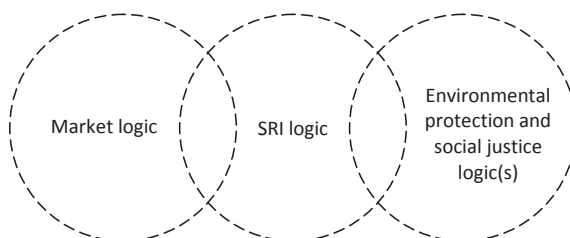
Our study indicates that there is an overall barrier for SRI to proliferate in Hong Kong which is strongly connected to Hong Kong-listed companies' limited openness to the more general idea of CSR. In this section, therefore, we turn to sociological institutional theory and add a layer to our analysis by examining *institutional logics* (which function as supra-organisational cognitive frameworks) and its role for SRI in general and in Hong Kong in particular.

For analytical reasons, the financial and business sectors in Hong Kong can be seen as a regional organisational field. An organisational field is signified by a notion that the organisations are parts in the same institutional context (DiMaggio and Powell, 1983). Within an organisational field there are taken-for-granted norms that portray certain structures as suitable and natural, and these norms therefore contribute to an institutional logic, or “the socially constructed, historical pattern of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality” (Thornton and Ocasio, 1999: 804). The dominant logic and its associated practices create a

certain identity, and are upheld by choosing to follow and enact agreed-upon norms and standards (Ahrne and Brunsson, 2006).

SRI can also be viewed as an (emerging) organisational field.<sup>1</sup> These two broad organisational fields (the business and financial field in Hong Kong, and the SRI field) are not entirely guided by the same institutional logics. The corporate and financial fields in Hong Kong are dominated by market logic. This in itself does not necessarily distinguish it from markets where SRI is more established, but this logic is reinforced by the fact that Hong Kong prides itself on being a free market economy, largely ruled by market forces. It has a *laissez-faire* capitalist system, and is said to be the “freest economy on earth” (Heritage Foundation, 2008). The government has a long-established philosophy of “maximum help and minimum interference” for business (Hong Kong in brief, 2006). SRI, in turn, is centred on a combination of market logic which hones profit maximization and shareholder value, and a social and environmental protection logic, which is based on notions such as common interests and values, a shared responsibility towards future generations, and to some extent also on a view that the economic system is not decoupled from ecosystems or from basic human rights. Figure 1 illustrates that the SRI logic bridges disparate logics.

*Figure 1. Institutional logics*



<sup>1</sup> Louche C. 2004. *Ethical investment. Processes and mechanisms of institutionalisation in the Netherlands 1990-2002*. Unpublished doctoral thesis. Rotterdam: Erasmus University.

Hong Kong stands out as a free market, where the market logic dominates. Our interviews indicate that representatives of Hong Kong's financial and business fields tend to view economic dimensions as *separate* from environmental and social ones, and CSR is often perceived to be a cost which is not affordable in a competitive business environment unless it enhances brand value or the like. This means that there is a perceived trade-off between economic and ethical issues. Many respondents refer to the Hong Kong population in general as prioritising money over the environment and labour conditions, again indicating that these are separate and not necessarily reconcilable dimensions.

I think the reason Hong Kong investors never ask [us] about the environment is the culture. People in Hong Kong are very concerned with money. (*Interview, IRO a*)

We are very seldom contacted by investors about CSR. Investors are primarily interested in growth. I don't think that investors see any financial materiality in CSR. It costs money to protect the environment, and costs eat away profits, and ultimately shareholder value. So it is always a balance, between financial and environmental interests. (*Interview, IRO b*)

Mature organisational fields, such as the business and financial fields in Hong Kong, are generally not receptive to different or unfamiliar institutions, particularly if these are informed by a different logic.<sup>2</sup> SRI is thus not part of what is viewed as legitimate in this field. In order for SRI to become legitimate, it would need to be translated by actors who are motivated to do so (Czarniawska and Joerges, 1996), and norms that hinder the adoption of SRI need to be deinstitutionalised.<sup>3</sup>

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<sup>2</sup> Boxenbaum E. 2005. *Micro-dynamic mechanisms of translation: A double case study*. Unpublished doctoral dissertation. Copenhagen: Copenhagen Business School.

<sup>3</sup> Boxenbaum E. 2005. *Micro-dynamic mechanisms of translation: A double case study*. Unpublished doctoral dissertation. Copenhagen: Copenhagen Business School.

Thus, the market logic as it unfolds in Hong Kong has hitherto not been receptive to the influence of any other logic. It has not made much room for the idea that environmental and social prosperity does not stand in opposition to economic prosperity (Porter and van der Linde, 1995), or that economic value is integrated with or even dependent on environmental and social prosperity (Common and Stagl, 2005; Schumacher, 1973; Stern 2006). Hence, an organisational field which is dominated by market logic will not automatically embrace an SRI logic. The cultural and ideological underpinnings of the corporate and financial field in Hong Kong are embedded and difficult to shift.

## **CONCLUSIONS**

In this study, we have identified five factors that have facilitated SRI in markets where SRI is comparably prevalent today: The existence of pension funds governed or regulated so that social and environmental criteria become embedded; minority shareholder rights facilitating shareholder activism; an active NGO movement willing and able to use financial markets to challenge business; the adoption of CSR and associated corporate disclosure by the business sector; and the existence of historical roots of SRI which has enabled a modern version of SRI to develop.

We find that these factors are underdeveloped in Hong Kong, which can explain why the role of the financial market in Hong Kong for influencing corporate social responsibility is so limited.

However, we go further, and also suggest that a major reason for the limited role of shareholders in influencing Hong Kong-listed corporations is that the market logic that dominates Hong Kong's business and financial sectors is not particularly receptive to the logic of environmental and social protection. This is a powerful explanation of why socially responsible investment has not been diffused in Hong Kong in spite of its prevalence in other markets. The dominating institutional logic also stands in the way of CSR more broadly taking off in Hong Kong, and this in itself is an obstacle to SRI.

We suggest that if environmental and social aspects are to be incorporated into business operations in Hong Kong, then SRI and CSR need to be framed as profit-related. If the environment, labour standards and human rights are only viewed and talked about as moral issues and treated as an optional add-on, then little will change. But if such issues are instead framed as components of risk management and strategic decision-making from an economic perspective, there will be a better fit with the dominating market logic of Hong Kong.

A change towards such financial framing can, for example, be achieved by educating investors about the financial materiality of environmental and social issues, or by foreign SRI-oriented shareholders expressing environmental and social expectations on Hong Kong-listed companies, or by local shareholder activists shifting much of its current focus from moral to financial arguments (Sjöström, 2007). NGOs may perhaps not influence the logic of business and financial actors, but through more activism directed at Hong Kong-listed corporations NGOs may influence the extent to which environmental and social aspects become part of the business and financial agendas.

As Welford (2007) notes, many of the issues reflected in Hong Kong are typical of the experience in Asia, more generally. Indeed, parts of Asia often see Hong Kong's growth path as one to be emulated. If Asian economies are to find a more sustainable development path then it is clear that the corporations dominating Asia's stock markets have a particular role to play. The most powerful actor in the region, the corporations themselves, will have to take the lead, through improved CSR practices. If SRI can come to influence corporate decision making we are likely to see significant benefits. At the current level of change on the corporate level, however, business may experience the financial aspects of social and environmental change through crisis.

While this study has contributed towards an increased understanding of SRI in an Asian context, it is based on limited data. We would encourage additional empirically grounded research on this important topic in order to gain

a fuller understanding of the role and the future of SRI as a catalyst for corporate social responsibility in the Asian region.

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**Article 3**

**Translating Ideologically Based Concerns:  
How Civil Society Organisations Use the Financial Market to Protect  
Human Rights**

Emma Sjöström

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## **Translating ideologically based concerns: how civil society organisations use the financial market to protect human rights<sup>1</sup>**

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**Abstract:** Civil society organisations are increasingly using the financial market to put pressure on corporations regarding issues such as environmental protection, occupational health and safety and respect for human rights. The purpose of this paper is to explore and explain how this is done and how agreement can be reached despite the often-times differing world-views, ideologies and agendas between civil society organisations on the one hand and financial actors and corporations on the other. One of the main conclusions from this paper is that less powerful actors can achieve a sought-after change by translating the problem so that it fits the ideology of actors who do have power to resolve it.

**Keywords:** shareholder activism; financial market; civil society organisations; human rights; ideology; translation.

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### **1 Introduction**

The financial market is a central institution in industrialised economies and plays a vital role in the infrastructure that is necessary for a country's development. As we will see in this paper, the financial market also has a major role to play in the context of a socially and ecologically sustainable development, when it is used to foster corporate behaviour to harmonise with long-term goals of society.

The financial market<sup>2</sup> is traditionally seen as amoral (e.g. De George, 1982; Norberg, 2001), meaning that it does not concern itself with moral ponderings, but is purely economically rational. Ever since the 1700s there has however been a relatively small

amount of shareholders, most notably religious ditto, who has involved non-financial values in their investment decisions (Domini, 2001; Sparkes, 2002). Wishing not to be involved in harmful industries, these shareholders exclude sectors such as armament, alcohol, tobacco and gambling from their holdings. In the 1960s, 1970s and 1980s, the financial market also became a way to express political values, for example, by avoiding investments in South African corporations to protest the apartheid system (Domini, 2001; Sparkes, 2002). Yet a new phase took off in the 1990s, which saw a surge in investment funds that complement financial analysis with non-financial parameters such as environment impacts and labour standards (Avanzi, 2004; Social Investment Forum, 2006). Further, stock indexes that include such issues in the corporate analysis are continuously being introduced to the market, such as the Dow Jones Sustainability Indexes and FTSE4Good (Sjöström, 2004). The exponential increase of environmentally and socially screened investment products has appeared in a time when 'corporate social responsibility' has become a term widely in use, referring to the responsibilities that corporations may have to the environment and to people who are or could be impacted by its activities.

In addition to selecting which shares to hold, investors are also using more active ways in order to influence corporations on social and environmental matters. This can, for example, be done by presenting formal proposals at Annual General Meetings (e.g. Monks et al., 2004; Proffitt and Spicer, 2006) or by engaging with corporate management on issues of concern (e.g. Hoffman, 1996). This active approach has also attracted an actor-group whose home turf is not generally the financial market, but who is to an increasing extent using this arena in order to achieve its goals. That group is civil society organisations, such as human rights advocates and environmental groups. There is however little academic research that explicitly addresses how civil society organisations are connecting themselves to the financial sector (exceptions include Guay, Doh and Sinclair, 2004; Waygood and Wehrmeyer, 2003). In an effort to contribute to the bridging of this research gap, this paper aims to examine and explore just how civil society organisations are using the financial market to pressure corporations to take social responsibility. To do this, this paper will pinpoint the matter of human rights. As we will see in the following section, protection of human rights was originally intended as a governmental matter, but with economic globalisation and the emergence of super-large corporations it has become a corporate matter as well (e.g. Alston, 2005; Anderson and Cavanagh, 2000; Bexell, 2005; Dine, 2005; Haufler, 2001; Steger, 2002; Strange, 1996).

This paper includes two case studies. The first study shows how Amnesty Business Group bought shares in 12 Swedish corporations as a way to pressure them to adopt a policy on human rights. The second study shows how Friends of the Earth (FoE) put pressure on construction company Balfour Beatty regarding a controversial dam project in Turkey. FoE sought to influence shareholders and also became a shareholder itself. These cases were chosen both because they are representative of how civil society organisations in industrialised countries tend to use the financial market today, and because they are different from each other, illustrating that the same mechanisms are at work despite different approaches. Amnesty Business Group's activities on the financial market were carried out in a peaceful manner and appear to not have upset the targeted corporations. The second case, driven by FoE, was on the other hand using a more confrontative approach, since the company in question was already on the brink of violating human rights.



This paper ends with general conclusions regarding how civil society organisations use the financial market to put pressure on corporations. A concept for how this is done, building on the differing ideologies of civil society organisations on the one hand and the financial and corporate sectors on the other is presented.

Since there is a lack of research on this empirical topic, it presents a good opportunity to use an explorative method and thus avoid being nearsighted by forming an analytical approach prior to data collection. Hence, this paper is using empirical action for drawing conceptual conclusions. Although, building on existing theory is a cornerstone in academic research, it can also be fruitful to avoid using old tracks for discovering new things (Glaser and Strauss, 1967).

## **2 Human rights: a corporate responsibility**

The UN Universal Declaration of Human Rights was adopted in 1948. It contains 30 articles and applies to all humans, without exception (UN, 1948). Many articles in the declaration are a matter for governments. For example, one article states that everyone has the right to seek and to enjoy asylum from persecution in other countries. Another article states that everyone has the right to education and yet another that everyone has the right to freedom of religion. Several articles are however of direct relevance to business. One is Article 23:4, which states that 'Everyone has the right to form and to join trade unions for the protection of his interests'. Another example is Article 24 which states that 'Everyone has the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay'. Article 17:2 states that 'No one shall be arbitrarily deprived of his property' which means that companies who forcefully displace residents in order to extract natural resources without offering an acceptable resettlement plan and compensation are violating human rights.

The role of business with regards to human rights has become pertinent in particular for transnational corporations that operate in less economically developed countries. Whereas human rights are embedded in the political and social systems of most industrialised countries,<sup>3</sup> this is not the case for many developing countries (Cragg, 2000). Further, transnational corporations are today quite free to choose where to locate their production, due to such things as large budgets and good communication technology, which has contributed to a competition for 'favourable' legal environments between developing countries that are eager to attract foreign investments (Cragg, 2000). In a number of these countries there is a low level of enforcement of labour laws and human rights, which has contributed to a widespread practise of long working hours, unhealthy working environments, punishment for forming labour unions, forced relocation of residents, dumping of toxics in drinking water, etc. (cf. Business and Human Rights Resource Centre, no date; Human Rights Watch, no date). Critics mean that profit maximisation of global corporations is superseding all other values, at the expense of those who are not the money-makers: "it is as if economic dimensions of globalisation have acquired a status higher than human values or even above fundamental human rights" (Welford, 2002, p.2).

In order to clarify further what the responsibilities of corporations are, and also to support corporate respect of human rights, there are a number of initiatives that provide more detail and/or encourage corporations on this issue. For example, the two first principles of the United Nations initiated business network Global Compact read:

“Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence” and “make sure they are not complicit in human rights abuses” (Global Compact, no date). Over 2300 companies are participating in this network, from every part of the world, and have thereby explicitly agreed to respect human rights.

Another example is UN’s High Commissioner for Human Rights, that has developed a document that contains norms for business and human rights (UNHCHR, 2003). In its preamble, it says that

“Recognizing that even though States have the primary responsibility to promote, secure the fulfilment of, respect, ensure respect of and protect human rights, transnational corporations and other business enterprises, as organs of society, are also responsible for promoting and securing the human rights set forth in the Universal Declaration of Human Rights.”

The document goes on to explain in more detail what is expected from corporations in this regard.

Many transnational corporations with headquarters in developed countries but with production in for example South East Asia or South America have adopted policies on human rights, including labour rights and environmental protection. It is also increasingly common with ethical codes of conducts for supplying factories. This means that suppliers must adhere to certain standards, often including human rights. Such codes have become particularly common since the 1990s, when most notably Nike was pressured by civil society organisations to stop purchasing from suppliers using child labour. Whereas Nike first denied responsibility for working conditions since the company is not the owner of its supplier factories, it later changed its mind and implemented codes of conducts and regular monitoring of these (Spar and LaMure, 2003; Zadek, 2004). This and similar processes for other companies (cf. Åhlström and Egels, in press; Jenkins et al., 2003, Sethi, 2003) have contributed to establishing a common notion among much of civil society and to various extent the business and financial sectors that transnational companies are responsible for ensuring the protection of human rights relating to their operations, including stakeholders to its suppliers. It is however not an un-resisted notion, particularly when it is perceived to conflict with economic profit. Also, the voluntary approach does not necessarily ensure that human rights are not violated. This has spurred demands from particularly civil society organisations that principles on corporate respect of human rights should be legally binding (Dombrowski, 2006; Friends of the Earth, 2005; UNRISD, 2004).

### **3 Financial market and human rights**

The notion that corporations have responsibility for protecting human rights is spurred by actors on the financial market, amongst others. As mentioned in the introduction, the number of investment funds that complement financial analysis with non-financial parameters such as human rights have surged in recent years. To use investment products with social and environmental screening is often referred to as ‘socially responsible investments’ or SRI (cf. Sparkes, 2002).

There are several ways in which shareholders can seek to influence corporations to take responsibility for human rights. First of all, investment products that have the support of human rights as an inclusion criterion function as a signal to corporations that

this is a matter of interest to shareholders and implicitly should be so to corporate management. The screened mutual funds and indexes may in other words have a symbolic effect, as it is an indicator of what shareholders view as corporate responsibilities (cf. O'Rourke, 2003). To invest in such funds may therefore be a way to contribute to the idea that the investment analysis should include a human rights perspective.

Further, in particularly the USA and the UK, shareholders are sometimes raising concern with human rights issues in corporations' Annual General Meetings. So-called shareholder resolutions (formal proposals) urging companies to address human rights issues do not necessarily get a high vote from shareholders, but the goal is oftentimes rather to attract attention from fellow shareholders as well as from media that cover the meeting. A study of 81 large US corporations shows that between the years 2000 and 2003, 45% of all shareholder resolutions passed at these companies shareholder meetings concerned corporate social responsibility (Monks et al., 2004). The most common subjects for the resolutions were global labour standards and equal employment (Monks et al., 2004). A shareholder resolution always ends with a request. For example, a resolution directed at BP Amoco in 2001 demanded that

“the Board of Directors of the Company [BP Amoco] withdraw from the investment in PetroChina on the grounds that a shareholding in PetroChina and the potential human rights and environmental concerns associated with PetroChina is in contradiction with BP-Amoco's policy commitments on human rights and the environment, and is therefore not in the best long-term financial interests of BP-Amoco” (Trillium Asset Management, no date).

Investors are however not the only actors that are making use of the financial arena for the promotion of human rights (or other issues that pertain to social or environmental responsibilities of corporations). Civil society organisations such as Friends of the Earth, Amnesty, EarthRights International and Global Exchange, to name but a few, are also using this space to promote their ideas of responsible business conduct. Next, two case studies will explore how civil society organisation are using the financial market in order to influence corporations to protect human rights.

#### **4 Case study 1: Amnesty Business Group on the financial market<sup>4</sup>**

Amnesty Business Group (ABG) in Sweden was formed in 2000 in order to influence and educate corporations to take responsibility for human rights. It is part of the Swedish section of Amnesty International.

ABG primarily works with the corporate sector, and has with time realised that financial actors can play an important role for corporations' support of human rights.

“(S)ince our biggest goal is of course to influence corporations, the more actors that ask our questions the better. We used to say no [to proposals from the financial sector] because of time constraints but now we have re-prioritised. So the financial sector is now one of our biggest co-players” (Interview, F. Bergin, 2005).

A difference between the financial sector and ABG in terms of corporate influence is that “(t)hey have a lot more power in comparison to us” (Interview, F. Bergin, 2005). Further, “(o)nce you have got your question onto the agenda [in a company's Annual General

Meeting], you will during that agenda item get full attention from the owners, the board, management and the public” (E-mail, J. Qvist, 2005).

In ABG Sweden’s first case of using the financial market for its purposes, conducted in 2004, it reviewed the most traded corporations on the Stockholm Stock Exchange’s A-list to see if they had a published policy for human rights. It turned out that out of 28 companies on the list, 12 did not have a policy for human rights (see Appendix). None of the 12 corporations are participants in the aforementioned UN Global Compact.

The next step for ABG was to buy one share in each of the 12 companies that did not have a human rights policy. This would enable the organisation to exercise shareholder rights, including going to the annual shareholder meetings of the companies and raise questions regarding the lack of a policy.

ABG communicated with the companies several months before their shareholder meetings and said that “Given the risks of your company – which look like this – we are wondering why you don’t have a steering document that looks like this. We would like to ask that question in your Annual General Meeting and we would like to have our own item on the agenda” (Interview, F. Bergin, 2005).

ABG did not attend all 12 Annual General Meetings in the end, due to resource constraints, but focused its efforts to four companies’ shareholder meetings (see Appendix). These were partly selected because they might be trend setters for other corporations. All 12 companies did however receive the same communication regarding the fact that ABG had done a risk analysis, bought one share and intended to raise this issue as a concerned shareholder.

The organisation deliberately chose an issue that is easy to comprehend (i.e. the crafting and publishing of a policy) and thereby be able to achieve good results, rather than asking about a more complex issue. ABG says it realises that a policy is a simple measure that does not in itself mean that human rights will not be violated. But it is something that is easy for a company to achieve. Furthermore, ABG means that the legal situation around corporations and human rights is unclear and a policy is a statement from the company itself, which means that a discussion about what the company is really responsible for becomes unnecessary, because it has already stated that.

According to ABG, it was well received by all 12 companies. Some companies explicitly welcomed ABG’s question in the Annual General Meeting as a way for them to be able to promote their human rights work to their shareholders.

In the shareholder meetings, ABG presented itself not primarily as a civil society organisation, but as a concerned shareholder. In the Annual General Meeting of industrial holding corporation Investor, the ABG representative said (my translation):

“Companies which get involved in violations of human rights, knowingly or unknowingly, directly or indirectly pose themselves at great risk. They risk legal consequences and their own personnel’s security. In the long run, they risk having problems with recruitment and last but not least they risk harming their brands. It is therefore pertinent for all shareholders in Investor that Investor’s management performs a risk analysis within the area of human rights and also adopts and publishes a policy for human rights. We think that successful commercial operations require active work for human rights for the sake of the own company. We therefore wish Investor all the best in your work with implementing your coming policy and we welcome a continuous dialogue with you in your work for human rights” (Investor, 2004).

For three of the four companies, the question was responded to by the CEO, and for the fourth company the question was addressed by the Chairman of the Board. ABGs campaign received media attention and was reported on in the main morning papers, evening TV news and radio news broadcasts. ABG received positive response from institutional investors who attended the Annual General Meetings. Several asset managers, including pension funds, expressed that they would like to get involved with ABG on matters pertaining to human rights.

As a result of ABGs shareholder activities, all 12 corporations published a human rights policy. ABG would have gone to the following year's shareholder meeting in the event that a policy was not published, but this turned out not to be necessary. ABG subsequently sold its shares. In 2005, ABG started a so called 'business forum' for the financial sector. The intent of this forum is to educate the financial sector on business and human rights.

While this case shows how the financial market can be used to protect human rights in a proactive way, the next case is of a more reactive kind, where a company is already on the brink of violating human rights and a civil society organisation seeks to make the corporation steer away from that situation.

## **5 Case study 2: FoE on the financial market**

In the late 1990s, Turkish government launched plans to build a new dam. It would be built by a number of US and European contractors, headed by British construction company Balfour Beatty. The Ilisu dam would be the largest hydropower project in Turkish history (Ilisu Dam Campaign, 2000a).

The project was strongly objected to by a number of civil society organisations, in particular the Kurdish Human Rights Project, FoE and The Corner House, who came together under the umbrella organisation 'Ilisu Dam Campaign'. The critique was targeted at Balfour Beatty, since it was heading the construction consortium. According to the Ilisu Dam Campaign, the dam project would have severe impacts on human rights and the environment (Ilisu Dam Campaign, 2000a; Kurdish Human Rights Project, 1999). The dam would be located on the River Tigris in a Turkish area of significant cultural heritage and archaeological significance, which would become submerged. The dam was estimated to entirely or partly flood 183 villages and rural settlements and displace up to 78,000 people without proper resettlement plans or compensation. Many of these were ethnical Kurds, a people that has long been oppressed by the Turkish state. It was also believed that the water quality would be affected due to the dam's reduction of the auto-purification capacity of the River Tigris and that downstream wetlands and irrigated agriculture would be disrupted. Further, the project had political consequences, as the dam would enable Turkey to shut off substantial water supply to neighbouring Syria and Iraq, which could potentially lead to conflicts over water.

These and other concerns were responded by Balfour Beatty, who meant that although many people would have to be relocated due to flooding, the overall consequences would not be as severe as civil society organisations' reports claimed (Ilisu Dam Campaign, 2000b).

According to the Ilisu Dam Campaign the project failed to meet all major policy recommendations of the World Commission on Dam's (WCD) standards (Ilisu Dam

Campaign, 2000a). WCD was set up by the World Bank and the International Union for the Conservation of Nature in 1997 to review the performance of large dams and make recommendations for future planning of water and energy projects. Among other things, the WCD recommends that social and environmental aspects should be given the same significance as technical, economic and financial factors in assessing options (WCD, 2000). It also says that all stakeholder-groups should be involved in the decision making on dam projects and that decisions on projects affecting indigenous and tribal peoples should be guided by their free, prior and informed consent. Balfour Beatty has not adopted the WCD standards, contrary to many other companies in its industry. It is also not a participant in the aforementioned UN Global Compact.

Several campaign tactics were used, such as the threat of legal action, fact-finding missions to the region, press coverage, grassroots letter writing and demonstrations. The campaign was also supported by the use of the financial market. FoE bought shares worth of £30,000, as to enjoy shareholder rights (Friends of the Earth, 2001a). FoE filed a shareholder resolution at the Annual General Meeting of Balfour Beatty in 2001. It called Balfour Beatty to recognise the importance of the WCD's report 'Dams and Development' and to ensure that all future relevant contracts meet the guidelines that are contained within the report (Friends of the Earth, 2001b).

Prior to the Annual General Meeting, a briefing was sent out by FoE to Balfour Beatty's shareholders, which explained to them why there was reason to be concerned with the company's involvement in and handling of the project and hence why to vote in support of the shareholder resolution. The main points in the briefing are that Balfour Beatty is not considering or managing the reputational risks of the project and connecting them to financial consequences, that it is less agile on this matter than its competitors, and that it can negatively impact shareholder value. It also suggests that Balfour Beatty has misled its shareholders in terms of how it has accounted to them for its project involvement in a statement at the 2000 Annual General Meeting. Part of the 2001 investor briefing reads:

“(S)hareholders will undoubtedly be looking to Balfour Beatty for reassurances that: any reputational risks to the company are justified financially and do not threaten future shareholder value; steps have been taken to contain reputational risks and to ensure the company's standing; the company's strategy for containing reputational risks matches or betters that of its peers and strengthens its future competitiveness. /.../ (T)here are strong grounds for believing that the company will face difficulties in giving shareholders adequate assurances on these concerns.”

It continues:

“If adopted, this resolution would ensure that, in the hydro-power sector, the company is operating within the framework of international recognition of human rights, the right to development and the right to a healthy environment which the report builds upon. Balfour Beatty would be seen as endeavouring to ensure that its operations in this sector are in line with industry best practice, helping the company to develop a positive reputation. It would also bring commercial benefits in competing for business, particularly in the public sector and is likely to help reassure investors that Balfour Beatty is moving in the right direction, with positive consequences for the share prices” (Friends of the Earth, 2001b, p.1).

Further, the Ilisu Dam Campaign wrote a counter-report to Balfour Beatty's 2000 Annual Report, '2000 Balfour Beatty's annus horribilis', which was given to shareholders at the 2001 meeting (Ilisu Dam Campaign, 2000c). It outlines the concerns not only with the Ilisu dam project but also a number of other projects that the company is involved in around the world.

The shareholder resolution was supported by 3% of voters, while 40% choose to abstain (Environmental Finance, 2001; Friends of the Earth, no date). It is unusual for that many shareholders to abstain their vote, as it is common practise for large shareholders to vote with management (Cragg, 2000).

In November 2001, Balfour Beatty decided to pull out of the project. The company commented its withdrawal in a statement, of which a paragraph reads:

"The decision follows a thorough and extensive evaluation of the commercial, environmental and social issues inherent in the project. With appropriate solutions to these issues still unsecured and no early resolution likely, Balfour Beatty believes that it is not in the best interests of its stakeholders to pursue the project further" (Balfour Beatty, 2001).

## 6 Analysis and conclusions

The purpose of this paper is to explore and explain how civil society organisations are using the financial market to put pressure on corporations. This paper has showed that the financial market is used as a space for communicating and negotiating ideas about business and human rights and what business can be expected to be accountable for. The financial market functions as a vehicle for civil society organisations' promotion of human rights protection by using the power of shareholder ownership, whether it is by transforming themselves into shareholders or by influencing other shareholders to put pressure on a corporation.

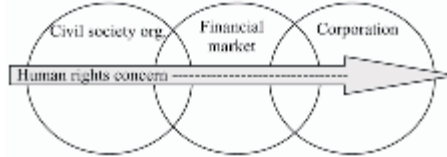
The Amnesty Business Group case study shows how a matter can be pursued via the financial market in a rather peaceful way, whereas the FoE case study regarding Balfour Beatty shows how the financial market can be used in a more confrontative way, and as a cog in a larger campaigning wheel.

### 6.1 Conclusion 1: activism as education

A conclusion to be drawn from this study is that through shareholder activism, civil society organisations *educate* investors on risks with a company's approach to human rights and the investors in turn can be a powerful force for pressuring corporations to change. In other words, by helping the financial sector to become more knowledgeable about human rights and about how human rights relate to corporate risks and opportunities, the financial sector becomes an ally to civil society organisations. This education takes place in various ways. Amnesty Business Group has chosen to conduct meetings with the financial sector through so called business forums. FoE issued a briefing and a report aimed at the financial sector, which outlined financial risks with human rights violations. The goal is that investors who read these documents will become concerned and in turn raise the issue with corporate management, who has the ultimate power to resolve the issue at hand. Figure 1 shows how a human rights concern can be raised by a civil society with actors on the financial market who in turn can

communicate with corporations; the concern does in other words travel from the civil society sphere via the financial sphere to the corporate sphere.

**Figure 1** Human rights concern travels through different sectors



*Note:* Civil society organisations are using the financial market – including shareholders and financial analysts – as a lever for reaching corporate management and exerting pressure for respect and promotion of human rights.

## 6.2 Conclusion 2: activism as translation

This leads me to the second conclusion from this study. When civil society organisations seek to educate or influence actors in the financial sector, they can be said to be tapping in to the *ideology* of financial actors. Although, the term ideology is often related to political contexts, it is also part of organisational life (Czarniawska-Joerges, 1988). An ideology is an organised collection of ideas based on core values. It can be thought of as a means-ends philosophy that guides priorities and decisions (Söderbaum, 2000). More specifically, organisational ideology is “a set (system) of ideas describing the organization-relevant reality, projecting a desired state of affairs and indicating possible ways of reaching the desired state” (Czarniawska-Joerges, 1988, p.7). The concept is closely related to thought-structures or thought-worlds (cf. Czarniawska, 1997; Strannegård, 1998). Dominant ideologies are often thought to be ‘neutral’ and to challenge them would be perceived as something radical.

Ideologies guide action and can be operationalised through the pursuit of *ideals*. These are principles or values that organisations actively pursue as goals. Corporations are by and large directed by a profit maximising ideal, which entails that it is desirable to use as few resources as possible to generate as much profit as possible. Financial actors such as fund managers base their decision on an ideal of maximised financial return on investment. Further, a study of actors on the Stockholm Stock Exchange shows that financial analysts and brokers to a large extent view the market as amoral (Norberg, 2001). This does not mean that these actors are immoral, but that they avoid taking a stance in moral questions. They generally perceive themselves as operating beyond good and bad. Additionally, most actors in the corporate and financial sectors are taught in a neo-classical economic tradition where individuals are limited to being wage-earners and consumers and solely have economic interests. This supports a techno-centric world-view where humankind is separate from and superior to nature (cf. Gladwin et al., 1995).

The ideology of an environmental organisation, on the other hand, may be based on ideas that everything is connected to everything else and that non-humans have intrinsic value independent of humans and therefore must be safeguarded (cf. Gladwin et al., 1995). The ideology of a human rights advocate group such as Amnesty may primarily be guided by a vision that every person enjoys human rights as per the UN declaration (which in turn is based on certain core values) and such organisations’ ideology, guiding



values and ideals are in other words not the same as for example those of corporations or financial actors. Morals, that is ideas about right and wrong, are central for human rights focused civil society organisations.

Each organisation uses its own ideology as a basis for its own agenda or list of priorities. The different ideologies, guiding values and ideals of, for example, corporations, financial actors and civil society organisations mean that they will have different goals and agendas. What I find in this study, however, is that civil society organisations can in fact reach their goals by *translating* their own agenda to that of investors and corporations. For example, human rights violations can be converted into revenue losses due to law suits, shareholder divestments, brand tarnish and badwill. Case in point: as the two cases described above show, ABG and FoE are not talking about human rights primarily as a moral issue, but are directing attention to financial risk and shareholder value. In its communications with shareholders and corporations quoted above, ABG uses words and expressions such as *legal consequences*, *problem with recruitment*, *personnel's security*, *harming their brands* and *risk analysis*. In the investor briefing quoted above, FoE uses words and expressions such as *reputational risks*, *shareholder value*, *competitiveness*, *commercial benefits* and *share prices*.

In other words there can be a convergence between human rights protection and shareholder value, which civil society organisations can point out and shareholders and corporations have the power and capacity to act on. On a more general level, this means that less powerful actors can achieve a sought-after change by translating the problem so that it fits the ideology of actors who have power to resolve it.

A civil society organisation that seeks to protect human rights can in other words piggy-back on profit-focused actors in order to achieve its goals. The key for civil society organisations that are using the financial market as a vehicle for human rights may therefore lie in the capacity of translating its agenda so that goals that would otherwise be in conflict (e.g. respect of human rights versus contracting low-cost suppliers that punish workers who form labour unions) can in fact be aligned and resolved, even when the underlying ideologies and assumptions differ. Hence, to use the 'amoral' financial market for moral purposes, such as protection of human rights, may be most effective when using amoral arguments.

**Figure 2** A model for translation of an issue between sectors that are based on different ideologies



*Note:* Human rights are translated by civil society organisations from a moral issue to financial risk, which in turn translates to shareholder value and hence may put pressure on corporations to address the issue at hand in order to please shareholders. The translation process makes the issue fit each actor-group's ideals which are guided by their respective ideologies.

Figure 2 shows how concern over human rights is translated from a moral issue of right and wrong to a financial risk. This in turn means that resolving the issue directly relates to shareholder value and in other words means pressure on the corporation to address the concern that the civil society and now also the financial sector have with regards to human rights. The ideologies of the different actor-groups implicate that a moral issue might not make it to the list of priorities of financial actors, while a financial issue, on the other hand, is likely to do so. Financial issues, in turn, have bearings on corporate profits and financial concern will therefore be on corporations' list of priorities, given a corporate ideology based on a profit maximisation ideal.

The model would be the same if civil society organisations' concern over human rights was exchanged for other ideologically based issues that are within corporations' sphere of influence, such as environmental protection, as long as the issue could be related to financial elements.

### *6.3 Conclusion 3: activism as corporate support*

Another conclusion from this study is that shareholder activism can support corporations who do want to work actively for better social and environmental conditions. Shareholder activism can provide an opportunity for the corporation to respond to pressure in a way that will satisfy shareholders, as well as other stakeholders including business partners, consumers and employees. Again, an alliance can be said to be made, this time between civil society organisations and business, in favour of human rights. Rather than viewing a question from a civil society organisation regarding the lack of a policy as a critique, a corporation can turn it into an opportunity of showcasing its values and priorities in favour of the civil society organisation's request. If the civil society organisation's concern is presented to the corporation well in advance of a shareholder meeting – rather than catching the corporation by surprise – and presented as a strategic opportunity to promote its stance on the issue at hand, then the civil society organisation's pressure for change can be productive in generating a sought-after response and one that is favourable to and welcomed by the corporation, at that.

### *6.4 Final thoughts*

As a post-script regarding the case on the Turkish dam project, it can be noted that this hydro-electric project was not planned in a democratic way, but rather as a closed process (Söderbaum, 2000). In a democratic and open process, each stakeholder or interested party would be informed, respected and able to influence the process. The closed process has however not stopped the power game between actors with different vested interests and thinking patterns – it has just been conducted via a different arena than what Balfour Beatty and the Turkish government had probably expected. The financial arena became a proxy for the democratic process that would counterbalance the power of actors who control property and whose agenda has priority because of current institutional orders.

This said, shareholder activism is not always the solution to problems, as it perhaps sounds like in this paper. It is certainly possible that shareholder activism can be ineffective, either because the shareholder request is unreasonable or because the corporation simply chooses to ignore the issue. The first scenario is however in many cases avoided by financial regulation that will not allow shareholder resolutions on

issues that are considered to be micromanagement or for other reasons of internal concern to corporate management. The second scenario, that corporations ignore pressure from civil society organisations, is not unusual and it is in many cases more related to the corporate choice to not prioritise stakeholders' concerns than the lack of persistence of civil society organisations' activity. It may also be that corporate management feels threatened by the pressure from civil society organisations and therefore seeks to silence the issue rather than engaging in dialogue with its stakeholders.

A potential problem with translating human rights issues to financial terms may be, as Waygood and Wehrmeyer (2003) also point to, that by stripping the issue of its moral dimension and turning it into a financial matter, it signals that corporations only have to do the right thing when it is in its financial interest to do so. Further, civil society organisations may find themselves being occupied primarily with issues that can be translated to financial risk at the expense of other human rights or environmental issues that do not relate to a financial dimension.

Future research on shareholder activism for environmental and social goals might benefit from viewing the rhetoric of different actor-groups in society as strategies to gain legitimacy (Suddaby and Greenwood, 2005). It might also be fruitful to view organisational interests, goals and actions as part of an institutional logic (e.g. Boxenbaum, 2005; Friedland and Alford, 1991; Thornton and Ocasio, 1999; Scott et al., 2000). Empirically, it would be relevant to extend the study to a closer examination of corporate response to pressures from the financial market that origin in the organised civil society sphere, and to analyse the outcomes of different tactics for shareholder activism, given the involved organisations' ideologies and ideals.

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## Appendix

**Table A1** Corporations in which Amnesty Business Group bought shares

	<i>Company</i>	<i>Industry</i> <sup>5</sup>
1	Assa Abloy*	Building Products
2	Gambro*	Health Care Providers and Services
3	Handelsbanken*	Commercial Banks
4	Holmen	Paper and Forest Products
5	Investor*	Diversified Financial Services
6	SCA	Paper and Forest Products
7	SEB	Commercial Banks
8	SSAB	Metals and Mining
9	Sandvik	Machinery
10	Securitas	Commercial Services and Supplies
11	Swedish Match	Tobacco
12	Telia Sonera	Diversified Telecommunication Services

\*Representatives from Amnesty Business Group attended the Annual General Meetings of Assa Abloy, Gambro, Handelsbanken and Investor.

Source: Amnesty Business Group (2004).

## Notes

<sup>1</sup>An earlier version of this paper was presented at *12th International Sustainable Development Research Conference*, Hong Kong, 6–8 April, 2006.

<sup>2</sup>From hereon, the term ‘the financial market’ is used in this paper to refer to *stock markets*.

<sup>3</sup>This is not to say that human rights violations do not occur in industrialised countries.

<sup>4</sup>This section is based on an interview with Filippa Bergin, Executive Secretary of Amnesty Business Group in Sweden, where nothing else is stated.

<sup>5</sup>Industry as per the categorisation used by the Stockholm Stock Exchange, cf. [http://domino.omgroup.com/www/WebTransaction.nsf/attachments/branschindelning/\\$file/Classification.pdf](http://domino.omgroup.com/www/WebTransaction.nsf/attachments/branschindelning/$file/Classification.pdf).





**Article 4**

**Shareholders as Norm Entrepreneurs  
for Corporate Social Responsibility**

Emma Sjöström

*To be revised and resubmitted for review for a third time to  
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# Shareholders as Norm Entrepreneurs for Corporate Social Responsibility

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## **ABSTRACT**

This paper advances the idea that shareholders who seek to influence corporate behaviour can be understood analytically as *norm entrepreneurs*. These are actors who seek to persuade others to adopt a new standard of appropriateness. The paper thus goes beyond studies which focus on the influence of shareholder activism on single instances of corporate conduct, and recognizes shareholders' potential as change agents for more widely shared norms about corporate responsibilities. The paper includes the empirical example of US internet technology companies who face conflicts of norm systems in regard freedom of expression on the Internet in their Chinese operations. Shareholders have been active in seeking to persuade these companies to adopt a norm of adhering to global standards for human rights over restrictions implied by repressive regimes to which they deliver services.

**KEY WORDS:** *corporate social responsibility, CSR, freedom of expression, human rights, norm entrepreneur, shareholder activism, socially responsible investment*

## INTRODUCTION

The financial market, traditionally a mechanism for people to buy and sell financial securities, is also used as a tool for influencing corporate behaviour. Shareholders can use their ownership position to instigate change, not only in traditional corporate governance issues, but also regarding corporate social responsibility. This includes areas such as the environment, labour conditions, and human rights. Shareholders can advocate their views about corporate social responsibility in direct dialogue with corporate management, or by publicly stating their concerns, or by filing and voting on shareholder resolutions (i.e. formal proposals that are presented in annual shareholder meetings). By doing so, shareholders take part in shaping ideas about what corporate social responsibility really is, or ought to be.

Discussions about the role of business for wider social issues have intensified since the 1950s (Carroll, 1999) concurrent with economic globalisation and failures of markets to solve environmental and social problems. Shared opinions on what corporate social responsibility entails are manifold, and evolve over time (van Marrewijk, 2003). This is also the case for human rights (Sullivan, 2003), which is the focus of this study.

A number of recommendations and guidelines have been issued in recent years in order to assist corporations and their stakeholders in defining human rights responsibilities. One example is the 'UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights' (the UN Norms), which were approved by a UN sub-commission in 2003. While the UN Norms define corporate responsibilities towards human rights, these issues are complex and there is still room for interpretation on how far corporate responsibilities extend (such as how far along the supply chain), and what corporations should do if they face conflicting demands (e.g. when a government in which the corporation operates promotes norms which conflict with the UN universal declaration). This space for interpretation on norms for human rights responsibilities is continuously evidenced by the numerous disputes

between corporations and stakeholders on human rights issues (Sullivan, 2003).

A number of different kinds of actors part-take in the ongoing process of defining and redefining norms for corporate human rights responsibilities, including regulatory bodies, civil society organisations and multinational corporations. This paper will however focus on shareholders, a group which is also involved in such processes. Shareholders, and particularly institutional shareholders such as pension funds or providers of mutual funds, are sometimes seeking to influence corporations with regards to social responsibilities. For example, during 2006, a total of 367 shareholder resolutions on social or environmental issues were filed in the US by institutional investors (SIF, 2007). Shareholder can also seek to influence corporations through personal meetings with corporate management or the board, and through publicly voicing concern over specific issues. I suggest that these shareholders are taking part in the inter-organisational processes which shape norms for corporate social responsibility.

Previous studies on shareholder activism and corporate social responsibility have to a large extent focused on the voting results and topics for shareholder resolutions (Vogel, 1983; Campbell *et al*, 1999; Graves *et al*, 2001; Monks *et al*, 2004; Proffitt & Spicer, 2006; Tcak, 2006). Other studies have addressed the extent to which shareholders have succeeded in influencing corporations, and tend to assess influence in quantitative measures such as a score on an environmental or social ranking (Neubaum & Zahra, 2006; David *et al*, 2007). While these and other studies provide insights into the relevant topic of shareholder activism regarding corporate social responsibility, there limited research which extends the perspective of the role shareholders can play for business conduct beyond binary views of ratings and voting results (but see e.g. Hoffman (1996) on the dynamic process of shareholder influence). Much of current research on shareholder activism for corporate social responsibility issues also tends to be descriptive and without explicit theoretical underpinnings (c.f. Sjöström, 2008). There is

hence a need for research with more theorizing approaches, and for research which recognises the potential of more deep-rooted effects of shareholder activism on corporate behaviour.

This paper seeks to extend current research on shareholder activism by addressing the role of shareholders in shaping *norms* for corporate social responsibility, a perspective which is largely unexplored within the literature on shareholder activism. In this paper, I forward the idea that shareholders can analytically be understood as *norm entrepreneurs*, who actively seek to persuade others (corporations in this case) that an alternative standard for behaviour is appropriate (Finnemore & Sikkink, 1998). The argument leans on concepts previously developed within the political science and international relations disciplines.

Not all shareholder activists are norm entrepreneurs, though. Norm entrepreneurs are those actors who are active in a norm emergence phase, and that are part-taking in the pioneering efforts in instigating new norms or transforming existing ones. In many instances, however, shareholder activism is not attempting to pioneer new norms, but is amplifying pressure for norms which are more widely established, and shareholders are then not taking on an entrepreneurial role. The focus of this paper is however instances where shareholders are using their ownership position to more fundamentally change norms. Later in this paper, I will present a norm life cycle model which will bring more light on this.

The merit of analytically understanding shareholders as norm entrepreneurs is two-fold. First, it separates the concept of *shareholder activists* and allows us to see how shareholders can play different roles with regards to different issues pertaining to corporate social responsibility. Sometimes shareholders can play a role of a radical change agent for new norms to be adopted (i.e. as a norm entrepreneur), and sometimes they can play a role of sustaining widely established norms (i.e. in other roles than a norm entrepreneur). It is thus an analytical distinction that allows for a more fine-grained analysis of processes of norm dynamics, than if shareholders

with a social agenda are bundled together as ‘shareholder activists’. Second, it allows us to see that shareholders may influence corporations on a more profound level than what is captured through social ratings, and thus to analyse corporate influence not only in terms of single instances of practice but in terms of more widely shared and deeply-held beliefs about appropriate behaviour; that is norms. Perhaps the most significant role that shareholders can play is not only to pressure Corporation ABC to improve working conditions in its supplier factories, but the long-term influence they can have on more widely shared norms about how the corporate sector ought to handle working conditions in supplier factories.

This paper includes an empirical case of how shareholders have been a vocal group in raising concerns regarding US Internet technology corporations that have breached international human rights standards as a consequence of following Chinese regulations and expectations for freedom of expression on the Internet. This is an example of where corporations enter a norms system conflict and where there is opportunity for norm entrepreneurs to make a case for a new norm to be established.

This study not only contributes to the literature on shareholder activism on corporate social responsibility by bringing in theoretical perspectives and by introducing the novel idea of shareholders as norm entrepreneurs, but also by addressing the area of human rights, a topic which has been included only to a limited extent in the literature on shareholder activism.

The paper is structured as follows: The next section provides theoretical perspectives on norms, including the concept of norm entrepreneurs. This is followed by an empirical case of shareholders’ involvement in the changing of norms regarding corporate responsibility for freedom of expression on the Internet. After that follows a discussion of shareholders’ role as entrepreneurs for changing norms for corporate social responsibility. Further, conclusions from the study are presented. Last, limitations and suggestions for future research are addressed.

## **THEORETICAL PERSPECTIVES ON NORMS AND NORM ENTREPRENEURS**

As said here above, norms for corporate social responsibility are subject to interpretation; despite different standards and guidelines it is still not agreed in every situation or in every context what can be expected of a corporation in terms of its responsibility towards different stakeholders in society. This may be due to disparate values and interests, but also to a corporation's assessment of its ability to influence a specific situation (Sullivan, 2003). In addition, shared notions about appropriate corporate behaviour change over time. One example is the apparel industry, which in the 1990s responded with defiance to criticism about their goods being produced in sweatshops. Western-based multinational brands argued that they were not responsible for how their suppliers in low-cost countries treated their workforce (Spare & LaMure, 2003; Zadek, 2004). With sustained criticism from social activists and other actors, an increasing amount of corporations eventually implemented codes of conduct for their suppliers, and later took further steps to involve themselves in improving labour and environmental conditions in supplier factories. Today, many companies extend their social responsibility also to their supply chains, or parts thereof.

This is an example of how corporate behaviour is guided by common notions about proper behaviour, in other words by norms, and also how this can change over time. Norms are a powerful mechanism in society. Norms guide behaviour and serve as a reference for what is right and what is not. Norms entail an expectation, an 'oughtness', and the violation of norms involves sanction (Segerlund, 2007:37).

Norms guide action on a personal individual level, but also on a macro level such as organisations, industries or nation states. In this paper, I use Finnemore and Sikkink's definition of a norm as "a standard of appropriate behaviour for actors with a given identity" (Finnemore & Sikkink, 1998: 981). What is deemed 'appropriate' varies between actors and contexts. Norms are upheld by collective expectations (Risse & Sikkink, 1999:7). By



definition, a norm cannot be held by one person alone, but exist in a social context where actors can pass judgement about appropriate behaviour. Norms are hence part of an inter-subjective process.

Much of norms' power rests upon their subtleness; internalised norms are taken for granted, and actors are not always aware of them unless they are broken and stigma is generated. This taken-for-grantedness does however not mean that all norms are shared. As we shall see in the empirical part of this paper, there can be conflicts between norm systems. Organisations can face norm pluralism, and be subject to multiple expectations on appropriate behaviour, something which can burden the organisation's legitimacy if the expectations are inconsistent. Sometimes norm pluralism is a result of corporate operations spanning across geographically bound cultures, and where standards for appropriate behaviour may differ between for example the home country where the head quarter is located and foreign regions where manufacturing takes place, or where subsidiaries are operating. As Acharya (2004) points out, many local values and beliefs are part of a legitimate normative order, which conditions the acceptance of global norms. Indeed, 'global' norms, which may be formally expressed in written form, such as the UN Global Compact or the Global Reporting Initiative, are sometimes the products mainly of Western ideas, and perhaps not as global as their proponents would like to think (Fung, 2003). If such 'global' norms are in fact not internalised globally, transnational corporations may face norm systems conflicts.

### **Norm entrepreneurs**

An intriguing matter is how norms arise in the first place, how they become shared, and eventually widely established. This is where 'norm entrepreneurs' can have a crucial role to play. Norm entrepreneurs, according to political science and international relations literature, seek to actively persuade other actors that a new norm is superior to the existing standard of appropriateness (Sunstein, 1996; Finnemore & Sikkink, 1998).

They advocate alternative ideas about appropriate behaviour. Norm entrepreneurs can be individuals as well as collective entities (Sunstein, 1996). For example, studies about norm entrepreneurs include how non-governmental organisations have brought corporate social responsibility to the international agenda (Segerlund, 2007), how Scandinavian countries have acted as norm entrepreneurs in global eco-politics, conflict resolution, and the provision of aid (Ingebritsen, 2002), and how the Federal Trade Commission in the US has acted as a norm entrepreneur for Internet privacy (Hetcher, 2000).

Norm entrepreneurs, just as other types of entrepreneurs, are actors who break away from the established. An entrepreneur is by definition involved in the creation of newness, whether it is new norms or business ideas. From the literature on business entrepreneurs, we learn that entrepreneurship is “acts of organizational creation, renewal, or innovation that occur within or outside an existing organization” (Sharma & Chrisman, 1999:17). This could be translated to a norm context, where norms are created or renewed.

Norm entrepreneurs are not necessarily motivated by self-interest, but can be driven by altruism, and believe in the value embodied in the norm even if it does not immediately affect them (Finnemore & Sikkink, 1998). An example is human rights organisations that fight for abolition of the death penalty around the world even as they are not themselves located in a country that employs this type of punishment.

Organisational platforms are important in order for norm entrepreneurs to pursue their convictions (Finnemore & Sikkink, 1998). From these, they can draw expertise, information, and access to decision makers. Political science and law scholars have referred to norm entrepreneurs’ partaking in issue networks (e.g. Koh, 1998). These are networks of actors with a shared agenda and with resources such as recognized competence in a particular issue-area. Such networks may for example consist of transnational civil society organisations (Keck & Sikkink, 1998), or of a mix of actor-groups such as human rights activist, lawyers and governments (McGuinness,

2006:809). Through these networks, norm entrepreneurs share ideas, plan strategies, and leverage their influence (Pozen, 2008).

### **Norm life cycle model**

How then, more specifically, do norms become established, and what role do norm entrepreneurs play in this process? Sunstein (1996) proposes that there is a ‘tipping point’ when norms start to push in new directions. Finnemore and Sikkink (1998) have picked up on this idea and incorporated it into a norm life cycle model, where norm entrepreneurs have a central role to play, particularly in the early phases. The model describes a norm life cycle in three stages: Norm emergence, norm cascade, and internalisation.

First, *norm emergence* is initiated by norm entrepreneurs, i.e. by agents who actively seek to persuade other actors that a new norm is superior to the existing standard of appropriateness. This may take extensive efforts, as new norms do not arise in a vacuum, but in a context of existing norms.

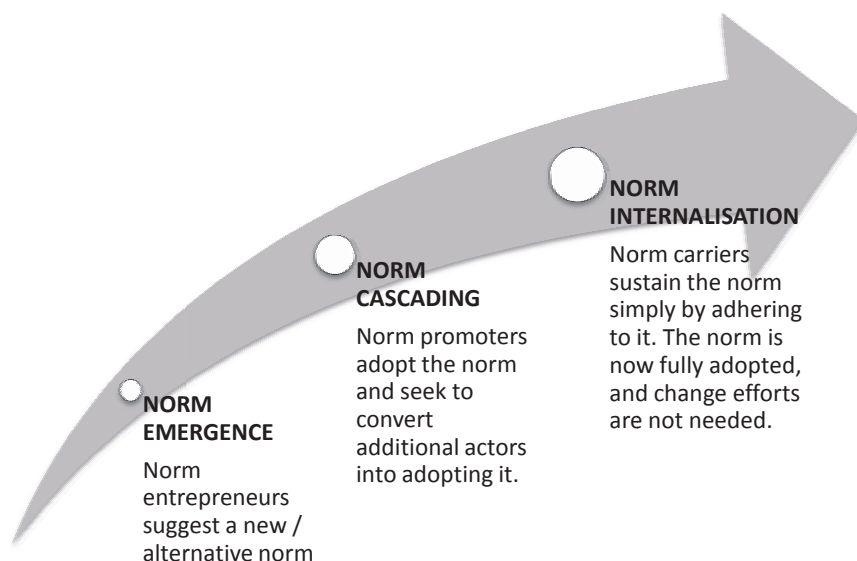
At a certain point, the new norm can reach a tipping point, when a critical mass of norm promoters have adopted the norm and it starts to be adopted more rapidly. Norm promoters are early adopters of the new or transformed norm but are only jumping on the ‘norm band wagon’ when the norm is more widely established (in Finnemore and Sikkink’s original model from 1998 these actors are referred to as norm leaders). They support norm entrepreneurs through their efforts of socialising additional actors into accepting the norm. Norm promoters are thus playing an active role in the *norm cascade* stage, which follows upon the norm emergence stage. Norm cascading is when the norm becomes more widely adopted, and norm breakers are induced to convert to the new norm through norm entrepreneurs’ and norm promoters’ praise or sanctions. A central mechanism for actors to become norm followers in the norm cascading stage is the pursuit of legitimacy, which stems from being viewed (by others and oneself) as part of a certain community, such as ‘modern organisations’ or ‘liberal states’. Such a belonging requires adherence to certain norms.

The quest for legitimacy and the resulting conformity function as a self-sustaining mechanism which is embedded in the cascading stage of the norm life cycle, and can work towards the third stage in this process, namely *internalisation*. This is when norms reach a taken-for-granted state, and are absorbed as an unquestioned notion of ‘the right thing to do’. In this stage, norms are especially powerful. Finnemore and Sikkink (1998) are not putting a label on actors that are central in this third stage. I call these actors norm carriers, referring to actors who consciously or unconsciously take part in reproducing and sustaining the norm. Carrier connotes a less active role than that of entrepreneurs or promoters; norm carriers uphold the norm and provide stability to it rather than take part in the change processes.

It should be noted that the same type of actor can take on different roles in the norm life cycle. For example, while shareholders may be active in the early stages of transforming norms for appropriate corporate conduct regarding a human rights issue and thus analytically be understood as *norm entrepreneurs*, the same shareholders may be seeking to socialise corporations into adhering to a more widely adopted norm on another issue, such as producing a yearly sustainability report, and are thus doing this in a capacity of *norm promoters*. Whether a shareholder is a norm entrepreneur or norm promoter thus depends on the issue and on the norm’s progression through the norm life cycle. Further, while some shareholders may take in activities of changing norms, other shareholders may not be involved in such processes at all (e.g. shareholders who are solely focused on traditional financial issues). Norm entrepreneurs/leaders/carriers are thus not discrete actors; rather this is an analytical distinction that can enable researchers to understand the different roles of (for example) shareholders in norm transformation processes.

Importantly, not all norms reach the internalisation stage, or they may reach this stage in certain context but not in others (for example in certain countries but not in others, or in certain types of organisations or industries but not in others).

Figure 1 illustrates the three stages of the norm life cycle, and which type of role is important in each stage.



*Figure 1: Stages of norms and central actors in each stage; adapted from Finnemore & Sikkink, 1998*

As we have seen, the norm life cycle model is able to offer a process perspective on norms, in the sense that it posits norms as something which evolves over time and which may be more or less established, depending on where it is in its life cycle. Norms are otherwise often viewed as something static, for example within sociological institutional theory where norms are regarded as one of the (implicitly stable) pillars which uphold institutions (Scott, 1995).

In this paper, I forward the argument that shareholders who seek to persuade corporations to adopt a new standard of appropriateness with regards to social responsibilities can be understood analytically as norm entrepreneurs. The following section provides an empirical illustration of how shareholders have sought to influence corporations in a context where

there is a conflict between norms systems about corporate responsibility for human rights. It serves as an inroad to a discussion in the last part of the paper, regarding shareholders' role as norm entrepreneurs.

### **FREEDOM OF EXPRESSION ON THE INTERNET: AN EMPIRICAL CASE OF A NORM CONFLICT**

This section centres on how US Internet technology corporations have been involved in limiting freedom of expression on the Internet in China, and how shareholders have sought to transform norms for appropriate corporate conduct. Data is based on triangulation between multiple data sources, including statements made by corporations and by investors, media sources, and reports from interest organisations who seek to protect human rights. The data collection was made with the ambition of including the views of not only investors but also the corporations targeted by investors' critique and proposals for change, in order to avoid a one-sided or biased perspective. Data covers the three-year period of 2005-2007.

This section is an empirical background to the main point of this paper, which is to suggest that shareholders who seek to influence norms for corporate behaviour can analytically be understood as norm entrepreneurs. It is not all-inclusive account but rather an overview of some of the main events during the studied period in which shareholders and corporations were involved.

#### **Norms for freedom of expression**

Freedom of expression is one of the basic human rights as per the UN universal declaration of human rights. China was one of the countries which voted for the universal declaration in the UN General Assembly in 1948, and these rights are now also stated in the Chinese Constitution, including freedom of expression. At the same time, Chinese authorities are continuously criticised for harassing and imprisoning those who publish views that are inconsistent with those approved by the Communist Party.

This also extends to the Internet. Chinese authorities have long controlled other media, such as books, movies and the news press. The Internet presents an historical opportunity for people to express themselves, and the Chinese government is spending large resources on controlling this outlet, for example through filtering, online monitoring, and crack-downs on ‘cyber dissidents’. A number of Chinese laws and directives regulate Internet behaviour and restrict freedom of expression.

There is in other words misfit between the wording of the UN universal declaration as well as the Chinese constitution on the one hand, and Chinese rules and practices on the other. In China, human rights extend only to the point where it begins to threaten the power of the ruling Communist Party (or the nations ‘harmony’, if you will). This presents a potential conflict for foreign corporations operating in China (Dann & Haddow, 2008). If Chinese laws stipulate action that conflicts with the UN declaration, what is the (moral) obligation on part of the company?

### **Western Internet technology companies in China**

In recent years, Western Internet technology companies have been criticised for aiding the Chinese government to restrict freedom of expression on the Internet (Dann & Haddow, 2008). Among the high-profile cases are Yahoo!, Cisco, Microsoft, and Google. The involvement of these corporations in limiting freedom of expression – as it is defined by the UN declaration – on the Internet in China is briefly described here.

Yahoo! provided information to the Chinese government so that it could trace an email to and arrest the journalist Shi Tao. He wrote to a foreign-based website about Chinese press restrictions regarding the memorial of the Tiananmen Square massacre, and was sentenced to ten years in prison in 2005 for this (Reporters without Borders, 2005). Yahoo! may also have contributed to the arrest of three other Chinese journalists, again by releasing information to the Chinese government (Human Rights Watch, 2006). These journalists were sentenced to four, eight and ten years in jail respectively.

Further, Cisco has provided the Chinese government with a filtering system that prevents Internet users in China to visit web sites that contradict or criticise government views (OpenNet Initiative, 2005). The filtering system is a cornerstone in the Chinese government's 'Golden Shield' project, which is a large-scale censorship and surveillance project for the Internet.

Microsoft, in turn, has programmed its blog-hosting services in China to censor words such as democracy, human rights and Taiwan independence (Wired News, 2005). Microsoft has also shut down an influential Chinese blogger writing about sensitive political issues, upon request from the Chinese government (CNET news.com, 2006).

Google, which has delivered its services to China for years and found that the government blocks a number of its sites, eventually decided to deliver a censored version of its search engine to China (BBC News, 2006a).

### **Shareholders get involved**

In reaction to the above-mentioned and similar events and circumstances, shareholders along with human rights advocates launched a number of activities. These aimed towards changing norms for corporate responsibility for freedom of expression on the Internet, and specifically with regards to repressive regimes to which foreign Internet technology companies deliver services. Here below follows some notable examples.

#### *Collective statement*

Together with the press freedom organisation Reporters without Borders, the two asset management companies Boston Common and Domini drafted a collective statement on freedom of expression and the Internet. It was signed by 25 asset managers representing 21 billion USD, in November 2005 (Socialfunds.com, 2005).

The statement calls for the Internet business sector to respect freedom of expression throughout their world-wide operations, and "in particular, in countries with a history of serious and widespread human rights violations".



The statement also declares that the undersigned investors will monitor the operations of Internet businesses in repressive regimes with regards to their impact on access to information via the Internet; that respect for freedom of expression is a factor they consider in assessing corporations; that they will support shareholder resolutions at annual general meetings which promote freedom of expression, and that they will call on Internet business to publicise ethical codes and obligations to uphold this freedom.

The statement is thus sending a clear signal to corporations that investors are of the opinion that Internet companies ought to respect freedom of expression as it is defined by the UN rather than standards set by repressive regimes, and that they will keep involving themselves in fostering such behaviour.

#### *Shareholder resolutions*

Around the same time as the joint statement was released, in 2005, a shareholder resolution was presented at Cisco's annual general meeting of shareholders. It asked Cisco to implement a corporate human rights policy which also should include partners and resellers (Cisco, 2005).

The following year a new resolution asked for Cisco's board to publish a report to shareholders "providing a summarized listing and assessment of concrete steps the company could reasonably take to reduce the likelihood that its business practices might enable or encourage the violation of human rights, including freedom of expression and privacy" (Cisco, 2006a).

Again, in 2007, a shareholder resolution was filed with Cisco, repeating the requests from the previous year (Cisco, 2007).

Already before this issue gained larger momentum in the investor community, individual shareowner Ann Lau had filed resolutions with Cisco, in 2002 and 2003, condemning the company's activities in China and asking for a report on Cisco hardware and software which can hamper freedom of expression on the Internet (Cisco, 2002, 2003).

In addition to Cisco, shareholder resolutions have also been filed with Google and Yahoo!. In 2007, a resolution filed with both these companies stated that “Technology companies in the United States that operate in countries controlled by authoritarian governments have an obligation to comply with the principles of the United Nations Declaration of Human Rights” (Google, 2007; Yahoo!, 2007a). The resolution urged Google and Yahoo! to institute policies with certain minimum standards with regards to freedom of expression on the Internet, including that the company would not engage in pro-active censorship, and not host data which can identify individual users in countries where political speech can be treated as a legal crime.

#### *Testimony at congressional hearing*

In early 2006, a congressional hearing was arranged in the US on the topic of the Internet in China and freedom of expression. One fund management company was invited to submit a written testimony in advance. In the testimony, the investor expressed that “Our shareholders are concerned when management chooses to avoid today’s uncomfortable confrontation and bows to repressive government clients at the expense of tomorrow’s growth prospects and basic human freedoms” (Committee on International Relations, 2006: 228). Further, the investor urged “all the groups gathered here today to develop forward thinking, collaborative solutions that will /.../ respect the basic human rights of all customers around the world” (ibid).

While not initiated by shareholders, the congressional hearing provided a forum for the investor community (represented by the one fund management company) to publicly emphasise their opinions about corporate responsibilities towards freedom of expression on the Internet in repressive regimes.

### *Direct engagement*

Investors have also engaged directly with technology companies to advocate their view on the company's approach to freedom on the Internet, for example in personal meetings, in telephone calls, and through letter writing (e.g. Calvert, undated; AP3, 2006; Walden Asset Management, 2006). For example, Calvert says that "We have written to several major companies in our portfolio to convey our concerns [about complicity in restricting freedom of expression on the Internet in China], offer broad policy suggestions, and propose meetings with each company as the basis for subsequent decisions as to whether to file shareholder resolutions" (Calvert, undated).

### *A wider organisational platform*

Pressure for a transformed norm for corporate conduct with regards to freedom of expression on the Internet in repressive regimes is not only originating from shareholders, but also from other stakeholders, such as human rights groups, labour unions and individuals. These groups have used a variety of different means, such as boycotts, law suits, blogging, and other forms of campaigning.

In the aforementioned congressional hearing about the Internet in China and freedom of expression, actors such as Radio Free Asia, China Information Center, and Reporters without Borders, who share the shareholders' concerns, were invited to testify, thus publicly reiterating their joint opinions.

Further, interest organisations such as Amnesty International and Reporters without Borders have at several occasions been co-filers of shareholder resolutions submitted by institutional investors, and/or publicly stated their support for such resolutions.

### **Corporate response**

Corporations targeted by the critique have largely responded by defiance, though statements of non-complicity in human rights abuses, or an

explanation of how it is impossible for them to not comply with local law that restricts freedom of expression. These corporations also argue that they are making the Chinese people a greater favour by delivering their services with restrictions than not at all. At the same time, the corporations have embraced opportunities to participate in multi-stakeholder discussions about the role of companies in circumstances of norm pluralism, and they have in various ways stated their support for human rights. None of the companies have however fundamentally changed their practices.

The four companies in focus here were testifying in the aforementioned congressional hearing. A brief overview of corporate responses in this hearing and through other forums follows here (for an analysis of whether these corporate justifications are sufficient from a moral philosophical point of view, see Dann and Haddow, 2008).

Cisco has said that the allegations against the company are false, and expressed in its congressional testimony that it “does not customize or develop any specialized or unique capabilities in order to enable different regimes to block access to information. Cisco sells the same equipment to China that we sell worldwide” (Committee on International Relations, 2006: 77). In response to the shareholder resolutions that were filed to Cisco, the company expressed that it shared the shareholders’ concerns for human rights and that it already had human rights policies in place, and that the shareholders’ requests for policies and reports on human rights commitments were superfluous.

Google expressed in their congressional testimony that its rationale for self-censorship was building on a “calibrated approach” through which it could retain or grow market share in China while providing a service which was superior to that of its competitors, thus satisfying the interests of the end users. It said that “even with the local legal and regulatory constraints that exist in China, a speedy, reliable Google.cn service will increase overall access to information for Chinese Internet users” (Committee on International Relations, 2006:74). At the same time, the company reiterated

that it had faced a difficult choice, and that “in an imperfect world, we had to make an imperfect choice” (Committee on International Relations, 2006: 66).

Microsoft, in turn, has not denied that the blogs it hosts are censored, and defended the filtering by stating that “Even with the filters, we’re helping millions of people communicate, share stories, share photographs and build relationships” (Wired News, 2005). In their congressional testimony, Microsoft stated that it “will remove access to blog content only when it receives a legally binding notice from the government indicating that the material violates local laws, or if the content violates MSN’s terms of use” (Committee on International Relations, 2006: 64). However, later Microsoft indicated that they might reconsider their activities in China, expressing to media that “we have to decide if the persecuting of bloggers reaches a point that it’s unacceptable to do business there” (BBC News, 2006b).

Yahoo! expressed in its congressional testimony that the company was not aware of how the Chinese government was going to use the information about the journalist whose email address Yahoo! was asked to disclose. Yahoo! further said that “When we receive a demand from law enforcement authorized under the law of the country in which we operate, we must comply” (Committee on International Relations, 2006: 56). In April 2007, Yahoo! donated USD 1 million to Georgetown University to enable research on how international values impact the development and use of communications technologies, including the subject of how regulation of the Internet affects freedom of expression (Yahoo!, 2007b). In November 2007, Yahoo! settled with two of the previously mentioned journalists, who had filed a law suit, and said in a statement that it was working to provide financial, humanitarian and legal support to the journalists’ families (Yahoo!, 2007c). The company would also set up a separate fund for other political dissidents and their relatives.

### **Joint discussions on corporate responsibilities**

In addition to individual responses and actions on the part of Internet technology companies, shareholders and other stakeholders, a number of actors have eventually joined formalised discussions corporate responsibilities for freedom of expression on the Internet. While these forums have not been initiated by shareholders, they have provided a forum for shareholders as well as other actors who seek to spearhead alternative norms to voice their opinions and seek to influence corporations.

For example, in 2006, the Center for Democracy and Technology convened Internet technology companies, investors, and human rights advocates to discuss how to advance civil liberties on the Internet in the face of laws that run contrary to international standards for human rights. Further, in 2007, investors, Internet technology companies, non-governmental human rights organisations and academics joined a multi-stakeholder group to draft principles that would guide Internet technology companies' behaviour when faced with laws, regulations and policies that interfere with the achievement of human rights.

It is notable that in the aforementioned congressional hearing, all four testifying Internet technology companies stated their support of the idea of working together in a multi-stakeholder setting, to define common principles to guide the practises of Internet technology firms with operations in countries that restrict freedom of expression. It is an indicator of the uncertainty that the norms systems conflict has produced.

### **DISCUSSION: SHAREHOLDERS AS NORM ENTREPRENEURS**

The empirical example presented here shows that the responsibility of companies to obey national laws and to adhere to state sovereignty is challenged by other international norms of corporate responsibility in the global market place. I argue that, in this context, shareholders can be understood analytically as norm entrepreneurs; they are actors who are actively seeking to persuade other actors to adopt a new standard of

appropriateness. In the empirical case, shareholders have filed shareholders resolutions, called for personal meetings with the corporations, expressed their opinions in multi-stakeholder dialogues, and expressed their opinions in a congressional hearing. All of these efforts have been geared at transforming a norm for appropriate behaviour with regards to Internet technology companies who operate in regimes which restrict the freedom of expression on the Internet, and where shareholders argue that adherence to the UN Universal Declaration of Human Rights should supersede local standards of behaviour.

As evidenced by the empirical case, there is some ambiguity on the part of corporations on what to do in this norms systems conflict. Hence, there is room for norm entrepreneurs to suggest an alternative norm. The defying responses of the corporations show that the norm propagated by shareholders is far from accepted. The new norm is thus in an emergent phase and has not reached a tipping point; more persuasion would be needed on the part of shareholders and other proponents of the alternative norm in order for a critical mass of corporations to accept it. Ultimately, shareholders would want corporations to become norm promoters and part-take in the wider establishment of the norm.

Contrary to how Finnemore and Sikkink (1998) describe a typical norm entrepreneur, shareholders are not necessarily motivated by “strong convictions about appropriate behaviour”, with the implicit moral dimension that lies in the word ‘appropriate’. They may be motivated by this, but they may also be motivated by the idea that corporate efforts towards protecting human rights can have a positive effect on firm performance (Orlitzky, Schmidt & Rynes, 2003; von Arx & Ziegler, 2008). In addition, we are here faced with a principal-agent relationship, as institutional owners typically represent other shareholders (such as pension-takers or owners of mutual funds). The strong convictions may therefore reside with the principal, rather than with the agent, and this is what spurs the agent’s interest in taking on the role of a norm entrepreneur. We cannot know for sure if the investors who

signed the joint statement on freedom of expression did so because of their own or their clients' desire to support or foster corporate responsibility as part of achieving a socially and environmentally sustainable development. We also do not know if they did it because of moral concern or as a part of seeking higher portfolio returns. Norm entrepreneurship may thus be motivated by pragmatic reasons as much as by altruistic or idealistic purposes.

As explained earlier, several researchers point to the importance of an organisational platform and issue networks for the success of norm entrepreneurs (Finnemore & Sikkink, 1998; Koh, 1998; Pozen, 2008). An advantage point of socially minded shareholders is that they advocate the same view as a number of other actor groups, such as human rights organisations and religious groups, and therefore have an opportunity to form issue networks with such actors, and thereby strengthen their power in the interpretative battle over norms for corporate responsibility for human rights. This increases shareholders' resource base, for example through the additional campaigning skills or member support that other actor-groups can bring, and through the momentum concerted pressure can generate. In the empirical case, the multi-stakeholder dialogues are an example of this, where some of the part-taking actors share the investors' interests. Another example is the co-filing of shareholder resolution together with human rights organisations. These actors, e.g. human rights groups, can also be understood analytically as norm entrepreneurs. If they are also seeking to persuade others of the appropriateness of an alternative norm, this makes them a norm entrepreneur, and it is not an epithet that is only applicable to shareholders. Several different types of actors can be norm entrepreneurs in the same process; it is dependent on where in the norm life cycle these activities take place, i.e. if the norm is emergent or more widely adopted.

Shareholders may be in a particularly good position to influence corporate norms since they are owners, a status which entails the right to vote at annual general meetings, as well as credibility with and access to the board



for example for personal meetings on issues of concern. The corporate board is accountable to their shareholders. Further, shareholders can condition their ownership (by threatening with divestment), and their opinions may therefore have implications for the possibilities of companies to be included among the shareholders' assets.

On the other hand, socially concerned shareholders are in minority to traditional shareholders who make decisions based on traditional views of risk and return and without involvement of non-financial considerations. This decreases the socially minded shareholders' lever on the targeted corporations, who might seek to please the larger group of 'socially unconcerned' shareholders.

An aspect that should be added to this is that norm entrepreneurs are perhaps more likely to emerge in contexts where norms are fragile (c.f. Sunstein, 1996). If there is uncertainty about proper behaviour, for example because actors are faced with a new context – such as Internet technology corporations entering a new market with certain political conditions – it makes it easier for norm entrepreneurs to persuade others, to pull other actors out of their current embeddedness. If there is uncertainty or even a norm crisis, then norm entrepreneurs will arguably have stronger potential to successfully gain attention and acceptance for their own agenda. Shareholders in the empirical case have a strengthened opportunity to become norm entrepreneurs and make a case for their ideas about appropriate behaviour since norms for corporate responsibility for freedom of expression in repressive regimes is not fully agreed upon. As discussed in the introductory section, the complexity of corporate responsibility and human rights leaves room for interpretation and negotiation about what corporations are responsible and accountable for. As noted in the empirical case, Internet technology corporations expressed that they were facing a dilemma, and that it was not an easy task to decide how to best meet the expectations of Chinese authorities and other stakeholders. This norm ambiguity provides opportunity for norm entrepreneurs to influence corporations. Their role is

challenging, since new norms must compete with other norms about their superiority, even in a context of norm ambiguity. Norm entrepreneurs may therefore take on a confrontational approach in order to persuade other actors (Finnemore & Sikkink, 1998), which is also what we see shareholders do in the empirical case, for example through shareholder resolutions.

With regards to the norm life cycle model, the empirical case is currently in a norm emergence phase. Norm entrepreneurs – shareholders and other interest groups – are trying to persuade others to agree on their view of appropriate behaviour, but the matter has not yet reached a tipping point. A tipping point occurs when a critical mass of norm promoters have adopted the new or transformed norm. An indication of a tipping point in the empirical case presented here would be that a number of Internet technology companies take measures to change their behaviour; for example by refusing to disclose user identities to the authorities, by extensively lobbying the Chinese government on expanding the freedom of expression on the Internet, or by pulling out of China. If any of the four corporations which has been under most public criticism and which were included in the empirical illustration in this paper would move from a state of defiance of criticism to a state of encouraging other corporations to take a different stance on how to act in relation to restrictions of human rights, it would mean that they were taking on a role as norm promoters. By socialising other corporations into adhering to a new standard of appropriateness, they would help move the norm through its life cycle to a norm cascading stage. It is however too early to say if norm entrepreneurs in the empirical case used in this paper will be successful in persuading a critical mass of actors, and if a new norm for corporate behaviour with regards to freedom of expression in countries with repressive regimes will gain wider acceptance. It is not unusual that emergent norms fail to reach a tipping point, and even if they succeed it may take many years (Finnemore & Sikkink, 1998). The main point of this paper has however not been to prove that shareholders can be successful in their endeavours, but to suggest that they can be understood analytically as norm

entrepreneurs in their ambitions to influence corporate conduct. This has contributed to recognizing the role of shareholders as potentially more profound than influencing single events of corporate conduct.

## **CONCLUSIONS**

This paper has explored shareholder activism as a way of shaping norms for corporate social responsibility, and suggested that shareholders can be understood analytically as norm entrepreneurs. I find that the concept of norm entrepreneurs can successfully be transferred from its original political science and international relations belonging to the context of shareholder activism for corporate social responsibility.

By understanding shareholders who seek to persuade others to adopt a new standard of appropriateness as norm entrepreneurs I have emphasised how shareholder pursuits of influencing corporations may be taking place on a more profound level than what is captured through studies which focus on quantitative measures such as voting results from shareholder resolutions (c.f. Sjöström, 2008). Shareholders can have a more deep-rooted and long-term impact on corporations than changing single events of behaviour, by influencing shared ideas about corporate responsibilities. The paper thus goes beyond studies which focuses on the influence of shareholder activism on individual corporations, and recognises shareholders' potential as change agents for widely shared norms.

The paper suggests that shareholders may be motivated to engage in norm entrepreneurship by their own or their clients' strong convictions about appropriate behaviour, either for moral or financial reasons, and their role as norm entrepreneurs is enabled by their owner position and by the networks they can form with other interests groups. As this paper has indicated, the efforts of shareholders to change existing norms may be shared by other actors with a similar agenda. These actors may be part of shareholders' organisational platform, thus strengthening the opportunity for shareholders to contribute towards changing norms. Shareholders will however only

succeed in their entrepreneurial pursuits if they are able to convince a critical mass of actors to adopt the new or transformed norm.

### **LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH**

While this paper has introduced the novel idea of analytically understanding shareholders as norm entrepreneurs, it has some shortcomings, particularity in terms of the limited empirical data. As the same time, this research presents opportunities for future research endeavours which can add to this first attempt in forwarding a new analytical perspective on shareholder activism. Suggestions follow here below.

#### **Richer empirical descriptions**

A limitation of this paper is that the empirical data is of a brief character, and incomplete conclusions can therefore be drawn from it. Future research on this topic could gain from richer descriptions of empirical events in which shareholders have taken on a role as norm entrepreneurs, as it would allow for a more extensive analysis on the role of shareholders. Further, richer empirical descriptions may be fertile ground for the analysis of rhetorical strategies, which may be central for norm entrepreneurs but which were not analysed in this paper. As pointed out by Finnemore and Sikkink (1998), norm entrepreneurs use strategic ‘framing’ of issues in order to make them better resonate with the targeted actors, and this is a topic which merits more attention. Discursive analysis may therefore well serve future studies of shareholders and norm entrepreneurship.

#### **Norm entrepreneurship in an institutional context**

Interestingly, sociological institutional theorists have forwarded the concept of ‘institutional entrepreneurs’. I suggest that the introduction of norm entrepreneurship as an analytical concept into organisational studies could make an important contribution to institutional theory, if researchers would explore this relation further. The concept of ‘institutional entrepreneur’

emerged as a reaction against – or complement to – the assumptions of non-interest and lack of agency of institutional theory. Institutional entrepreneurs are specifically attempting to create new institutions or change existing ones (Maguire, Hardy & Lawrence, 2004:657). They “spearhead collective attempts to infuse new beliefs, norms, and values into social structures” (Rao, Morrill & Zald, 2000: 240). Given that norms are foundational elements of institutions and part of what upholds institutions (Crawford & Ostrom, 1995; Scott, 1995), I find that norm entrepreneurship can be seen as part of, or even forging the way for, institutional entrepreneurship. Norms must change in order for an institutional change to take place. Norm entrepreneurs and institutional entrepreneurs are not necessarily separate actors, but rather represent different analytical focus for researchers who seek to explore the dynamics of changes in norms and institutions. Further, by focusing on the constitutive elements of institutions, including norms, we may be better able to capture processes of institutionalisation, which shareholders can be a part of and which may otherwise be difficult to pin-point. Future researchers may want to explore this proposition further.

### **Analysis of shareholders as norm promoters**

While shareholders who attempt to persuade others to adopt a new standard of appropriateness can be understood as norm entrepreneurs, it is likely that most efforts of shareholder activism are not geared towards such transformative ventures. Instead, shareholder activism is often striving to socialise corporations into following more widely accepted norms (as opposed to emergent norms), thus partaking in a norm cascading phase. This may for example be the case when shareholders are pressuring corporations to adopt a code of conduct for working conditions in supplier factories – it is a norm already adopted by many corporations and it is thus not a matter of transforming a norm, but of socialising additional actors to adhere to it. Here, shareholders are norm promoters. At the same time, the literature on norm dynamics has largely left the role of norm promoters unexamined despite

their important role in the norm life cycle. Researchers who want to address the role of shareholders in a capacity of supporting actors to norm entrepreneurs therefore have ample opportunity to pioneer such research.

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**Article 5**

**Shareholder Influence on CSR:  
A Study of the Swedish Corporate Sector**

Emma Sjöström

*Submitted for review to **Business & Society***



# Shareholder Influence on CSR: A Study of the Swedish Corporate Sector

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## **ABSTRACT**

This study explores shareholder influence on corporations with regards to corporate social responsibility (CSR). It is based on interviews with corporate representatives, investors and consultants. The study finds that while corporations do not perceive socially and environmentally minded shareholders to have a significant influence on how corporations address CSR, these shareholders are deemed as a legitimate and important stakeholder. Corporations find that investors amplify general stakeholder pressure, and that they can function as a catalyst for CSR by adding legitimacy to the work of CSR professionals. The one area where shareholders stand out as having a concrete influence is with regards to corporate transparency on CSR.

**Keywords:** *corporate social responsibility, CSR, socially responsible investment, shareholder activism, shareholder influence*

## INTRODUCTION

This paper is addressing shareholders' involvement in contributing towards a socially and environmentally sustainable development. Whereas the financial sector has long been regarded as disconnected from the agendas of social and environmental organisations and activists groups, their interests are – to a limited but growing extent – merging. Shareholders, too, are now putting pressure on corporations to improve their environmental records and to respect human rights.

In recent years, there has been a rise in shareholder interest in social and environmental aspects of corporate strategies and operations. While in 1970 only two shareholder proposals were submitted to US corporations' annual meetings on a social or environmental issue, the 2006 proxy season saw 367 such proposals, submitted by investors who in total controlled USD 739 billion in assets (Vogel, 1983; SIF, 2007). While in the early 1980s, Europe had four publicly offered investment funds that based their inclusion criteria not only on conventional financial parameters but also on ethical, environmental or social dimensions, there are now over 400 such funds (Avanzi SRI Research, 2007). To put things in perspective, however, it should be noted that the assets controlled by the explicitly socially and environmentally minded investors is more limited than that of the mainstream investor community; in Europe the green/social/ethical funds represent 17,6% of total assets of publicly offered open-end funds (Eurosif, 2008).

The investment approach which often is referred to as “socially responsible investment”, or SRI, ranges from the systematic exclusion of unwanted sectors such as tobacco or armament, to including social and environmental criteria when building a portfolio, and even to actively engaging with corporations in order to improve their social and environmental performance. It is this last part, active engagement, which this paper will address.



The motivation for investors to engage with corporations with regards to corporate social responsibility (CSR) may be ethical, for example on the grounds that corporations are assumed to have a moral obligation to respect human rights, to safeguard the environment, or to ensure fair labour conditions. The motivation may also be financial; some argue that corporations who address social and environmental issues not only mitigate risks such as reputational damage or law suits, but also that efforts to improve social and environmental aspects can create business value and be positively correlated with financial performance (c.f. meta-studies on the topic by Orlitzky *et al*, 2003 and Margolis *et al*, 2006).

As the phenomenon of SRI grows, there is a mounting expectation that SRI-oriented shareholders can indeed influence corporations to do better, and to improve their record with regards to CSR (Rivoli, 2003). When in 2006 a UN-led initiative launched “Principles of Responsible Investments”, open for the wider investment community to sign on to, UN Secretary-General Ban Ki-moon expressed:

“By incorporating environmental, social and governance criteria into their investment decision-making and ownership practices, the signatories to the Principles are directly influencing companies to improve performance in these areas. This, in turn, is contributing to our efforts to promote good corporate citizenship and to build a more stable, sustainable and inclusive global economy.” ([www.unpri.org](http://www.unpri.org))

As a further example, the membership association “Social investment forum” states on its web site:

”With SRI, investors can put their money to work to build a more sustainable world while earning competitive returns both today and over time.” ([www.socialinvest.org](http://www.socialinvest.org))

Shareholders' potential to influence corporations with regards to CSR is also expressed by the corporate sector itself; Surveys show that shareholders expectations are one of the top motivations for corporations to address CSR (Arlbjørn *et al*, 2008; Amnesty Business Group, 2008).

At the same time, few attempts have been made by researchers to understand if shareholders are in fact having such influence on corporations. The aim of this study is therefore to explore the influence that shareholders have on corporations in terms of CSR<sup>1</sup>. Specifically, the study will garner corporations' own perceptions of this.

This study complements and extends previous research in a number of ways. While earlier studies on the influence of investors on corporations with regards to CSR have analysed shareholder interactions with a single corporation (Hoffman, 1996), this study is including 20 corporations, for a broader view. Further, while other studies have used the score on a social and environmental rating as a proxy for shareholder influence (Neubaum & Zahra, 2006; David *et al*, 2007) this study is basing its results on interviews with corporations, to allow for a more contextualised and multifaceted (less binary) view of shareholder influence. Finally, while other studies have focused on the possible effects of formal shareholder resolutions on corporate behaviour (Engle, 2006; David *et al*, 2007) this study is focusing on more interactive means of engagement, most notably dialogues.

It should be noted that in the present study, "shareholder" refers to institutional shareholders (i.e. investors who manage assets on behalf of others by pooling large sums of money, e.g. pension funds and mutual funds), as these are the type of shareholder who most often actively engage with corporations. I use the terms shareholder and investor interchangeably.

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<sup>1</sup> CSR is a broad concept which refers to business responsibility for the environment and for social matters, such as human rights and labour conditions. For reviews of the evolution of the definitional construct of CSR, see e.g. Carroll (1999) and Windell (2006).

In the next section, I will put this study in context by reviewing some of the literature on stakeholder salience in general and shareholder influence in particular. After this, the collected interview data is presented, followed by a discussion of the results.

### **SHAREHOLDER INFUENCE IN THE LITERATURE**

R. Edward Freeman has famously defined stakeholders as “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman, 1984: 46). By definition, this includes shareholders as well as other corporate constituents inside or outside the boundaries of the corporation.

In literature about the corporation and its obligations to external parties, shareholders and stakeholders are however often juxtaposed, and are supposed to represent different interests, such as the dollar versus the environment. Further, scholars can be distinguished as either purporting shareholder value as a superior priority for corporations (e.g. Friedman, 1970) or as arguing that other stakeholder interests are equally important (e.g. Freeman, 1984).

SRI-oriented shareholders are however having a dual interest: Besides their obvious role as investors, where their stake in corporations stems from their ownership position and the primary claim is financial return on investment, they also represent other interests such as clean air and human rights. These concerns may be shared with other types of stakeholders, such as environmental groups, local communities, and human rights advocates.

For the purpose of this particular study, and given that corporations normally cannot consider each and every constituent’s expectations, it is pertinent to understand what makes a stakeholder salient. What is it that makes corporations pay attention to certain stakeholders, and can SRI-oriented shareholders be part of this group?

Salience refers to stakeholders' significance or prominence, and the attention and priority that are accorded to them by the organisations to which they are stakeholders. A more salient stakeholder has a better chance to influence an organisation than a less salient stakeholder, and stakeholder salience is thus indicative of which stakeholders can influence managerial action. According to Mitchell *et al* (1997), salient stakeholders share one or more of these features: (a) They have *power* to influence the corporation, (b) their relationship with the corporation is *legitimate*, and/or (c) they have *urgent* claims on the corporation. If a stakeholder has only one of these features, it is considered a "latent" relationship: the stakeholder may not give considerate attention to the corporation and the corporation may not give considerate attention to the stakeholder. A salient stakeholder, on the other hand, share at least two of the attributes, for example power and legitimacy, or urgency and power.

Conventional as well as SRI-oriented investors would typically belong to this group; their ownership standing gives them power as well as legitimacy in making claims on the corporation. The power position is primarily related to the fact that corporations depend on shareholders for access to capital, and that shareholders have the right to vote or at least to express their opinion in shareholder meetings (these rights may vary in different countries and depending on the class of stock). Shareholders' legitimacy is confirmed by formal mechanisms within corporations, for example the presence of an investor relationship officer, shareholder representatives on the board, and corporate reports which specifically target shareholders. Further, adding to the power and legitimacy of shareholders, corporations are bound by fiduciary duties to act in the interest of their owners. Some corporations may however be of the opinion that SRI-oriented shareholders are activists in disguise, and in fact not legitimate stakeholders, and therefore ignore their claims.

If a stakeholder were to have all three attributes – power, legitimacy and urgency – its salience would increase (Mitchell *et al*, 1997). Urgency refers to the degree to which stakeholder claims call for immediate attention, and will be determined by the degree to which a corporations' delay in attending to the claim is unacceptable to the stakeholder and the degree to which the claim is important to the stakeholder (Mitchell *et al*, 1997). For example, issues of great public concern may be deemed as particularly urgent. In the context of SRI-oriented shareholders, urgency can for example be related to the nature of the topics that they bring up in personal meetings with corporations, the types of questions that they may pose in annual general meetings, or the extent to which they use media to add pressure.

Neubaum and Zahra (2006), who have studied the influence of shareholders on corporate performance in the area of CSR, attribute shareholder salience to three factors: First, long-term investors, e.g. pension funds, will be more salient than other investors, as corporations are more reliant and dependent on these for access to capital than on short-term owners. Second, the extent to which these long-term shareholders actively engage with corporations also determines how salient they are; put simply, more activity generates more influence. Third, the authors find that the level of coordinated activism between shareholders will also affect their salience. This supports a study by Rowley (1997), a stakeholder theorist who – based on social network analysis – suggests that stakeholders are more salient the more interconnected they are.

A study by Hoffman (1996) provides further insight to this phenomenon: Hoffman followed the dynamic process of how environmentally concerned shareholders sought to influence an oil corporation to adopt a set of environmental principles. Hoffman attributes the success of shareholders to three factors: corporate culture and the fit between this and the shareholder claims, the power and influence of the shareholders, and the political climate in which the claim was made. This overlaps with the aforementioned study

by Mitchell *et al* (1997), as a fit between stakeholder claims and corporate culture adds legitimacy to the matter, while a fit between stakeholder claims and the political climate in the industry can add a sense of urgency.

Haigh and Hazelton (2004) argue that the current market share of SRI funds is too small to have significant influence. The authors suggest that investors' impact would likely increase if they were to act in concert to a greater extent; something which is in line with the studies by Neubaum and Zahra (2006) and Rowley (1997).

While the studies referred to here have focused on what makes SRI shareholders salient and influential, additional studies have addressed what the actual outcomes of shareholder influence can be on corporations.

Based on anecdotal evidence, O'Rourke (2003) suggests that one important effect of SRI-oriented shareholders' activities may be that corporations can learn from the explicit social and environmental criteria that investors and analysts use to compose investment funds and indexes. The investment criteria can guide corporations in prioritising and organising their own work on social and environmental matters. It can also educate investor relations officers about these issues, and it may empower environmental managers within the company.

In the already mentioned study by Hoffman (1996), concerning how shareholders sought to influence an oil corporation to adopt a set of environmental principles, he shows empirically that shareholders can indeed influence corporations to adhere to specific shareholder goals. Whereas the targeted corporation was reluctant at first, the parties eventually reached a compromise and the oil company used the opportunity to induce an industry-wide change. Hoffman notes that shareholder influence is a dynamic and reciprocal process where shareholders themselves may be influenced by the very perspectives they try to change.

Additionally, Van Buren and Paul (2000) have used the stakeholder salience framework by Mitchell *et al* (1997) in order to explore the influence of SRI-oriented investors. In a survey study, corporate respondents rated SRI-oriented shareholders negatively on all three dimensions (power, legitimacy and urgency). The authors find that SRI-oriented investors are seen by corporate management as espousing “illegitimate” claims, and that the goals of these investors are not convergent with the values or norms of business. Related to this, David *et al* (2007) argue that shareholder proposals can prompt corporations to spend more resources on resisting the claims, thus suggesting that shareholder attempts to influence corporations may be counterproductive if claims are viewed as illegitimate. At the same time, Van Buren and Paul (2000) conclude that the activities by SRI-oriented investors have contributed to raising awareness of corporate responsibility issues in the business sector, and that it has influenced the debate of what good corporate social performance entails.

In summary, then, previous literature suggests that shareholders are theoretically in a good position to influence corporations with regards to CSR, while empirical results are inconclusive. This study aims at exploring shareholder influence empirically. The intention is not to test theory, but rather to add to current insights on the topic of shareholder influence with regards to CSR.

## **RESEARCH METHOD**

This exploratory study is set in Sweden. Data was collected through semi-structured interviews with representatives of twenty corporations, six institutional investors, and two engagement consultants. It was natural to include corporations since the study seeks to understand corporations’ own perception of shareholder influence. I chose to also include investors and engagement consultants in order to also understand the view of those who seek

to influence corporations, for a balanced and more encompassing understanding of the studied phenomenon.

Interviews were deemed an appropriate method since I was interested in the *accounts* of the respondents, something which would be more difficult to capture through a survey study (Creswell, 2003). It allowed for the respondents to elaborate freely on each question, and it allowed me to follow up with additional questions for clarification.

To select corporations, I first asked a number of Swedish institutional investors who are typically engaging with corporations on CSR how they make their selection. The investors tend to mainly contact large cap corporations, but with no particular sector bias. I therefore selected corporations from the large cap list of the OMX Nordic Exchange, with a spread between different sectors. These are displayed in Table 1 here below. At each corporation, the person who most often handle the contacts with the SRI-oriented investor community was interviewed; for some corporations this turned out to be the investor relations officer, for others a dedicated sustainability officer, and yet others a communications officer. In a few cases, the corporation suggested that I interview more than one representative. The corporation, the sector, and the respondents' areas of responsibility are displayed in Table 1.



Table 1: List of interviewed corporations

Corporation	Sector	Respondent's area of responsibility
ABB	Heavy electrical equipment	Sustainability Affairs
Assa Abloy	Building products	Corporate Communications
AstraZeneca	Pharmaceuticals	Corporate Responsibility + Information
Atlas Copco	Industrial machinery	Corporate Communications
Autoliv	Auto parts and equipment	Corporate Communications
Axfood	Food retail	Investor Relations
Axis	Communications equipment	Investor Relations and Corporate Comm.
Ericsson	Communications equipment	Investor Relations
H&M	Apparel retail	Corporate Communications
Investor	Multi-sector holdings	Corporate Communications
JM	Real estate management and development	Quality and Environment
Lundin Mining	Diversified metals and mining	Investor Relations
Oriflame	Personal products	Investor Relations
SCA	Paper products	Environment + CSR/Human Resources
Scania	Construction and farm machinery, Heavy trucks	Investor Relations
Swedish Match	Tobacco	Investor Relations + Human Resources
TeliaSonera	Integrated telecommunications services	Corporate Responsibility
Trelleborg	Industrial machinery	Corporate Communications
Volvo	Construction and farm machinery, Heavy trucks	Investor Relations + Public Affairs
Vostok Nafta	Multi-sector holdings	Investor Relations and Corporate Comm.

Most of the interviewed corporations are only listed in Sweden, and in the interviews, the corporations largely referred to Swedish SRI-oriented investors, but sometimes also to foreign SRI-oriented investors.

To select investors to interview, I asked the corporate respondents which investors had engaged with them with regards to CSR. There was general agreement among the interviewed companies that conventional investors (who are not explicitly SRI-oriented) show little interest in environmental and social issues, and that these investors generally do not pose questions about CSR topics. Thus, the interaction that corporations have with investors on CSR is with those who have explicitly made SRI a part of their investment approach, and I therefore chose to exclusively interview SRI-oriented investors.

The corporate respondents mentioned six Sweden-based SRI-oriented investors that had engaged with them, and I therefore chose to interview all of these. They are listed in Table 2. For each organisation, I interviewed a professional who is in charge of engagement practices for SRI.

*Table 2: List of interviewed investors*

<b>Investor org.</b>	<b>Type of investor</b>	<b>Respondent's title</b>
AP1	Public pension fund	Head of corporate communications
AP2	Public pension fund	Head of corporate governance and communications
AP3	Public pension fund	Communications manager
Banco	Asset manager	Head of responsible investment
Folksam	Asset manager / Insurance company	Head of responsible investment
Swedbank Robur	Asset manager	Head of responsible investment

I also interviewed SRI engagement consultants. These are organisations which assist investors in engagement activities, such as letter writing or dialogues with the purpose to influence corporations with regards to CSR. When they meet with corporations for engagement purposes, they represent investors. The same organisations often support investors with information about corporations from a CSR perspective, and in this role they are typically referred to as SRI analysts. To select engagement consultants to interview, I asked the interviewed corporations as well as investors which (Swedish) engagement consultants they interact with. These are listed in Table 3.

*Table 3: List of interviewed engagement consultants*

<b>Organisation</b>	<b>Respondent's title</b>
Ethix	Head of corporate engagement
GES	President and managing director

Interviews were conducted during autumn 2007 and spring 2008. Interviews lasted for approximately 1 hour and with a few exceptions they were conducted face-to-face (otherwise over the phone, due to geographical distance). The transcribed interviews were coded for recurrent themes, which allowed me to identify patterns in the material.

## RESULTS

Before getting into detail about the results of the study, something should be said about the context in which the interaction between SRI-oriented investors and the interviewed corporations take place.

### *Contextual background*

The majority of the corporate respondents meet with SRI-oriented investors on a continuous basis; with some once every year, and with others more often. Contacts tend to be bi-lateral, most often in personal meetings but sometimes also over the phone. Occasionally, corporations are contacted by investors through letter writing. Contacts are almost exclusively initiated by the investors. In addition to this, analysts (particularly foreign) are sending questionnaires in order to gather data, for example for market indexes which uses environmental and social screens.

Another point of contact is that CSR professionals within corporations sometimes ask investors for input on their work, for example on their sustainability report or a policy they are drafting. Two of the interviewed corporations have gathered investors to roundtable meetings or presentations, as a way to get input and feedback from the investors and as an opportunity for investors to ask questions.

Sometimes investors are visiting corporations' suppliers or work sites in a foreign country, either upon invitation from the corporation or on their own initiative. The purpose of these visits is for investors to inform themselves about social and environmental conditions and routines at these sites, either as a form of audit or to get familiar with the scene on a more general level.

In contrast to for example corporations in the US, the annual general meeting is not used as an arena for environmental and social responsibility issues for the interviewed Swedish corporations. Whereas corporate governance has a

natural place at these AGMs, such as board nominations and remunerations, the interviewed corporations testify that shareholders rarely or never bring up CSR in this forum. Further, it is unusual that the interviewed corporations proactively use this forum to share information about their CSR work with its shareholders.

### *The investor view*

In order to understand the influence that investors can have on corporations in terms of CSR, it is relevant to also understand the drivers for investors' engagement with portfolio companies, and what they are trying to achieve. Three out of the six investors in this study are public pension funds, and they are obliged by a governmental directive to include a CSR perspective in their investments. Yet, they do not do this only out of obligation, but are motivating their involvement in CSR by the business case they find lies therein, for example that it makes corporations more competitive. All the interviewed investors are largely referring to risk management, and to some extent business opportunities, when prompted about why they seek to influence corporations with regards to CSR. Partly, it is also viewed as a moral issue. Says one investor:

“[We do it] because we think it is the winning company in the long term, absolutely. /.../ Good risk management allows for good business positioning with regards to these issues. And I also feel that we have no choice. The future doesn't have any choice and everybody has to take responsibility, corporations and everyone else.” (*Banco*)

The goal with corporate engagement practices, according to investors, is to contribute to making portfolio corporations more competitive and well-managed.

### ***An important stakeholder***

According to the interviews with corporate representatives for this study, the corporations generally perceive that SRI-oriented investors have some but not a major influence on how they handle matters that fall within the category of CSR. Many of the interviewed corporations state that while investors sometimes seek to influence corporations on specific issues, they tend to primarily ask for information in order to get an update on what the corporations do with regards to CSR. This somewhat is however not to say that the SRI-oriented investors are not viewed as important or valued stakeholders, but not so much in terms of direct influence on CSR operations. In fact, a number of respondents express that SRI-oriented investors are “important to us” and that they value the dialogue they are having, but are unable to provide a concrete example of how they have made a difference to the work that the corporation does with regards to CSR.

According to corporate respondents, the meetings they have with investors can provide good input to their CSR operations even if it doesn’t change it, not the least by validating that the corporation is on the right track and makes the right priorities.

“I think investors have an impact in saying that this is an area that is important, and we should spend time on it. We are already working with it internally and are ahead of the investors in many respects [...] but I think that it becomes an additional confirmation that it is important to work with these questions.” (*Scania*)

### ***Amplifying stakeholder pressure***

One reason that corporations perceive SRI-oriented investors as having limited influence may be that it is difficult to distinguish investor influence from that of other stakeholders. Many corporations express that they perceive the views of SRI-oriented investors as part of an overall external pressure. SRI-oriented investors sustain or amplify opinions that are also expressed by

others, rather than being the only ones to focus on something. Investors are one source of influence among many, along with for example customers, the general public, media, and regulations. Several corporations also say that investors are not forerunners; rather, they support or amplify a critical trend. Further, many respondents state that when a change occurs due to stakeholder pressure, investors are rarely the only source.

“It is rare that an investor forwards a totally unique request. Rather, it is often something which is a hot topic at the moment and where they become one voice among many. Taken together this may cause us to go a certain way.” *(H&M)*

Says one pharmaceutical corporation, who has repeatedly been contacted by a shareholder group regarding access to drugs:

“It has been such a wide debate about these questions generally, so I can’t say that specifically that initiative [had a significant influence]. But this has been a prioritised question for us because of all the debate in that group and in other groups with other stakeholders. So it is difficult to say that it is specifically connected to them, I wouldn’t say that, but of course it contributed. It was one additional dialogue.” *(AstraZeneca)*

Investors and engagement consultants share the view that influence is a joint effort, and they make clear that influence can rarely be traced back to one single investor.

I think it is difficult to ever say that our activities by Ethix made this large corporation change. We have a part in it. *(Ethix)*

### ***Corporate transparency***

Although corporations in most cases perceive investors as having limited direct impact on CSR, there is one important exception where investors have

significant influence, and that is transparency. Whereas investors are for the most part not challenging the interviewed corporations on achieving higher environmental targets or addressing social malpractices, they are successfully pushing corporations to report more extensively on their web sites and in their annual reports, and to be more detailed about their progress with regards to CSR.

A number of corporations say that their values are “ingrained in the walls” of the organisation so they haven’t seen a need to write down how they handle different aspects of CSR until investors started to ask for it. Further, not only have investors encouraged them to report more extensively and in more detail, but they also influence what corporations choose to report on:

“Sometimes we haven’t realised that it could be important to report certain information. Of course it influences us if we notice that they are interested in a certain question or a certain angle. We try to increase our transparency on the issues they are interested in. It doesn’t influence how we work directly but it influences what information we choose to focus on in our internal and external communications” (SCA)

While some of the corporate respondents view the writing of reports and documenting of policies as something which steals time from the “actual” CSR work, others find that transparency adds value because it helps the corporation to keep track of its progress in critical areas.

When prompted on why they largely limit their efforts to influencing transparency and reporting, one investor says that this is where they have an opportunity to have an influence, rather than on a detailed level. Several investors point out that it is not within their mandate to micro-manage and to point out exactly what corporations should do. Others emphasise that it is difficult to raise relevant issues for discussion if corporations have not first

communicated what they do, so transparency is therefore a priority in the dialogue meetings with corporations.

### ***CSR operations***

A few corporations were however able give examples of tangible influence in addition to increased transparency. For example, one corporation adopted a group wide environmental policy and group wide environmental goals as a direct result of investor pressure; two corporations have made improvements to their whistle blowing routines; one corporation joined an industry initiative to discuss certain critical issues; one company updated their ethical guidelines for business in low cost countries; and one company is exploring how they can turn environmental threats into business opportunities, all based on investors' engagement in these issues.

Typically, corporations accept investor requests and suggestions, and view them as good advice rather than an obstruction to their work. From time to time, though, corporations reject investors' suggestions for change, when it conflicts with the organisations' priorities. For example, when one investor asked a number of corporations to map their entire supply chain, some of the interviewed corporations found that this was not feasible, either because they deemed this to be sensitive information from a competitor perspective or because the supplier base was too large to keep track of. One corporation was asked to abandon a certain supplier that did not meet the investor's expectations on social responsibility, but did not do so: "We cannot change suppliers just because [investor] says so." (Corporate representative) At the same time, most of the interviewed corporations appreciate the contacts with SRI-oriented investors, and they feel that investors have matured over the past few years, meaning that they ask more informed questions and have less of a black-and-white approach to CSR.



### ***Legitimacy to CSR***

Investors and engagement consultants emphasise that one important outcome of shareholder pressure, in their view, is empowerment of those in charge of CSR within the corporations:

“We often meet CSR professionals and for their legitimacy in the organisation they need to meet investors and be able to say that shareholders are in fact raising these concerns. /... / We help those who are responsible for this within the corporations to make room for themselves.” (API)

This was also mentioned by some of the corporate respondents:

“It is also helping my argumentation internally; I can point out that we are listed on the stock exchange in Sweden and that Swedish ethical investors have this view.” (Assa Abloy)

A prerequisite for this to work, however, is that the corporation has established communication channels to enable input from investors to be communicated further within the organisation. This seems to be in place with most interviewed corporations, who typically share and discuss topics that have been covered in investor meetings with regards to CSR with top executives, the CEO, the board, or a sustainability council within the firm.

### **CONCLUDING DISCUSSION**

This empirically focused study has aimed to explore the influence that shareholders have on corporations in terms of CSR.

The results of this study can be summarized in four points:

1. *Corporations view SRI-oriented shareholders as legitimate and important stakeholders.*
2. *Corporations perceive that in general, shareholders do not have a significant influence on how they address CSR.*

3. *Investors influence corporations indirectly, by providing legitimacy to CSR, and by amplifying general stakeholder expectations.*
4. *Investors influence corporations directly, primarily with regards to improved transparency on CSR, but sometimes regarding operational aspects.*

Corporations perceive SRI-oriented shareholders as salient, but their influence may be intangible and indirect. They amplify already existing stakeholder expectations, and influence can rarely be traced back to one single investor. At the same time, it may be through indirect influence that investors have their most important part to play as a change agent: This interview study empirically supports the suggestion forwarded by O'Rourke (2003) that shareholders may empower corporate managers to attend to CSR. Interviewed corporations and investors alike find that SRI-oriented investors provide increased legitimacy to CSR executives and departments, and can be a catalyst for CSR to move higher up on the corporate agenda. It is likely that such a facilitating role is important for CSR to be recognised as a strategic and value-driving area in the corporate sector at large.

This insight is an important contribution of this study, as it shows that investor influence may reach beyond what can be captured through environmental ratings and other such quantitative measures.

As suggested by previous studies, stakeholders who are viewed as legitimate have a better chance to influence corporations (Mitchell *et al*, 1997). This study finds that SRI-oriented shareholders have a legitimate relationship with corporations, as evidenced for example by respondents' statements that these shareholders are valued stakeholders and that their contacts are appreciated by the corporation. The interviewed corporations do not question investors' interest in CSR. Apparently, investors are deemed as important to the corporation also when they do not attempt to influence their work, for example by validating that the corporation is making the right priorities.

Investors' legitimacy is likely also strengthened by the fact that they do not forward unreasonable requests, but that their claims are in line with corporations' goals – there is generally no conflict between shareholder demands and the corporate agenda, according to the interviews in this study. And this is likely what has spurred the fact that most of the suggestions that investors have forwarded have been accepted by the interviewed corporations, whether it concerns more detailed reporting, routines for whistle blowing, or adopting an environmental policy.

This is contrary to the findings by Van Buren and Paul (2000), who found that corporations view claims by SRI-oriented shareholders as illegitimate. This may be a result of the maturing of CSR during the ten years that have passed since they conducted their study. It may also be that the American shareholders that were the focus in their study and the Swedish shareholders which are the focus in mine, use different approaches, i.e. more or less confrontational approaches, which renders different responses from corporations.

As a final reflection, and based on conversation with investors and engagement consultants in this study, a key to increasing investor influence on CSR is likely found in the large pool of “conventional” investors who are currently not engaging with corporations on CSR. As stated by corporate respondents in the study, “conventional” investors do not show much interest in CSR, and corporations are for the most part not proactive in informing them about such matters. As far as the investor community goes, CSR remains the separate interest of a limited number of actors. The claims of SRI-oriented shareholders would likely be more salient in the future if conventional investors also started to bring up CSR in their communications with corporations, as this would not only increase the legitimacy and the urgency of the questions, but also the power that lies in numbers.

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## Article 6

### **Socially Responsible Investment and Avoidance of Controversial Sectors: On Isomorphic Processes and the Quest for Legitimacy**

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## **Socially responsible investment and avoidance of controversial sectors: on isomorphic processes and the quest for legitimacy**

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**Abstract:** A common method for shareholders with a ‘Socially Responsible Investment’ (SRI) approach is to systematically avoid controversial sectors, such as alcohol, weapons, gambling and tobacco. This article seeks to understand why the avoidance method is so prevalent among SRI funds and indices even though it can be argued that it is not efficient in influencing corporations’ social responsibility. Based on neo-institutional theory, the study finds that the widespread use of the method can be understood as a way to comply with society’s expectations, reduce ambiguity, and enhance legitimacy, and thereby improve the prospects of survival.

**Keywords:** Socially Responsible Investment; SRI; avoidance screening; sustainability index; institutional theory.

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### **1 Introduction**

Socially Responsible Investment (SRI) is an approach by shareholders which entails that investment objects must not only be financially sound but also meet certain ethical, environmental or social criteria. The purpose of such investments is to support or foster corporate social and environmental responsibility, to align the portfolio with the investor’s ethical values, to manage risk, or to seek higher portfolio returns (*e.g.*, Kinder and Domini, 1997; Schueth, 2003; Beal *et al.*, 2005; SIF, 2006). While SRI is a marginal part of the financial market in terms of volume, it has grown substantially in the past 20

years. The number of publicly available green, social and ethical funds in Europe has grown from four to nearly 400 funds in the last 20 years, while total assets under management tripled between 1999 and 2006 (Avanzi SRI Research, 2005; 2006). In the USA, 9.4% of all funds under professional management were screened on SRI grounds in 2005, which is a 258% increase since 1995 (SIF, 2006). Since 1999, the number of SRI-oriented market indices has risen from less than five to over 50 in the world today (cf. Appendix).

Traditionally, SRI has largely been founded upon a methodology of systematic avoidance of controversial or 'sinful' sectors such as armament, tobacco, alcohol and gambling. This is often referred to as negative or avoidance screening. With time, SRI has to a larger extent come to include methodologies for actively selecting desirable companies from environmental and social standpoints (so-called positive screening) as well as different methods for more explicitly impacting corporate policies and activities, such as dialogue with companies or proxy voting. With these more active methodologies, SRI is used to an increasing extent as a tool to positively affect corporate social and environmental behaviour, rather than passive avoidance of certain sectors (*e.g.*, Kinder and Domini, 1997; Waddock, 2003; Sparkes and Cowton, 2004; SIF, 2006).

In light of this shift from an ethical statement towards SRI as a way to endorse or foster corporate social and environmental conduct, it is interesting and relevant to analyse why the passive methodology of simple avoidance screening at the same time remains so prevalent among SRI funds today. In the USA, 80% of SRI funds exclude the tobacco industry (which makes this the most avoided sector) and 60% avoid the alcohol sector (SIF, 2006). The gambling sector is avoided by 58% and the weapons industry by 50% of US SRI funds (SIF, 2006). In Sweden, with proportionally many SRI funds among the EU countries (Avanzi SRI Research, 2006), 50 out of 67 domestic SRI funds exclude tobacco, alcohol, weapon and/or gambling industries (Skillius, 2005). Two-thirds of the world's SRI market indices exclude corporations that are involved in the tobacco, gambling, alcohol and/or armament industries (cf. Appendix).

While the simple avoidance method is widespread, it is questioned in terms of its usefulness, other than as a way for investors to 'sleep easy' (Sparkes, 2001, p.195). By abstaining from investing in certain sectors, shareholders at the same time sign away their rights to use shareholder pressure to influence corporate behaviour. Shepers and Sethi (2003) argue that the avoidance of controversial sectors has little, if any, impact on corporate behaviour since it lacks bargaining leverage. Rivoli (2003) points to the avoidance method's inefficiency in impacting corporations' share price (and hence motivate a change in corporate behaviour), as divestments or noninvestments on a secondary market will be balanced by other shareholders' willingness to invest.

While research has addressed the extent to which avoidance screening is a useful method for the purposes of SRI, the question of why this method is so widely employed despite its inefficiency in impacting corporate behaviour has not been posed. On the one hand, the avoidance of controversial sectors can justifiably be motivated by investors' reluctance to invest in industries that go against their ethical principles regardless of whether this makes an actual difference to the companies or not. On the other hand, given a trend for SRI to be motivated less by ethical or moral principles and more by its potential for social and environmental impacts (*e.g.*, Kinder and Domini, 1997; Waddock, 2003; Sparkes and Cowton, 2004; SIF, 2006), the question of why this method remains so widespread is intriguing.

The purpose of this article, hence, is to offer an explanation as to why the methodology of avoidance screening is so prevalent today. This is relevant to understand since there seems to be a paradox between the widespread use of the method and its low efficiency in influencing corporate social or environmental responsibility, while SRI in general is increasingly motivated through more impact-focused purposes. The analytical framework to help answer the research question is based on neo-institutional theory, which emphasises the pressures and constraints that are imposed on organisations through their institutional environment (*e.g.*, Meyer and Rowan, 1977; DiMaggio and Powell, 1983). This will be further elaborated on in Section 4. I will, however, start with a brief review in the next section on how SRI has evolved over time, from passive to more active investment approaches.

## 2 Historical background

The choice to avoid controversial sectors can be traced back to the early days of SRI, which started within the Methodist church 200 years ago. Although SRI can be said to have existed long before then, even in biblical times, a sermon by Methodist church founder John Wesley in the 18th century is often referred to as the starting point for ethical investing (Domini, 2001). The sermon prescribes that one should not profit from anything that would 'hurt our neighbour', including alcohol and gaming. Other faith groups, such as the Quakers, also advocated that investments should not be made in harmful products. The most universal industries to be avoided by the faith-based groups are alcohol, tobacco, gaming and weaponry (Domini, 2001).

The faith-based investment was the essence of SRI for a long time. In the late 1960s, however, political issues made their way onto the SRI arena, as investors divested stock to protest the Vietnam War (Sparkes, 2002). Later, investors would engage in the anti-apartheid movement by divesting stock in corporations with operations in South Africa. Disasters such as Bhopal, Exxon Valdez and Chernobyl raised environmental concern that fuelled the environmental movement, which resonated on the financial market. All of these geopolitical and environmental reasons for SRI manifested avoidance and divestment as the key tools for making a political or moral statement.

In the 1990s, however, there was a shift again, towards an increased focus by investors on environmental and social matters (which goes hand in hand with an increased focus in the corporate sector on sustainable development and 'corporate social responsibility'). This has also spurred investors to focus on all sectors, not just those that are deemed controversial, and to employ more active approaches such as positive screening. This method entails that corporations are selected for inclusion in investor portfolios on the basis of how well they meet the investor's environmental and social criteria, regarding, for instance, occupational health and safety, labour standards and environmental impacts. Through its selection criteria, the investor sends a clear signal to the evaluated corporations about what they expect in terms of corporate responsibility (O'Rourke, 2003). Another active approach for corporate influence is for investors to engage with corporate management over environmental and social matters of concern, for example via meetings and letter writing. Shareholder activism through filing shareholder resolutions in Annual General Meetings is another way to seek to directly influence corporations. All these methods can be used in concert.

The increasing focus on social and environmental aspects has also preempted a change of names, as it appears that the term 'ethical investment' is to some extent being replaced by the term 'socially responsible investment' (Sparkes, 2001; Sparkes and Cowton, 2004).

The shift in focus from traditional 'sin' or controversial sectors to environmental and social matters that we witness on the SRI market today does not mean, however, that religious groups are not active players. Churches and other faith-based institutions are large institutional investors, and several of the shareholder coalitions in the USA that seek to jointly impact corporate behaviour regarding social and environment matters through shareholder resolutions are led by faith based organisations. At the same time, a large proportion of investors are not faith based, such as public pension funds, insurance companies and labour unions. Most index providers listed in the Appendix appear to have a secular background and do not stem from a religious organisation, or specifically address religious people or use an emotive vocabulary of 'morals' or 'right and wrong' in their communications. This adds to the relevance of analysing why the avoidance of controversial sectors is widespread.

### **3 The efficiency of avoidance screening**

"Perhaps the most striking claim of the SRI industry – and certainly the most appealing to many conscious investors and perhaps the most dubious critics – is the claim that SRI 'makes a difference' to society," suggests Rivoli (2003). At the same time, a number of researchers argue that the method of avoiding certain sectors is not an efficient way to influence corporate norms or conduct.

By excluding sectors, the investor signs away her/his rights to pressure the corporations for change through means that would otherwise be available to her/him, such as voicing concern at shareholder meetings or filing shareholder resolutions. To not be able to use shareholder influence to impact a cigarette producer that fails to adhere to adequate labour standards, or to block a producer of alcoholic beverages that excels in occupational health and safety matters can be problematic for the investor who seeks to support social issues (Shepers and Sethi, 2003).

Avoidance screening can also be employed on the assumption that it will depress a corporation's share price, and hence motivate a change in corporate behaviour. Rivoli (2003) finds that avoidance screening will not affect share price, assuming a horizontal demand curve. Losing an SRI investor does not incur costs to the firm, since trading of shares takes place on a secondary market where there are normally enough other shareholders with a different investment approach who are willing to buy the shares. Given imperfect market conditions, however, shares that are divested might experience a price decline (Rivoli, 2003). Nonetheless, if SRI-oriented investors choose to not hold the share in the first place, the share price will not be responsive, as long as the amount of available shares remains the same.

One of the most encompassing instances of avoidance screening is the boycott of firms with operations or holdings in South Africa, with the aim to contribute to the end of the apartheid regime. Research shows that this concerted avoidance of certain corporations had no discernable impact on the valuation of the divested shares (Teoh *et al.*, 1999). The authors suggest that this can be attributed to a reallocation of shares from SRI oriented to more indifferent investors.

The picture is complicated by ownership structures and product diversification, which makes it difficult to effectively target certain sectors: One of the world's largest hotel chains, for example, also owns a betting company, and some of the world's largest telecommunications corporations are also producing components for the weapons industry. By holding arrangements, it is quite possible for a company to have an interest in both a controversial industry and in, for example, the recycling industry or organic food. This makes it difficult to fine-tune investments so as to avoid unethical industries while investing in morally defensible business (cf. Schepers and Sethi, 2003).

Of course, it can also be discussed whether the tobacco, alcohol, gambling and weapons sectors (which are the most commonly excluded) are in fact unethical at all, and hence rightfully motivates exclusion for investors who want to avoid unethical industries. This article, however, will not address this moral-philosophical conundrum. For thoughts on this matter, see articles by Schwartz (2003) and Strudler (2003).

In the next section I will analyse why a practice that is not necessarily efficient remains widespread.

#### 4 Avoidance screening as a quest for legitimacy

Management theorists have traditionally purported that efficiency is key to firm survival and sustainable competitive advantage (for a brief overview of such traditions, see Oliver, 1996). Such research is largely based on the notion that organisations are rational entities, and that they are primarily technical systems. As for avoidance screening, an analysis based on a theory which regards firms as purely economically rational would lead us to propose that the prevalence of avoidance screening can be explained by its efficiency in achieving corporate responsibility in the targeted sectors. As noted earlier in this paper, however, research indicates that avoidance screening is not an efficient way to influence corporate practice (Teoh *et al.*, 1999; Rivoli, 2003; Shepers and Sethi, 2003).

I will instead turn to (neo-)institutional theory, which offers insights into how certain practices are reproduced in a habitual, nonreflective, and socially defined manner, and why social compliance is equally (or more) central to survival as efficiency criteria. This theoretical school emerged as a protest to theories that view organisations as rational entities, and emphasises sociological aspects of organisational behaviour. Institutional theorists have made important contributions in showing that an organisation's embeddedness in its social and normative environment has profound impacts on its success and survival; and that organisations are motivated to incorporate structures and practices that are viewed as appropriate in their institutional context (*e.g.*, Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Powell and DiMaggio, 1991).

The concept of legitimacy is at the core of institutional theory. Legitimacy can be achieved through processes of homogenisation, which will be central for my analysis, and which I will hence come back to later in this section. Suchman (1995, p.574) aptly defines legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions". Legitimation can only be achieved if the organisation manages to establish congruence between the social values that are attached to its operations and society's norms of acceptable behaviour. Suchman (1995) points out that legitimacy is possessed objectively, but created subjectively.

In their seminal article, Meyer and Rowan (1977) argue that legitimacy is more central to firm survival than efficiency. An organisation that aligns its practices and procedures with its surrounding environment's expectations on what constitute appropriate practice and procedure will enhance its legitimacy and hence its survival prospects "independent of the immediate efficacy of the acquired practices and procedures" (Meyer and Rowan, 1977, p.340). Conformity with institutionalised rules may even conflict with efficiency criteria. Institutional rules that guide organisational practice and that grant legitimacy can be supported by formal law, public opinion, or simply being taken for granted.

Synthesising previous literature, Suchman (1995) suggests that there are three kinds of legitimacy. First, pragmatic legitimacy stems from calculations based on self-interest, in contexts where the organisation in some way affects an audience's well-being. Second, moral legitimacy is based on normative judgement about what 'the right thing to do' is, given what is perceived to be good for society (rather than what serves self-interest). Third, cognitive legitimacy rests on taken-for-grantedness, where anything else would be 'unthinkable', and on comprehensibility, meaning that legitimacy comes from cultural models that make organisational practices understandable.

Studies have shown that external legitimacy, which is gained by following myths about appropriate structures and procedures, decreases the propensity for new firms to go out of business (Singh *et al.*, 1986); and that conformity with other organisations' strategies renders organisational legitimacy, while organisations that deviate from 'normal' behaviour are viewed as less legitimate, both by regulatory instances and the general public (Deephouse, 1996).

An organisational field, which is signified by the notion that organisations are part of the same institutional context (DiMaggio and Powell, 1983), can become highly structured over time, with stabilised interactions, through the process of institutionalisation (Berger and Luckmann, 1967). Institutionalisation can be explained as a social process by which actors come to accept a shared definition of social reality and that produces a common understanding of what is appropriate and meaningful behaviour (Meyer and Rowan, 1977). Organisations conform to institutionalised beliefs and practices when these are externally validated to the extent that they are taken for granted, or their 'social fact' quality makes them the only natural way to conduct organisational activities. The homogenisation process by which organisational structures and practices become similar can therefore be understood as a consequence of a quest for legitimacy (DiMaggio and Powell, 1983).

Institutional forces lead to homogenisation, or isomorphism, through three types of processes: normative (through social contexts), mimetic (through imitation) and coercive (through exogenous pressure) (DiMaggio and Powell, 1983). These processes will form the basis for the analysis that follows. The three isomorphic processes cannot be empirically separated, but work in concert. I will nevertheless approach them one by one.

#### *4.1 Normative process*

The institutionalisation process is to a large extent based on a normative process (DiMaggio and Powell, 1983). This refers to the motivation to follow acceptable norms of practice and to social contexts (such as professional networks and industry trade

organisations) where organisational participants learn such norms. Through interaction with other professionals in the same field, organisational members exchange information about what practices are appropriate in what circumstances. As a result, different organisations with employees who share common educational backgrounds, interests and contacts become similar.

Norms constitute a social force that underlies homogeneity, and it is therefore an important concept to address in order to understand normative processes. Norms are ideas about how something is or should be. According to Scott (1995, p.77), “Norms specify how things should be done; they define legitimate means to pursue valued ends.” Sometimes norms are supported by legislation, but they can have regulatory power even without such support. Norms emphasise certain structures as appropriate, natural, or necessary. Further, norms are socially constructed, which means that they are agreements between people on what is ‘right’. Over time, they can attain status as external, objective and given by natural law, and be taken for granted. In other words, norms can become institutionalised (Berger and Luckmann, 1967).

Suchman (1995) refers to legitimacy that is based on taken-for-grantedness as ‘cognitive legitimacy’. This is the most subtle and also the most powerful kind of legitimacy, as alternatives are unthinkable and challenges hence impossible.

The unethical nature of the sectors that are commonly avoided by SRI funds and indices is a prime example of taken-for-grantedness: although it can be argued that, for example, weapons are necessary for a police force to defend citizens against crimes, or that alcohol can be enjoyed in highly cultural contexts, the sentiment that the armament and alcohol sectors are unethical by their nature is an unspoken agreement among many people, and it would therefore be ‘unthinkable’ for many SRI-oriented investors to invest in such industries.

Further, a review of SRI index providers’ websites shows that an overwhelming majority of organisations which avoid certain sectors do not explain why, which points to the sector avoidance being a taken-for-granted procedure. From the viewpoint of institutional theory it can be argued that there is a norm – an accepted and silent agreement – that prescribes controversial sectors to be excluded from SRI products.

Previous studies on normative processes show that norms diffuse in social contexts, such as professional networks. Galaskiewicz (1985) found that job status, professional associations and proximity in the professional network have effects on evaluations of corporate philanthropic officers (for example, the more proximate two officers were in the network, the more likely they were to evaluate prospective recipients of donations in the same way). A study by Palmer *et al.* (1993) concludes that the diffusion of the multidivisional form among large US corporations was spurred by a normative process, where corporations whose directors had nondirectional corporate board contacts with the directors of multidivisional firms adopted this form more frequently than other corporations. Mezas and Scarselletta (1994) found that professionalisation through the certification of public accountants created shared information and beliefs among participants regarding the resolving of financial reporting problems.

These studies indicate that participation in certain social contexts can facilitate the sharing of norms and beliefs and hence lead to similar behaviour. This leads to my first proposition:

*Proposition 1a* SRI funds and index providers will be more likely to systematically avoid specific industries if they participate in organisational, professional or cultural contexts which reinforce norms that the sectors are incompatible with SRI.

We can gain further insights to normative processes by classifying norms within an ethical theoretical framework. Modern ethical theory is based on two main strands: teleological (consequential) ethics and deontological ethics (Spinello, 1995; Morelli, 1995). Teleological ethics argues that the consequences (rather than the intent) of an action determine how the action should be judged. Utilitarianism rests on this idea, and purports that an action is right if it leads to the greatest happiness possible for the greatest number of people possible, and/or as little suffering as possible for as few people as possible. It is, in other words, about the maximisation of good and minimisation of harm and evil, or at least an optimisation between the two. Deontological ethics, on the other hand, argues that intentions rather than good outcomes determine how an action should be judged. Immanuel Kant meant that actions should be undertaken not only in accordance with duty, but for the sake of duty (Spinello, 1995). He argued that only such actions that you will want to see as general moral law are right. Examples of maxims resulting from this view are that one shall not kill, one shall not give false promises and that one shall help people in need. This is considered to be right regardless of the extent to which it maximises utility. Suchman (1995) contends that to maintain legitimacy in the absence of clear outcome measures, where consequences are difficult or impossible to estimate, an organisation can adopt certain practices in order to show that it is striving to attain valuable, if yet invisible, results. The procedures become observable proxies for less visible outcomes. This procedural legitimacy is part of what Suchman (1995) refers to as moral legitimacy.

Investors who systematically avoid controversial sectors apply deontological ethics. Thou shall not kill; weapons kill, so it is not right to invest in the armament industry. The consequences are not central here, but the duty. The avoidance of sectors might not have any consequences on the weapons industry, but can nevertheless be justified on grounds that it is wrong from a duty perspective to direct one's financial capital to the production of lethal weapons. The avoidance method is used categorically, based on the Kantian idea of universal moral rules, and is not flexible in terms of the complexity of the controversial sectors and the consequences of avoidance screening, as it would be if a teleological approach was employed. It appears that deontological ethics has been institutionalised as a basis for methodological choice for SRI.

From this follows my second proposition:

*Proposition 1b* SRI fund and index providers will be more likely to systematically avoid specific industries if they find that intent is equally or more important than consequences.

#### 4.2 Mimetic process

In addition to a normative process, the prevalence of avoidance screening can also be understood through a mimetic (imitating) process, which is spurred by uncertainty (DiMaggio and Powell, 1983). When faced with ambiguity regarding practices, structures or goals, modelling oneself upon other organisations and what is perceived to be



'best practice' is a convenient way to reduce this uncertainty, and hence minimise risk. This can manifest itself, for example, through copying business models, standards, technologies or even corporate cultures (*e.g.*, the playful cultures of 'dot-com' companies, cf. Davidsson *et al.*, 2006, p.118). Models for appropriate structures and practices can be diffused intentionally or unintentionally, for example, through trade organisations, consulting firms or employee turnover. According to DiMaggio and Powell (1983), organisations tend to mimic other organisations that they perceive to be more successful or legitimate, even with a lack of evidence that these models will improve efficiency. If one follows the herd, one decreases the risk of being questioned. Suchman (1995) refers to legitimacy that is based on judgements about 'the right thing to do' as moral legitimacy.

When it comes to avoidance screening, the prevalence of this method may be a response to uncertainty about what constitutes (or ought to constitute) socially responsible investments. SRI can be regarded as an emerging organisational field (Louche, 2004) that is wrestling with inconclusiveness about what exactly constitutes social responsibility, what the purposes of responsible investments are and what methods investors should employ (*e.g.*, Sparkes, 2001; Shepers and Sethi, 2003; van Marrewijk, 2003). When faced with such ambiguity, copying other organisations' models and methods can be a viable way to reduce this uncertainty and stabilise the field. The prevalence of avoidance screening can, in other words, be viewed as a result of an ongoing institutionalisation of SRI, where homogenisation contributes to the reduction of the uncertainty that characterises this field in its emerging phase.

The majority of the existing SRI indices and funds were launched in the 1990s or later, which means that they have been developed within the timeframe of a limited number of years, and at a time when the indistinct concept of 'corporate social responsibility' got a breakthrough in the corporate world. Given this fast growth in the context of the blurred concept of corporate social responsibility, it has been natural for index and fund providers to handle the uncertainty that comes with such conditions by actively modelling themselves upon existing SRI indices and funds, which over time creates a widespread homogenisation process. The appeal for similarity through the copying and reinforcement of certain methodologies lies in the legitimacy it brings, and is a consequence of the perception of shared values in the social context in which the funds and indices operate (cf. the next section on coercive processes).

Further, it is relatively easy to mimic deontological ethics, since it does not impose the difficulty of mimicking causalities. As explained above, avoidance screening is based on the normative ethics that prescribes that intent is valued over outcomes, and because intent is more static and predictable than outcomes it is relatively easy to copy.

Previous studies have found that organisations which seek stability in an uncertain environment are likely to mimic organisations that are forerunners, that are successful and/or that one is connected to (Galaskiewicz and Wasserman, 1989; Haveman, 1993; Greve, 1998), which leads to further propositions here below. Greve (1998) showed that managers that plan to abandon a market position and search for alternatives are likely to mimetically adopt recently innovated market positions rather than invent a new one, in the face of uncertainty about the consequences of different actions.

*Proposition 2a* Fund and index providers that enter the SRI market will be more likely to systematically avoid specific industries if other SRI funds and index providers typically do so.

In a study of savings and loan firms, Haveman (1993) found that firms enter new market niches in increasing numbers if these market niches have been entered by successful peers (large organisations are mainly followed by other large organisations, while profitable organisations are followed by all organisations).

*Proposition 2b* SRI fund and index providers will be more likely to systematically avoid specific industries if large and/or highly profitable SRI fund and index providers do so.

Further, in a study of corporate philanthropy, it was found that managers are especially likely to mimic the behaviour of organisations to which they have some type of network tie via boundary-spanning personnel (Galaskiewicz and Wasserman, 1989).

*Proposition 2c* SRI fund and index providers will be more likely to systematically avoid specific industries if they are socially connected via network ties to SRI fund and index providers that also do so.

#### 4.3 Coercive process

Thirdly, an organisation can gain legitimacy by conforming to the values, norms and expectations of constituents (DiMaggio and Powell, 1983). Such coercive isomorphism can result from exogenous pressures in the form of, for example, a regulatory instance or from cultural expectations in the society where the organisation operates. Through adhering to explicit or unspoken rules and expectations about how organisations ought to function, they can signal their willingness and ability to fulfil constituents' expectations. In other words, the social context defines socially acceptable structures and practices, and legitimacy stems from the availability of credible explanations for the organisation and its practices. Cognitive legitimacy (Suchman, 1995) stems from comprehensibility, meaning that certain structures arise as a way to provide understandable, predictive and meaningful accounts. Coercive isomorphism can also render pragmatic legitimacy, which is based on constituents' self-interest (Suchman, 1995). An organisation can, for example, gain legitimacy by being responsive to constituents' larger interests, and by accepting their ideas as a guiding rule.

In the case of avoidance screening, the methodology can hardly be seen as a response to coercive pressures through formal regulation, since there is no general regulation regarding which investment methodology SRI funds or indices should use. It is rather a consequence of coercive pressures through more covert expectations on what social responsibility ought to be. Since the alcohol, tobacco, weapons and gambling sectors are generally understood to produce harmful products and activities, they are traditionally viewed as controversial by large groups of people. This, in combination with SRI's historical roots in ethical investment by religious groups who want to avoid investments in sinful or harmful industries, may lead to a cultural expectation, or myth (Meyer and Rowan, 1977), that SRI is incompatible with these sectors.

An illustrative example of the importance of coercive processes for structures and practices is a Canadian SRI index provider that expresses on its website that, in order to construct its investment methodology, it always asks itself, “Does the screen reflect the current state of social investing in Canada?” and “Does the screen reflect a trend in the social investment community, either in Canada or internationally?” (MJRA, 2005). The index provider is, in other words, making a point of explaining that it strives to adhere to cultural expectations on what constitutes SRI.

Covaleski and Dirsmith (1988) showed that coercive pressures through societal expectations strongly influence symbolic displays such as budgetary practices. In their study, they found that the state of Wisconsin used budgeting for the University of Wisconsin as a highly visible symbol to demonstrate to the public its commitment to higher education.

*Proposition 3a SRI fund and index providers will be more likely to systematically avoid specific industries if they face a cultural expectation that these industries are incompatible with social responsibility.*

It has also been found that coercive forces are important predictors influencing the propensity of nascent organisations to write business plans while there is no correlation between these plans and increased profitability, or survival (Honig and Karlsson, 2004). Expectations on organisations to compose business plans were forwarded by assistance agencies from which organisations applied for financial support. This means that organisations that control critical resources can be a source of coercive isomorphism. This is supported by Guler *et al.* (2002), who showed that adoption of the ISO 9000 certification diffused among organisations from which customers with a strong presence in the economy as purchasers (the state and multinational companies) required such certification.

*Proposition 3b SRI fund and index providers will be more likely to systematically avoid specific industries if constituents on which they depend for resources express that these industries are incompatible with social responsibility.*

Table 1 sums up the three isomorphic processes on which the proposals are structured.

**Table 1** Isomorphic processes that sustain avoidance screening as a central method for SRI

<i>Coercive processes</i>	<i>Mimetic processes</i>	<i>Normative processes</i>
Organisations strive to conform to perceived societal expectations as a way to gain legitimacy	Organisations model themselves upon each other in order to avoid uncertainty and to be accepted as legitimate	Organisational members learn appropriate behaviour through interacting with others in the same field

The three isomorphic processes (normative, mimetic and coercive), as well as different types of legitimacy (pragmatic, moral and cognitive), are blurred at the borders and blend with each other. Expectations from the organisation’s surrounding environment are at

play in all three homogenising processes, and social connectedness is a component of shared beliefs on what is appropriate and hence legitimate behaviour in normative as well as mimetic and coercive processes.

My analysis of avoidance screening based on DiMaggio and Powell's (1983) typology of isomorphic processes shows, however, that institutional theory about why organisational practices and procedures become similar over time, and the role that legitimacy plays in this context, is a constructive way to understand and explain the studied phenomenon. Theories on organisations as embedded in social contexts, and as dependent on constituents perceiving their procedures as appropriate, can explain why a certain practice – in this case avoidance screening – is reproduced by many actors in the same field so as to become widespread and to be sustained over time.

## **5 Conclusions**

The purpose of this paper is to offer an explanation as to why the methodology of avoidance screening is so prevalent today. This article suggests that while avoidance screening may not be an efficient method in terms of its corporate impact, it enhances SRI funds' and indices' legitimacy. It seems that it is not because of a demonstrated superiority in fostering corporate responsibility that avoidance screening is so widespread, but that it has become a self-sustaining method over time due to its perceived appropriateness. The prevalence of avoidance screening among SRI funds and indices can hence be understood as a quest for legitimacy. Legitimacy is necessary for the SRI fund and index providers' survival. SRI is an organisational field where ethics, in terms of avoiding alcohol, tobacco, gambling and weapons, has remained a major component since the religious time and context in which SRI was born, and this fundament fuels SRI funds and indices with legitimacy, meaning that the fund and indices are perceived as desirable, proper or appropriate.

I have suggested that the similarity in choice of investment methodology on the SRI market occurs through the homogenisation processes that neo-institutionalism refers to as coercive, mimetic and normative (DiMaggio and Powell, 1983), and that this contributes to institutionalisation and field stabilisation. This entails that certain sectors may be excluded due to deep-rooted norms and expectations without reflection over the lack of impact on corporations' environmental and social work that it implicates, and as a way to be compliant with socially defined expectations.

More specifically, I have forwarded seven propositions. I suggest that the adoption of systematic avoidance screening by SRI fund and index providers is spurred by the diffusion of norms in organisational, professional and cultural contexts. Further, avoidance screening is more likely to be employed when intent is prioritised over consequences. Imitation of others is also a powerful force for homogenisation, and I have proposed that SRI fund and index providers will employ avoidance screening if other successful organisations do so. Finally, avoidance screening is spurred by cultural expectations in the society in which fund and index providers operate, and by expectations on the part of constituents on which fund and index providers are dependent for resources. All of these processes are expressions of the pursuit for socially defined compliance as a way to gain legitimacy, and hence to improve the survival prospects of the SRI fund or index.

Potentially, however, if SRI is increasingly moving towards an agenda of corporate influence rather than passive conscious-based investing, legitimacy for SRI funds and indices may eventually come to be dependent on the actual corporate impact they have, and the need to demonstrate conformity to certain values through sector exclusions might diminish. If SRI is increasingly viewed as a way to make a difference to society, avoidance screening may even become regarded as undermining the legitimacy of SRI, given that investors actually reflect on the efficiency of this method. Subsequently, isomorphic processes can come to work towards a less widespread use of avoidance screening.<sup>1</sup>

## 6 Future research

The widespread practice of avoidance screening raises a number of issues and ideas for future research. First of all, institutional theory has been criticised for a deterministic view of organisational behaviour, where organisations typically act in an unreflective or habitual way, rather than calculative and consciously motivated by self-interest (DiMaggio, 1988; Oliver, 1991; Goodrick and Salancik, 1996; Beckert, 1999). Goodrick and Salancik (1996) point out that only when alternative practices are not ‘unimaginable’ will it be possible to actively select among a range of (acceptable) options without losing legitimacy. In this study, I have not addressed this issue, and whereas my choice of the word ‘quest’ (for legitimacy) might be interpreted as an active rather than passive search, I have not sought to investigate to which extent avoidance screening is a passive or active strategic choice. The addition of such a dimension, however, would further contribute towards valuable insights into the choice of investment methodologies.

Relating to this, my paper has focused on organisations’ motivations for conformity, while a topic that merits more attention is how SRI funds and indices resist institutional pressure for avoidance screening. For a theoretical discussion of strategies for resistance to institutional pressures, see Oliver (1991). In order to understand how organisations can seek to avoid being questioned while not conforming to common practice or widespread expectations, it is also helpful to turn to Suchman’s (1995) suggestions for different strategies for gaining, maintaining and repairing legitimacy.

Another important dimension of the studied phenomenon is who the actors are that are involved in impacting the norms and expectations that guide SRI conduct. The church has been mentioned in this paper as a powerful norm-setting institution, but it is not the only one: international standards and guidelines (Brunsson and Jacobsson, 2000), civil society organisations (Zadek, 2001) and academic researchers are examples of actor-groups that enforce or reinforce societal norms. To identify norm-setting constituents and to analyse the choice of systematically avoiding sectors in relation to these would be a relevant topic for a future study.

Further, financial actors are not only subject to isomorphic pressures, but are norm-setters themselves, in relation to other actors. Rosenzweig and Singh (1991) suggest that organisations are affected by environmental pressures, but also constitute a pressure on their environment. According to O’Rourke (2003, p.684), “If the financial industry is judging other companies in terms of their ethics and relative contribution to sustainability – then in effect, they have created a powerful symbol for what ‘ethics’ and ‘sustainability’ actually mean in practice.” This suggests that views on what are deemed

as appropriate and hence legitimate practices and structures can transmit between actors, so as to eventually be accepted as general norms even outside the organisational field and be taken for granted by a larger part of society, and vice versa.

An additional suggestion for further research is to employ an actor-role perspective. This would make it possible to conduct a more fine-grained analysis of the organisational processes that investors are involved in, since it is likely that actors investing in SRI funds and indices are not a straight-through homogenous group, and whose ideologies, strategies and goals may differ depending on whether they are a labour union, pension fund, church, insurance company, university, *etc.* It is pertinent to relate institutionalisation processes and legitimisation to the set of actors that are present in the field for SRI and the specific roles they play, including different kinds of investors but also other constituents, such as the norm-setting entities exemplified above.

On a final note, it is interesting to notice that the most commonly avoided sectors are harmful to humans rather than the environment. It seems as if avoidance is based on an anthropocentric view, which is yet another relevant issue to study in order to thoroughly understand the development and the effects of the growing field of SRI.

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## Note

- 1 With this in mind, it is interesting to note that the Swedish Church, in its 2006 version of its investment policy, has decided to abstain from systematic exclusion of the alcohol, weapons and gambling sectors (Svenska Kyrkan, 2006). For example, alcohol producers that act responsibly regarding its products and its marketing, and that have codes of conduct for self-regulation, will not be excluded.



**Appendix***SRI market indices and avoidance screening*

The data in this table are collected from each index provider's official website or by e-mail correspondence with the index provider. It is indicated in the far-right column whether the index uses avoidance screening or not, and which sectors are avoided. All of the indices in this table also use positive screening (*i.e.*, actively seek to include corporations who perform well in terms of social responsibility).

<i>SRI market indices</i>	<i>Start</i>	<i>Excluded sectors</i>
<i>Avanzi (Italy)</i>		
Avanzi SRI Index Europe	2005	Armament and firearms, tobacco, alcohol, gambling, nuclear energy
Avanzi SRI Index Euro	2005	
AuSSI (Australia)	2005	<i>No avoidance screening</i>
Calvert Social Index (USA)	2000	Firearms, tobacco, alcohol, pornography, casino games, military weaponry
Citizens Index (USA)	1994	Tobacco, alcohol, nuclear power plants weapons, weapon-specific components, gambling, lack of diversity at the level of the board of directors/senior management
<i>Dow Jones Sustainability Index (USA)</i>		
DJSI World	1999	<i>No avoidance screening</i>
DJSI World Ex Alcohol	1999	Alcohol
DJSI World Ex Tobacco	1999	Tobacco
DJSI World Ex Gambling	1999	Gambling
DJSI World Ex Armaments and firearms	1999	Armaments and firearms
DJSI World Ex All	1999	Alcohol, tobacco, gambling, armaments and firearms
DJSI STOXX	2001	<i>No avoidance screening</i>
DJSI STOXX Ex Alcohol, tobacco, gambling, armaments and firearms	2001	Alcohol, tobacco, gambling, armaments and firearms
DJSI Euro STOXX	2001	<i>No avoidance screening</i>
DJSI Euro STOXX Ex Alcohol, tobacco, gambling, armaments and firearms	2001	Alcohol, tobacco, gambling, armaments and firearms
DJSI North America	2005	<i>No avoidance screening</i>
DJSI US	2005	<i>No avoidance screening</i>
<i>E.Capital partners (Italy)</i>		
Ethical Index Euro	2001	Tobacco, military, alcohol, gambling, pornography, nuclear
Ethical Index Global	2001	
Ethical Index Balanced	2001	-"-
Ethical Index EMU	2003	-"-
<i>FTSE4Good (UK)</i>		
FTSE4Good Global Index	2001	Manufacturers of tobacco, parts of or whole nuclear weapons systems, whole weapons systems, owners or operators of nuclear power stations, and extraction or processing of uranium
FTSE4Good US Index	2001	
FTSE4Good Europe Index	2001	
FTSE4Good UK Index	2001	
FTSE4Good Japan	2004	

**Appendix (continued)**

<i>SRI market indices</i>	<i>Start</i>	<i>Excluded sectors</i>
Impax ET50 (UK)	1999	<i>No avoidance screening</i>
JSE SRI Index (South Africa)	2004	<i>No avoidance screening</i>
Kempen SNS Smaller Europe SRI Index (the Netherlands)	2003	<i>No avoidance screening</i>
<i>KLD (USA)</i>		
Domini 400 Social Index	1990	Alcohol, tobacco, gambling, military contracting, nuclear power, adult entertainment and firearms
KLD Catholic Values 400 Index	1998	Alcohol, firearms, gambling, military, nuclear power, tobacco and abortion
KLD Large Cap Social Index	2001	Tobacco
KLD Broad Market Social Index	2001	Alcohol, tobacco, firearms, gambling, nuclear power and military contracting
KLD Nasdaq Social Index	2002	Tobacco
KLD Select Social Index	2004	Tobacco
KLD Global Climate 100 Index	2005	<i>No avoidance screening</i>
Maala SRI Index (Israel)	2005	<i>No avoidance screening</i>
MJRA Jantzi Social Index (Canada)	2000	Production of nuclear power; manufacture of tobacco products; weapons-related contracting
Morningstar SRI Index (Japan)	2003	<i>No avoidance screening</i>
RepuTex SRI Index (Australia)	2005	<i>No avoidance screening</i>
<i>SIX/GES (Sweden)</i>		
SIX/GES Ethical Index Nordic	2001	Production and/or sales of weapons, tobacco, alcohol, pornography and gambling
SIX/GES Ethical Index Denmark	2001	
SIX/GES Ethical Index Finland	2001	-"
SIX/GES Ethical Index Norway	2001	-"
SIX/GES Ethical Index Sweden	2001	-"
SIX/GES SIX30 Ethical Index	2001	-"
Summit Total Social Impact Fund (USA)	2000	<i>No avoidance screening</i>
<i>Vigeo (France)</i>		
ASPI Eurozone	2001	<i>No avoidance screening</i>
Ethibel Pioneer Global	2002	Heavy involvement in armament, nuclear energy, tobacco and gambling
Ethibel Excellence Global	2002	

## Discussion of Results:

### How Shareholders May Influence Norms and Practices for Corporate Social Responsibility

In this chapter, I will conduct an analytical discussion of my research findings. While this chapter is based on the results from my individual studies, it further extends the insights gained from them, through analysis on the aggregate level.

The overarching aim for this thesis is to explore how shareholders may influence norms and practices for corporate social responsibility, and to contribute towards conceptual development for studying this phenomenon. The analysis of shareholder influence in this chapter will centre on the two research questions that were raised in Chapter 1: *What enables shareholder influence on norms and practices for CSR* and *In what way do shareholders influence norms and practices for CSR?* Figure 3 illustrates the aim and research questions.

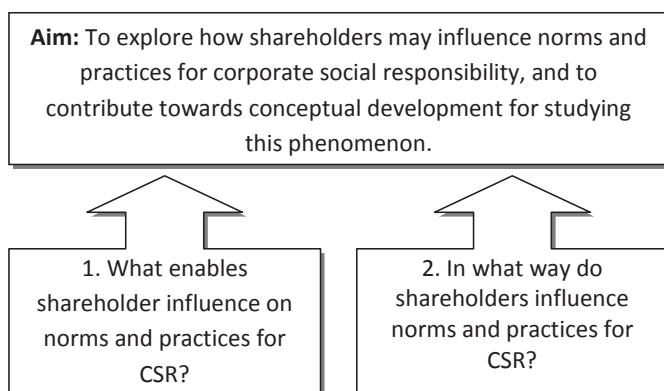


FIGURE 3: OVERARCHING AIM OF THE THESIS AND SUPPORTING RESEARCH QUESTIONS

Throughout Chapter 6, I will refer to the articles by number rather than by title (e.g. Article 1, etc.). This table provides an overview to remind the reader of the order of the articles.

**TABLE 3: THE ARTICLES**

<b>NUMBER</b>	<b>TITLE</b>
<i>Article 1</i>	<i>Shareholder Activism for Corporate Social Responsibility: What Do We Know?</i>
<i>Article 2</i>	<i>Facilitators and Impediments for Socially Responsible Investment: A Study of Hong Kong</i>
<i>Article 3</i>	<i>Translating Ideologically Based Concerns: How Civil Society Organisations Use the Financial Market to Protect Human Rights</i>
<i>Article 4</i>	<i>Shareholders As Norm Entrepreneurs for Corporate Social Responsibility</i>
<i>Article 5</i>	<i>Shareholder Influence on CSR: A Study of the Swedish Corporate Sector</i>
<i>Article 6</i>	<i>Socially Responsible Investment and Avoidance of Controversial Sectors: On Isomorphic Processes and the Quest for Legitimacy</i>

The chapter is divided into two main sections: Part 1 and Part 2. In Part 1, I discuss the first research question: *What enables shareholder influence on norms and practices for CSR?* In Part 2, I discuss the second research question: *In what way do shareholders influence corporations?*

**Part 1: What Enables Shareholder Influence on Norms and Practices for Corporate Social Responsibility?**

In this section, I will address the question of what enables shareholder influence from the perspective of *institutional logics* and *translation*, and then continue to address *relations* as enablers for influence.

### *Translation between Institutional Logics Enables Shareholder Influence*

In my research (particularly in Articles 2 and 3), an important departing point for understanding what enables shareholder influence on norms and practices for corporate social responsibility is that this activity takes place in the intersection of sectors that are guided by disparate institutional logics. As explained in the chapter on theoretical underpinnings (Chapter 3), *institutional logics* are assumptions about reality (Friedland & Alford, 1991); they provide an internalised roadmap for social action and interaction.

The corporate sector is dominated by market logic, which implies that maximising profit and generating shareholder value are guiding principles, and that self-interest is key to efficiency. Conversely, the logic that underlies environmental protection and social justice<sup>1</sup> implies altruistic motivations, exemplified by civil society organisations (CSOs) that seek to be a voice for the less privileged or resourceful actors in society.

I find that these disparate logics must somehow come to resonate with each other for shareholder claims regarding corporate social responsibility to be meaningful for corporations.

This argument partly builds on our research of the financial and corporate sectors in Hong Kong. In Article 2, my co-author Richard Welford and I argue that the dominating “free market” logic in Hong Kong has not been receptive to an environmental protection and social justice logic, and that this has been a major impediment for

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<sup>1</sup> Again, as stated in Chapter 3, *social justice* is here used as an umbrella term for ideas and activity, which is geared towards achieving a just (i.e. fair) society. This includes protection of human rights, gender equality, racial equality, access to health, etc. I am, thus, using the term social justice as the social counterpart to environmental protection. It should also be noted that these two broad areas overlap; environmental protection may, for example, be vital to health issues or protection of human rights.

shareholders to even attempt to influence norms and practices for CSR. A *free market* logic here refers to a version of market logic where economic activity is governed by market forces with minimum intervention from government or other regulators. Thus, in a free market, if corporate social responsibilities are not a requirement from the government (other than what is implemented through binding law) corporations will likely not voluntarily address such responsibilities – unless it is seen as a competitive advantage.

Symptomatically, respondents in the interviews for our study found that there is a trade-off between profitability and social justice or environmental protection, as illustrated by this quote from Article 2:

“It costs money to protect the environment, and costs eat away profits, and ultimately shareholder value. So, it is always a balance between financial and environmental interests.” (*Corporate representative*)

Hong Kong has continuously ranked number one on the Index of Economic Freedom (The Heritage Foundation, 2008). A free market and its logic, however, is not only a matter of actual facts such as the amount of business freedom, fiscal freedom, and freedom from government, etc. (which are some of the parameters in the aforementioned index); instead, it is comprised of assumptions, values, beliefs, and rules that provide meaning to the social reality of actors within the Hong Kong business and financial sectors.

This is not to say that free market logic is not compatible with environmental protection and social justice logic; however, as we suggest in our study, this would require a translation of environmental and social goals into profit-related terms. As explained in Chapter 3, *translation* refers to a process through which foreign practices and beliefs come to resonate better with institutional logics in an intersecting field or sector (Czarniawska & Jorges, 1996; Boxenbaum, 2005). Translation, therefore, makes it possible for ideas and practices to be transported not only across time and space, but also into new contextual settings. The discursive process of translation can be used

purposefully to serve the interests and values of actors who seek to influence others across organisational fields and sectors.

Herein lies a key to what enables shareholder influence on norms and practices for corporate social responsibility.

In Article 2, we argue that it would be necessary to reformulate environmental and social issues in financial terms that resonate with market logic, in order for the free market logic – which dominates Hong Kong’s financial and corporate sectors – to be receptive to an environmental protection and social justice logic. This is in line with Suddaby and Greenwood’s suggestion that rhetorical strategy – through language selection, metaphors, and the use of common referents – is vital in achieving correspondence with the institutional logics that underpin actors’ framework for reason and belief (Suddaby and Greenwood’s, 2005).

While we suggested in Article 2 that translation is a key enabler for shareholder influence, we did not explore it any further. However, my research on how civil society organisations use the financial market to influence corporations (Article 3) brings more clarity to this argument.

This research shows how CSOs tap into the dominating logic<sup>2</sup> of the financial market by translating arguments, which are aimed at influencing corporate policy and practice into financial terms, rather than in the morally based ideals that motivate the CSOs’ actions. The civil society organisations were able to influence corporations with regards to environmental and social responsibility, by aligning the frames of references between sectors and fields, which are guided by different institutional logics.

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<sup>2</sup> In the article, I refer to *ideology* rather than logics. I define ideology as “a set (system) of ideas describing the organization-relevant reality, projecting a desired state of affairs and indicating possible ways of reaching the desired state” (Czarniawska-Joerges, 1988:7). In my view, ideology and logic are closely related, and I am essentially using them to denote the same thing: both refer to a taken-for-granted thought-world, which guides social action and interaction.

In one case, a CSO tuned into financial market logic, in order to influence corporations into adopting public human rights policies. In another case, CSOs used arguments that were based on financial market logic to influence a construction company to withdraw from an environmentally and socially controversial dam project. In both cases, the CSO took on a temporary role as a shareholder and portrayed itself as a concerned shareholder vis-à-vis corporations; I see this as being part of the translation process.

These findings relate to arguments furthered by Logsdon and Van Buren (2008), who conducted a study of shareholder resolutions to US corporations during 1999-2005. The study shows that of the resolutions that asked corporations to improve justice issues, only a minority explicitly used justice-oriented argumentation. The authors suggest that this may be due to the fact that the filers deemed it more realistic to gain support from other shareholders if they used argumentation relating to shareholder value.

In Article 3, I also concluded that one of the ways in which CSOs used the financial market to influence corporations was to *educate* investors on human rights and how they relate to business risks. By helping investors become more knowledgeable in human rights, the CSOs could to transform them into allies, and join efforts in influencing corporations to address human rights issues. While I do not draw further on this aspect in the actual paper, I suggest here that education is also a translation process, as it facilitates the aligning of ideas that are part of different logics. By learning to connect human rights issues to business risks, corporate responsibility is translated into a financial issue to fit with market logic; thus, it can become part of traditional (non-SRI oriented) investors' interpretation of reality. An implication of this in a market such as Hong Kong is that shareholders and corporations may need a third party (e.g. foreign SRI-oriented shareholders or an environmental interest group) to educate them on how CSR relates to their reality; this will enable shareholders to become more prone to seeking to influence corporations with regards to social and



environmental issues and, in turn, for corporations to see the relevancy of such issues.

Importantly, I mean that civil society organisations that seek to influence corporations via the financial market (either by temporarily becoming shareholders so as to be granted access to the annual general meeting etc, or by seeking to influence other investors to act in the organisation's interest) are *using* the financial market logic – not *adopting* it. One important insight from this study (Article 3) is that civil society organisations can, in fact, piggyback onto other actors' logic vis-à-vis corporations as a way to influence them. The “trick” for civil society organisations (in this case) is to be able to tap into this other logic and communicate in a fashion that resonates with it. They do not, however, change their own logic in order to do so.<sup>3</sup>

### ***SRI Logic and Translation***

Translation, I argue, is facilitated by the fact that SRI itself builds upon a mix of logics and can, therefore, bridge the corporate sector and the environmental and social justice sectors.

When multiple (competing) logics are in play in the same setting, they can generate discord and/or produce new versions of activity (Owen-Smith & Powell, 2008: 602). In my view, the phenomenon of shareholder influence on norms and practices for CSR is a prime example of the latter: where two disparate logics produce new activity in the form of SRI. Socially responsible investment is based on a combination of the market logic, which dominates the financial sector on the one hand, and environmental protection and social justice logic on the other. However, this means combining two quite different logics. The financial market has traditionally been considered an amoral space, where actors do not involve ethical considerations in their decisions but,

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<sup>3</sup> At the same time, it is possible that, over time, the logics of civil society organisations change, to a certain extent, as a result of interaction with the corporate sector, and possibly contribute to a “corporatization” of civil society organisations.

instead, view their own activities as morally neutral<sup>4</sup> (e.g. Norberg, 2001, DeGeorge, 1982). Conversely, environmental protection and social justice typically involve personal principles and values-based dimensions, often about justice. For example, the human rights movement builds upon morally grounded norms about equal rights for all. Additionally, the dominating market logic of the financial sector hails self-interest as a basis for efficient markets, as per neo-classical economics, while environmental protectors and social activists largely act on altruistic grounds (for example, through civil society organisations that seek to be a voice for the less privileged or resourceful actors in society).

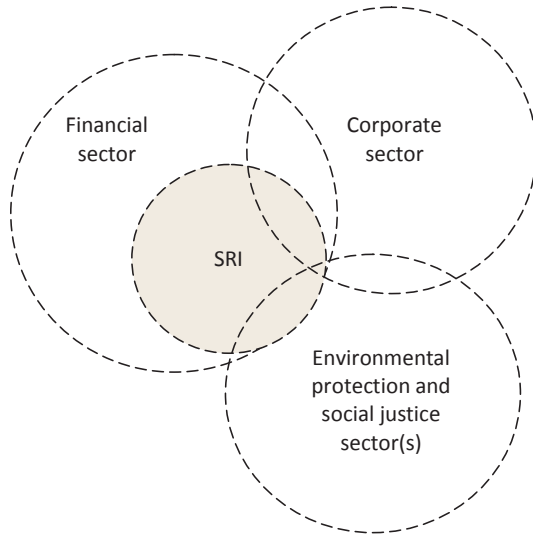
Shareholder claims that build on this mix of market and non-market logic may be the very inroad to translating issues in order to resonate with corporations.

Figure 4 illustrates how the field of socially responsible investment, while being a part of the financial sector, is located in the intersection of a number of different societal sectors - and how it creates an overlap between these.<sup>5</sup>

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<sup>4</sup> This notion, however, is not uncontested: the turbulence on the global financial market that has unfolded in 2008/2009 has evoked criticism about financial market actors and their lack of ethics and responsibility - and for even being greedy. Such behaviour is categorised as immoral, rather than amoral.

<sup>5</sup> In the figure, I have displayed environmental protection and social justice as a single sector, although in reality, they may be two separate but closely linked sectors. Other sectors than those displayed here may also intersect with socially responsible investment; however, the ones included in Figure 3 are those that I find most explicitly formative for SRI. Furthermore, the financial sector may be linked with the environmental protection and social justice sectors in ways other than through socially responsible investment, albeit this is not illustrated here. Rather, the focus of the illustration is SRI and how this is formed in the intersection of a number of sectors.



**FIGURE 4: THE FIELD OF SOCIALLY RESPONSIBLE INVESTMENT IS PRODUCED IN THE INTERSECTION OF SOCIETAL SECTORS: THE FINANCIAL SECTOR, THE CORPORATE SECTOR, AND THE ENVIRONMENTAL PROTECTION AND SOCIAL JUSTICE SECTOR(S)**

### ***CSR and Translation***

As an extension of this reasoning, I am suggesting that, thanks to the establishment of the concept and idea of *CSR*, the dominating market logic of the corporate sector might be more prone to accepting shareholder claims that stem from an SRI logic.

While *CSR* as a concept is not new (c.f. Carroll, 1999), it has become increasingly popular since the 1990s: *CSR* has now become something of a catchword (Windell, 2006). To a certain extent, the establishment of *CSR* in the business sector has normalised the idea of incorporating social and environmental dimensions into business decisions and operations; thus, it has created a cognitive framing of social and environmental issues, which corresponds with market logic, through, for example, linkages between *CSR* and value creation and risk management.

CSR may be interpreted differently and result in different things for different corporations; however, it maintains a common baseline: that corporations have social responsibilities. Many corporations today, particularly large-cap multinationals based in economically well-developed countries, are publishing yearly CSR reports, and usually have a CSR section on their web site. These companies may even have a CSR department (although it may go under a different name, such as *sustainability*). I argue that this has facilitated the translation of social and environmental concerns to correspond with market logic; it has, therefore, also facilitated the pursuits of shareholders who seek to influence corporate norms and practices. A common base line and a common corporate social responsibility language facilitate translation that serves shareholder influence on norms and practices. Conversely, our research reported in Article 2 shows that the low establishment of CSR as a concept in Hong Kong and the low disclosure levels on CSR activity that this entails, have been an impediment for shareholders to relate their claims to business reality.

Furthermore, the increasingly common establishment of a formal post of *CSR Manager* or the equivalent entails that there are now people within corporations who may explicitly share some of the ambitions of SRI-oriented investors, while balancing these with the corporation's overall goals (c.f. Lounsbury, 2001). Therefore, these people may function as an interface between shareholders and the corporation, and facilitate the shareholders' efforts to translate issues in order to resonate with market logic-based corporate goals at large. As I have found in my research (Article 5), shareholders who raise CSR concerns are legitimising CSR managers' work vis-à-vis the corporation. By doing so, shareholders implicitly increase their own opportunity for translation, and consequently to influence norms and practices for corporate social responsibility.

CSR can be regarded as a new component of market logic, which makes it more open to SRI logic and, hence, to shareholder influence. This contrasts a version of market logic, where CSR is not a part, implying a shift in corporate assumptions of reality, which can be vital

to shareholder norms and practices for corporate social responsibility. To come full circle, I would also argue that the establishment of CSR on the business agenda is partly an outcome of shareholder influence.

### *Relations Enable Shareholder Influence*

In this section of Part 1, I will further address the question of what enables shareholder influence, by suggesting that relations may have a pivotal role to play.

Relations connect actors, and may be of greater or lesser intensity. One example of a type of relation is when shareholders and a labour union or an environmental organisation become allies, and join efforts to influence norms and practices for CSR (such as to jointly draft and co-sponsor shareholder resolutions). There are times when relations will be of a less organised character. For example, this may be the case when another actor or group of actors pave the way for shareholder influence through their pursuit of the same or similar causes, without carrying out joint activities. They are part of a relational network, potentially drawing upon each other's experiences and each other's relations with the corporate sector, as well as individual corporations.

In Article 2, we found that civil society organisations in Hong Kong that advocate social justice and environmental protection do not generally target the corporate sector – and do so even less by using the financial market. We argued that this lacking link in the relational network of corporations and the financial sector is one reason why the corporate and financial sectors are not receptive to an environmental protection and social justice logic. Civil society organisations, similar to socially minded shareholders, can serve as a bridge between different logics, and translate issues between organisational fields or sectors that are governed by different logics.

Relations between different actors, however, are not only important for translation and for achieving congruence between different elements of disparate institutional logics; they are also crucial for mobilising

support among corporate stakeholders that have shared interests and the agenda of influencing corporations on issues of concern. To this end, the missing relational link between civil society organisations and the corporate and financial sectors in Hong Kong reduced the opportunity for these actors to ally themselves and join efforts.

In my research of how civil society organisations use the financial market to influence corporations (Article 3), it becomes evident that it is the relations between these organisations and financial market actors that are vital in influencing corporations. My work indicates that relations are a gateway to resources that can be important for field participants' influence on other constituents. The focus of the article is civil society organisations that buy a limited number of shares in order to temporarily enjoy shareholder rights, and attend corporations' annual general meetings in order to raise "shareholder concerns" as a way of putting pressure on these corporations with regards to CSR.

In one of the two cases described in the article, a civil society organisation informs other shareholders (SRI, as well as traditional) about why they should vote for the shareholder resolution that the organisation has filed, and actively seek to create allies for their cause (which is to influence a corporation to withdraw from an environmentally and socially controversial dam project). In this case, the targeted corporation eventually conforms to these demands, citing stakeholder pressure as the reason. The case indicates that relations and alliance building between shareholders and other stakeholders can create momentum for influencing norms and/or practice for corporate social responsibility.

In terms of sharing many of SRI-oriented investors' concerns, civil society organisations may be an especially important relation for shareholders who seek to influence corporations. This relation may either be direct (as in joining efforts) or indirect (by pursuing similar causes with different means). Thus, it paves the way for each other's efforts. In some markets, civil society organisations have proven to exert strong pressure on corporations to address, and even extend, social

responsibilities (e.g. Spare & La Mure, 2003; Doh & Guay, 2004). Organisations such as environmental groups, workers rights organisations, and human rights advocates have created an additional incentive for corporations to be attuned to external stakeholder expectations of corporate social and environmental responsibilities through public campaigning, etc. The events described in Article 3, with CSOs seeking to influence corporations on human rights issues, are but one indication of this. I argue that this, in turn, facilitates investors to further their, since it enlarges the pool of corporate stakeholders with converging interests.

This suggestion is supported by stakeholder literature: Rowley (1997, 2000) finds that the structure of a stakeholder relationship network influences how organisations respond to their stakeholders, and that stakeholder salience will be strengthened through the interdependence of stakeholder demands. He shows that organisations that are surrounded by a densely connected set of stakeholders will face stronger pressures and will need to conform to stakeholder expectations more than organisations that operate in less densely connected stakeholder networks. Consequently, network structure and position<sup>6</sup> can determine stakeholder salience and, thus, their influence.

Frooman (1999) also supports the relational aspect of stakeholder influence. By exploring the strategies of stakeholders who seek to influence corporate decision-making, Frooman emphasises the relevancy of multi-actor relationships and that stakeholders who act through allies, can also increase their influence. He uses the empirical example of stakeholders who successfully influenced a corporation to

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<sup>6</sup> *Network position* is also a central component of business-as-networks theories (for a brief overview of this literature, see e.g. Håkansson & Snehota, 2006) and refers to a structural position defined by the patterns of relations that connect actors in the network with each other (c.f. Mattsson (1985) and Johansson and Mattsson (1992) for conceptual discussions). However, I will not develop the argument about shareholders' network position further here, as this is beyond the scope of my research. (For an example of an analytical framework that combines business-as-networks and sociological institutional theory, see Sweet, 2000.)

abandon its practice of canning tuna that was caught using ecologically detrimental methods. The influence was achieved through the combined efforts of an environmental organisation and a consumer boycott.

In addition to Article 2 that was set in Hong Kong, I have also emphasised the importance of relations between different stakeholders in my study of shareholders' attempts to influence corporate norms for respecting human rights (Article 4). In the paper, I purport that shareholders are empowered by their relations with civil society organisations, religious groups, and other actors that share their interests and join their cause. Shareholders share ideas, plan strategies, and leverage their influence through *issue networks* (Koh, 1998). These are networks of actors with resources, such as recognised expertise and competence in a particular domain and an authoritative claim to relevant knowledge in that issue area; in other words actors, those that can infuse a cause with legitimacy.

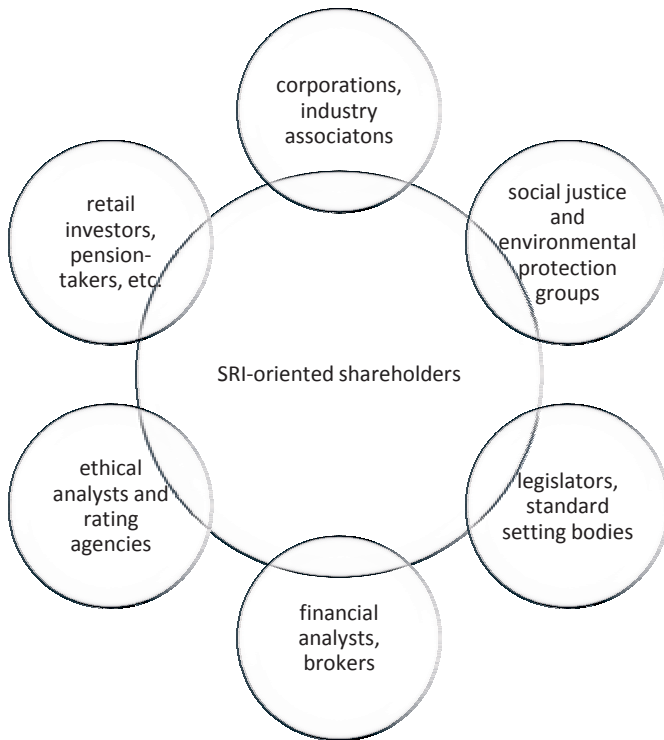
Such networks are instrumental for change agents to leverage their influence, and enable them to share ideas and jointly plan strategies (Pozen, 2008). In the illustrative case study that I use for Article 4, concerning shareholder influence on corporate human rights norms, shareholders are joined in their pursuits to persuade actors about an alternative norm (for example, by organisations that support freedom of the press and human rights). These different types of actors (shareholders and other actors) can lend credibility and expertise to each other, thus increasing momentum for their cause.

Other types of actors than civil society organisations may also be part of shareholders' relational network, and can also have bearing on shareholders' influence on corporations. For example, this network may include different kinds of financial market actors, such as rating agencies and consultants who support shareholders with information on corporate social and environmental performance; it may also include corporations whose activities may serve to support shareholder influence by providing industry best-practice examples regarding social and environmental issues, and whose shareholders may meet in



roundtable discussions and other forums. Another type of actor are regulatory bodies, not only in the form of law makers, but also standard setters and issuers of guidelines for corporate responsibility that seek to shape corporate practice and norms.

Figure 5 exemplifies actors who may be part of shareholders' relational network and who may contribute to influencing norms and practices for corporate social responsibility.



**FIGURE 5: EXAMPLE OF TYPES OF ACTORS THAT MAY BE PART OF SRI-ORIENTED SHAREHOLDERS' RELATIONAL NETWORK**

A relational network implies interaction between participants, information sharing, inter-subjectivity, and patterns of coalition; it is also a source for resources. My research indicates that relations provide access to expertise, credibility, and logics that enable shareholder influence on norms and practices for CSR.

### *Summary – Part 1*

This first part of Chapter 6 has addressed the first research question: that which enables shareholder influence on norms and practices for corporate social responsibility. The discussion of my results has emphasised that a prerequisite for shareholder influence on norms and practices for CSR is that corporate and financial market logic is receptive for an environmental protection and social justice logic. The analysis also suggests that such receptiveness can be achieved through translation of environmental and social issues in order to be congruent with corporate and financial market logic. Additionally, I have suggested that relations between shareholders and other types of actors are pivotal for shareholder influence, both because it enables translation and because it mobilises support from additional actors with similar agendas.

### **Part 2: In What Way do Shareholders Influence Norms and Practices for Corporate Social Responsibility?**

By exploring the way in which shareholders influence norms and practices, I will argue that shareholders influence norms, which are in different stages of their life cycle, and that the extent to which a norm (and implicitly practices) is established has implications for shareholder influence.

As explained in Chapter 1, norms are shared views about what is appropriate, and practice is the enactment of such norms. Through my research (and most explicitly in Articles 3 and 4) it has become evident that, because norms may be more or less widely shared and because norms change over time, shareholders can influence norms and practices in more than one capacity (or role). Sometimes they take on a more radical role and function as *norm entrepreneurs* in which they seek to persuade corporations of the superiority of a new norm for social responsibility. An example would be the question of which stance foreign internet technology companies should take towards

freedom of expression when operating in a country that censors the internet (Article 4). When a norm is more widely adopted, shareholders may seek to influence additional corporations into adhering to it; however, this is less controversial than norm entrepreneurship since the norm is no longer new. In this case, shareholders can analytically be understood as *norm promoters*. An example would be when shareholders seek to influence corporations to establish ethical codes of conducts (Article 5). The norm of having such a code is not new; however, not everybody has it. By promoting norms (which have, at some point, been introduced by norm entrepreneurs), shareholders can contribute towards their wider establishment.

Finally, shareholders may also sustain norms that are already fully established, and function as *norm carriers* that embody norms rather than seek to change them (Article 6).

I argue that the three capacities of norm entrepreneur, norm promoter, and norm carrier are not discrete. Rather, a shareholder may simultaneously act in all three capacities, with regards to different issues of concern; this has to do with how established is the norm in question. A shareholder may be a norm entrepreneur with regards to freedom of expression on the internet, and seek to establish a new norm for corporate conduct. The shareholder may concurrently be a norm promoter with regards to various facets of environmental conduct that are guided by more established norms (and foster additional corporations to adhere to the norm). The same shareholder may also be a norm carrier in not seeking to influence corporations in controversial sectors, such as the tobacco industry, but rather uphold a norm within the investor community of conducting passive avoidance screening of such sectors.

Which one of these three capacities (or roles) shareholders adopt has to do with where a norm is in its life cycle. This argument builds on the norm life cycle model (Finnemore & Sikkink, 1998), as presented in Chapter 3. The different capacities through which shareholders may influence norms and practices will now be further discussed.

### *Shareholders as Norm Entrepreneurs*

I suggest that the analytical epithet of *norm entrepreneur* is appropriate when shareholders attempt to create a new norm or transform existing norms. Norm entrepreneurs play a key role when a new norm is in its initial phase (Finnemore & Sikkink, 1998). They seek to actively persuade other actors that a new norm is superior to the existing standard of appropriateness. This is a challenging task, as it would require that new adopters of the norm “disembed” themselves from their previous taken-for-granted notion of the “right thing to do” (Finnemore & Sikkink, 1998; Seo & Creed, 2002).

In Article 4, I illustrate my argument of shareholders as norm entrepreneurs through a case study of shareholders actively engaging in influencing foreign internet technology corporations in China. These internet technology companies (Cisco, Google, Microsoft, and Yahoo!) all abided by Chinese rules for internet censorship; whereas, shareholders sought to influence them to respect freedom of expression instead, as defined by the UN universal declaration of human rights. Thus, the new norm that shareholders sought to establish was for corporations to view the UN declaration as a superior guide for their business conduct, over the national norms of the state (China in this case) that granted them the commercial contract. This is not uncontested by corporations, as it might put their commercial contracts at risk.

In order to influence corporations to adopt this alternative norm, a number of large shareholders issued a public statement along with Reporters without Borders, the organisation supporting freedom of the press. Together, they urged internet technology corporations to respect freedom of expression, as per the UN declaration. They also urged additional shareholders to sign the statement, creating an opportunity for shareholders to mark their support of the alternative norm. Shareholders also continuously filed shareholder resolutions to the annual general meetings of the targeted corporations. Furthermore,

shareholders expressed their concerns in congressional hearings, and have taken an active part in multi-stakeholder forums on the topic of internet censorship in China. Thus, shareholders were able to expand their organisational platform by joining their efforts with those of other norm entrepreneurs (shareholders, as well as interest organisations).

In other words, shareholders have taken an active part in seeking to establish an alternative norm in a context where there is ambiguity about how to act appropriately (i.e. how to act as a foreign company in a market with a different view on freedom of expression than that which is widely shared in the home market). Shareholders seek to influence how corporations ought to act in the face of national constrictions on freedom of expression, which oppose an international declaration. I claim that, in this case, shareholders act in a norm entrepreneurial capacity.

Whether these norm entrepreneurs will succeed in their pursuits is another story; as stated in Chapter 3, many entrepreneurial endeavours fail (Finnemore & Sikkink, 1998). My aim with Article 4 has not been to evaluate their success; it has been to analytically conceptualise shareholders who attempt to influence norms and practice. (At the time of the writing, the norm was in its emergence phase.)

According to Finnemore & Sikkink (1998), an essential part of norm entrepreneurs' strategies is to create cognitive frames, which can resonate with broader understandings and be adopted as new way of talking about, and understanding, issues. In order to transform norms for corporate conduct regarding CSR, a central task for shareholders is to reformulate – or translate – environmental and social issues to better resonate with the corporate logic. This is completely in line with my arguments in the previous section (Part 1 in Chapter 6).

As explained in Chapter 3, Finnemore & Sikkink (1998) suggest that norm entrepreneurs are motivated to influence others based on strong convictions about appropriate behaviour. As I suggest in Article 4, however, this assumption may not apply to shareholders, who may also

be motivated by the conception that corporate social responsibility is positively correlated with long-term value creation and firm performance. Furthermore, institutional shareholders such as pension funds, insurance companies, or mutual funds (which is the category of investors here under study), typically manage assets that originate from others. This principle-agent relation can imply that the strong convictions may reside with the principle (e.g. the pension taker), and, hence, that institutional investors' efforts to influence norms and practices stems from a pursuit to satisfy the end clients. According to Rowley and Moldoveanu (2003), stakeholder efforts to influence organisations may stem from a desire to express an identity: a suggestion implying that institutional owners may potentially be motivated to engage in norm entrepreneurship as a way of reaffirming their social identity and build their brand. Therefore, I would like to add to Finnemore and Sikkink's model that norm entrepreneurship could have pragmatic and amoral motives as well.

I find that the term norm entrepreneur is often used loosely in literature (Pozen, 2008: 310), and as suggested by the title of Pozen's paper "We are all entrepreneurs now" (2008), there has been a proliferation of this term over the past years. It appears that authors are prone to ascribing the role of norm entrepreneurs to any change agent although, as Finnemore and Sikkink (1998) suggest, norm entrepreneurs' supporting actors may, in fact, play an important role. Actors who are involved in transforming norms may do this, not only as norm entrepreneurs, but also as supporters to norm entrepreneurs. These are what I call *norm promoters*. My research supports this argument, and I will now expand on this.

### *Shareholders as Norm Promoters*

In some contexts, I find that shareholders do not function as norm entrepreneurs, but rather as supporting actors who amplify already existing pressure for adherence to new norms and practices that have gained broader acceptance. In this case, I argue that shareholders can be analytically understood as *norm promoters*. They are not "mavericks"

who take an active part in the early stages of a norm transformation, much like the norm entrepreneurs do; they are actively involved in influencing additional actors into adhering to a norm in a stage where the norm is being more widely shared (although, it is not yet in an internalisation phase where the norm is no longer questioned or debated). In the norm life cycle model (see Figure 2 in Chapter 3) this is the *norm cascading* phase, which is reached only if a larger number<sup>7</sup> of actors adopt the new norm than just the initial norm entrepreneurs (Finnemore & Sikkink, 1998).

Therefore, norm promoters are actors who have jumped on the norm bandwagon – they have adopted a new norm and are active in converting additional actors to be norm followers. Norm promoters are instrumental for the wider establishment of new or changed norms. In Finnemore and Sikkink's original model (1998), these actors are referred to as *norm leaders*; however, since this term connotes that they would take a front position in the efforts to transform norms (which is the role of norm entrepreneurs), I find that this term confuses the distinction between norm entrepreneurs and their supporting actors. Therefore, I use the term norm promoter instead. Norm promoters advocate the alternative standard of appropriateness that norm entrepreneurs have introduced.

Shareholders as norm promoters seek to socialise additional actors to become norm followers through creating cognitive dissonance among (what they consider to be) norm breakers. Norm adoption can be spurred by pressure for conformity and a desire on the part of corporations to gain legitimacy in the view of others, for example, to be seen as “modern organisations” or in other ways as embodying desirable, proper, and appropriate standards for behaviour (DiMaggio & Powell, 1983; Suchman, 1995).

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<sup>7</sup> Scholars in international relations have suggested that norm cascading starts to occur when at least one third of a community has adopted the new norm (Finnemore & Sikkink, 1998: 901). This statement, however, needs to be confirmed through additional empirical research.

I argue that upon the basis of my research (particularly Article 5), shareholders can act in the capacity of norm promoters by seeking to influence practice in order to become aligned with emerging norms. This can be achieved by creating a stigma around what they see as norm-breaking behaviour. For example, shareholders may seek to persuade a company to implement a written ethical code of conduct for its suppliers. To employ such a written code of conduct for suppliers is already an established practice for many companies. Therefore, it would not be a matter of creating a new norm; rather, it would be a question of persuading a company to adhere to a norm that a number of other actors have already embraced as a new and appropriate practice. This would, thereby, contribute to further cementing this standard for appropriate behaviour.

There are scarce sources of literature on the role of norm promoters; as aforementioned, most authors focus on norm entrepreneurs, and not on their supporting actors. Finnemore and Sikkink (1998) describe norm promoters (or, as they put it “norm leaders”) as a critical mass of actors that have adopted an emerging norm, and who seek to persuade other actors to also adopt the norm. The authors, however, do not elaborate on this any further. Therefore, since I apply this concept in different empirical examples, my research can be useful for further analysis in this area. According to my study of shareholder influence on Swedish corporations (Article 5), corporations perceive that shareholders amplify a general external pressure on corporations to take responsibility for social and environmental issues, rather than forward unique demands. This suggests that, in many instances, shareholders reproduce and elicit support for norms, which are on the rise and that are already shared by other a number of adopters.

In the interview study (Article 5), respondents exemplified shareholder influence by shareholders criticising the company for having policies about employee grievances, yet no employee had used the whistle-blowing system; this implies that the policy was not converted into practice. The shareholder criticism had caused the respondents to



address this issue and improve their routines (i.e. to establish a new company norm for how to handle employee grievances, which would resonate with a more widely established norm in the corporate sector). Another example is a company that did not have group-wide environmental goals, yet had implemented these as a result of shareholder pressure. A third example is a company that was persuaded by its shareholders to start exploring how environmental threats could be understood as possible business opportunities. These are all examples of emerging standards for appropriateness within the business sector, which require socialisation from norm promoters (such as shareholders) in order to become more firmly established and to potentially reach an internalisation stage (i.e. something that is taken for granted).

Shareholders in the capacity of norm promoters with regards to corporate social responsibility, thus, support norm entrepreneurs. An example of this is an actor such as the International Labour Organization (ILO) that has played an active role in transforming norms within the labour rights area, and where shareholders support these entrepreneurial efforts by seeking to influence corporations to conform to norms on “fair” working conditions for employees in their supply chain.

Furthermore, although Article 5 does not draw upon the norm life cycle model in the actual study, it clearly shows that shareholders are empowering corporate representatives to also act as norm promoters, thus, further establishing norms and practices for CSR within the organisation. Respondents expressed that SRI-oriented shareholders provide increased legitimacy to CSR issues, which helps CSR executives to take on an active role in promoting norms and practices with regards to CSR within the organisation.

It seems, however, that the same shareholders have acted as norm entrepreneurs with regards to the specific issue of transparency, such as CSR reports and information on corporate web sites. To be transparent on CSR issues towards external stakeholders is an emerging norm that

shareholders and interest organisations, such as the Global Reporting Initiative (GRI) are strongly encouraging. Shareholders would like recurrent CSR reporting to become a norm within the corporate sector. As per Article 5, some corporations have resisted this and found that transparency just adds more paper work, while interviewed shareholders express frustration that some corporations do not see the value in reporting. This, in itself, is a sign that a new norm is entering the corporate sector, as it creates discord among those who have not adopted it. Shareholders are one of the key proponents of corporate transparency with regards to CSR; they have taken a lead in influencing corporations in the early stages of this new norm. This is the reason why I argue that shareholders have acted as norm entrepreneurs with regards to this issue.

An aggregate result from my research is that norm entrepreneurs and norm promoters are not discrete actors; it is more a matter of where in the norm life cycle the norm can be found. Shareholders may concurrently be involved in changing more than one norm; when they put efforts towards establishing a new norm, and the norm is still in a norm emergence phase and only adopted to a limited extent, we can analytically understand these shareholders as norm entrepreneurs. When a norm is more broadly adopted and shareholders are involved in persuading additional actors to adhere to the norm, we can analytically understand them as norm promoters.

### *The Importance of Relations for Norm Entrepreneurs and Norm Promoters*

To succeed in their pursuits, norm entrepreneurs and norm promoters typically need to connect with other actors with whom they can promote the alternative norm (Finnemore & Sikkink, 1998; see also Fligstein, 1997, 2008). This goes back to my argument in the previous section (Part 1): I have argued that relations are important in order for translation to take place, and that they can make institutional logics resonate better with each other. Relations are also pivotal in a context of the norm life cycle: I argue that shareholders who make efforts to move

norms farther through the cycle can benefit from relations to other actors with similar interests.

To build relations and take part in networks with others can be critical for shareholders. Since publicly listed companies typically have many small owners, there may be conflicting owner interests. For example, some shareholders may view a company's environmental work as a strategic investment for the future, while others view it as an unnecessary cost. Shareholders, therefore, may need to build relations with other like-minded shareholders in order to gain momentum around a specific issue and to influence corporations. Shareholders who seek to transform norms with regards to corporate social responsibility can also connect with other types of actors who seek to foster corporations into adopting the emerging norm, such as environmental organisations or human rights organisations. These other norm entrepreneurs and norm promoters may be driven by different motivations than shareholders, but nevertheless seek to achieve the same goals.

In other words, I am not saying that a human rights organisation cannot be a norm entrepreneur or norm promoter at the same time and for the same reason as shareholders; in fact, it is quite the opposite. In my study of how shareholders sought to influence internet technology companies with regards to freedom of expression (Article 4), human rights advocates and organisations representing freedom of the press joined shareholders in their entrepreneurial efforts.

Furthermore, my study of how civil society organisations use the financial market (Article 3) is an example of how civil society organisations have acted as norm promoters for corporate responsibility for human rights, and extended their network by building relations with shareholders who also wish to advocate human rights norms. Through educating shareholders on why they should care, civil society organisations made a purposeful effort to turn shareholders into allied norm promoters.

### *Shareholders as Norm Carriers*

If a norm reaches a taken-for-granted status and is not subject to a wider debate, it has entered the internalisation phase of the norm life cycle model (Finnemore & Sikkink, 1998). There is no longer a need for norm promoters to seek to convert others; the new norm is internalised. The norm is now sustained by what I call *norm carriers*, which are actors with a given identity who share the norm. In Finnemore and Sikkink's original model (1998), the actors who are central in a norm internalisation stage were not identified. Therefore, I suggest this addition to the model, since actors who uphold a norm and sustain its internalisation are vital for the norm to be actually considered a norm. Corporations who have internalised a certain norm for corporate conduct are, therefore, norm carriers. If norm entrepreneurs and promoters succeed in their pursuits, the new norm will eventually prevail and it will be shared by actors with a given identity (e.g. corporations), who are the norm carriers. They sustain the norm through recurrent behaviour and habit.

Shareholders can also be norm carriers, and follow norms for shareholder engagement. Such norms sometimes stipulate that shareholders should not seek to influence corporations in controversial sectors (Article 6).

I suggest that shareholders are norm carriers when they do not break out of their institutional embeddedness and seek to change a norm, however, simply accept an established norm. To become a norm entrepreneur requires a strong motivation to lobby for an alternative standard of appropriateness (Finnemore & Sikkink, 1998). This level of motivation does not always exist. Sometimes the same shareholders who pursue shareholder activism (as entrepreneurs or promoters) also employ passive avoidance screening – typically by screening out controversial sectors such as tobacco, alcohol, and armament – even though this means that they are abstaining from influencing these corporations. My study on shareholders' widespread use of avoidance screening of controversial sectors (Article 6) shows that shareholders can be de-motivated to become a norm entrepreneur who seeks to

influence corporations in controversial sectors. This is a result of the notion that avoidance screening renders legitimacy to shareholders; to stay out of controversial sectors is a norm among investors who otherwise are active in influencing corporations with regards to social responsibility. To invest in the tobacco sector, for example, is largely considered to be at odds with being a socially minded investor.

Here, shareholder practice is itself guided by norms that are at the far end of a norm life cycle; therefore, shareholders may not act as norm entrepreneurs and seek to influence, for example, tobacco companies on human rights issues or armament companies on environmental issues. Since it is seen as the “right thing to do” for an investor to employ avoidance screening of controversial sectors (something that stems from church-based origins of SRI and the avoidance of “sin” sectors: see Article 6), this is an attractive option even though it will not necessarily influence norms and practices on corporate social responsibility (e.g. Sparkes, 2001; Shepers & Sethi, 2003; Rivoli, 2003; Sandberg, 2008). As I suggest in Article 6, this is because investors’ legitimacy is granted by conformist behaviour; avoidance screening is established as “the right thing to do” among SRI-oriented shareholders, and the alternative is not even considered (i.e. to invest in such sectors and be an active owner).

As Article 6 suggests, in some contexts, shareholders may not primarily seek to influence norms and practices, but instead act as upholders of certain internalised norms and practices and are, therefore, acting in the capacity of norm carrier.

Although Article 6 does not draw upon the norm life cycle model, the study does show that shareholders do not always adopt the role of change agent through norm entrepreneurship or norm promotion; instead, they pursue certain non-entrepreneurial practices exactly because of their institutional embeddedness and the pursuit of legitimacy that it entails. The study is a counterbalance to the view of shareholders as entrepreneurs and promoters. My argument is that shareholders can act in more or less active capacities, and that the same

shareholders can also act in several capacities with regards to different issues of concern. They can remain embedded for certain dimensions of their investment activity, yet can step out of their embeddedness for others. Many SRI-oriented investment funds today are both based on a methodology of avoiding certain controversial sectors and engaging with the corporations that remain in the portfolio. In other words, such investors may employ avoidance screening of controversial sectors because they are motivated by legitimacy gain or retention, rather than by ambition to influence corporations, while at the same time, actively engage with corporations in less controversial sectors in a capacity of norm promoters or entrepreneurs.

It is interesting to note that asset managers, as much as corporations, are governed by industry norms. As aforementioned, scholars have suggested that stakeholder motivation to influence others may be related to their desire to express identity (Rowley & Moldoveanu, 2003). Some may identify with an investor community that is more conservative, while others see themselves as more progressive; it can, therefore, be hypothesised that the latter group would be more likely to take on norm entrepreneurship and seek to transform corporate norms. For example, it may be that asset managers with retail clients build their brands on a promise that the invested money will also contribute towards a better world and, hence, they will be more prone to influence corporations to expand the boundaries of their responsibilities. These investors might seek to transform norms for corporate responsibilities (e.g. that responsibility should extend further down the supply chain than what current norms prescribe). Other asset managers may not want to see themselves as change agents, and will be less likely to be at the forefront of efforts to transform norms for corporate responsibility.

And as I argue in Article 6 (the study centred on avoidance screening), if investor legitimacy would increasingly be hinging upon investors' ability to instigate change and show proof of their influence on corporations, and if there was a decline in the idea that some business sectors are incompatible with social responsibility, then legitimacy would be gained not from employing the avoidance method; rather it

would be achieved by engagement methods through a capacity of norm promoter or norm entrepreneur.

### *The Challenge of Authentic Norm Adoption*

Since they are, by definition, owners, shareholders are in a good seat to transform norms for corporate conduct. This grants voting rights, access to and credibility with the board, and the possibility of divestment upon discontent. As owners, shareholders have a mandate to express their expectations on corporate conduct, and corporations are obliged to take these into account. However, authentic norm adoption does not build on coercive arm-twisting (Björkdahl, 2008); rather, it is a result of persuasive argumentation, for example, through logical arguments, evoking symbols, or emotional appeal (Brunsson & Jacobsson, 2000).

Corporations that are coerced into adopting certain behaviour can resort to window-dressing activities, or decoupling, if the expected behaviour is not in line with what the corporations see as effective practices (Meyer & Rowan, 1977; Brunsson & Olsen, 1993). Corporations may follow a stipulated practice, in order to please an authority or in order to gain access to a certain community, for example, by assigning an environmental manager or through writing CSR reports. If the practice is not driven by the corporation's own convictions about this being appropriate behaviour, it will stay on a superficial level; some would call it green-washing (Laufer, 2003).

To use the example of the UN Global Compact again, which I mentioned in Chapter 1, if corporations sign the UN Global Compact's six principles for CSR, it does not automatically mean that they have internalised these principles as norms. They may signal commitment by signing; however, it would take much more than this for corporations to actually *live and breathe* the principles – and to do so without even reflecting on it.

As norm entrepreneurs and norm promoters, shareholders must take on the challenging task of persuading corporations about the superiority of

an alternative norm on a more profound level than simply changing behaviour for visual effect. Only then can the norm reach an internalisation stage.

*Summary – Part 2*

This part of Chapter 6 has addressed the second research question: *In what way do shareholders influence norms and practices for corporate social responsibility?* I have suggested that there are several different capacities, or several versions of change agent, that shareholders can adopt to achieve this: Shareholders influence norms and practices for CSR in a capacity of norm entrepreneurs as well as that of norm promoters. Not all shareholders, however, have both of these roles (some may never attempt to be a norm entrepreneur). For example, the same shareholder can be a forceful norm entrepreneur in one context and a supporting actor to norm entrepreneurs in the capacity of a norm promoter in another. With regards to some issues, shareholders are too embedded to become norm entrepreneurs or advocates and are, therefore, norm carriers that sustain rather than influence norms.



## Conclusions

This thesis has aimed to explore how shareholders may influence norms and practices for corporate social responsibility, and to contribute towards conceptual development for studying this phenomenon. In order to achieve this, I posed two research questions: *What enables shareholder influence on norms and practices for CSR?* and *In what way do shareholders influence norms and practices for CSR?*

With regards to the first question, I have argued that shareholder influence for CSR is enabled by congruence between market logic on the one hand, and the logic of environmental protection and social justice on the other. The market logic that dominates the corporate sector will be more receptive to the environmental protection and social justice logic through translation that contributes towards increased receptiveness of a foreign logic. Since socially responsible investment builds on a mix of these two logics, it can function as a bridge between disparate sectors, which are guided by disparate logic; in this way, they instigate new norms and practices for CSR.

Furthermore, shareholder interests with regards to CSR intersect with those of other actors. My research suggests that relations enable shareholder influence upon norms and practices with other actors; these include other shareholders, as well as other actor-groups, most notably civil society organisations. Not only do relations facilitate translation; through relations with actors that have intersecting interests, shareholders can draw on other actors' resources (such as expertise) and on other actors' efforts towards the same goals. This can, for example, be achieved through coalitions that can build momentum around issues and increase shareholder influence on norms and practices for CSR.

With regards to the second question, I have argued that shareholders can influence norms and practices by adopting a role of norm entrepreneurs, and can seek to convince corporations and others to adhere to a different standard of appropriateness, thereby, transforming existing norms. Norm entrepreneurs are actors that seek to persuade others to adopt a new standard of appropriateness for behaviour. I have also found that shareholders do not act in the capacity of norm entrepreneurs all of the time. In many instances, shareholders are norm promoters who are part of a critical mass of actors that have adopted a new norm, and who support norm entrepreneurs by socialising additional actors into adopting the more widely shared norm.

Figure 6 illustrates the aim, research questions, and conclusions.

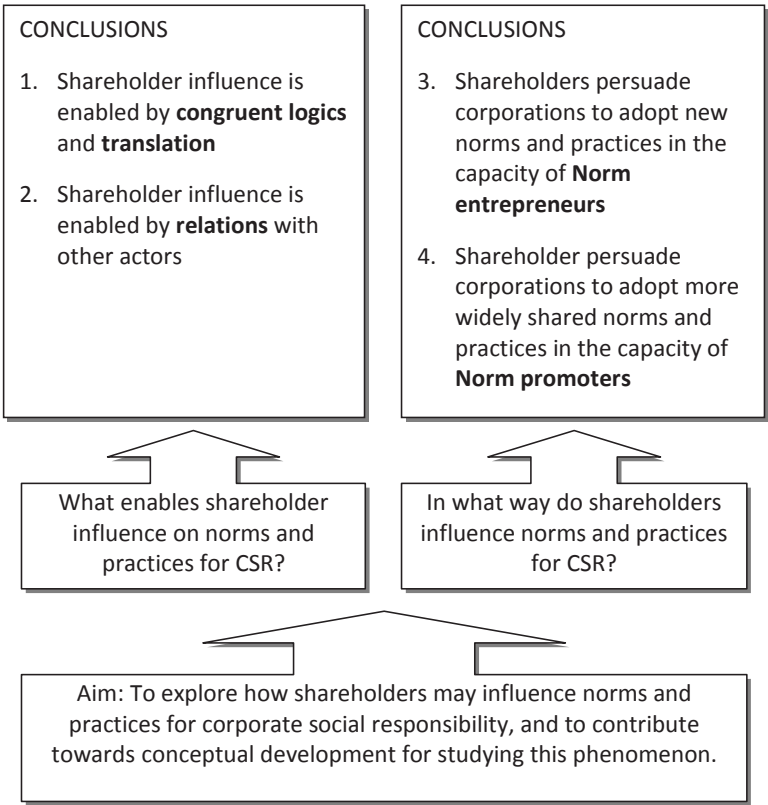


FIGURE 6: AIM, RESEARCH QUESTIONS, AND CONCLUSIONS

In Chapter 1, I quoted a scholar saying that perhaps the most striking claim of the SRI industry is that SRI makes a difference to society (Rivoli, 2003). This thesis has showed that, by influencing not only practices but also norms regarding the content and extent of corporate social responsibility, SRI does have the potential to make a difference to society.



## Contributions

This thesis makes contributions to conceptual development for studying influence on organisational norms and practices; it has also sought to broaden our insight into shareholder influence for corporate social responsibility; hence, it contributes to the literature on socially responsible investment. Furthermore, this research has practical implications for shareholders who seek to influence corporate social responsibility.

These three categories of contributions are outlined in greater detail in the following section.

### **Contributions towards Conceptual Development for Studying Influence on Norms and Practices**

This research has mainly based its analysis on two different theoretical schools: sociological institutional theory and norm theory from the field of political science and international relations (IR). Given its wide application in the field of organisational studies, institutional theory has been a more natural choice, whereas IR literature largely focuses on states and foreign affairs rather than corporations, and on legal contexts rather than market-based environments. However, it does intersect with organisational theories at different points: the topic of norms and practices, and international perspectives. To draw on norms theory from the IR field, particularly though the norm life cycle model, has not only been fruitful for the analysis of my results; it has also broadened the conceptual development for studying influence on norms and practices in an organisational context. This is further elaborated on here.

### *Norm Dynamics*

A contribution of this research has been to shift the analytical focus from norms as being something static to that of a dynamic life cycle focus. While sociological institutional theory, which is an important basis for this work, tends to focus on norms only in their internalised mode and when they are sustained by habit and other conformist behaviour, this thesis has pointed to the merit of including an interest-driven and process-oriented perspective. This allows researchers to also address the process that precedes norm internalisation and, therefore, address changes in norms. My choice to also draw upon norms theory from IR literature has facilitated this shift in perspectives.

Institutional theory sets out to explain institutional change; however, this is on a different analytical level than that of norms. Norms are building blocks (or components) of institutions. While shareholder influence can ultimately contribute towards institutional change (for example, the institutionalisation of CSR as a concept), the focus on norms has enabled me to see how shareholders were involved in a process of influence, which is more limited than institutional change, and that might have been overlooked if institutional change had been my analytical focus. By more limited, I mean that a shift in norms may not be enough to achieve institutional change (as norms are single-standards of behaviour, and institutions do not build on norms alone). Attempts to transform norms merit the attention of researchers, even if an institutional change does not occur.

The inclusion of a norms perspective from outside the organisational theory domain has enabled me to fuel an institutional-theoretical foundation with a norms-centred and dynamic dimension.

### *Entrepreneurs and Their Supporters*

The concept of institutional entrepreneurs has proliferated within institutional theory as a remedy to the otherwise somewhat deterministic view of social action. I have argued that the use of the concept is sometimes used too casually in institutional theory, and that a

more critical stance towards the view of change agents as entrepreneurs is warranted (see Chapter 3). This research makes a conceptual contribution to organisational study by showcasing that the use of the term norm entrepreneurs may be appropriate in instances where the studied actors are involved in norm change. By using this concept in an empirical setting, I have been able to address attempted influence on norms for a specific industry (in this case, the internet technology industry) and regarding norms within a specific area (in this case, freedom of expression), rather than as part of a more encompassing institutional change process. Therefore, introducing the concept of norm entrepreneur to organisational studies opens up for a different level of analysis of change agents involved in influencing norms – even as a norm change can ultimately lead to institutional change.

My contribution also lies in showcasing that not all change agents are entrepreneurs. It seems as though we are witnessing a kind of entrepreneurship hype where this epithet is used for any and all cases of institutional as well as norm change (Pozen, 2008). I have emphasised that entrepreneurs are dependent upon supportive actors in order to achieve their pursuits. These supporting actors – while acknowledged as important – are rarely focused on or elaborated on in literature. By including a norm life cycle model, I was able to separate shareholders as change agents into more distinct roles, by showing that norm entrepreneurs are supported by norm promoters who attempt to influence corporations in a phase when norms are more widely established (although not yet fully internalised). By introducing these analytical entities to the study of organisational influence, the research has opened up for new perspectives on the study of norms and practices in an organisational context. By focusing on change agents' different roles in relation to a norm's different extent of adoption, researchers are better positioned to understand how norms are influenced, for example, with regards to change agents' motivations or required resources at different stages in the process. In other words, it allows for a more fine-tuned analysis of the influence on organisational norms and practice.

I have also extended the original life cycle model, which was developed by Finnemore and Sikkink (1998); by introducing an actor category for the last phase of the norm life cycle, the norm carriers. I have suggested that these are essential to the norm life cycle as they embody the norm and, thus, sustain it. As much as a focus on norm entrepreneurs can help us understand how and why norms change, a focus on norm carriers can help us comprehend why norms sometimes do not change. In the original model, the types of actors that are important in this last stage of the life cycle were not addressed, nor labelled.

Furthermore, I have elaborated on the original model by paying more close attention to norm promoters – not just norm entrepreneurs – and recognised that this type of actor must not be overlooked in the analysis of norm changes.

### **Contributions to Literature on Socially Responsible Investment**

In addition to more general contributions to conceptual development, this thesis has made specific contributions to the SRI literature, as explained in this section.

#### *Influence on Norms*

The thesis contributes to SRI literature by using an analytical approach, which showcases that the influence shareholders can have on corporations is more multifaceted than a ranking of corporate performance on a social and environmental scale or voting results from shareholder resolutions can indicate. This has been the focus of some previous research on shareholder influence on corporations. Such measures are binary and capture influence on a short-term basis (e.g. the score on an environmental rating a year after a shareholder resolution was passed).

This thesis has instead employed a norms-focused perspective on shareholder influence. I have showed that shareholder influence may extend to changes in norms, something that is not as easily captured,



and that may not be possible to evaluate until after considerable time has passed. Changes in norms, however, imply change on the most fundamental level, as norms are internalised guidelines for proper behaviour. Their taken-for-granted status means that norms are not easily changed, and that shareholders' influence on norms can have profound and long-lasting effects on corporate conduct.

My research can, therefore, be seen as a critique of the (in my opinion) too simplistic and one-dimensional assessments of shareholder influence that the ratings-based studies produce, and suggest a different analytical focus in order to capture the more dynamic nature of shareholder influence.

The focus on norms has also allowed for a view of shareholder influence as not limited to changing single corporations' discrete behaviour, but to industry-wide changes in behaviour. This has contributed to seeing shareholder influence as potentially more far-reaching than influencing individual portfolio corporations.

#### *Extended Geographical Focus*

This thesis also makes a contribution by extending the hitherto largely myopic geographical focus of the SRI literature by conducting a study on SRI in an Asian context. Most studies on SRI today are empirically set in North America, Europe and, to some extent, Australia and Japan (see Article 1).

By addressing SRI in Hong Kong, I was not only able to explore the barriers and facilitators of SRI in a market largely unaddressed by SRI research; I was also able to show that there may be a great deal to learn from markets where SRI as a phenomenon is not so established. In this case, the lack of shareholder influence in Hong Kong allowed me to draw conclusions on the importance of congruent institutional logics, and how the lack of relational links across different sectors and fields can be an impediment to translation between sector-specific logics to take place. The reason that SRI research is geographically myopic is

likely that researchers tend to focus on phenomena where they are most widespread. While this is reasonable, this thesis shows that, in terms of gaining new research insights, going down the road less travelled can also be very rewarding.

Furthermore, Hong Kong is an example of well developed financial market situated in a region that faces severe environmental and social challenges, a situation which will likely be less unique in the future if financial markets eventually strengthen in countries that are currently less economically developed. This thesis sets an example for research on barriers and enablers to shareholder influence in regions where shareholders may have a relatively more important role to play in shaping norms for corporate social responsibility than in economies where there is a strong legal enforcement, a well-organised civil society sector, and political processes that favours an environmentally and socially sustainable development.

### *Beyond Description*

As stated in Chapter 1, more theoretically grounded research is warranted for researching shareholder influence on corporate social responsibility, as are studies that build on empirical data (rather than anecdotal evidence and speculation). This thesis has, therefore, contributed to SRI literature both by grounding its analysis in theory, thus contributing to more thorough exploration of the studied phenomenon, and by basing results on empirical data, notably on interview data and on texts and documents, which has allowed me to access participants own experiences and in their own words. While descriptive studies can be valuable, and may be a typical format for nascent research, I am of the opinion that the research area of shareholder influence on corporate social responsibility merits research, which goes further than description. In this respect, this thesis adds to such examples.

## **Implications for Shareholders**

This thesis has three main implications for shareholders who seek to influence corporations: that success can be measured not only in tangible practice, but also in changed norms; that relations with other actors can be key to influencing corporations; and that translation can be used as a strategic instrument to convert corporations into norm-followers.

### *1. Measuring Success in Changed Norms*

Based on the insights from this thesis, shareholders who seek to influence corporations are advised to assess their success not only in changes in single instances of practice, such as the improvement of labour conditions in a supplier's factories or a corporation's reduction of harmful emissions to air and water, but to also measure their success in changes in norms for responsible business conduct over time.

This may be difficult to achieve. Far-reaching change may be possible to identify only after many years have passed. However, by realising that their role is not only to induce a change in single and corporate-specific events of practice but also to alter norms, shareholders can look at their role differently, and see how they may contribute towards change on a more profound (but less easily detectible) scale. They can do this by placing their tangible influence on corporations into a larger perspective, and look for patterns in behavioural change that occur over time. This long-term perspective may also give shareholders more patience in seeing the effects from their efforts towards influencing corporations; where at first sight it may seem that little or no progress has resulted from shareholders' efforts, the long-term and norms-focused perspective can show something different.

As most shareholders are aware, their influence on corporations is intertwined with efforts of other corporate stakeholders, and a change in norms is the outcome of a complex process, which cannot typically be directly attributed to shareholder influence alone. This leads me to the

second implication for shareholders: that of the importance of relations with other actors, as discussed here.

## *2. Building Relations across Sector Boundaries*

This research has shown the importance of relations, both for the purpose of framing a foreign logic to resonate better with that of the target group for influence, and for support in entrepreneurial and promotional ventures, which aims to transform norms.

By building relations with the civil society organisation (CSO) sector, shareholders can draw on CSO expertise, since these organisations are often specialists in a specific area such as human rights or climate change. Shareholders may also benefit from CSO efforts to influence corporations through methods, which are not available to shareholders, such as name-and-shame activities or garnering consumer support over a given issue. Such activities can contribute towards placing issues on the corporate agenda. While shareholders themselves do not conduct them; they can facilitate shareholder dialogue on these issues with corporations.

Shareholders and CSOs can be allies with regards to a certain issue, and can leverage each other's efforts for influence; they may also have a less tight relation and exchange experience, and discuss intersections in aspirations with regards to norms and practices for CSR.

It is also important to remember that the CSO sector is not only constituted by environmental groups and social activists, but also for example trade unions, consumer groups, and community organisations, which may also share interests with SRI-oriented shareholders.

It is also important that SRI-oriented shareholders build relations with "traditional" shareholders who do not have a special interest in social and environmental issues. This research has shown that, since the logic of the typical shareholder is aligned with corporate logic, traditional (non-SRI-oriented) shareholders can facilitate influence on

corporations, to the extent that SRI-oriented shareholders can first translate social and environmental issues to resonate with the financial market logic (for example, through education). This leads to the third implication: that of strategic framing.

### *3. Strategically Using Translation between Logics*

An implication of this research is that influence is not always in the hands of the shareholders; sometimes something as fundamental as an institutional logic stands in the way. However, shareholders who are aware of this dimension can find ways to get around it through purposeful translation. They can deliberately select language and evoke symbols in a fashion that considers and relates to the dominant logic of the corporate sector.

Shareholders can also differentiate this translation depending on the audience. Shareholders who seek to team up with environmental and social justice groups in order to influence corporations can frame issues of concern in non-financial terms, whereas SRI-oriented shareholders, who seek the support of “traditional” shareholders, can formulate issues to resonate with ideas about financial materiality. Strategic translation may also be differentiated vis-à-vis corporations depending on, for example, geographical region. As my studies on shareholder influence in Hong Kong and Sweden show, translation can be related to the prevailing market logic in different regional settings – shareholder arguments that motivate Scandinavian corporations to change their behaviour may not be well received in Asia, or vice versa, if the regional versions of market logic are different.

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Finally, by introducing novel ideas on shareholder influence, my hope and aspiration is that this work will stimulate new conversation and that, while supporters of my work will use it as input and building blocks for their own studies, critics of my work will similarly use it as fuel for their arguments. In both cases, I will assist in hopefully spurring much needed explorations in this budding area of research.



## Suggestions for Future Research

This thesis provides relevant contributions to academic research within the area of socially responsible investment and, more specifically, shareholder engagement for corporate social responsibility. My hope is that the limitations of the thesis will inspire opportunities for future research.

### **Relations**

This thesis indicates that relations can be paramount to shareholder influence. At the same time, results are indicative and not based on extensive data; the matter merits more systematic research in order to draw more certain conclusions. Relations between shareholders and corporations, relations between shareholders and environmental or social justice advocates, relations between corporations and employees, consumers, regulators, and interest groups all form the institutional context in which shareholder influence takes place. The organisational field of socially responsible investment can, therefore, be viewed not only as an institutional arena for a community of actors or organisations; it can also be seen as shared relational space (Wooten & Hoffman, 2008). In my view, this is a dimension of shareholder influence on norms and practices that merits more attention.

### **Reciprocal Influence**

This research has focused on influence in one direction: shareholder influence on corporations. However, influence is likely reciprocal. Therefore, it would be fruitful to include this perspective in order to obtain a more extensive understanding of shareholder influence. In one of my studies, I analyse how civil society organisations use the logic of the financial and corporate sectors in order to influence corporations; however, I do not address the extent to which this also influences civil

society organisations. Does it, for example, contribute towards a *corporatisation* of these organisations, where part of the corporate logic transforms the environmental protection or social justice logic: the primary cognitive roadmap for such organisations? Furthermore, how are SRI-oriented shareholders influenced by the corporations they seek to influence? In interviews I have conducted, corporations have sometimes expressed that they seek to persuade shareholders to adopt the corporations' view on issues. Thus, the process of reaching a shared understanding on "the right thing to do" may be a reciprocal procedure that is more complex than simply one party seeking to influence the other, and either succeeding or not. More research is warranted on this topic with regards to shareholder influence on norms and practices for CSR.

### **Organisational Response to Pressure**

On a related note, this research leaves the topic of organisational response to shareholder influence largely unaddressed. Few researchers have attended to this question within studies of socially responsible investment (one exception is Hoffman, 1996).

More generally, there is prominent research on organisational response to pressure, which I suggest researchers apply to the area of shareholder influence with regards to CSR. Notably, Oliver (1991) combined institutional and resource dependence theory into a framework for organisational response to institutional pressure (thus, integrating a strategic choice perspective into institutional theory, which makes it possible to understand active agency in an institutional context). She suggests that response can range from passive compliance via increasingly more active forms of resistance, to attempting to co-create the principles and criteria that underlie the pressure itself. Empirical tests provide support for Oliver's hypotheses (Etherington & Richardson, 1994; Goodstein, 1994; Ingram & Simon, 1995; Milliken *et al.*, 1998; Clemens & Douglas, 2005); however, at the same time, they inspire further explorations in this area. I suggest this framework is a



constructive path for future research on shareholder influence on norms and practices for CSR.



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