

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

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ABSTRACT

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

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

INTRODUCTION

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

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

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

The motivation for investors to engage with corporations with regards to *corporate social responsibility* (CSR) may be ethical, for example on the grounds that corporations are assumed to have a moral obligation to respect human rights, to safeguard the environment, or to ensure fair labour conditions. The motivation may also be financial; some argue that corporations who address social and

environmental issues not only mitigate risks such as reputational damage or law suits, but also that efforts to improve social and environmental aspects can create business value and be positively correlated with financial performance (c.f. meta-studies on the topic by Orlitzky *et al*, 2003 and Margolis *et al*, 2006).

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

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

As a further example, the membership association *Social Investment Forum* states on its web site:

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

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

At the same time, few attempts have been made by researchers to understand if shareholders are in fact having such influence on corporations. The aim of this study is therefore to explore the influence that shareholders have on corporations in

terms of CSR¹. Specifically, the study will garner corporations' own perceptions of this.

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

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

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

SHAREHOLDER INFUENCE IN THE LITERATURE

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

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

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

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

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

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

Conventional as well as SRI-oriented investors would typically belong to this group; their ownership standing gives them power as well as legitimacy in making

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

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

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

based on social network analysis – suggests that stakeholders are more salient the more interconnected they are.

A study by Hoffman (1996) provides further insight to this phenomenon: Hoffman followed the dynamic process of how environmentally concerned shareholders sought to influence an oil corporation to adopt a set of environmental principles. Hoffman attributes the success of shareholders to three factors: corporate culture and the fit between this and the shareholder claims, the power and influence of the shareholders, and the political climate in which the claim was made. This overlaps with the aforementioned study by Mitchell *et al* (1997), as a fit between stakeholder claims and corporate culture adds legitimacy to the matter, while a fit between stakeholder claims and the political climate in the industry can add a sense of urgency.

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

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

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

In the aforementioned study by Hoffman (1996), concerning how shareholders sought to influence an oil corporation to adopt a set of environmental principles, he shows empirically that shareholders can indeed influence corporations to adhere to specific shareholder goals. Whereas the targeted corporation was reluctant at first, the parties eventually reached a compromise and the oil company used the

opportunity to induce an industry-wide change. Hoffman notes that shareholder influence is a dynamic and reciprocal process where shareholders themselves may be influenced by the very perspectives they try to change.

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

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

RESEARCH METHOD

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

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

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

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

Table 1: List of interviewed corporations

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

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

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

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

Table 2: List of interviewed investors

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

| Organisation | Respondent's title |
|--------------|---------------------------------|
| Ethix | Head of corporate engagement |
| GES | President and managing director |

Table 3: List of interviewed engagement consultants

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

RESULTS

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

Contextual background

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

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

Sometimes investors are visiting corporations' suppliers or work sites in a foreign country, either upon invitation from the corporation or on their own initiative. The

purpose of these visits is for investors to inform themselves about social and environmental conditions and routines at these sites, either as a form of audit or to get familiar with the scene on a more general level.

In contrast to for example corporations in the US, the annual general meeting is not used as an arena for environmental and social responsibility issues for the interviewed Swedish corporations. Whereas corporate governance has a natural place at these AGMs, such as board nominations and remunerations, the interviewed corporations testify that shareholders rarely or never bring up CSR in this forum. Further, it is unusual that the interviewed corporations proactively use this forum to share information about their CSR work with its shareholders.

The investor view

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

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

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

An important stakeholder

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

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

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

Amplifying stakeholder pressure

One reason that corporations perceive SRI-oriented investors as having limited influence may be that it is difficult to distinguish investor influence from that of other stakeholders. Many corporations express that they perceive the views of SRI-oriented investors as part of an overall external pressure. SRI-oriented investors sustain or amplify opinions that are also expressed by others, rather than being the only ones to focus on something. Investors are one source of influence among many, along with for example customers, the general public, media, and regulations. Several corporations also say that investors are not forerunners; rather,

they support or amplify a critical trend. Further, many respondents state that when a change occurs due to stakeholder pressure, investors are rarely the only source.

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

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

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

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

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

Corporate transparency

Even if corporations in most cases perceive investors as having limited direct impact on CSR, there is one important exception where investors have significant direct influence, and that is transparency. Whereas investors are for the most part not challenging the interviewed corporations on achieving higher environmental targets or addressing social malpractices, they are successfully persuading corporations to report more extensively on their web sites and in their annual reports, and to be more detailed about their progress with regards to CSR.

A number of corporations say that their values are “ingrained in the walls” of the organisation so they haven’t seen a need to write down how they handle different aspects of CSR until investors started to ask for it. Further, not only have investors

encouraged them to report more extensively and in more detail, but they also influence what corporations choose to report on:

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

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

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

CSR operations

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

Typically, corporations accept investor requests and suggestions, and view them as good advice rather than an obstruction to their work. From time to time, however,

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

Legitimacy to CSR

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

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

This was also mentioned by some of the corporate respondents:

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

A prerequisite for this to work, however, is that the corporation has established communication channels to enable input from investors to be communicated further within the organisation. This seems to be in place with most interviewed corporations, who typically share and discuss topics that have been covered in

investor meetings with regards to CSR with top executives, the CEO, the board, or a sustainability council within the firm.

CONCLUDING DISCUSSION

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

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

- 1. Corporations view SRI-oriented shareholders as legitimate and important stakeholders.*
- 2. Corporations perceive that in general, shareholders do not have a significant influence on how they address CSR.*
- 3. Investors influence corporations indirectly, by providing legitimacy to CSR, and by amplifying general stakeholder expectations.*
- 4. Investors influence corporations directly, primarily with regards to improved transparency on CSR, but sometimes regarding operational aspects.*

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

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

As suggested by previous studies, stakeholders who are viewed as legitimate have a better chance to influence corporations (Mitchell *et al*, 1997). This study finds that SRI-oriented shareholders have a legitimate relationship with corporations, as evidenced, for example, by respondents' statements that these shareholders are valued stakeholders and that their contacts are appreciated by the corporation. The interviewed corporations do not question investors' interest in CSR. Apparently, investors are deemed as important to the corporation also when they do not attempt to influence their work, for example by validating that the corporation is making the right priorities. Investors' legitimacy is likely also strengthened by the fact that they do not forward unreasonable requests, but that their claims are in line with corporations' goals – there is generally no conflict between shareholder demands and the corporate agenda, according to the interviews in this study. And this is likely what has spurred the fact that most of the suggestions that investors have forwarded have been accepted by the interviewed corporations, whether it concerns more detailed reporting, routines for whistle blowing, or adopting an environmental policy.

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

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

communications with corporations, as this would not only increase the legitimacy and the urgency of the questions, but also the power that lies in numbers.

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