Universidad Ramon Llull

DOCTORAL THESIS

Title	**SOCIAL SHAREHOLDER ENGAGEMENT: HOW SHAREHOLDERS BRING SOCIAL, ENVIRONMENTAL AND ETHICAL CONCERNS TO THE HEART OF MANAGEMENT**
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Dedication

The journey leading to this thesis has been one of discovery, inspiration, joy and hard work. The long winding road which has brought me here has not been easy, nor should it be, but it has been challenging, fulfilling and life-changing; full of unexpected turns, obstacles and bumps, yet made immensely pleasurable by the good company of those who have walked with me along the way.

The shoulders of giants on which we stand are higher and broader than I ever imagined, but step by step, paper by paper, those shoulders have taken on form and meaning and have provided indispensable guidance and learning. To all those giants I am profoundly grateful, that their life works have provided us with the pillars of knowledge on which we build our research today.

I dedicate this thesis, not only to those 'giants', the outstanding scholars of our past and present, but also to all those just starting their PhD journey, who will be the great scholars of the future. Although there will be times of doubt, with perseverance, patience and passion, you *will* get there.

Finally, this work is for every individual, everywhere, who has dedicated their time, energy, and in many cases their lives, to building a more just world; a world which preserves its beauty and riches for future generations to enjoy and learn from; a world where people and planet matter, as well as profits. If I have learned anything on this journey, it is that more individuals than I could ever have imagined are working towards building such a world, this thesis is a mere shadow of their outstanding work which improves lives everyday around the world.

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I would like to thank all my co-authors: Daniel Arenas, Céline Louche, Katinka van Cranenburgh, Tessa Hebb and Andreas Hoepner; editors: Maria Goranova and Lori Ryan; and all those who have blind- or peer-reviewed my papers for their challenging, constructive and comprehensive comments, their time and their encouragement throughout our collaboration and beyond.

Alongside my PhD journey have been others building their own contributions to this field. Thanks to my colleagues from the 2011 EBEN Doctoral Workshop, the 2012 OIKOS Finance Academy, the 2013 Louvain/Vlerick CSR Research Seminar, the 2013 Academy of Management SIM Division Doctoral Consortium and the 2014 EUInnovatE Sustainable Innovation and Entrepreneurship Academy. I look forward to collaborating with you to advance this field in the coming years.

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Finally, to my family, friends and loved ones, who have been there for me every step of the way, who have encouraged me, praised me and put up with me, I love you all and am eternally grateful for having you in my life. None of this would have been possible without you.

Abstract

Shareholders have always been fundamental to an understanding of the corporation. The same is true today. However, the assumptions that the firm should be run to meet only the demands of shareholders, and that those shareholders are concerned only about the maximization of financial returns, are problematic in light of the multitude of demands placed on corporations by both shareholders and other stakeholders.

At a time when issues such as climate change and the widening gap between rich and poor have become pressing societal concerns, the role of business, its purposes and its practices have been challenged in the public, private, and academic spheres. Responsible investment, diverse investor types, multi-stakeholder initiatives, communities, activist campaigns, and a variety of other stakeholders have resulted in multiple and diverse demands on the company which go well beyond financial interests.

This thesis takes the perspective of one such challenge to the fundamental assumptions about the nature of the firm: shareholders who actively engage with corporate management on issues of social, environmental, and ethical concern such as human rights or environmental degradation. This 'social shareholder engagement', an increasingly relevant phenomenon in practice and research, is explored here both empirically and conceptually.

I provide a new perspective on social shareholder engagement, which identifies the political and ethical nature of these actions. In this way I engage with and contribute to the corporate governance, responsible investment, social activism and business ethics literatures and open a number of future avenues for research.

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List of Abbreviations

AGM	Annual General Meeting
CAAT	Campaign Against Arms Trade
CalPERS	California Public Employees' Retirement System
CIG	Church Investors Group
CII	Council of Institutional Investors
CSR	Corporate Social Responsibility
EIAG	Ethical Investment Advisory Group
EITI	Extractive Industries Transparency Initiative
ESG	Environmental, social, governance
Eurosif	European Social Investment Forum
GRI	Global Reporting Initiative
ICCR	Interfaith Center on Corporate Responsibility
IRRC	Investor Responsibility Research Center
JPIC	Justice, Peace and Integrity of Creation
JRCT	Joseph Rowntree Charitable Trust
NGO	Non-governmental organisation
NYCERS	New York City Employees' Retirement System
PETA	People for the Ethical Treatment of Animals
RI	Responsible Investment
SEC	Securities and Exchange Commission
SRI	Sustainable and Responsible Investment
SSE	Social Shareholder Engagement
UNEP	United Nations Environment Programme
UNPRI	United Nations Principles for Responsible Investment

USSIF   US Forum for Sustainable and Responsible Investment

Contributions To Scientific Knowledge

Table 1.1 provides a summary of the scientific contributions which this thesis has made. The articles which form this thesis, and in which I took the role of lead author, are listed first. Chapter 2 is co-authored with Céline Louche, Katinka van Cranenburgh and Daniel Arenas and was published in the *Journal of Business Ethics* in 2014. This chapter contains some additional and updated references. Chapter 3 is written with Daniel Arenas and has been conditionally accepted, pending minor changes, for *Business Ethics Quarterly*. Chapter 4 is pending submission at *Corporate Governance: An International Review* and is co-authored with Tessa Hebb and Andreas Hoepner.

In addition, three other scholarly contributions are listed which have been the result of my research during the doctoral programme. These additional contributions are an article published in *Society and Business Review* entitled 'Religious Organisations as Investors: a Christian Perspective on Shareholder Engagement' authored in collaboration with Katinka van Cranenburgh, Daniel Arenas and Céline Louche; an abridged article 'A Discourse Ethics Approach To Social Shareholder Engagement: Developing A Normative Perspective' co-authored with Daniel Arenas, which was selected as one of the best articles presented in the Social Issues in Management division of the Academy of Management in 2014 and published in *Academy of Management Proceedings*; and a solo authored book chapter 'Religious Organisations as Shareholders: Salience and Empowerment' which will be published in 2015 in the book *Shareholder Empowerment*, edited by Maria Goranova and Lori Ryan.

Table 1.1: Contributions to scientific knowledge

Title	Peer Review	Journal/ Book	Status	Issue	Publisher	Conference presentations
Social Shareholder Engagement: The Dynamics of Voice and Exit (Chapter 2)	Yes	Journal of Business Ethics	Published	Vol. 125, Iss. 2, Pp. 193-210	Springer	Academy of Management 2013 and EBEN research conference 2013
Engaging Ethically: A Discourse Ethics Perspective on Social Shareholder Engagement (Chapter 3)	Yes	Business Ethics Quarterly	Conditional acceptance	N/A	Cambridge University Press	Previous version presented at EBEN research conference 2012
Shareholder Dialogue Behind The Scenes: Addressing The Bulk Of The Iceberg (Chapter 4)	Yes	Corporate Governance: An International Review	Submission pending	N/A	Wiley	Versions presented at EGOS 2014, Academy of Management 2014 and PRI Academic Network Conference 2014
Religious Organisations as Investors: a Christian Perspective on Shareholder Engagement	Yes	Society and Business Review	Published	Vol. 9, Iss 2, Pp. 195-213	Emerald	N/A
A Discourse Ethics Approach To Social Shareholder Engagement: Developing A Normative Perspective	Yes	Academy of Management Proceedings, Social Issues in Management Division Best Paper	Published	2014, Pp. 1476-1481	Academy of Management	Academy of Management 2014
Religious Organisations as Shareholders: Salience and Empowerment	No	Shareholder Empowerment M. Goranova & L. Ryan (Eds)	In print	Forthcoming in 2015	Palgrave-Macmillan	N/A

Journal information

Scientific contributions have been made to the following journals. Impact factors and rankings are based on the Thomson Reuters Journal Citation Reports.

Journal of Business Ethics

The *Journal of Business Ethics* is one of the FT45 making it one of the key journals used by the Financial Times to compile the Business School research rank

1 year impact factor (2013) 1.552

5 year impact factor (2013) 1.889

7/50 in Ethics

52/111 in Business

Business Ethics Quarterly

1 year impact factor (2013) 2.702

5 year impact factor (2013) 3.486

2/50 in Ethics (#1 in Business Ethics)

16/111 in Business

Corporate Governance: International Review

1 year impact factor (2013) 1.766

5 year impact factor (2013) 2.242

12/91 in Business/Finance

41/111 in Business

53/173 in Management

Projects and practitioners reports

During the PhD programme my research has made contributions not only to academic publications and conferences but also to practitioners reports and research projects.

Institute for Social Innovation, ESADE

As lead researcher I have contributed to the following practitioners' report sponsored by the Institute for Social Innovation at ESADE:

- Van Cranenburgh, K. C., Goodman, J., Louche, C. & Arenas, D., (2012) *Believers in the Boardroom* May 2012, 3iG

RII CURA

As a visiting research at Carleton University, Ottawa I formed part of the Responsible Investing Initiative Community University Research Alliance funded by the Government of Canada's Social Science and Humanities Research Council and Carleton University. As a result of this collaboration I was able to contribute to meetings, seminars and a new funding proposal.

Chapter 1: Introduction

The aim of this introduction is to provide an informative and comprehensive backdrop to the following three chapters, thus embedding them in the broader research context. Firstly, I unpack the concept of social shareholder engagement (SSE) as it is used here and its relevance in both theory and practice. I then move on to provide an overview of the main literature streams that have been used to explore SSE. I identify the research gaps and clearly state the research questions for the following chapters which address these gaps. I then explain the methodologies used in this thesis and briefly review the findings. I close this section by highlighting a new perspective on SSE to which this research contributes.

Relevance

The phenomenon of social shareholder engagement explored in this thesis has two key components, both of which are increasingly relevant in today's world and what we might expect in tomorrow's.

The first component is 'shareholder engagement'. This refers to the action whereby shareholders use their ownership position to voice their concerns on particular issues and to actively influence company policy and practice (Eurosif, 2006; Sjöström, 2008). Shareholder engagement can be done through letter writing, asking questions at annual general meetings, dialogue with management or the board either behind-the-scenes or in public confrontation, as well as filing and voting on shareholder resolutions (Lydenberg, 2007; Sjöström, 2008).

Other terms are used for this type of shareholder activity particularly shareholder advocacy (USSIF, 2010) and shareholder activism (Gillan & Starks, 2000; Goranova & Ryan, 2014; Sjöström, 2008; Smith, 1996). The term shareholder *engagement* avoids the connotation of public demonstration which activism is sometimes seen to imply and is widely used in practice by national and international

organisations such as the United Nations backed Principles for Responsible Investment (UNPRI), the European Social Investment Forum (Eurosif), the US Forum for Sustainable and Responsible Investment (USSIF) as well as other researchers (Ferraro & Beunza, 2014; Lydenberg, 2007).

The relevance of shareholder engagement is increasingly striking. So-called gadflies, individuals with an active interest in their investee companies, have been credited with initiating the shareholder engagement movement during the 1940s and 50s (Marens, 2002). Since then, institutional investors have become much more involved. The Council of Institutional Investors (CII) was set up in 1985 with the objective of pooling resources to have more oversight of investee companies. From the mid-1980s until 2012 there was a wave of extensive new corporate governance legislation, rules and standard setting around the world which expanded shareholders' rights (Wilcox, 2011). These reforms have had an impact on shareholder engagement, which has continued to grow, particularly in the US. The 2013 proxy season in the US, where shareholders receive information about topics to be covered at the annual general meeting and a proxy ballot to vote their preferences, was dubbed in the recent Annual Corporate Governance Review as the 'Era of Engagement' (Georgeson, 2013). This is reflective not only of the increased involvement of shareholders but of the more proactive stance that companies have taken in engaging with their shareholders.

The issues on which shareholders engage are wide ranging and include such corporate governance issues as executive compensation, the election of directors, and majority voting. However, they can also focus on the social and environmental performance of the company (David, Bloom, & Hillman, 2007; O'Rourke, 2003; Tkac, 2006). This is where the second component of SSE, 'social' originates. This

term is used to demonstrate societal concerns based on principles rather than the singular objective of improved financial performance. Societal concerns include social issues such as human rights; environmental issues such as pollution and climate change; other ethical issues such as involvement in weapons sale and manufacture; and some corporate governance issues related primarily to justice, such as fair pay.

Multiple terms have been used in the literature for conveying the meaning we intend here: social shareholder activism (Lee & Lounsbury, 2011), socially driven activism (Chung & Talaulicar, 2010), socially motivated activism (Judge, Gaur, & Muller-Kahle, 2010), social policy shareholder resolutions (Rehbein, Waddock, & Graves, 2004), and activism for corporate social and environmental responsibility (Sjöström, 2008). Here, the term social shareholder engagement is used to convey shareholder engagement with management on social, environmental, ethical and some governance issues.

These social concerns in investment can be traced back to religious organisations who have been combining ethical behavior into their investments and financial actions for hundreds of years through screening and ethical investment policies (Goodman, forthcoming; Goodman, Louche, van Cranenburgh, & Arenas, 2014; Kreander, McPhail, & Molyneaux, 2004; Proffitt & Spicer, 2006; Van Cranenburgh, Arenas, Goodman, & Louche, 2014). In the 1960s and 1970s, high-profile cases in the US of shareholders protesting the production of napalm by Dow Chemical in the Vietnam war and calls for divestment and boycotting of the Apartheid regime in South Africa led to regulatory changes at the Securities and Exchange Commission (SEC) which paved the way for much of the SSE which takes place today (Glac, 2010; Proffitt & Spicer, 2006; Vogel, 1983).

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According to the 2014 USSIF report, more than one out of six dollars invested under professional management in the US follow sustainable and responsible investment (SRI) practices. This is a total of $6.57 trillion at the start of 2014, a rise of 76% since 2012. At the same time, in Europe the seven main strategies for SRI have grown annually since 2011 by between 11% and 38%, giving a total of around €10 trillion in assets which are invested according to some kind of SRI strategy (Eurosif, 2014). Although on a smaller scale, assets invested in SRI in Asia (excluding Japan) have grown by 22% annually since 2011 reaching a total of $44.9 billion (ASrIA, 2014), while in Australia and New Zealand total assets under management which take a broad responsible investment approach have grown to $153 billion (RIAA, 2014).

Of all of the different mechanisms to undertake sustainable and responsible investment including exclusions, best-in-class, screening, sustainability themed investment, ESG integration, engagement and impact investing, engagement is seen as the driving force behind responsible investment (Juravle & Lewis, 2008). This SRI strategy grew in Europe by 85% between 2011 and 2013 reaching a total of almost €3.3 trillion. In the US, between 2012 and 2014, shareholder resolutions on environmental, social and governance (ESG) issues were filed by investors representing $1.72 trillion of assets (USSIF, 2014).

The figures above are based on a broad definition of sustainable and responsible investment which covers "any type of investor process that combines investors' financial objectives with their concerns about Environmental, Social and Governance (ESG) Issues" (Eurosif, 2014: 8). Nevertheless, more specific data on social policy shareholder proposals in the US show that these types of proposals are the most common types of proposals, despite being less likely to achieve majority

support (Copland & O'Keefe, 2014). In 2013 social policy shareholder proposals rose to 41% of all US shareholder proposals (Copland & O'Keefe, 2013) and in 2014, 48% of shareholder proposals published on US proxy ballots involved social policy issues (Copland & O'Keefe, 2014). The overall number of resolutions filed remained the same for 2013 and 2014 (Copland & O'Keefe, 2014).

Clearly SSE is an important way for shareholders to bring social, environmental and ethical concerns to the heart of management and is thus of great relevance to the management discipline. This is also evident when considering the different conceptual platforms from which it has been analysed. The following section introduces these platforms and reviews the related literature in each.

Conceptual platforms and literature review

SSE has been conceived and researched from a variety of different perspectives and is of central importance to a number of broader debates on *corporate governance* structure, and shareholder and stakeholder models of the firm; the different motivations, practices and outcomes within *responsible investment*; the influence of *social activism* on corporations; and *business ethics*.

Corporate Governance

The relationships among shareholders, management and the board is fundamental to corporate governance (Ryan, Buchholtz, & Kolb, 2010). Shareholder engagement is at the heart of this relationship and is thus central to different theories of the firm. Agency theory has been widely used as the foundation for corporate governance research (Judge et al., 2010). From this perspective, since the separation of ownership and control (Berle & Means, 1932), shareholders' or 'principals' interests are paramount, with managers or 'agents' contracted to further these often

financial interests (Jensen & Meckling, 1976). If shareholders are unsatisfied with company performance, they have the option of 'exit', whereby they sell their shares, or 'voice' which attempts to reduce the divergence of interests through communicating the concerns of principals to management (Hirschman, 1970).

A number of debates within the corporate governance literature challenge the dominant perspective described above. Particularly notable is the growing discussion around the trend toward shareholder empowerment (Anabtawi & Stout, 2008; Goranova & Ryan, 2014, forthcoming). Proponents of shareholder empowerment argue for the importance of oversight by shareholders in reducing the agency gap and thus controlling the self-interests of management (Bebchuk, 2005). Others point to the fact that large institutional investors have become increasingly powerful over the past decades and already have a strong controlling influence over management (Ryan & Schneider, 2002) leading to an era of "investor capitalism" (Useem, 1996). In contrast, others argue that greater empowerment of shareholders should also come with increased responsibility, as self-interest can be manifested by shareholders as well as managers (Anabtawi & Stout, 2008; Stout, 2012) and can lead to a management focus on simply maximizing share prices (Bratton & Wachter, 2010). The legal perspective on this debate is of primary importance in the legal structures put in place to regulate the relationship between shareholders, the board and management, and has important implications for SSE.

Another key debate within corporate governance, and closely related to the first, is the heterogeneity of shareholders. A variety of different types of shareholders exist, even within the financially driven stream of activism (Ryan & Schneider, 2002, 2003), which challenges the assumption that all shareholders have homogenous interests. The situation is further complicated when including the interests of

shareholders involved in SSE who may be speaking for other more marginalized stakeholders, and when considering that individuals themselves may also have a range of different interests (Hoffman, 1996). For example, the public profile of non-governmental organisations (NGOs) as stakeholders is argued by some to increase their influence as shareholder activists disproportionately to the number of shares owned (Guay, Doh, & Sinclair, 2004).

The representation of multiple interests in the corporate governance relationship is related to the ongoing debate about the purpose of the firm, which contrasts the shareholder view of the firm (Berle & Means, 1932; Jensen & Meckling, 1976) with the wider stakeholder view (Freeman, 1984). Stakeholder theory takes into account a broader nexus of contracts in corporate decision-making, including other groups who have a stake in the actions of corporations beyond shareholders (Freeman & Reed, 1983). It has been argued that rather than being 'owners' shareholders are just one of many stakeholders who hold a contractual relationship with the firm, and that the executives have legal duties to the corporation rather than shareholders (Stout, 2012).

From a stakeholder perspective, the term 'stakeholder democracy' (Freeman, 1984) has been described as an "alluring prospect" whereby "stakeholders participate in processes of organizing, decision making, and governance in corporations" (Matten & Crane, 2005: 6). The SSE process provides one means of bringing other, often marginalized and voiceless stakeholder concerns to the heart of management using the formal agency mechanism. Alternatively, however, are more direct methods of stakeholder participation in decision-making (Murphy & Arenas, 2010), as well as other forms of protest by stakeholders discussed in the following section on social activism.

The debate within corporate governance is far from over, and the continual changes and evolution of the corporate governance regulation in the US and elsewhere provide a rich source for future research. Given the heterogeneity not only of stakeholders but also among shareholders themselves, the topic of shareholder empowerment will continue to be a complex one. SSE provides an invaluable example of this complexity, as it captures both the formal agency mechanisms used by shareholders as well as the broader social and environmental and other ethical concerns of a wide range of stakeholders.

Sustainable and Responsible Investment

Definitions of what exactly constitutes sustainable and responsible investment, often known simply as responsible investment (RI), have varied over time and there has been no final consensus on a unified definition (Eurosif, 2014). However, broadly, it is the "long-term sustainable investment strategy that values environmental, social and governance factors in investment decision-making" (Hebb, 2012: 1)

The literature on sustainable and responsible investment has grown considerably over the past few decades and has mirrored its growth in practice. Much of the earlier research within SRI focused on the relationship between corporate social performance and corporate financial performance, showing mixed findings. However, a positive relationship has been broadly acknowledged (Brammer & Millington, 2008; Orlitzky, Schmidt, & Rynes, 2003; Waddock & Graves, 1997) and, as RI has matured and become a mainstream strategy (Sparkes & Cowton, 2004), it has been widely accepted that investing responsibly does not necessarily imply accepting lower returns. Attention has turned, rather, to RI as a means of having a positive impact on society; mitigating risk by taking into consideration environmental, social and

governance issues; and growing long-term shareholder value (Hebb, 2012). This emphasis on shareholder value has established the business case for RI, which has in turn led to a change in mindset and the transition of RI from niche to mainstream investment strategy (Hebb, 2012; Louche & Lydenberg, 2006).

Evidently RI links with the corporate governance literature. For example, the assumption underlying RI is that active and engaged oversight of management by shareholders is beneficial, thus it is grounded in agency theory. From this perspective, shareholder empowerment is broadly supported. Investment time horizons are also an important area of discussion, echoing corporate governance debates about the heterogeneity of shareholders and their demands.

Shareholder engagement is at the heart of responsible investment. Much of the research on engagement has focused on the US due to its high level of shareholder activism and the widely used and publicly visible shareholder resolution process. Resolutions are publicly available in proxy statements and therefore have been often used as a rich and accessible data source for research (Campbell, Gillan, & Niden, 1999; Graves, Rehbein, & Waddock, 2001; Monks, Miller, & Cook, 2004; Rojas, M'Zali, Turcotte, & Merrigan, 2009). Research has identified important differences between engagement in US and the UK (Aguilera, Williams, Conley, & Rupp, 2006; Becht, Franks, Mayer, & Rossi, 2009; Black & Coffee, 1994; Hill, 2010), and numerous studies exist on the specifics of RI in different countries (Lozano, Albareda, & Balaguer, 2006; Sakuma & Louche, 2008).

The collaboration between different investors concerning engagement has been discussed in a number of studies (Clark & Hebb, 2004; Crespi & Renneboog, 2010; Poulsen, Strand, & Thomsen, 2010) and can be seen in the development of such umbrella organisations as the Interfaith Center on Corporate Responsibility (ICCR)

and the United Nations-backed Principles for Responsible Investment (UNPRI) Clearinghouse. These organisations facilitate shareholder collaboration (Gond & Piani, 2013; Proffitt & Spicer, 2006) and enable the sharing of resources in order to make a greater impact on corporate behaviour (Gifford, 2010; Gond & Piani, 2013).

In addition to coordination among investors, shareholders and stakeholders have also built coalitions for SSE (Guay et al., 2004; McLaren, 2004; O'Rourke, 2003; Proffitt & Spicer, 2006). In this way, shareholders can bring the voices and demands of external stakeholders to management, in order to create value or limit harm-doing. However, on occasion, shareholder activists give their capacity for voicing their concerns directly to other stakeholders (Arenas, Sanchez, & Murphy, 2013).

Despite the public profile often associated with shareholder activism, behind-the-scenes dialogue between shareholders and companies is said to represent the majority of shareholder engagement and is where the real 'action' happens (Becht et al., 2009; Goldstein, 2011; Goranova & Ryan, 2014; Logsdon & Van Buren, 2009). Much of this research suggests that engaging behind the scenes is more effective. However, concerns about the lack of shareholder accountability to stakeholders has been raised (Dhir, 2012).

SSE is a central element of the literature on RI and is likely to be increasingly so. The differing expectations of beneficiaries, particularly when considering the standardization and comparability of RI, is one reason given for the likelihood of increasing scrutiny of RI by stakeholders, which will in turn affect the future success of RI (Eurosif, 2014).

Social Activism

The discussion of the increasing influence of secondary stakeholders, such as NGOs, civil society and activist organisations, marginal stakeholders and social movements on corporate decision-making has become "commonplace" in the management literature (de Bakker & den Hond, 2008b). A significant body of research has developed on how these stakeholders and social activists influence corporations (den Hond & de Bakker, 2007; Frooman, 1999; Van Huijstee & Glasbergen, 2010).

Social movement theory is often used to explain activist behavior, particularly as its focus has shifted from engagement with public institutions to engagement with private firms (Dhir, 2012; Soule, 2009). In a landmark paper on shareholder engagement, Davis and Thomson (1994) claim that it is necessary to go beyond efficiency-oriented approaches to understand the rise of shareholder engagement and the "politics of corporate control". Using a social movement lens to explain the balance of power between shareholders and management they claim that institutional shareholders are part of a social movement, sharing an ideology of being active owners as well as the power to influence corporate and governmental decision-making.

While Davis and Thomson's work focused primarily on shareholder engagement for governance issues, the social movement perspective has been used more specifically for shareholders involved in RI and SSE. Arjalies (2010) views social movements in responsible investment not only as a way of encouraging debate but also as a trigger for stimulating change and reform within economic institutions. With this perspective, responsible investment including SSE becomes a change agent. Sjöström (2010) goes further to suggest that shareholders involved in engagement can

be seen as norm entrepreneurs, changing or introducing new norms and having a more profound role than influencing single events of corporate behaviour. Other studies have drawn on social movement theory to explore SSE by religious organisations (Proffitt & Spicer, 2006) and on interest and identity motivations (Rowley & Moldoveanu, 2003) to explain how activists decide to target particular corporations (Rehbein et al., 2004).

King and Pearce (2010) recognise two mechanisms for changing the 'corporate machine': social movements within organisations and extrainstitutional tactics such as the media. Lee and Lounsbury (2011), in their research on environmental shareholder resolutions, conceptualized SSE as the former of these two mechanisms. However, much of the research taking a social movement approach tends to see shareholder engagement as practised primarily by NGOs and activist groups with limited financial interest, and incorporates the role of the media in engagement and the framing process (Proffitt & Spicer, 2006).

This more public engagement tends not to recognise the behind-the-scenes dialogues discussed earlier, which are also a key part of SSE. Disagreement remains as to whether more publicly visible engagement or behind-the-scenes engagement leads to greater success (Goldstein, 2011). However, behind-the-scenes engagement has grown considerably (Logsdon & Van Buren, 2009) and has led some to suggest that more publicly visible engagement such as shareholder resolutions are merely the tip of the iceberg (Goranova & Ryan, 2014). Clearly the challenges here are gaining access to data for research when such confidential activities take place away from the media spotlight and finding a way to demonstrate the impact or success of such engagement (Karpoff, 2001).

Business Ethics

The final body of literature with which SSE engages, is that of business ethics. Many of the debates mentioned above in corporate governance, responsible investment and social activism have an ethical element. Highlighted below are the particularly relevant conversations for SSE.

One key debate concerns the moral obligation of managers in terms of fiduciary duty to shareholders (Ryan et al., 2010; Williams & Ryan, 2007), including whether the relationship between management and shareholders is ethically different from managers and stakeholders. While some argue that managers have a moral obligation to shareholders above all other stakeholders (Goodpaster, 1991; Marcoux, 2003), others give ultimate importance to a wider set of stakeholders (Boatright, 1994; Freeman, 1984). Even if managers were to prioritise the best interests of shareholders over other stakeholders, it has been argued that fiduciary duty can also include the ethical concerns of those shareholders regarding social and environmental issues (Freshfields, 2005). Such an argument could open the door, legally and ethically, to social and environmental issues becoming an integral part of fiduciary duty.

Corporate democracy and the participation of stakeholders in decision-making has been another key area of recent debate for business ethics (Brenkert, 1992; Moriarty, 2014). However, little consensus exists concerning how such a stakeholder democracy could be achieved (Matten & Crane, 2005). While some have taken an instrumental view (Phillips, 1997), others have used a deliberative or discourse ethics approach to achieving such participation (Gilbert & Rasche, 2007; O'Dwyer, 2005; Stansbury, 2009; Unerman & Bennett, 2004). Participation has also been discussed more specifically in RI regarding the inclusion of beneficiaries in ethical deliberations

with their trustees and fund managers in designing responsible investment policies and priorities for engagement (Richardson, 2013).

The emphasis on deliberation, participation and process, makes Habermasian discourse ethics (Habermas, 1984, 1987, 1992) highly relevant to SSE. Given the multiple ethea of different stakeholders, discourse ethics provides a valuable starting point for analyzing the engagement process. Furthermore, work on political CSR has built on the Habermasian deliberative democratic approach (Scherer & Palazzo, 2007) and offers the opportunity for extending analysis into a political arena.

SSE is able to contribute to discussions in each of these bodies of literature demonstrating its relevance more broadly to the management discipline.

Gaps

The previous section describes how different literatures have framed and debated SSE and sets the scene for the following chapters. Having established the relevance of SSE in practice and theory, this section identifies the gaps which persist in those literatures and which provide the motivation for this thesis.

In corporate governance, the heterogeneity of shareholders and their interests provides ample space for better understanding the different types of shareholders, and a way for management and shareholders themselves to deal with the multitude of different demands on the corporation. While much research has focused on large institutional investors, increasingly other types of investors, such as hedge funds, are coming under the spotlight. However, religious organisations, despite having been identified as the pioneers of responsible investment (Proffitt & Spicer, 2006), have not been widely studied in this literature. A deeper understanding of their complex role has the potential to provide insights which challenge the dominant economic frame in corporate governance. Furthermore, the suggestion that greater shareholder

power should be accompanied by greater responsibility (Anabtawi & Stout, 2008) provides an opportunity for the responsible investment literature to contribute to the shareholder empowerment debate in terms of the oversight and stewardship which RI shareholders could offer.

From both a management and a shareholder perspective, the heterogeneity of shareholder demands presents a challenge which has yet to be resolved in corporate governance. Even in the responsible investment literature researchers have called for fund managers and trustees to better understand the social and environmental concerns of their beneficiaries (Richardson, 2013). While much of the RI literature stream tends to focus on the overlap among the interests of management, shareholders and stakeholders, greatly differing motivations within RI have not been explored in depth and could pose challenges as RI becomes increasingly widespread (Richardson & Cragg, 2010; Woods & Urwin, 2012).

While research on shareholder resolutions and voting has been extensive, much less is known about behind-the-scenes dialogue, in particular in the process of SSE. As discussed above, this process is particularly challenging to study, due to its confidential nature, and is therefore relatively unknown in the literature. However, better understanding this process and the relationship between shareholders and managers is of clear relevance to the corporate governance literature and could provide deeper insights into responsible investment.

Not only does the behind-the-scenes nature of much of SSE make it challenging to study, but it also presents a challenge in terms of transparency and accountability to other shareholders, beneficiaries, stakeholders and affected parties. SSE has no widely accepted standards (McLaren, 2004) and research has identified a need for a legitimate and credible engagement process (Dhir, 2012). However, how to

achieve such standards and what a credible and ethical process would look like are at an early stage of debate in the literature. Ethical theories have not been commonly used to explore the SSE process, especially from the perspective of the shareholder, leaving very little guidance, either theoretical or practical, for the investor on how to engage ethically.

The following section outlines the research questions which form the basis of the research in chapters 2 to 4. These research questions were chosen to address the key gaps in the literature identified above.

Research questions

Hirshman's (1970) voice and exit options have often been used in the corporate governance literature to explore engagement by large institutional investors. By asking how voice and exit are used by religious organisations, chapter 2 aims to explore in more depth the under-researched nature of SSE by religious organisations. The research question in chapter 3 is designed to address the void of the use of ethical theories to explore SSE and to establish a normative standard for SSE. Chapters 3 and 4 both build on the finding in chapter 2 that there is a political element to SSE and aim to explore this through an ethical, deliberative democratic approach, which allows for the wide variety of worldviews involved in SSE. All three chapters are linked by their intention to deepen knowledge about the process of SSE, particularly behind-the-scenes dialogue, which is considered to be highly effective yet is relatively unknown.

Chapter 2: How and why are Hirschman's voice and exit options used in Social Shareholder Engagement?

Chapter 3: How can shareholders involved in SSE ensure they engage ethically?

Chapter 4: How are participatory and deliberative practices used during behind-the-scenes dialogue in SSE?

Research Methods

This section gives a broad overview of the research methods used in this thesis. Further detail is provided in the corresponding chapters.

The two empirical chapters of this thesis, chapters 2 and 4, both take a primarily interpretive, qualitative approach. Qualitative researchers "study things in their natural settings, attempting to make sense of, or to interpret, phenomena in terms of the meanings people bring to them" (Denzin & Lincoln, 2000: 3). Qualitative research has had a challenging history (Boyatzis, 1998; Gioia, Corley, & Hamilton, 2013) and has been claimed, particularly from a positivist approach, to be unscientific and biased (Denzin & Lincoln, 2000). However, others have argued in support of a qualitative approach (Morgan & Smircich, 1980; Van Maanen, 1979). Among other virtues, they cite the rich descriptions possible in qualitative research (Denzin & Lincoln, 2000) and the need for an interpretative approach to explore ethics and morality in contrast to the dominant economic paradigm of functionalism and rationality (Ghoshal, 2005). Qualitative analysis is used here as an alternative to the quantitative approach often taken by agency theory in corporate governance research, to develop a new perspective on SSE.

Chapter 2 uses the case study method to build theory inductively, while chapter 4 is a takes a hybrid approach, combining a theoretical framework with inductive theory building based on interviews and surveys. The following sections provide a background to these methods and an explanation for their use in this thesis.

Theory Building Through Case Study

The case study method used in chapter 2 has gained in popularity in recent years. It is an ideal research design for descriptive, exploratory work (Yin, 2003). According to Yin (1994), one of the key researchers to develop the case study methodology, case studies are particularly useful when the phenomenon and the context do not have clear borders and in order to answer how and why questions (Yin, 2003), which we pose in our research question. Case studies are useful for process data (Hartley, 2004; Pettigrew, 1990), particularly in RI (Sparkes & Cowton, 2004), which corresponds to this research.

Case study methodology varies and different researchers have developed different protocols. Stake (1994) focuses primarily on single case studies, while Yin and Eisenhardt (1989a, 1989b; 2007) have worked on multiple case studies and have developed detailed protocols for implementing this research design. We use Yin's (1994) multiple embedded case study design as well as Eisenhardt's (1989a) work on theory building through case studies based on grounded theory (Glaser & Strauss, 1967), including theoretical sampling and cross case analysis, to elaborate our study.

A variety of data can be used in case studies including qualitative and quantitative (Yin, 1981) including documents, archival records, interviews, direct and participant observation and physical artefacts (Yin, 2003). The research in chapter 2 is based on semi-structured interviews, documents and desk research which were used to build theory inductively and triangulate findings. An inductive approach is necessary here because very little is known, theoretically or empirically, about the SSE process and particularly that of religious organisations. In this way, the aim is to generate meaning from the data collected (Creswell, 2003).

Thematic analysis (Boyatzis, 1998) was used to analyse the data in an iterative process, moving between theory and data to develop categories. Two authors coded the data independently using NVivo and then discussed categories through several iterations. Within-case and cross-case analysis enabled the development of clear process descriptions (Eisenhardt, 1989a). By following these protocols and procedures the aim is to address the challenges which qualitative research has often faced as a research approach (Boyatzis, 1998).

Theory Building Through Interviews

A hybrid or mixed approach was used in chapter 4 (Creswell, 2003; Fereday & Muir-Cochrane, 2006). The "a priori" consideration of theory (Eisenhardt, 1989a) was used to develop our questionnaire and interview protocol. This approach enables us to map the data according to theoretical concepts and then to use inductive analysis to explore in more depth the reasons behind the process map.

Semi-structured interviews (Bryman & Bell, 2007) are the primary source of data in chapter 4. Interview data provides one of the most important sources of data in qualitative research and can also be valuable in quantitative research (Qu & Dumay, 2011). Examples of qualitative research based primarily on interviews can be found in highly renowned academic publications (Elsbach & Kramer, 1996; Gutierrez, Howard-Grenville, & Scully, 2010). Interview data can be targeted and insightful, however poor questions can lead to bias and interviewers may inaccurately recollect what was discussed (Yin, 2003). In order to overcome some of these challenges, the questions were reviewed by experts in the field and adapted as the research progressed. Interviews were all recorded and summaries were written directly after each interview, based on notes taken throughout.

In addition to the 43 interviews conducted, the research in chapter 4 draws on data from surveys. These multiple sources allow the triangulation of interview responses with the responses to the surveys. In a similar way to the research in chapter 2, we then use an iterative theory-building approach based on grounded theory and thematic analysis to analyse the data.

Overview

Chapter 2 is the initial exploratory study for this research, on which the later chapters build. We chose religious organisations and their engagement processes as the subject of this empirical study for their clear example of shareholder engagement based on principles and for being an extreme type (Pettigrew, 1990). In this way, we contribute to the ongoing conversation about SSE and also to a more specific stream of research on the investment practices of religious organisations (Logsdon & Van Buren, 2009; Louche, Arenas, & Van Cranenburgh, 2012; Proffitt & Spicer, 2006).

Through a multiple embedded case research design, we use data from interviews and desk research on three religious organisations and seven engagement processes. By moving iteratively between the theory and data, we coded the interview responses in order to map the process of engagement in cases of successful and unsuccessful engagement.

Our findings are invaluable to better understand the engagement process and identify its key stages. The range of behaviours we observed enabled us to see the dynamic nature of voice and exit for these shareholders. We find that exit is used as a form of voice, that unsatisfactory voice outcomes do not always lead to exit, and that voice can also continue after exit. In this way, we also challenge assumptions not only about the nature of voice and exit but also about shareholder behavior. One such

challenge was our identification of a political motive of the shareholders, rather than simply an economic one.

In *chapter 3*, the process of SSE is explored conceptually from an ethical perspective in response to the gap identified in the literature. As purported representatives of marginalized stakeholders, and in light of ethical concerns raised by other scholars, we claim that such a perspective is needed. Drawing strongly on research by Dhir (2012), who provides an example of how well-intentioned SSE damaged the local community which it claimed to represent, a number of ethical concerns faced by shareholders in SSE are identified including a lack of accountability in closed-door dialogue and the threat of divestment or disclosure.

To address our research question we structure our analysis at two levels, the action and the constitutional levels (Schreck, van Aaken, & Donaldson, 2013), in order to explore possible actions within the existing regulatory framework, as well as to advocate changes in the rules of the game. Habermasian discourse ethics (Habermas, 1984, 1987, 1992) provides a valuable lens through which to examine SSE due to its normative, process and ethical nature, with a focus on a plurality of ethea or worldviews and the participation of affected parties.

Our analysis leads us to identify three normative questions:

1) Given that laws and institutions are as they are, in SSE how should shareholders bring the voices of other marginalised stakeholders to managers?

2) Given that laws and institutions are as they are, in SSE how should shareholders promote engagement between corporations and marginalised stakeholders?

3) Should SSEs promote changes in laws and institutions so that marginalised stakeholders have a voice in corporate decision-making? If so, how?

In responding to these questions with insights from Habermasian discourse ethics, we go beyond the current work on political CSR to argue for the desirability of promoting regulatory/institutional change which can ensure marginalised stakeholders have a say in corporate decision making which affects them. As in chapter 2 we draw out a political aspect to SSE whereby shareholders are involved in changing the rules of the game. By implication, shareholders in SSE then face the dilemma of relinquishing some of their own power in order for marginalized stakeholders to participate. Here the difference in ethical and instrumental motivations of shareholders in SSE becomes fully relevant.

Finally *chapter 4* builds on insights from both previous chapters, as well as our other publications (Goodman & Arenas, 2014), to examine how participatory and deliberative practices are used in the SSE process. This empirical research draws on 43 interviews conducted with members of the Interfaith Center on Corporate Responsibility (ICCR) to explore whether, how and when stakeholders other than shareholders, participate in behind-the-scenes dialogue with investee companies.

We draw on the motifs of discourse ethics (Goodman & Arenas, 2014, forthcoming; Habermas, 1992) as an "a priori" theoretical frame for our research and develop a map of the SSE process to include the participation of stakeholders at the different stages. Through a process of coding the responses of the interviewees we build theory around participation and trust in SSE.

Our findings enable us to make a contribution to the literature on shareholder and stakeholder engagement by identifying when, how and with whom different stakeholders are included in the SSE process. While ICCR creates a public-private space for deliberations, stakeholders are not commonly included in direct dialogue with companies. We find that stakeholder participation in behind-the-scenes dialogues

with companies is feared, by shareholders, to lead to an erosion of trust built over time between shareholders and management. However, we challenge the claim that it is participation per se which erodes trust and identify opportunities for greater stakeholder participation.

This thesis addresses the gaps identified in the earlier sections. Through both empirical and conceptual investigation it centres on theory building around the process of social shareholder engagement. This enables the development of a new perspective on this phenomenon which I summarize briefly below and return to in the final section of this thesis.

New perspective on SSE

Through the researching and writing of this PhD thesis and the papers, book chapters and practitioners' reports which have resulted from it, I have been able to provide conceptual and empirical arguments for a new perspective on SSE.

The following chapters have stepped away from some of the assumptions of agency theory which prevails in the corporate governance literature. The analysis has revealed some of the fundamental differences between the motivations, concerns and actions of responsible investors often overlooked in the RI and corporate governance literature. Further, I have documented behind-the-scenes engagement in contrast to the public approach frequently found in the social movement literature. Through careful conceptual development, this thesis locates the phenomenon of SSE in the business ethics literature and engages in conversation with a more political perspective on SSE.

As SSE continues to evolve, this new perspective provides a foundation for a more varied theoretical conceptualization of shareholders with ethical and political actors with motives which extend beyond purely maximizing financial returns. It

develops a normative view on how shareholders involved in SSE should engage and outlines challenges and opportunities for greater stakeholder participation. By changing the conversation around shareholders we open numerous avenues for future research on an issue which reaches into the heart of management and the fundamental theory of the firm.

Chapter 2: Paper 1 - Social Shareholder Engagement: The Dynamics of Voice and Exit

Abstract

Investors concerned about the social and environmental impact of the companies they invest in are increasingly choosing to use voice over exit as a strategy. This paper addresses the question of how and why the voice and exit options (Hirschman, 1970) are used in social shareholder engagement (SSE) by religious organisations. Using an inductive case study approach, we examine seven engagements by three religious organisations considered to be at the forefront of SSE. We analyse the full engagement process rather than focusing on particular tools or on outcomes. We map the key stages of the engagement processes and the influences on the decisions made at each stage to develop a model of the dynamics of voice and exit in SSE. This study finds that religious organisations divest for political rather than economic motives, using exit as a form of voice. The silent exit option is not used by religious organisations in SSE, exit is not always the consequence of unsatisfactory voice outcomes, and voice can continue after exit. We discuss the implications of these dynamics and influences on decisions for further research in engagement.

Key words: engagement process, religious organisations, responsible investment, social shareholder engagement, voice and exit

Introduction

Shareholder engagement as a strategy for Responsible Investment (RI) is growing, and social and environmental issues are increasingly included in engagement (Goldstein, 2011). This "dramatic ascendancy" (Lee & Lounsbury, 2011: 156) in social shareholder activism or "socially conscious shareholder advocacy" (Dhir, 2012: 99), here called social shareholder engagement[1] (SSE), now represents almost €3.3 trillion in Europe (Eurosif, 2014) and a similar figure in the US at $1.72 trillion (USSIF, 2012). The prediction that SSE will become the preferred approach to RI among institutional investors (Guyatt, 2006; Juravle & Lewis, 2008; Vandekerckhove, Leys, & Van Braeckel, 2008) and the driving force behind the development of RI (Gond & Piani, 2013) makes it increasingly relevant to the broader corporate governance debate on active ownership. There have been calls for greater use of the voice option by asset managers and improvement in the quality of engagement by investors (Kay, 2012). As investors increasingly turn from exit to voice (McLaren, 2004) understanding the intricacies and dynamics of these two options by experienced engagers is valuable for both investors and firms.

Much of the corporate governance literature to date has focused on engagement by large institutional investors who seek improved financial gains by

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[1] The term 'social shareholder engagement' (SSE) used here attempts to reconcile the array of definitions used in the SRI and engagement literature whereby shareholders voice issues of concern to companies on particular issues (Eurosif 2006). The issues focused on in SSE are principle-based and focus on the social, environmental and ethical impacts of corporate behaviour. This also includes some governance issues related to justice such as pay inequality. SSE speaks to the socially-driven stream of engagement research identified in (Chung & Talaulicar 2010). Governance issues with the objective of increasing financial return without regard to social, environmental and ethical impacts are not included in SSE and form part of the financially-driven stream more common in the corporate governance and finance literature.

addressing the agency problem between shareholders and managers (Gillan & Starks, 2007). In line with Hirschman (1970) it has been widely assumed that voice and exit are alternative options for investors, and that a failed voice strategy will lead to exit (Withey & Cooper, 1989). However a reading of the SSE literature demonstrates that socially-driven investors have a very different ideology to the conventional market logic (Lee & Lounsbury, 2011). They engage on principle rather than on an economic basis (Chung & Talaulicar, 2010; McLaren, 2004) and take a broader and longer term perspective (Clark, Salo, & Hebb, 2008; Proffitt & Spicer, 2006). Despite their limited financial assets, a social movement perspective shows that shareholder activists have a wide influence in terms of setting the global social issue agenda (Proffitt & Spicer, 2006; Sjöström, 2010). Investment on a moral basis is said to have considerable prospects for growth (Clark et al., 2008). The SSE literature has explored aspects of engagement such as the key actors (Barber, 2007; Clark & Hebb, 2004; Proffitt & Spicer, 2006), main issues (Logsdon & Buren, 2008; Rojas et al., 2009; Tkac, 2006), principal targets (Judge et al., 2010; Rehbein et al., 2004) and outcomes (David, Hitt, & Gimeno, 2001; Engle, 2006; Hebb, Hachigian, & Allen, 2012; O'Rourke, 2003). Research into the how SSE is undertaken has been more limited focusing on particular elements of voice engagement such as resolutions (Campbell et al., 1999; Clark et al., 2008; David et al., 2007), behind the scenes dialogue (Logsdon & Van Buren, 2009), public campaigning (de Bakker & den Hond, 2008a; Guay et al., 2004) and letter writing (Vandekerckhove, Leys, & Van Braeckel, 2007) but there has been little research into the engagement process as a whole or the dynamics of the voice and exit options in this context.

This paper aims to advance research on SSE by theorising the engagement process of religious organisations and the dynamics of voice and exit options in a

socially-driven shareholder engagement context. Broadly we ask how and why the voice and exit options are used in SSE. More specifically we address how engagements were undertaken by religious organisations, whether exit and voice are mutually exclusive, and when exit will be the result of a failed voice engagement. We also contrast our findings about social shareholder engagement by religious organisations to what has been described in the literature.

This research takes a case study approach (Eisenhardt, 1989a) to enable us to examine the on-going engagement processes in their context (Pettigrew, 1990). A qualitative process perspective is particularly suited to understanding how and why things evolve over time (Langley, 1999) and has been used to develop stage models in the context of group exit (Dyck & Starke, 1999). Due to the difficulty of separating influencing factors in shareholder engagement (Gillan & Starks, 2007) a process approach which includes the wider context of engagement is used. This enables us to open the complex blackbox of interaction between engagers and companies (Carleton, Nelson, & Weisbach, 1998) and to investigate the dynamics of voice and exit options over the whole process rather than just specific elements of the process. Data is collected through interviews and desk research to analyse seven engagements on social, environmental and ethical issues by three religious organisations. We choose religious organisations as the subject of our empirical investigation because they represent an extreme example of SSE and have extensive experience in engagement (Pettigrew, 1990). They perceive SSE to be one of the most influencing strategies for RI (Louche et al., 2012) but despite their pioneering role have been the subject of very little research (Kreander et al., 2004; Louche et al., 2012).

In studying the SSE processes of religious organisations, this paper makes three contributions. First we address the call to better understand engagement

processes (Gond & Piani, 2013; Vandekerckhove et al., 2007). Our findings identify four procedural stages of engagement: issue raising, information search, change-seeking and outcomes and detail the specific actions at each stage. Second, from the perspective of the activist we analyse the dynamics of voice and exit in SSE and extend the literature stemming from Hirschman's (1970) theory. Although they have been conceived as distinguishable options, our study reveals that they are intertwined rather than separate or sequential (Marler & Faugère, 2010; Withey & Cooper, 1989). This study finds that religious organisations divest for political rather than economic motives using exit as a form of voice. The silent exit option is not used by religious organisations in SSE, exit is not always the consequence of unsatisfactory voice outcomes, and voice can continue after exit. Furthermore this paper contributes to the wider engagement literature by identifying key factors influencing decisions for these religious organisations at each stage of the SSE process and their implications for the wider engagement debate.

The paper is organized as follows. The first part outlines the theory relevant to our research questions and sets the context for the cases. The second part presents the research design including methods and data collection. The third part concentrates on presenting and analysing the empirical data, including details of the three religious organisations and the seven engagements. Our results are discussed in part four together with their implications. Part five reflects on the limitations of our study and suggests avenues for future research. We end the paper with some conclusions.

Background literature

This study takes an inductive approach and does not aim to test theory but rather is built around guiding concepts that already exist in the literature. Our

investigation was influenced by Hirschman's (1970) theory of voice and exit and the growing body of literature on SSE which we discuss in the following subsections. This "a priori" consideration of concepts to shape our research is considered valuable by Eisenhardt in giving a "firmer empirical grounding for the emergent theory" (Eisenhardt, 1989a: 536).

Voice and Exit

Hirschman's (1970) classification of voice and exit strategies is referred to in the 2010 special issue of *Corporate Governance: An International Review* dedicated to shareholder activism (Chung & Talaulicar, 2010). The framework has been used to investigate the differing mechanisms used by shareholder activists (Admati & Pfleiderer, 2009; Marler & Faugère, 2010; Parrino, Sias, & Starks, 2003; Rojas et al., 2009), and the conditions for their effectiveness (Ryan & Schneider, 2002).

Exit refers to a market-based economic response to dissatisfaction with a firm's performance characterized as being straightforward, impersonal, and indirect. In investment this is often referred to as the 'Wall Street Walk' meaning the sale of shares by unsatisfied shareholders. On the contrary, voice represents a political response using communication in an attempt to rectify performance lapses (Hirschman, 1970). It is "an attempt at changing the practices, policies, and outputs of the firm from which one buys or of the organization to which one belongs." (Hirschman, 1970: 30). Based on dialogue, voice is far more 'messy', and implies the articulation of one's critical opinions rather than a private and anonymous market action (Hirschman, 1970: 16). In a shareholder engagement context this includes activities such as filing and voting on shareholder resolutions, behind-the-scenes

dialogue with management, public confrontation with management and engagement by coalitions of shareholders (Lydenberg, 2007).

According to Hirschman, the decision to engage with a company rather than exiting when performance is unsatisfactory is based on two elements 1) the evaluation of the likelihood of getting the company back on track; and 2) the "judgment that it is worthwhile" to remain rather than exit (Hirschman, 1970: 38). Much of the investigation into voice and exit has focused on the second of these and has been based on large institutional investors from a corporate governance perspective with a focus on the financial advantages and disadvantages of each option. Although institutional investors are now often indexed or too large to simply exit without generating large costs, previous research showed that these investors were reluctant to use voice because of "imperfect information, limited institutional capabilities, substantial coordination costs, the misaligned incentives of money managers, a preference for liquidity, and the uncertain benefits of intervention" (Black & Coffee, 1994: 2086). Thus exit has been the preferred response by many institutional investors, and more common in the US than the UK (Aguilera et al., 2006; Becht et al., 2009). However this research does not go far enough to fully explain the exit choices in SSE. Hollenbach (1973) describes the vastly different considerations faced by religious organisations suggesting that 'exit' may be used to relieve guilt and enhance feelings of purity and righteousness by not being involved in any companies which do not meet their strict social, environmental or ethical criteria.

Voice can be an unavoidable option in the corporate governance literature, used when large stakes make it difficult or costly to divest (Black & Coffee, 1994; McLaren, 2004; Ryan & Schneider, 2002). When institutional investors do choose to use voice it is with a view to making financial gains (Parrino et al., 2003) over and

above the costs of engaging. It is dependent on traditional shareholder power: large holdings mean financial returns can outweigh the costs of engaging (Edmans & Manso, 2010); some research suggests that 10-15% of shares must be represented in order to get management attention (Black & Coffee, 1994); and the financial impact on share price that the sale of large shareholdings can have (Parrino et al., 2003). Shareholders with large holdings are able to apply economic pressure and can affect management decision making through the threat of exit (Marler & Faugère, 2010). This divestment threat can be considered a form of voice (Admati & Pfleiderer, 2009). However, research into the salience of shareholders has demonstrated that this traditional source of power is not usually available to shareholders undertaking SSE (Gifford, 2010; Lee & Lounsbury, 2011) who tend to be smaller (Clark et al., 2008). Furthermore in SSE voice can be interpreted as social action and can be used for the pursuit of justice (Hollenbach, 1973) or for wider social change (Proffitt & Spicer, 2006; Sjöström, 2010), with the financial impact being relatively inconsequential for smaller holdings typical of SSE (Clark et al., 2008). We suggest that SSE, characterised by smaller, principle-based actors, involves a greater complexity in the use of voice or exit than the corporate governance literature to date indicates.

Voice in SSE

According to Hirschman, exit may be postponed if voice is expected to be effective and can be understood as a last resort after voice has failed. Thus exit is a consequence of an unsuccessful voice process. In this way the two options can be understood as sequential and separate although 'noisy' exits are also possible (Withey & Cooper, 1989). Similarly, in the RI literature, exit (or divestment) is seen as separate and not included within the range of engagement activities (Lydenberg,

2007). A voice approach to RI can take a variety of different forms, however research has tended to focus on a particular method of engagement rather than the whole process.

Many studies in the SSE literature focus on shareholder resolutions (Sjöström, 2008). Since resolutions have a greater tradition in the US than in Europe, this research frequently uses databases held by US based organisations such as the Investor Responsibility Research Center (IRRC) (Campbell et al., 1999; David et al., 2007; Graves et al., 2001; Rojas et al., 2009), the Interfaith Center on Corporate Responsibility (ICCR) (Clark et al., 2008; Logsdon & Buren, 2008) and others (Monks et al., 2004). The use of shareholder resolutions for social and environmental purposes dates back to the 1970s when regulation changes at the US Securities and Exchange Commission (SEC) permitted the inclusion of resolutions concerning social policy issues (Dhir, 2006; Proffitt & Spicer, 2006).

There are three possible outcomes for a resolution. Firstly, resolutions can be omitted by a company for not meeting the SEC requirements, for example if a resolution is identical to one submitted in the previous five years without achieving a minimum of votes or concerns matters relating to ordinary business operations (Engle, 2006; Glac, 2010). Secondly, engagers may withdraw their resolution before it appears on the proxy, or thirdly, resolutions may be added to the proxy statement and voted by shareholders.

There is much disagreement on the significance of the different outcomes of resolutions particularly in SSE. According to Rojas et al. (2009) omission is most clearly seen as a form of failure. Compared to corporate governance proposals, voting levels on SSE proposals tend to be low and rarely pass (Campbell et al., 1999; Mackenzie, 1993; Proffitt & Spicer, 2006; Sparkes & Cowton, 2004). Moreover, a

high vote does not necessarily impact firm behaviour as resolutions are not binding (Engle, 2006; Levit & Malenko, 2011; Rojas et al., 2009). Withdrawals are also argued to represent a failure (Rojas et al., 2009) as filers attempt to avoid a low vote outcome. However, negotiated withdrawals can also be an indication that a corporation is willing to enter into dialogue (Goldstein, 2011; Proffitt & Spicer, 2006; Rehbein et al., 2004; Tkac, 2006; Vogel, 1983).

A second voice approach, dialogue between shareholders and management, extends research on resolutions enabling a better understanding of the relationship between these different tools in the broader engagement process. However, little empirical and descriptive work has been done on this (Rehbein, Logsdon, & Van Buren, 2013). Logsdon and Van Buren (2009) suggest that behind the scenes dialogue is where the "real action typically occurs" and can result from the withdrawal of a resolution or as an alternative to filing a resolution. While there is some agreement that filing resolutions draws management attention to an issue and can lead to dialogue (Lee & Lounsbury, 2011; Rehbein et al., 2013), others suggest a resolution is filed as a last resort when dialogue breaks down (Sparkes & Cowton, 2004). This differing approach has also been noted among religious organisations (Louche et al., 2012).

Thirdly, shareholders can use public confrontation with companies (de Bakker & den Hond, 2008a; Guay et al., 2004). An example of a public shareholder engagement campaign is the animal rights organisation People for the Ethical Treatment of Animals (PETA). They have used their rights as shareholders in numerous multinational companies since 1987 to campaign against animal testing for cosmetic or medical purposes (PETA, 2012). As well as filing resolutions PETA also used media coverage of their campaign to try to achieve change in target companies.

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Still unclear in the literature is the extent of the use of media and whether it helps or hinders engagement. In governance engagement in the US, public pension funds, unions and hedge funds have used the media to raise awareness of issues and pressure managers (Gillan & Starks, 2007) although behind the scenes engagement is the preferred approach of institutional investors in the UK (Aguilera et al., 2006; Black & Coffee, 1994). Regulation alone is not able to sufficiently explain this difference between us and UK (Black & Coffee, 1994). A social movement perspective suggests that because of their limited resources, SSE activists use the media to gain management attention (Lee & Lounsbury, 2011; Proffitt & Spicer, 2006). Their typically small shareholdings mean that they are not strongly penalised by any drop in share price due to campaigning and reputation attacks (Clark et al., 2008). However, Louche et al. (2012) find confrontational methods like public debate and divesting were less attractive among religious organisations than other methods of engagement.

Vandekerckhove et al. (2007) focus on one voice method, that of letter writing even though they emphasise the importance of more research into the whole engagement process. The organisational processes involved in collective engagement by institutional investors has been studied by Gond and Piani (2013) using the case of the UNPRI. Logsdon and Van Buren (2009) develop a model of the shareholder resolution process including dialogue as a response by companies. However, it does not go as far as to examine the dynamics of voice and exit options which can occur when the engagement is deemed to be unsatisfactory. Our study broadens the investigation into engagement by developing a model of the different stages of the whole process of SSE including a variety of different engagement methods, the dynamics of voice and exit and the influences on decisions at each stage.

Religious organisations

We study seven cases of engagement undertaken by three religious organisations. In line with Pettigrew's argument for choosing case examples which represent extremes or polar types, religious organisations are a clear example of socially-driven activism. Drivers of engagement for churches and religious groups are their set of moral beliefs and religious values (O'Rourke, 2003; Sparkes & Cowton, 2004; Tkac, 2006). That is SSE comes from a different ideological perspective than more conventional activism, based on principles rather than a market logic (Chung & Talaulicar, 2010; Lee & Lounsbury, 2011; McLaren, 2004).

Secondly, also following Pettigrew's recommendations of choosing experienced cases, religious organisations have a long history of engaging on social, environmental and ethical issues with companies (Guay et al., 2004; Kreander et al., 2004; Proffitt & Spicer, 2006; Sparkes & Cowton, 2004). They are widely recognized as important and experienced actors in SSE (Louche et al., 2012; O'Rourke, 2003) and have been the most active shareholders in submitting social policy and human rights proposals (Campbell et al., 1999; Dhir, 2006; Monks et al., 2004; Sjöström, 2008; Tkac, 2006). They have been orderly and disciplined in their engagement and have taken a patient, collaborative and persistent approach (Clark et al. 2008, Proffitt and Spicer 2006, Rojas et al. 2009. The formation of umbrella organisations such as the ICCR with over 300 members representing $100 billion in invested capital and the Church Investors' Group (CIG) with combined assets of £12-13 billion as well as the development of collaborative strategies make them highly relevant to management (Glac, 2010).

Finally, religious organisations perceive SSE to be one of the most influencing RI strategies (Louche et al., 2012). Recent research shows that 90% of religious

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investors believe that active ownership of shares can influence corporate behaviour and over 50% indicated they were engaged as shareholders in various ways (Louche et al., 2012; Van Cranenburgh, Arenas, Louche, & Vives, 2010). Despite their significant and pioneering role in RI there is very limited research into engagement by religious organisations (Kreander et al., 2004; Louche et al., 2012) and there have been calls for further study in this area (Proffitt & Spicer, 2006; Sjöström, 2008)

Method

To explore the engagement processes and how voice and exit options are used in SSE, we take an inductive, case study approach. The case study method is suited to the in-depth study of a phenomenon in its real-life context where boundaries between the phenomenon and context are somewhat blurred (Yin, 1994). It is also suited to research questions requiring "detailed understanding of social or organisational processes because of the rich data collected in context" (Hartley, 2004: 323). Case studies are considered to be particularly valuable for enriching understanding of the processes at work in RI (Sparkes & Cowton, 2004) and for complex and long-term shareholder engagement (Sjöström, 2008). Using process data allows us to investigate the sequence of events over time and the wide variety of influences (Langley, 1999) enabling us to gain a deeper understanding of the dynamics of voice and exit and the motives for their use. The case study method has been used in a limited number of studies. However, these are either single organisational cases (Hoffman, 1996), or two comparative cases (Collier, 2004; Logsdon & Van Buren, 2009); a notable exception is Hebb et al. (2012) who use three cases. Eisenhardt (1989a) suggests using between four and ten cases.

The multiple embedded case design allows analysis at two levels (Yin, 1994): the religious organisation and the case by case engagement process. This enables us to extend our analysis beyond the seven engagement processes to develop a richer picture of the relationship between voice and exit as understood by the organisations. A descriptive and comparative approach is taken to visualize the stages of the shareholder engagement processes, identify the influences at each stage, and analyse the dynamics of voice and exit.

Case selection

In multiple case studies great care must be taken in defining the sampling frame, deciding the number of cases to include and dealing with the quantity of data collected, as well as ensuring an element of standardization to enable comparison (Miles & Huberman, 1994).

To identify key religious organisations active in the field of engagement we conducted desk research and interviews of between forty and sixty minutes with five shareholder engagement experts familiar with the work of religious organisations in Europe, the UK and the US. These experts represent independent research institutions, Church investors, academics, and independent investment advisors all directly involved in SSE with religious organisations. These interviews helped us to identify a number of religious organisations which we classified according to the geographical location, size, religion and engagement history. The religious organisations selected for this study were chosen to represent comparable but differing characteristics in line with Eisenhardt's (1989a) emphasis on theoretical sampling. The details of the organisations that participated in the study can be seen in Table 2.1.

Table 2.1: Selected case summaries

	Joseph Rowntree Charitable Trust (JRCT), UK	**Missionary Oblates of Mary Immaculate, US**	**Church of England, UK**
Organization	Independent endowed foundation	International missionary congregation	Largest Church in the UK
Denomination	Quaker	Catholic	Anglican
Congregation	UK based, Quaker worldwide	Italy/US based, worldwide	England based, Anglican worldwide
Engagement experience	Formally since 1970s	Formally since 1980s (engaged since 1970s)	Formally since 1994 (engaged prior to this)
AUM (+/-)	£150-200 million	$450 million (combined Europe and US)	£8 billion
Ethical Investment policy development	Investment Committee made up of six Quaker Trustees and a co-optee (Chief Executive of the Finance Board of the Methodist Church)	Justice, Peace and Integrity of Creation Office US coordinates the Faith Consistent Investing Program	Ethical Investment Advisory Group (EIAG) 18 members including investors and theologians, members from the General Synod and Archbishops Council
Responsibility for ethical engagement	Investment Committee and Head of Finance	JPIC Office US. Two full time staff plus part-time support	EIAG Secretariat, two members of staff
Investment focus	UK and European listed, small-mid cap	US listed, small-large cap.	Mostly UK listed, small-large cap.
Companies held	100	600	2000
Annual engagement (approximately)	5-10 companies	Resolutions voted, 45 letters, 60 company engagements	Resolutions voted, 200 letters (UK), 50 company engagements

The main similarities between the three organisations are their Christian faith

roots, their minimum of 20 years of experience in engagement with companies on

social and environmental issues, and their reputation for renowned and proactive work on shareholder engagement. The primary language of the three organisations is English, and they are based in the UK and US, which are the most active national contexts (Eurosif, 2010; Sparkes & Cowton, 2004) and the most widely studied (Chung & Talaulicar, 2010) in terms of shareholder engagement. All the organisations have an organisational separation between social, environmental and ethical decision-making and financial decision-making.

Notable differences are the assets under management which range from £150 million to £8 billion permitting a comparison of resources, the number of companies held in the portfolios and their representation of different religious denominations. The differing legal and institutional environments for shareholder engagement in the UK and the US may affect approaches to shareholder engagement (Becht et al., 2009; Black & Coffee, 1994; Eurosif, 2010; Ryan & Schneider, 2002). These cases therefore have been selected to offer a relatively broad spectrum of insights into engagement activities and strategies.

Method and data collection

An interview-based method was used which has been suggested as particularly informative for research in this area by Sparkes and Cowton (2004) and Sjöström (2008) and in generating insights which probe 'how' and 'why' questions (Pettigrew, 1990). We also used documents such as reports, resolutions, press releases and investment policy statements and desk based research of the organisations' and related organisations' websites to enrich and validate our investigation and triangulate our findings (Yin, 1994).

Although taking an inductive approach, an interview protocol was developed after reviewing the literature to ensure a link between existing theory and the inductive elements of the study (Pettigrew, 1990). This was reviewed by peers familiar with the topic and refined three times to incorporate their feedback. The protocol included questions related to some of the issues raised from the literature but the questions were open to enable modifications and refinement to existing theory (Eisenhardt, 1989a). We held short introductory calls with the individuals who, from our research, appeared to be most closely linked to the organisation's shareholder engagement activities in order to confirm their key role in the organisation's engagement activities.   Each interviewee was asked to prepare an example of a successful and an unsuccessful engagement. No further specification of the terms 'successful' and 'unsuccessful' was given allowing the interviewees to identify their own examples. This form of theoretical sampling (Eisenhardt, 1989a) encouraged the inclusion of processes with varying outcomes and facilitated the study of both voice and exit options.

Semi-structured interviews were held with the Chairman of the Ethical Investment Advisory Group (EIAG) at the Church of England, the Director of the US Justice, Peace and Integrity of Creation (JPIC) office for the Missionary Oblates of Mary Immaculate, and with the Head of Finance and the Chair of the Investment Committee at the Joseph Rowntree Charitable Trust (JRCT). These individuals were all directly involved in, and responsible for the religious organisations' engagement with the investee corporations. The interviews lasted between fifty and seventy minutes with questions designed using relevant issues from the literature to encourage detailed reflection on each engagement process. All interviews were conducted by at

least two interviewers either in person or by conference call. They were recorded and transcribed.

Follow-up conversations were held with all three organisations to check some details from the main interviews and obtain missing information both from the interviewees and other staff members involved in engagement. Although each organisation's representative was asked to choose one successful and one unsuccessful example, an exception was made for the Oblates where we conducted a follow up interview with a third example. This permitted the inclusion of two different sectors within the Oblates' engagement and a consistent mining sector example for all the organisations. It further increased the dataset from the US perspective. The details of the seven engagement processes can be found in Table 2.2.

Data analysis

We have taken a highly iterative approach to our study moving from theory to data and back to theory to continuously refine our analysis. We use both within-case, and cross-case analysis (Eisenhardt, 1989a). Responses were discussed and coded by two researchers using NVivo to identify the key stages and the influences on decisions which we then used to further guide our empirical analysis. The emerging stages of engagement form the basis of the case analysis and were discussed regularly by all four authors.

**Table 2.2:** Successful and Unsuccessful Engagement Processes

	Joseph Rowntree Charitable Trust (JRCT), UK		Missionary Oblates of Mary Immaculate (Oblates, JPIC), US			EIAG, Church of England, UK	
	Successful	Unsuccessful	Successful	Successful	Unsuccessful	Successful	Unsuccessful
Firm	Reed Elsevier UK	Vedanta India & UK	Goldman Sachs US	Newmont mining US	Bank of America US	Multiple UK	Vedanta India & UK
Sector	Publishing	Mining	Banking	Mining	Banking	Supermarkets	Mining
Engagement target	Firm	Firm	Firm	Firm	Firm	Sector	Firm
Issue	Arms fairs, peace	Environmental impact	Financial accountability	Human rights	Accountability and human rights	Justice	Human rights
Issue raised by	CAAT (NGO) and EIRIS	Churches, mining action groups, EIRIS	Awareness and investigation following ENRON collapse 2001	Oblates members in communities local to operations	Research and Oblates members in local communities	General Synod	Church members and NGOs local to operation
Affected stakeholder	Victims of warfare	Community in Orissa	Developing countries and the poor	Communities local to operations in Peru, Indonesia and Ghana	Developing countries with human rights abuses	UK farmers	Community in Orissa
Objective	To stop company involvement in arms fairs.	To meet human rights and environmental standards at Orissa plant, India	Obtain more disclosure on risk. To make financial system attentive to credit needs of poor.	To make company report on social impact and engagement with communities	To develop and implement ethical criteria for lending	To gain fairer treatment for small farmers	To meet ethical social standards at Orissa plant, India
Duration	3.5 years	1.5 years	1.5 years	4 years ongoing	2.5 years ongoing	5 years	9 months
Outcome	Divestment, sale of division, reinvestment	Divestment	Dialogue, resolution withdrawn	Company recommended vote for resolution and achieved 95%	Resolution withdrawn, policy developed but not implemented, remained investors	Report and recommendation for ombudsman position	Divestment. Some success in subsequent company changes

Analysis

Before analysing how voice and exit are being used in SSE, we first present our findings with regard to the stages of SSE. This examination leads to the

emergence of four main stages in engagement. Firstly, the engagement process is initiated when the issue is raised and the decision to respond is made. Second, information is sought by the religious organisations and the communication with the company begins. Thirdly, change-seeking engagement involves the range of communication methods used by the religious organisations, and finally the satisfactory or unsatisfactory outcomes lead to differing voice and exit choices. Despite dealing with different issues, locations and outcomes, we find that the stages are broadly applicable to all the engagement processes we studied. Figure 1 visualizes the methods used at each stage, the different outcomes and the influences on decisions made reported by the religious organisations. Not all the influences were present in all the cases (except for the overriding belief system).

Figure 1: Stages of SSE by Religious Organisations
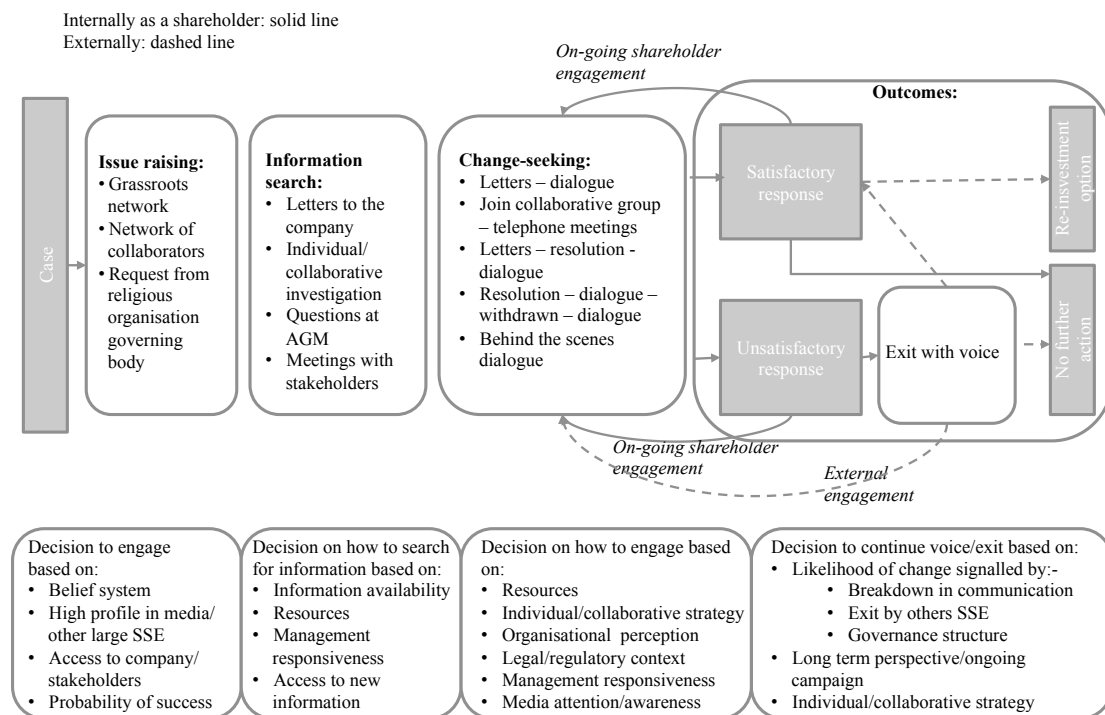
Issue raising

The first, preliminary step in initiating the engagement process is where social, environmental or ethical issues relating to the companies in which the religious organisations have an investment are raised. As shown in Figure 1, issues were brought to the attention of the organisations through their organisation members or 'grassroots' networks worldwide, their network of collaborators and in one case as a direct request from the governing body of the Church of England.

While broad issues of concern were defined by core Quaker beliefs or 'testimony', more current concerns were raised by the yearly national meeting of Quaker friends in the UK. JRCT's decisions about whether to engage on particularly contentious issues were made collectively by the Trust's investment committee (see Table 1). The decision was influenced not only by the specific issue but by pragmatic considerations such as where they thought they could make most difference with the limited time they had. An issue high on the popular agenda would encourage JRCT to add their voice and build momentum.

Despite aiming to focus on issues relevant to the main area of business of their investee companies, JRCT's engagement with Reed Elsevier is an example of the over-riding importance of their core belief system or Quaker 'testimony'. Although representing less than 1% of Reed Elsevier's turnover the company's role in the organisation of arms fairs went in strong contradiction to the core belief in peace and conflict resolution. The issue was raised through JRCT's network of collaborators, by EIRIS, a not-for-profit responsible investment advisory service, which JRCT worked with, and by one of the JRCT Trustees who was closely linked to the NGO Campaign Against Arms Trade (CAAT).

The Vedanta case concerned human rights of the local communities in Orissa, India, over a planned bauxite mine and the expansion of an aluminium foundry on sacred land as well as the pollution from the operational foundry. The issue was raised by a number of sources from their network of collaborators including mining action groups and alerts by EIRIS. Also the involvement of other churches and large NGOs such as Amnesty International and Action Aid strengthened the need to act.

Decisions about engagement by the Oblates were made at the JPIC office (see Table 1) without needing authorisation from the Oblates governing body. The broad aim of JPIC is to advocate for justice for the poor around the world. They are responsive to issues and concerns raised by local communities through their missionaries who are present in around 67 countries, two thirds of these in the developing world: *"We actually hear from people on the ground about some things that are going on or have gone on"*. This close link with the missionaries or 'grassroots' network has become fundamental to the Oblates' engagement *"we don't often like to engage a company unless we do have some actual contact on the ground with local communities"*. A more pragmatic consideration which influenced their decisions to engage was the probability of achieving success. Thus they preferred to engage with US based companies which they claim to be much less complex, large companies with international reach, and in collaboration with others (particularly ICCR members).

The Oblates engagement with Newmont Mining was motivated by a concern for the *"existing and potential opposition from local communities"* in Peru, Indonesia and Ghana following reports of environmental degradation and social unrest. The issue was raised through their grassroots network through direct contact with their missionaries in the local community and demonstrates their preference for issues with

global reach. The decision to engage was also influenced by the company being based in the US.

The Oblates' engagement with the financial sector, Goldman Sachs and Bank of America in particular was part of a longer-term campaign about debt cancellation. The engagement with Goldman Sachs on credit default swaps and derivatives aimed to *"make the major players in the global finance system more attentive to the credit needs of... the poor"*. It was also timely and built on the awareness and concern about the financial system brought about by the 2008 financial crisis. The concern with Bank of America was a lack of ethical lending criteria to protect human rights in local communities and was raised by the grassroots network.

The Church of England has detailed ethical investment policies for a range of key issues developed by the EIAG (see Table 1) which are accessible on the EIAG website and which guide their engagement. Decisions to engage are made by the EIAG, and the Secretariat is the point of contact for concerns raised by members of the Church (see Table 1). Issues are often raised by the Church's *"remarkable intelligence network around the world"* which is made up of Church of England members: *"through the Anglican Communion we have a very large membership all around the world which ... gives us tremendous resources"*.

The issue of Vedanta's *"abusive attitude to communities and human rights"* was raised by members of the Church locally to Vedanta's operations in India through the direct connection between the grassroots network and the EIAG. In the second case, EIAG's work with supermarkets followed a request from the Church of England General Synod to look into the relationship between supermarkets and farmers (EIAG, 2007). Although the EIAG reports annually to this governing body, it is normally not involved in engagement decisions. Prompted by an investigation by the

Competition Commission in the UK into the inequitable balance of power between large supermarket chains and farmers who supplied them, EIAG decided to engage at sector level with multiple stakeholders: the Government, supermarket chains and farmers. In their view this was closely related to their belief in justice, which is *"very central to the New Testament"*. The decision to engage was also influenced by the Church Commissioners' unique position as one of the largest owners of farmland in the UK giving EIAG *"access to a level of knowledge that wouldn't have been available elsewhere or to anyone else"*.

Information search

Once issues were raised and the organisations had decided to engage, shareholders began to voice their concerns with the companies and engagement moved to a second, information seeking stage. Figure 1 shows the different methods used by the religious organisations at this stage. Accurate, factual information was considered to be of key importance by all the organisations in achieving their objectives and was sought through contact with the company and other sources.

JRCT wrote initial letters to Reed Elsevier and Vedanta. The Head of Finance of JRCT explained that this is a general strategy: *"we want to give the company an opportunity to explain themselves"*. Resources were an important influence on how to collect information. The Head of Finance was the only person involved in routine engagement and letter writing and where further investigation was needed JRCT relied on their grantees. In the case of Reed Elsevier, JRCT decided to write to the company and simultaneously approached one of their grantees to produce a report on the company's involvement in organizing arms exhibitions. The AGM was attended by two of the JRCT's trustees. JRCT explained that some engagements did not move

further than the information gathering stage if the company responses were satisfactory. However, in the Reed Elsevier case the investment committee at JRCT were not satisfied with the company's responses so they moved onto the next stage of engagement. In the Vedanta case, after writing to the company and receiving an unsatisfactory response, one of JRCT's Trustees met with a representative from the local community in Orissa brought over by an NGO who informed him in detail of the situation in Orissa and prompted JRCT to continue to engage.

The Oblates JPIC staff of two were responsible for researching and writing letters to companies asking for information *"our general practice is to write a letter to ask for something"*. This was the process followed for the cases of Bank of America and Newmont Mining. The Oblates also drew on their collaborative partners such as other religious organisations under the umbrella of the ICCR, to provide *"information and anecdotes"*. Partnerships were said to *"bring diversity ... bring experience ... some accounts or ... some real life stories ... and they bring their own research capacity"*. These religious partners were considered by the Director of the JPIC office to be "diligent researchers". One exception to the Oblates general practice of writing to the companies for information was the case of Goldman Sachs where the awareness raised by the current events at the time prompted them to file a resolution directly.

EIAG started all their engagement processes *"by fact checking"*, and asking questions assuming that the company was behaving properly. This was highlighted in the Vedanta engagement: *"we were very clear to ask the company for information and check our facts with the company as well so that everything ... was decided on a factual basis"*.

EIAG Secretariat undertook much of its investigation internally in order to fill the information gap it identified in each case. After being dissatisfied with a video meeting with the CEO of Vedanta whilst in the UK, the Secretary of EIAG travelled independently to Orissa on a fact-finding trip where he consulted a wide range of stakeholders including a face to face meeting with the CEO, local government officials, and management, the NGO ActionAid and community members, and a number of diplomats, and development officials. The investigation did not allay the concerns EIAG had about the company's impact. In the case of the unfair practices used by supermarkets in their relations with supplier farmers, EIAG had access to a large body of information through holding shares in a number of supermarkets in the UK and through the Church's ownership of extensive areas of farmland in the UK. To take advantage of this latter source EIAG commissioned the CCLA, an SRI service provider, to produce a report "Fair Trade Begins at Home" (EIAG, 2007) involving individual and group meetings with farmers over six months. From this report the injustice in the farmer-supermarket relationship became clear. With a strong resource base, EIAG was able to do more of its own investigation although the extensive research necessary for the production and writing of the report was undertaken by the SRI consultancy.

Change-seeking

Once an issue was raised and the facts established, voice became stronger and a range of different engagement methods were used by the religious organisations to seek change in the investee companies. The Oblates suggested: *"it's like any kind of change that you're working for ... you have to use all the arrows in your quiver"*. These methods included attending annual shareholder meetings to ask questions, letter

writing, dialogue and filing resolutions and are summarised in Figure 1. All the processes included holding meetings with companies to establish a dialogue to voice and discuss concerns.

JRCT recognised that resource limitations were an important factor in how they went about their engagement. Developing a relationship with the company through personal contact was seen as beyond their resources. However, writing letters to send directly to top managers can be done by the Head of Finance. Trustees can then judge whether the responses are satisfactory. Collaboration with other groups such as the CIG has become an important part of their engagement strategy, enabling them to share research, knowledge and human resources.

JRCT sent letters requesting information and questioning Reed Elsevier on the issue for around two years with the objective of providing the company with an opportunity to explain itself. However, they were not satisfied with the responses and requested a meeting with the company at which they wanted their NGO grantees to be present. While a noisier public campaign was building among stakeholders such as employees and customers, JRCT chose to use its position as a shareholder to get direct access to top management and attempt to also provide NGOs access to the company. The company initially resisted but finally agreed to meet JRCT and the NGO CAAT separately. Three of the Trustees and the Head of Finance attended the meeting where despite much discussion the company maintained their argument that their business was legal and denied any wrongdoing. In the meeting "*they did promise to write to us ... but they never wrote*". Further contact did not yield the requested response either. JRCT did not publicise their meeting with Reed Elsevier.

Vedanta was unresponsive to JRCT's initial letter requesting information *"to actually get the communication going with them was very difficult"; "they're not*

listening". Because of the geographical distance between JRCT and the Indian-based company and in order to have more impact with their limited resources, JRCT joined a UNPRI special interest group on Vedanta and added their voice to what was already a large campaign. Collaboration enabled them to have access to a telephone meeting with the company but JRCT recognized that they had *"played a fairly small part"*.

All of the engagements by the Oblates included the filing of a resolution. The Director of the JPIC stated: *"certainly in the US tradition … the filing of resolutions and the engagement with the company is seen as a very productive and effective way of getting to the heart of some issues"*. This distinction between the US and UK was also noted by EIAG: *"in the US it is much more common to have specific shareholder motions which may be filed by activists and also by some investors"*. The Oblates saw the public nature of resolutions as an advantage: *"it is public which we like, which means that it invites the participation of other shareholders and stakeholders; because it's printed in the proxy it informs them [the shareholders of the company] about an issue that other shareholders are concerned about"*. Furthermore, the regulations surrounding the filing of resolutions meant that legally, despite the size of the organisation the company must respond in the same way *"They [the company] would have to do the same thing whether it's somebody who has a thousand shares or somebody who has a million shares, if there's a resolution presented, they have to respond legally"*.

Generally the Oblates began engagement by writing letters or meeting companies to discuss a concern. If the company responded positively to their concerns, then communication continued. However, if the response was not satisfactory then the Oblates turned to resolutions. These were filed by them or another shareholder but almost always in collaboration with other ICCR members. The Director of the Oblates JPIC office said collaboration provided *"a broader base*

of experience and knowledge in terms of the issues", adding that "*working with other partners is just in our DNA, none of us can adequately do it alone*". This collaboration enabled them to overcome their resource limitations just as happened with JRCT.

The case of Goldman Sachs highlights the importance of external influences on when making decisions about how to engage. In the *"midst of the financial crisis and near meltdown we were extremely eager both to focus our own thinking on this issue and also focus ... the mind of the company on the issue."* Rather than sending an initial letter, which often takes weeks or months to get a reply, the Oblates chose to file a resolution thus giving the company a limited amount of time to either engage on the issue or put it on the proxy.

In contrast, EIAG stated a strong preference for behind the scenes engagement: *"most of what we do is confidential and goes on with a company with a very constructive relationship"*. This was strongly related to the identification of their organisation as an institutional investor rather than an 'activist' and also to the national differences between the engagement process in UK and US.

EIAG generally tended to engage with investor relations, the chief executive or company chairman, and commented that approaching CSR officers can lead to a legalistic response rather than to real change: *"the Chairman is often the most useful place to go as well as being the appropriate one"*. After being unable to meet with these individuals and undertaking its own investigation, EIAG participated in discussions with other investors and in a conference call with the company. Despite these discussions, EIAG acted independently during the engagement stating that "*in the main where we can we engage on our own",* which enabled them to develop a clear position and move more quickly. However, they sometimes engaged with the

CIG to get a larger voice on certain issues. In the case of the supermarkets, EIAG decided to engage with multiple supermarkets as well as government in order to achieve sector level change. A key influence in this decision was the highly competitive nature of the supermarket industry where regulation changes would enable a level playing field which could then lead to changes in behaviour.

Outcomes

Whilst the engagement processes were chosen as examples of successful and unsuccessful engagements, a range of different company responses was found. As shown in Figure 1, we classify the immediate outcomes of the engagement processes into 'satisfactory response', leading to company action, and 'unsatisfactory response', meaning insufficient or no change, and go on to examine the voice and exit options chosen.

Satisfactory response. Three of the engagements resulted in satisfactory action by the company in response to the request while the engagers remained shareholders. Newmont Mining produced a report about the impact of their operations on local communities following the Oblates' resolution, which achieved 95% of the votes after the company recommended that other shareholders vote for the resolution. This was unusual considering the normally low levels of voting support received by SSE resolutions (Mackenzie, 1993; Proffitt & Spicer, 2006; Sparkes & Cowton, 2004). Despite this success, the Oblates had on-going engagement with the company to ensure that the report's findings led to change in the company. This is depicted in Figure 1 with the higher arrow labelled 'on-going shareholder engagement'. The company's response slowed when it came to implementing the recommendations and

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the Oblates met with them twice over the second half of 2011. The result of this was that the company *"reengaged significantly in picking up the recommendations"*.

The Oblates decided to withdraw their resolution with Goldman Sachs because they were satisfied with their conversation with the company. This was in line with other studies that suggest that resolution withdrawals are a positive outcome (Goldstein, 2011; Proffitt & Spicer, 2006; Tkac, 2006; Vogel, 1983). According to the Oblates, Goldman Sachs had a more robust and company-wide risk management structure in place since their engagement. Put differently, the use of voice rather than exit paid off since it led to an improvement in company performance according to the religious organisation. While the satisfactory response on this issue led to no further action, their broader on-going campaign on debt cancellation means that they continued to dialogue with Goldman Sachs on other related issues.

Finally, EIAG's engagement at sector level received the support of the competition authorities who announced the creation of a groceries market ombudsman position. Nevertheless, the Groceries Code Adjudicator Bill remains in the Parliamentary process with no adjudicator yet having been placed. In a similar way to the Oblates with Newmont Mining, EIAG remained involved with both supermarkets and the government on this issue in order to follow through with their demands. They also continued their dialogues with supermarkets in which they held shares on other sector level issues such as the clear labelling of produce. The importance of remaining engaged until change was actually implemented in the company is highlighted in all these examples.

Unsatisfactory response. The Bank of America engagement was ultimately considered to be unsatisfactory by the Oblates because the development of the requested criteria did not translate into substantive change at the implementation

stage: *"it was next to impossible ... for us to even get an example of how this criteria ... was ... applied in this situation"*. This engagement coincided with an important period of change for the bank, which made a number of acquisitions and sold many of their operations in the developing world to focus on the US. Despite the unsatisfactory response to their use of voice in this case, the Oblates did not exit and chose to continue their engagement by focusing on other social issues relating to the bank's larger business in the US. This is depicted in Figure 1 by the lower arrow labelled 'on-going shareholder engagement.

In contrast, three of the engagement processes included divestment by the engagers. For both EIAG and JRCT the engagement process with Vedanta resulted in the sale of their shares because they felt it was unlikely that the company would make the changes they were requesting. The Secretary of EIAG stated: *"The key issue was the disconnect between the claims of the company and what I saw and heard on the ground"* and the Chairman of EIAG confirmed *"we were confident the company would not change its standards"*. One reason for EIAG and JRCT doubting that change would be made was the ownership structure of Vedanta where the Executive Chairman and his family owned a majority stake in the company. For JRCT, the divestment by other larger shareholders engaging on the same issue led them to ask, *"how can we stay holding this company? They're not listening and these big organisations have put a lot of effort into trying to get them to listen and they haven't listened so we did sell our shares"*. Both made public announcements which explained their concerns about the companies and thus exited with voice. Although JRCT was sharing information with others on the issue, the divestment was not coordinated and they took no further action. They suggested in the interviews that such coordination could have increased the impact. They pointed out, however, that

the decision to exit may be reached at different times by different members of a collaborative engagement and that this can add complexity to working with others.

Subsequently to divestment in 2010, EIAG engaged twice with Vedanta in 2011 and 2012, although as external stakeholders rather than shareholders. This is depicted in Figure 1 by the dashed line labelled 'external engagement'. Since then, the company has *"made appointments at a senior level to specifically look at CSR and governance and is reviewing its standards"*. The Chairman of EIAG regarded the engagement as *"unsuccessfulish"* commenting that *"a process which is unsuccessful at the time may actually end up being successful as well"*.

JRCT sold their shares in Reed Elsevier. JRCT felt the company did not fully address their concerns at the meeting: *"they just fell back on not whether it was moral or not to make profits out of the arms trade but that basically it was legal"*. In a similar way Vandekerckhove et al. (2007) refer to the need to move beyond the truth value of a specific case to move forward with engagement. Finally communication fully broke down, *"after about a year of waiting for this answer from them we just thought well they're just ignoring us so ... we'll sell our shares"*. JRCT in fact considered their engagement with Reed Elsevier to be successful. Thus the combination of voice and exit led to the desired outcome and a satisfactory response. Their public divestment from Reed Elsevier generated media coverage and *"invigorated"* the campaign by other stakeholders against the arms exhibition division. JRCT sold their shares in February 2007, and in July of the same year the company announced the sale of the division. JRCT chose the reinvestment option shown in Figure 1 and bought back into the company at a later date.

Discussion

Having reviewed the theory of voice and exit and the different methods of engagement, we then presented seven empirical engagement processes by three religious organisations, renowned for their proactive engagement on social, environmental and ethical issues. Our analysis of the stages of engagement culminate in identifying the dynamics of voice and exit over time in SSE. In this section we revisit the theory underlying voice and exit and discuss this in light of our empirical findings which show the dynamics of voice and exit options. We then go on to discuss the influences on decisions made by the religious organisations in their SSE which were highlighted in our investigation.

Dynamics of voice and exit

According to Hirschman (1970), exit is an economic argument and works by creating revenue losses. Management reacts by relating lower revenue and the drop in quality. However, the shareholdings of religious organisations tend to be small, for example JRCT held less than 1% of Reed Elsevier, and therefore cannot rely on traditional shareholder power to have a financial impact on investee companies. Exit as a private and anonymous economic act was not an option. Rather, by combining divestment with public statements it was used as a political argument more in line with a voice strategy. Voice includes "various types of actions and protests, including those that are meant to mobilize public opinion" (Hirschman, 1970: 30). The cases support this claim as the Chairman of EIAG referring to the Vedanta case explains: *"the impact of our disinvestment ... was part of the process [it] has prompted the company to start potentially changing its behaviour"*. The Chair of the JRCT investment committee, referring to their divestment in Reed Elsevier, shared this

view: *"selling our shares was the most effective thing we've done because it ... brought this campaign into the headlines of the press and invigorated the other people like the doctors and the lawyers, and the NGOs"*.

EIAG's continued engagement as an external stakeholder with Vedanta despite their divestment shows that although they had 'exited' the engagement, they continued to use the voice option to maintain a dialogue with the company despite not being shareholders. By taking a fuller view of the engagement process, our empirical evidence goes further than previous studies which have argued that the threat of exit by large shareholders is part of voice (Admati & Pfleiderer, 2009). We demonstrate that in SSE, divestment itself can be part of voice. This finding supports the work of Proffitt and Spicer (2006) that religious organisations take a longer term view of engagement and that management responses expecting a 'quick fix' are likely to prove ineffective. The persistence of religious organisations in SSE is further emphasized by the fact that even satisfactory outcomes do not necessarily lead to an end to engagement as evidence of changes is sought and further issues are picked up.

In contrast to Hirschman's assertion that exit can be a consequence of failed voice, our empirical evidence provides an example of an engager remaining a shareholder despite the fact that attempts at changing the company had failed. This leads us to suggest that exit is not a necessary consequence of failure to bring about change. Why would an investor choose to remain? Voice is more costly than exit (Hirschman, 1970; Marler & Faugère, 2010; Parrino et al., 2003), and religious organisations have limited resources for engagement. The cases here demonstrate how collaboration has played an important role in overcoming this cost. Connecting to other investors such as religious investor groups ICCR and CIG, and other interest groups such as the UNPRI provided a wider asset base as well as financial and

knowledge resource sharing. The nature of these relationships can vary as well as their strength and scope, but they show that the dynamics of shareholder-stakeholder relations are becoming increasingly complex. Mobilizing support through forming coalitions with both religious shareholders and non-religious stakeholders has evolved over time to become a key theme in SSE (Proffitt & Spicer, 2006; Van Buren, 2007). Connections with these groups enabled the religious organisations to share information and access to companies, stakeholders and resources, in support of Arenas et al. (2013). The Director of the Oblates JPIC said: *"we've been asked by a number of people over the years who want to go to the annual general meeting of a corporation but are not shareholders, if we would lend them our proxies and we do"*. JRCT was insistent on the presence of an NGO at the meeting with Reed Elsevier. EIAG and JRCT also connected with NGOs to learn more about the issues they were engaging on.

While corporate governance engagement is concerned with weighing up the costs and benefits of engagement, religious organisations judge engagement to be worthwhile. EIAG said: *"the encouragement from the members of the Church is always to do more, we've never been asked if it's worthwhile"*. Rather, it is the first of Hirschman's decision elements, the evaluation of the likelihood of getting the company back on track, where key voice and exit decisions will be weighed.

These findings send a clear message to companies that the engagement of religious organisations is not based on a 'rational' economic model. Rather than adhering to market-based economic behaviour, religious organisations have a commitment to engagement which goes beyond a simple voice or exit decision. They play a political and social role in their engagement with broader consequences than anonymous divestment and this should be taken into account by companies when

engaging. Public exit and continuing engagement on existing and new issues, whether internally as shareholders or externally, are all variations of voice used by these religious organisations and which go beyond the typical corporate governance expectations.

Influences on decisions in SSE by religious organisations

In addition to the findings demonstrating the dynamics of voice and exit, the analysis of empirical evidence presented here also contributes to the literature on SSE by religious organisations by identifying the influences on their decisions at each stage of the process and which provide a starting point for future investigation.

As shown in Figure 1, at the initial stage of the engagement process the connections between the religious organisations and their grassroots networks were particularly important. This enabled the detection of social, environmental and ethical issues in communities affected by companies' operations and gave the religious organisations access to key stakeholders. EIAG stated that *"there have been a number of occasions that we've had companies and we have told them things about their operations that they didn't know and they've responded positively"*. We suggest that this ability to detect issues and raise the voice of often unheard communities quickly and directly as shareholders is a particular asset for religious organisations.

A certain pragmatism also entered into the decisions of the religious organisations about whether to engage or not. Resources constraints affected the way the religious organisations collected information and the methods they used to engage leading them to share costs through collaboration. Alternatively by working independently EIAG could make faster decisions than if they were collaborating with other partners. Particular issues were taken up due to their timeliness in order to take

advantage of current public debate and media attention to build momentum and contribute to a larger movement. At other times, distance was an obstacle in establishing communication and added unwanted complexity to engagement.

The change-seeking stage of the engagement process includes the use of a wide variety of methods of engagement which are also found in the broader engagement literature. The importance of the legal and institutional context is demonstrated by the use of resolutions by the Oblates whereby the legal obligation of a company to respond to a filing puts both small and large shareholders on a more equal footing. In order for a resolution to be filed at the SEC in the US, a shareholder must own a value of $2000 in shares of the corresponding company for a minimum period of a year. Once this minimum is complied with, companies are obliged to respond in the same way regardless of the size of the shareholding. One of the reasons the Oblates used shareholder resolutions as a method of voicing concerns was because they informed other shareholders and enabled them to vote on particular issues. The UK based organisations focused more on dialogue in line with comparative research on UK and US engagement such as Aguilera et al. (2006) which suggests that in the UK institutional investors play a more consultative role whereas US SEC regulations encourage more public disclosure. EIAG confirmed *"most of what we do is confidential and goes on with a company with a very constructive relationship"*. The effectiveness of these approaches is debated and whether behind the scenes dialogue is where the real action takes place as claimed by Logsdon and Van Buren (2009), or if more public campaigning (de Bakker & den Hond, 2008a; Guay et al., 2004) can have a greater effect is yet to be resolved. The self-perception of engaging organisations as activists or institutional investors could influence the choice of approach.

Despite their limited resources and typically small shareholdings, in a number of cases the religious organisations were able to engage with senior levels of management. Meeting the 'right' people has been identified in the broader engagement literature as an important element for success (Goldstein, 2011). Previous research has reported the high degree of legitimacy of SSE demands by religious organisations (Proffitt & Spicer, 2006; Van Buren, 2007) arguing that this is more likely to result in resolutions reaching the proxy or dialogue with a company (Logsdon & Van Buren, 2009). Despite lower levels of traditional shareholder power, our empirical results suggest an advantage in being a religious organisation. EIAG claimed: *"the Church of England carries a lot of moral authority in the UK"* which has helped to establish trust in their engagement and the Oblates see their engagement as offering a *"moral compass"* to companies. This legitimacy extends also to the media; the Director of Oblates JPIC said: *"I don't think most companies want to be put in a position of going against a rather established well known religious institution, or their representatives, that doesn't play well in the media"*. The Quaker based JRCT stated: *"Although we were only a small shareholder … we have got quite a reputation"*. Religious organisations then may benefit, in a similar way, or perhaps more so, to NGOs, from an ability to influence which is disproportionate to the number of shares owned (Guay et al., 2004).

At the final stage, when decisions are made about whether to continue to engage or not, the likelihood of change by the company is a key consideration. Unfavorable governance structures including majority ownership in the case of Vedanta and different international governance cultures were shown to limit the use of the voice option. This coincides with Parrino et al. (2003) who find evidence which suggests that institutional owners are more likely to sell stocks rather than attempt to

voice their concerns when the CEO is part of the family which founded the company. However, despite these limitations, EIAG regarded this challenge as part of a learning process *"dealing with different ownership structures and different cultural structures will become much more normal"*. The persistent nature of religious organisations' engagement (Proffitt & Spicer, 2006) and the evidence here suggest that these organisations will continue to develop and refine their engagement processes.

Limitations and future research

The engagement processes analysed here have been reported by the members of religious organisations directly involved in the engagement. Our objective was to understand voice and exit from the perspective of the engagers and our analysis takes these reports as its starting point. The company perspective would be a valuable source of validation for the stages of the process and the influences on the decisions made. Further research is needed to better understand how the company perceives engagement by religious organisations. Particularly challenging, however, is the frequent denial by companies that their actions are in direct response to engagement challenges and the difficulties of establishing causal links among the many factors at play (Gillan & Starks, 2007). This prompts a potential line of future research into the events surrounding divestment and the prevalence and effects of pre and post-divestment engagement in SSE.

The issue of confidentiality in dialogue (Logsdon & Van Buren, 2009) also has a limiting effect on this research. EIAG comments that "*I have to talk about something very public*", highlighting the inability of those who engage privately to disclose information on their engagement processes. The definition of whether an engagement is public or private and the extent of media involvement in this also

remains unclear. Further research into the debate between the effectiveness of 'public' versus 'private' voice methods is needed.

Our sample is small, with only three religious organisations represented. While we have chosen these organisations for their extreme position, experience, relevance to RI and comparative features the limited sample size restricts the ability to generalize the research findings. Further quantitative research on a larger sample would be useful to explore some of the points we have raised here, as would investigation into different national contexts. Although likely to be challenging, a fuller understanding of religious organisations could be developed by researching those which do not choose to engage or participate in RI. Comparative work on the processes and influences on decisions of other types of engagers such as NGOs, individual investors, SRI funds, pension funds and other institutional investors would be a logical extension to the findings shown here.

Our focus on religious organisations as social shareholder engagers rests on the assumption that religious organisations are legitimate in their concerns for improving social and environmental performance. We note however that there could be conflicting opinions about the motives and agendas of religious organisations raising doubts about their ethical objectives.

Finally, to extend the recent work of Gond and Piani (2013), research into the networks and institutions which religious organisations work within would shed further light on the nature of these relationships and the type and direction of resource flows between them. The strength and scope of these networks and institutions is also of great importance to companies as the dynamics between shareholders and stakeholders become more complex.

Conclusion

This article contributes to the growing literature on social shareholder engagement by providing in-depth insight into the engagement process itself. It models the engagement process and identifies four key stages: issue raising, information search, change-seeking, and outcomes, which religious organisations seen as highly proactive in SSE have followed. The engagements include multiple methods of engagement and detail the influences on decision at each stage. This has enabled us to consider the dynamics of voice and exit options in social shareholder engagement and is a basis for future comparative investigation on the issue.

In contrast to much of the corporate governance literature we find that religious organisations do not base their exit and voice decisions on economic considerations but political ones using voice to further their beliefs and mission in society. The silent exit option is not used by religious organisations in SSE. Voice is accepted as worthwhile and it is the likelihood of achieving change in companies which has greater influence on voice and exit decisions. We argue that Hirschman's voice and exit options are dynamic, mutually reinforcing and not necessarily sequential. Divestment does not close the door to continuing external engagement with a company nor is exit always the consequence of an unsatisfactory voice strategy. These findings extend the voice approach and the options available within it providing practical insights for both managers and other shareholders and widening the scope for future research on this topic.

The paper also sheds light on the influences on the decisions made by religious organisations in SSE. Described as pioneers in SSE, religious organisations as active and experienced engagers are influenced by a variety of pragmatic and moral considerations when deciding on their engagement practices to push for greater social,

environmental and ethical responsibility from the companies they invest in. These insights are of vital importance for management to gain an understanding of their shareholders and stakeholders and to develop adequate responses to their concerns and persistent engagement as well as for other activists choosing a voice strategy.

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Chapter 3: Paper 2 - Engaging Ethically: A Discourse Ethics Perspective on Social Shareholder Engagement

Abstract

The primacy of shareholder demands in the traditional theory of the firm has typically been to the exclusion of marginalised stakeholder voices. However, shareholders involved in social shareholder engagement (SSE) purport to bring these voices into corporate decision-making. In response to ethical concerns raised about the legitimacy of SSE we use the lens of discourse ethics to provide a much needed normative analysis at both action and constitutional levels. By specifying three normative questions we extend the analysis of SSE to identify a political role for SSE in pursuit of the common good. We demonstrate the desirability for SSE to promote regulatory/institutional change to guarantee marginalised stakeholders have a voice in corporate decision-making which affects them. The theory of SSE we propose thus calls into question the stark separation of the political and economic spheres and reveals an underlying tension, often overlooked, within the responsible investment literature.

Introduction

Shareholders are just one of the multiple stakeholders which can affect and are affected by corporations (Donaldson & Preston, 1995; Freeman & Reed, 1983). The shareholder primacy orientation of traditional agency theory assumes shareholders will maximize their individual utility (Jensen & Meckling, 1976). However, social shareholder engagement[2] (SSE) poses a challenge to this approach as shareholders take the concerns of often voiceless and marginalised stakeholders such as victims of human rights abuses and environmental degradation (Dhir, 2012; Hennchen, forthcoming; Kraemer, Whiteman, & Banerjee, 2013; Lee & Lounsbury, 2011; McLaren, 2004; Proffitt & Spicer, 2006) to the heart of corporate decision-making. As a dialogue bridging the gap between civil society and corporate interests, SSE by its very nature lies at the heart of the business and society relations. Yet despite their moral interests, shareholders involved in SSE should not uncritically be assumed to be the "good guys" (Scherer & Palazzo, 2007). Research suggests that neglecting to consider the ethics of the process of SSE can pose a threat to its legitimacy (Dhir, 2012; O'Rourke, 2003).

The role of corporations in addressing social and environmental problems has been addressed widely in the management literature, usually under the rubric of corporate social responsibility (Garriga & Mele, 2004; Jamali, 2008). Perspectives such as stakeholder democracy (Freeman, 1984; Matten & Crane, 2005), corporate

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[2] Social shareholder engagement is used here in line with previous research (Goodman et al. forthcoming). This term was used to reconcile the variety of different terms found in the literature which refer to shareholders voicing their concerns on particular issues to companies (Eurosif, 2006) The use of the word 'social' reflects the relevance of the issue to society rather than just the shareholder. SSE refers to principle-based issues and the social, environmental and ethical impacts of corporate behaviour. It also includes some governance issues related to justice. However, those governance issues with the sole objective of improving financial returns are not included (Eurosif, 2012)

citizenship (Moon, Crane, & Matten, 2005) and political CSR (Scherer & Palazzo, 2007; Scherer, Palazzo, & Matten, 2014) have defended a much broader set of responsibilities for the corporation in society. Research by law scholars (Stout, 2012) and in the public domain (Freshfields, 2005) has also challenged the mantra of shareholder wealth maximization by focusing on a broader interpretation of fiduciary duty. At the same time the growth in responsible investment practice (Eurosif, 2014) and research has demonstrated the plurality of demands made by shareholders and the continuously growing interest in environmental, social and governance (ESG) issues in investment.

But what of these shareholders who purport to speak for marginalised stakeholders? Despite their oft-stated commitment to voicing unheard stakeholder concerns related to the environmental and social impacts of corporate operations, and the extensive descriptive research on shareholder engagement, a normative, ethical approach has so far been neglected. Rather the literature has focused on strategic and tactical concerns (den Hond & de Bakker, 2007; Lee & Lounsbury, 2011; Rojas et al., 2009) or identity concerns (Arjaliès, 2010; Rehbein et al., 2004). Furthermore, existing research has raised ethical concerns about how shareholders undertake SSE. These include the need to establish legitimacy in the face of a plurality of demands on the firm (Scherer & Palazzo, 2007), the potential for shareholders to actually harm rather than help the local communities they seek to represent (Coumans, 2012; Dhir, 2012), the lack of accountability of engagement behind 'closed doors' (McLaren, 2004; O'Rourke, 2003), and the use of divestment or threat of disclosure in SSE (Goodman et al., 2014). In addressing this gap we provide a benchmark for reflecting on the ethics of the SSE process.

This article explores how shareholders involved in SSE can ensure they engage ethically. We structure our analysis according to the action and constitutional levels identified by Schreck et al. (2013). In this way we address SSE *within* the existing institutional and regulatory constraints, before going on to consider to what extent and how SSE should challenge the constraints themselves to change the "rules of the game" (North, 1990: 3).

We approach our analysis through the lens of Habermasian discourse ethics (Habermas, 1984, 1987, 1992), which offers a valuable opportunity to examine SSE not only from a much-needed normative perspective, but one which also allows for the mediation of a plurality of ethea. A particularly relevant aspect of Habermas's discourse ethics to SSE is the emphasis on the participation of all affected parties in fair dialogues to establish valid, moral norms (Beschorner, 2006). Another advantage of discourse ethics is that it is process-focused and therefore avoids assumptions of the moral content of norms which underlie other ethical theories. Finally, Habermas's later work has extended discourse ethics to deliberative democracy (Habermas, 1996), which has become increasingly used in debates about the political role of business in society (Moon et al., 2005; Palazzo & Scherer, 2006; Scherer & Palazzo, 2007).

Our analysis of SSE through a discourse ethics lens enables us to develop a normative, ethical perspective of SSE, so far missing in the stakeholder engagement literature. This analysis is based on the identification of three normative questions related to voicing stakeholder concerns; promoting stakeholder engagement; and promoting institutional/regulatory change. The first two questions belong to the action level and the last to the constitutional level. We extend the analysis of SSE beyond the current work on political CSR to include the desirability of promoting regulatory/institutional change to ensure marginalised stakeholders have a voice in

corporate decision-making which affects them. In this way we elaborate a deliberative democratic political conception of SSE which in turn questions the stark separation of the spheres of economics and politics. Our analysis also implies a dilemma for shareholders involved in SSE as to whether or not they are prepared to yield power on corporate decision-making in order to ensure the participation of marginalised stakeholders. This dilemma reveals the significance of an often overlooked difference in motivations between purely ethically motivated shareholders and shareholders who may also use SSE instrumentally as a means to reduce risk.

We begin by clarifying the concept of SSE and its prevalence in practice. We then review the literature to date on SSE, which reveals the existence of ethical challenges/concerns for shareholders in SSE. We next outline discourse ethics and present this theory as our lens for developing a normative perspective of SSE along with the reasons for doing so. The following section presents our multi-level analysis structured around three normative questions and our findings. Then we explore these findings and discuss their implications for existing theory on SSE and business ethics, and their relevance to practice. We end with avenues for future research and some conclusions.

Social Shareholder Engagement

In contrast with the financially-motivated stream of shareholder engagement literature, which prioritises financial performance through reducing the agency gap between principal and agent (Chung & Talaulicar, 2010; Gillan & Starks, 2007), SSE represents the choice by shareholders dissatisfied with a company's environmental, social, governance and ethical performance to use the 'voice' rather than 'exit' option described by Hirschman (1970), or the dynamics between the two, to influence

company actions (Goodman et al., 2014). Shareholder engagement can be done through letter writing, asking questions at annual general meetings, dialogue with management or the board either behind-the-scenes or in public confrontation, as well as filing and voting on shareholder resolutions (Lydenberg, 2007; Sjöström, 2008).

SSE has a powerful tradition in the US and can be traced back to the 1970s when regulation changes at the US Securities and Exchange Commission (SEC) allowed social policy topics to be considered[3] (Dhir, 2006; Glac, 2010; Proffitt & Spicer, 2006). The level of SSE is increasing (Goldstein, 2011; Lee & Lounsbury, 2011): between 2010 and 2012 over 200 institutions representing $1.5 trillion in assets filed or co-filed shareholder resolutions related to environmental, social and governance (ESG) issues at US companies (USSIF, 2012). In a study of 81 of the largest companies in the US between 2000 and 2003 almost 40% of shareholder engagement through shareholder resolutions was socially or CSR-driven (Monks et al., 2004).

Research has identified the main actors in SSE as primarily religious organisations, and NGOs, but it also finds involvement by public pension funds, individuals and unions (Guay et al., 2004; Proffitt & Spicer, 2006; Sjöström, 2010; Tkac, 2006). Religious organisations in the US are the most active filers of social policy shareholder resolutions and are responsible for around 25% of all shareholder proposals each year (Copland & O'Keefe, 2013; Proffitt & Spicer, 2006).

SSE has a different ideology to conventional market logic being driven by principle rather than economic rationality (Clark et al., 2008; Lee & Lounsbury, 2011; McLaren, 2004). One of the largest and most active coalitions of shareholders

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[3] For a detailed discussion of US engagement regulation and history please refer to the expansive explanations by Dhir (2006), Proffitt and Spicer (2006), Glac (2010) and Rehbein (2013).

working on SSE is the Interfaith Center on Corporate Responsibility (ICCR). It claims that "it is the impact on people, usually economically vulnerable people, who inspire us to act" (ICCR, 2014d). Research has highlighted the challenge of measuring the impact of SSE or its success. A large number of studies focus primarily on shareholder resolutions in the US and their voting outcomes (Campbell et al., 1999; Graves et al., 2001; Monks et al., 2004; Rojas et al., 2009). However, this approach can be misleading as even strongly supported resolutions are not necessarily legally binding (Engle, 2006; Levit & Malenko, 2011; Rojas et al., 2009). Social movement theory frames SSE as a broader movement to effect social change and shape public discourse and norms by framing agendas and raising awareness on social, environmental and ethical issues (Arjaliès, 2010; Lee & Lounsbury, 2011; Proffitt & Spicer, 2006; Sjöström, 2010). However, as SSE moves increasingly towards private dialogue behind the scenes where it is argued to be more effective (Becht et al., 2009; Goldstein, 2011; Goranova & Ryan, 2014; Logsdon & Van Buren, 2009), impacts and successes on those stakeholders which SSE claims to represent remain opaque. While most literature has focused on the success, strategies and identity of SSE (Ferraro & Beunza, 2014), in the following section we highlight some of the ethical concerns which have been raised about SSE.

SSE: Ethical Concerns

The previous section clearly demonstrates that the motives of SSE come from a moral basis rather than an economic one. However, civil society claims, or those shareholders who give voice to them, should not uncritically be assumed to be legitimate. As Scherer and Palazzo (2007: 1109) claim it is oversimplistic to conceive of the corporation as the "bad guy" representing economic interests and civil society

actors as the "good guys" who represent moral interests. With a plurality of civil society demands and in light of research which shows that even shareholders from a more economic perspective are divided in their demands (Anabtawi, 2007; Barnea & Rubin, 2010; Stout, 2012; Williams & Ryan, 2007), the legitimacy of demands must be established rather than assumed.

A second ethical concern raised in the SSE literature is whether shareholders are effective representatives of stakeholder interests (Coumans, 2012; Dhir, 2012). These studies focus on the actions of a consortium of socially conscious investors who, in 2008, submitted a shareholder proposal to a Canadian multinational regarding the human rights impacts of its Guatamalan mining operations. Between 2008 and 2010 there was a strong condemnation by various civil society and international organisations of the mine's contamination of the local environment including water sources and the associated significant health risks posed for the local community. The condemnations called for a suspension of the mine's operations until the negative impacts could be addressed. The 2008 proposal was withdrawn and the company agreed to its demands for an independent human rights impact assessment. However, the proposal attracted much controversy. Before the Guatamalan government could implement the recommendations of the civil society organisations and suspend the mine's activities, the company announced its own action plan to address the issues raised in the impact assessment carried out at the demand of the shareholders. The human rights organisations and affected local communities were highly critical of their exclusion both from the drafting of the shareholder proposal, and from participating in any direct management or oversight of the assessment process. The engagement was seen to have provided a whitewashing of the situation for the company and its shareholders while harming and undermining the demands of the

local community (Dhir, 2012). Thus, the need for shareholder resolutions to significantly appeal to "the business or affairs of the corporation" (Dhir, 2012: 106) led to the divergence of interests: risk mitigation by investors on one hand, and the complete cessation of operations at the mine by the local community. The concern arises as to how SSE can avoid doing harm, albeit unwittingly, to the stakeholders whose interests they strive to defend.

Thirdly, as noted in the previous section, it is behind-the-scenes dialogue between shareholders and corporations which is said to represent the vast majority of shareholder engagement and is where much of the real 'action' happens. In light of SSE's purported proximity to stakeholders and civil society, the need for shareholders to gain the trust of those stakeholders and to report the effectiveness and quality of SSE, it is uncertain whether 'closed door' engagement can provide the transparency and accountability demanded of SSE (McLaren, 2004; O'Rourke, 2003). Despite its importance, very little research has been done on behind-the-scenes engagement (Rehbein et al., 2013) not least due to the confidential nature of many dialogues and therefore the lack of accessible data.

Finally, from a legal viewpoint on corporate governance, the notion of shareholder democracy has become popular (Anabtawi & Stout, 2008; Bebchuk, 2005). Following this approach, greater shareholder equality achieved through empowering minority shareholders, a group which generally includes SSE shareholders (Clark et al., 2008), should go hand in hand with a greater shareholder responsibility to both the firm and other shareholders (Anabtawi & Stout, 2008). Studies which reveal the use of tactics by shareholders such as the threat to 'exit' or divest from the company if their demands are not met (Admati & Pfleiderer, 2009;

Goodman et al., 2014) could be interpreted as coercive and therefore raise ethical questions about the tactics used by shareholders in SSE.

Research has primarily taken a descriptive and empirical approach to exploring SSE. However, as explained in this section, this research has identified some concerns about SSE which appear to be ethical in nature such as the need to establish legitimacy in the face of a plurality of demands on the firm, the potential for shareholders to actually harm rather than help the local communities they seek to represent, the lack of accountability of engagement behind 'closed doors', and the use of divestment or threat of disclosure in SSE. The following section presents the theoretical lens selected for our analysis and its appropriateness for establishing a normative perspective on SSE.

SSE Through The Lens Of Discourse Ethics

In this section we briefly outline a Habermasian discourse ethics approach and argue that it is appropriate for the analysis of SSE for 3 main reasons: 1) it focuses on the participation of affected parties, 2) it focuses on the process avoiding assumptions about moral content and offering a means to include a plurality of worldviews and ethea, and 3) it has become recently popular for exploring new aspects of CSR such as the political role of firms and the notion of corporate citizenship thus opening up the possibility also to discuss the broader implications of SSE.

Habermasian discourse ethics

Habermasian discourse ethics is a normative, process-oriented ethical theory. It is centred on the process of reaching valid, moral norms through participating in fair dialogues (Beschorner, 2006; Habermas, 1984, 1987). These dialogues offer an opportunity for a wide variety of worldviews and ethea to be deliberated upon and to

develop a norm which all participants can accept. Habermas states that for a norm to be valid it must fulfil the principle of universalization:

> "*All* affected can accept the consequences and the side effects its *general* observance can be anticipated to have for the satisfaction of *everyone's* interests (and these consequences are preferred to those of known alternative possibilities for regulation)" (Habermas, 1992: 65 emphasis in original).

According to this principle the universal validation of a norm is dependent on consensus achieved through discursive legitimacy rather than solely on individual reflection as other philosophers such as Kant and Rawls have suggested[4] (Gilbert & Rasche, 2007; McCarthy, 1992: viii; Unerman & Bennett, 2004). Habermas (1992: 68) states "the justification of norms and commands requires that a real discourse be carried out and thus cannot occur in a strictly monological form, i.e., in the form of a hypothetical process of argumentation occurring in the individual mind."

Habermas then develops a second principle which introduces the ethics of discourse:

> "Only those norms can claim to be valid that meet (or could meet) with the approval of all affected in their capacity *as*

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[4] While we recognise that Habermas and Kant indeed have similarities, we follow the argument laid out in this journal by Gilbert and Rasche (2007) who claim that *"whereas Kantian ethics links the process of justification to the individual conducting a universalizing test (Kant, 1993, 2004) to see whether she or he wishes everyone else to act according to the same maxim, in discourse ethics Habermas (1990: 196-98) moves Kant's categorical imperative beyond its 'monological' reflection. The same criticism applies to Rawls's (1971) 'Theory of Justice,' where the morality of an action is determined by individuals critically evaluating actions behind a 'veil of ignorance.' Habermas argues that individual reasoning and self-reflection are insufficient to justify acceptable norms because different individuals might come to different conclusions regarding the acceptability of particular norms."* (Gilbert & Rasche 2007: 193).

participants in a practical discourse." (Habermas, 1992: 66
emphasis in original)

Habermas argues that only through the process of 'communicative action', whereby a plurality of affected actors seek "*rationally* to *motivate*" each other through speech acts can the universal validity of a moral norm be tested (Habermas, 1992: 58 emphasis in original). Communicative action is contrasted to 'strategic action' where actors aim to influence, manipulate or coerce others through sanctions or gratification. Strategic action is a concern for Habermas because its objectives are "power, economic efficiency, or other egocentric aims" (Smith, 2004: 319) and it seeks to achieve individual success (Habermas, 1984). In contrast, communicative action adopts an attitude "oriented to reaching understanding" (Habermas, 1984: 286). To achieve communicative action Habermas identifies a number of rules for discourse that characterize an "ideal speech situation" (Habermas, 1992: 88). We summarise these key motifs[5] below.

Argumentation. The notion of transforming preferences through argumentation, rather than simply aggregating them, is central to Habermasian discourse ethics. In this way discourse ethics focuses on the *process* of argumentation rather than making any moral claims on the content itself. To achieve intersubjective understanding it is fundamental that all participants present their own arguments, interests and needs, and that they are free to introduce any assertion into the discourse. In this way arguments remain undistorted by representation by another and participants are open to criticism and questioning by others (Habermas, 1992).

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[5] The term 'motif' is used by Bebbington et al. (2007) to refer to the critical requirements of authentic engagement in the context of dialogic theory. In a similar way we use this term to express the critical requirements of discourse ethics.

Plural participation. Habermas's principle of universalization makes clear that pluralism is an essential criteria for testing validity since "all affected are admitted as participants" (Habermas, 1992: 66). This perspective is formulated into a more specific rule: "Every subject with the competence to speak and act is allowed to take part in a discourse" (Habermas, 1992: 89).

Non-coercion. According to Habermas "No speaker may be prevented, by internal or external coercion, from exercising his rights" (Habermas, 1992: 89); rights in this case refer to the right of participation and of introducing and questioning assertions and expressing interests. The aim of communicative action is reaching "rationally motivated agreement" (Habermas, 1992: 88) based on the primacy of the best argument rather than any power-related threat or incentive (Lozano, 2001).

Transparency. Communicative action also requires transparency, which in turn demands truthful arguments. Habermas states that with "*every* intelligible utterance" (Habermas, 1992: 136 emphasis in original) the speaker claims that the utterance is true, is right in a particular normative context, and is truthful with no intention to mislead.

Discourse ethics relevance to SSE

While we do not attempt to discount other ethical theories, in the following paragraphs we present our case for using discourse ethics as a compelling normative perspective to analyze SSE.

Firstly, there have been wide-ranging claims for the use of a participatory dialogue approach, such as that proposed by Habermas, to be taken by corporations in their relationships with stakeholders (Brenkert, 1992; Gilbert & Rasche, 2007; Matten & Crane, 2005; O'Dwyer, 2005; Reed, 1999; Unerman & Bennett, 2004). Since shareholders in SSE are speaking for stakeholders or addressing issues which can

strongly affect the lives of other stakeholders (Goodman et al., 2014; O'Rourke, 2003), we argue that discourse ethics, with its focus on the participation of all affected by decisions, is highly relevant to SSE. Discourse ethics offers a useful point of entry for analyzing concerns raised about stakeholder participation (Stansbury, 2009), transparency in behind-the-scenes engagement (O'Rourke, 2003) and the potentially misguided reframing of stakeholder demands by shareholders in SSE (Dhir, 2012).

Second, discourse ethics focuses on the process of establishing moral norms by rational argumentation. As such, this perspective holds that those affected by decisions are able to reach a reasoned agreement on what outcome they seek to achieve (Dryzek, 2000) rather than assuming that they are limited to an economic or utilitarian framework. In this way it avoids making any (culturally restricted) assumptions as to the ethical content of outcomes or "material norms" (Beschorner, 2006: 127)[6]. If we take this perspective to shareholders involved in SSE, they would be expected to present arguments and to assume that others (managers and stakeholders, including other shareholders) are capable of being convinced if and when they realise that the other's argument is cogent. Given that stakeholders can be expected to hold different worldviews (Arenas, Lozano, & Albareda, 2009), that shareholders have been shown to have differing ethea (Lee & Lounsbury, 2011; McLaren, 2004), and that norms can change in a pluralistic business environment (Stansbury, 2009), an approach to SSE that avoids specific ethical content and allows for mediation and deliberation of this diversity of perspectives is particularly valuable.

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[6] An example of such an assumption is the proposed objective of stakeholder happiness enhancement from a neo-utilitarian approach (Jones & Felps, 2013) From a discourse ethics perspective, the goal of SSE would be to achieve rational argumentation and participation in line with communicative action rather than the enhancement of the happiness of particular stakeholders.

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Finally, Habermasian discourse ethics has received much attention in recent discussions of the political role of CSR (Scherer & Palazzo, 2007; Whelan, 2012) and corporate citizenship (Moon et al., 2005) understanding direct participation of firms and stakeholders as a useful way to resolve problems in society, especially global issues that escape the capacities of national governments. As such, the use of a discourse ethics perspective to analyze SSE enables us to extend the analysis of ethical questions to address broader, political implications of SSE; that is, to discuss the consequences of SSE for the rules of the game at a regulatory/institutional level. It also enables us to develop a political view of the corporation which is concerned with the common good rather than the more frequent focus on power games with egoistic motives (Scherer et al., 2014).

As stated at the start of this section, we do not dismiss the appropriateness of other ethical theories. While we do not fully review all alternatives here, we do briefly note some shortcomings of two other well-established ethical theories. A utilitarian perspective, in addition to its focus on ethical content as noted above, is perhaps not best placed to deal with the voices of marginalised or 'unheard' stakeholders which have been shown to be of concern to shareholders in SSE (Goodman et al., 2014). By emphasising the greatest happiness for the greatest number the views of marginalised stakeholders may be overlooked. Examples of such stakeholders can be found in the social and environmental impacts on indigenous people who live on land destined for mineral or oil extraction such as the cases of the Ogoni in Nigeria (Hennchen, forthcoming) and the Dongria Kondh in India (Kraemer et al., 2013).

A contractarian approach (Phillips, 1997) takes a more instrumental view of stakeholders. By assuming that corporations and their stakeholders act only for strategic reasons and seek mutual advantage, this approach overlooks the ability of

individuals to take a position which goes beyond self-interest and to transform their judgments upon hearing others' arguments in a deliberation process. Actions taken by shareholders in SSE have been shown to be principle-based or concerned with collective and social benefits (Lee & Lounsbury, 2011; McLaren, 2004) thus indicating that SSE goes beyond instrumentalism. One should not rule out the possibility that shareholders in SSE are open to changing their point of view through arguments presenting better alternatives.

Discourse ethics is not without its critics. Doubts are raised even by Habermas himself about the possibility of attaining an ideal speech situation in practical discourse (Gilbert & Rasche, 2007; Habermas, 1992; Smith, 2004). However, many proponents of discourse ethics have claimed that it is not necessary to achieve full ideal speech to benefit from the positive effects of deliberation and communicative action (Arnold, 2013; O'Dwyer, 2005; Scherer & Palazzo, 2007; Unerman & Bennett, 2004). A normative ideal has been argued to increase the discursive quality (Scherer & Palazzo, 2007), help develop authentic moral norms for dialogue (Lozano, 2001), and evaluate the interaction between NGOs and corporations (Baur and Arenas, 2014). From a responsible investment perspective, McLaren (2004) suggests that norms and standards would help investors using an engagement approach assess their effectiveness and quality.

Another possible difficulty is that Habermas himself separates political and economic spheres (Scherer et al., 2014) seeing deliberation as relevant primarily for "a separate, constitutionally organized political system, but not as a model for all social institutions" (Habermas, 1996: 305). However, there are a number of supporters of discourse ethics who have argued for the application of deliberation in a broader context including the business environment (Gutmann & Thompson, 2004:

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32-33; Lozano, 2001). More specifically, scholars have demonstrated the applicability of discourse ethics as a normative frame for business ethics (Scherer & Palazzo, 2007). We thus follow those who suggest that Habermas's objective of universalization whereby all participants can accept the consequences of decisions taken through deliberation is still a valid yardstick by which to judge the moral legitimacy of company and stakeholder actions. In particular, we apply this perspective to shareholders involved in SSE.

Multi-Level Analysis Of SSE

To get a fuller picture of the possibilities of applying a discourse ethics perspective to the analysis of shareholders in SSE, we divide our inquiry into two different levels, where different ethical concerns emerge. In order to avoid the normativistic fallacy of ignoring the existing practical constraints imposed by the rules of the game, we follow the distinction used by Schreck et al (2013) of an action level, where actors face choices within a set of given constraints, and a constitutional level, where choices about the rules of the game are made. According to Schreck et al. (2013: 306) "[e]mpirical constraints cannot entirely disburden the bearer of a responsibility" which "implies the obligation to discover a "can"". This implies examining the constitutional level as well as the action level. By exploring both the action and constitutional levels we are able to examine the choices facing SSE within the given constraints, as well as extending the analysis to consider how shareholders could and should influence these constraints. We identify two normative questions at the action level, and one at the constitutional level. Table 3.1 pinpoints the ethical concerns and questions at each level and identifies the insights for SSE from a discourse ethics perspective.

Table 3.1: Map of the empirical concerns, normative questions and insights provided for SSE

| Level	Ethical concerns	Normative questions	Discourse ethics insights for SSE
Action	Legitimacy of the plurality of shareholders giving voice to different marginalised stakeholders (Scherer & Palazzo, 2007) Shareholders harm stakeholders through misalignment of interests (Dhir 2012) Increasingly behind the scenes engagement (Logsdon & Van Buren, 2009) Threat of divestment (Goodman et al. forthcoming)	Given that laws and institutions are as they are, in SSE how should shareholders bring the voices of other marginalised stakeholders to managers?	Implement motifs of communicative action: - ensure community consultation and consent - be open to diverse perspectives - better understand investment beneficiaries' expectations - be truthful about claims, transparent about the process - threat of sanctions purely to keep parties involved in discourse
Action	Perpetuation of power differentials between shareholders and stakeholders (Dhir 2012)	Given that laws and institutions are as they are, in SSE how should shareholders promote engagement between business firms and marginalised stakeholders?	Shareholders promote stakeholder participation through: - inclusion in behind-the-scenes dialogue, - creation of communicative fora according to the motifs of communicative action - ensuring all outcomes are possible
Constitutional	Institutional and regulatory context affects SSE strategies (Clark 2008, Dhir 2012) Extending deliberative democracy into the economic sphere (Habermas, 1996)	Should SSEs promote changes in laws and institutions so that marginalised stakeholders have a voice in corporate decision-making? If so, how?	Shareholders promote institutional/ regulatory change to ensure stakeholder voice: - strive for a regulated stakeholder democracy - promote societal discussion

Figure 2 maps visually the engagement format in response to each of the questions. The figure shows the increasingly participatory nature of corporate decision-making on issues affecting marginalised stakeholders with the arrows representing the structure of communication between the different parties.

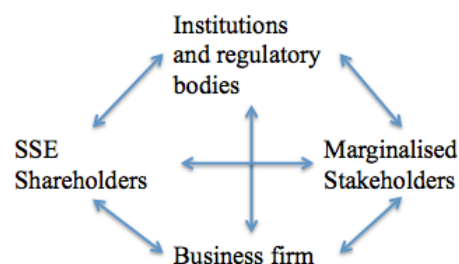**Figure 2:** Engagement format in response to each question
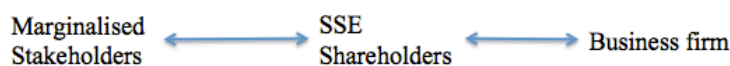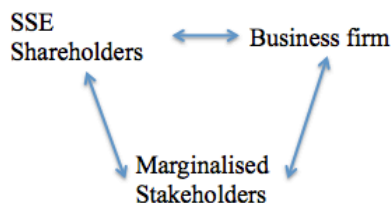
Voicing stakeholder concerns

At this action level existing laws, regulations and institutions are taken as given. As highlighted in the 'Social Shareholder Engagement' section of this paper, shareholders concerned with a particular environmental, social or ethical issue of company behavior affecting marginalised stakeholders, choose to engage with that company to express their concerns and bring about change in that specific behavior. With its focus on a normative ethical process discourse ethics prompts us to ask, *given that laws and institutions are as they are, in SSE how should shareholders bring the voice of other marginalised stakeholders to managers?*

In answering this question, one needs to take into account the ethical concern of shareholders harming stakeholders who they claim to represent. Among other reasons this can happen because of a misalignment of interests. Dhir's example demonstrates the prioritization of strategic action over communicative action by shareholders, whereby the desire to reduce risk or perceived risk for the company were paramount. Dhir (2012) proposes a number of steps for shareholders involved in SSE which include establishing meaningful and ongoing connections with civil society groups and gaining wide community support for any investment engagement initiatives. Particularly important, is that shareholders not only consult the affected communities, but also obtain community consent, when developing the resolution and further related agreements. These steps are in line with understanding SSE as a communicative action process whereby stakeholders have participated to put forward their own arguments.

Secondly, shareholders who voice marginalised stakeholder concerns in SSE must be aware that different social issues and different perspectives on these issues can also be represented by other shareholders. Such differences might include the

prioritization by some shareholders of human rights and environmental degradation while others focus on job creation and reducing poverty in local communities (Dhir, 2012). The plurality of demands represents a challenge for both shareholders and management. From a discourse ethics perspective, shareholders should be prepared to deliberate and provide reasoned arguments to explain, question and challenge different perspectives presented, and should be open to changing their preferences to arrive at the common good. In this way a process following communicative action would provide a means for shareholders and managers to explore and address difficult issues from multiple perspectives in order to establish legitimacy and strive for an outcome that everyone can be satisfied with. In contrast, the aggregation mechanism favours the majority and does not offer the opportunity for marginalised stakeholder perspectives, often the minority, to transform the preferences of other participants.

As an extension of addressing the plurality of demands, investment funds which represent numerous individual beneficiaries, such as pension funds or mutual funds, should also consider deliberating on the multiple perspectives which exist among their own beneficiaries (Ryan, 2000). The United Nations Environment Programme (UNEP) Finance Initiative sponsored research into the scope of fiduciary duty is supportive of the inclusion of environmental, social and governance (ESG) issues within fiduciary duty if they are considered to have a financial impact, but also, and of particular relevance to our argument, when a consensus is formed between beneficiaries which may be values-based (Freshfields, 2005). However, "[i]n contrast to the democratic ethical deliberation that we might assume would underpin the development of an SRI policy, mutual funds, even SRI-focused ones, generally do not involve investors in their decisions." (Richardson, 2013: 6). This implies the need for fund managers to establish communicative fora for their beneficiaries in order to

deliberate and reach a reasoned agreement on the relative importance of different values and financial return.

Communicative action demands transparency and truthfulness in terms of the information available to participants in dialogue. Shareholders therefore must ensure that the information they present, and the arguments they make, are truthful and right in line with the motifs of communicative action. This is even more necessary since, as shown by Vandekerckhove et al. (2007), while management is prepared to engage with shareholders on non-financial issues, it is generally with the objective of denying the truth of the allegations against them.

Further, to ensure the legitimacy of the deliberative and participatory process as required by discourse ethics (Bebbington, Brown, Frame, & Thomson, 2007; Cohen, 1997), transparency should apply to the process itself in order to gain the trust of other stakeholders (McLaren, 2004). The lack of process transparency was seen as one of the main failings in the damage done to stakeholders in the Guatemalan mining example (Dhir, 2012; Murphy & Arenas, 2010). A further example is the recent support of the obligatory reporting of corporate political spending at the SEC by over a million commentators suggesting there is currently confidential information which is widely considered to be of public interest (Bebchuk, 2014; ICCR, 2014a). This can be contrasted with sensitive information which could be crucial to informed and reasoned argumentation, but which may also be highly sensitive and fundamental to corporate strategy such as market research, product development and launch, succession plans, and specific product contribution to margins. From a deliberative viewpoint, secrecy in some deliberations is not considered to violate the principle of accessibility of information if good reasons can be given for secrecy and if there is an opportunity later on to challenge the information (Gutmann & Thompson, 2004).

Even if it is behind closed doors, from a discourse ethics perspective, SSE can aspire to these aspects of transparency.

Another element to consider when answering this question is that discourse ethics is centred on the strength of arguments rather than incentives and the threat of sanction. However, 'exit' or the sale of shares (Hirschman, 1970) is considered to be a form of sanction in engagement (Admati & Pfleiderer, 2009). Shareholder resolutions, which disclose issues in the public domain, as well as public activism campaigns could also be seen as a threat to reputation and legitimacy. However, whether these threats are genuinely an obstacle to achieving reasoned agreement through communicative action is questionable. The threats referred to here are not illegal or violent or of an insulting nature. Rather, threats of exit or disclosure could be a way of drawing attention to an issue to initiate a dialogue process (Hebb, Hoepner, Rodionova, & Sanchez, 2014; Logsdon & Van Buren, 2009; Rehbein et al., 2013) and do not prevent participants from expressing their reasoned arguments. Alternatively, such measures by shareholders can be conceived as a means to keep the company at the discussion table, and provide motivation to reach a reasoned agreement in keeping with the aims of communicative action.

This section has addressed the ethical concerns identified in the shareholder engagement literature by using discourse ethics to respond to the question of how shareholders should bring the voice of other marginalised stakeholders to managers. These responses include: consulting communities and obtaining their consent; being open to other viewpoints; understanding investment beneficiaries' expectations; being truthful about claims and transparent about the process; and using threat of sanctions purely for the sake of keeping parties involved in discourse. Striving to attain, however imperfectly, an ideal speech situation of communicative action would

provide a guide to shareholders voicing stakeholder concerns and working within the constraints of the rules of the game. However, a number of problems still remain. Firstly, Dhir (2012) recognises that shareholders' efforts must be situated within existing legal and regulatory frameworks and that there is an imbalance of power between stakeholders. He further claims, in line with Welcomer et al. (2000), that power differentials between shareholders and stakeholders can be perpetuated through the engagement process. Secondly, doubts remain as to what mechanisms are available to shareholders in SSE to encourage corporations to enter into direct engagement with stakeholders following an ideal speech situation including the motifs of communicative action. Finally, one needs to consider, as we do at the constitutional level, whether regulation favours, or becomes an obstacle to, the alignment of interests between shareholders and the stakeholders they represent. We address these issues in the following sections.

Promoting stakeholder engagement

Maintaining the regulatory, institutional and legal constraints as above, a second normative question emerges. Following the communicative action rule of participation of all affected, we consider whether it is enough to channel stakeholder views through shareholders, or if the goal of SSE should include promoting broader stakeholder participation. Thus, the question is: *given that laws and institutions are as they are, in SSE, how should shareholders encourage corporations to engage in dialogue directly with marginalised stakeholders?* In contrast to the first question, here the focus is on shareholders creating opportunities for direct stakeholder participation in corporate decision-making.

Through a discourse ethics lens, SSE would have the moral obligation to promote the creation of communicative fora, or some other sort of mechanism, so that firms enter into direct dialogue with other stakeholders, especially marginalised ones. Despite arguments that shareholders in the US have more limited power than their counterparts in the UK (Bebchuk, 2005), shareholders are usually considered as the most powerful stakeholders (Gilbert & Rasche, 2007; Matten & Crane, 2005). In order to redress power imbalances and move towards an ideal speech situation, it is essential to ensure the participation of other stakeholders following the motifs described above (argumentation, plural participation, non-coercion and transparency).

One way for more stakeholders to have access to deliberation about issues which affect them is if they are invited to participate in behind-the-scenes dialogues between corporations and shareholders. Such participation in SSE must be understood with regard to the degree of sensitivity of the relevant information as we discussed in the previous section. In this case the use of non-disclosure agreements (NDAs), or the de-identification of sensitive information, could facilitate the increased participation of non-shareholders in SSE without jeopardising the confidentiality of this information. If information is time-sensitive, ex-post disclosure can form the basis for deliberation on future practice. (Gutmann & Thompson, 2004).

A second way to involve stakeholders in direct deliberations with corporations is to create broader communicative fora for stakeholders, shareholders and businesses so they can listen to each others viewpoints. One such example is the US based Interfaith Center on Corporate Responsibility (ICCR). As a coalition of responsible shareholders committed to engaging on environmental, social, governance and ethical issues with companies, the ICCR holds annual multi-stakeholder roundtable events. These events seek to bring together shareholders, stakeholders, experts and

representatives from multiple companies and sectors affected by the issue of concern. Examples include access to HIV/AIDS medication with the pharmaceutical sector, responsible marketing to children in the food and beverage sector, and the protection of the right to water with companies from multiple sectors (ICCR, 2014b).

An important challenge in addressing this second normative question is when marginalised stakeholders themselves reject communicative action fearing it is a "strategy of co-optation" by the company (Welcomer, Gioia, & Kilduff, 2000: 1193). This challenge is significant because true communicative action would require the participation of *all* affected by the decision in order to achieve legitimate outcomes. Understanding the reasons why marginalised stakeholders do not participate becomes of primary importance here. Welcomer et al. (2000) highlight a case where the local community saw the dialogue process as 'window dressing' where they would have no true power to veto the planned site leading to a rejection of dialogue. Lack of power and insufficient capacity and skills are argued to be key reasons for the lack of success or unwillingness to participate of marginalised groups in deliberation (Dryzek, 2000; Gutmann & Thompson, 2004). Welcomer et al. (2000) draw on Beck (1994) to offer a number of facilitators arguing that it is particularly important that all participants are aware that key decisions are yet to be made and that *all* potential outcomes will be reasonably considered. This is in line with a discourse ethics perspective which emphasizes adopting an attitude to seek understanding rather than the strategic pursuit of individual interests.

The inclusion of affected stakeholders in behind-the-scenes dialogue, the use of communicative fora, and an openness to all potential outcomes, offer opportunities for SSE to turn the corporation into a more participative and deliberative arena focusing on communicative action and the common good. Such stakeholder

participation can be seen as a first step in moving towards a more political view of the firm similar to the concept of stakeholder democracy. The translation of the political concept of democracy into the economic sphere to create the notion of stakeholder democracy (Matten & Crane, 2005) is challenging, not least because democracy is a term disputed even in politics (Moon et al., 2005). In the context of SSE, a deliberative democratic approach, which some Habermasians also advocate[7], offers a particular opportunity for marginalised stakeholders, often represented by minority shareholders to voice their concerns. Further, while democracy, understood in a more classical sense, would assume that preferences are fixed and can be determined through voting, a deliberative approach recognises that preferences can be transformed through reasoning, given time and space (Dryzek, 2000; Elster, 1998). In this way deliberative democracy provides an opportunity to go beyond the simple imposition of social preferences of the majority through aggregative methods which may "reinforce existing distributions of power in society" (Gutmann & Thompson, 2004: 16). Rather, it allows the minority a chance to voice their arguments, address questions and criticism, and potentially change the minds of other participants. If SSE is morally obliged to promote such deliberative democratic spaces in the firm rather than merely voicing the grievances of affected stakeholders (or claiming to speak in their name), this suggests SSE assumes a "quasi-political role" (Baur & Arenas, 2014).

Some real life examples show some practical concerns in answering this normative question. The ICCR acknowledges that although the roundtables are effective and can encourage the generation of rapid responses to issues of concern,

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[7] Scherer and Palazzo (2007) distinguish two Habermasian conceptions of corporate social responsibility (CSR), the first focuses on ideal discourse while the second takes the more political view of deliberative discourse.

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they are also complicated to organize and therefore undertaken infrequently (ICCR, 2014b). SSE should also consider that not all firms or all stakeholders have the resources, the desire or the capacity to participate in this type of voluntary dialogue. Similarly, O'Rourke (2003) concludes that SSE within the rules of engagement, on an issue by issue basis, is not enough. She suggests that engagement is limited to those with resources of time and money and that legal constraints mean that current rules limit a more fundamental critique of corporate behavior and lead to an incremental approach rather than more transformative change. This leads us to consider whether working within the given regulatory and institutional context and using the existing institutionalized channels (Lee & Lounsbury, 2011) is sufficient for the SSE mandate.

Promoting regulatory/institutional change

While the above discussion provides some guidance about ethical SSE within existing regulatory and institutional constraints, we expand the view of SSE from a discourse ethics perspective to raise a normative question at the constitutional level. *Should SSE promote changes in regulations and institutions so that marginalised stakeholders have a voice in corporate decision-making? If so, how?*

Despite the popularity of theories of the political role of corporations, few have specified which regulatory and institutional changes are necessary to ensure that the voices of affected parties are heard by firm managers. The regulatory environment can affect SSE directly, for example in terms of the issues which shareholders can file on, requirements of minimum holdings over a certain time and minimum voting requirements (Clark et al., 2008; Logsdon & Van Buren, 2009). The question here is whether the commitment of shareholders in SSE to those affected by company activities should lead these shareholders not only to promote voluntary stakeholder dialogue, but regulatory and institutional reforms to ensure that marginalised voices

are heard. Indeed, it is hard to see what deliberative stakeholder democracy means if there are no effective institutions in place which oblige the inclusion of these voices according to the motifs specified above.

Habermas's work on discourse ethics has extended into political theory to establish the way democratic institutions are built (Habermas, 1996, 1999; Smith, 2004). As previously mentioned Habermasian deliberative democracy focuses on the formal political sphere rather than the economic sphere (Habermas, 1996). However, we build on the work of others who have argued that the economic and political divide is often blurred (Scherer et al., 2014), and suggest that shareholders concerned with social, environmental and ethical issues affecting stakeholders would also have a moral obligation to work towards the empowerment and participation of all affected stakeholders according to new institutions and the rules of the game concerning business and society relations. This reform would really be in the spirit of discourse ethics and communicative action. Rather than promoting stakeholder democracy on a voluntary basis, striving for change at the regulatory/institutional level implies some forms of binding stakeholder democracy.

While much of the research in SSE focuses on the UK and US, examples of more participative corporate governance arrangements can be found in national contexts such as Germany and Japan (Hendry, 2001; Kang & Moon, 2012). According to some scholars, these countries' institutions both demonstrate a concern for stakeholder interests in the governing of the firm which reflects a consensus "that businesses exist to serve the interest of society and not just to make a profit" (Hendry, 2001: 167). In Germany, sometimes referred to as a 'stakeholder economy', a system of codetermination exists whereby the supervisory board, which oversees the management board, has both shareholder and employee representatives and can

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accept or reject decisions made by the executive directors (Gorton & Schmid, 2004; Hendry, 2001). This is a possible step in the direction of increased stakeholder participation in decision-making at the board level, which traditionally serves the purpose of deliberating on company issues. Furthermore, in Germany, the legal responsibility of managers is to the firm rather than to shareholders (Allen, Carletti, & Marquez, 2009) therefore providing a greater legal potential for considering interests other than those of shareholders. The German system could then be considered as further along the "continuum towards the theoretical ideal speech situation" (Unerman & Bennett, 2004: 702). However, this system continues to exclude the voices of marginalised stakeholders in its governance structure. Advancing deliberative democracy in corporate decision-making would also require accessibility of citizens and marginalised stakeholders or their representatives, the transparency of justifications and reasoning, and a commitment to the common good (Gutmann & Thompson, 2004; Habermas, 1996).

Soskice (1997) warns that stakeholder democracy should not be transferred from Northern Europe to an Anglo-Saxon model of governance due to "deeply entrenched rules and rituals of participation" in each country's democratic model. However, in striving to spell out the full implications of the ethics of an ethical approach to SSE in line with discourse ethics, we argue that while taking into account each country's tradition, attempts at institutional, legal and regulatory change should also be a goal for SSE in order to give all affected stakeholders a greater voice in corporate decision-making. While this may be considered a daunting objective and certainly not without its difficulties, we are reminded in the discussion of labour rights that this does not mean that it is an invalid objective (Arnold, 2013).

A further challenge in responding to this question is the criticism made of deliberative democracy that it privileges a certain way to present one's views and involves some degree of self-restraint, discipline or formality which favours more advantaged groups in society (Dryzek, 2000; Gutmann & Thompson, 2004). An obligation to participate in decision-making may compound concerns of cooptation held by marginalised, and often disadvantaged, stakeholders. One way to overcome this concern would be to extend our response in the previous section, to the constitutional level, in the sense that shareholders in SSE advocate rules of the game that guarantee veto power for marginalised stakeholders over decisions that affect them. In parallel, providing resources or institutional support for marginalised stakeholders who choose to contend this direct deliberation could be another possibility by shareholders involved in SSE.

A further option for shareholders in SSE as an answer to this third question would be to promote the creation of institutions such as national ethics councils (Richardson & Cragg, 2010). These councils should include a broad range of participants to ensure the representation of different perspectives who could then deliberate in order to set standards for ethical investment. Ethics councils already exist in Sweden and Norway to advise their national pension funds and have led to divestment recommendations in some companies for ethical motives (Richardson & Cragg, 2010).

Finally, in addressing this third question of obligations of shareholders involved in SSE, we consider their role in specific public policy debate on responsible investment and the participation of marginalised stakeholders. It has been argued that "legal reforms must aim to create conditions for participatory ethical deliberation underpinning SRI decisions" (Richardson, 2008: 25). Recent discussion in the US

(Stout, 2012) and UK (Freshfields, 2005) about the definition and nature of fiduciary duty indicates that environmental, social and governance (ESG) issues are entering the legal sphere. This has led to a broadening of the concept of fiduciary duty as reported in our response to the first question and highlights the potential for different actors, including shareholders in SSE to stimulate discussion at the societal level to discuss and reframe deeply entrenched assumptions.

Discussion And Implications

The identification and analysis of three questions through a Habermasian discourse ethics lens have enabled us to develop a normative, ethical perspective of SSE, so far missing in the stakeholder engagement literature. By dividing it into different levels, we have further extended the analysis of SSE to include the regulatory/institutional implications, going beyond the work to date on political CSR, and contributing to a deliberative democratic political conception of SSE. Our analysis has a number of theoretical implications for business ethics as well as practical implications for SSE, shareholders more broadly, and managers. We discuss these implications in this section.

Implications for theory

While Habermas wanted to maintain a clear separation of the spheres of economics and politics (Habermas, 1996; Scherer et al., 2014), others have extended his work on deliberative democracy taking into account the fact that powerful corporations are playing an increasingly political role in the face of weak nations states (Scherer & Palazzo, 2007; Scherer et al., 2014). Still others have called for alternative conceptions of deliberative democracy to analyse the role of the corporation (Mäkinen & Kourula, 2012). The discourse ethics approach to SSE, when

extended to the regulatory/institutional level, reveals the desirability of stimulating changes to address imbalances of power and moving towards more democratic organisational structures. In other words, the moral obligation of SSE includes reflection about the ultimate role of SSE and the type of desirable society it envisions. By showing how some shareholders, typically assumed to be purely economic actors, are compelled to promote participation of various stakeholders at the firm level and reforms in the rules of the game to make this participation possible we echo the work on political CSR, which suggests that the boundaries between the political and economic spheres have become blurred. However, while previous work has considered the political role of the firm in global governance (Scherer & Palazzo, 2007), or politics in the sense of power games with egoistic motives within the firm using an applied psychology perspective[8], we build a normative theoretical argument for a political role for shareholders in SSE in pursuit of the common good. This perspective challenges the underlying assumptions in much of the management research that shareholders confine themselves to purely economic matters. It then follows that new approaches to understanding SSE, including deliberative theory and other ethical and political approaches, should take into account the reconceptualization of shareholders as political agents working for the common good.

Research on political CSR to date has been both endorsed and criticized. One of the limitations noted by Scherer and Palazzo (2007: 1112) themselves is that corporations in a political role "are neither elected nor democratically controlled by the public", thus raising questions about the legitimacy of their political activity. Rather than the portrayal of the corporation as a monolithic and homogenous entity, by demonstrating the plurality of demands on corporations and a political role for

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[8] This review of previous research has been clearly summarised in (Scherer et al., 2014)

shareholders in SSE we provide insights into the often neglected motivations and influences on corporate decision-making (Holzer, 2008; Whelan, 2012). The deliberation of multiple perspectives including those of marginalised stakeholders according to the motifs of communicative action reinforces the view that corporations are political fields, and not only from a strategic perspective. This in turn reveals that accounts about the political role of the corporation inspired on deliberative motifs need to include an internal as well as an external dimension, and the interconnections between the two, as the example of SSE demonstrates. Since they have to go through the filter of deliberation, this process also provides a means to address the concerns raised by Scherer and Palazzo (2007) about the legitimacy of claims of civil society actors mentioned above.

By taking up issues on behalf of marginalised stakeholders, shareholders have been shown to effectively bring social, environmental and ethical concerns to the attention of managers, often behind closed doors. However, by drawing on Schreck's (2013) division between an action and a constitutional level of analysis, we go beyond existing theorising of political CSR (Scherer & Palazzo, 2007) and suggest that a discourse ethics perspective, which endorses the participation of those affected by decisions, inevitably pushes the reflection beyond voluntary agreements towards regulatory and broad institutional change to strengthen the participation of stakeholders, including marginalized ones. These changes would approximate what some have called stakeholder democracy and would in turn limit shareholders' power in management decision-making.

Shareholders in SSE are faced with a clear dilemma. To continue with their behind-the-scenes engagement which has been shown to be effective (Goodman et al., 2014; Hebb et al., 2014), which would in fact perpetuate their position of power as

well as entailing the ethical concerns we have reported; or, to yield power to other affected stakeholders either voluntarily as shown in the analysis of the second question, or by promoting institutional and regulatory change to ensure marginalised stakeholders have a voice in corporate decision-making on issues which affect them. This dilemma, exposed through the use of a discourse ethics lens to explore SSE, reveals a fundamental theoretical difference between the SSE based on social and environmental issues affecting marginalised stakeholders regardless of the instrumental returns, and the SSE of those shareholders who engage with corporations on ESG issues as strategic action in order to reduce risk. This is an important distinction, which is often overlooked in the responsible investment literature (Richardson & Cragg, 2010; Woods & Urwin, 2012). Introducing a deliberative democratic forum in corporate decision-making would make these distinctions evident as each party provides the reasoning of their different arguments. For instrumentally motivated shareholders, even if they do SSE, voluntarily ceding power to stakeholders is likely to be strongly contested (Whelan, 2012), while purely ethically motivated shareholders would potentially be more accepting of such a proposal. This distinction reinforces an underlying tension within the responsible investment movement and the literature on this phenomenon, which has focused mostly on how responsible investors gain influence or mobilize, rather than on what they base their legitimacy and what their ultimate social and political goals are.

One way to navigate this dilemma is a reconceptualization of the role of shareholders involved in SSE through the theory of stewardship, which has been applied to the role of managers in corporations (Davis, Schoorman, & Donaldson, 1997; Hernandez, 2008, 2012). In contrast to the traditional agency approach, "stewardship theorists focus on structures that facilitate and empower rather than

those that monitor and control" (Davis et al., 1997: 26) and where the collective interest is prioritized over individual interests (Davis et al., 1997; Hernandez, 2012). "Stewards in loosely coupled, heterogeneous organizations with competing stakeholders and competing shareholder objectives are motivated to make decisions that they perceive are in the best interests of the group" (Davis et al., 1997: 25).

Stewardship is used to refer to shareholders in a number of ways, both in practice and research: the UK Stewardship Code understands shareholders as stewards of corporations encouraging purposeful dialogue on a number of corporate governance and risk management issues (FRC, 2012) or ESG concerns (Eurosif, 2013); more specifically shareholders involved in SSE have been shown to see themselves in a stewardship role (Clark et al., 2008; Lee & Lounsbury, 2011; Van Cranenburgh, Goodman, Louche, & Arenas, 2012). A deliberative approach allows us to conceptualise shareholders in SSE as adopting a new role as stewards of the process of SSE; as champions and facilitators of a deliberative and democratic forum for corporate decision-making on issues of social, environmental and ethical concern.

Implications for practice

As SSE continues to evolve, Habermasian discourse ethics and the rules of communicative action can provide a valuable benchmark to strive towards responding to calls for standards in SSE (Dhir, 2012; McLaren, 2004). In response to the three questions we pose, we have highlighted some steps that can be important for shareholders involved in the practice of SSE. While each of these steps has practical implications, this section draws on the most significant.

Firstly, we review the steps which SSE should follow according to our analysis. Our first question identifies the importance of community consultation and

consent, keeping an open mind to diverse perspectives, and better understanding beneficiaries' expectations. Also key are being truthful about claims, transparent about the process, and using threat of exit or sanctions purely for the sake of keeping parties involved in discourse. In response to the second question we explore the inclusion of affected stakeholders in behind-the-scenes dialogue, the use of communicative fora, and the importance of being open to all potential outcomes. At the constitutional level of analysis, the actionable steps include promoting regulatory change for a stakeholder democracy, establishing institutions such as ethics councils, stimulating societal discussion to address and reframe broader issues, and ensuring marginalised stakeholder hold veto power in some cases.

Almost all of the responses to the ethical challenges we discuss would imply a considerable investment in terms of time and money by shareholders. For example at the action level, building ongoing links with local communities, to understand their perspectives, to consult with them and to gain consent implies a long term involvement and commitment. Expertise may be required in community liaison and local knowledge, as well as in education to prepare stakeholders where necessary to deliberate and represent themselves in an informed and rational way (Gutmann & Thompson, 2004; Unerman & Bennett, 2004). Also at this level, the inclusion of marginalised stakeholders in behind-the-scenes engagement would imply possible costs for transport and dissemination of information. As mentioned earlier, the organisation of communicative fora also poses a challenge for shareholders with limited resources and skills. At the constitutional level the promotion of institutional and regulatory change, as well as educating marginalised stakeholders in deliberative democracy (Gutmann & Thompson, 2004), suggests a commitment of both time and money and a long term perspective in order to bring about change. This would

certainly require political skills and legal expertise as well as reflection on ethical policy. These costs could lead, as O'Rourke (2003) suggests, to engagement being limited to those with time and money, especially considering the resource constraints faced by marginalised stakeholders and shareholders involved in SSE (Goodman et al., 2014). The consideration of how to finance such activities should play an important part in further discussions of this subject.

Our analysis supports the need for reflection by mutual funds and other investment vehicles on their internal deliberative practices. As argued by Richardson (2013: 13), ethical deliberation within funds "could help inspire a critical reassessment of what a truly socially and ecologically sustainable investment portfolio should provide". Again, such action requires significant changes in behavior for fund managers as well as beneficiaries, and would incur greater costs.

Our analysis also has implications for corporations. Managers need to be cognizant of the diversity of shareholder demands and be conscious of the extent of their potential reach. A rebalancing of power through multi-stakeholder and shareholder alliances and a growing political role for shareholders makes for a complex and challenging environment for managers. The development of communicative fora based on the motifs of communicative action could provide a valuable means of detecting, contemplating and addressing this range of voices. Furthermore, the reforms at the regulatory/institutional level would have implications not only for publicly owned companies who deal directly with SSE at the action level but also for those business firms which do not have public ownership and are therefore not accountable to shareholders. SSE involved in influencing the rules of the game would want to make sure these companies are also held to account to stakeholder demands.

Future Research

In developing a normative perspective to SSE we offer an alternative view of the role of shareholders in society. Our analysis poses both empirical and theoretical challenges, and possibly raises many more questions than answers. However, by developing a structured normative ethical perspective we provide insights for future research and analysis.

First, future research should focus on addressing some of the empirical issues at an action level; for example, whether an attitude of reaching reasoned agreement is present among participants in SSE and, if not, how this can be instilled in participants. Further, to what extent do existing communicative fora promote the motifs of discourse ethics and communicative action? How much do shareholders in SSE currently promote the participation of marginalised stakeholders in their engagement?

This research has been undertaken from the perspective of the engager rather than the corporation. Future research into the company perspective is essential to gain insights into how the SSE process is perceived and implemented by firms. The firm is highly relevant for ethical SSE processes in terms of the importance of selecting and restricting participants, and providing truthful and accurate information and transparency, without which ethical SSE is not attainable.

While our model focuses on the action and constitutional levels identified by Schreck (2013), a normative approach to SSE should also be considered at the level of an ideal just society (Hendry, 2001). Future theoretical inquiry should also address the role of SSE in an ideal just society. Would SSE be completely unnecessary since the institutions would already be in place for all affected parties to participate in corporate decision-making? Would SSE disappear and those shareholders become like any other shareholder and worry only about their dividends? Or would all shareholders

become involved in SSE and be vigilant about the possibility of company misbehavior regarding social and environmental practices?

The use of discourse ethics does not exhaust the ethical discussions concerning SSE and further research should explore alternative approaches such as other ethical perspectives and stewardship theory. Further consideration of power is needed, for example does SSE perpetuate or remedy power imbalances among different stakeholders? Regarding political CSR, an examination of the potential for deliberative democratic spaces including shareholders, other traditional stakeholders and marginalised stakeholders in corporate decision-making affecting their welfare would be valuable to assess the legitimate basis for the corporation to engage in global political deliberations.

Finally, the unresolved tension in the responsible investment literature between instrumental and ethical motivations needs to be explored in future research. There is great scope to differentiate between the types of investors involved in SSE and responsible investment which could reveal different underlying approaches currently aggregated under the umbrella of shareholder engagement.

Conclusion

By using a discourse ethics lens to examine the phenomenon of SSE we have provided a normative, multi-level analysis which extends the current conversation on responsible investment and on political CSR to conclude that shareholders involved in SSE should take a political role, which goes beyond merely representing stakeholder voices to companies, and actually cede power to marginalised stakeholders and regulators in order to achieve their morally motivated goals.

The implications of our analysis are wide ranging addressing both theoretical and practical aspects. Theoretically extending the existing debate on political CSR to include SSE provides a deliberative democratic political view of actors seen traditionally as economically rational. This also opens the possibility to discuss more broadly the conflicting motivations of shareholders in responsible investment, which are frequently overlooked as long as other common interests can be found. Practically, our analysis is able to identify actionable steps for shareholders in SSE as well as management to practice communicative action. In doing so provides a benchmark for the inclusion of stakeholders in SSE and provides an important guideline for establishing standards in shareholder engagement.

While SSE does not represent the majority of shareholders, it does provide a fascinating entry point for opening up debate on the ethical responsibilities of shareholders in general. This debate is not only relevant to SSE but all of those shareholders whose actions as owners of powerful multinationals impact countless marginalised individuals around the world. Seen in this way, an ethical consideration of shareholder engagement has not only been overlooked but is long overdue.

Chapter 4: Paper 3 – Shareholder Dialogue Behind The Scenes: Addressing The Bulk Of The Iceberg

Abstract

The ever-growing literature on shareholder engagement has, understandably, focused much of its attention on the most visible aspects of engagement despite claims that this represents only the tip of the iceberg. Behind-the-scenes engagement, a crucial mechanism of corporate governance, remains largely unexplored. Whereas deliberative and participatory approaches have become widely supported in stakeholder engagement, the behind-the-scenes nature of much of *shareholder* engagement and the privacy on which it is said to depend for its success appear to conflict with these approaches. This large-scale, in-depth study of behind-the-scenes dialogue investigates how participatory and deliberative practices are used, with whom, and at what stage of the engagement process. Through a discourse ethics lens we use the motifs of Habermas' ideal speech situation to interrogate the responses of shareholder members of the Interfaith Center on Corporate Responsibility (ICCR). We find evidence of participative and deliberative practices at different stages of dialogue, which are facilitated by ICCR. However, there is a perceived trade-off between having direct conversations with companies and inviting broader societal participation in SSE; the latter is feared to erode the trust relationship built up through direct conversation between the company and engager over time. We claim that it is not participation per se which erodes trust and argue in support of greater participation in direct dialogue.

Key words: shareholder engagement, responsible investment, religious organisations, discourse ethics, stakeholder engagement

Introduction

'Dialogue' between the corporation and shareholders is said to be where the "real action typically occurs" (Logsdon & Van Buren, 2009: 353) in social shareholder engagement (SSE). Dialogue aimed at changing corporate behaviour on environmental, social and ethical issues goes beyond looking at shareholder resolutions (Lewis & Mackenzie, 2000; Logsdon & Van Buren, 2009), which could represent only the tip of the iceberg of shareholder activism (Goranova & Ryan, 2014). While highly relevant to corporate governance, little is known about behind-the-scenes dialogue due to its private and confidential nature. In an era of calls for greater transparency and accountability of business in society (Bebbington et al., 2007) and a more democratic role for stakeholders in corporate governance (Matten & Crane, 2005; Moriarty, 2014), we question how broad participation can be ensured in behind-the-scenes dialogue on social, environmental and ethical issues. By applying a participatory and deliberative approach to primary stakeholders: shareholders active in SSE, we analyse the public nature of their dialogue.

The participation of stakeholders in decision making has given rise to the concept of stakeholder democracy, whereby all stakeholders have some degree of democratic influence on management decisions which substantially affect their welfare (Matten & Crane, 2005; Moriarty, 2014; O'Dwyer, 2005). Public deliberation between a company and its stakeholders has "exploded in popularity" among organisations (Lee & Romano, 2013: 734), and the appearance of a multitude of multi-stakeholder initiatives such as the Global Reporting Initiative (GRI) and the Extractive Industries Transparency Initiative (EITI) appears to substantiate this view. Shareholders in SSE have also been shown to bring the voices of other stakeholders to the attention of management (Goodman et al., 2014; Logsdon & Van Buren, 2009).

However, research indicates the vast majority of *shareholder* engagement remains private (Becht et al., 2009; Carleton et al., 1998; Goldstein, 2011) with privacy frequently cited as essential for building trust (Black & Coffee, 1994; Gifford, 2010; Logsdon & Van Buren, 2009). While SSE can lead to positive outcomes (Goodman et al., 2014; Hebb, Hoepner, Rodionova, & Sanchez, 2013), ethical concerns have been raised about SSE involving human rights issues when those parties who are affected by the shareholder action have not participated fully in, or approved the action (Coumans, 2012; Dhir, 2012).

The Interfaith Center on Corporate Responsibility (ICCR) is one of the largest shareholder coalitions with around 300, primarily faith-based organisations, representing over $100 billion in invested capital. Founded in the early 1970s and at the forefront of SSE, ICCR is highly active and filed over 200 resolutions and led 250 dialogues with companies in 2013 alone (ICCR, 2013, 2014c). As well as being increasingly prevalent, these behind-the-scenes dialogues occur when "corporations and shareholder activist groups mutually agree to engage in ongoing communications to deal with a serious social issue as an alternative to the formal vote on a shareholder resolution." (Logsdon & Van Buren, 2009: 354) and are considered by ICCR members to be "by far a more successful course of action [than resolutions]"[9]. Given the coalition's long history and pioneering status in SSE, its preference for behind-the-scenes dialogue, and its strong promotion of the need for stakeholder inclusion in corporate decision-making, ICCR provides a valuable opportunity for exploring this little researched, crucial, and largely invisible, mechanism of corporate governance. This paper unpacks the nature of behind-the-scenes dialogue in SSE. We ask how participatory and deliberative practices are used during the dialogue process: who

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[9] All quotations from the interviewees in this study are used anonymously and are referred to by numbers. Interviewee 22

participates in behind-the-scenes dialogue; what the nature of their participation is; and at what stage of the engagement process these practices occur.

A discourse ethics approach (Habermas, 1984, 1987, 1992) provides a normative, ethical, process perspective with which to analyse the participatory and deliberative nature of behind-the-scenes dialogue in SSE. This approach has been used to inform stakeholder engagement (O'Dwyer, 2005; Smith, 2004), corporate social responsibility (Scherer & Palazzo, 2007), social accountability (Gilbert & Rasche, 2007) and codes of ethics (Lozano, 2001) and has more recently been proposed as relevant to SSE (Goodman & Arenas, 2014, forthcoming). We interrogate the responses of 43 semi-structured interviews with shareholder members of ICCR against the key motifs of Habermas' discourse ethics approach (Goodman & Arenas, 2014; Habermas, 1992). Four key motifs have been summarized from Habermasian discourse ethics: argumentation, plural participation, non-coercion, and transparency (Goodman & Arenas, 2014, forthcoming). We test these ideal motifs against current practice in SSE. We complement and triangulate our qualitative investigation with survey data.

We contribute to the SSE literature by providing insights into the under-researched area of behind-the-scenes dialogue developing a clearer picture of when, how and with whom participatory and deliberative practices are used. We add to the notion of shareholder coalitions as creating a public-private space (Gond & Piani, 2013) to enhance participatory and deliberative practices. In response to calls for a credible and legitimate process to ensure other stakeholder voices are considered in decision-making (Dhir, 2012; O'Dwyer, 2005) we evaluate behind-the-scenes dialogue according to the motifs of Habermasian discourse ethics. The analysis reveals a distance between current practice and ideal speech, and that stakeholder

participation is perceived by shareholders as eroding the trust built between individuals over time. However, we challenge the notion that it is stakeholder participation per se which erodes trust and identify ways in which stakeholders could extend their participation in behind-the-scenes dialogue.

This article firstly reviews the literature on participatory and deliberative approaches to stakeholder engagement, and then relates that to what is known about SSE. Thirdly, we explore the motifs of Habermasian discourse ethics and apply this to behind-the-scenes dialogue. We then present our method and data. The fifth section analyses our interview data according to the key motifs of discourse ethics. Our findings are discussed and then we conclude with some limitations and final comments.

Background

In this section we review the literature to date on participatory and deliberative processes and relate these concepts to corporate decision-making and stakeholder engagement. We then move on to address the nature of SSE and the substantial body of literature on shareholder activism. Publicly available data such as minority shareholder resolutions and media campaigns have been the main focus of research while behind-the-scenes dialogue has been, understandably, more challenging to access. We finally consider the role of discourse ethics in SSE and build on this to create our theoretical frame.

A participatory and deliberative approach to organizational decision-making

The development of concepts such as 'stakeholder democracy' reflects increasing interest in the participation of a broader range of stakeholders in management decision-making (Freeman, 1984; Matten & Crane, 2005; Smith, 2004).

Democratic governance involves extending the narrow view of governance from accountability to shareholders, to include all stakeholders whose welfare is affected by organizational decisions (O'Dwyer, 2005). In a world where corporate accountability is sought and reporting standards on social and environmental issues proliferate, stakeholder democracy appears to offer a tantalizing opportunity to improve corporate responsibility (Matten & Crane, 2005). It has been claimed that leading companies are accepting a more inclusive and stakeholder-based approach to achieve good governance (Mason & O'Mahony, 2008).

This increasingly participative view of corporate governance is closely linked with a deliberative approach. Work on deliberative democracy in the public sphere (Fung, 2005) has been extended to firm-society relations (Gutmann & Thompson, 2004) and the notion of the politicization of the corporation has developed (Palazzo & Scherer, 2006). Deliberation and discourse with civic society are argued to lead to greater organizational legitimacy (Palazzo & Scherer, 2006) and have been applied to social and environmental accounting (Bebbington et al., 2007; Gilbert & Rasche, 2007). In practice, public deliberation has become highly popular as an organizational strategy for managers in public, private or even the non-profit sectors (Lee & Romano, 2013).

Whilst participatory and deliberative processes have received widespread support, some have questioned their role in empowering stakeholders and reducing the negative effects of corporations on society and the environment. Lee and Romano (2013) suggest that public deliberation events are an organizational strategy which can repress social movements and are employed by organisations to manage political and economic challenges. Others have raised concerns that stakeholder consultation can be a form of whitewashing and can actually harm affected stakeholders (Dhir,

2012) or point to the normative idealism of these approaches in light of the continuing predominance of shareholder-centric forms of governance and the reluctance of shareholders to relinquish their traditional power (Matten & Crane, 2005).

However, even from a shareholder perspective there is some evidence of broader stakeholder participation and deliberation. Research into investment shows there has been growing collaboration between investors and other stakeholders cutting across national boundaries and different sectors (McLaren, 2004). "The SRI intermediary can also pool the interests of multiple stakeholders and thereby potentially overcome collective action problems. SRI engagement can therefore represent stakeholder interests with more credibility and influence." (McLaren, 2004: 195). In addition, companies have been led to engage directly with a broader group of stakeholders through pension fund corporate activism which has increasingly focused on transparency (Hebb, 2006).

The development of collaborative groups such as the United Nations sponsored Principles for Responsible Investment (PRI) and its Clearinghouse, CERES, the Council of Institutional Investors (CII) and ICCR add another layer of collaborative relationships to the shareholder-company-stakeholder relationship creating a communicative space for dialogue (Gond & Piani, 2013). ICCR states: [faith-based members] "have one foot in companies as shareholders and one foot in communities as religious organizations with local, national and global faith-based partners. This dual role as investors and as community participants places ICCR members in a unique position to address the relationship between corporate operations and their social impacts on communities." (ICCR, 2011: 7). We would therefore expect to find evidence of participatory and deliberative practices in the SSE process at ICCR. The following section reviews SSE and highlights the potential risks of

neglecting participatory and deliberative practices.

Social shareholder engagement in public and behind-the-scenes

Social shareholder engagement, "the use of ownership position to actively influence company policy and practice" (Sjöström, 2008: 142) on social, environmental, ethical and some governance issues (Goodman et al., 2014) is recognised as one of the main responsible investment (RI) strategies (Eurosif, 2014). RI is predicted to become the preferred approach of institutional investors (Juravle & Lewis, 2008; Vandekerckhove et al., 2008). Currently investors who practice RI manage assets of €10 trillion in Europe and $6.57 trillion in the US (Eurosif, 2014; USSIF, 2014) and the United Nations backed Principles for Responsible Investment (UNPRI) represents signatory assets of $45 trillion (UNPRI, 2014).

SSE includes a broad range of strategies, some more publically visible than others. Social movement literature has generally tended to take a public activism approach focusing on more visible protest and a proactive use of the media in attempts to achieve symbolic or material damage or gain (den Hond & de Bakker, 2007). However, shareholder resolutions and proxy filings, public letters, and focus lists can also be considered public (Goranova & Ryan, 2014). SSE can thus be described as involving increasing degrees of publicity from behind-the-scenes dialogue, to resolutions and on to public and media campaigns (Sikavica & Hillman, 2008). While much research on shareholder engagement has focused on the more visible and public aspects of engagement, not least because of the difficulty of accessing confidential data (Black & Coffee, 1994; O'Rourke, 2003), behind-the-scenes dialogue is claimed to be where the vast majority of corporate engagement

happens (Becht et al., 2009; Carleton et al., 1998; Goldstein, 2011; Goranova & Ryan, 2014; Logsdon & Van Buren, 2009).

It is frequently assumed that behind-the-scenes dialogue is more influential than public activism, "dialogue is by far a more successful course of action [than resolutions] because it builds on a relationship over time, and as trust builds the willingness to discuss the topic, or even related topics, improves"[10]. As demonstrated in this quote from a SSE practitioner, one key reason for its success is that trust between shareholders and managers is essential in engagement and can be destroyed by high profile media campaigns (Gifford, 2010; Logsdon & Van Buren, 2009; O'Rourke, 2003). However, critics suggest there is no consensus on the effectiveness of these different engagement approaches (Goranova & Ryan, 2014). Differing views on what constitutes success in SSE (Goldstein, 2011; Karpoff, 2001), the challenges of measuring effectiveness of both non-binding public resolutions (Levit & Malenko, 2011; Rojas et al., 2009) and confidential private discussions (Black & Coffee, 1994; O'Rourke, 2003), varying temporal horizons (Neubaum & Zahra, 2006) and contextual factors all add to the complexity of establishing engagement effectiveness.

Rather than debating the effectiveness of public versus behind-the-scenes SSE, this article focuses solely on the more widespread, but less well-understood option of behind-the-scenes dialogue. A potential risk of this type of engagement has developed around the non-participatory approach which is a hallmark of this type of dialogue. Coumans (2012) and Dhir (2012) highlight the dangers of SSE without full consultation with, and participation of local communities. Both draw on the case of Canadian mining company and the impact of its mining operations in Guatemala on the human rights of indigenous people local to the mine. While a shareholder

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[10] Interviewee 22

coalition attempted to use their power to address the human rights issues in question, their use of business language and concepts and the lack of full consultation and participation of local community members led to claims that the shareholder engagement actually undermined the interests of those it was trying to help (Coumans, 2012; Dhir, 2012).

While this criticism is based on one case and includes the more public strategy of filing a minority shareholder resolution it raises important questions about the nature and quality of behind-the-scenes dialogue, its credibility and legitimacy (Dhir, 2012). The following section identifies and explains the theoretical lens used in this study to explore the nature of dialogue in answer to our research question of how, and at what stage of the dialogue process participatory and deliberative practices are used in SSE.

A discourse ethics approach to SSE

In order to help develop some standard of deliberation and participation, Habermasian discourse ethics has been used by a number of researchers. For example, to develop codes of ethics (Gilbert & Rasche, 2007; Lozano, 2001), for work on CSR (Scherer & Palazzo, 2007) and particularly in the broader stakeholder engagement literature (O'Dwyer, 2005; Reed, 1999; Smith, 2004; Unerman & Bennett, 2004). More recently it has been argued to be applicable as a lens for viewing shareholder engagement when focused on issues of broader social and environmental concern (Goodman & Arenas, 2014, forthcoming).

Discourse ethics is particularly relevant to SSE as if focuses on the participation of affected parties in fair dialogues to reach moral norms (Beschorner, 2006; Habermas, 1984, 1987) and therefore is suited to the inclusion of shareholders,

corporate management and other stakeholders. Secondly, by emphasizing the importance of the process, discourse ethics avoids making judgements on the moral content of different arguments. It therefore offers the opportunity of including a variety of differing perspectives and worldviews (Goodman & Arenas, forthcoming) and also responds to calls for ensuring the quality of the process (Dhir, 2012; Scherer & Palazzo, 2007). A discourse ethics approach gives primacy to moral reasons beyond profit seeking (Beschorner, 2006) which is in line with the ideology of socially-driven investors such as religious organisations (Goodman et al., 2014; Lee & Lounsbury, 2011). Finally, as a normative approach, discourse ethics addresses the need for norms and standards in shareholder engagement (McLaren, 2004).

"Discourse ethics is a normative framework that is appropriate for deliberating on the moral problems that emerge in a pluralistic business context" (Stansbury, 2009: 34). Such a normative framework presents an ideal which is arguably unattainable in practice (Gilbert & Rasche, 2007; Habermas, 1992; Smith, 2004). However, by providing a standard and an ideal to strive towards, the positive effects of deliberation and communicative action can be felt (O'Dwyer, 2005; Scherer & Palazzo, 2007; Unerman & Bennett, 2004).

The underlying philosophical principles of discourse ethics are to achieve a universally validated norm which requires participants to reach an understanding through practical discourse (Habermas, 1992). This orientation towards reaching an understanding is known as 'communicative action' which is in contrast to what Habermas describes as 'strategic action' (Habermas, 1984). The goal of dialogue in SSE from this perspective should be to reach a decision which everyone affected finds acceptable, rather than the individual and egocentric goals associated with strategic action.

Habermas lays out rules or motifs for an "ideal speech situation" (Habermas, 1992: 88) which are necessary to achieve communicative action. The first of these motifs is argumentation (Goodman & Arenas, forthcoming) which states that participants should aim to transform the preferences of others through using rational arguments rather than aggregating individual preferences. Arguments should be vocalized by each person who is then open to questioning and criticism (Habermas, 1992).

Secondly, all those affected by the decision and who are competent to speak and act should be admitted as a participant (Habermas, 1992). This plural participation should be unrelated to the power held by different stakeholders. Such participation is particularly challenging in a real life business context (Lozano, 2001; O'Dwyer, 2005; Unerman & Bennett, 2004) but can still serve as an aspirational ideal to move towards (Lozano, 2001).

Communicative action is non-corercive by nature and Habermas states: "No speaker may be prevented, by internal or external coercion, from exercising his rights" (Habermas, 1992: 89). The rights that he refers to here are 1), to be allowed to participate and 2), for all participants to be permitted to introduce and question assertions and to express interests. It should be the best argument that wins rather than any coercive or power related tactics (Lozano, 2001).

Finally transparency plays a key role in Habermasian discourse ethics. All utterances should be true, right and truthful, or without the intention to mislead. In order to achieve this, information must be available and accessible to participants (Lozano, 2001; O'Dwyer, 2005). The use of rhetoric and the denial of responsibility in the face of facts to the contrary would not be acceptable in the ideal speech situation. As well as transparency in terms of the content of discussion, the process should also

be transparent in order to gain the trust of stakeholders (McLaren, 2004), ideally the process should be public (Bohman & Rehg, 1997; Palazzo & Scherer, 2006).

Viewing behind-the-scenes dialogue through the lens of discourse ethics provides a way of assessing the ethics of the process of engagement, something which is lacking and needed in the engagement literature (Goodman & Arenas, forthcoming). It allows a consideration of the degree to which behind-the-scenes dialogue incorporates participatory and deliberative ideals and the distance between this ideal and current practice. We use the key motifs of Habermasian discourse ethics to interrogate our interview responses in order to build a picture of the nature of behind-the-scenes dialogue.

Method

Approach

This study takes a hybrid approach (Fereday & Muir-Cochrane, 2006) combining the structure of a theoretical framework with the explorative interpretative nature of a grounded theory approach (Strauss & Corbin, 1998) in order to develop a deep understanding of behind-the-scenes dialogue. The application of a framework to our data analysis provides us with a guide to the interrogation and interpretation of our data while maintaining the exploratory nature of this study as one of the first to examine the nature of behind the scenes dialogue (Hebb, 2006). Grounded theory is particularly suited to rich data concerning processes and sequences (Orlikowski, 1993). We use a survey, extensive semi-structured interviews and desk-based research to inform our research questions and provide triangulation of the data (Yin, 1994) in line with other qualitative research designs (Elsbach & Kramer, 1996; Gutierrez et al., 2010).

Data sample

We use the ICCR database of shareholder dialogues as the basis for our investigation. Dating back to 1971 this database keeps track of all resolutions and dialogues undertaken by the ICCR and its members and has been used in a number of research papers (Clark et al., 2008; Ferraro & Beunza, 2014; Hebb et al., 2014; Logsdon & Van Buren, 2009; Logsdon & Buren, 2008; Rehbein et al., 2013). The ICCR is based in the United States and represents over $100 billion of invested capital (ICCR, 2013) and the database contains information on the 3166 dialogues conducted from 1971-2013 and contact details for each member organization and the individuals which represent them.

ICCR's history, experience and extensive tracking of behind-the-scenes dialogues as well as the more public resolutions make it a rich source of data. Made up primarily of US religious organisations, ICCR also counts among its members large healthcare systems, pension funds, unions and fund managers and has collaborated with notable institutional investors such as California Public Employees' Retirement System (CalPERS) and New York City Employees' Retirement System (NYCERS). The breadth and depth of experience within the ICCR makes it an ideal source for qualitative in-depth interviews. The ICCR states that: "in order to make long-term change, community organizations and institutions need to be engaged with other stakeholders in every aspect of the process from the beginning." (ICCR, 2011: 7). Such a statement would appear to be in line with the participatory element of discourse ethics but contradict the nature of behind-the-scenes dialogue.

We developed a survey to identify the key characteristics of behind-the-scenes dialogue based on the literature and reviewed by five academics familiar with the engagement literature (see appendix 1). The survey was internet-based and the link

was sent out to all ICCR members in their July 2013 newsletter and supported by the Director of ICCR. After sending a reminder we received a total of 7 responses. We then contacted the identified individuals at each organisation to request an interview and encouraged those individuals to complete the survey leading to a final total of 27 survey responses. While this is not a random sample we use the survey responses to triangulate and supplement the interview responses.

Our sample for the interviews was the organisation members of the ICCR. We used the organisations listed on its website, in its annual report 2012 and those registered on its database, corrected for duplicates and searched coalitions under the umbrella names. This narrowed down the sample to 207 organisations. Taking only those organisations which have been involved in at least one dialogue over the 1971-2013 period resulted in a total sample of 112. We identified the contact person for each of these organisations from their most recent dialogue involvement. After eliminating contact duplicates we finally arrived at a total of 100 individuals, each representing a different organisation, who we contacted for an interview. Of those we contacted, 6 declined the interview, 48 did not respond, 3 were unable to schedule the interview. We conducted a total of 43 interviews with those who responded and were willing to take part in the research.

The characteristics of the organisations represented by the 43 respondents are described below. To indicate the experience of the organization in engagement, the number of dialogues the organisations had been involved in between 1971 and 2013 were counted. We found the experience of respondents was similar to the contacted sample. The distribution of types of membership among the respondents was also very similar to that of the sample we contacted indicating that the respondents were

representative and reducing selection bias. The characteristics of the contacted sample and final respondents can be found in Table 4.1.

Table 4.1: Characteristics of contacted sample and final respondents

	Contacted sample (100)		Respondents (43)	
	Number	%	Number	%
Number of dialogues per organization (1971-2013): 1-50 51-100 101-200 >200	56 18 14 12	56% 18% 14% 12%	23 6 5 9	53% 14% 12% 21%
Current membership type: Faith-based Associate Affiliate Non-defined	63 14 19 4	63% 14% 19% 4%	29 7 4 3	67% 16% 9% 7%

Data collection and analysis

We use semi-structured interviews to allow for an in-depth exploration of the nature of dialogue. An interview protocol was developed with key questions however the order of the questions was flexible according to each interview (Bryman & Bell, 2007). Interviewees were first asked to describe their organisation and its relationship to the ICCR as well as each individual's involvement in SSE. The questions then prompted the interviewees to describe their involvement with ICCR and dialogues in detail, including their motives for choosing this type of engagement method, the dialogue process from initiation to conclusion, whether they have ever invited in participants external to the shareholder members and corporate management and their motives for doing so or not, as well as their experiences of the benefits and challenges faced in collaboration, the role of the media in their engagement and their perception of corporate responsiveness. Interviews were conducted by telephone and lasted

between 30 minutes and an hour each. They were summarized immediately as well as being recorded and later transcribed.

In order to reduce the potential for bias in the interviews, particularly social desirability bias, we used a number of strategies. We made clear to participants at the start of the interviews that their responses would be anonymous and that findings would not be accredited to individuals or particular organisations. To reduce interviewer bias we used an interview protocol and recorded the interviews. Findings were discussed regularly by the three authors which resulted in several additional questions being added based on the answers of the first ten interviews. For example whether the individual considered themselves to be acting in a consultancy role.

The results from the surveys and data from the interviews were compiled to generate a detailed spreadsheet of responses. Analysis of the interviews was undertaken by reviewing and coding the 43 interview transcripts. Repeated iterations were made between the data and the theoretical perspective to constantly compare the two (Eisenhardt, 1989a; Glaser & Strauss, 1967). The first iteration enabled us to construct a map of the dialogue process at the ICCR. The following iterations drew from the theoretical perspective established a priori and the interview transcripts were coded for evidence of the motifs of discourse ethics. The third iteration involved thematic analysis (Boyatzis, 1998) related to the emerging theme of trust. NVivo 10 software was used to facilitate the coding process.

Findings

In this section we present our findings by firstly identifying the stages of the dialogue process used at the ICCR. We also briefly outline the facilitating role of the ICCR investor coalition. We then use the frame of discourse ethics and the four key motifs to show how participatory and deliberative practices are used during the

dialogue process: who participates in behind-the-scenes dialogue; what the nature of their participation is; and at what stage in the engagement process these practices occur. Finally we go on to explore the motives given by the interviewees for the lack of participation of stakeholders in the dialogue process, essentially that participation is feared to erode the trust relationship built up through direct conversation between the company and engager over time. We claim that it is not participation per se which erodes trust and argue in support of greater participation in direct dialogue.

There was widespread consensus from the interviews and surveys about the sequence of activities in the ICCR dialogue process. This falls broadly in line with the engagement process identified in previous research (Goodman et al., 2014; Logsdon & Van Buren, 2009). However, our findings extend this work by exposing in detail the activities and actors involved in behind-the-scenes dialogue. Figure 3 provides a summary of the main activities and the actors involved at each stage of behind-the-scenes dialogue.

Figure 3: Main stages and actors of ICCR dialogue

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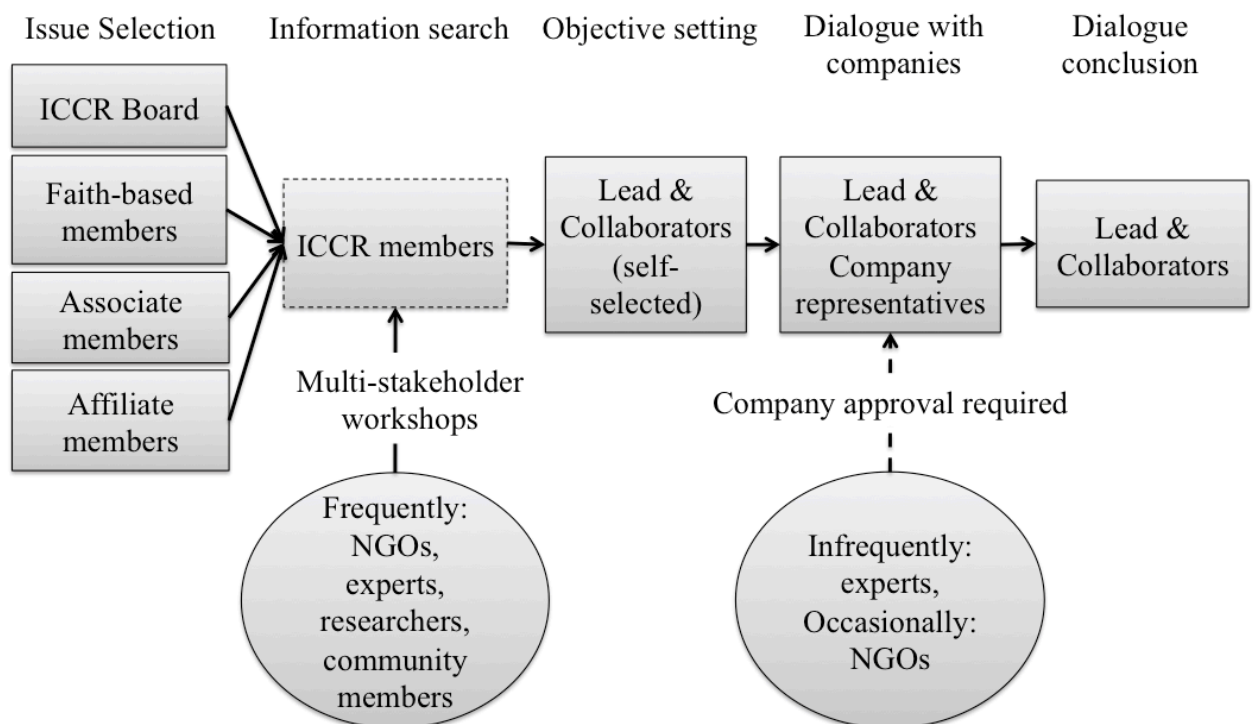
Issues are first selected through the ICCR board and by individual members. ICCR holds three face to face meetings annually where these issues of concern are discussed. Workshops are held on specific issues and which are open to participation by a range of stakeholders including those affected by the issue, company representatives, experts, researchers and NGOs. One such example was the Water Round Table in 2012. Following these open and informative sessions, one shareholder, usually with a particular interest or knowledge of a certain issue, proposes to be the 'lead' shareholder for the dialogue and other interested shareholder members choose whether to collaborate on the engagement. These groups vary in size from 3 to 50 different shareholder members with the most common size being between 4 and 10. The role of the lead shareholder is to coordinate the meetings and interactions with the company and to share this information with the other shareholders who are collaborating on the engagement. The ICCR database, although not including broader stakeholders, allows collaborating shareholders to be in communication and share updates and information about the dialogues. The objective of the dialogue is set within the collaborating group of shareholders and preparations are made for meeting with the company. In-person meetings or conference calls with companies are arranged by the lead shareholder and attended by company representatives, the lead shareholder and any other collaborating shareholders who are able to attend. External experts are included infrequently and only if company approval was given. Although a few examples were given of when an NGO was in attendance this was only considered to be occasional and most of the respondents had never experienced any NGO participation. The decision of whether to conclude or to continue a dialogue is made by the members of the collaborating group.

The ICCR coalition plays a key facilitating role in enabling the SSE of its

members. Working through this ICCR coalition for many of the religious organisations was the only way they could participate in dialogue due to their own very limited staffing and the resource intensive nature of dialogue. For many of them all their engagement is done through ICCR. ICCR's knowhow, combined financial assets, its contacts, the range of different types of members, its dispersed geographical presence across the US and its reputation were all given as benefits for engaging through the coalition.

Discourse ethics and the dialogue process

Our investigation finds clear evidence that elements of participatory and deliberative approaches are used in behind-the-scenes dialogue however different elements are used at different stages. This section firstly considers the ICCR members' orientation towards dialogue and then uses the motifs of discourse ethics to identify the distance between current practice and ideal speech.

The orientation towards reaching understanding, which is fundamental to communicative action was a common theme in the interview responses. One interviewee expressed the underlying objective as:

"we're all going for the higher good."[11]

At the issue selection stage, concerns about particular issues arose from a variety of sources including the news, reports from grassroots networks around the world, discussion and surveys of ICCR member interests and priorities. They were then discussed by the Board and agreed upon through consensus of Board members. The fact that different members come from different faith backgrounds means that the moral content of some issues could not always be agreed on. However, the interviewees reported that only issues on which members shared a common ground

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[11] Interviewee 4

would be selected.

At the objective setting stage, the overarching aim was to reach a decision on the objectives that could be agreed on:

"Ordinarily we are able to come to a consensus that everybody in the group can live with even though it wasn't their first choice"[12]

A number of interviewees mentioned that this could take time but was almost always achieved.

"the consensus of the group tends to reign", "sometimes conversations among shareholders go on for quite a bit of time while…planning is happening"[13]

The deliberative approach of the ICCR members and the objective of finding a common objective at this stage is strongly in line with the principles behind Habermasian discourse ethics (Habermas, 1992).

When it came to dialogue with companies we find evidence of an orientation of understanding in terms of seeking a "win-win" situation for the shareholders and the company. However, as discussed in the following sections, the lack of participation of other stakeholders at this stage raises the question of whether the norms agreed upon are in line with those stakeholders affected by the consequences of the decision.

The decision of when to conclude dialogue was said to be where most disagreements arose between coalition shareholders.

"it is very hard for us to sunset a dialogue so to speak because we always feel like there's more to be done"[14]

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[12] Interviewee 37
[13] Interviewee 26
[14] Interviewee 07

While some shareholders were satisfied with ending dialogue after a measurable degree of progress had been made, others were keen to continue to develop the issue or move on to address a new issue with the same company. The freedom allowed by ICCR for self-selection of collaboration in working groups meant that those who were satisfied might leave the group while others continued dialogue, rather than reaching a consensus.

Argumentation. The workshops facilitated by the ICCR at the information search stage provided a space for a wide variety of stakeholders to hear different viewpoints, ask questions and learn from experts. This openness to sharing multiple perspectives is closely in line with the motif of argumentation required for an ideal speech situation.

Discussions among shareholders to decide dialogue objectives were reported to be "*robust*"[15]. Another interviewee commented:

> *"we definitely have some very strenuous discussions about what the exact strategies and short term goals should be with any given company"*[16]

Interviewees reported that they felt the process was democratic, interactive and participative[17].

> *"it's a pretty iterative, participative process not very scientific I guess but it's within a group discussion context"*[18]

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[15] Interviewee 33
[16] Interviewee 37
[17] "Participative" was used by the interviewees to mean that those present took part and contributed rather than in terms of the degree of inclusion of different affected parties
[18] Interviewee 35

In direct dialogue with companies, the motif which performed most closely to ideal speech was that of argumentation. When dialoguing with the company many of the interviewees emphasised the importance of using reason:

> *"there's no attempt at flexing muscles or using any kind of aggressive stance, so usually it's just a matter of ... appealing to reason"*[19]

The inclusion of experts on particular issues in the dialogues demonstrates a desire for facts and reasoning and the knowledge to question the claims of the company. The majority of shareholders reported their tone as *"informational"*, other frequent responses were *"rational"*, *"persuasive"*, *"respectful"*, and *"assertive"* with only one saying occasionally the tone was *"adversarial"*. Shareholders were willing to give the company a chance to explain an issue and the challenges involved in addressing it, which the shareholders may not have been aware of.

Plural participation. We find evidence that the participation of broader stakeholders when searching for information was strong.

> *"We do endeavor to have community members as frequently as possible come to the gathered groups of ICCR we meet three times a year and frequently that will include first nations people to talk about ... things like indigenous people rights infringement"*[20]

The ICCR facilitated workshops on certain issues which were opened up to a broad group of participants including experts, community representatives, NGOs and researchers who were able to represent their own positions and raise questions among the group.

In contrast to issue workshops at the information search stage, our findings suggest that when it came to deciding the objectives of particular dialogues, the

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[19] Interviewee 02
[20] Interviewee 32

degree of participation of broader stakeholders was much more limited. Practice at this stage was far from an ideal speech situation and involved only collaborating shareholders or those asset managers engaging on behalf of shareholders.

A distance between practice and ideal speech was also evident at the stage of the actual dialogue with companies, where participation was almost always limited to shareholders with no wider stakeholder participation. Exceptions such as the infrequent presence of an external expert on the issue, or occasionally an NGO were identified:

> *"Generally speaking it is shareowners", "occasionally ... if it's an issue that deals with some of the science we might bring someone to the table"[21]*

> *"I would say a handful of times I've been in a dialogue when an outside expert has been in the room, and the company was willing to have that person there"[22]*

The participation of experts was widely seen to be positive as they were able to bring detailed knowledge of the issue to the discussion table.

One of the interviewees felt very strongly about the participation of other stakeholders:

> *"the people that are most affected by whatever it is that we're talking about, that's who we need to have at the table, and if the company won't allow those persons at the table then we have to represent that we are the voice of the voiceless, and if people have voice and they can be there and the company allows it, they need to be there"[23]*

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[21] Interviewee 24
[22] Interviewee 13
[23] Interviewee 17

However, the interviews strongly demonstrated a distance between practice and ideal speech through a lack of participation of affected stakeholders. Various reasons were given for not including other stakeholders at this stage of the dialogue; the overriding motive was trust, which is discussed in the following section.

Decisions over when to end dialogue were made between the collaborating shareholders and did not bring in broader stakeholder participation. When asked whether the dialogue was having the intended impact on those affected by the issue the majority of the shareholders indicated it was very difficult to know. One interviewee said they would check with the NGO who raised the issue to see if measures had been implemented:

> *"we would go back … to the source which would probably be a local*
>
> *NGO and say OK well what do you think now? Have you been there?*
>
> *Have you assessed it? And then and if the NGO says 'yeah actually*
>
> *we've been there and we've talked to them and it seems like now they*
>
> *work reasonable days they've taken care of the wiring in the factory or*
>
> *the fire safety equipment or whatever it is that needed fixing' … then*
>
> *of course we'd be inclined to believe them because they are the ones*
>
> *who originally complained about the problem"[24]*

The lack of participation of affected stakeholders at the objective setting, the dialogue and at the dialogue conclusion stages appears, at the outset, to support the concerns voiced about the potential for shareholder objectives to be misaligned with affected stakeholder welfare (Coumans, 2012; Dhir, 2012).

Non-coercion. The objective setting stage was considered to be democratic and non-coercive by the interviewees. Despite the dialogue leads being self-selected

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[24] Interviewee 39

rather than democratically elected, and having the power to decide on the ultimate objective, interviewees reported that decisions were rarely made without a consensus. Dialogue leads were always faith-based members of ICCR who generally tended to have smaller asset bases than non faith-based members, so power differentials based on financial power were mitigated.

During dialogue with the company, in some cases shareholders reported that they were asked to sign a confidentiality agreement before beginning dialogue:

"I've been doing this since 2000, I think 6, 7 times I've signed a confidentiality agreement with a company"[25]

The interviewees broadly reported that if they wanted to invite an external party to the dialogue they would have to facilitate the company with this information in advance and get their permission. This suggests that power is in the hands of the company to dictate the conditions of dialogue and shareholders oblige for fear of jeopardising their relationship. On the other hand, although not openly threatening the company with potentially reputation-damaging and costly publicity and resolutions (Black & Coffee, 1994), shareholders did keep this option open to keep the company at the negotiating table

"I don't want to damage ongoing engagement but it's OK to have a gentle threat in there, but you don't want to close the door"[26]

The potentially positive impact of media coverage which could result from the ICCR's public recognition that some progress had been made, could be seen as a form of incentive:

"once a company really does move forward with objectives and makes them public then … we can also issue press releases…. We've done this

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25 Interviewee 09
26 Interviewee 04

a number of times, praising the company for what they've done and then

noting that we've been in dialogue with them for a number of years"[27]

Companies were reported to be keen to do a press release with the shareholders which acted as good publicity for them using ICCR almost as an endorsement. When an outcome was unsuccessful or an impasse was reached with a company, public mechanisms like filing a resolution were used. This was seen as a "gentle threat" or sanction indicating the presence of some coercive measures. Divestment could also be seen as a threat (Admati & Pfleiderer, 2009), however respondents felt the holdings of the shareholders were often too small to have any financial impact:

"our view has tended to be that in the absence of a capital constrained

market environment, divestment is not going to be overly impactful"[28]

On some occasions only the minimum of $2000 of stock was held in order to engage. Some felt that divestment was a loss because any influence that could have been exerted as a shareholder was lost:

"to me divesting is a retreat, I mean what do you do? You divest, you

say you've divested, and then what do you do the day after that? You're

out of the game"[29]

"if you totally divest, well you lose the leverage of engagement"[30]

Others felt strongly that coordinated and public divestment campaigns could have an impact and be used as a sanction:

"we will divest of the company but our big thing when we do any kind

of divestment is to get as much media coverage as we can"[31]

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[27] Interviewee 07
[28] Interviewee 28
[29] Interviewee 33
[30] Interviewee 10

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Power appears to reside in the hands of the company in terms of establishing the participants of dialogues. However, recourse to public disclosure or divestment as a form of gentle threat was also evident on the part of the shareholders in order to keep the company at the dialogue table.

Transparency. The workshops at the information search stage facilitated the flow of information to all parties and were transparent in line with communicative action (Habermas, 1992). At the objective setting stage there was transparency and information flow among the collaboration members about discussions and agreements reached between members. This was facilitated by the ICCR website however this information did not flow back to other stakeholders.

There was an acknowledgment that companies were reluctant to disclose information particularly on issues of lobbying and political spending. The survey responses showed that the company's tone in dialogue was seen by the majority as *"placating"* defined as negotiating and bargaining to reach a response (Oliver, 1991), only half as many suggested they were *"compliant"*. Knowing if and when the company was trying being truthful was seen by one of the respondents as one of the hardest things about dialogue:

"you have to judge whether, it's, they're being forthcoming and whether what they say is true, whether it's the whole truth or are you being manipulated, there's always a concern that you're being manipulated"[32]

This insight suggests that there is a distance between practice and an ideal speech situation, which is based on truthful exchange. The denial of truth by companies in engagement has been reported in other studies (Vandekerckhove et al.,

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[31] Interviewee 27
[32] Interviewee 33

2007). Transparency and information flow were also claimed by the interviewees to be limited by the companies' imposition of Chatham House rules or privacy statements and by SEC disclosure regulation.

Transparency moved closer to the ideal at the dialogue conclusion stage as information shared by the company was also shared between all collaborating shareholders after meetings. The ICCR online platform, conference calls, emails and face-to-face meetings facilitated the flow of information between shareholders. Press releases of progress on particular issues were used to inform constituencies, customers and other stakeholders of the outcomes of ICCR behind-the-scenes dialogue efforts although details were often not included.

In summary, we find evidence of the different key motifs of discourse ethics at different stages of the dialogue process. However the distance between practice and an ideal speech situation was evident throughout the process. The information search stage of behind-the-scenes dialogue was closest to an ideal speech situation with ICCR strongly facilitating participatory and deliberative practices. However, participation and transparency were neglected at the later stages of the dialogues particularly in dialogues with companies and there was some evidence of the use of coercive practices.

Parallels can be drawn between our findings and the critique of the shareholder resolution process whereby affected stakeholders did not participate in setting the objectives of the engagement (Coumans, 2012; Dhir, 2012). In this latter case the lack of inclusion of broader stakeholders during the objective setting and dialogue stages resulted in investor demands not reflecting "the reality of life" in affected communities and was claimed to have harmed rather than helped those

communities (Dhir, 2012: 106). We argue that this risk is equally likely in the behind-the-scenes dialogue process.

The role of trust in behind-the-scenes dialogue

By far the most frequent and widespread reason given for the effectiveness of behind-the-scenes dialogue was trust. The fear of the erosion of this trust was also the principal reason given for not inviting broader stakeholder participation into direct dialogue with companies. We challenge the perceived negative causal relationship between participation and trust and argue that the factors important for trust are not necessarily attributable to stakeholder participation per se. Thus, we suggest that trust relationships could be maintained while participation is increased.

Long-term perspective. Trust was seen by many of the respondents to grow from relationships which had been built over time through the ICCR's long history of engaging and its patient and persistent approach to SSE. Interviewees reported that:

"if an engagement has been ongoing for ten years it's like anything, there's more relationship and there's more trust"[33]

"it [dialogue] *builds on a relationship over time, and as trust builds the willingness to discuss the topic or even related topics improve"[34]*

"It's really relationship building, long time relationship building"[35]

The extensive experience and knowledge held by ICCR members who had participated in dialogues over the past 40 years was seen as one of the key assets of the organisation and contributors to the effectiveness of ICCR dialogues. What is more, the trust relationship was suggested to work both ways with one shareholder

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[33] Interviewee 31

[34] Interviewee 22

[35] Interviewee 13

commenting that they did not trust companies to provide full disclosure unless they knew the company well.

> *"I guess I would be reluctant to trust that a company is providing us with everything unless I know them well enough."[36]*

However, we would argue that the development of long-term relationships does not necessarily depend on being a shareholder. There are numerous civil society organisations or NGOs which have existed over the long term and have ongoing relationships with corporations. Also the communities local to corporate operations are potentially able to build long-term relationships with companies.

Individual relationships. A number of interviewees identified the development of trust between individuals as important for the effectiveness of dialogue:

> *"you get to know people, and because you get to know people you create a trust relationship"[37]*

> *"when you have a successful dialogue, my experience has been that there's been a level of trust established between corporate leadership oftentimes and the lead shareholder for sure in the dialogue, and they tend to look at one another as mutual resources"[38]*

> *"I don't relate to companies…. I am engaged in dialogue with people who happen to work with these companies and over the years you establish relationships and people know to trust you"[39]*

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[36] Interviewee 07
[37] Interviewee 19
[38] Interviewee 26
[39] Interviewee 18

"it does become personal, sometimes you're dealing with clearly packaged positions and other times you feel like you're dealing with a real human being and that tends to be more productive"[40]

There was evidence of shareholders approaching an individual on a corporate board because they belonged to a particular church group and thus the religious organisation concerned felt a certain relationship already existed.

"I have not found independent engagement to be that effective unless of course there's a strong point of connection between the company and the organisation for instance like a board member who felt very strongly about a particular religious order or a religious order was in the vicinity of the corporate headquarters of a particular company"[41]

"as faith based investors we look for people with like minded concerns and issues and you have representation on your board in this regard"[42]

We argue that these individual relationships are not dependent on being a shareholder of the company. If board members can be members of religious organisations, they may well also be members of other NGOs or members of local communities, or have other connections with stakeholders which could lead to the development of relationships between individuals.

Truthfulness. One example was given by an interviewee where a non-shareholder had used untruthful data. The company was able to clearly deny any connection to the evidence provided by the stakeholder and this was seen by the interviewee to undermine the shareholders' argument and cast doubt on whether they were being truthful:

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[40] Interviewee 33

[41] Interviewee 26

[42] Interviewee 26

"And that did irreparable harm but it was also a serious learning experience" "you really have to be very careful about who you bring in" "it's really important to have good solid community intelligence and that works really well to have people who are creditable giving you legitimate information" [43]

The interviewee felt that participation had damaged the trust relationship with the company. However, rather than the participation of an NGO per se, we suggest that trust was damaged because the individual had not been truthful. As a response this shareholder developed the perception that NGOs were less truthful which had limited their inclusion of NGOs in dialogue with companies.

Respectful tone. Another example of where participation was claimed to have damaged trust was related to the tone taken by invited stakeholders. The interviewees described their own approach as *"informational"* and involving *"quiet diplomacy"*, *"civility"* and *"respect"*:

"this is quite typical for ICCR because those people are really committed to long term respectful engagement" [44]

Two interviewees gave an example of an invited stakeholder using a more aggressive tone, which they claimed had damaged the dialogue and the trust relationship built up with the company. This more *"in your face"* activism was not seen as consistent with the approach of ICCR. In this case the interviewee felt that this participant had used aggression. We would argue that establishing a respectful tone in dialogue is not dependent on being a shareholder and can be achieved regardless of whether participants are stakeholders or shareholders.

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[43] Interviewee 29
[44] Interviewee 33

Vested interest. Trust was reported to stem from the *"vested interest"* which shareholders had in the company in terms of their financial investment. A number of shareholders spoke of the importance of reassuring the company that as shareholders, they had the company's best interests at heart:

> *"people have begun to trust us that we're not trying to ruin them, we're trying to help them to be a better company"*[45]

> *"helping the company to realize that we are investors, we're owners, we're interested in the long term good of the company, and the long term good is related to … how it lives out its corporate citizenship, its environmental performance, its social license to operate and all that, so helping them to see the connections to the issues we're bringing up and the long term good of the company"*[46]

This vested interest can be understood here as a shared concern for financial performance whereby the danger of disclosure of sensitive information to the media could negatively impact the company's reputation, financial performance and even survival. However, a number of the faith-based shareholder organisations have established an activism fund where they purchase the minimum of $2000 worth of shares necessary in order to engage as shareholders. One organization said that any money earned from a particular investment was given to charity which supported people suffering from the ill effects of the company's product. It could therefore be argued that being a shareholder does not necessarily lead to a significant vested financial interest which suggests there is no reason why stakeholders could not also participate.

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[45] Interviewee 21
[46] Interviewee 13

In summary we argue that it is not the participation of stakeholders per se which damages the trust relationship built between shareholders and companies, but rather a number of other factors, which are not necessarily dependent on holding shareholder status. We suggest that the potential for stakeholder participation is greater than is currently perceived in practice and that the distance between practice and ideal speech could be reduced to include broader stakeholder participation in behind-the-scenes dialogue.

Discussion and implications

As a shareholder coalition, ICCR plays a valuable facilitating role in providing a space and resources for participatory and deliberative practices (Gond & Piani, 2013). While its stated belief in the importance of involving stakeholders at every step of the process might not hold in the majority of direct conversations with companies, its pooled resources undoubtedly empower and enable participatory and deliberative practices at the information search stage which may not be found among other RI shareholders.

Our findings suggest that the potential for misalignment of dialogue objectives with affected stakeholder interests exists in the same way as it does through resolutions (Coumans, 2012; Dhir, 2012). In order to minimize the potential for reputation damage under the increased scrutiny of responsible investment practices (Eurosif, 2014), it is important that this is recognized by those engaging in SSE, particularly the ICCR which has gained recognition and legitimacy over decades of experience.

Interestingly, while ICCR has gained organizational legitimacy and is itself a facilitator of dialogue providing space for participatory and deliberative practices, our findings indicate that individual relationships are one of the biggest perceived

influences on developing trust and the success of behind-the-scenes dialogue. Building on this, questions of identity (Rowley & Moldoveanu, 2003) and identification (Gutierrez et al., 2010) could be argued to play an important role in the effectiveness of behind-the-scenes dialogue. This implies that stakeholders other than shareholders, could also engage corporations effectively through personal relationships. The importance of individual relationships also has practical implications. Dependence on particular individuals poses somewhat of a challenge to ICCR as an organisation. A suitable method of knowledge transfer will be required in order to sustain its potential for effective SSE in the future.

The private nature of dialogue and the lack involvement of the media by engaged shareholders indicates that behind-the-scenes dialogue is a lot more prevalent than research focusing on more public forms of SSE would suggest. This underlines the notion that dialogue represents the bulk of the iceberg when it comes to shareholder engagement (Goranova & Ryan, 2014). Our research indicates that there is a vast amount of dialogue in SSE which goes on between shareholders and companies and this would suggest the extent of the influence of SSE is much more extensive than is currently reported. While many of the interviewees noted their inability to report their activities in dialogue to the media as frustrating, it appears to be a necessary sacrifice for dialogue effectiveness.

Behind-the-scenes dialogue was noted by interviewees to serve as a means of addressing issues which may not be permissible as resolutions because of SEC rules on the admissibility of certain issues and word limit constraints. While resolutions must legally relate to the business case, the development of relationships through dialogue have led to shareholders continuing their conversations with companies even when initial requests have been met. A number of interviewees claimed that dialogue

allows for discussion of the ethical case as well as the business case, and that the former can be more effective, in contrast to previous studies (Gifford, 2010). This again suggests that the influence of shareholders in behind-the-scenes dialogue may extend beyond what is frequently reported.

It should be recognized that not all issues have a specific community which is affected by the issue or, in the case of a global issue like climate change, everyone could be affected. Several of the interviewees comment that in these cases the only possibility for including broader stakeholder participation would be to invite in a specialist or expert. Therefore the potential for participation can be understood to vary according to the issue of concern. This provides an opportunity for future research into different issue categories in behind-the-scenes dialogue.

Limitations

Our study is focused on the ICCR for reasons laid out in the methodology section. Due to the faith-based nature of this organisation our findings cannot necessarily be generalized to other engagement coalitions and different types of investors. The beliefs of religious organisation members may not be open to negotiation resulting in some issues being neglected due to the opposing positions of some members. Other, non faith-based organisations may be more willing to question their own positions.

Our research is focused primarily on the US and therefore refers to the engagement and filing regulations in place there. Different national contexts have different regulatory systems and corporate governance arrangements which have been shown to affect the public or private nature of shareholder engagement (Aguilera et al., 2006; Black & Coffee, 1994). The nature and challenges of engagement in an international context was raised several times by interviewees providing an

opportunity for future research as investors increasingly search for ways to engage multinationals headquartered in other countries and shareholders around the world.

Our research is based on reports from ICCR members. Our large sample helps to make these results reliable and we triangulate responses with a survey. However, both the company perspective and longitudinal participant observation are crucial to provide a fuller picture of behind-the-scenes dialogue.

Conclusion

This exploration of behind-the-scenes dialogue from the perspective of shareholders involved in SSE provides valuable insights into the as yet under-researched area of shareholder dialogue. By shedding light on the actors involved and their activities at different stages of the dialogue process we have been able to identify the presence of a number of participatory and deliberative practices. The ICCR coalition facilitates these processes through sharing resources and knowledge.

The key motifs of Habermasian discourse ethics provide a useful normative ideal from which to compare the quality and standards of shareholder dialogue in practice with an ideal speech situation. From this analysis we are able to identify a lack of stakeholder participation and transparency at the stages of objective setting, company dialogue and dialogue conclusion. This indicates that the potential for misalignment between shareholder demands and stakeholder interests identified in previous studies on resolutions, exists also in behind-the-scenes dialogue.

Lack of stakeholder participation in dialogue with companies stems from a fear that the trust necessary for effective engagement, which is seen to grow from individual relationships built up over time, will be eroded by broader stakeholder participation. Through exploring this perception in-depth we argue that it is not participation of stakeholders per se which can damage trust. In this way we highlight

the potential for greater stakeholder participation and ensuring the adherence to a quality of dialogue which strives to attain an ideal speech situation.

We claim that the extent and impact of behind-the-scenes dialogue is under-estimated and under-reported. With hundreds, if not thousands of dialogues taking place each year, the importance of assuring the voices of *all* those affected by corporate activities are considered in this crucial mechanism of corporate governance, becomes increasingly important to SSE.

Chapter 5: Conclusion and Future Research

This thesis generates a number of important findings, which contribute to the different literatures associated with SSE and outlined in the introduction. This section reiterates the key findings of chapters 2, 3 and 4, it then identifies some of the challenges facing research in this area, and finally identifies avenues and opportunities for future research.

Firstly, the chapters presented here have focused on the process of SSE. Chapter 2 elaborated the stages of engagement, the methods used, and the influences on decision-making at each stage. Chapter 3 draws on Habermasian discourse ethics to explore the ethical nature of the SSE process. This approach enables the development of a normative, process-oriented, ethical approach to SSE. Chapter 4 builds on this argument to empirically map the involvement of marginalised stakeholders at different stages of the dialogue process. As such, this thesis exposes, both empirically and conceptually, the workings of a relatively unknown but influential activity and in this way differentiates itself from previous research. This leads the way for further and more detailed analysis of specific elements of the process. It also raises political and ethical questions as well as economic ones, which are further discussed below.

The findings in Chapter 2 demonstrate the intertwined and dynamic nature of voice and exit. While typically voice and exit have been understood as separate, we find that voice was used during and after exit as part of ongoing engagement, suggesting that the voice and exit options are more nuanced than previously argued. The reconceptualization of exit as a form of voice invites further discussion, and research is needed to explore the similarities and differences between ongoing

engagement by current shareholders, by shareholders who have exited the company, and by activists who have not previously held a shareholder status.

The research conducted in chapter 2 points towards the reconceptualisation of shareholders in SSE as politically rather than economically motivated. This finding is further explored in Chapter 3 where a deliberative democratic political conception of SSE is identified, calling into question the stark separation of political and economic spheres and extending the work to date on political CSR. By identifying a political role for SSE shareholders in pursuit of the common good, this chapter challenges some economic assumptions of the theory of the firm and contributes to the corporate governance literature, which often assumes that shareholders are concerned purely with economic matters. The extent of such a political role among different types of shareholders invites further research in this area.

The conceptual analysis in chapter 3 leads to the development of a normative, ethical approach, so far neglected in SSE, and therefore makes a clear contribution to the ethics literature. The ideal nature of Habermasian discourse ethics has drawn critique for being difficult to achieve in reality. Within the US corporate governance framework, where shareholders have become increasingly powerful over the past three decades, such an ideal standard remains distant from practice. However, reflection on a normative position is still valuable and reveals differing approaches underlying RI. Further exploration of the ultimate social and political goals of responsible investors will contribute greatly to the RI literature.

Chapters 3 and 4 both identify a mediating role that shareholders in SSE can play in business and civil society relations. In chapter 3, figure 2 reveals different engagement formats: an intermediary position for shareholders; shareholders as promoters of direct engagement between corporations and marginalised stakeholders;

and a more complex role involving promoting regulatory and institutional change. Chapter 4 goes into more detail about the participation of marginalised stakeholders at different stages of the SSE process and explores how trust and individual relationships can play a crucial role in SSE. These individual relationships are likely to provide a rich source for future research.

These findings contribute to building a new perspective on an increasingly relevant phenomenon. They challenge dominant theoretical assumptions and raise a number of questions for further research. SSE, and especially behind-the-scenes dialogue, also pose challenges for researchers. These are discussed in the following section.

Challenges

Clearly challenges remain in accessing data related to the behind-the-scenes dialogues between shareholders and companies. As noted throughout the thesis, the confidential nature of such dialogues and the affirmation that much of their success is based on trusting that the conversations will remain confidential, is a significant challenge for research.

Research which focuses on the perspective of the corporation is vitally important to gaining an understanding of how SSE can bring about change. Research opportunities exist both at the individual level, in understanding how particular actors and their relationships may influence the SSE process, and at the organizational level, in establishing, for example, the degree of stakeholder integration into corporate decision-making and organizational sensemaking (Basu & Palazzo, 2008). Longitudinal research using ethnographic and participatory research methods in behind-the-scenes dialogue would be of great value, although it would be challenging

to achieve due to confidentiality issues. An opportunity to overcome this challenge would be to revisit cases after a period of five or ten years to explore their evolution.

The impact or success of SSE is also a particularly challenging area to study. There are differing understandings of success and varying time frames, which make this a complicated area to measure. Voting results of resolutions is one way to measure this. However, objectives such as changing attitudes and reframing ideas and the long time frames which SSE can take could tell a very different story about the impact of SSE.

Future research directions

This thesis has made important contributions to the academic literature on corporate governance, responsible investment, social activism and business ethics. Despite the empirical and conceptual insights developed in this thesis, behind-the-scenes dialogue is still a relatively little known and under researched phenomenon and there is great opportunities remain for further research in this area. By providing greater insights and a new perspective on SSE, which challenges the traditional agency view that has dominated corporate governance research, this thesis extends the debate on SSE into the ethical and political domains and opens a number of avenues for future research.

Despite the SSE shareholders' stated commitment to include other stakeholders throughout the dialogue process and their dedication to a common good and rational argumentation, the importance of personal relationships suggests that SSE communication embodies a strategic element in which individuals have a strong role. Drawing on the identity literature stream (Rowley & Moldoveanu, 2003), and

behavioural theory (Sikavica & Hillman, 2008) could provide opportunities to better understand these key individuals.

Further research into participative governance mechanisms and stakeholder engagement in corporate decision-making could be informed by the literature on cross-sector collaborations and partnerships (Murphy & Arenas, 2010; Selsky & Parker, 2005). The challenges and benefits of these collaborations could be a rich source of learning for corporations as well as for shareholders and stakeholders involved in SSE.

Now considered a mainstream investment practice, responsible investment is an umbrella term for an increasingly complex and varied range of motives and strategies. While focusing on the overlaps in interests has enabled the RI movement to gain traction, the increasing scrutiny of these practices requires more detailed investigation of the heterogeneous demands of different shareholders within responsible investment to identify areas of potential contention and collaboration. By extension, further research could also explore how managers of large pension and mutual funds deal with the differing social, environmental and ethical concerns of beneficiaries in establishing their investment policies and engagement strategies.

The findings here suggest that more fine-grained research into the nature of the different issues addressed within the broad spectrum of environmental, social, ethical and governance concerns could provide useful insights. Richardson's (2008) work has highlighted some of the differences between the business case and the ethical case by distinguishing between examples of climate change and human rights issues. Examining SSE through different issue lenses could provide valuable insights into the use of different strategies to influence management decision-making.

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This thesis provides evidence of a political and ethical role for shareholders in SSE which challenges economic assumptions about shareholder behavior. The blurring of the economic and political spheres evident in work on political CSR (Scherer et al., 2014), lobbying, and corporate political spending, merits further study from the perspective of shareholders and SSE. Research into mechanisms for managers in dealing with political and ethical as well as financial demands from shareholders is much needed, as is a potentially expanded understanding of fiduciary duty (Stout, 2012). Our conceptualization of shareholders having an empowered role as facilitators or stewards provides an alternative view to the traditional agency perspective of shareholders as monitoring and controlling and opens the door to future research and theory building.

The research here and elsewhere has identified a wide range of tactics in SSE (Goranova & Ryan, 2014). From a social activism perspective, the variety of strategies and actors involved in improving the social, environmental and ethical performance of corporations could lend itself to a theory of fields approach (Fligstein & McAdam, 2012). The combination of different strategies such as behind-the-scenes dialogue, public resolutions, and social protest could be explored to identify alternative, complementary or optimal configurations for achieving change.

The research undertaken in this thesis raised a number of concerns from practitioners. One such concern was about the increasing complexity of engaging through international coalitions and in countries where the corporate governance context is unfamiliar. Research has already identified some of the national differences in corporate governance (Aguilera & Jackson, 2010). The international operations of many companies and their listings on multiple stock exchanges provide a level of complexity which could be explored in future research. Practitioners also identified

the measurement of impact as a challenging area to develop in order for shareholders in SSE to be held accountable to their constituencies or beneficiaries. Finally, the fine line between being involved in long-term, ongoing SSE dialogue and providing 'free' consultancy as a mutual resource could be further explored.

The questions that are raised in the findings of this thesis provide ample opportunity for future research on the topic of SSE in different literatures. It is my hope that this thesis draws attention to the potential that SSE represents in challenging some of the key assumptions underlying corporate governance and the theory of the firm. By opening a number of avenues for future research, the potential impact of this research is extended, opening the door to further contributions to management science.

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Appendices

Appendix 1 Shareholder Engagement Survey

Shareholder Engagement Survey   0%

About your organization

What is the name of your organization?

What is your position in the organization?

What type of ICCR membership does your organization have?

○ Faith-based member
○ Associate member
○ Affiliate member
○ Other, please specify...

What type of organization are you?

○ Faith-based institution
○ Asset management company
○ Bank
○ Foundation
○ Pension fund
○ University
○ Union
○ Other, please specify...

Is the organization....

○ an asset manager?
○ an asset owner?
○ both an asset manager and owner?
○ something else?

What country is your organization based in?

How many assets under management does your organization represent?

○ Under $500 million
○ $500 million-$999 million
○ $1 billion-$4.9 billion
○ $5 billion-$9.9 billion
○ Over $10 billion

How long have you been a member of ICCR?

○ Less than 1 year
○ 1-5 years
○ 6-10 years
○ 11-20 years
○ Over 20 years

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Shareholder Engagement Survey

Dialogue with companies

Dialogue has been defined as occurring when corporations and shareholder activist groups mutually agree to engage in ongoing communications to deal with a serious social issue

When did you start engaging in dialogues with your investee companies?

○ Less than 1 year ago
○ 1-5 years ago
○ 6-10 years ago
○ 11-20 years ago
○ Over 20 years ago

How many dialogues are you currently participating in?

○ None
○ 1
○ 2-5
○ 6-10
○ 11-20
○ More than 20

Who usually participates in your dialogue with companies?

More than one answer can be selected

☐ representative/s from your organization
☐ representative/s from the company
☐ representative/s of ICCR collaboration partners
☐ representative/s of non-ICCR shareholders
☐ representative/s from ICCR
☐ representative/s from parties affected by the issue
☐ Other, please specify... [   ]

Who usually initiates dialogue?

○ Our organization
○ The company
○ A third party
○ Other, please specify... [   ]

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Who usually participates in your dialogue with companies?

More than one answer can be selected

☐ representative/s from your organization

☐ representative/s from the company

☐ representative/s of ICCR collaboration partners

☐ representative/s of non-ICCR shareholders

☐ representative/s from ICCR

☐ representative/s from parties affected by the issue

☐ Other, please specify...

Who usually initiates dialogue?

○ Our organization

○ The company

○ A third party

○ Other, please specify...

What type of companies are you most likely to target for dialogue?

More than one answer can be selected

☐ Large cap (S&P 500)

☐ Small or mid cap

☐ Domestic issuers only

☐ Any

☐ Other, please specify...

Where does dialogue normally fit into your engagement process?

More than one answer can be selected

☐ as a first step in engagement

☐ as a last resort in engagement

☐ as an alternative to filing a resolution

☐ as a result of a withdrawn resolution

☐ simultaneously to filing a shareholder resolution

☐ when a low vote means that a further resolution cannot be filed

☐ Other, please specify...

Approximately what percentage of your dialogues have been made public?

○ 100%

○ 75%

○ 50%

○ 25%

○ 0%

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Shareholder Engagement Survey

Communication

How do you initiate dialogue?

More than one answer can be selected
- ☐ By letter
- ☐ By telephone
- ☐ By email
- ☐ By filing a resolution
- ☐ Other, please specify...

Who do you usually contact with your initial dialogue request?

- ○ CEO
- ○ CFO
- ○ Board Chairman
- ○ Board Member
- ○ Investor Relations
- ○ CSR department
- ○ Known individual
- ○ Other, please specify...

If the company initiates dialogue, who usually contacts your organization?

- ○ CEO
- ○ CFO
- ○ Board Chairman
- ○ Board Member
- ○ Investor Relations
- ○ CSR department
- ○ Known individual
- ○ Other, please specify...

What types of communication are generally involved in dialogue?

More than one answer can be selected
- ☐ Exchange of letters
- ☐ Telephone calls
- ☐ Emails
- ☐ In-person discussions
- ☐ Other, please specify...

How would you describe your organization's tone in the dialogue process?

- ○ Conciliatory
- ○ Adversarial
- ○ Informational
- ○ Other, please specify...

How would you typically characterize the company's response to the concerns you express in the dialogue?

- ○ Compliant (agree to follow generally established rules and standards)
- ○ Placating (negotiating and bargaining to reach a compromise)
- ○ Avoidance (conceal the issue or change the focus of dialogue)
- ○ Dismissive (defy or even attack your concerns)
- ○ Manipulative (use power to influence, control and silence criticism)

Does this response vary depending on the topic of concern?

○ Yes
○ No
○ Don't know

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Shareholder Engagement Survey

Successful dialogue

What outcomes of a dialogue process are sufficient to make a dialogue "successful"?

More than one answer can be selected

☐ Establishment of a dialogue even if contentious
☐ Constructive dialogue on specific issues
☐ Company commitment to engage in the future
☐ Additional disclosure or change in practices by the company
☐ Change in shareholder proxy vote
☐ Withdrawn shareholder proposal
☐ Improvement in the conditions of the party affected by the issue
☐ Raising public awareness of the issue
☐ Other, please specify...

How would you generally characterize your dialogue efforts?

○ Always successful
○ Usually successful
○ Sometimes successful
○ Never successful

How important do you consider the following in helping you achieve success as you define it?

	100% importance	75% importance	50% importance	25% importance	0% importance
speaking to top management	○	○	○	○	○
speaking to the 'right' people	○	○	○	○	○
collaboration with other shareholders	○	○	○	○	○
collaboration with ICCR or other platform	○	○	○	○	○
trust between the company and the engaging shareholders	○	○	○	○	○
individual negotiating skills	○	○	○	○	○
involving media in the dialogue	○	○	○	○	○
reputation of your organization	○	○	○	○	○
asset size which you and your collaborators represent	○	○	○	○	○
characteristics of the target company	○	○	○	○	○
topic of the dialogue	○	○	○	○	○
political environment	○	○	○	○	○
popularity of the issue in the media	○	○	○	○	○
company is registered in your country	○	○	○	○	○
having a champion in the company	○	○	○	○	○

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setting clear objectives for your dialogue	○	○	○	○	○
long-term campaign, sustained dialogue	○	○	○	○	○
linking arguments to firm growth and financial returns	○	○	○	○	○
other	○	○	○	○	○

What action, or combination of actions, do you normally take if dialogue is unsuccessful?

More than one option can be selected

☐ Continued dialogue
☐ Divestment
☐ Public statement
☐ Media campaign
☐ Filing a resolution
☐ No action

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Shareholder Engagement Survey

Your thoughts

Why do you choose to engage with investee companies?

What are the most common reasons for a dialogue being unsuccessful?

What is the most difficult thing about dialogue?

What is your name?

What is your contact email address?

Would you be willing to participate in a further telephone interview?

○ Yes
○ No

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