The Influence of Shareholders on Corporate Social Responsibility

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HISTORY OF CORPORATE RESPONSIBILITY PROJECT

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The Influence of Shareholders on Corporate Social Responsibility
The CEBC History of Corporate Responsibility Project

In mid-2008, the Center for Ethical Business Cultures (CEBC) launched a multi-year project to research and write U.S. and global histories of corporate responsibility. Funding for the project flows from a major gift by Philadelphia entrepreneur Harry R. Halloran, Jr. to the University of St. Thomas. This grant followed earlier gifts by Mr. Halloran to CEBC to conduct preliminary research and feasibility studies beginning in 2004 and convene a national consultation among scholars and practitioner in November 2007.

OUR APPROACH

The idea of corporate responsibility is not new; antecedents lie in the 18th and 19th centuries. The 20th century, and particularly the last 60 years have witnessed dramatic social, economic, environmental and regulatory challenges to business. Two volumes are envisioned: an initial volume focused on the U.S. experience; a subsequent volume focused on the emergence of corporate responsibility in countries and regions around the globe. Pursuing a “double helix” approach, the project explores the interweaving of the history of thinking about business responsibilities and the history of business practices. The interplay of societal change and the emergence of the modern business corporation provide the stage for exploring questions of purpose and responsibilities of business.

To tackle the U.S. history, CEBC engaged a team of distinguished scholars and supports their work with a series of working papers and interviews with experienced business practitioners.

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The Halloran Philanthropies, founded by Philadelphia entrepreneur Harry R. Halloran, Jr., is guided by Halloran’s belief that business is one of the most powerful drivers for positive social change. Halloran is the Chairman and CEO of American Refining Group, Inc., and founder and CEO of Energy Unlimited, Inc., both headquartered in Pennsylvania.

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The Center for Ethical Business Cultures (CEBC) at the University of St. Thomas is a 501(c)3 nonprofit organization situated in the university’s Opus College of Business. Working at the intersection of the business and academic communities, CEBC assists business leaders in creating ethical and profitable business cultures at the enterprise, community and global levels. The center was founded by Minnesota business leaders in 1978. Please visit www.cebcbglobal.org for more information.
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Citation


The views expressed in this CEBC History of Corporate Responsibility working paper are those of the author(s).
Overview

Despite persistence of the image of shareholders as narrow-minded profit maximizers who demand that managers ignore calls for a broader social responsibility of business, shareholders have become some of the most important allies of the corporate social responsibility (CSR) movement. This paper examines the intersection of shareholder engagement and CSR from a historical perspective. It provides background information about two central avenues through which shareholders engage the corporation—shareholder activism and socially responsible investing—and then traces how these avenues have shaped and been shaped by the CSR movement.

Part one of this paper focuses on shareholder activism (SA). After a brief overview of the legal and procedural framework for SA, the paper turns to a discussion of the types of issues shareholder activists have pursued over the years and how corporate responses have developed in turn. By tracing these developments, it becomes evident that SA has played an important role in the development of the corporate social responsibility movement in several ways. First, an increase in SA supported the formation of organizations that allowed individuals to channel concerns and expectations about the responsible conduct of corporations. Second, SA around social issues challenged existing legal boundaries and initiated a shift in legislation as well as judicial interpretation of regulations. This shift allowed a broader array of CSR issues to be brought directly to the attention of corporations through the annual proxy process, which in turn increased the public’s awareness of the relevance of responsible corporate conduct. As a response to increased shareholder and public support for CSR, corporations started to embrace CSR as a strategic opportunity rather than as a threat.

Part two of this paper examines socially responsible investing (SRI), a more passive form of shareholder engagement. Because the efficacy of SRI as a driver of corporate change has been questioned in previous research, the paper examines in depth if and how SRI can be supportive of the CSR movement, and how recent developments in the financial marketplace can strengthen the connection between SRI and CSR.
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Introduction

Shareholders are an important (if not the most important) group of stakeholders driving management and corporate activity. Since the 1960s, the demands of a significant percentage of shareholders have expanded to include non-financial expectations of corporate conduct (Schueth 2003). Shareholders who are concerned with social as well as financial aspects of their investments have expressed these concerns mainly in two ways. The first consists of shareholder activism, which is a more active form of shareholder influence; the second consists of socially responsible investing (SRI), which is more passive but also more prevalent in the investing public. The main ways shareholders engage corporations on their social performance have undergone changes since the 1960s, both in their prevalence and their characteristics.

This report provides information on how shareholders have influenced corporate social responsibility through the two channels of shareholder activism and SRI over the past fifty to seventy years. In addition to providing essential background information on the two shareholder engagement strategies, this report draws parallels with and connections to the overall historical development of Corporate Social Responsibility (CSR). This report also highlights those organizations or events that have been pivotal in the historical development of the shareholder-CSR relationship to indicate future avenues for more in-depth research.
Shareholder activism:
From election of directors
to shareholder initiatives

Process and legal framework of shareholder engagement

Shareholders are commonly considered the owners of a corporation. In shareholding, the ownership rights are somewhat limited compared to the ownership rights one has over a house or other type of tangible property (shareholders do not have the right to entry, for example) (Marens 2002). Despite these limits, since 1942, the SEC has formally recognized an important right of shareholders with regard to participating actively in “corporate deliberations” (Vogel 1978, 119). Rule 14a-8 of the Securities and Exchange Act of 1934 allows shareholders to submit a shareholder proposal to the corporation where they hold shares for inclusion on the company’s annual meeting proxy materials (Loss and Seligman 2004). In addition to voting on governance issues, these shareholder proposals are the main way for shareholders to be “heard” by management and other shareholders, and to have their interests considered in an official setting.

To submit a shareholder proposal, several procedural criteria must be met (Rule 14a-8, Securities and Exchange Act of 1934). A shareholder must have held $2,000 worth (or 1 percent) in the company’s securities (measured by market value) for at least one year, and must be present or represented at the annual meeting (Loss et al. 2004). Every shareholder is allowed one proposal of a maximum length of 500 words per annual meeting, and the proposal must reach the company at least 120 days before the release of the proxy statements (based on the date of the last annual meeting).

In addition to the procedural requirements, the proposal must also meet certain content criteria. For example, a corporation can exclude a proposal if the proposal violates the state law of the corporation’s jurisdiction, violates proxy rules (by including false statements for example), or conflicts with a proposal by the company. Management can exclude a proposal if management does not have the authority to implement it. Furthermore, a shareholder cannot submit a proposal that is essentially identical to one submitted in the previous five years unless it had received a certain percentage of votes at the previous meeting. The required percentage of votes increases with the number of times a proposal has been voted on: at least 3 percent if it was voted on once, at least 6 percent if it was voted on twice, and at least 10 percent if it was voted on three times in the previous five years (Loss et al. 2004).

Several additional grounds for excluding a proposal are particularly relevant to shareholder proposals of a social, political, or ethical nature. For example, proposals cannot be just about a personal grievance or aimed at advancing a personal interest of the shareholder that other shareholders do not share. Another ground for exclusion, which has made it difficult for shareholders to have social issues included on a proxy in the past (Vogel 1978), is the proposal’s connection to management functions or to “operations which account for less than 5 percent of the company’s total assets” (Rule 14a-8(c)(5) and Rule 14a-8(c)(7), 1934 Act). In other words, if a proposal relates to a company’s ordinary business operation, or if it only affects a small percentage of the business, then the company can petition the SEC to get permission to exclude this proposal from the proxy.

Since the inception of Rule 14a-8, much has changed in how the two grounds for exclusion have been interpreted and ruled upon by the SEC (Loss et al. 2004). As social shareholder proposals have become more numerous, and as several important cases have come before the courts demanding that social
This court case set the stage for a more flexible interpretation of an important reason to exclude a shareholder proposal from an annual proxy: the proposal affecting a small percentage of the company's business activity or essentially concerning ordinary business. Due to this increased flexibility, more proposals of a social, ethical or environmental nature were included on proxy statements after this landmark case (Vogel, 1978).

In 1968, amidst heavy anti-Vietnam protests, the Medical Committee for Human Rights (“the Committee”) submitted a shareholder proposal to Dow Chemical to be included on the 1969 proxy materials. The proposal aimed at amending the corporate charter to effectively stop the sale of Napalm. After Dow refused to include the proposal, claiming that the proposal related to ordinary business operation (and could thus be excluded according to Rule 14a-8(c)(7)), the Committee asked the SEC to review Dow’s decision. The SEC agreed with Dow but the Committee subsequently appealed to the District of Columbia Court of Appeals. The court sided with the Committee and asked the SEC to reconsider the issue, upon which the SEC turned to the Supreme Court. Since Dow had included the proposal on its proxy in 1971 and had in fact stopped selling Napalm in the meantime, the Supreme Court dismissed the case (Vogel, 1978; Medical Committee for Human Rights v. SEC, 432 F 2d, 659).

In support of the Committee Judge Tamm, writing for the District of Columbia Court of Appeals, argued:

“No reason has been advanced in the present proceedings which leads to the conclusion that management may properly place obstacles in the path of shareholders who wish to present to their co-owners, in accord with applicable state law, the question of whether they wish to have their assets used in a manner which they believe to be more socially responsible but possibly less profitable than that which is dictated by present company policy. Thus, even accepting Dow’s characterization of the purpose and intent of the Medical Committee’s proposal, there is a strong argument that permitting the company to exclude it would contravene the purpose of section 14(a). […] We think that there is a clear and compelling distinction between management’s legitimate need for freedom to apply its expertise in matters of day-to-day business judgment, and management’s patently illegitimate claim of power to treat modern corporations with their vast resources as personal satrapies implementing personal political or moral predilections. It could scarcely be argued that management is more qualified or more entitled to make these kinds of decisions than the shareholders who are the true beneficial owners of the corporation; and it seems equally implausible that an application of the proxy rules which permitted such a result could be harmonized with the philosophy of corporate democracy which Congress embodied in section 14(a) of the Securities Exchange Act of 1934.” (Medical Committee for Human Rights v. SEC, 432 F 2d, 659)

The tumultuous time of civic protests in which the role of corporations in supporting perceived social and political wrongs was being debated thus provided an opening for a broader agenda of social proposals in the future. It is interesting to note that the court used the language of social responsibility as a counterpoint to profitability, even though shareholder activists, including the Committee in the Napalm case, often invoke profitability concerns (or enlightened self-interest) in support of their social proposals (Marens, 2002). For example, the Committee has argued in its proposal that the sale of Napalm is in fact bad for business because it hinders recruitment of talented personnel (Medical Committee for Human Rights v. SEC, 432 F 2d, 659, App. 1a-2a).
proposals be included on proxies (see sidebar 1 for a landmark case, Medical Committee for Human Rights v. SEC), the SEC has become more flexible and broader in interpreting the grounds for exclusion of a proxy (Marens 2002; Vogel 1978, 1983). This has effectively resulted in more opportunities for social resolutions to reach the proxy statement and to be voted on by shareholders. At the same time, the change in the SEC interpretations has increased the legitimacy of social proposals, and management has become more open to discussing social issues with shareholders before a proposal is put on the proxy card (corporate responses to proposals are discussed in the next section).

It is important to note that shareholder proposals have certain legal limits in mandating change in the corporation. Even if a proposal receives the approval of a majority of shareholders, it is not binding on management (Loss et al. 2004). However, the influence of proposals in company policy is realized in other ways. Even proposals that are not expected to receive a majority vote and are more “symbolic” in nature still offer a chance to bring social issues to the attention of management and the public and to start an education process. More successful proposals open up a chance of dialogue between management and interested shareholders (Purcell 1979). Loss and Seligman (2004, 573) note: “It is not too important that these proposals are not carried […]. The very opportunity to submit proposals, even of advisory nature, affords a safety valve for stockholder expression at a price that to the registrant would seem to be relatively slight.”

Content of shareholder activism as a reflection of changing societal pressures: From civil rights over apartheid to labor conditions

As table 1 in the appendix indicates, shareholder activism in the United States has a substantial history, going back to the 1940s. Marens (2002, 365) mentions that “historians have even traced conflict between shareholders and managers of publicly traded corporations back to the eighteenth century English East India Company.” Since the filing of the first few socially or politically motivated proposals in the 1940s, thousands of social proposals have been submitted to a multitude of corporations. Several empirical studies have examined the trends and content of these proposals (Graves, Rehbein, and Waddock 2001; Logsdon and Van Buren III 2008a; Proffitt and Spicer 2006; Tkac 2006). Also, other work has looked at the historical development and catalysts of this avenue of shareholder engagement with their companies (Davis and Thompson 1994; Marens 2002; Thompson and Davis 1997; Van Buren III 2007; Vogel 1978, 1983).

The early days of shareholder activism (1940s and 1950s) were characterized by proposals of a few engaged individuals, often considered by commentators as “gadflies.” These early proposals related to issues such as general empowerment of shareholders (through more accessible annual meeting places and more company reporting), women’s rights and civil rights (Marens 2002). A particularly important result of early shareholder activism was the introduction of what is now Rule 14a-8 of the Securities and Exchange Act of 1934, which lays out the process and rules related to shareholder proposals (as discussed in section 1.1). While the effect of the early proposals on specific corporate activities was limited, these first shareholder activists were central in establishing legitimate avenues for shareholder voice; they were also instrumental in starting networks of concerned shareholders (Marens 2002). In the 1970s, these early networks and organizations (for example, the Federation of Women Shareholders) were soon followed by the establishment of additional groups such as the Council on Economic Priorities, the Corporate Information Center, and the Interfaith Center on Corporate Responsibility (ICCR), which were important players in the beginning of an overall social movement (Marens 2002; Van Buren III 2007).
Already in these early days of shareholder activism (1940s and 1950s) one can observe the emergence of a division in views about what corporate social responsibility encompasses, what role corporations should play in the pursuit of social goals, and which arguments and avenues are appropriate for pursuing those goals. For example, Wilma Soss, who sought female representation on corporate boards, invoked an enlightened self-interest argument as justification for her shareholder proposal, and emphasized the benefits to research and development from having women on the board (Marens 2002). Similarly, the Medical Committee on Human Rights, which had proposed that Dow Chemical stop the sale of napalm, had supported its request by referring to recruiting problems Dow was having as a result of continuing napalm sales (*Medical Committee for Human Rights v. SEC*, 432 F.2d 659).

The fundamental reasons for engaging the corporation differed as well. Some activists, such as Luis Gilbert and Wilma Soss, saw the engagement with a corporation as an extension of their responsibilities as owners of the corporation (Marens 2002). Others, such as James Peck or the Medical Committee on Human Rights, only bought or held shares to advance causes (labor rights, civil rights, pacifism) that were rooted outside the corporation. In these instances, the actions of corporations could be used instrumentally to advance these broader social goals (Marens 2002; Vogel 1978).

This duality in views of corporate responsibility continues to this day. One view of CSR is that many activities in the realm of corporate responsibility are merely good management and will help the corporation achieve better economic results (e.g., women on boards result in better R&D). The other view is that corporations, due to their immense power and special status in society, also have a special obligation to be a source for social change and good, even if it has no or negative effects on the bottom line (e.g., withdrawal from South Africa might be bad for business, but it would be the right thing to do).

Following a phase of shareholder activism “establishment” in the 1940s, the number of shareholder proposals and issues pursued grew steadily. Starting out at a few dozen per year in the initial years after the introduction of Rule 14a-8 in 1942, by 1951 seventy-two proposals were submitted on average per year (Marens 2002). The majority of proposals in the 1950s and 1960s was submitted by a small “founders” group of activists and usually was not focused on corporate social responsibility issues. This was due to the SEC’s narrow interpretation of when proposals are related to ordinary business activity and thus can be excluded from the proxy materials.

The beginning of social issues shareholder activism can be seen more clearly after 1970 (see sidebar 1 on the landmark court decision) when the SEC relaxed the interpretation of the proposal rules. Particularly “Campaign GM” (see sidebar 2) in 1970–71 is considered by many to be the starting point of the CSR-related shareholder movement (Proffitt et al. 2006; Vogel 1983). In the appendix, figure 1 shows the average number of social issue proposals starting from 1973 to 2003, and figure 2 shows the number of proposals filed for each year starting with 2003 and including a preview for the 2009 proxy season.

The diversity of issues addressed in the resolutions has been large, and distinct patterns and issue shifts can be identified over the years (Graves et al. 2001; Proffitt et al. 2006; Tkac 2006). Table 2 gives examples of proposals grouped by topics. From 1949 until the mid-1980s, the most common proposals centered on international operations and the environment. Specifically, the engagement in South Africa dominated the international issues proposals between 1964 and 1995 (Proffitt et al. 2006). While on average, issues associated with international operations remained an important category of social issue proposals over the years (with a spike of activity between the mid-1980s and mid-1990s), other issues, such as the environment, health, and employment began to draw increasing attention as well.

In the more recent period of shareholder engagement (1988–1998), interesting patterns are visible as well (Graves et al. 2001). Some issues, such as animal rights, military contracting, and engagement in South Africa declined in importance, while resolutions concerning tobacco, labor, corporate political activity, and governance (including compensation) became more frequent toward the end of the 1990s.
The year 1970 marked another important year in the influence of shareholder activity on CSR. The Project for Corporate Responsibility, a group of young lawyers, submitted nine social issue proposals to GM for inclusion on their annual proxy. Of these nine proposals two were successfully put up for a vote at the annual meeting. The first proposal demanded that GM expand its board of directors to include individuals from currently not represented constituencies (a woman, an African-American, and an environmentalist). The second proposal aimed at institutionalizing commitment to corporate responsibility at GM by asking GM to create a “Committee for Corporate Responsibility”, the members of which were to be chosen jointly by a representative from the board, PCR and the United Auto Workers.

The choice of GM as a target for the PCR’s campaign was due in large part to its enormous power position in society, because it was a symbol of corporate America, and – as some argued – because it represented the problems that arose when corporations did not adequately consider the various stakeholders affected by its actions. Campaign GM thus reflected the larger social movement that was maturing at that time and questioned the legitimacy of the growing accumulation of power in large corporations and the responsibilities that came with it: “General Motors from many points of view can be regarded as a political or quasi-governmental institution. […] the decision(s) of General Motors represent decision of vast implications for the countries, communities and individuals involved.” (Blumberg, 1971, pg.1564 in Vogel, 1978)

One of the goals of campaign GM was to open up a public debate about what the division of responsibilities and the role of corporations in society should look like going forward by appealing “to the company’s shareholders in their role as citizens. […] The public ownership of stock thus appeared to provide a vehicle through which the ‘public’ could participate in corporate decision making without directly increasing the authority of the government over business.” (Vogel, 1978, pg. 76-77) Campaign GM received enormous public attention: 130 reporters attended the annual meeting, the proposals were endorsed by several members of congress, and GM was running a PR campaign about its CSR records and achievements in 150 news outlets. This heightened public attention was an important catalyst of a much broader debate in society that would span the next decade or two and would work toward a common view of the responsibilities of corporations.

Even though the results of the vote on the two proposals were sobering (2.73 and 2.44 percent of shares voted), the campaign also marked a shift in how corporations responded and dealt with shareholder activism. In the beginning GM’s stance was highly confrontational and defensive. With enormous PR and outreach efforts GM managed to convince shareholders that the proposals submitted by PCR did not have sufficient merit. However, GM nevertheless implemented some of the proposed suggestions. For example, it created a public policy committee consisting of members of the GM board and, more significantly, took on Reverend Leon Sullivan, an African American with strong ties to the black community, onto its board.

(Source: Vogel, 1978)
The interest in issues of human rights, diversity, and energy/environment was persistent over the years (though with ups and downs in some years).

The aim of proposals in the beginning of the current century is continuing some of trends from the previous period. The most common proposal issues in the period from 2003–2005, for example, were corporate political contributions, equal employment, climate change (and reporting on environmental efforts), global labor standards, and sustainability. Given the increased attention to the threat of global warming, it is not surprising that proposals concerned with climate change were the most prominent in the 2009 proxy season, as they have been for the past couple of years (Mathiasen and Welsh 2009). Also reflected in other increasingly popular proposal categories is the public’s concern with healthcare and political contributions by corporations—both issues dominated the public discourse leading up to the 2008 presidential election.

The shifts in dominant topics over the years can be explained by a number of influences. The legal and political environment has played an enabling role to a certain group of proposals. For example, changes in proxy rules and SEC rulings (e.g., regarding employment practices) gave shareholders more discretion and thus more avenues for activism on some social issues (Graves et al. 2001). Overall, however, the trends in shareholder activism follow the general social movement as activists mobilize around specific campaigns, and different activist groups enter the movement. Proffitt and Spicer (2006, 167) observe that “the annual cycle of proposal generation and voting builds slowly. […] As issues become legitimized and articulated through repeated introduction of proposals on a similar theme, the more likely it is that subsequent proposals will prove successful.” Those issues where consensus, or a solution prove to be problematic remain on the activism agenda for a prolonged period of time with fluctuating levels of interest (for example, issues related to diversity and the environment) (Graves et al. 2001).

Several writers have noted the important role religious organizations play in the development of social movements. These organizations, in particular the Interfaith Center on Corporate Responsibility (ICCR), discussed in sidebar 3, spearhead a movement around an issue and then develop coalitions of other groups as the movement matures (institutional investors, particularly public pension funds, are usually an important partner to add power and clout to a developing movement) (Guay, Doh, and Sinclair 2004; Proffitt et al. 2006).

In addition to changes in the subject matter of proposals, one can also observe changes in the type of request made by shareholder activists. In the beginning of shareholder activism, requests were quite specific, such as demanding the diversification of a board or addressing a corporation’s action in a specific country. Increasingly, proposals are focusing on overall accountability, for example, by requiring general codes of conduct for international operations, reports on corporate social performance, or endorsement of common principles of conduct, such as the Valdez, McBride, or Sullivan principles (Proffitt et al. 2006). The focus on increased reporting and principle endorsement still dominated in the 2009 proxy season. A majority of proposals request reports on sustainability or corporate political activity or the endorsement of general social principles, such as the availability of healthcare (Mathiasen et al. 2009).

This increased focus on general principles and codes of conduct mirrors the overall maturing of the CSR concept over the years. While the academic debate about the fundamental role of corporations in society is not yet settled, there is an increasing consensus about what the public expects from corporate conduct. In line with a general institutionalization of CSR and increasing consensus about its content, corporations have also contributed to the development of other voluntary initiatives, such as the Global Reporting Initiative and the UN Global Compact.

The proactive nature of corporate responses to shareholder action in CSR indicates that the approach to social shareholder activism has been changing over the years. The following section examines shareholder activism from the corporations’ perspective.
The Interfaith Council on Corporate Responsibility (ICCR) has played a pivotal role in the development of shareholder activism and the development of CSR. ICCR currently consists of 275 faith-based institutional investors (e.g. national denominations, religious communities, pension funds, etc.) and sponsors over 200 socially oriented shareholder resolutions each year.

Laura Berry, executive director of ICCR, expressed the organization’s approach to shareholder activism as “working to bridge the divide between morality and markets” (Baue & Rheannon, 2008). This interest in considering both moral and economic aspects in the context of investing emerged at the time of increased attention to apartheid in South Africa. In 1971 the Episcopal Church and six other Protestant denominations started evaluating their investment portfolios to see if any holdings supported the regime in South Africa and if any holdings could provide avenues to bring companies to change their activities in that country. Driven by the “prophetic voice of faith” (Baue et al., 2008), ICCR members incorporate social justice and sustainability issues as central elements in investing.

For ICCR “bridging” between morality and the market takes on several forms. For example, ICCR sponsors shareholder resolutions, engages in dialogue with managers, builds networks with other likeminded organizations and participates in public hearings and other community campaigns (ICCR, 2009). Particularly the networking function and the interaction with the general public have played an important role in the development of the overall shareholder activism movement (Marens, 2002; Van Buren III, 2007). These engagement strategies serve to raise the profile of certain topics through increased media attention and facilitate awareness that some issues might become more relevant in the near future.

ICCR has also played an important role in facilitating a shift in corporate responses to shareholder activism from resistance to a more productive dialogue: “As new generations of leadership start to rise up in the corporate context, we’re starting to see that people recognize how our members and investors are providing arbitrage opportunities: looking at markets differently and allowing them an opportunity to take advantage of market differentials.” (Baue et al., 2008) This signaling of emerging issues in CSR can be seen in the working groups around topics the ICCR is currently pursuing. Global warming, healthcare and access to capital (in particular predatory lending) have been pursued since the 1970s, well before these issues became more mainstream among the general public (ICCR, 2006):

“ICCR investors filed the first resolutions on global warming back in the early 1990s, in the day when major policy wonks still weren’t absolutely convinced that climate change was happening. We’ve been filing resolutions for well over ten years on predatory lending, addressing issues that could evolve from subprime lending or from the monetization of huge irresponsible risk.” (Baue et al., 2008)

The ICCR is a good example of the role non-governmental organizations (NGOs) play in the development of the CSR movement. The “bridging” metaphor used by the executive director to describe ICCR’s mission is quite fitting. ICCR and other groups that emerged in the past decades (e.g. the ECCR – a UK equivalent of the ICCR) have been giving voice to groups of concerned investors and distilling that concern into interactions with corporations. As mentioned above, corporations can thus receive early indications of shifts in the public’s expectations of CSR. At the same time NGOs disseminate information about successful or problematic engagement activities to the organizations’ members and the general public, thus gradually shaping and transforming their perspectives as well. The Amoco case described below is a good example of how a shareholder campaign has contributed to changes in the approach and strategy of an activist organization. In essence, by building a bridge between “morality and markets”, NGOs such as the ICCR have opened up a two-way street and dialogue among corporations and society.
Changing activist tactics and corporate responses to activism: From gadflies to stakeholder dialogue and networking

The beginnings of shareholder activism were marked by corporations’ clear hostility toward activists. One of the pioneers of shareholder activism, Lewis Gilbert, was reportedly treated “like a tramp” when he spoke out at an annual meeting in 1933 (Marens 2002). In the 1940s and 1950s, corporate responses were still marked by inexperience and, to some extent, surprise by the type of demands from activists and the public response to such campaigns (Vogel 1978). This occurred particularly after years in which the legitimacy and role of corporations in society were generally accepted and settled. For example, Dow Chemical and GM strongly resisted the idea that shareholders could influence fundamental aspects of its business, such as the sale of certain products or the composition of its board, and they went to great lengths (lawsuits, intense PR campaigns, and lobbying) to prevent it (Vogel 1978).

As corporations began to see more social issue proposals over the years, the responses to activist demands and the tactics of activist efforts began to change as well (see Amoco case study, sidebar 4). The responses of corporations to shareholder proposals (or communication with the company about an impending filing of a resolutions) fall generally in four categories: 1) petition to the SEC for exclusion of proposal, 2) acceptance of demands before the annual meeting and subsequent withdrawal of the proposal, 3) establishment of dialogue between activist and corporation, and 4) putting the proposal to a vote at the shareholder meeting (Logsdon et al. 2008a; Logsdon and Van Buren III 2008b). According to IRRC data, from 1992 to 2002, 52 percent of proposals came to a vote, 17 percent were excluded from the proxy after permission by the SEC, and the remainder were withdrawn (Tkac 2006). From the perspectives of the activist, interaction with a company on a social issue that ends either in the withdrawal of the proposal or the continuation of an ongoing dialogue is considered a success (Tkac 2006).

However, even when a proposal receives a minority of votes, substantial success can result. While the early years of shareholder activism were marked by very low vote outcomes (for example, the resolutions in Campaign GM received approval by less than 3 percent of the voting shares in 1970 and 1971) (Vogel 1978), the average votes received on proposals since the beginning of the twenty-first century is consistently over 10 percent (Social Investment Forum 2006a). In 2008, the average vote for all submitted proposals was higher at 14.5 percent with a third of the proposals receiving over 20 percent support (RiskMetrics Group 2008). The increasing support of social issues by shareholders can be seen as an indication of two trends in CSR as a whole. On one hand, institutional investors increasingly consider corporate social performance an important condition for financial performance (CSR Europe 2001; Pearce and Ganzi 2002), which shows an increasingly strategic framing of the CSR movement. On the other hand, higher approval of social proposals might indicate a growing consensus about the scope of CSR as the CSR movement matures and the activists focus on this emerging set of legitimate issues.

In addition to achieving more success with shareholder proposals, shareholder activists are also increasingly entering into active dialogue and deeper relationships with corporations as a preferred way to achieve long-term social goals. This is evidenced by the relatively large proportion of proposal withdrawals in the period from 1999 to 2005 (Logsdon and Van Buren III 2008; Van Buren III 2007). Even though data indicates that the responses by managers to social issue proposals might in fact be rather symbolic and not followed with substantial change within the corporation (David, Bloom, and Hillman 2007), 79 percent of withdrawn resolutions were followed by a concrete outcome (Tkac 2006). Logsdon and VanBuren (2008) indicate that the dialogue between corporations and activists is an incremental process that requires mutual understanding of the interests and needs of both parties. The fruitfulness of persistence is visible in several cases where changes to corporate behavior resulted after a prolonged period of interaction (Tkac 2006).
In the early 1990s Amoco was the target of a series of environmental shareholder proposals that were asking Amoco to sign the Valdez principles (a set of principles for environmentally responsible corporate conduct) developed by the Coalition for Environmentally Responsible Economies (CERES). While Amoco was not the only company to be targeted with proposals regarding the Valdez principles (other companies included for example Exxon, Mobil, Dow Chemical), the way Amoco responded to the proposals and how the relationship between CERES and Amoco developed over time is an interesting case study in the changing corporate approach to shareholder activism.

Initially the reaction by Amoco was similar to the hostile reactions of companies in the early days of shareholder activism. The Valdez principles were considered an “undesirable and unwarranted intrusion into corporate affairs” by an external group that has developed principles outside of the corporate sphere (Hoffman, 1996, pg.14) and were even seen as a legal threat. Despite this resistance, the proposal achieved 8.6% approval at the annual meeting and thus would be eligible for reconsideration at the two next annual meetings.

Interestingly, despite public opposition to the principles, Amoco began to shift its own environmental policies from a compliance to a proactive approach, which was more in line with the Valdez principles than Amoco would admit. Rather, Amoco justified the internal changes with reference to efforts that had been under way for some time and based on studies of competitor policies. In addition to these internal policy adjustments, Amoco agreed to meet with CERES and Friend of the Earth, who were sponsoring the proposals for the upcoming annual meeting, to begin dialogue about the aims of the proposals. As a result of the meeting and agreement by Amoco to continue meeting with CERES and offer accounting of their environmental activities, the proposals were withdrawn. Thus, “in dealing directly with this external source of the pressure, Amoco had opted for strategies that involved either avoidance or neutralization of CERES’s efforts.” (Hoffman, 1996, pg. 15)

This strategy evolved further and Amoco joined with IBM and subsequently additional companies (e.g. AT&T, Dow) to develop an alternative set of principles for environmental disclosure with the help of CERES. Amoco recognized that increased environmental reporting was a necessity in order to maintain a business advantage in the marketplace. The collaboration with CERES on the reporting principles was problematic and did not last. Ultimately in 1993 Amoco was facing another shareholder proposal demanding to endorse the Valdez principles. This time, however, Amoco was successful in getting the SEC’s approval to exclude the proposal from the proxy because it argued that it had essentially implemented the principles already with its previous changes to company policy. Hoffman notes: “Amoco ultimately decided to respond to investor pressure by establishing both internal structural changes and an external program to gain broad acceptance of its own initiatives. […] It responded to investor activism with corporate activism.” (Hoffman, 1996, pg. 26)

Amoco’s strategy had important effects on CERES as well. The name and language of the principles evolved to become “softer” (for example, the demand that companies minimize environmental risks was modified to demand companies to strive to minimize those risks). Furthermore, the reference to the Exxon Valdez disaster was removed and the principles renamed to be the CERES principles. Lastly, the principles were no longer to be signed but rather endorsed. Critics of these changes saw these adjustments as “giving in” to industry. CERES however understood change to be a reflection of an increased understanding of the industry perspective and an opportunity to develop common ground for collaboration without necessarily compromising its status as the challenging opposition.

It is interesting to note the convergence of business and environmental interest in the case of CERES/Amoco and the environmental movement as a whole. While some might consider the emergence of industry-developed programs (e.g. ISO 14000) a defeat for organizations such as CERES, others might see this development as a positive indicator of businesses becoming more aware of and responsive to the overall CSR movement. The Amoco case is also an example of increasingly strategic approaches to CSR during that time period. By anticipating policy discussions and changes indicated by the activist movement, corporations can prepare for changes or regulatory demands and at the same time transform the challenge to business legitimacy into a competitive advantage: “The alignment of environmental standards and the competitive strategy of [Amoco’s] product line continues today as environmental attributes begin to merge with quality considerations in the consumer’s eye” (Hoffman, 1996, pg. 32)
Some corporations are leveraging the relationships with shareholder activists and drawing on their expertise in efforts to develop new social policies or improve responses to emerging social issues (Van Buren III 2007). This development has been enabled by an increase in activist expertise and development of networks that increase the power of the activist movement (Davis et al. 1994; Thompson et al. 1997). Data indicates that being the target of shareholder activism might even improve a company’s stock price as the market recognizes the value of certain proposals to improve the long-term value to shareholders through attention to emerging social issues (Barber 2007). The Amoco case (sidebar 4) shows an example of this emerging strategic approach to activism. After an initial confrontational stance toward activist demands, Amoco responded with its own corporate activism and managed to transform the initial conflict into a competitive opportunity.

Summary
Shareholder activism has a long history in corporate America, beginning with an initial struggle to secure more shareholder rights and voice, and continuing to the present day with an emphasis on a range of critical social and environmental issues. As the discussion above indicated, shareholder activism has been playing an important role in the development of the CSR movement throughout the years. This influence has taken several forms. One critical component has been the emergence of organizations that have allowed concerned individuals to channel concerns and expectations about the responsible conduct of corporations. Other critical developments have been the shift in legislation as well as the judicial interpretation of regulations. This shift allowed a broader array of CSR issues to be brought directly to the attention of corporations through the annual proxy process, which in turn increased the awareness of the public of the relevance of responsible corporate conduct. Together with increased public support for CSR issues came a shift in the way corporations responded to shareholder activism. By acknowledging that social issues have become legitimately intertwined with business issues, corporations furthered the legitimacy of the CSR movement as a whole and have also started to embrace the movement as a strategic opportunity rather than a threat.

Socially responsible investing: Exit and entrance instead of voice

Prevalence and strategies of socially responsible investing
Around the same time shareholder activism was gaining momentum, another strategy to engage corporations on issues of shareholder interest began to take hold among the investing public (Sparkes 1998). Instead of directly approaching management to affect social change, some investors began to assemble their portfolios on the basis of social criteria in addition to traditional financial criteria (Sparkes et al. 2004). This investment approach is called socially responsible investing, or SRI.5

According to a recent study by the Social Investment Forum (2008), roughly 11 percent of U.S. managed assets ($2.71 trillion) were invested in SRI products in 2007. This constitutes an 18 percent increase from the $2.29 trillion of assets that were categorized as SRI just two years earlier, and an almost 23-fold increase from $12 billion SRI assets just over a decade ago (Social Investment Forum 2006a). Given that the market now offers over 260 funds that apply social or environmental criteria to the selection of their
holdings (Social Investment Forum 2008), one can argue that SRI has moved into what Dunfee (2003) called the “mainstream.” Because the 2008 Social Investment Forum study considered only investments that are professionally managed, we can assume that at least a fraction of other investors who manage their own portfolios might also apply social criteria in their investment selection, so that the overall portion of SRI assets probably exceeds 11 percent. A recent sampling of 365 individual investors indicated that approximately one out of every four investors engages in SRI (defined as consideration of social criteria in addition to financial criteria in the selection of investments) to some extent (Glac 2008).

The two main ways that investors use non-financial criteria in their portfolio selection are negative and positive “screening” (Domini 1994). Negative screening requires that investors apply social criteria to avoid certain companies, perhaps because they produce an undesirable product (e.g., tobacco), or because they conduct business in a way that is objectionable (e.g., pollute the environment). Concrete examples of such criteria might be “avoid all companies that produce x,” or “avoid all companies that prevent unionization.” In contrast, positive screening applies criteria that help to select companies that already do well by providing socially beneficial products or by conducting business in a responsible way. Examples might be “select all companies that produce solar power products,” or “select all companies that offer child care facilities.”

The two approaches to screening are often used together, but the negative, or “exit,” approach is more common because investors are trying to at least avoid condoning, supporting, or benefiting from socially detrimental business and business practices (Anand et al. 1992; Cullis et al. 1992; Domini 1994; Lewis 2001; Lewis et al. 2000a; Social Investment Forum 2006; Rosen et al. 1991). More specifically, in a study of 1,146 ethical investors in the UK, Lewis and Mackenzie (2000b) found that 93.5 percent of investors want to avoid companies that do harm, 91.7 percent want to support “good” companies, and 87 percent want to “remain ethically clean” (Lewis et al. 2000b, 220).

Because companies also normally do not know why a given shareholder selects or avoids their stock, and which of the many corporate characteristics the investor wishes to support or “punish” (Angel and Rivoli 1997; Lewis et al. 2000b; Sparkes 1998), SRI is considered to be a much more indirect (and some say less effective) way to communicate social views to the marketplace. However, many SRI funds that apply positive and negative screens also practice shareholder activism or advocacy to supplement the pursuit of their investment strategy.

From religious roots to social index investing: The changing notion of a “good company” and a “good investment”

SRI has deep religious roots. Its historic origins go back many centuries to biblical times when Jewish law mentioned different criteria on how to invest ethically (Schueth 2003). In the eighteenth century, John Wesley, an English cleric, was preaching about the “right” use of money and argued that employing it in a way that would cause harm to others was sinful (Sparkes 2002). The idea of using money in accordance with one’s religious or spiritual beliefs found its expression again as investing became more clearly associated with purchasing shares in corporations. As table 1 indicates, the Quakers and Methodists were among the first organized groups in the United States to avoid investing in companies engaged in war efforts or slavery because such practices contradicted their fundamental beliefs about peace and nonviolence (Schueth 2003). Due to the close connection to the investment strategies of mostly religious organizations, SRI remained a somewhat marginal phenomenon in its early years (1920s–1950s) and had only a loose connection to CSR as we understand it today. The avoidance of certain companies was more a rejection of whole lines of business that were at odds with personal beliefs than an expression
of views about how corporations should be managed in a socially responsible manner. In other words, SRI was more about ensuring a “good use” of money in accordance with a belief system than pursuing a specific idea of the “good corporation.”

The original theme of ensuring a “good use” of money was clearly apparent when the SRI movement started to become a concern for individual investors as well. In 1928, temperance groups introduced the first mutual fund that could be considered socially responsible because it avoided companies involved in alcohol or tobacco (Sparkes 2002). As SRI was gaining momentum during the 1960s, the focus on avoiding a whole line of business was still dominant. Increasing number of investors were expressing concerns about the Vietnam War and the Cold War by avoiding corporations involved in war and war support. However, the withdrawal of capital from corporations that supported the war effort was becoming more active and focused on achieving social change than the early forms of SRI had been. Public messages—in the form of protests—against the war were accompanying and supporting the financial messages of investors.

When more diverse issues like civil rights, labor, and gender equality started to find expression in investment strategies toward the end of the 1960s (see sidebar 2 on Campaign GM as an example of civil and labor rights concerns), the link between SRI and CSR started to emerge more clearly: rather than rejecting a company on the basis of the product it produced or the industry it was in, investors were expressing their expectations about how a company should conduct its business. As the predominant focus of SRI became the opposition to the apartheid regime in South Africa, from the end of the 1970s through the 1980s (Schueth 2003), investors continued to express their expectations about responsible corporate conduct. Instead of rejecting what a company produced, the emphasis was on where a company produced and/or how it conducted its business.7 Despite this shift in investment strategy toward expressing views about responsible corporate conduct, the aim of the SRI movement was still strongly focused on achieving very specific social change, for example, ending the war, discrimination, and apartheid.

As some of the social problems that were initially at the core of SRI began to improve, other social issues were emerging on the SRI agenda. Sparkes (2002) identifies environmental concerns, fair trade, and fear of globalization as the drivers that continued to push the SRI movement into the mainstream. An empirical survey of investor concerns confirms that corporate scandals, environmental degradation, and increased globalization may have contributed several items to SRI’s agenda, including environmental protection, governance issues, labor conditions, and human rights protection in host countries to the SRI agenda (Anand et al. 1992). With this increasing diversity of social issues reflected in SRI, the link between SRI and CSR was growing stronger throughout the 1980s and 1990s. While social change was still a concern of SRI investors, the SRI movement became less focused on how corporations could be instrumental for achieving very specific goals and more focused on how corporate conduct could be changed to improve a corporation’s contribution to society. In other words, the diversity of criteria used by SRI investors to select investments increasingly reflected a more comprehensive idea of what socially responsible corporations should look like.

However, as more investors started to explore the idea of considering social criteria in their investment selection, the diversity of expectations about the scope of responsible conduct and of views about the purpose of SRI started to increase as well. Anand and Cowton (1992) analyzed the different exclusion criteria that 125 EIRIS8 users indicated in an Acceptable List Questionnaire (which EIRIS uses to assemble a list of companies that match the investor’s criteria) and extracted five overall patterns that were underlying investors’ preferred investment restrictions. The first dimension reflects what the authors call a “post-industrial orientation” (Anand et al. 1992, 380) and includes rejected corporate activities such as the production of nuclear power and military equipment, and political contributions. The second dimension focuses on typical sin stocks such as gambling, tobacco, and alcohol, which are often excluded
Examples of the different types of modern SRI mutual funds

The social investment forum, a resource for investors interested in SRI, currently tracks over 260 funds (Social Investment Forum, 2006b) and offers information online for over 100 SRI mutual funds (www.socialinvest.org). Reflecting the "good" use of money origins of SRI, the majority of funds listed on the social investment forum site use a set of negative screens to avoid investments in companies considered to be undesirable. The most common negative screen is tobacco, followed by alcohol, defense/weapons, and gambling. In addition to negative screens and investing restrictions, most funds also use a set of positive screens focused on corporate conduct in the areas of environment (the most common positive screen), human rights, labor relations, and employment/equality. These positive screens are a close reflection of the dimensions of responsible conduct that investors and non-investing individuals expect from corporations (Backhaus, et al., 2002; Glac, 2008; Domini Social Investment, 2009).

While the positive and negative screens are basic descriptors of a fund’s approach to SRI, they are also very similar among many funds. Usually funds explain their social focus in more detail in prospectuses and marketing materials. Below is a description of the investment strategy of TIAA-CREF Social choice fund, one of the larger US SRI funds. The TIAA-CREF Social choice fund is a typical example of a “CSR oriented” fund as its investment philosophy clearly reflects several dimensions of CSR:

“Using specific environmental, social and governance criteria, the evaluation process seeks out companies that are: strong stewards of the environment; devoted to serving local communities and society in general; committed to high labor standards; dedicated to producing high-quality, safe products; and managed in an ethical manner. A company’s involvement in the alcohol, tobacco, gambling, firearms, military and nuclear power industries is also reviewed and integrated into the process. Because of the negative social and environmental consequences of these products and services, companies with substantial involvement are unlikely to be included in the fund.” (TIAA-CREF, 2009)

In addition to “CSR oriented” funds, two other types of funds are available to investors. One type focuses explicitly on the religious or social values of investors and tries to select investments that align with or do not violate these values. This type of fund reflects the origins of SRI most clearly. The Ave Maria group of funds is a typical example of this “values-based” investment strategy:

“The fund practices morally responsible investing. This process is designed to avoid investments in companies believed to offer products or services or engage in practices that are contrary to core values and teachings of the Roman Catholic Church. The Catholic Advisory Board sets the criteria for screening out companies based on religious principles. In making this determination, the Catholic Advisory Board’s members are guided by the magisterium of the Roman Catholic Church and actively seek the advice and counsel of Catholic clergy. This process would, in general, encompass two major categories of companies: first, those involved in the practice of abortion, and second, companies whose policies are judged to be anti-family, such as companies that distribute pornographic material or whose policies undermine the Sacrament of Marriage.” (Ave Maria Mutual Funds, 2009, pg. 4)

The third type of SRI fund emphasizes the achievement or support of a specific social goal, such as for example renewable energy, clean water, or gender equality. Often, these specific goals are added to other CSR-related selection criteria. The Pax World Women’s Equity fund is one example of a “goal oriented” fund:

“In selecting investments, the Women’s Equity Fund seeks companies that, in addition to meeting Pax World’s other sustainability or ESG criteria, promote gender equity and women’s advancement through internal policies and programs, transparency regarding the effectiveness of those policies and programs, and accountability among employees to assure implementation and observance of the same. The Women’s Equity Fund may invest in securities of companies with any market capitalization.” (Pax World, 2009)
in ethical funds. They labeled the third factor the “mistrust” factor because it included items that are associated with large multinational company power. Closely associated with the mistrust factor is the fourth factor, labeled “undue influence,” which reflects the concerns about monopolistic power in combination with avoidance of the news media industries. The last factor combined two categories of avoidance that were generally ranked very highly among subjects: sales to military purchasers and involvement in South Africa, which the authors took to represent a “human rights/pacifist dimension” (Anand et al. 1992, 381).

To capture the widening popularity of SRI and an increasingly diverse SRI customer base, many financial institutions in the marketplace started to offer products that considered the multiplicity of social issues that interested investors. Since 1971, when the first SRI fund was established (see table 1), more than 260 additional SRI funds have been created to meet the diverse investor interests and needs (Social Investment Forum 2006b). There have also been many popular publications aimed at the mainstream investor to provide guidance on how to engage in SRI. See, for example, Amy Domini’s updated popular book *Socially Responsible Investing: Making a Difference and Making Money*.

Interestingly, many SRI investment products (mostly mutual funds) still reflect the origins of the movement in that they exclude companies from certain “undesirable” industries, such as military, tobacco, gambling, and alcohol. They also apply criteria related to responsible corporate conduct (see sidebar 5 on the different types of modern SRI funds). Some funds even specialize in reflecting specific religious beliefs. For example, the Ave Maria Mutual Funds offer investment in accordance with Catholic values; the Amana Mutual Funds offer investment in accordance with Islamic principles. This connection of SRI to the initial idea of a “good use” of money is also evident in some of the earlier literature providing guidance to investors interested in SRI, which often begins with an assessment of the investor’s personal values that are then translated into concrete stock selection criteria (for example, Brill, Brill, and Feigenbaum 1999).

Even though there is significant overlap between the screening approaches of the retail SRI funds that do not cater to specific beliefs or pursue specific social goals, the sheer number and diversity of available funds indicates that there is not yet a significant convergence in views about what socially responsible conduct requires of corporations. In other words, the five SRI patterns that Anand and Cowton (1992) indentified more than fifteen years ago have not been fully consolidated. Recent empirical work confirms that at least two distinct ideas of CSR coexist (Glac 2008). Some investors hold expectations of corporate conduct that focus more strongly on avoidance of harmful behaviors. For example, investors believe that corporations should protect the environment, and that they should not outsource to countries with human rights violations. Other investors hold CSR expectations that are more “activist,” and they see corporations as agents of social change. For example, some investors believe that corporations should actively assist minorities, improve the quality of life of their employees, and withdraw entirely from business lines that produce harmful products such as tobacco.

Despite differences in expectations about CSR that currently exist, a relatively new development, ethical stock indices, could indicate that views about CSR might be converging again. FTSE and KLD, for instance, have developed indices that track the performance of a selected group of companies that meet a set of social criteria (FTSE 2007; KLD 2009a). These indices are an interesting advance in the SRI field since they facilitate engagement in SRI for both companies and investors. Companies can use the indices as a guideline and reference about the expectations of the marketplace with regard to CSR; they can also use them as a benchmark for their own social performance (FTSE 2007). Investors, on the other hand, can use the indices to identify companies that meet certain CSR standards. Then they can invest in such companies, or they can invest directly in funds that license the various indices (FTSE 2007; KLD 2009a). As social indices bring the discussion about what constitutes CSR into the foreground, essentially providing a CSR benchmark, we may see a consolidation of the currently divergent approaches to CSR applied by individual social funds, as well as a unification of the public’s expectations about CSR.
In summary, during its relatively short history, SRI has undergone an interesting transformation that has brought it closer to the CSR movement. Until the 1960s, SRI was mainly an attempt by investors to extend their personal religious and spiritual values into their investment activities. As more social issues were included in the selection criteria of SRI investors, the goal of SRI changed to increasingly support the socially responsible conduct of corporations rather than to pursue solely a narrow set of social goals. While the views about what constitutes responsible conduct might gradually converge among investors whose primary goal is to improve corporate conduct, differences in the reasons for engaging in SRI in the first place will probably remain. In other words, some investors will remain interested in SRI because it allows them to use their money in accordance with their faith, or because it helps speed along social transformation. Others will remain interested because SRI supports CSR in the marketplace. Thus it is unlikely that the diversity of SRI products will significantly decrease as investment products are developed to cater to investor needs.

The contribution of SRI to the CSR movement: Powerful tool or just an illusion?

The main literatures concerned with investing have traditionally been economics and finance. Thus it is not surprising that many treatises on SRI have come from authors whose intellectual home can be found in these disciplines. The economics and finance discussions regarding SRI not only provide a skeptical view of the practice of SRI in terms of its value to investors but also in terms of its contribution to the CSR movement.

The basic assumption in economics- and finance-based analyses of SRI is that the main goal of SRI investors, just like the goal of non-SRI investors, is income maximization. SRI investors then further supplement this goal to various degrees with additional non-financial goals (Mackey, Mackey, and Barney 2007). These supplemental goals focus on avoiding profiting from unethical or irresponsible corporate conduct, to reward or punish firms for their ethical or unethical conduct, and thus ultimately to have corporations become more socially responsible (Hudson 2005; Mackenzie et al. 1999). If these goals are achieved, then SRI could be considered an important contributor to the CSR movement because it provides concrete incentives for firms to review and revise their conduct. However, several scholars have argued that SRI investors are actually not able to achieve either the financial or the non-financial goals, and thus are only under the illusion that their choices incentivize responsible conduct in corporations. The arguments against the efficacy of SRI are threefold.

First, according to traditional portfolio theory, any decision based on non-economic factors implies lower returns or higher risk (Fama 1976; Hylton 1992; Langbein et al. 1980) as well as a lower level of diversification. This in turn lowers the level of unsystematic risk reduction (Brealy, Stewart, and Allen 2006). Therefore, investors will fail to achieve the financial goal of return maximization if they engage in SRI. However, several studies have looked at the performance of SRI and compared it to the performance of traditional investments in the market; they have failed to conclusively support this theoretical prediction.

Some studies have found that SRI might perform equally or actually better than regular investments. Mallin, Saadouni, and Briston (1995), for example, indicate that ethical funds tend to perform better than conventional funds on a risk-adjusted basis. Keeping the focus of the analysis to a more broadly defined stock “universe” rather than more specific funds, Guerard (1996) found no significant difference between the performance of screened and unscreened stock “universes.” Other studies, however, concluded that overall SRI funds underperformed the market and that the screening of investments based
on social criteria carries a cost, the extent of which is dependent on the investor's general approach to investing (Geczy, Stambaugh, and Levin 2005; Moskowitz 1992; Tippet 2001). Trying to make sense of the contradictory results, Diltz (1995), and later Barnett and Salomon (2006), suggest that, in general, ethical screens do not seem to affect portfolio performance, but that the number and type of screens used in the selection of fund portfolios influence performance. For example, screens focusing on the environment and charitable giving seem to improve performance while other screens like family benefits do not (Diltz 2005).

The second argument against the efficacy of SRI focuses on the way the capital market functions and transmits signals from investor behavior (Boatright 1999; Haigh and Hazelton 2004; Hudson 2005). For example, Hudson (2005) argues that a small shift (at least at the level SRI is currently practiced—around 10 percent) in demand away from some stocks and toward others does not lead to any change in the cost of capital for firms and thus would not have any rewarding or punishing effects. The simple act of selling unethical stock or buying ethical stock will not affect the share price of corporations as long as other buyers and sellers are in the market and are willing to buy or sell that stock. Since markets are usually perfectly elastic, there should be no long-term effects from SRI (Statman 2005), no signal to managers, and thus no incentive to change the corporation's behavior.

Hudson concedes that through the relative changes in the stock prices of ethical and unethical companies in situations, where the investor market is segmented, the weighted average cost of capital of the unethical corporation might rise and thus have the desired motivating or punishing effect (Angel et al. 1997; Heinkel, Kraus, and Zechner 2001; Rivoli 2003). Evidence exists that the stock price might indeed change due to SRI screening, particularly if mutual funds sell or buy blocks of shares, a behavior which has been associated with share price changes (Chan and Lakonishok 1993; Rivoli 2003). This, however, assumes that all selling and buying based on social criteria occurs in the same “direction” and relates to the same underlying behavior. Given the multiplicity of SRI objectives and investment strategies of existing SRI funds, it is less likely that a critical mass of assets will move to elicit the desired effect (Heinkel et al. 2001; Social Investment Forum 2006a). Thus, there seems to be no apparent financial mechanism that would punish or reward firms in a way that would lead to changes in behavior.

Schepers and Sethi (2003) present a third argument against the efficacy of SRI that focuses on the practical problems of applying social criteria to portfolio selection. They argue that the screening approaches used are often not precise enough to allow avoidance of certain undesirable corporate conduct, or they underestimate the complexity of interdependencies in the marketplace. One problem is that screens often focus too much on the outcomes of production and not on the impact of production or the production process, ignoring the multidimensional nature of social responsibility. For example, the military might provide security and other socially beneficial services as much as it might cause harm in war. Alternatively, a company might produce a beneficial product, such as organic food, but do so with exploitative labor practices or use of immigrant labor (Schepers et al. 2003). Also, the interconnectedness of the economy makes it difficult to separate ethical from unethical conduct in the production chain (Entine 2003). For example, a fund might refuse to invest in tobacco companies, but then invest in companies that market or transport the product.

Further, even assuming that socially responsible conduct could be identified, SRI funds apply social criteria in such an inconsistent way that a fund might reject one company but include another with essentially the same characteristics. Or a company might be a leader in a variety of different social responsibility dimensions, but might have deficiencies in a few others. Depending on the emphasis on SRI’s different dimensions, some funds might include this company while others will avoid it (Schepers et al. 2003).
In summary, various arguments have been advanced that question whether the goals that socially responsible investors pursue by applying non-financial criteria to their portfolio selection are being achieved under current market conditions, or if they are even achievable in theory. While research is inconclusive on whether SRI investors can pursue social goals without having to pay a financial price, there is significant doubt if and how SRI can have an effect on the conduct of corporations. This critique of SRI seems to indicate that for SRI to become a powerful ally of the CSR movement, several conditions have to be met.

First, more assets need to be invested in SRI than currently is the case. While some have argued that at least 25 percent of assets in SRI are required to have any significant effect (Heinkel et al. 2001), corporations seem to respond to SRI even at its current level of around 11 percent of all managed assets. However, which mechanisms are at the core of this response is not yet fully understood, and future research will have to explore the ways in which SRI “signals” expectations about CSR to corporations.

Second, SRI should become more unified in the vision of CSR that it pursues. This condition might be more easily achievable if interest in SRI indices becomes more widespread in the future. SRI indices might facilitate a convergence of views about a minimum set of commonly accepted CSR standards and could provide a better set of measures to determine company compliance with these standards.

Third, SRI strategies should more clearly reflect the multi-dimensionality of CSR instead of remaining overly tied to the “good use” of money origins of SRI. As discussed earlier, these roots of SRI have resulted in the widespread use of often simplistic avoidance screens (such as tobacco, alcohol, etc.), and might in fact complicate the pursuit of a coherent CSR vision.

Changes in the financial infrastructure that affect the shareholder-CSR relationship

In the years since the SRI movement started, several developments have shown the potential for affecting how, and how much, shareholders can influence the CSR movement. The developments that will be discussed here briefly are the establishment of databases tracking corporate social performance, efforts to standardize social reporting, and a change in institutional ownership toward universal ownership.

As critics of SRI have pointed out, for example, Schepers and Sethi (2003), one of the major challenges facing investors who would like to apply social criteria to their portfolio selection is the identification of companies that meet these criteria. Two main problems in selecting companies include the operationalization of overarching social goals into specific measures and the actual data collection. One facilitator for meeting these challenges has been the KLD database (established in 1988). It not only offers a comprehensive set of thoroughly developed criteria to evaluate the social responsibility of over 4,000 corporations, but also provides interested parties with up-to-date information about the performance of corporations on these criteria. Many SRI retail funds use the KLD database to inform their investment selection process. Due to the widespread use of the KLD social performance criteria by the SRI community (KLD 2009b), the KLD database can contribute to a consolidation of views about the components and indicators of CSR. This in turn would help the SRI movement to be more supportive of the CSR movement by aligning the actions and buying power of an increasing number of investors toward similar ends.

The second major facilitator for the SRI movement is a push toward a standardization of corporate social reporting, most notably advanced by the Global Reporting Initiative. Databases, proxy advisory services, and funds currently use a variety of data to evaluate firm social performance. Some (e.g., SAM group) draw on data collected through proprietary questionnaires that companies complete; others (e.g., KLD) draw on a combination of data sources such as company filings, government data, and media information, as well as expert opinion. The lack of standardized data on corporate social performance can be a
significant barrier to increasing SRI; research has indicated that one of the key reasons individuals who express a desire to purchase products in accordance with their social values do not follow through is the lack of reliable information about the social characteristics of the available products (Auger et al. 2003; Carrigan et al. 2001; Glac 2008; Roberts, 1996; Uusitalo et al., 2004).

To remedy the lack of reliable information, the Global Reporting Initiative has been actively advancing the standardization of corporate reporting on economic, environmental, and social aspects of a company’s performance by developing a reporting framework with specific principles and indicators for performance measurement (GRI 2009a) (see table 3 for an example of the performance indicators for the labor practices and decent work category). Since GRI began tracking reports that complied with the reporting principles in 1999, the number of corporations that have adopted the principles has risen from ten to more than one thousand in 2008 (GRI 2009b). In addition to company-initiated adoption of the reporting principles, shareholders have been submitting proposals asking for sustainability reporting as well (Risk Metrics Group 2008).

As with the increased use of databases evaluating and tracking corporate social performance, the standardization of social reporting might help consolidate approaches to CSR by propagating specific standards and metrics of social performance. A higher visibility of social metrics alongside financial metrics might also contribute to a broader shift in views about what aspects matter in investing. This in turn could increase the prevalence of SRI (Glac 2008) and give additional force to the CSR movement (as discussed earlier). In a recent development regarding disclosure requirements mandated by the SEC, more environmental issues might be included in traditional reports as well. Companies are now required to disclose their exposure to risks posed by global warming (Broder 2010). While this SEC decision does not seem to be motivated primarily by social concerns, it was a response to petitions from environmental groups and concerned investors (Broder 2010). This broadening of environmental disclosure could indicate that the boundaries between financial and social investment considerations are increasingly blurring.

Another important development in the financial marketplace has been a steady rise in institutional ownership. According to the 2008 Conference Board report (Brancato and Rabimov 2008), over three quarters of the thousand largest U.S. companies' stocks are held by institutional investors, with pension funds being the largest owner (38.8 percent). Most institutional investors are highly “diversified across all asset classes and across investment opportunities within those asset classes, and therefore can be said to be invested in the economy as a whole” (Lydenberg 2007, 467). This phenomenon has been called “universal ownership” (Hawley and Williams 2000, 2007).

Since the performance of the portfolio of universal owners depends on the performance of the economy as a whole, universal owners have an “interest in improving the macro-level economic, social, and environmental conditions which both affect and are affected by the investment choices they make” (Kiernan 2007, 78). Lydenberg (2007) has even argued that theoretically the investment strategies of universal owners are the same as those traditionally associated with socially responsible investors as both require a consideration of social and financial factors. While currently many universal owners have not fully realized their power and responsibility (Kiernan 2007), the trend is toward an increased incorporation of environmental, social, and governance (ESG) issues in the investment approaches of large institutional investors (Lydenberg 2007). Some have even argued that consideration of ESG issues is a requirement of adequately fulfilling an institution’s fiduciary duty toward its beneficiaries (UNEP 2005). In 2000, the UK codified this requirement in a law governing pension funds; shortly thereafter, other countries (Germany, Sweden, Australia, France, and Italy) followed with similar regulations that at least require investment decision makers to disclose their consideration of ESG issues (Sparkes 2002; UNEP 2005).
Since large institutional investors (universal owners)—due to their business purpose—are concerned primarily with financial performance, ESG issues would be considered mainly insofar as they support the performance of the economy as a whole. It is thus likely that an increase in universal ownership will support an instrumental or strategic view of CSR. In other words, as universal owners realize their obligation to consider non-financial issues when formulating their investment strategy, they will be more likely to focus first on those elements of corporate social performance that are most closely linked to corporate financial performance. However, due to significant interdependencies in the economy, the relationship between social performance and financial performance will have to be construed more broadly than simply on an intra-organizational level. For example, Lippman, Rosen, and Seitchik (2007) have shown how lower drug prices might reduce profits in pharmaceutical companies, but overall increase efficiency in the economy due to a healthier workforce, increased consumer spending power, and health plan cost reduction. While it could be argued that other CSR components such as philanthropy or community support also contribute to the flourishing of the economy as a whole, these relationships might be harder to quantify. This in turn would further support a more narrow and strategic view of CSR.

**Conclusion**

Many CSR critics—most famously, Milton Friedman in his 1970 essay on the social responsibility of corporations—have used the duty to shareholders as the main reason why a narrow focus on profit maximization is the sole responsibility of corporations. Yet, despite the persistence of the image of the shareholder as a narrow-minded profit maximizer who demands that managers ignore calls for a broader social responsibility of business, shareholders have also become some of the most important allies of the CSR movement over the years (see table 4 for a timeline of developments in shareholder engagement). Activist shareholders are now routinely submitting social proposals to annual meetings and working together with management to improve performance on a variety of social issues. Other socially concerned investors are using more indirect ways to express their expectations of socially responsible conduct and “vote” with a socially motivated allocation of their investment dollars.

The connection to CSR was not very pronounced at first when shareholder activism and socially responsible investing started emerging in the first half of the twentieth century. Even though some investors, particularly religious groups, had been considering social issues for some time to ensure a morally appropriate use of their money, they usually did not take a very active role in advancing a particular conception of corporate social responsibility. Similarly, shareholder activism did not focus on social issues for many years due to legal barriers. Rather, pursuit of social issues by shareholders was considered to be outside of mainstream investor behavior.

Once shareholder engagement started to become a social movement, new infrastructure (laws, institutions, services) and reframing of what is considered to be acceptable investor behavior opened up more connections with CSR. This development was supported by other social movements (e.g., environmentalism, consumerism, workers rights) that not only brought specific social issues into the foreground but also provided opportunities to expand the domain of shareholder activity. With continued innovation in the marketplace (e.g., SRI indices, the Global Reporting Initiative), the connection between CSR and shareholder engagement is becoming even more interdependent, and changes in one movement initiate or support changes in the other.
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Total number of social issue resolutions filed per year between 2003 and 2008, including projection for the 2009 proxy season
### APPENDIX

#### TABLE 1
Timeline of milestones in shareholder activism and socially responsible investing

<table>
<thead>
<tr>
<th>Year</th>
<th>Milestone</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920</td>
<td>Methodist Church and Quakers decide to avoid investing in certain industries</td>
</tr>
<tr>
<td>1939</td>
<td>Lewis Gilbert successfully appeals to SEC to have Bethlehem Steel postpone annual meeting and reissue proxies to include a notification of Gilbert’s plan to present two resolutions at meeting</td>
</tr>
<tr>
<td>1942</td>
<td>SEC creates rule X-14-7 (later to become rule 14-8) stipulating that shareholders had a right to communicate with each other and management via proxy materials</td>
</tr>
<tr>
<td>1948</td>
<td>James Peck and Bayard Ruskin buy a share of Greyhound to raise issue of segregated seating on buses at annual meeting</td>
</tr>
<tr>
<td>1949</td>
<td>Wilma Soss founds Federation of Women Shareholders</td>
</tr>
<tr>
<td>1949</td>
<td>AITU (Association of Independent Telephone Unions) submits first collective bargaining resolution with AT&amp;T</td>
</tr>
<tr>
<td>1950</td>
<td>Soss submits first “social” resolution asking American Radiator and Standard Sanitary to include woman on its board</td>
</tr>
<tr>
<td>1963</td>
<td>National Council of Churches asks member churches to review investment portfolios</td>
</tr>
<tr>
<td>1969</td>
<td>Council on Economic Priorities established (provided information on corporate social performance)</td>
</tr>
<tr>
<td>1970</td>
<td>Campaign GM—group of shareholder resolutions focused on social performance of largest industrial complex</td>
</tr>
<tr>
<td></td>
<td>Medical Committee on Human Rights wins in federal court to have a social resolution over napalm production included in Dow Chemical annual meeting</td>
</tr>
<tr>
<td>Year</td>
<td>Event</td>
</tr>
<tr>
<td>------</td>
<td>-------</td>
</tr>
</tbody>
</table>
| 1971 | Pax World Fund established—first SRI fund  
Corporate Information Center established (predecessor of Investor Responsibility Research Center)  
Interfaith Center on Corporate Responsibility formed |
| 1973 | IRRC begins to track social policy shareholder resolutions |
| 1976 | SEC revises Rule 14a-8 to improve shareholder access to proxy mechanism |
| 1977 | AT&T introduces secret balloting after years of pressure from Soss and Gilbert |
| 1982 | Creation of Calvert Social Investment Fund |
| 1984 | Amy Domini publishes first comprehensive book on SRI |
| 1986 | First social shareholder resolution by a mutual fund (Calvert SIF) |
| 1988 | Establishment of KLD Research & Analytics (provider of CSR performance benchmarks and corporate accountability research) |
| 1990 | Introduction of Domini 400 Social Index—first index of companies selected based on social and environmental standards |
| 1998 | SEC revises Rule 240 14a-8 to Q&A format for easier understanding |

### TABLE 2
Examples of social issue proposals

<table>
<thead>
<tr>
<th>Diversity/nondiscrimination</th>
<th>International conduct</th>
</tr>
</thead>
<tbody>
<tr>
<td>- EEO reports</td>
<td>- Foreign operations in Northern Ireland, South Africa, Burma, China, Nigeria, and maquiladoras</td>
</tr>
<tr>
<td>- Board diversity</td>
<td>- NAFTA</td>
</tr>
<tr>
<td>- Report on glass ceiling</td>
<td>- Labor standards for overseas suppliers</td>
</tr>
<tr>
<td>- Domestic partner benefits (both pro and con)</td>
<td>- Child/slave labor</td>
</tr>
<tr>
<td>- Sexual orientation nondiscrimination (both pro and con)</td>
<td>- Implement MacBride Principles</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Domestic labor</th>
<th>Environmental</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Workplace standards</td>
<td>- Adopt Valdez/Ceres Principles</td>
</tr>
<tr>
<td>- Health and safety policy</td>
<td>- Radiation releases</td>
</tr>
<tr>
<td>- Plant closing</td>
<td>- Greenhouse gases (CO₂ emissions)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Health care</th>
<th>Military</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Health care policy and reform</td>
<td>- Foreign military sales and contracts</td>
</tr>
<tr>
<td>- Drug pricing/restraint</td>
<td>- Land mine production</td>
</tr>
<tr>
<td>- Marketing of infant formula</td>
<td>- Criteria for military contracts</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Energy</th>
<th>Political issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Energy conservation</td>
<td>- End or disclose political donations</td>
</tr>
<tr>
<td>- Nuclear plants (information and closure)</td>
<td>- Enact shareholder vote on political donations</td>
</tr>
<tr>
<td>- Sustainable energy policy</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Food</th>
<th>Corporate policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Genetically modified food (label, report, phase out)</td>
<td>- Implement ethical criteria for board outsiders</td>
</tr>
<tr>
<td>- Milk, dairy pricing</td>
<td>- Corporate tax benefits and subsidies</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Media</th>
<th>Animal rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Reduce television violence/raise broadcast standards</td>
<td>Reproductive issues</td>
</tr>
<tr>
<td>- Eliminate negative images in marketing ads</td>
<td>Alcohol, tobacco, firearms</td>
</tr>
</tbody>
</table>

Source: Tkac 2006.
### TABLE 3
Example of GRI Sustainability Report performance indicators

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Indicators for the category “Labor Practices and Decent Work”</th>
</tr>
</thead>
</table>
| EMPLOYMENT | • LA1 Total workforce by employment type, employment contract, and region.  
• LA2 Total number and rate of employee turnover by age group, gender, and region.  
• LA3 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations. |
| LABOR/MANAGEMENT RELATIONS | • LA4 Percentage of employees covered by collective bargaining agreements.  
• LA5 Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements. |
| OCCUPATIONAL HEALTH AND SAFETY | • LA6 Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs.  
• LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region.  
• LA8 Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.  
• LA9 Health and safety topics covered in formal agreements with trade unions. |
| TRAINING AND EDUCATION | • LA10 Average hours of training per year per employee by employee category.  
• LA11 Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.  
• LA12 Percentage of employees receiving regular performance and career development reviews. |
| DIVERSITY AND EQUAL OPPORTUNITY | • LA13 Composition of governance bodies and breakdown of employees per category by gender, age group, minority group membership, and other indicators of diversity.  
• LA14 Ratio of basic salary of men to women by employee category. |

**Indicator Hierarchy Key:**

**XX01 Core Indicators:** Indicators identified in the GRI Guidelines to be of interest to most stakeholders and assumed to be material unless deemed otherwise on the basis of the GRI Reporting Principles.

**XX01 Additional Indicators:** Indicators identified in the GRI Guidelines that represent emerging practice or address topics that may be material to some organizations but not generally for a majority.
TABLE 4
Timeline of developments in shareholder engagement

<table>
<thead>
<tr>
<th>Time period</th>
<th>Development in SA/SRI</th>
<th>Relationship between SA/SRI and CSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920s–1930s</td>
<td>SA/SRI considered radical ideas far outside the mainstream of investor behavior</td>
<td>Ideas of SA/SRI and CSR localized and largely unconnected</td>
</tr>
<tr>
<td>1940s</td>
<td>Establishment of SA as a legitimate form of shareholder voice</td>
<td>Ideas of SA/SRI and CSR localized and largely unconnected</td>
</tr>
<tr>
<td>1950s–1960s</td>
<td>SA/SRI as a social movement starts to take shape</td>
<td>Ideas of SA/SRI and CSR localized and largely unconnected</td>
</tr>
<tr>
<td>1970s</td>
<td>Infrastructure in support of SA/SRI is expanding</td>
<td>SA/SRI begins to reflect CSR ideas more clearly</td>
</tr>
<tr>
<td>1980s–1990s</td>
<td>SA/SRI become mainstream forms of investor behavior</td>
<td>Connections between SA/SRI and CSR solidify</td>
</tr>
<tr>
<td>2000s</td>
<td>Innovations in the marketplace further advance SRI and SA</td>
<td>Interdependencies between SA/SRI and CSR increase</td>
</tr>
</tbody>
</table>

**Key:**
Shareholder Activism (SA)
Socially Responsible Investment (SRI)
Corporate Social Responsibility (CSR)
The Influence of Shareholders on Corporate Social Responsibility

Source: Proffitt and Spicer 2006.
Note: Proffitt and Spicer report on data obtained from the Investor Responsibility Research Center. The averages shown above were calculated by dividing the total counts for the respective time periods Proffitt and Spicer provide in their Table 1 on page 171 by the number of years in each time period.

**FIGURE 2**
Total number of social issue resolutions filed per year between 2003 and 2008, including projection for the 2009 proxy season

Notes: The social issue proposal counts displayed in figure 2 are compiled from RiskMetrics Group (Mathiasen et al. 2009) and Social Investment Forum (2006a, 2008) reports. In 2005, the Institutional Shareholder Service unit of the RiskMetrics Group acquired the Investor Responsibility Research Center, which was the main organization collecting data on social issue shareholder proposals since the 1970s.

*The total number of social issue resolutions for 2009 is likely to be higher than the 359 resolutions reported by the RiskMetrics Group preview on the 2009 proxy season because the report was written before the close of the 2009 proxy season.*
ENDNOTES

1. For example, in 1950 Wilma Soss submitted a proposal to have a women included on the board of American Radiator and Standard Sanitary (Marens 2002).

2. The account of Campaign GM in sidebar 2 summarizes Vogel’s (1978) discussion and analysis of the events in 1970–71, in which he draws on an extensive number of cases, and newspaper, magazine, and law review articles. For additional information on Campaign GM, see articles by Donald Schwartz (1970 and 1971a and b), who was counsel for the Project on Corporate Responsibility, or the list of Vogel’s sources in his book *Lobbying the Corporation* (Vogel 1978, 238).


5. In other areas, the same basic concept of investment selection based on non-financial criteria has been discussed under different names, such as ethical, green, social, development, creative, or divergent (Bruyn 1987; Domini 1994; Powers 1971; Schotland 1980; Simpson 1991; Wokutch, Murman, and Schaffer 1984). Sparkes and Cowton (2004) give a detailed analysis of the differences and development particularly of the two most common terms, “ethical investing” and “socially responsible investing,” and they point out that while it might be useful to make a distinction between the two terms in some contexts, they are usually used interchangeably.

6. In addition to screening of investment, some writers consider shareholder advocacy and community investing to be part of SRI as well. Since shareholder advocacy was discussed earlier and community investing is still a relatively small movement, this paper focuses on the investment screening form of SRI.

7. Shareholder demands on companies regarding operations in South Africa focused initially on compliance with the Sullivan principles, which spelled out a set of standards for operating in South Africa. As the movement against apartheid progressed, institutional investors such as pension funds, in particular, moved toward excluding companies that had any type of business activity in South Africa (Sparkes 2002).

8. A group of churches and charities set up EIRIS in 1983 to provide members with information about the extent of a corporation’s social, environmental, and ethical performance to support them in their investment decisions. (http://www.eiris.org/)

9. The database tracking the social performance of companies is called KLD Global Socrates (KLD 2009c).

10. The Global Reporting Initiative was formed in 1997 as a collaboration between CERES and the Tellus Institute, which was joined in 1998 by the UN Environment Program. The first version of the GRI Guidelines for sustainability reporting was released in 2000 (GRI 2007).

11. For a detailed analysis of the legal developments in the context of pension funds in a variety of jurisdictions, see two reports from the UNEP finance initiative (2005, 2009).

12. The link between corporate social performance and corporate financial performance has been the subject of much empirical work and will not be discussed here. For an extensive review and analysis of the literature, see Margolis et al. 2001; Margolis and Walsh 2003; and Orlitzky, Schmidt, and Rynes 2003.
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