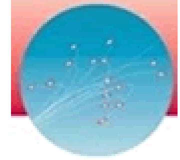
Carleton
Centre for
Community Innovation



Power and Shareholder Saliency

Tessa Hebb*,
Andreas Hoepner+,
Tatiana Rodionova+, and
Imelda Sanchez*
(in alphabetical order)

*Carleton Centre for Community Innovation, Canada; +St. Andrews University, UK

WP # 14-01

Carleton UNIVERSITY | Carleton Centre for Community Innovation

Table of Contents

Introduction 3
The Role of Power in Shareholder Saliency 5
Hypothesis 9
Methodology 10
Findings 10
Implications 17
Conclusion 21
References: 24

Power and Shareholder Saliency

Tessa Hebb*, Andreas Hoepner+, Tatiana Rodionova.+, and Imelda Sanchez*

(in alphabetical order)

*Carleton Centre for Community Innovation, Canada; +St. Andrews University, UK

Abstract:

Shareholder activism has had an impact on the way companies work, focusing the attention of managers on the environmental, social and governance standards (ESG) embedded in corporate decisions. However, not all shareholders receive the same attention from managers. In fact, there are studies showing that the existence of certain shareholder attributes are necessary for managers pay attention on their claims. It has been suggested that legitimacy is the strongest attribute associated with shareholder saliency, a claim that is backed by a considerable body of qualitative research.

Our findings, based on quantitative analysis, suggest that power plays a key role in shareholder salience. Contrary to the assumption that minority shareholder resolutions are put forward when engagement between shareholders and company managers breaks down, we find that in the majority of instances where we have both shareholder engagement and one or more shareholder resolutions, that in fact the minority resolution proceeded the engagement and may well have been required in order to gain attention from the company. Despite claims to the contrary from investors and from corporate managers, it appears that shareholder power remains a key aspect in shareholder saliency. This paper goes on to ask if there is a greater chance of success in achieving the stated ESG goal with the company the dialogue occurred before the resolution was put forward rather than if the dialogue occurred after the resolution was put forward.

Key words: Shareholder saliency theory, corporate engagement, dialogues, shareholder resolutions.

Power and Shareholder Saliency

Introduction

Shareholder activism is known to have an impact on the way companies work, often stressing the importance behind the inclusion of environmental, social and governance standards (ESG) in the decisions that managers take (Clark and Hebb, 2004; Hawley and Williams, 2000; Monks, 2000) However, not all shareholders receive equal attention from managers (Gifford, 2010). In fact, there are many studies showing that the existence of certain shareholder attributes are necessary for managers to pay attention to their claims.

This paper argues that while shareholders and company managers stress legitimacy as the most salient factor in shareholder engagement, in fact, power plays a key role in exerting influence on corporate ESG standards. Shareholder power is embedded in the minority shareholder resolutions placed before corporate annual meetings. Such resolutions are often designed to generate both negative publicity and significant votes as a means to direct company behaviour on environmental, social and/or governance issues. While these resolutions seldom garner more than 15% of the vote at company annual meetings, they focus the attention of senior management on the ESG issue at hand and open the door to further shareholder engagement. Minority resolutions are the primary power-based tool shareholders have to exert influence over senior corporate management.

We build on the work of Mitchell et. al, 1997; Gifford, 2010; and Hebb et al., 2011 in our exploration of shareholder engagement. Mitchell et al. detailed three primary attributes of stakeholder salience: legitimacy, power, and urgency. Gifford refined these attributes and suggested that legitimacy moderated through the alignment of shareholder and managers' values, plays a vital role in this dynamic relationship. Hebb et al. extended this work and reasserted Gifford's findings. All three bodies of research on stakeholder saliency have drawn on qualitative methods.

While we find an extensive body of qualitative research on the process of shareholder engagement and the factors contributing to shareholder saliency, there are few quantitative

studies in this area. This paper aims to fill this gap by providing information that can be used to extend and enrich the current literature available. We utilize a dataset of 1085 shareholder engagements from 1993 to 2013 that also included a shareholder minority resolution somewhere in the process. In many cases the shareholder resolution occurred at the beginning of the engagement, in other cases the engagement resulted in a shareholder resolution. This dataset is drawn from the Interfaith Centre for Corporate Responsibility (ICCR) database of minority shareholder resolutions and shareholder engagements compiled since the 1970s.

While we find power to be a significant source of salience for investors, our findings also suggest that while it is a key attribute in the early days of shareholder engagement, over time companies have demonstrated a greater willingness to engage with shareholders on ESG issues without the threat of power to induce such engagement.

While the use of power is instrumental in gaining access to and the attention of senior corporate managers, does it lead to successful outcomes? In other words do the companies respond more positively to ESG requests when the threat of use of power to inflict negative reputation damage is embedded in the exchange? Our findings suggest that the results are evenly split as to whether companies show signs of implementing the requested outcomes in achieving changes in corporate behaviour based on objective criteria for standards and codes. However we did find some small evidence of successful change in company behaviour when the dialogue occurred before the resolution in these cases. As suggested in the overall findings, if the dialogue occurred after the resolution was submitted, the likelihood of success was evenly split.

The paper is laid out in the following manner. In the next section the relevant literature on shareholder engagement is brought forward and discussed. The third section of the paper outlines five hypotheses on shareholder saliency to be tested. The methodology used to test the hypothesis is provided in the fourth section of the paper. The findings are detailed in the following section. The paper concludes with a discussion of the implications, limitations and areas of future research on shareholder saliency to be explored.

Power and Shareholder Saliency

The Role of Power in Shareholder Saliency

Shareholders are deemed to be active owners when they engage company managers in order to ensure that managers are not simply serving their own interests, but also those of the shareholders (Monks, 2000). Shareholders want to raise the value and improve the performance of their stocks, they also want to minimize financial risks (Yaron G., 2005). Increasingly corporate risks that arise from poor environmental, social and governance standards are seen to have a negative impact on shareholder value (Clark, & Hebb, 2005). Witness the 2010 BP oil spill in the Gulf of Mexico. As of 2013 BP had paid out $42 billion in penalties and clean up costs (Forbes, 2013). BP shares have yet to regain their full value. When poor corporate standards lead to environmental or social damage, shareholders are directly affected. However, the demands raised by shareholders are vast, and cannot all be attended to at the same time. What motivates a company to hear what their shareholders have to say?

Mitchell et al.'s 1997 work on shareholder salience identifies three major aspects of stakeholder saliency: legitimacy, power and urgency. Mitchell contests that these three factors are key to determining the relevance of stakeholder claims. Gifford (2010) extended the work of Mitchell et al. focusing exclusively on shareholder engagement as one of the key stakeholders that companies must attend to. He found that legitimacy is one of the main catalysts for achieving saliency. Gifford went on to suggest other aspects which moderate the degree of influence engagement can play. He noted that shared values by managers, particularly mid-level managers, and shareholders are also critical in these exchanges. More recent studies reinforce Gifford’s findings on the factors thought to increase stakeholder saliency. Interviews with investors suggested that shareholders commonly prefer to engage through legitimacy and urgency strategies rather than using their power (Hebb, Hachiagian, & Allen, 2012).

Significant research has investigated the factors that motivate shareholders to engage with the companies they own. While a great deal of attention has been placed on shareholder resolutions, proxy voting and public campaigns, much work remains in order to understand what factors lead to successful outcomes. Why do some shareholder engagements proceed to minority shareholder resolutions while others do not? In some instances private dialogues have led to successful

outcomes (Hebb, Hachiagian, & Allen, 2012), while in other cases noisy public exchanges are more effective.

The relationship between shareholders and managers has not been one of common understanding and shared goals. Conflicts of interest are a central aspect that affects this relationship. Such conflicts can potentially undermine shareholder value, and damage the overall performance of the company as the resolution of such problems often forces corporations to bear greater costs and risk reputation damage (Hennessey, 2001).

In this paper, we examine the saliency of the stakeholder rather than of the issue, a key differentiation as noted by Gond and Piani (2013). The stakeholder saliency model (Mitchell et al, 1997) highlights two lines of study, the first one having to do with the way managers identify their primary stakeholders, and the second (and most important for this paper) how stakeholders gain the attention of managers. The identification stage, as explained by Mitchell et al. (1997), is based on three main attributes that determine and establish the relationship of the shareholder to the firm: first, the degree of power that the given stakeholder has over the firm; second, how legitimate the relationship is between the stakeholder and the company; and third, the level of urgency shown in the stakeholder's claims over the firm. It has been suggested that any actual or potential stakeholder can achieve a full definitive status, just by raising any of these three elements with corporate managers (Magness, 2008).

Power, the first saliency driving attribute, is defined by Mitchell (2007) as the extent to which a stakeholder can "gain access to coercive, utilitarian or normative means in order to impose its will in the relationship" (p.865). Two main aspects are important to this definition, the first is that power is defined as an ability, something that is achieved over time and gives the party control over a determined situation (Salancik & Pfeffer, 1974), and therefore has a dynamic status as it can be either obtained or lost. The second is the use of Etzioni's (1964) classification of power in three kinds: that which is to be applied through physical means –coercive-, one where the utilization of material means to impose one's will is necessary –utilitarian-, and that in

which symbols are thought to serve as a mechanism of control, potentially dangerous to the reputation of the party subject to such control –normative-.

On the other hand, legitimacy as the second attribute needed to attain saliency, is conceived under a broader perspective where the perceptions and assumptions of society in general, are to judge whether or not the actions conducted by a party are "desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions" (Mitchell et al., 1997, p. 866). This attribute is also divided in three categories later extended by Gifford (2010) into four.

The fourth category of legitimacy, pragmatic legitimacy, is added to the shareholder saliency theory because in the other three categories, credibility lies within the individual, the organization, and society (Wood, 1991). Nevertheless, there is no category that considers the way the company perceives the arguments made by shareholders to be legitimate (Gifford, 2010). This is where pragmatic legitimacy comes into the formula.

Finally, the claims of shareholders wouldn't get much attention if the matter being exposed wasn't important to the parties promoting corporate engagement. A degree of urgency is required to advance stakeholder claims (Mitchell, 1997). However, the term "urgency" itself does not entirely explain how it increases saliency, as what is urgent to the engager may not be deemed s urgent to the managers.

To address the complexity of the term, Gifford (2010) suggests that having a sensitive time frame and being relevant for the subject are key aspects of this attribute. He also argues that the issue has to be exposed in a manner that shows the shareholder is determined to find a solution for it. Therefore, the more resolute the shareholder is to promote corporate engagement in a certain matter through "assertiveness, persistence and the application of resources" (Gifford, 2010, p. 82), the more critical that matter will appear to be in front of the eyes of managers.

Power and Shareholder Saliency

Besides the attributes described above, three more factors are thought to act as moderators that can either increase or decrease the level of saliency shareholders attain when presenting their claims to the managers (Gifford, 2010). The first of these factors relates to the size of the shareholder in comparison to the size of the company, which can increase the ability of the shareholder to exercise its correspondent rights at the voting forum, or grant him some sort of recognition from other players present in the market. The second factor has to do with the formation of coalitions among shareholders who rely on their capacity to share resources and information, along with the benefits that a common and recognized reputation can bring. Lastly, the alignment of the managers' values with the requests made by shareholders is also proposed as a moderating factor of shareholder salience, which can "moderate shareholder salience independently from the attributes or characteristics that the shareholder itself possesses" (Gifford, 2010, p. 83).

This last moderating factor has been proved to have a strong influence in the shareholder-manager relationship (Hambrick & Mason, 1984; Agle et al., 1999). Moreover, case studies show that shareholders holding a claim perceived in the eyes of managers as legitimate (because there is convincing information certifying the legitimacy of such claim, because it is in the interest of the managers to attend the claim, or because the presented argument aligns with the company's interests), as well as shareholders who apart from making legitimate requests, show how urgent the matter is by being persistent and assertive, achieve greater levels of saliency (Hebb, Hachigian & Allen, 2012).

However, it could be argued that existing research only focuses on specific characteristics of engagement, rather than on the process through which shareholders and companies come together in order to respond to claims and generate the needed change. Goodman and Arenas (2012) argue that present theories on shareholder activism are not sufficient in explaining all the steps taken into achieving shareholder saliency.

It may well be that coercive mechanisms are a means to attract attention on the issue of engagement, later driving to an active communication process between management and

shareholders (Rehbein et al 2013). Such confrontation might be first employed to make managers aware of shareholder claims, a mechanism that allows shareholders to be noticed in the first instance, and later engage into a process of dialogue/active communication where the use of legitimate mechanisms is more common.

An important number of filed and related withdrawn shareholder resolutions have been observed in large data sets like the Standard & Poor's 1500 Composite Index, suggesting that most shareholders prefer to first bring awareness over certain issues through proxy proposals, to then wait for managers to take the next step and engage in private dialogue (Bauer, Moers & Viehs, 2012). Quite often this communication process between management and shareholders results in the decision of the proposal's sponsor to withdraw the filed resolution. In addition to this, the study made by Bauer et al. (2012), finds a positive relationship between the ownership structure of corporation and the propensity for shareholders to withdraw submitted proposals, where the withdrawal rate is higher in companies with a larger composition of institutional investors, and lower in the case of individual shareholders and internal owners. We build on this framework by adding two hypotheses that will be tested in this study.

Hypothesis

We argue that our quantitative study on shareholder engagement will show different results to those obtained in previous qualitative, case study research. These studies suggest that legitimate and urgency attributes moderated by the alignment of management values with shareholder requests, are the primary drivers of successful/positive corporate engagement, rather than the use of power. But in fact the opposite could be happening. Our research will show some evidence on how the process of engagement is undertaken in reality, leaving aside shareholder perceptions and focusing on actual data about shareholder resolutions.

Hypothesis 1: While shareholders might perceive themselves as being more legitimate and urgency-driven in their engagements with company managers, using power only as a last resort to call attention on the matter they wish to discuss, in fact shareholder power (expressed as the

use of minority shareholder resolutions) is used to open the process of engagement with companies.

Hypothesis 2: Use of shareholder power leads to greater successful outcomes of corporate engagement measured by changes in company standards, codes and behaviour requested by shareholders in the engagement.

Methodology

The methodology used in this paper is qualitative. We utilize the Interfaith Centre for Corporate Responsibility database of 6000 minority shareholder resolutions and 3000 shareholder engagements compiled from 1971 to 2012. We selected a subsample of all engagements that also had a minority resolution associated with them either before, during or after the dialogue. This subsample provided 1085 cases. We used descriptive statistics and Chi-square tests to test our hypothesis. We then used public internet searches of company web sites and annual reports with a smaller sample of 500 companies to find evidence of adoption of the requested ESG change asked for in the engagement. Half the sample were objective indicators of change (N=256), i.e. codes of conduct and measurable standards, and half the sample (N=246) were deemed subjective indicators.

Findings

Table 1 indicates that if a resolution was associated with an engagement (N=1085), in the vast majority of cases the resolution occurred before the engagement, rather than after the engagement. This finding holds over time and is consistent in both the 1990s (72% of the time) or 2000s (82% of the time). We tested this by type of resolution to see if environmental, social or governance resolutions have the same pattern of engagement. We find this result holds regardless of the area of engagement.

TABLE 1

Comparison of Cases with Dialogue before Resolution and after

	Period 1990s (n=177)		Period 2000s (n=908)	
Dialogue before	49	28%	167	18%
Dialogue after	128	72%	741	82%
Chi^2=8.02, p<0.01				

	Corporate Governance (n=91)		Social & Environmental (n=994)	
Dialogue before	27	30%	189	19%
Dialogue after	64	70%	805	81%
Chi^2=5.93, p<0.05				

Period 1990s

	Corporate Governance (n=18)		Social & Environmental (n=159)	
Dialogue before	6	33%	43	27%
Dialogue after	12	67%	116	73%
Chi^2=0.32, p=insig				

Period 2000s

	Corporate Governance (n=73)		Social & Environmental (n=835)	
Dialogue before	21	29%	146	17%
Dialogue after	52	71%	689	83%
Chi^2=5.69, p<0.05				

The cases in Table 1 are treated as independent, even if they happened in the same firm.

The first panel of Table 1 shows the distribution of the cases with dialogues before and after the resolutions in 1990s and 2000s. In both cases there are more instances of dialogues occurring after the resolutions and it becomes even more evident in the 2000s where the difference in distributions is statistically significant.

The second and third panels show the distribution of the cases with dialogues before and after the resolutions by topic (governance versus social issues). Again, we find the differences are significant.

In Table 2, we attempted to control for the fact that the engagement pattern could be firm-specific. So we computed the mean likelihood of the dialogue to happen before the resolution in a company and then tested the difference in means in 1990s and 2000s. The difference is again significant and shows that, controlling for a specific firm element, it is less likely to have dialogue before the resolution is filed with the company, than after.

TABLE 2

Comparison of Mean Likelihood of Dialogue before Resolution

	Probability of dialogue before resolution	Observations
1990s	0.28	177
2000s	0.18	908
Absolute t-statistic	3.89***	

† $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$

Table 3 and 4 detail whether there is a pattern of withdrawal of the resolution if there is dialogue between the shareholder and the company. It appears that where there was a dialogue before the resolution there was no pattern whether the resolution was later voted on or not. However where the dialogue occurred after the resolution, it was more likely to happen when the resolution was not voted on. This suggests that shareholders are indeed prepared to proceed on to a dialogue with the company and use the resolution as a means to initiate this dialogue. However we see this pattern is more prevalent in the 1990s and disappeared in the 2000s. This indicates that in the 1990s it appears to be more likely that the shareholder used power through the minority shareholder resolution to gain company attention. By the 2000s, shareholders were less dependent on whether the dialogue occurred before or after the resolution was submitted as to

whether a resolution went to a vote. If dialogue occurred before the vote in the 2000s there was a slight increase in the probability that it would go to a vote (44% to 56%). However if the dialogue occurred after the resolution was proposed there was no difference as to whether it went to a vote or not. This is a stark comparison to the 1990s when three quarters of the resolutions that had dialogue after the resolution were in fact withdrawn.

TABLE 3
Comparison of Cases with Dialogue before Resolution and after

	Dialogue before (n=216)		Dialogue after (n=869)	
Voting did not happen	99	46%	469	54%
Voting happened	117	54%	400	46%
	$Chi^2(1)=1.5$, p=insig		$Chi^2(1)=5.48$, $p<0.05$	
$Chi^2=4.59$, $p<0.05$				
Period 1990s				
	Dialogue before (n=49)		Dialogue after (n=128)	
Voting did not happen	26	53%	97	76%
Voting happened	23	47%	31	24%
	$Chi^2(1)=0.18$, p=insig		$Chi^2(1)=34.03$, $p<0.000$	
$Chi^2=8.63$, $p<0.01$				
Period 2000s				
	Dialogue before (n=167)		Dialogue after (n=741)	
Voting did not happen	73	44%	372	50%
Voting happened	94	56%	369	50%
	$Chi^2(1)=2.64$, p=insig		$Chi^2(1)=0.01$, p=insig	
$Chi^2=2.30$, p=insig				

TABLE 4
Voting likelihood in 1990s and 2000s

	1990s (n=177)		2000s (n=908)	
Voting did not happen	123	69%	445	49%
Voting happened	54	31%	463	51%
$Chi^2=24.91$, $p<0.000$				

We went on to ask whether dialogue between shareholders and companies influences the voting outcomes of those resolutions that went to a vote. As we know, in the US most minority shareholder resolutions garner on average approximately 16% of the total vote. Tables 5 and 6 indicate that these results do not change whether there was a dialogue before the resolution or

after. Neither case demonstrated a significant difference in the voting outcome. However we do see a pattern in the 1990s that indicates having a dialogue before the resolution seems to be related to receiving a higher vote, than having a dialogue after. This pattern does not persist into the 2000s.

TABLE 5

Comparison of Votes Depending on Preceding Dialogue

	Mean votes	Observations
Dialogue before resolution	16%	116
Dialogue after resolution	14%	397
Absolute t-statistic	0.91	

TABLE 6

Comparison of Mean Votes Depending on Preceding Dialogue

	1990s	N	2000s	N	Abs t-stat
Dialogue before resolution	13%	23	17%	93	1.56
Dialogue after resolution	9%	31	15%	366	6.93***
Abs t-stat	2.14*		0.94		

† $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$

But the question that is perhaps most fundamental about dialogue and minority shareholder resolutions is whether or not they are successful in changing corporate behaviour and raising

corporate standards. To test this we selected a sub sample of 500 dialogues between 1990 and 2012 that had also received a minority shareholder resolution. We divided this sample into those dialogues and resolutions that had asked for a change in corporate behaviour that could be observed objectively. In most cases these objective standards were requests to adopt certain codes of behavior such as the CERES Principles or Sullivan Principles; or to provide transparent reporting policies such as the Carbon Disclosure Project or Global Reporting Initiative. Half the dialogues were deemed objective in this subset. The other half of the sample asked for subjective changes in company behaviour. These included more diversity in management, addressing HIV/Aids, and human rights issues.

We then engaged in a public internet-based search for each of the companies in the subset to find concrete evidence that the change requested in the dialogue had occurred in the period since the request was made. Evidence of success was evenly split. Roughly half the dialogues in our sample showed evidence of improvement, while in the other half of the cases we could find no evidence of successful change. It is interesting that those dialogues where the resolutions went to a vote were only able to gain 15% of the total shareholder vote; while in half the cases the change requested by the shareholder was indeed undertaken by the company roughly 50% of the time. While there are too many factors to establish causation in these outcomes, we do see a strong correlation between the requests of minority shareholders and the actions of companies over time.

Table 7 details the outcomes of 256 dialogues with objective criteria used to evaluate successful outcomes. 50% of these lead to observable successful outcomes and 50% showed no improvements. We then ask whether dialogue with the company before or after the resolution leads to successful outcomes in achieving changes in corporate behaviour based on objective standards and codes. The vast majority of these dialogues occurred after the resolution (N=207) rather than before (N=49). Despite the small size of the sample we find significant evidence of successful change in company behaviour when the dialogue occurred before the resolution in these cases. While if the dialogue occurred after, the likelihood of success was evenly split.

TABLE 7

Comparison of Successful Engagements with Dialogues before and after (Objective Criteria)

	Dialogue before (n=49)		Dialogue after (n=207)	
Improvements	31	63%	97	47%
No improvements	18	37%	110	53%
Chi^2=4.27, p<0.05				
Period 1990s				
	Dialogue before (n=18)		Dialogue after (n=58)	
Improvements	9	50%	4	7%
No improvements	9	50%	54	93%
Chi^2=18.00, p<0.000				
Period 2000s				
	Dialogue before (n=31)		Dialogue after (n=149)	
Improvements	22	71%	93	62%
No improvements	9	29%	56	38%
Chi^2=0.81, p=insig				

We also find an interesting pattern over time. In the 1990s while dialogue before resulted in successful outcomes 50% of the time (note: this finding is based on a small N=18), there was a high probability of no improvement in company standards when the dialogue occurred after the resolution (93% of the time N=58). These numbers were reversed in 2000s when dialogue whether held before or after the resolution resulted in successful outcomes over 60% of the time. This finding suggests that over time dialogues held either before or after resolutions are filed, are achieving higher rates of success in changing company behaviour with respect to objective criteria used to assess a variety of codes of conduct.

Turning to the subjective criteria used to evaluate changes in company behaviour requested by shareholders. We acknowledge this is a harder category to quantify, as subjective analysis has been used to judge whether a change in company standards has been achieved. That said, we found evidence of successful changes in company standards that had been requested by minority shareholders roughly 65% of the time (N=246). As with the objective criteria, in these cases dialogues held before the resolution was filed showed slightly higher levels of successful outcomes than dialogues held after. The vast majority of this subset of these subjective criteria dialogues with resolutions were held in the 2000s. Only 31 cases of this subset took place in the 1990s. In the 2000s we see a slightly higher probability of successful outcomes when the dialogue takes place before the resolution is filed than after.

TABLE 8

Comparison of Successful Engagements with Dialogues before and after (Subjective Criteria)

	Dialogue before (n=53)		Dialogue after (n=193)	
Improvements	39	74%	119	62%
No improvements	14	26%	74	38%
Chi^2=2.57, p=insig				
Period 1990s				
	Dialogue before (n=10)		Dialogue after (n=21)	
Improvements	6	60%	9	43%
No improvements	4	40%	12	57%
Chi^2=0.80, p=insig				
Period 2000s				
	Dialogue before (n=43)		Dialogue after (n=172)	
Improvements	33	77%	110	64%

No improvements	10	23%	62	36%
Chi^2=2.53, p=insig				

Implications

What do these findings tell us about the use of shareholder resolutions together with dialogues in shareholder corporate engagement? First and foremost they indicate that the use of power, expressed through the use of minority shareholder resolutions, remains a salient force in shareholder engagement. Using quantitative analysis we see that it is more likely that a resolution will be filed before there is dialogue with a company rather than after. This finding holds true across all time periods and suggests that shareholders use 'power' as a way to gain the companies attention. Once that attention has been established shareholders then proceed to use other forms of saliency such as legitimacy and urgency that are embedded in the dialogue that follows the resolution.

It has often been stated in interviews that power is the least used attribute of shareholders; however our findings suggest the opposite. Common sentiment suggests that minority shareholder resolutions are the unfortunate result of a breakdown in communication or an intransigent position by company management that follows a period of initial dialogue. But these findings suggest that when a resolution is used in combination with dialogue in reality it is does not follow this pattern. In fact contrary to popular belief, when there is both a dialogue and a resolution, the resolution almost always precedes the dialogue. Actually, as engagement has matured as a shareholder strategy this pattern has been reinforced rather than diminishing and holds regardless of the whether the engagement is on the basis of governance or social and environmental issues.

Our primary finding holds our first hypothesis to be true. We suggested that while shareholders might perceive themselves as being more legitimate and urgency-driven in their engagements with company managers, using power only as a last resort to call attention on the matter they wish to discuss; we find that shareholder power (expressed as the use of minority shareholder resolutions) is used to open the process of engagement with companies rather than as a last resort when dialogue breaks down. However, it appears to remain necessary to use power in order to

gain a companies' attention at the start of the dialogue, rather than as a threat should dialogue break down.

Additionally we could not find a strong pattern that suggested that dialogue at either point in the resolution process lead to a withdrawal of the resolution. Approximately half the time the resolution was voted on whether dialogue preceded the resolution or after. However, we have seen a change in this behaviour over time. In the 1990s there was a much greater likelihood that a resolution would not be voted on if there was dialogue associated with it. In fact seventy percent of the time resolutions that included dialogue were not voted on in the 1990s. This pattern is most often seen when the dialogue occurred after the resolution was put forward, suggesting that in the 1990s, as shareholder activism was in a more nascent stage, that the resolution did indeed gain the attention of senior management and open the doors for engagement, allowing the resolution to be withdrawn. By the 2000s, roughly half the time shareholders were satisfied with company responses to their requests and the resolution did not come to a vote; however for the remaining fifty percent of the time shareholders found no common ground with management and the vote was held. There is no difference in this pattern whether dialogue preceded the resolution or followed it. It may well be that by this point the shareholder no longer needed the resolution to gain the attention of management and instead draws on legitimacy and urgency in the engagement. While the shareholder has the attention of management by the 2000s, half the time they remain unsatisfied with progress made by the company, allowing the resolution to proceed to a vote. This indicates that power remains an important tool for shareholders in their engagement with companies as a way of pressing the issue when the actions taken by the company falls short.

Does the presence of dialogue subsequently affect the level of vote that the minority shareholder resolution garners? In other words, are the minority shareholders able to build stronger coalitions of shareholders as a result of the dialogue, and sway a larger number of votes at the annual general meetings? Our findings suggest that neither dialogues held before a resolution nor after a resolution is submitted actually changes the total level of votes cast for the resolution. On average most minority shareholder resolutions receive roughly sixteen percent of the total vote.

Power and Shareholder Saliency

The same percentage holds true for those resolutions with dialogue associated with them. We do however see a slight uptick in voting levels when dialogue is held before the resolution is filed suggesting that shareholders in these cases are able to gain some additional votes when dialogue breaks down and the resolution follows. While our findings show this pattern in greater evidence in the 1990s, the small N sample requires further testing to determine its validity.

While dialogue and voting patterns are important in deepening our understanding of shareholder saliency, the more critical question is what pattern demonstrates the greatest evidence of success in changing corporate behaviour and raising corporate environmental, social and governance (ESG) standards? As this is the raison d'être of shareholder saliency and corporate engagement. In other words, what makes a difference? Using objective criteria in the cases we examined such as adopting stated codes of conduct and reporting standards, we found evidence of the requested change in approximately half the cases. In these cases it appears that dialogue before the resolution is put forward resulted in greater evidence of success. This finding was particularly true in the 1990s where a certain amount of intransigence by companies is demonstrated. By the 2000s we see greater evidence of companies adopting the requested policy or program whether the dialogue occurred before or after the resolution. This change over time, may reflect a more open attitude from companies who are more willing to make these requested ESG changes.

A similar pattern is found using subjective criteria as evidence of companies making the requested change. Here we found greater evidence of the change in corporate standards with an improvement in company standards and policies roughly 65% of the time. However a note of caution is required when using subjective standards in judging changes in company behaviour. Additionally, almost ninety percent of this sample is drawn from cases in the 2000s, making it difficult to see a pattern emerging over time. That said we also see greater evidence of the requested change occurring when the dialogue was held before the resolution rather than after, suggesting that power in these cases was used as a last resort, rather than as a means to opening the engagement.

However we find we are unable to prove hypothesis 2 through these findings and we are not able to demonstrate that the use of shareholder power leads to greater successful outcomes of corporate engagement measured by changes in company standards, codes and behaviour requested by shareholders in the engagement. We draw more heavily on the objective criteria rather than the subjective criteria for this result. Objectively we find evidence of success when resolutions are used with dialogue roughly fifty percent of the time. To prove that the use of power in shareholder saliency, demonstrated through the use of resolutions in combination with dialogue, had a substantial impact on company behaviour we would expect to see much greater evidence of successful outcomes in our sample.

Conclusion

This paper has examined the role of power in shareholder saliency. We define power as the use of minority shareholder resolutions within the context of corporate engagement. Using minority shareholder resolutions is one of the few areas of power that shareholders legitimately possess in relation to companies they own. Our findings on this subject provide insight into the role power plays in shareholder saliency. Qualitative studies (Gifford, 2010; Hebb et al. 2012) suggest that power is the least used attribute of shareholder saliency with legitimacy and urgency playing a much greater role in commanding attention with corporate managers. These studies indicate that minority shareholder resolutions are primarily used when other avenues of engagement break down. Our findings suggest quite the opposite.

We find that in the vast majority of time when both dialogue and shareholder resolutions are used together that the shareholder resolution is used first, as a way to gain management attention on the issue. In this pattern dialogue follows the resolution rather than preceding it. This finding stands in sharp contrast to the popularly held view that minority shareholder resolutions are primarily used as a last resort with companies, when other avenues of dialogue have broken down and management has become intransigent in their position on the issues under discussion. In fact the minority shareholder resolution is most often the opening salvo in the corporate engagement, a means to gain company attention and establish saliency at the beginning of the process rather than the end. This finding is critically important in deepening our understanding of

shareholder saliency. It suggests that the role of power as a vital force in establishing corporate engagement has been vastly underestimated in previous studies.

However, while we were able to find conclusive evidence of our first hypothesis, we were not able to extrapolate the impact that power in corporate engagement would have on its likelihood of success. In roughly half the instances in our sub-sample of five hundred, we were able to find evidence that the company implemented the requested change. Half this sub-sample used objective criteria such as evidence of requested codes of conduct or reporting frameworks as indicators of success. We do not claim causation, as many factors are at play during periods of corporate engagement. If power plays a significant role in achieving success in corporate engagement we would expect to see a much greater impact in the adoption of the requested change than we found in our sample. Thus we were unable to prove our second hypothesis that the use of power would lead to greater evidence of success in corporate engagement.

We drew on the Interfaith Centre for Corporate Responsibility (ICCR) and a dataset of 1085 cases between 1990 and 2012 where both a minority shareholder resolution and a dialogue on the same issue occurred between shareholders and a company.

There are limitations of this current study may impact our ability to generalize from its results. The ICCR dataset is drawn from members who represent primarily religious organizations in the United States. As a result we are limited both by the type of investors and the geographic reach of the dataset. Secondly, while we used objective indicators as well as subjective indicators to assess evidence of changes made that reflected the request that shareholders made to companies, we did so through public internet searches of company web sites and annual reports. Such evidence is subject to human judgment. Additionally, this coding was conducted out by a single researcher in our team and therefore not subject to validation by additional researchers.

Such limitations provide scope for future research on this topic. Our findings should be tested using other datasets that draw on a wide range of investors both by type of investor and by geographic location of these investors. In this way we will be able to determine if the use of power as an important attribute of shareholder saliency is universal, and opens the doors to corporate engagement rather than closes them.

Power and Shareholder Saliency

Power is not often discussed as a key attribute of shareholder engagement. As is so often the case, using power is seen as a last resort and only drawn on when absolutely necessary. Our findings contradict this wide held belief. Power is used to open the doors of engagement, rather than to close them.

References:

Alchian, A. A., & Demsetz H. (1972). Production, information costs and economic organization. American Economic Review, [e-journal] 62(5), 777-95. Available through: The American Economic Association website [Accessed 03 July 2013].

Bauer, R., Moers, F., Viehs, M. (2012). The determinants of withdrawn shareholder proposals. (September 19, 2012). Working paper available at SSRN: http://ssrn.com/abstract=1885392 or http://dx.doi.org/10.2139/ssrn.1885392

Clark, G. L., Hebb., T. (2005). "Why do they care? The market for corporate global responsibility and the role of institutional investors." Environment and Planning A,31 (11), 2015-2031.

Eisenhardt, K. M. (1989). Agency theory: an assessment and review. The Academy of Management Review, [online database] 14(1), 57-74. Available through: JSTOR website [Accessed 25 June 2013].

for corporate governance failures at NewsCorp?, Journal of Sustainable Finance & Investment, 1:3-4, 180-194

Gifford, J. (2010). Effective shareholder engagement: the factors that contribute to shareholder salience. Journal of Business Ethics, 92 (sup. 1), 79-97.

Gond J-P, Piani, V. (2013), Enabling institutional investors' collective action: The roles of the Principle for Responsible Investment Initiative. Business and Society, 52(1), p.64-104;

Goodman, J., Arenas, D. (2013). A discourse ethics approach to social shareholder engagement: consolidating theory and opening new perspectives. Working paper.

Grossman, S.J., & Hart, O.D. (1983). An analysis of the principal-agent problem. Econometrica, [online database] 51(1), 7-45. Available through: JSTOR website [Accessed 21 June 2013].

Power and Shareholder Saliency

Hambrick, D. C., & Mason, P. A. (1984). Upper Echelons: the organization as a reflection of its top managers. Academy of Management Review, 9 (No. 2), 193-206.

Hebb, T., Hachigian, H. & Allen, A. (2012). Measuring the impact of engagement in Canada. In: D.C. Poff & A.C. Michalos, eds. 2012. The next generation of responsible investment. Ottawa: Springer, pp.107-112.

Huppé, G.A., & Bala-Miller P. (2011): Shareholder passivity: a viable explanation

Magness, V. (2008). Who are the stakeholders now? An empirical examination of the Mitchell, Agle and Wood theory of stakeholder salience. Journal of Business Ethics, 83 (No. 2), 177-192.

Michael, J. C., & Meckling, W. H. (1976). A theory of the firm: governance, residual claims and organizational forms. Journal of Financial Economics, 3 (No. 4), 305-360.

Mitchell, R. K., Agle, B. R., & Wood, D. J. (1997). Toward a theory of stakeholder identification and salience: defining the principle of who and what really counts. Academy of Management Review, 22 (No. 4), 853-886.

Rehbein, K., Logsdon, J., & Buren, H. (2013). Corporate Responses to Shareholder Activists: Considering the Dialogue Alternative. Journal of Business Ethics, 112(1), 137-154.

Sarra, J. (2003). The corporation as symphony: are shareholders first violin or second fiddle?. UB.C. Law Review, 36 (No. 3), 404-441.