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# A SOCIETAL APPROACH TO SOCIAL SHAREHOLDER ACTIVISM: ORGANIZATIONAL LEGITIMACY, CORPORATE RESPONSES, AND PUBLIC RELATIONS

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To my husband: Without your love and support, this would have never been possible.

To my kids—Meryem and Yakup: Hope you will forgive me for your sacrifices and be proud of my accomplishments.

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## Abstract

This study examined the voluntary compliance of corporations to societal pressures exerted by one type of stakeholder—shareholders. Specifically, from an organizational legitimacy perspective, the study investigated corporate responses to societal expectations voiced in shareholder resolutions—a formal mechanism for social shareholder activism. The study consisted of three empirical studies. First, using a large dataset, Study 1 analyzed shareholder resolutions filed by institutional shareholders at U.S. publicly traded corporations between 1997 and 2011. Second, in Study 2, grounded in the concept of organizational legitimacy, two theoretical models were developed and tested to explain and predict corporate responses to societal expectations of shareholders voiced in the resolutions. Finally, Study 3 examined a case study that explored the implementation of proposed changes by one corporation as a response to a withdrawn social shareholder resolution.

At an issue level, the study found that institutional shareholder activists primarily addressed environmental issues in the social resolutions. Shareholder demands for increased communication on the corporate social responsibility issues were prevalent in the withdrawn social resolutions. At a sponsor-level, the study found that, one institutional type of shareholder activists—public pension funds—had the most leverage in inducing withdrawal agreements as well as in imposing changes in target corporations. At a corporate-level, the study found that corporate environmental commitment was a strong predictor of the probability of reaching withdrawal agreements with sponsoring shareholders and achieving a high implementation level of a social resolution after the withdrawal agreements. In addition, industry classification

of a target corporation was found to be a predictor of the implementation level of a proposed change. Further, the case study showed that, after the withdrawal of a social resolution that asked the target corporation to issue a sustainability report on company responses to the climate change issue, the target corporation indeed implemented a series of structural, procedural, and communication-based changes to conform to the societal demands of social shareholder activists.

The study suggested that organizational legitimacy offers a useful theoretical lens through which organizational conformity to societal expectations and norms can be explained in today's complex society. By applying the concept of organizational legitimacy to a unique setting of social shareholder activism, the study proved the value of the concept for future research in public relations.

# CHAPTER ONE: INTRODUCTION

In the 21st century, the interest in the larger role of public relations in society has been mounting in public relations research and theory. In an increasingly interconnected, dynamic, global yet multicultural world due, in part, to new communication technologies (Castells, 2009; Self, 2009, 2010), the conceptual thinking in public relations has moved away from functionalist approaches that place the organization at the locus of inquiry and theory development to societal approaches that focus on the larger role of public relations in society (e.g., Heath, 2006, 2010; Ihlen & van Ruler, 2009; Sommerfeldt & Taylor, 2011; Taylor, 2010, 2011; Kruckeberg &Tsetsura, 2008; Valentini & Kruckeberg, & Starck, 2012). For example, building on systems theory, rhetoric, and norm compliance, Heath (2006) has argued that the role of public relations is to contribute to a fully functioning society through building relationships, creating shared meanings, and collectively managing risk and uncertainty. In the same vein, community-building theory, originally espoused by Kruckeberg and Starck (1988), suggested a normative model that defined the role of public relations as to restore and to maintain a sense of community (Kruckeberg & Starck, 1988; Starck & Kruckeberg, 2001; Valentini et al., 2012). Societal approaches to public relations have thus emphasized the capacity of public relations to improve society at various levels.

The heightened interest in the societal role of public relations parallels the growing debate in recent years about the role of business in society (e.g., Eesley & Lenox, 2006; den Hond & Bakker, 2007; Lee & Lounsbury, 2011; Kacperczyk, 2009; Reid & Toffel, 2009); this debate largely results from global economic growth, recurring crises in the world's capital markets, and the failure of corporations to adequately redirect resources (Heath & Palenchar, 2009; Porter & Kramer, 2011). Two dominant paradigms shed light on the role of the corporation in society. Classical financial economic theory defines the role of corporation to be shareholder value maximization (Fama & Jensen, 1983; Friedman, 1970). However, this classic view (also called the business view) of the corporation has increasingly come under pressure from society at large as the impact of corporations on society and the natural environment has grown in recent years (Heath & Palenchar, 2009; Ihlen, Bartlett, & May, 2011; Porter & Kramer, 2011). In a sharp contrast to the business view of the corporation, a societal view contends that the role of the corporation is to serve society at large, with the implication of social responsibility and environmental consciousness (Donaldson & Preston, 1995; Freeman, 1984; Heath, 2006; Leeper, 2001; Metzler, 2001). The societal view seems to prevail in today's society, which has increasingly become complex, volatile, and demanding (Castells, 2009; Self, 2010; Valentini et al., 2012). Grounded in the societal perspective, corporate social responsibility (CSR)—the notion that corporations have responsibilities to society that go beyond economic and legal expectations (Carroll, 1979)—has become a coherent way of thinking about the relationship between business and society (Ihlen, 2008; Taylor, 2011).

For publicly traded corporations, the implications of these trends have been amplified by two separate views among shareholders: pressure for short-term financial returns and pressure from the socially responsible investment community to improve corporate social responsibility. Indeed, the trend of socially responsible investing, which considers corporate social responsibility as valid parts of investment decisions, has grown in recent years. The Forum for Sustainable and Responsible Investment reported that socially responsible investing encompasses an estimated $4 trillion out of $33.5 trillion in the U.S. investment marketplace today (US SIF, 2013).

This dissertation studied corporate responses to societal pressures exerted by shareholders—one type of stakeholder (Freeman, 1984)—from an organizational legitimacy perspective. Organizational legitimacy is "a generalized perspective or assumption that the actions of an entity are desirable, proper, or appropriate within socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574). In essence, the concept "organizational legitimacy" refers to the congruence between social system norms and social values associated with or implied by an organization's activities (Dowling & Pfeffer, 1975). Therefore, organizational legitimacy provided a useful tool to explain and predict corporate responses to shareholders who use their ownership rights to influence a corporation's practices and policies in the societal realm. Lee and Lounsbury (2011) referred to this type of shareholder activism on social and environmental issues as *social shareholder activism* (p. 156). In their dual roles as both stakeholders and shareholders, social shareholder activists challenge corporations from inside through institutional mechanisms. Corporate responses to social shareholder activism thus offer an excellent context to study the role of corporations in society from an organizational legitimacy perspective.

## Rationale for Study

Public relations is both a professional practice and a subfield of communication (Botan & Taylor, 2004; Gower, 2006; Heath, 2001) that can be defined from several perspectives. For example, grounded in a rhetorical perspective, Heath (2001) defined public relations as the "management function that rhetorically adapts organizations to people's interests and people's interests to organizations by co-creating meaning and co-managing culture to achieve mutually beneficial relationships" (p. 36). From a managerial perspective, Grunig and Hunt (1984) defined public relations as "the management of communication between an organization and its publics" (p. 4). Placing the process at the center of public relations, Botan (1993) defined public relations as "using communication to adopt relationships between organization and their publics" (p. 153). According to a relational perspective, public relations is building mutually beneficial relationships between an organization and its key publics through its actions and communication (Ledingham & Bruning, 1998, 2000). However, these competing definitions, mostly developed in the United States, explain how public relations must be practiced, but cannot explain the rationale why an organization engages in public relations.

Using organizational legitimacy as a rationale for practicing public relations (Ihlen & Van Ruler, 2009; Holmstrom, 2004, 2005; Vercic et al., 2001), this dissertation focuses on the larger role of public relations in society. Van Ruler and Vercic (2004) defined public relations as "the special concern for broader societal issues and approaches to any problem with a concern for implications of organizational behavior towards and in the public sphere" (p. 6). According to this perspective, the primary concern of public relations should be the organization's inclusiveness and its preservation of the "license to operate" (Van Ruler & Vercic, 2004, p. 7). The essential aspect of public relations is that it is concerned with issues and values that are considered publicly relevant which means relating to the public sphere, which is dynamic and evolving (Bentele & Nothhaft, 2010; Jensen, 2002). This line of thinking suggests that public relations is not only about relations with the public, but it is relations in the public sphere and for the public sphere (Bentele & Nothhaft, 2010; Vercic et al., 2001). Similarly, Holmstrom (2004, 2009) conceptualized public relations as a social activity that improves organizational ability to relate reflectively to the social environment. According to Holmstrom (2004), public relations function is a reflective mechanism that "translates and mediates between different social rationalities" (p. 126). From this perspective, the role of public relations is to reach agreements on mutually acceptable social expectations emerged in the public sphere through engagement. Emphasizing the consequences of organizational behavior for the public sphere, the conceptualization of public relations as a social activity thus highlights the importance of an organization's legitimation within society.

Ferguson (1984) identified three categories of research in public relations: social responsibility/ethics, social issues and issue management, and public relationships. This dissertation examines the social issues voiced by shareholders who demand for improved corporate social responsibility. To date, social pressures exerted by shareholders on corporations have not received scholarly attention in public relations, although the influence and size of social shareholder activism has grown in recent years (Lee & Lounsbury, 2011; O'Rourke, 2003; Sjorstrom, 2008; Tkac, 2006; US SIF, 2013). Social shareholder activism sets an interesting research phenomenon to investigate for those public relations researchers who are interested in the larger role of public relations in society as corporations are one of the primary actors who benefit from public relations practice (Heath, 2010; Ihlen et al., 2011; Valentini et al., 2012). Indeed, with the recent theoretical shift in public relations "from making organizations effective to making society more effective" (Heath, 2010, p. xiii), social shareholder activism can offer new insights into the larger role of public relations in society. Social shareholder activism facilitates the creation of legitimate agenda items in corporate decision-making processes (Lee & Lounsbury, 2011) and elicits changes in corporate policies and practices through voluntary compliance (Carleton, Nelson, & Weisbach, 1998; Guay, Doh, & Sinclair, 2004; Logsdon & van Buren, 2008; O'Rourke, 2003). As such, corporate responses to social shareholder activism have important social implications that deserve a theoretical explanation and an extensive examination.

Academic studies of shareholders in the field of public relations have been largely neglected under the communication domain (Laskin, 2006, 2009; Peterson & Martin, 1996), even though there is an acknowledged need for more scholarship on the topic (Botan & Hazelton, 2006; Toth, 2010). Although public relations claims investor relations—communication with shareholders—as one of its basic specializations in major public relations text books (e.g., Cutlip, Center, & Broom, 1999; Newsom, Scott, & Turk, 1993; Wilcox, Ault, & Agee, 1995), only a few scholars have paid attention to the study of shareholders in public relations research (e.g., Laskin, 2006, 2009; Peterson & Martin, 1996). Botan and Hazelton (2006) warned, "if we continue to ignore this area, it will become the exclusive domain of academic fields (e.g., economics, finance, and management) that do pay attention to it" (p. 16). Therefore, there is a need for more public relations theory development and research attempts to understand the relationship between shareholders and corporations from varying perspectives.

Changing social norms and expectations constitute a source of pressure for organizations (DiMaggio & Powell, 1991; Dowling & Pfeffer, 1975; Meyer & Rowan, 1977). Management disciplines recognize stakeholders as sources of environmental change pressures on organizations (e.g., Clarkson, 1995; DiMaggio & Powell, 1991; Freeman, 1984). However, a reading of the literature suggests that these disciplines reflect a rather reductionist approach to the concept of stakeholders by using dichotomous terms to categorize them. These conceptualizations fall short of understanding the dynamic and socially constructed nature of organizational legitimacy (Dowling & Pfeffer, 1975; Suchman, 1995) in today's world. From a societal view, a public relations approach can advance the understanding of the concept of stakeholder in relation to organizational legitimacy with its emphasis on the evolving and communicative nature of the public (Bentele & Nothhaft, 2010; Self, 2010).

## Theoretical Framework

Societal approaches that explain the constructive role of business in society inform this dissertation. An extensive reading of the literature in organizational theory, public relations, and management has revealed that the concept of *organizational legitimacy* is an overriding theme that describes a meaningful link between a corporation and its social environment (e.g., Boyd, 2000; Donaldson & Preston, 1995; DiMaggio & Powell, 1983; Dowling & Pfeffer, 1975; Heath, 2006; Ihlen & van Ruler, 2009; Kruckeberg & Strack, 2001; Metzler, 2001; Meyer & Rowan, 1977; Suchman, 1995). Suchman (1995) defined organizational legitimacy as "a generalized perspective or assumption that the actions of an entity are desirable, proper, or appropriate within socially constructed system of norms, values, beliefs, and definitions" (p. 574). Although organizational legitimacy is a central concept in the study of the role of the organization in society, research on organizational legitimacy is fragmented across several social sciences. This dissertation took a novel approach to combine three academic disciplines—organizational theory, public relations, and management—under the roof of organizational legitimacy. First, organizational theory, the sociological study of social organizations and their interrelationships with the environment (Dowling & Pfeffer, 1975; Meyer & Rowan, 1977; Pfeffer & Salancik, 1978), has used organizational legitimacy as an overarching concept that addresses the normative forces that constraint, construct, and empower organizational actors. From this perspective, organizations are expected to change their structures or processes to conform to societal expectations about what structures and processes are legitimate to maintain organizational legitimacy (DiMaggio & Powell, 1983; Dowling & Pfeffer, 1975; Meyer & Rowan, 1977). With its emphasis on the interdependence of organization and society, organizational theory provides the basis for the societal approaches to public relations. Indeed, several public relations scholars emphasized the importance of organizational theory for theorizing efforts in public relations (Botan & Hazelton, 2006; Heath, 2006; Toth, 2010).

The public relations literature has recognized the centrality of the concept of organizational legitimacy to public relations theory and practice and laid the foundation for future explorations of the concept (e.g., Boyd, 2000; Grunig, 1992; Metzler, 2001; Heath, 2001; 2010; Ihlen, van Ruler, & Frederickson, 2009). In particular, the concept has enjoyed a resurgence in recent years with the theoretical shift from functional approaches that largely focused on creating strategic messages to achieve organizational goals to a cocreational approach that places building relationships and mutual understanding at the locus of public relations theory and research (Botan & Taylor, 2004; Heath, 2006, 2010). In particular, the interest in the societal role of public relations in recent years has increased the importance of organizational legitimacy. Scholars grounded in a societal view argued that the role of public relations is to build and maintain organizational legitimacy through adjusting organizations to the changing expectations and norms of society (e.g., Holmstrom, 2004; Ihlen & van Ruler, 2009; Raupp, 2004; van Ruler & Vercic, 2004; Vercic, van Ruler, Butschi, & Flodin, 2001). The concept of organizational legitimacy thus ascribes a societal role for public relations.

In management literature, a societal view emphasized that organizations should conform to the stakeholders' expectations and act in the interests of their stakeholders—who affect and are affected by the organization (Freeman, 1984). From this perspective, society has right to establish and enforce a balance of power among its institutions and to grant their legitimacy (Wood, 1991). This perspective has an implicit view that business has obligations as a social institution, and it implies that society has certain sanctions that can be used when these obligations are not met. Stakeholders set the norms for corporate behavior, experience that behavior, and also evaluate it (Clarkson, 1995; Wood, 1991). Thus, the concept of organizational legitimacy is central for exploring the relationship between business and the society at the organizational level.

Given that the concept of organizational legitimacy offers a useful theoretical lens through which organizational conformity to societal expectations and norms can be explained (DiMaggio & Powell, 1983; Heath, 2006; Ihlen & van Ruler, 2009; Meyer & Rowan, 1977; Suchman, 1995), social shareholder activism appears to be a natural new setting for predicting and explaining corporate responses to societal expectations and norms raised by shareholders.

## Purpose and Overview of Study

This dissertation is interested in corporate responses to social shareholder activism enacted by institutional shareholders—organizations that trade securities in large quantities (e.g., public pension funds, unions, religious organizations). The purpose of this investigation is twofold: a) to describe U.S. institutional social shareholder activism, and b) to examine the conditions under which social shareholder activists are likely to elicit positive corporate responses. More specifically, the dissertation conducts a large-scale study of social activism enacted by institutional shareholders through filing resolutions at publicly traded U.S. corporations between 1997 and 2011 and develops and tests a theory of the extent to which social shareholder activists may elicit positive responses from corporations to their societal requests.

Shareholder activism in the United States largely derives from the Rule 14a-8 of the Securities Exchange Act of 1934 (Shareholder Proposal Rule) that states any shareholder who continuously holds shares worth $2000 of stock in a corporation (or 1% of the market value of equity) has right to file a shareholder resolution at publicly-traded U.S. corporations. By law, a corporation is required to include shareholder resolutions in its annual proxy statement—a statement required of a corporation when soliciting shareholder votes prior to its general shareholder meeting—and to be voted upon by all shareholders. The resolutions must be under 500 words in length, and each one ends with a “resolved” clause asking the corporation to take a specific action (e.g., report on greenhouse gas emissions, establish a human rights committee).

Shareholder resolutions are non-binding advisory proposals regarding corporate governance or corporate social responsibility issues (SEC Shareholder Proposals, 2013). In this dissertation an issue refers to a complex problem that involves various stakeholders with broader ethical implications (Kent, Taylor, & Veil, 2011). Corporations have discretion regarding whether to respond to the social issues brought up by shareholder activists in the resolutions. Research on shareholder activism has established (e.g., Carleton, Nelson, & Weisbach, 1998; Del Guercio & Hawkins, 1999; Guay, Doh, & Sinclair, 2004; Logsdon & van Buren, 2008) that shareholder activists generally seek engagement with corporations and withdraw their resolutions before the annual meeting if they received positive responses from the corporations (e.g., agreement to take action on the issue outlined in the resolution, commitment to an ongoing engagement in order to resolve the issue). This dissertation refers to these formal interactions between social shareholder activists and target corporations in order to reach at an agreement as *engagement* between shareholder activists and the corporation. Thus, withdrawn shareholder resolutions on social issues provide an excellent setting for researchers to understand the nature and scope of social shareholder activism and the conditions under which social shareholder activists are likely to elicit positive corporate responses.

This dissertation consists of three empirical studies. To lay a foundation to understand the nature and scope of U.S. social shareholder activism, Study 1 consisted of a descriptive analysis of all shareholder resolutions ($N$ = 14, 271) at U.S. corporations between 1997 and 2011. Study 1 also conducted a quantitative content analysis of withdrawn social shareholder resolutions ($n$ = 1,017) in order to identify types of social issues and requested changes in the resolutions that were withdrawn after shareholder activist-corporate engagement.

To explain and predict the conditions under which shareholder activists elicit positive corporate responses, Study 2 tested two theoretical models on the probability of withdrawing a social resolution and on the implementation level of a withdrawn social shareholder resolution. Theoretical models in Study 2 incorporated the corporate social performance concept (CSP) from management literature (Clarkson, 1995; Wartick & Cochran, 1983; Wood, 1991) in order to operationalize corporate stakeholder commitment. The CSP model allowed the research to utilize a consistent measure to assess corporate commitment to stakeholders. Finally, to illustrate a positive corporate response to a social request for change made in a shareholder resolution, Study 3 conducted a critical case study.

## Theoretical and Practical Contributions

The dissertation holds the potential to make a variety of important contributions to public relations as well as management disciplines. In regard to public relations literature, the dissertation extends the societal view in public relations literature by using the concept of organizational legitimacy as a theoretical lens to understand corporate responses to social pressures exerted by shareholders—one type of stakeholder group who, in management literature, possess power, legitimacy, and urgency in the eyes of corporate management (Agle, Mitchell, & Sonnefeld, 1999; Mitchell, Agle, & Wood, 1997). Despite the common acceptance of organizational legitimacy as a central concept in public relations theory (e.g., Boyd, 2000; Heath, 2006, 2010; Ihlen & van Ruler, 2009; Metzler, 2001), a comprehensive review of the literature over the past decade revealed that our understanding of organizational legitimacy was limited to conceptual studies. Empirical accounts that explain the workings of organizational legitimacy, to date, have been largely missing in the literature. By testing the main assumptions of organizational legitimacy and investigating the effects of other factors on these assumptions, this dissertation offers an analytical tool for future public relations research on organizational legitimacy. A primary criterion in assessing the value of a theory in social sciences is determining its theoretical scope or generality (Chaffee & Berger, 1987; Littlejohn, 2002). Accordingly, if a theory is high in scope, it can be successfully applied to a number of settings and situations. The setting for the current dissertation—social shareholder activism—thus provides a compelling new situation for testing the theoretical scope of organizational legitimacy. Further, by analyzing the social issues raised by shareholders, the dissertation calls attention to the growing function of the public sphere. The dissertation suggests that organizational legitimacy is anchored in the public sphere and argues against the conceptualizations of organization-public interactions through segmenting publics into categories (Grunig & Hunt, 1984) and categorizing stakeholders in a dichotomous approach, such as primary vs. secondary, internal vs. external (Clarkson, 1995; Jones, 1995).

In addition, Toth (2010) lamented that public relations research has not found any publication traction in management discipline as well as in organizational theory literature in sociology. Gower (2006) and McKie (2001) called for studies that integrate management concepts and models into public relations research. By analyzing corporate responses to social shareholder activism through barrowing concepts and variables from management and organizational theory (e.g., CSP model, financial variables), this dissertation answers calls from these public relations scholars for theory building that takes a multidisciplinary approach and incorporates external perspectives.

As previously noted, there is an acknowledged need for more scholarship specifically on investor relations (Botan & Hazelton, 2006; Laskin, 2009; Peterson & Martin, 1996). This dissertation conducted a large-scale study of social activism enacted by shareholders between 1997 and 2011 and developed and tested models of the extent to which corporations respond to shareholders' societal expectations. Given the growing movement of social activism by shareholders in recent years and the importance of communication in this process (Kiefer, 2013; Lee & Lounsbury, 2011; US SIF, 2013), this dissertation offers an important new venue for investor relations theory and practice under the public relations domain. By explaining and testing the factors that affect the process of organizational legitimacy in the social shareholder activism context, this dissertation provided a unique contribution to the overall body of knowledge in investor relations, which recently emphasized the importance of building relationships and trust with shareholders (Laskins, 2006, 2009; Dolphin, 2004, NIRI, 2013).

The dissertation also contributes to the management disciplines by emphasizing the socially constructed nature of organizational legitimacy and pointing out the link between public and organizational legitimacy (Dowling & Pfeffer, 1975; Sethi, 1979; Suchman, 1995). This dissertation argues that *the public sphere*—a figurative space that exists between individuals, organizations, and the government where issues related to public discussed and public opinion is generated (Habermas, 1989)—is an inclusive and comprehensive concept that captures the dynamic interactions among social actors that help build organizational legitimacy in the 21st century (Bentele & Nothhaft, 2010; Ihlen & van Ruler, 2009; Jensen, 2002; Raupp, 2004; Self, 2010; Vercic, van Ruler, Butschi, & Flodin, 2001). From this perspective, organizational legitimacy of a corporation is tied to its capacity to relate to the public sphere.

This dissertation also holds the potential to make important practical contributions to public relations. The dissertation argues that public relations should be concerned with how organizations relate to the public sphere. In essence, public relations are concerned with issues, expectations, and values that are considered publicly relevant. Considering social shareholder resolutions as an expression of expectancy gap (Sethi, 1979) between society and business, the dissertation pointed out the interconnectedness of seemingly different publics. Thus, in the corporate context, social shareholder resolutions can provide a way for public relations practitioners to connect corporations to society through relating them to the public sphere. This will enable corporations to better understand acceptable social behaviors that are constantly defined in public sphere. Thus, social shareholder resolutions function as canaries in the coal mine. Public relations professionals can play a key role in facilitating a conversation with social shareholder activists and advancing an engagement process to improve corporate social responsibility practices.

## Organization of the Study

To provide a background on social shareholder activism, Chapter Two presents a brief history of social shareholder activism and discusses the processes and issues as well as the outcomes and sponsors of shareholder resolutions. The chapter emphasizes the role of shareholder activist-corporate engagement for eliciting changes in corporations. Chapter Three explicates the concept of organizational legitimacy and presents relevant literature in the fields of organizational theory, public relations, and management. After outlining the literature, the chapter then proposes a set of hypotheses for predicting the conditions under which social shareholder resolutions are more likely to be withdrawn and the extent to which withdrawn social resolutions are implemented by target corporations. Chapter Four describes the methodology of the dissertation's three studies, including 1) a descriptive and content analysis of social shareholder resolutions; 2) two theoretical models predicting the probability of withdrawing a social shareholder resolution and the level of implementation of a withdrawn social resolution; and finally, 3) a case study that illustrates the implementation of a change proposed in a withdrawn social shareholder resolution. Chapter Five presents the results of the research, addresses the research questions, reports results of hypotheses testing, and provides results of the illustrative case study. Finally, Chapter Six discusses the findings as well as the theoretical and practical contributions, states the limitations, and suggests some avenues for future research in public relations. The dissertation ends with concluding remarks.

# CHAPTER TWO: SOCIAL SHAREHOLDER ACTIVISM

In 2007, a group of dissident shareholders of the Exxon Mobil Corporation, including large public pension funds, urged the company to take a responsible position on climate change by using their shares. These shareholders are, by definition, internal stakeholders (Freeman, 1984) and owners of a public company. They believed that even though Exxon had been delivering good financial returns for its investors in recent years, the company still lacked an adequate response to climate change (Erman, 2007). The Exxon Mobil shareholder case is an example of a segment of stakeholders who use their ownership rights to change corporate policies and practices in order to improve society at large, even if the return on their investment is financially acceptable.

To ensure that corporations remain cognizant of their social and environmental responsibilities and stay committed to resolving social and environmental issues, shareholder activists attempt to influence a corporation's practices and policies through institutional channels. Lee and Lounsbury (2011) referred to this type of shareholder activism on social and environmental issues as *social shareholder activism* (p. 156). Social shareholder activists believe that they must achieve more than financial profit and they voice their concerns to change unjust and harmful corporate practices that affect the welfare of non-shareholding stakeholders. Moving beyond the norms of passivity, social shareholder activists challenge corporations from inside through using institutional mechanisms. As Weber, Rao, and Thomas (2009) put it, these shareholders are "activists in the suits" rather than "activist in the streets" (p. 106).

Gillan and Starks (1998) argued shareholder activism arises when shareholders believe that the corporate management has failed in its duty, that is, they are dissatisfied with the performance of the corporation. These scholars defined a shareholder activist as “an investor who tries to change the status quo through ‘voice,’ without a change in the control of the firm (Gillan & Starks, 1998, p. 3).  Shareholder activists’ voice is most frequently expressed in shareholder activism by filing shareholder resolutions for inclusion on a corporation’s annual proxy statement, in private engagements with management or board of directors over an issue, or by putting pressure on a corporation by bringing the issue to the attention of the media (den Hond & de Bakker, 2007; Gillan & Starks, 2007). Often, shareholder activists combine all of these strategies to enhance their influence on corporate managements.

Because shareholders legally own shares of stock in a public or private corporation, they have direct connections with the corporation. Shareholders possess legitimate channels such as letter writing, direct communication with top management or board directors, filing resolutions, and posing questions at the general meetings. In a sense, these shareholders are engaged in activism to advocate for the well-being of non-shareholding stakeholders. Social shareholder activism thus provides an excellent context in which to study the concept of organizational legitimacy in relation to the broader question of the role of public relations in society.

## History of Social Shareholder Activism

While social shareholder activism has been experiencing a resurgence in recent years, shareholders have been attempting to hold the publicly-held U.S. corporations accountable for social issues well over a century (Graves, Rehbein, & Waddock, 2001). The history of social shareholder activism dates back to Quaker religious congregations in the early twentieth century, when these groups chose not to invest in alcohol and weapons manufacturing corporations (Vogel, 1983). However, the early forms of shareholder activism were religiously motivated and largely relied on avoiding “sinful” businesses, such as tobacco, alcohol, and fire arms, rather than actively challenging the corporate managements.

Even though the U.S. Securities Exchange Commission rule introduced the shareholder resolution in 1942, modern social shareholder activism emerged in early 1970s (Gillan & Starks, 1998). In 1970, the Medical Committee on Human Rights filed a resolution at Dow Chemical requesting that the corporation stop napalm production that was being used during the Vietnam War. The corporation sent the resolution to the Securities and Exchange Commission (SEC) for disqualification, and the SEC omitted the resolution under the ordinary business rule. However, the shareholder activist group won a lawsuit through the U.S. Court of Appeals. The Court ordered the SEC to review its support for Dow Chemical’s decision to omit a shareholder resolution from its proxy regarding restricting the company’s sale of napalm (Gillian & Starks, 2007). The Medical Committee of Human Rights ultimately won the right to file the proxy in the following year. In turn, the SEC expanded the interpretation of Rule 14a-8 so that social responsibility-related issues could also be submitted by shareholders for inclusion on corporate proxy statements. The same year, an organization called the Project on Corporate Responsibility announced that it was submitting nine social responsibility-related resolutions to be voted that General Motors (Vogel, 1983). The SEC ruled that General Motors was required to include two of these “Campaign GM” social resolutions on its proxy statement (Vogel, 1983). While each resolution received very low support (less than 3%) at the annual meeting, the campaign paved the way for a new era of social shareholder activism via filing resolutions.

Social shareholder activism has fully utilized the institutional setting when the Interfaith Center on Corporate Responsibility (ICCR) was formed in 1972 as a voice of other religious investors to push corporations divest from South Africa in protest of apartheid (Guay, Doh, & Sinclair, 2004; Proffitt & Spicer, 2006). Since the 1970's, social shareholder resolutions have been filed at U.S. corporations related to issues such as apartheid, tobacco, nuclear power, labor standards, human rights, discrimination on the basis of sexual orientation, and genocide in Sudan. Figure 1 exhibits a timeline of shareholder activism in the U.S. based on a reading of the literature.

In essence, social shareholder activism is one of the main components of socially responsible investing (SRI)—an investment movement which seeks to consider social good along with financial return (Guay et al., 2004; Tkac, 2006; Sjostrom, 2008). The Forum for Sustainable and Responsible Investing, the U. S. membership association for professionals, corporations, institutions, and organizations engaged in socially responsible investing, describes SRI investment as the following:

> SRI recognizes that corporate responsibility and societal concerns are valid parts of investment decisions. SRI considers both the investor's financial needs and an investment's impact on society. SRI investors encourage corporations to improve their practices on environmental, social, and governance issues. You may also hear SRI like approaches to investing referred to as mission investing, responsible investing, double or triple bottom line investing, ethical investing,

> sustainable investing, or green investing. (Socially Responsible Investing Facts, 2013, para. 2).

SRI thus broadly refers to the financial investment that takes account of social, ethical (including religious), and environmental criteria. Socially responsible investors typically look at a company's internal operating behavior such as employment policies and benefits, and external practices such as effects on the environment and indigenous people, and also its product line such as tobacco or defense equipment to determine whether they should invest in the firm (Guay et al., 2004). Thus, in addition to financial returns, social responsible investors are concerned about their investments' impact on society in the long-term.

Traditionally, faith-based organizations as well as a few individuals and social activists are associated with the social responsibility rationale. Perhaps the best example is the Interfaith Center on Corporate Responsibility (ICCR). The ICCR is a coalition that represents 275 faith-based institutional investors that seek to use their investment assets according to their values and as a vehicle to pressure corporations to behave responsibly. ICCR (2013) describes its mission as "through the lens of faith, ICCR builds a more just and sustainable world by integrating social values into investor actions" (ICCR, Out Mission, para. 1). Religious Communities Investment Fund (RCIF), another faith-based activist organization describes its inspiration for socially responsible investing as the following:

> The Fund is a coordinated effort of various Catholic Religious Congregations who believe, as Gospel people, that they are called to use their financial resources as a ministry to assist in overcoming social and environmental

> inequities. The Congregations pool their individual assets to support the mission of promoting economic justice through investments in low-income communities worldwide. By investing in organizations that address the economic inequalities in low-income communities, the Fund seeks to promote an economy of solidarity and reflect the Gospel values of economic justice, compassion, human dignity and environmental stewardship. (Mission of the Fund, 2013, para. 1).

Shareholder activists inspired by the socially responsible investing movement thus seek to promote their social values and voice their expectations through institutional channels such as resolution filing. Shareholder guided by socially responsible investing have historically been focused on issues such as labor, human rights, the environment, and international relations, as well as varied social and religious concerns (Graves et al., 2001; Rehbein, Waddock, & Graves, 2004).

**Social Shareholder Activism as a Social Movement**

Recently, social movement literature has been increasingly applied in management research to analyze corporate responses to social pressures exerted by stakeholders (e.g., den Hond & de Bakker, 2007; Lee & Lounsbury, 2011; Reid & Toffel, 2009; Rowley & Moldoveanu, 2003; Weber, Rao, & Thomas, 2009). Social movement In this dissertation, social shareholder activism is conceptualized as a form of social movement. According to Zald and Berg (1978), a social movement is "the expression of a preference for change among members of a society" (p. 828). Social movements consist of mobilized or activated demands and preferences for change in society (Rowley & Moldoveanu, 2003). Essentially, the purpose of social movement is to "do something" about the concern and to promote or resist change in the group, society, or world order of which they are a part" (Zucher & Snow, 1981, p. 447). According to Rowley and Moldoveanu (2003) social movements are collectivities acting with some degree of organization and continuity, partly outside institutional or organizational channels, for the purpose of challenging extant systems of authority, or resisting change in such a systems, in the organization, society, culture, or world system in which they are embedded.

Social shareholder activism nicely fits with these definitions of social movements with few amendments. As mentioned above, shareholder activism is usually driven by interested collectives such as religious pension funds (e.g., Interfaith Center on Corporate Responsibility, Pension Fund of the Christian Church, Religious Communities Investment Fund) and special interest groups (e.g., the Forum for Sustainable and Responsible Investment, Ceres) working together with some degree of collective organization. For example, a significant part of the shareholder activism on social and environmental issues is systematically enacted by the ICCR (Guay et al., 2004; Logsdon & van Buren, 2008; Proffitt & Spicer, 2006). Shareholder activism also shows a degree of continuity. As discussed earlier, the origins of social shareholder activism date back to the Quaker tradition (Vogel, 1983). In addition, shareholder activism has a suprainstitutional orientation in that it represents various social interests and goals. Finally, shareholder activism is change oriented in that members of the movement seek changes, in line with their values and beliefs, in corporate social behavior and policy.

Social movements and activists struggle and compete for power through using public discourses and framing issues (Burns, 1999; Burns & LaMoyne, 2003; Snow et al., 1986; Zuckher & Snow, 1981). As a form of social movement that occurs inside organizations (Zald & Berger, 1978), social shareholder activism utilizes various channels to achieve its goals. Filing resolutions at corporations is one of the institutional mechanisms through which shareholder activists "voice" their concerns about social issues (Gillan & Starks, 2000, p. 276) and draw public attention to these issues.

Why do shareholder activists take action on social issues? In management literature, Rowley and Moldoveanu (2003) developed a model of stakeholder group action combining two different perspectives: interest- and identity-based perspectives. The interest-based perspective of stakeholder action holds that stakeholders are more likely to interact with a corporation when they feel that their specific interests are not receiving enough attention from a corporation. On the other hand, identity-based stakeholder perspective argues that stakeholders may have an incentive to mobilize or undertake action to strengthen their solidarity or collective identity. Rowley and Moldoveanu (2003) argued that filing shareholder resolutions on social responsibility issues is an example of stakeholder action with negligible rational benefits.

Indeed, social shareholder activists face several challenges in trying to get a social resolution passed. First, social shareholder activists target large corporations (Rehbein, Waddock, & Graves, 2004). The ownership of large corporations is widely distributed and it is hard to garner support from other shareholders to receive majority vote on a resolution (Ertimur et al., 2010). Second, from a resource dependency perspective (Pfeffer & Salancik, 1978), which explains how the external resources of organizations affect the organizational behavior, corporate managers and board members control most of the corporate resources. Third, social shareholder activists often introduce resolutions addressing topics that are little interest to other shareholders (Rowley & Moldoveanu, 2003). One possible explanation is that social shareholder activists perceive that they can still achieve important goals even if the resolution does not pass. This point will be discussed further in the outcomes of social shareholder resolutions section.

### Shareholder Activism through Filing Resolutions

In the U.S., shareholders have been actively pressuring corporate managements to address social issues through proxy voting process[1] for many decades. Institutionally, shareholder activism largely derives from the Securities and Exchange Commission (SEC). U.S. Congress places responsibility with the SEC to regulate the solicitation and issuance of proxies for companies listed on U.S. stock exchanges. Under Rule 14a-8 of the Securities Exchange Act of 1934 (Shareholder Proposal Rule), any shareholder who continuously holds shares worth $2000 of stock in corporation (or 1% of the market value of equity) for at least one year is allowed to include one proposal with a 500-word supporting statement in the proxy distributed by the company prior to its general shareholder meeting. Each shareholder may submit no more than one proposal to a company for a particular shareholders' meeting. Either the sponsoring shareholder, or a representative who is qualified represent the sponsor, must attend the meeting to present

[1] Shareholders have the right to vote on certain corporate matters (e.g., electing directors to the board, approving mergers and acquisitions, CSR operations). Since most shareholders cannot attend the annual and special meetings at which the voting occurs, by law, corporations provide shareholders with the option to cast a proxy vote. Shareholders receive a proxy ballot in the mail along with an informational booklet called a proxy statement describing the issues to be voted on (including shareholder resolutions). Shareholders return a form by mail agreeing to have their vote cast by proxy. Since 2007 with the SEC's electronic access rule, shareholders have been able to cast their votes via online.

the proposal. Thus filing a proposal, or a resolution, provides an institutional mechanism for shareholders to voice their social concerns.

With the pervasive use of the Internet and new media technologies in recent years, the SEC passed an electronic access rule in 2007. The rule allows shareholders to receive a notice in the mail on where they could go online to find annual reports and other access materials. Once there, they could cast their votes for or against corporate agendas, from a keyboard. The rule was part of a boarder ongoing initiative to encourage shareholder participation in corporate affairs (Securities Technology Monitor, 2010). Thus, the rule has enabled shareholder activists concerned about corporate governance and corporate social responsibility issues to receive proxy materials over the Internet in their convenience and vote on corporate agenda online, by clicking their choices. Another SEC rule that has significantly affected the development of social shareholder activism is about communication among shareholders. In 1992, the SEC passed rules allowing shareholders to directly communicate with each other. Prior to the 1992 changes, if more than ten shareholders as a group discussed a company's business; they were required to send information to the other shareholders. By relaxing the restrictions on the disclosure of communications among shareholders, the new rules significantly lowered the costs and potential of legal liability associated with shareholder activism (Del Guercio & Hawkins, 1999: Gillan & Starks, 2000). With this change in communication rules, it got less costly to create shareholder coalitions to obtain more support for desired changes. As a result, shareholder activists, including social shareholder activists, have begun having more direct engagement with corporate managements and more capacity to mobilize support for action, increasing the impact of shareholder activism on corporations (Guay et al., 2004; MacLeod, 2009; Proffitt & Spicer, 2006). One of the primary formal mechanisms through which shareholder activists take action is to file a shareholder resolution.

*Defining a shareholder resolution.* Shareholder resolutions are non-binding advisory proposals regarding corporate governance or social and environmental issues. The SEC (2013) explains the function of a resolution, or a proposal, as the following:

> A shareholder proposal is your recommendation or requirement that the company and/or its board of directors take action, which you intend to present at a meeting of the company's shareholders. Your proposal should state as clearly as possible the course of action you believe the company should follow. (SEC, Shareholder Proposal, para. 1)

In essence, the shareholder resolution rule is an attempt to provide shareholders with a means to inform corporate boards about issues that are important to them. The shareholder resolution thus provides a formal tool for social shareholder activists to voice their concerns and exert pressures on corporations. A social shareholder resolution can ask a company "to adopt a human rights policy, to issue a report on how it plans to mitigate risk pertaining to greenhouse gas emissions or to implement ethical codes of conducts for its supply chain" (Sjorstorm, 2008, p. 142). Concurrently or sequentially with the issue definition, shareholders activists identify the target corporations with the regard to the issue (Rehbein et al., 2004) and then make their concerns known to the corporate management (Logsdon & van Buren, 2008). Most commonly, in the spirit of engagement to communication with the target corporation, the shareholder activist may write a letter (enclosing a copy of the resolution) to the corporate management about the issue and seek to engage in a conversation (Carleton et al., 1998; Logston & van Buren, 2008). If the shareholder activists get no response or an unsatisfactory response to the letter, then a shareholder resolution may officially be filed. By law, a corporation is required to include shareholder resolutions in its annual proxy statement—a statement required of a corporation when soliciting shareholder votes prior to its general shareholder meeting—and shareholder resolutions are voted upon by all shareholders. Shareholder resolutions must be under 500 words in length and must follow a certain structure.

*Structure of a shareholder resolution.* The resolutions must be under five hundred words in length, and each one ends with a "resolved" clause requesting the target corporation to take a specific action (e.g., to report on CO2 emissions, to adopt a policy). In the beginning of the resolution, shareholder activists provide some evidence (e.g., statistics, examples) to warrant their arguments and justify their positions. After the change is requested, supporting statements are provided to bolster the proponent's position. In these arguments, shareholder activists strategically emphasize that the proposed changes not only serve to the specific cause, but also contribute to creating shareholder value overall.

As mentioned earlier, after institutional shareholder activists clearly define and frame the issue and draft the resolution and identify the target corporation (Rehbein et al., 2004), in the next process they write a letter to the corporation about the issue enclosing a draft of the resolution. Appendix A presents an example of a shareholder letter accompanied by a shareholder resolution sponsored by California State Teachers' Retirement Systems targeted to Chesapeake Energy. Shareholder letters are designed to engage the corporation in a conversation about the issue under consideration (Carleton, Nelson, & Weisbach, 1998; Logson & van Buren, 2008; Proffitt & Spicer, 2006). In a case study of the process of private negotiations that consisted of correspondence between TIAA-CREF and 45 targeted companies, Carleton, Nelson, and Weisbach (1998) described the step of engaging the targeted corporation, what they called of "jawboning" (p. 1339), as the following:

> Often this step begins with a formal letter or telephone call to the targeted firm explaining why the firm was targeted and what action the institution desires from the targeted firm. In more adversarial institutions, the institution will publish the letter; however, most institutions seek a quiet and friendly dialogue. With many activist funds, including TIAA-CREF, a proxy resolution is sent to the targeted firm simultaneously with the effort to initiate dialogue. (p. 1339)

Logson and van Buren (2008) explained that concurrently or sequentially shareholder activists write a letter to the corporation seeking for an engagement on the issue. If the shareholder activists get no response or an unsatisfactory response to the letter, the shareholder resolution may be filed with several outcomes that will be discussed in the next section. However, even if the sponsors officially filed the resolution, target corporations can still seek to have a conversation with sponsors before the annual meeting.

## Types of Social Issues Raised in Shareholder Resolutions

Prior research indicated that shareholder resolutions generally ask the target corporations to take action on one of two broad topics: corporate governance or social responsibility (including environmental responsibility) (Gillan & Starks, 2000, 2007;

Sjorström, 2008; Thomas & Cotter, 2007). Corporate governance defined as a set of mechanisms through which shareholders can limit managerial discretion to pursue ends other than shareholder value (Fama & Jensen, 1980). Corporate governance resolutions ask such things as the removal of the company's anti-takeover defenses, changes in the way directors are elected to the board, or reductions in the level of executive compensation. Corporate governance resolutions are thus concerned with maximizing shareholder value and limiting expenses on non-shareholding stakeholders. In contrast, social responsibility shareholder resolutions focus on the interests of non-shareholding stakeholders. They cover a wide variety of possible actions such as disclosing data on a corporation's operation's environmental impact, labeling gene-engineered foods, production methods, adopting sexual orientation anti-bias policies, or implementing ethical codes of conduct for overseas operations.

In their analysis shareholder resolutions filed over the period of 2002 and 2004, Thomas and Cotter (2007) categorized resolution types into two groups: corporate governance and social responsibility resolutions. The governance resolutions included shareholder resolutions auditor independence, and compensations. The social responsibility resolutions included a wide range of social and environmental issues ranging from reporting on gene-engineered food, to labeling gene-engineered foods, reporting on greenhouse gas emissions and FSC,[2] reporting on/reducing greenhouse gas emissions, reporting on waste storage at nuclear plants, obtaining power supplies from

[2] The Forest Stewardship Council (FSC) sets standards, monitors certificated operations and issues and protects the FSC trademark to allow customers to choose from socially and environmentally responsible forestry. See Forest Stewardship Council at http://ic.fsc.org/about-us.1.htm

clean, renewable sources, implementing ILO standards[3] and third-party monitors, reporting on political donations and policies, adopting a code of conduct for China operations, implementing the MacBride principles,[4] or adopting sexual orientation anti-bias polices. The researchers found that, over the period of 2002-2004, there were more governance resolutions (more than twice in number) that reached at annual meetings for vote than social resolutions, and the corporate governance resolutions were approved on average by 34.14% of the votes cast, while social resolutions average only 10.75% of the vote cast (Thomas & Cotter, 2007). However, researchers noted a growing shareholder support for social resolutions.

Social issues addressed in shareholder resolutions have varied over time (Graves, Rehbein, & Waddock, 2001: Vogel, 1983), reflecting the dynamic nature of society. Vogel (1983) examined trends in social shareholder resolutions during 1970 and 1982 and identified an emerging social issue activism mostly led by individual shareholders. In a descriptive study of shareholder resolutions filed at U.S. corporations for the time period of 1988-1998, Graves, Rehbein, and Waddock (2001) found that social topics addressed in shareholder resolutions ranged widely. Moreover, by counting the number of resolutions on a given subject during any given year and total resolutions over time, the researchers demonstrated that issues vary greatly in the intensity of

[3] International Labor Organization (ILO) is a United Nations agency that sets standards and shape policies for decent a work experience. See http://www.ilo.org/global/about-the-ilo/lang--en/index.htm

[4] The MacBride Principles consist of nine fair employment principles that feature a corporate code of conduct for United States companies doing business in Northern Ireland. Some of the principles include increasing the representation of individuals from under-represented religious groups in the workforce including managerial, supervisory, administrative, clerical, and technical jobs; and the establishment of procedures to assess, identify, and actively recruit minority employees with the potential for further advancement. For more information see Booth, H. E., & Bertsch, K. A. (1989). *The MacBride Principles and US Companies in Northern Ireland*. Investor Responsibility Research Center (http://www.irrcinstitute.org/).

attention they received by shareholder activists. The researchers found that the most prominent topics during the study time period (1988-1998), in decreasing order of frequency were: South Africa, environment, human rights, diversity, tobacco, and labor.

Descriptive studies of shareholder resolutions suggested that social shareholder resolutions mirrored the compelling social issues at the time. In the 1960s and 1970s, shareholders pressured corporations on issues such as black rights and equal opportunities (e.g., the FIGHT group challenged Eastman Kodak on black employment issues) and on anti-Vietnam war protests against companies such as Dow Chemical for the production of napalm and Honeywell for producing weapons. In the 1990s international conduct vaulted at the top of social shareholder agenda. For example, in a descriptive study that spans 1990-2003, Proffitt and Spicer (2006) detected a trend that shareholders asked for general codes for human rights and labor standard issues. Similarly, Tkac (2006) examined shareholder resolutions over a 10-year period (1992-2002) and found that the three most common issues for shareholder resolutions were international conduct, environmental issues, and antidiscrimination; the least common issues were media/TV and animal rights. Tkac speculated that the emphasis on international operations reflected the passage of NAFTA and rising concerns over globalization in the 1990s. The aforementioned studies called for new studies that analyze the recent trends in shareholder resolutions. Indeed, there is no recent study that examines the social issues addressed in the shareholder resolutions in the last decade.

## Types of Changes Requested in Social Shareholder Resolutions

As discussed earlier, a shareholder resolution is a recommendation or a requirement that the company take action (SEC, Shareholder Proposal, 2013). The SEC advised shareholders that “the proposal should state as clearly as possible the course of action you believe the company should follow” (para. 1). Therefore, a specific action word that well defines a change is a key for resolution’s success.

Some of the specific actions social shareholder activists can ask in the resolutions include: make a contribution, disclose information or issue a report, change a corporate policy (unrelated to production or main business), fundamentally change operations, production, or marketing practices, or research or review an issue (Tkac, 2006). Examples of a requested change in corporate policy are the endorsement of the MacBride Principles (nondiscrimination in North Ireland plants), the creation of criteria for corporate political contributions, or a call to increase board diversity (Rehbein et al., 2004). Under SEC rules, a shareholder resolution cannot ask a change that is related to ordinary business. Policy changes in the examples request for solid action but do not relate directly to the corporation’s operations or the selling of its products as opposed to changes such as closing a plant or exiting a line of business (e.g., asking Philip Morris to stop selling tobacco products). Examples of procedural changes requested in social resolutions include reducing greenhouse gas emissions or to changing the pricing policy to make drugs available in developing countries (Graves et al., 2001).

Research also suggests that certain types of investor organizations have established a social issue agenda by consistently filing resolutions asking for a specific change. For example, religious investors have been traditionally concerned with improving international human rights and labor standards (Proffitt & Spicer, 2006). Being a prominent leader of corporate governance resolutions since 1985 (Del Guercio & Hawkins, 1999; Gillan & Starks, 1998), public pension funds have recently entered the field of social issue activism filing resolutions that request target corporations to adopt sexual orientation anti-discrimination policy. As such, there exists a close relationship between the social issues raised in the resolutions and the sponsors of these resolutions.

## Types of Sponsors who File Social Shareholder Resolutions

Social shareholder activists consist of different types of sponsors. Studies in the management literature tend to broadly categorize social shareholder activists into two groups: individual and institutional. Individual shareholder activists, often called "corporate gadflies" (Guay et al., 2004, p. 125), have been traditionally the prominent proponents social shareholder resolutions (Gillan & Starks, 1998; Vogel, 1983). In fact, early social shareholder activism via filing resolutions was led by two individual investors, the Gilbert brothers, who actively pursued to make corporate management more accountable to their shareholders and stakeholders (Gillan & Starks, 1998). Behind the "Campaign GM," a successful campaign against General Motors launched in 1970, was Ralph Nader—another individual shareholder activist. Nader demanded that the company should be more responsible to society's needs in the areas such as environmental pollution and discrimination. The campaign was instrumental for the progress of social shareholder activism because it successfully pressured the company by gaining high profile media interest (Logsdon & van Buren, 2008). However, while individual shareholders are highly active in social responsibility issues, their influence over corporate managements is often questioned (Tkac, 2008; Proffitt & Spicer, 2006). This dissertation focuses on social shareholder activism enacted by institutional shareholders—organizations that trade securities in large quantities. The next section discusses types of institutional shareholder activists who file social resolutions.

*Types of institutional social shareholder activists.* Institutional shareholders have been highly engaged with shareholder activism since the formation of Council of Institutional Investors in 1985 (Gillan & Starks, 1998). Because institutional investors, such as pension funds and mutual funds, own large portions of a corporation's shares, when they are dissatisfied with the corporation, they tend to avoid the exit option, which means selling their holding in the corporation (Gillan & Stark, 2007). Instead, they hold their shares and attempt to influence corporate-decision making processes. Such large shares also mean that institutional shareholder activists have more legitimacy, power, and urgency than the individual shareholder activists in the eyes of corporations (Mitchell et al., 1999). Indeed, particularly in the post-Enron era, the size and influence of institutional shareholder activism has grown over the last decade (Gillan & Starks, 2007; Lee & Lounsbury, 2011; Proffitt & Spicer, 2006; Smith, 2012; Thomas & Cotter, 2007).

The institutional shareholder activists who voice their discontent with the corporate management cover a wide range of spectrum of organizations, from socially responsible investment (SRI) pension fund managers, religious groups, churches, to trust funds and endowments. The next sections briefly discuss the major sponsors of social shareholder resolutions.

*Religious shareholder groups.* Churches and religious groups have been highly active with shareholder activism for the last two decades. In particular, religious groups play a leading role in social shareholder activism. For example, in their study of shareholder activism on global social issues in the last decade, Proffitt and Spicer (2006) found that religious groups first framed the agenda and then reached out to other types of investors, such as public pension funds, forming large coalitions to file shareholder resolutions. Profitt and Spicer (2006) argued that religious groups have played an instrumental role in the development of the social issues for corporate agenda, by generating campaign ideas, framing the issues in consistent with societal rationales, and forming coalitions.

Interfaith Center on Corporate Responsibility (ICCR) is the leader of religious organizations engaged in social shareholder activism in the U.S. ICCR is a coalition of 275 faith-based institutional investor members including churches (Episcopal Church), pensions (the United Methodist Church pension), orders (the Sisters of Charity), faith-based health care corporations (the Advocate health Care System), and religious foundations (the Catholic Foundation). The organization describes its mission as "utilizing religious investments and other resources to change unjust or harmful corporate policies, working for peace, economic justice and stewardship of the Earth" (ICCR, 2013, para. 1). Another religious group, the Benedictine Sisters, the Sisters of Humility of Mary and Trillium Assets Management asked Citigroup that "the company incorporate in its project its impact on the environment and human rights" (O'Rourke, 2002, p. 7). Essentially, social shareholder activism enacted by religious shareholders is driven from religious values, and the goals center on social good.

*Public pension funds.* As pension funds have become larger players in the stock market, their involvement with shareholder activism (Del Guercio & Hawkins, 1999; Gillan & Starks, 2007; Smith, 2012) has increased. Public pension funds include large institutional investors that pool large sums of money and invest in securities and assets in firms. Major public pension funds in the U. S. include the California Public Employees' Retirement System (CalPERS), New York City Public Pension Fund, and New York State Common Retirement Fund. In recent years the public pension funds have become active filers of environmental and social shareholder resolutions issues (Sjorstrom, 2008; Smith, 2012). For example, in 2012, New York State Common Retirement Fund took the lead in the campaign to get corporations to include sexual orientation as a protected category in their Equal Employee Opportunity (EEO) statements (Mathiasen, Mell, & Gallimore, 2012).

Gillan and Starks (1998) noted a change of tactic over the course of public pension activism in the late 1990s that the funds submitted fewer resolutions while trying harder to initiate an engagement with targeted corporations. In consistent with Gillan and Starks's observations, Del Guercio and Hawkins (1999) found that, between 1987 through 1993, public pension funds increasingly became more successful at monitoring and promoting changes in target corporations through private engagements than previously recognized. Discussing some motivations for public pension shareholder activism, Del Guercio and Hawkins noted that a pension fund might pursue activism "to affect the behavior and management not only of the companies it targets, but also of many other companies that proactively make changes to avoid conflict and public scrutiny" (p. 294). In a case study of TIAA-CREF shareholder activism, Carleton et al. (1998) found that the pension fund was able lead the targeted corporations to implement proposed changes. Given that public pension funds can effectively pressure companies on corporate governance issues (Ertimur et al., 2010;

Thomas & Cotter, 2007; Smith, 2012), the engagement of pension funds in corporate social responsibility issues is encouraging for positive social change.

*Socially responsible investing funds.* Socially responsible investing (SRI) organizations manage mutual funds for investors who want to invest their money according to ethical guidelines. Some of the leading SRI funds in the U.S. include Calvert Asset Management, Walden Asset Management, and Domini Social Investment. These funds engage in shareholder activism as a business. SRI funds usually follow two strategies: screening out investments that are not social responsible and investing in socially responsible stocks while targeting them with shareholder resolutions (Tkac, 2006). For these funds, social activism is an asset to attract their clientele (Tkac, 2006; Sjorstrom, 2008). SRI mutual funds tend to disclose detailed information on investment policies, activities, shareholder activism engagements, and result. For example, Calvert Investments, a SRI shareholder activist fund, publishes on its organizational website a list of its record of recent shareholder resolution activities and publicly discloses the names and progresses of targeted corporations (www.calvert.com). The fund explained its need for socially responsible investing as the following:

> In an uncertain world, we invest as an act of faith in the future, with the belief that we can shape it. When headlines consistently reflect seemingly insurmountable challenges—volatile global markets, nuclear scares, oil wars, water shortages, and famine—smart investments requires vision that extends well beyond balance sheets and stock prices.(Sustainable and Responsible Investing, Calvert, 2013, para. 1).

SRI funds emphasize the need for responsible investing and the viability of aligning personal values with performance. In addition to screening out on the grounds of social and environmental performance, SRI mutual funds have been actively involved with creating greater awareness among companies of the environment and social aspects of their business operations. Indeed, SRI mutual funds and the amounts invested in SRI have been on the rise in recent years. Social Investment Forum reported that assets in socially responsible investment portfolios in the U.S. reached close to $4 trillion at the end of 2011 (out of total $33.3 trillion investment assets). In other words, socially responsible investing accounts for 11.23 percent of all assets in the United States by the year 2011 (U.S. Socially Investing Forum, 2013).

*Union pension funds.* Labor union funds such as the American Federation of Labor and Congress of Industrial Organizations and International Brotherhood of Teamsters have been involved with shareholder activism since 1990s (Gillan & Straks, 2000). Union pension funds traditional have been active in filing resolutions on corporate governance issues (Schwab & Thomas, 1998). Especially in recent years, union funds have withdrawn from social shareholder activism and focused largely on corporate governance resolutions (Tkac, 2006). Union shareholder activism features a unique realignment of interests for corporate managers as unions represent workers' interests through using the shareholder-voting mechanism. Union pension funds have pursue social shareholder activism among the corporations that employ their members. However, recently union shareholder activism has been criticized by the U.S. Chamber of Commerce, accusing unions of "politicizing the boardroom" and "promoting unrelated narrow interests" (U.S. Chamber of Commerce, 2013, para. 2).

*Special interest groups.* Special interest shareholder activist groups are based upon on a narrowly defined agenda that is perceived to be of important to their members. For example, the mission of Rainforest Action Network is “to campaign for the forest, their inhabitants and the natural systems that sustain life by transforming the global marketplace through educations, grassroots organizing and non-violent direct action” (Rainforest Action Network, 2013), while the mission of Human Rights Campaign is “to achieve lesbian, gay, bisexual and transgender equality” (Human Rights Campaign, 2013). Special interest shareholder groups are somewhat different than the other social shareholder activist sponsors. First of all, special interests groups are not necessarily motivated by creating and maintain shareholder value. These organizations may want to cause financial harm to a corporation, such as encouraging consumer boycotts, to achieve their goals. Other institutional shareholder activists, such as public pension funds and SRI funds, advocate for improving corporate social performance while maintaining a positive financial return at the same time. Second, special interest activist groups largely rely on confrontation with corporations and publicity as a tool of facilitating desired changes (Tkac, 2006). However, other institutional shareholder activists initiate private engagements with corporate managers.

For special interest groups, filing resolutions is yet another way to pursue their issue agenda. For example the People for the Ethical Treatment of Animals (PETA) described its involvement with shareholder activism as the following: In our unending quest to find new and innovative ways to help animals, PETA now owns stock in more than 80 meat producers, clothing, retailers, fast food and grocery chains, and pharmaceutical companies” (PETA, Investing in Animals: PETA’s Shareholder

Resolution Campaign, para. 2, 2013). Nevertheless, shareholder activism is a slightly less common strategy for special groups; compared to religious organizations and pension funds, as these groups may not have a large sum of investment assets (O'Rourke, 2002).

An emerging trend in the social shareholder activism is that special interest groups seek for institutional investor collaborations (particularly public pension and SRI fund collaborations) to facilitate their issue agenda. The goal of these collaborations is to make their demands more salient and legitimate in the eyes of corporate managements and other stakeholders (Guay, Doh, & Sinclair, 2004; McLeod, 2002). For example, the Carbon Disclosure Project (CDP), a special interest group, sends out an annual letter to large U.S. and international corporations on behalf of over 722 institutional investors holding $87 trillion in assets. The letter requests that firms disclose all of their greenhouse gas emissions (CDP, 2013). Through leveraging shareholder pressure, the organization gathers self-reported environmental information from the target corporations. CDP then makes this data collection available to investment managers and advisors, asset owners, data and index providers, banks and brokers.

**Process of Filing and Outcomes of Social Shareholder Resolutions**

When the sponsor files the resolution at corporation, the target corporation may decide to accept or reject it based on its relevance to the corporation's mission and goals, and the feasibility of implementing the suggestion. If accepted, the issue raised in the resolution has to be included in the proxy reports of the corporation and is voted upon all shareholders in the corporation's next general meeting. Corporate managements oppose to almost all shareholder resolutions that go to a vote, and the corporation recommends a “no” vote on resolutions in their proxy statement (Lee & Lounsbury, 2011; Rehbein et al., 2004). A resolution which receives a majority vote is still non-binding, and may be implemented subject to the approval of management and the board of directors. As such, company can ignore the resolution and allow all shareholders to vote on its merits. At the annual meeting, if the issue gains sufficient shareholder votes that go over the threshold of 3% in the first year, 6% in the second, and 10% thereafter (SEC, 2012), the resolution can be re-submitted in the following years. The shareholder resolution process is usually undertaken in the hope that management will be willing to engage with proponents and make substantial changes in practice as a result of the engagement process (Guay et al., 2004; O’Rourke, 2003; Proffitt & Spicer, 2006).

When a target corporation receives a resolution from shareholder activists, the corporation can respond to the shareholder activist request in three ways: a) petition the SEC for the omission of the resolution from the proxy; b) ignore the resolution and allow all shareholders vote on its merits at the general meeting; and c) engage with the shareholder activists who sponsored the resolution to discuss the proposed changes. In the next sections, each outcome will be briefly explained.

*Omitted resolutions.* Target corporations can petition the U.S. Securities and Exchange Commission (SEC) to exclude a shareholder resolution from the proxy ballot by writing a no-action letter to the SEC. In the no-action letter, the company describes the background and put forward its arguments against the inclusion of the resolution in the proxy ballot. In the no-action requests, corporations often assert that a resolution should be excluded under one or more parts of the SEC Rule 14a-8. More specifically, the rule states that corporations can request the exclusion of proposals that are not a proper action for shareholders under the corporation's state law, proposals that address ordinary business matters, proposals that would result in the violation of state or federal laws, proposals related to personal claim or grievance, proposals that are false or misleading, an proposals that the corporation has no authority to implement (SEC, Rule 14a-8 and the no-action process, 2013, para. 1). At the SEC, the Division of Corporate Finance processes rule 14a-8 no-action letters submitted by corporations. The SEC analyzes prior no-action requests that the corporations cite in the letters and may do their own research to decide. In fact, on its website the SEC (2013) explains how they base their determinations on the no-action letters submitted by corporations:

> We consider the specific arguments asserted by the corporation and the shareholder, the way in which the proposal is drafted and how the arguments and out prior no-action responses apply to the specific proposal and company at issue. Based on these considerations, we may determine that company X may exclude a proposal but company Y cannot exclude a proposal that addresses the same or similar subject matter. (SEC, Rule 14a-8 and the no-action process, para. 4)

As such, writing shareholder resolutions is a strategic process. The language that is used and the ways arguments are presented is important for the outcome of a shareholder resolution. The SEC can permit the company to omit a resolution if it rules the issue to be a personal grievance or part of ordinary business. More specifically, Rule 14a-8(i) states that companies can request the exclusion of proposals that are not a proper action for shareholders under the company's state law, proposals that address ordinary business matters, proposals that would result in the violation of state or federal laws, proposals related to personal claim or grievance, proposals that are false or misleading, and proposals that the company has no authority to implement. O'Rourke (2003) noted that the most common reasons for exclusion of social shareholder resolutions include claiming that the corporation is already implementing what the resolution asks for, or stating that is simply part of ordinary business.

Social shareholder activists often support their case with supplementary materials such as research results and clippings from media coverage. If the SEC disqualifies a resolution, it suggests that the target company's argument against the resolution succeeded on technical grounds (Tkac, 2006), which is regarded as a failure for the sponsoring activist because omitted resolutions are ineffective for social shareholder activism. In a sense, omitted resolutions indicate lack of expertise in submitting shareholder resolutions and choosing right targets for advancing social activism.

*Voted resolutions.* Alternatively, the corporation can ignore the resolution and its filers and does not send it to the SEC for exclusion either. The resolution will then be included in the proxy ballot that discloses important information about the issues to be discussed at the corporation's annual meeting. The proxy along with a statement of the board explaining its opposition will be voted upon at the general meeting by shareholders of record as of a given date indicated in the proxy materials. If the shareholder activists stand by their resolution and the resolution reaches at the proxy voting stage, the sponsor is then provided with an opportunity to speak about the resolution issue. O'Rourke (2003) observed that at this stage shareholder activists solicit support to get votes for their resolution through various ways including contacting a targeted list of shareholders who vote on the proxy, campaigning for the issue in the media, generating endorsements from major shareholder groups or proxy advice groups, notifying proxy voting services, and finally reaching out to NGOs for collaboration on the issue. In the last decade, proxy solicitation activities are accelerated with the use of the Internet for shareholder involvement such as providing web-based voting mechanism to voters.

At the general shareholder meeting, the sponsor who filed the resolution must present the issue to other shareholders present at the meeting. After the voting, the interpretation of the results is difficult to assess for the activist success. Prior research shows that environmental and social resolutions typically receive low level of support from shareholders compared to governance resolutions (Rehbein et al., 2004). Thomas and Cotter (2007) noted that shareholder resolutions on social and environmental issues have rarely received more than 10 percent of votes. If the resolution receives a certain number of votes, and is not dealt with by the target corporation, it can be re-submitted the next year. However, as discussed earlier, even if resolutions receive a majority vote of shareholders, these resolutions are precatory, or nonbinding, on corporate managements (Gillan & Starks, 2007). Therefore, leading a resolution through to a vote and even garnering support for the issue are not guarantees of corporate action. Corporate managers and board of directors oppose almost all shareholder resolutions either because the demands in the resolutions are not feasible, or because managers are reluctant to yield decision-making power to activist shareholders (Rehbein et al., 2004).

For example, in the Exxon Mobil-shareholder activist case in 2007, the Exxon Mobile Chief Executive Rex Tillerson then challenged the shareholder activists and environmentalists' demands on the climate change issue saying that "I am not going to just adopt a slogan. If that makes me public enemy number one, so be it" (Hargreaves, 2007, p. 1). In this case, the corporate management challenged the validity of the climate change claim.

*Withdrawn resolutions.* The target corporation can also choose to engage in a conversation with the activist shareholders who sponsored the resolution. Shareholders generally withdraw resolutions from the ballot if they have interactions with corporate managers who then agree to take actions on the issue outlined in the resolution (Carleton et al., 1998; Lee & Lounsbury, 2011; Logsdon & van Buren, 2009; O'Rourke, 2003; Rehbein et al., 2004). Academic and business as well as shareholder activist circles tend to describe these ongoing interactions as *dialogue*[5] (e.g., Investment Network on Climate Risk, 2012; Logsdon & van Buren, 2009; Weber, Rao, & Thomas, 2009). For the purpose of this dissertation, this formal process in which shareholder activist groups and corporate management agree to ongoing communications to deal with a social/environmental issue raised in the resolution as engagement[6]. The

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[6] Business literature tends to describe this process of communication between a shareholder activist and a target corporation as *dialogue*. However, in public relations literature, dialogue refers to a "relational interaction" on an equal stand (Kent & Taylor, 1998, p. 323). For dialogue to exists "parties must view communicating with each other as the goal of a relationship" (p. 324). Clearly, the concept of dialogue in public relations literature does not refer to the formal interactions between shareholder activists and target corporations. To identify the difference, this dissertation proposes to use the term *engagement* instead of dialogue. Shareholder activist-corporate engagement refers to the communication process between a social shareholder activist

engagement process starts with initial communication with corporations to inform the social concerns held by shareholder activists. Such communication may work well in facilitating the exchange of information on the social issue between shareholder activists and corporations and may last for a number of months (Carleton et al., 1997; Logsdon & van Buren, 2008; Rehbein et al., 2004). The subsequent withdrawal of a resolution resulting from a shareholder activist-corporate engagement generally indicates that agreement has been reached on corporate actions to deal with the social issue under consideration prior to proxy vote. Graves et al. (2001) observed that shareholder activists view withdrawal of their resolutions as victories because "they typically only withdraw when management shows sincerity and legitimate commitment and progress to implement the requested change" (p. 296). Likewise, O'Rourke (2003) noted, "the best possible outcome from a shareholder dialogue is that the company agrees to substantial changes in practice" (p. 234). Indeed, previous research regarding the influence of shareholder activism indicates that the mere filing of a resolution often signals the failure of shareholder activist-corporate engagement to reach agreement on the disputed issue (Guay et al., 2004; Logsdon & van Buren, 2008).

It is clear that these three outcomes—omissions, voting, and withdrawals—are different with respect to assessing activist success. The withdrawn resolutions suggest a sense of agreement through dialogue whereas SEC disqualification and proxy voting present more hostile forms of engagement. Tkac (2006) explained that "an omitted resolution is one that has been actively challenged by the company. Moreover, the corporation's opinion that this resolution is concerned with a matter that is not within

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who filed the resolution and a target corporation regarding an issue addressed in a social shareholder resolution.

the shareholders' purview is officially confirmed by the SEC" (p. 12). Tkac (2006) further explained:

> Effectively, omitted proposals are dead proposals and a clear instance of activist failure at using a proxy proposal to prompt social change. In contrast, a withdrawn resolution usually signals some type of action on the part of the corporation—dialogue, agreement to resolution, or some other compromise. Withdrawal can be viewed as indicating some level of success. (p. 13)

Furthermore, the low cost of the shareholder activist's continuing a proposal through to a vote strengthens this view. The sponsoring shareholder activist needs only to show up at the annual meeting. Thus, there seems to be no obvious reason for an activist shareholder to withdraw a resolution other than to believe that the target corporation is committed to take some action. As such, the simple fact that those resolutions were withdrawn—not having been sent to SEC for omission or ignored by the target company—prior to the general vote implies that the corporation is willing to engage with the sponsoring shareholder activists and possibly agree on the proposed changes (Carleton et al., 1998; Logsdon & van Buren, 2009; O'Rourke, 2003; Tkac, 2006; Sjostrom, 2008; Smith, 2012). Indeed, in her case studies of BP Amoco and World Resources Institute, O'Rourke (2003) observed that shareholder activist successes were achieved not only through the official process of filing proposals, rather engagement with corporation played a significant role. Thus, social shareholder activists view the resolution mechanism as opening "a window of opportunity" to engage the companies in a serious discussion over social issues (p. 21).

For example, Investment Network on Climate Risk (INCR), a nonprofit organization of investor coalition of 100 members that manages nearly $11 trillion in assets (Ceres, 2012), describes one of its main functions as initiating dialogue with corporations through resolution filing:

> In recent years, INCR has supported company dialogues on investor concerns ranging from sustainable homebuilding practices to disposal of coal ash, enabling change in corporate practices that once threatened long-term profitability and social or human health. INCR helps coordinate investor filing – and often successful withdrawal – of proxy proposals asking companies to better disclose material risks of climate change, water scarcity and energy use as well as ask companies to set aggressive goals to minimize risk from sustainability-related issues. (INCR, Ceres, 2012, para. 2)

Social shareholder activists thus play a key role in reaching out other shareholders and forming collaborations with them to engage corporations with the social issue at hand (Guay et al., 2004; MacLeod, 2009). Regardless of whether a resolution is withdrawn through engagement or not, the process requires repeated communication and interactions between corporate managers and shareholder activists, making it interesting for public relations and communication research.

## Social Shareholder Activist-Corporate Engagement

The process of shareholder activist-corporate engagement opens up with the activist group's request to engage in a conversation with the targeted corporation to discuss the social issue at hand. Some corporations are willing to engage in a conversation with the shareholder activists in an effort to reach at an agreement on how to address the issue immediately if possible, or at least show their sincere commitment to continue to engage in ongoing communication about the issue (Carleton et al., 1998; Del & Guercio, 1999; Guay et al., 2004; Logsdon & Van Buren, 2008). For example, in their case study of the dialogue between TIAA-CREF and 45 corporations it contacted about corporate governance issues between 1992 and 1996, Carleton et al. (1998) found that TIAA-CREF was able to reach agreements with targeted companies more than 95 percent of the time. Carleton et al. further explained the withdrawal process:

> This step involves an agreement between the institution and the targeted firm. The agreement between the institution and the targeted firm can entail the targeted firm adopting the resolution verbatim, or a common ground agreement that meets the goals of the activists. If the agreement comes prior to the distribution of the firm's proxy statement, the institution can withdraw the resolution and keep the entire process confidential. In some cases no agreement will be reached, and the institution will target the firm subsequently in the future years. (p.1339).

In the case of TIAA-CREF, Carleton et al. (1998) found that an agreement was reached before the resolution went to a vote at the annual meeting. When the agreement was reached, TIAA-CREF withdrew the resolution. Furthermore, by analyzing the correspondence (i.e., letters, faxes, and memos) pertaining to the negotiations between TIAA-CREF and the target companies and measures taken by the target companies, the researchers verified that at least 87 percent of the targets subsequently took actions to comply with the agreements. For example, some of TIAA-CREF's resolutions called for a change in the corporate policy regarding the composition of the target's board of directors, specifically to include female and minority members. In a number of these cases, the company was unwilling to change its official policy but effectively made an effort to recruit women or minorities onto their board (Carleton et al., 1998). Such an action was promising enough to induce TIAA-CREF to withdraw the proxy resolution. Similarly, in his study of the engagement between CalPERS and the 51 targeted corporations over the 1987-1993 period, Smith (2012) found that 72 percent of corporations targeted after 1988 adopted proposed changes or make changes resulting in a withdrawal settlement with CalPERS.

In elsewhere, Rehbein et al. (2004) noted that Walden Asset Management, a socially responsive investment company, withdrew more than a dozen resolutions in 2001 because “the target corporation was willing to disclose information or change policies” (p. 242). Similarly, Hoffman (1996) observed that Amoco Corporation, later renamed to BP, resisted calls by nine religious groups that proposed a shareholder resolution calling for the company to adopt the Valdez Principles, but eventually reached an agreement after engagement. In exchange for the withdrawal of the proposal, the corporation agreed to obey one of the principles and to publish an environmental progress report. The cases examined in the studies suggested that social shareholder activists withdraw resolutions after reaching agreements that entail the targeted corporations adopt the resolution verbatim, or a common ground that meets the goals of activists. Therefore, a withdrawal outcome signals a shareholder activist-corporate engagement. However, these engagements often take place behind the doors, lacking publicly available communication (Carleton et al., 1998; Del & Guercio, 1999; Hoffman, 1996; Logsdon & van Buren, 2008; Smith, 2012). However, for communication researchers, resolutions that were withdrawn before the annual meetings provide empirical records of shareholder activist-corporate engagement.

In particular, many groups and coalitions are being formed with the sole aim of raising specific environmental and social responsibility issue through engaging corporate managements. These shareholder activists communicate directly with corporate managers attempting to engage in a social issue of interest, as well as reach out investors and create publicity for their cause. For example, founded in 1992, As You Sow "promotes environmental and social corporate responsibility through shareholder advocacy, coalition building, and innovative legal strategies. Our efforts create large-scale systemic change by establishing sustainable and equitable corporate practices" (As You Sow, 2013).

A withdrawn social shareholder resolution, then, is viewed as a success on the shareholder activist side. The aforementioned literature suggests that shareholder activists withdraw their resolutions on the condition that the targeted corporation agrees to implement the proposed changes, commits to take certain steps to report on its social or environmental performance by a certain date, or demonstrates its willingness to appoint an engagement team that will regularly meet with the activists about the issue and set a timetable. Outcomes of shareholder resolutions also suggest that target corporations differ in their responses to social shareholder activism. Several factors (e.g., financial state, organizational identity, organization-stakeholder relationships) can affect corporate responses to social shareholder resolutions.

Shareholder activism on social issues provides a context in which the interests of stakeholders and shareholders are aligned for the larger good of society. Rehbein et al.

(2004) argued that shareholder resolutions can “identify and define problems for firms and thereby signal an emerging gap between a corporation’s polices and stakeholder demands” (p. 242). Social shareholder activism can thus bridge the legitimacy gap—an expectancy gap indicating a discrepancy between an organization’s actions and society’s expectations of this organization (Sethi, 1979). Indeed, Sjorstrom (2008) viewed shareholder activism as “the canary in the coal mine” (p. 146). That is, social shareholder activists can cue corporations on the socially desired actions. Social shareholder resolutions can be a leading indicator of overall stakeholder concerns in society. Moreover, social shareholder resolutions can elicit changes in corporations by initiating shareholder activist-corporate engagement over the social issue under consideration. Based on the discussions above, Figure 2 illustrates a simplified visualization of the process and outcomes of shareholder resolutions.

## Gaps in the Literature and Research Questions

While shareholder activism has recently gained increased prominence in the management and finance literature, the review of the studies has pointed few gaps for further research in social shareholder activism research from a societal perspective. The first problem is related to the limited number of research studies that specifically focus on social shareholder activism. Not surprisingly, scholarly attention in management literature was focused on shareholder activism on corporate governance issues (e.g., Ertimur, Ferri, & Stubben, 2010; Gillan & Straks, 2000, 2007; Thomas & Cotter, 2007). Tkac (2006) and Sjorstrom (2008) noted that recent empirical work that focuses on social shareholder activism via filing resolutions has been largely missing in the literature.

A second problem is related to conceptualizations of shareholder activism. Not surprisingly, management studies have focused on shareholder activism from the corporate management perspective attempting to establish a causal link between shareholder activism and subsequent changes in corporate financial performance (e.g., Del Guercio & Hawkins, 1999; Gillan & Starks, 2007). While studies in the management literature have provided an overall understanding of the issues raised in the shareholder resolutions for a specific time period (e.g., Graves & Waddock, 2001; Rehbein et al., 2004), there is no recent study that specifically examines social issues in the shareholder resolutions that were withdrawn in the last decade (1997-2011). Moreover, these studies interpreted voting outcome as the only measure for shareholder activism success, which has been often interpreted as a threat to corporate governance (Ertimur et al., 2010; Thomas & Cotter, 2007).

The review of the literature on shareholder activism in management and finance literature indicated a crucial gap—the larger role of social shareholder activism in society—which is important for this dissertation. Given that withdrawals signal shareholder activist-corporate engagement and an agreement that entails the target corporations to take action on the proposed changes (e.g., Carleton et al., 1998; Guay et al., 2004; Logsdon & van Buren, 2008), it is important to evaluate withdrawn resolutions from a societal perspective. That is, the nature and the scope of the withdrawn social resolutions can provide an insight into viability of shareholder activism for improving society at large. An examination of the issues, sponsors, and outcomes of social resolutions should help to illustrate the state of U.S. social shareholder activism enacted via filing resolutions in the last decade. In addition, an extensive analysis of withdrawn social resolutions can provide some insights into the conditions under which social shareholder activists elicit positive responses from corporations. The following research questions were posed:

**RQ1:** What is the landscape of all shareholder resolutions filed between 1997 and 2011?

**RQ1a:** What types of institutional sponsors filed all shareholder resolutions between 1997 and 2011?

**RQ1b:** What were the outcomes of all shareholder resolutions filed between 1997 and 2011?

**RQ1c:** What is the proportion of shareholder resolutions devoted to social issues between 1997 and 2011?

**RQ2:** What was the landscape of social shareholder resolutions filed between 1997 and 2011?

**RQ3:** What was the landscape of withdrawn social shareholder resolutions between 1997 and 2011?

**RQ3a:** What types of issues were addressed in the withdrawn social shareholder resolutions filed between 1997 and 2011?

**RQ3b:** What was the most common type of issue addressed in the withdrawn social shareholder resolutions filed between 1997 and 2011?

**RQ3c:** What types of changes did social shareholder activists demand from corporations in the withdrawn social shareholder resolutions filed between 1997 and 2011?

**RQ3d:** What was the most common type of change requested in the withdrawn social shareholder resolutions filed between 1997 and 2011?

**RQ3e:** What were the types of institutional sponsors who withdrew social resolutions after shareholder-corporate engagements?

**RQ3f:** What was the most common type of institutional sponsor who withdrew social resolutions between 1997 and 2011?

# CHAPTER THREE: ORGANIZATIONAL LEGITIMACY AND CORPORATE RESPONSES TO SOCIAL SHAREHOLDER ACTIVISM

This chapter discusses the theoretical lenses through which voluntary compliances of corporations to societal expectations and norms can be explained. The literature on shareholder activism highlighted that shareholder resolutions are non-binding advisory proposals. As such, corporations show voluntary compliances if they decide to listen to sponsoring shareholders and agree to implement changes proposed in the social shareholder resolutions. However, corporations differ in their responses to social shareholder resolutions filed by institutional investors. Drawing from organizational theory, management, and public relations literature, the current chapter proposes the concept of organizational legitimacy as an overarching theme that can explain corporate responses to social shareholder activism. The first section explicates the concept of legitimacy as it has been discussed in sociology and organizational theory. The section then turns to the field of public relations and reviews the recent societal approaches to the field to aid the understanding of the broader role of corporation, in general, and public relations, in specific, in society. The dissertation argues that, guided by the recent cocreational turn in public relations theory, the concept of legitimacy can play a central role in the theoretical shift from making organizations effective to making society effective.

Next, the discussion directs the attention to societal approaches to the role of corporation in the management literature. As a part of the discussion, this section revisits corporate social responsibility and stakeholder theory in the management literature. After the link between stakeholder theory and organizational legitimacy is established, it is explained that corporate social performance (CSP), a three-dimensional concept that integrates the principles, processes, and activities of social responsibility, is a more comprehensive concept than corporate social responsibility (CSR). Given its emphasis on stakeholder engagement, it is argued that CSP can be studied as an antecedent of organizational legitimacy in the public relations theory development at a societal level.

After outlining the relevant literature in organizational theory, public relations, and management fields, the section proposes two theoretical models: 1) likelihood of withdrawing a social resolution, and 2) implementation level of a withdrawn social shareholder resolution. The effect of *corporate-stakeholder commitment*—an indicator of a target corporation's social performance (CSP)—is introduced in the theoretical models. A set of hypotheses is developed to explore the relationships among corporate stakeholder commitment, issue type, sponsor type, industry classification, and corporate responses to social shareholder activism.

The next section discusses the relationship between business and society 21$^{st}$ century and explicates the concept of legitimacy as it has been discussed in sociology and organizational theory. Next, the section discusses the conceptualizations of the concept of legitimacy in public relations literature with a focus on societal approaches to public relations. Finally, to establish a link, societal approaches in management literature are discussed.

## The Role of Business in Society

The role of business in society has been a central topic of discussion in recent years. However, discussions on the role of business in society often focus only on the activities of companies, without considering the society in which the companies operate. Indeed, the social context in which business operates in the 21st century is complex, volatile, and demanding (Castells, 2009; Valentini, Kruckeberg, & Starck, 2012; Self, 2010). The maturation of globalization with the help of new media technologies has added a new layer of complexity to the relationship between society and business. New media technologies with their networking capabilities have allowed instant and constant communication around the globe (Castells, 2009; Self, 2009, 2010). Castells (2009) explained social actors and individual citizens around the world are using the new capacity of communication networking to advance their projects, to defend their interests, and to assert their values" (p. 57). Consequently, we are witnessing more aware, active, and demanding corporate stakeholders—consumers, employees, investors, communities, and activists—who aim to establish a degree of control over the institutions of society. For example, in 2010, WikiLeaks, an activist organization that largely relies on online networks of volunteers, has challenged Bank of America—the third largest company in the world—by releasing the internal information of the bank (Uysal & Yang, 2011).

From the very beginning, corporations have been expected to innovate, deliver product and services, to use resources efficiently so that value is created and to conduct operations in a way that is accepted by society (Porter & Kramer, 2011). What is different today is that the impact of corporations on society has grown at all levels of society (Heath, 2010). The rise of corporate social responsibility in recent years can be partly linked to the growing impact of corporations on social life and the rise of overall corporate stakeholder activism. CSR has thus become a coherent way of thinking about a corporation's impact and interaction with society (Heath, 2010; Ihlen, 2008; Taylor, 2011). For publicly traded corporations, the implications of these trends have been amplified by two separate views among investors: pressure for short-term financial returns, and pressure from the socially responsible investment community to improve corporate social responsibility. Indeed, the trend of socially responsible investing, which considers corporate responsibility and societal concerns as valid parts of investment decisions, has grown in recent years. US Socially Investing Forum (SIF) reports that socially responsible investing encompasses an estimated $4 trillion out of $33.5 trillion in the U.S. investment marketplace today (US SIF, 2013).

Several theoretical traditions can shed light on the role of business in society. In the management and public relations literature, two normative theoretical paradigms—the business and societal views—are most relevant to explaining the role of corporation in society. The business view (also called a shareholder view) posits that corporations create value for society by maximizing shareholder wealth (Fama & Jensen, 1983; Friedman, 1970). From this perspective, corporations bear no direct responsibility toward non-shareholding stakeholders as governments are the only legitimate actors to address social problems. The shareholder view suggests that investors should exit if they are discontent with management actions.

In contrast, the societal view, also called stakeholder view, in contrast, argues that no one group of stakeholder has a priority over other groups, and that corporations must balance the interests of all stakeholders (Clarkson, 1995; Donaldson & Preston, 1995; Freeman, 1984). In other words, the societal view holds that stakeholder welfare is maximized when corporations attend directly to all stakeholders without prioritizing the interests of some over the others. In essence, stakeholder theory emphasizes responsibilities of corporations to society and “personalizes societal responsibilities by delineating the specific groups or persons” (Carroll, 1999, p. 290). In the similar vein, a societal view in public relations emphasizes that corporations exist because the society allow them to exist to serve public interests (Kruckeberg & Starks, 1988; Leeper, 2001; Starks & Kruckeberg, 2001).

The concept of legitimacy offers a useful tool to understand the role of corporations in society in the 21st century as the concept constitutes the link that connects societal systems and institutions (Epstein, 1972). Legitimacy is “the generalized perception” that the actions of an organization are acceptable and desirable within a social system (Suchman, 1995, p. 574). Drawing on the foundational work of Weber (1968) and Parsons (1960), many researchers in sociology, organizational theory, and management have used legitimacy as an overarching concept that addresses the normative forces that constraint, construct, and empower organizational actors (e.g., DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Suchman, 1995; Sethi, 1979). This line of research has focused on stakeholder perceptions and emphasized the importance of communication with the organization’s social environment for building organizational legitimacy.

The public relations literature has recognized the centrality of legitimacy to public relations and laid the foundation for future explorations of the concept (e.g., Boyd, 2000; Grunig, 1992; Metzler, 2001; Heath, 2001, 2010; Ihlen, van Ruler, & Frederickson, 2009). For example, Heath (2001) argued that “legitimacy gap” will be a central concept of public relations as the discipline focuses on the organization-public relationships (p. 3). Boyd (2000) suggested that legitimacy should be a “foundational concept” of public relations (p. 342). Likewise, Metzler (2001) called for greater recognition of the “centrality of organizational legitimacy” to public relations practice (2001, p. 231). However, Ihlen and van Ruler (2009) argued that legitimacy has not commanded adequate scholarly attention in public relations.

In public relations, the concept of legitimacy has enjoyed a resurgence in recent years with the shift of theoretical approaches to the field. Indeed, an increased emphasis on building long-term relationships between organizations and their stakeholders through cocreational approaches (Botan & Taylor, 2004) has moved the concept of legitimacy at the center of public relations research. In addition, societal views on public relations introduced by European scholars have pointed out the importance of organization’s legitimation within society and argued that the primary role of public relations is preservation of license to operate (van Ruler & Vercic, 2004; Vercic et al., 2001; Ihlen and van Ruler, 2009). Legitimacy thus is an overarching concept that can explain the constructive role of corporation in society in the context of social shareholder activism through three main theoretical lenses: organizational theory, public relations, and management. The next section discusses the concept of legitimacy as it has been discussed in sociology and organizational theory.

## Defining the Concept of Legitimacy

The concept of legitimacy is rooted in sociology. Parsons (1960) defined legitimacy as the “appraisal of action in terms of shared or common values in the context of the involvement of the action in the social system” (p. 1975). A central element of legitimacy is meeting and adhering to the expectations of a social system’s norms and values (Parsons, 1960). Maurer (1971) defined *legitimation* as the "process whereby an organization justifies to a peer or superordinate system its right to exist that is to continue to import, transform, and export energy, material, or information" (p. 361). Legitimacy is contingent on the perceptions of acceptability and congruence of an entity in a given society and a time (Meyer & Rowan, 1977). As such, organizations are legitimate to the extent that their activities are congruent with the values and goals of the larger societal system and that they are able to justify their existence. The concept of legitimacy thus can explain the normative factors that constrain, construct, and empower organizations (DiMaggio & Powell, 1991; Suchman, 1995).

## Conceptualizing Legitimacy

Approaches to the study of legitimacy can be organized into two categories: strategic and institutional. These two categories are not mutually exclusive but have differences based on the distinct perspective each category adopts. The strategic approach focuses on establishing legitimacy externally, while institutional approach focuses on the impact of society on an organization internally. The strategic approach is that "corporations looking out" and working to secure legitimacy, while the institutional approach is that "society looking in" and imposing conditions for legitimacy (Suchman, 1995, p. 577). Indeed, these two approaches result from the cognitive (constituting definitions and meanings) and normative (conforming to valued, socially acceptable ends) aspects of legitimacy (Deephouse & Suchman, 2008). Scholars noted that, as a response to societal pressures, "concrete institutional arrangements combine normative and cognitive processes together in varying amounts" (Deephouse & Suchman, 2008, p. 68). As such, organizations need to adopt both approaches to gain legitimacy.

*Strategic legitimacy.* The strategic legitimacy approach adopts a managerial perspective and emphasizes the ways in which organizations instrumentally manipulate and deploy symbols in order to garner societal support (e.g., Ashcroft & Gibbs, 1990; Dowling & Pfeffer, 1975). From this perspective, legitimacy is viewed as a resource on which organization is dependent for survival and which "organizations attempt to obtain and competing organizations attempt to deny" (Dowling & Pfeffer, 1975, p. 125). Consistent with the resource dependency theory (Pfeffer & Salancik, 1978), whenever managers anticipate that the supply of legitimacy resources is vital to organizational survival, they will pursue strategies to ensure the continued supply of legitimacy. As such, the strategic approach considers legitimacy as a resource that needs to be managed by the organization for its survival. Under this approach, corporate responses to societal demands are for strategic reasons, rather than on the basis of any perceived responsibilities.

The strategic approach also assumes that organizations have the ability to alter perceptions of legitimacy through communication. As such, the approach to legitimacy is closely related to reputation. Dowling and Pfeffer (1975) outlined three strategies in which an organization may legitimate its activities when faced with legitimacy threats: a) the organization can adapt its output, goals, and methods of operation to conform to prevailing definitions of legitimacy; b) the organization can attempt, through communication, to alter the definition of social legitimacy so that it conforms to the organization's present practices, output, and values; and c) the organization can attempt through communication to become identified with symbols, values or institutions which have a strong base of legitimacy. The strategic approach to legitimacy thus emphasizes strategic communication to increase organizational efficiencies.

*Institutional legitimacy.* Whereas the strategic approach reflects a managerial view to legitimacy, the institutional approach adopts a more detached stance and emphasizes the ways in which dynamics in the social environment generate societal pressures that transcends any single organization's purposive control (e.g., DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott, Rueff, & Mendel, 2000). Powell and DiMaggio (1991), in their work that studied how social choices are shaped by institutional arrangements, argued that organizational survival depends not just on resources, but also on the organization's perceived legitimacy. From this perspective, organizations will change their structures or operations to conform to external expectations about what structures and operations are legitimate. Failure to undertake this process that leads to congruence, which is described as *isomorphism* (DiMaggio & Powell, 1983, p. 149), has direct implications for an organization's survival. Sethi (1979) discussed the concept of *legitimacy gap* as a consequence of an organization's failure to be congruent with societal expectations. Sethi defined a legitimacy gap as an expectancy gap indicating a discrepancy between an organization's actions and society's expectations of this organization. According to Sethi, legitimacy gaps can ultimately threaten an organization's existence as a legitimate member of the society. As such, the institutional approach to legitimacy assumes that organizations are expected to conform to norms that are largely imposed by the external factors.

*Legitimacy as a source of organizational change.* The institutional view to legitimacy emphasizes the incorporation of societal expectations into organizational policies and practices to ensure legitimacy. Under this approach, organizations are expected to change their structures or processes to conform to societal expectations about what structures and processes are legitimate. Meyer and Rowan (1977) wrote that in modern societies organizations are driven to incorporate the practices and procedures defined by society. According to Meyer and Rowan, organizations that do so "increase their legitimacy and their survival prospects, independent of the immediate efficacy of the acquired practice and procedures" (p. 41). Accordingly, social pressures can create structural changes within the organization and thus can shape, mediate, and channel institutional arrangements (Deephouse & Suchman, 2008; DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott, Ruef, & Mendel, 2000). Meyer and Rowan (1977) argued, "organizations that incorporate societal legitimated rationalized elements in their formal structures maximize their legitimacy and increase their resources and survival capabilities" (p. 53). Organizations are thus driven to incorporate the practices and procedures defined by prevailing demands and expectations and organizations that do so increase their legitimacy and their survival prospects, "regardless of the immediate efficacy of the acquired practice and procedures" (p. 41).

Because social pressures can create structural changes within the organization (DiMaggio & Powell, 1983; Meyer & Rowan, 1977), the changes agreed upon by the target corporations are likely to occur in those mechanisms within the corporation which are designed to address social objectives. Meyer and Rowan (1991) further explained:

> By designing a formal structure that adheres to the prescriptions of myths in the institutional environment, an organization demonstrates that it is acting on

> collectively valued purposes in a proper and adequate manner. The incorporation of institutionalized elements provides an account of activities that protects the organization from having its conduct questioned. The organization becomes, in a word, legitimate, and it uses its legitimacy to strengthen its support and secure its survival. (p. 50)

A corporation, then, is expected to make institutional arrangements and changes to address societal demands to establish and maintain its legitimacy in society. Meyer and Rowan (1991) noted, “a most important aspect of isomorphism with environmental institutions is the evolution of organizational language” (p. 50). For example, Meyer and Rowan discussed how organizations redesign the labels of organization chart as well as vocabularies of motive used to describe the activities of individuals as a response to societal pressures. Thus, these institutional arrangements can create both horizontal complexities, such as growing number of job titles, occupational specialties, and increasing number of departments, and vertical complexities, such as increasing number of levels of authority within an organizational structure highlighting the importance of communication (Deephouse & Suchman, 2008; Galaskiewicz, 1991; Meyer & Rowan, 1977; Scott et al., 2000).

Organizations develop boundary roles to sense the social environment and to implement changes in order to conform to the societal expectations and norms (Aldrich & Herker, 1977). Boundary spanning roles (e.g., affirmative action officers) are considered as “an organization’s response to environmental influence” and help the organization maintain the legitimacy of organization (Aldrich & Herker, 1977, p. 219). Boundary spanning roles and structures signal the commitment of the organization to the accepted beliefs and values and represent the organization to valued constituencies (Rao & Sivakumar, 1999). Research showed that pressure groups can impose organizations to demonstrate their commitment to a cause by establishing boundary spanning units (Rao & Sivakumar, 1999; Scott et al., 2000). Thus, societal pressures exerted by social shareholder activists are expected to induce changes, such as creating new boundary spanning roles and structures within the organization to maintain legitimacy.

*Organizational legitimacy.* Arguing that organizations can achieve both types of legitimacy—strategic and institutional, Suchman (1995) provided an integrative legitimacy framework that extends the literature on legitimacy. Under this approach, *organizational legitimacy* is a summative reflection of the relationship between an organization and its social environment that includes both strategic and institutional elements. Suchman defined organizational legitimacy as "a generalized perspective or assumption that the actions of an entity are desirable, proper, or appropriate within socially constructed system of norms, values, beliefs, and definitions" (p. 574). There are several important points worth to note in this definition. Suchman described legitimacy as dynamic and perceptual and emphasized the generalized character rather than static condition of legitimacy. Suchman also pointed out the socially constructed domain within which values and norms are created and against which an organization's behaviors are evaluated. That is, the public's values, norms and beliefs against which organization actions are evaluated are the result of the social construction of these norms by and with the referent publics, and between different publics. Thus, Suchman (1995) implied the importance of public perception of legitimacy and its dynamic nature. An organization might not be perceived as legitimate because public expectations have changed with the implication that what was once acceptable corporate behavior is no longer deemed acceptable. As such, legitimacy is a moving target. The definition of legitimacy is determined by interaction and debate between participants in the dynamics. This reflects the constructive nature of legitimacy and highlights the importance of public relations for building and maintaining organizational legitimacy.

This dissertation adopts Suchman’s (1995) integrative approach to legitimacy of organizations in society. To maintain clarity and consistency, the dissertation will use the term *organizational legitimacy* hitherto to refer to this integrative approach. This approach recognizes organizations’ legitimatization efforts, including communication strategies and organizational adjustments, to meet societal expectations.

The concept of organizational legitimacy thus provides a useful theoretical lens to the understanding of corporate responses to social shareholder resolutions—which are non-binding advisory proposals on social and environmental issues voiced by shareholders. The concept of organizational legitimacy highlights the importance of societal legitimacy for an organization’s survival. Further, organizational legitimacy considers public as the legitimacy-determining power (e.g., Dowling & Pfeffer, 1975; Suchman, 1999).

The concept of organizational legitimacy is thus relevant for understanding the function of public relations in the context of business and society relationships as an organization is connected to its social environment through publics (Heath, 2006; Ihlen & van Ruler, 2009; Kruckeberg & Starks, 1988; Suchman, 1995) and public relations connects the organization to its publics through communication. The next section outlines the conceptual approaches to legitimacy in the public relations literature. Discussing different conceptual treatments of legitimacy in public relations theory, the section points the link between legitimacy and public relations. It is argued that the expanded role of public relations in society is to keep organizations fully cognizant of the societal norms and expectations and to ensure that organizations conduct socially desired actions in return for legitimacy. It is highlighted that the only way to achieve this role is through listening to and engaging with organizational stakeholders.

## Organizational Legitimacy in Public Relations

The increasing scholarly interest in the societal role of public relations in recent years has transformed the conceptualization of organization as a bounded entity into an interdependent part of a larger social system (Heath, 2006, 2011; Valentini, Kruckeberg, & Starck, 2012). Theories such as institutionalism (Powell & DiMaggio, 1983, 1991) and resource dependency (Pfeffer & Salancik, 1978) have often informed this line of public relations research proposing that that many dynamics in the organizational environment stem not from technological or material imperatives, but rather from cultural norms, symbols, beliefs, and rituals; and that organizations pursue strategies to ensure that they can remain congruent with their societal expectations. Accordingly, organizations strive to avoid conflicts and ensure that they operate within the boundaries and norms of their respective societies. This line of public relations theory and research at a societal level reflects a significant theoretical departure (Botan & Taylor, 2004) from functional or operational approaches that place the organization, which is often conceptualized as “bombarded by demands from stakeholders” and needs to deal with "threats in its environment" (Grunig, Grunig, & Dozier, 2002, pp. 1-2), at the center of public relations research and theory. The cocreational approach emphasizes the importance of building long-term relationships with publics (Taylor, 2011). At the core of this theoretical shift is the concept of *organizational legitimacy*. In the context of public relations, organizational is "a measure of the extent to which the public and the public sphere at a given time and place find the organization sensible and morally justifiable" (Nielsen, 2001 as cited in Ihlen & van Ruler, 2009, p. 6). In other words, organizational legitimacy exists when there is congruence between organizational activities and social values and norms of the society.

While legitimacy has been explicitly or implicitly studied in public relations to a certain extent (e.g., Boyd, 2000; Coombs, 1992; Metzler, 2001), the concept plays a more important role in public relations theory and research due to the increased emphasis on building long-term relationships between organizations and their stakeholders through cocreational approaches (Botan & Taylor, 2004). The next section briefly discusses the cocreational approach to public relations to further the understanding of how this approach fits with organizational legitimacy that highlights the role of publics who "control" the "conferred status" of organizational legitimacy (Pfeffer & Salancik, 1978, p. 193–194).

## Cocreational Approach to Public Relations

For some time, a managerial perspective that pertains to the use of public relations strategies to achieve organizational goals has dominated public relations theory and research (Curtin & Gaither, 2005; Holtzhausen, 2012; Pal & Dutta, 2008). Recently, public relations scholars have noted a theoretical shift in the public relations field from its functional roots to a cocreational approach (Botan & Taylor, 2004). The cocreationalist approach challenged the prevalent managerial perspective that considers the role of public relations as advancing organizational goals through strategic communication programs. Botan and Taylor (2004) noted that under the functional approach researchers focus on the use of public relations as an instrument to accomplish specific organizational goals rather than on relationships. From this perspective, the role of public relations is to create and disseminate messages that help the organization accomplish its goals (Taylor, 2011).

The recent theories under the cocreational perspective—such as a dialogic theory (Kent & Taylor, 1998, 2002) and a fully functioning society theory (Heath, 2006)—have challenged the functional approach that postulates publics are a means to reach strategic goals of the organizations. The cocreational approach studies the formation of meaning through communication and the development of relationships between groups and organizations (Botan & Taylor, 2004). The cocreational approach considers communication as a tool that allows both groups and organizations to negotiate and change relationships with others. The main strength of the cocreational approach is its stance that "publics are not just a means to an end. Publics are not instrumentalized but instead are partners in the meaning-making process" (Botan & Taylor, 2004, p. 652). Taylor (2011) emphasized that the role of public relations from the cocreational perspective is to use communication to help groups to negotiate meaning and build relationships and noted some of the cocreation theories, including relational theory (Broom, Casey, & Ritchey, 1997; Ferguson, 1984; Ledingham & Bruning, 1998, 2000), dialogic theory (Kent & Taylor, 1998, 2002; Pearson, 1989), the communitarian view (Leeper, 2001; Kruckeberg & Starck, 1988; Starck & Kruckeberg, 2001), and fully functioning society theory (Heath, 2006). Grounded in several sociological and socio-psychological paradigms, such as symbolic interactionism framework and the social construction of reality, the cocreational theories view communication, relationships, and co-construction of meaning as core assumptions of how public relations functions in society (Botan & Taylor, 2004).

The cocreational approach has thus charted a larger role for public relations in society that corroborates the main assumption of organizational legitimacy that organizations will change their structures and processes to conform to environmental expectations in society (Boyd, 2000; DiMaggio & Powell, 1983; Kruckeberg & Starks, 1988; Meyer & Rowan, 1977; Suchman, 1995). The cocreational theories recognize that an organization is connected to its environment through publics. The cocreational perspective then elevates the role of public in the organization–public dyad, emphasizing the need for a constant dialogue with publics and the importance of building long-term relationships. This perspective conceptualizes publics as partners that are necessary for decision-making at different levels of society. Likewise, organizational legitimacy perspective is based on the organization's perceived competence and responsibility to public's interests, which requires the organization to continuously listen to and engage in conversations with publics.

**Societal Approaches to Public Relations Theory**

The cocreational approach fits with the concept of organizational legitimacy as it helps to understand the broader role of public relations and the relationships that it builds at a societal level. There are three public relations approaches that can serve as foundation to further understand the larger role of public relations in society: *the communitarian view* (Leeper, 1986; Kruckeberg & Starck, 1988; Starck & Kruckeberg, 2001), *fully functioning society* (Heath, 2006), and *public sphere* (Bentele & Nothhaft, 2010; Vercic, van Ruler, Butschi, & Flodin, 2001; Holmström, 2005; 2009; Ihlen & van Ruler, 2009; Raupp, 2004; van Ruler & Verčič, 2004). The next section briefly discusses these approaches in public relations in order to advance an understanding of the relationship between business and society and of the larger role that public relations assumes in this relationship.

*The communitarian view.* The communitarian view to public relations is essential to understand the relationships between business and society. The communitarian view in public relations is often considered as the start of the cocreational turn (Botan & Taylor, 2004; Taylor, 2011). Kruckeberg and Strack (1988), Starck and Kruckeberg (2001, 2004), Kruckeberg and Tsetsura (2008), and more recently Valentini, Kruckeberg, and Starck (2012) emphasized the main tenet of the communitarian view that "the most important stakeholders of public relations is society itself." The communitarian view is anchored in the concept of community—the basic social unit of society that provides a moral environment for individuals (Etzioni, 1999). However, community is a "value-driven" concept (Kruckeberg & Tsetsura, 2008, p. 2008). In each community, there are certain characteristics, which may not necessarily serve the good of society. In this context, Kruckeberg and Tsetsura (2008) discussed two types of communities—functional and dysfunctional— and explained that "a community may manifest itself through inclusivity or its obverse exclusivity" but also "divisiveness and enmity through exclusivity regarding who may or may not join this social group” (p. 10). According to Kruckeberg and Starck (2008), some of the core values of a functional community are:

> A basic concern for individual human rights; a sense of and mechanism for justice; institutionalized compassion; egalitarian concern about the welfare of all members of society, including women, children, and animals: and an emphasis on the humane protection of the weak and powerless. (p. 27).

As such, the functional community manifests inclusiveness and harmony and it has certain ethics and moral values that are congruent with the society.

Shifting the focus from organization to community, the communitarian view in public relations has emphasized the larger role of public relations in society. According to Leeper (2001), “community provides the context for organizations, and problems within the community affect organizations” (p. 101). As such, improving the welfare of society is one of the main tenets of the communitarian view (Leeper, 2001). Expanding on the original work of Kruckeberg and Starck (1988), Vujnovic and Kruckeberg (2011) argued that the primary goal of public relations:

> …should be to encourage and promote an understanding of its organizational goals through an interaction with citizens, whose sense of active contribution should be recognized by the organization through implementation and innovation resulting from citizens’ contributions, including the organization’s acts of social responsibility. (p. 221)

In their critical interrogation of prior assumptions and paradigms in public relations scholarship, Valentini et al. (2012) argued that the community-building theory originally espoused by Kruckeberg and Starck (1988), and modified in the subsequent research, can provide a useful departure point toward developing societal approaches to public relations research and practice in a dynamic environment. Indeed, Kruckeberg and Tsetsura (2008) argued that community-building must be the primary role of and function of a successful public relations practice in the 21$^{st}$ Century characterized by a global yet multicultural and fragmented society.

Public relations scholars that advocated a communitarian approach argued that all of the public relations efforts should address the society at large to build and restore a sense of community, and that organizations inherently have responsibilities for their local and global communities. The communitarian view thus considers the relationships with community and socially responsible action at the heart of public relations theory and research. Consistent with the institutional approach to legitimacy (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Suchman, 1995), the communitarian view suggests that the role of public relations is to understand community and to adjust the organization based on the values and ideas of the community—not the other way around. Leeper (2001) argued that public relations function needs to place general public “at the center of activity, directing the actions of institutions, which become its object and not the other way around” (p. 101). Thus, the communitarian view initiated a reversal of thinking in the dynamics of organization–public relationships.

The communitarian view to public relations thus provides a foundation to understand the important relationship between publics and organizational legitimacy. Under the communitarian approach, to create and maintain legitimacy, an organization needs to be engaged in its community and orient its internal and external operations according to the norms and expectations rooted in the community (Leeper, 2001; Starck

& Kruckeberg, 2001). Particularly, in today's fast-changing, global yet multicultural society, the role of public relations is to further the understanding between organizations and community (Kruckeberg & Tsetsura, 2008; Valentini et al., 2012), which is essential for establishing and maintaining organizational legitimacy. Thus, the communitarian view suggests an implicit role for public relations to create and maintain legitimacy of organizations through socially responsible engagement with community.

*Fully functioning society theory.* One of the public relations theories that can help understand the relationship between business and society at a macro level is Heath's (2006) fully functioning society theory (FFST). In essence, the theory proposes that public relations can contribute to a fully functioning society by building relationships, shaping meaning, and collectively managing risk and uncertainty. FFST largely builds on the systems theory (Parsons, 1960), which assumes that an organization is influenced by, and in turn has influence upon, the society in which it operates. From the FFST perspective, society is negotiated and co-defined as stakes—rewards and risks—exchanged through discourse, social construction of reality through shared meaning and coordination that leads to enlightened choice. Heath argued "the role of public relations is to be a steward of multiple interests in harmony and collaboration" (p. 97). Thus, according to FFST, societal legitimacy is a key and it changes and coproduced by society.

FFST considers corporate responsibility, a self-regulating mechanism whereby an organization monitors and ensures its compliance with societal norms and expectations (Carroll, 1999) as a means to achieve legitimacy. Heath (2006) argued, "sound principles of corporate responsibility, effectively implemented, constitute the essence of each organization's legitimacy by meeting or exceeding the normative expectations of stakeholders and stateseekers" (p. 103). As such, from this view, corporate social responsibility is the main antecedent of organizational legitimacy. Indeed, FFST is premised on the idea that "sound principles of CR (corporate responsibility) constitute the essence of each organization's legitimacy by meeting or exceeding the normative expectations of stakeholders and stateseekers" (p. 103). In a sense, the organization achieves the legitimacy status when the organization helps make society more fully functional.

Heath (2006) discussed two types of corporate responsibility: instrumental and strategic. The instrumental corporate responsibility is demonstrated attributions that the organization is good; whereas the symbolic one fosters the attributions that the organization wants to convey to seem to be good (pp. 103-104). Highlighting the instrumental role of corporate responsibility rather than its symbolic role, Heath argued that corporate responsibility should lead the organization to be a good member and therefore legitimate. According to Heath, instrumental corporate social responsibility that leads to legitimacy hinges on an organization's positive engagement with its publics to make society better through polices and on its activities that favor public interests. Heath further explained that for a fully functioning society to develop:

> CR (corporate responsibility) must entail choices and actions that go well beyond the organization's narrow self-interest. CR requires proactive planning and management to make the organization good by meeting or exceeding the expectations of its stakeholders and stateseekers. To this end, the organization becomes worthy of respect and happiness achieved by advancing interlocking,

often conflicting, and guiding interest and principles of each society, whether local or global. (p. 103)

Corporate responsibility is then a means for organizations to gain legitimacy. Corporate responsibility does not only mean meeting the expectations of stakeholders and stateseekers, but it also means exceeding them. To achieve this, organizations need to develop mechanisms to discover stakeholder thoughts and interests and initiate collaborative communication.

Heath's fully functioning theory of public relations resonates with Suchman's (1995) integrative approach to organizational legitimacy that emphasizes organizations' legitimatization efforts, including communication and organizational adjustments, to meet societal expectations. Indeed, Heath and Waymer (2009) posited that all public relations efforts should help organizations be more reflective and work for legitimacy through voicing various perspectives that contribute to more fully functioning society. It is clear from FFST that in order to receive publics' respect and support, corporate attention should be on the good of society instead of mere good of the organization. In other words, what is good for society is good for the organization (Heath, 2010). As Heath (2006) put it, "the goal is to make the organization deserving of others' support because it can think from the inside out and the outside in to know and aspire to standards of moral rectitude" (p. 103). This goal can only be achieved through developing a reflective mechanism to engage in the social environment of the organization. The concept of public sphere as discussed by Jurgen Habermas (1989) and developed by several public relations scholars (e.g., Bentele & Nothhaft, 2010; Raupp,

2004) can provide a framework to think from the outside in and from inside out. Next section discussed the concept of public sphere.

*Public sphere.* Recently, several European scholars (e.g., Holmstrom, 2004; Ihlen & van Ruler, 2009; Raupp, 2004; van Ruler & Vercic, 2004; Vercic, van Ruler, Butschi, & Flodin, 2001) have introduced a *reflective* approach to public relations theory and practice. Grounded in a late modern social theory of Luhman (1995, 1997), the reflective approach attributes a societal role for public relations, placing organizational legitimacy at the locus of the inquiry. The concept of reflective differs from the concept of *reflexivity* discussed by Giddens (1991). In fact, Holmstrom (2004, 2009) discussed reflectivity as opposed to reflexivity. In his structuration theory, Giddens described reflexivity as an act of self-reference and self-awareness. Accordingly, organizations actively shape and construct self-identity through self-monitoring. Thus, the concept of reflexivity emphasizes a mono contextual perspective (Holmstrom, 2004). Whereas reflection becomes the production of self-understanding in relation to the environment (Holmstrom, 2004, 2009; Vercic et al., 2001). The reflective approach is based on a specific social capability of organizations to see itself as a part of the larger societal context. Holmstrom (2004) explained that through a reflective approach "the organization finds its specific identity, acting independently, and learns how to develop restrictions and coordinating mechanisms in its decision-making process in recognition of the interdependence between society's differentiated rationalities—such as politics, economics, law, science, religion and mass media" (p. 122). The reflective approach thus implies self-regulation of organizations within a multiple social rationalities in a given society.

At the heart of the reflective approach is the concept of *public sphere*. In the European view to public relations, the term public refers to public sphere—a figurative space that exists between individuals, organizations, and the government where issues related to public discussed and public opinion is generated (Habermas, 1989). From a normative perspective, Habermas (1989, 2006) viewed public sphere as social domain where ideal communication among actors develops, resulting in a consensus among participants. Habermas (1989) further explained:

> In complex societies, the public sphere consists of an intermediary structure between the political system, on the one hand, and private sectors of the life world and functional systems, on the other…It is accessible to publics concerned with health-care issues, social welfare, or environmental policy. (p. 373)

Thus, although public sphere was originally conceptualized as being an assembly of citizens at a certain location, it is not so today (Bentele & Nothhaft, 2010; Self, 2010). The public sphere is not a set of common values, norms or opinions and cannot come to an agreement or a decision; however it can influence decisions by individuals and institutionalized social structures (Jensen, 2002). Unlike Habermas's (1989) understanding of public sphere as a consensus-building discourse, Self (2010) discussed public sphere in today's world as a process that constantly evolves and generates conflicts:

> The emergence of new communication technologies—social networks of interactive media with murky sourcing—reveal public to be a process, a flow, rather than an essence or group. To participate in that process, the 21st –century

> communicator will be required to join the conversation of particulars asserted and reasserted as constantly evolving visions and re-readings of universals. (p. 90)

Similarly, Bentele and Nothhaft (2010) argued that with new communication technologies the structural constraints on public sphere (e.g., time, distance, and technical limitations) have collapsed. According to Bentele and Nothhaft (2010),

> The public sphere is not a place of gathering as the tingstead anymore. Neither is it a force field of media attention constituted by a limited amount for actors. It is a network of points of interest. An issue is in the public sphere because communicators, who are points in the network of communications, communicate about it. (p. 112)

Thus, the public sphere is dynamic because public is an evolving process (Bentele & Nothhaft, 2010: Self, 2010). The conceptualization of public sphere as a dynamic process that evolves through communication of social actors has implications for understanding organizational legitimacy and the role of public relations in achieving it. This conceptualization emphasizes vitality and complexity of public sphere as it constantly evolves with the interactions of connected social actors. Therefore, traditional conceptualizations of publics as a stable entity based on consensus have been challenged. Given that organizational legitimacy is a conferred status granted by publics (Dowling & Pfeffer, 1975; Heath, 2006; Kruckeberg & Stark, 1988; Sethi, 1979; Suchman, 1995), engagement with the public sphere whereby public perceptions about organizations are constantly shaped is essential for ensuring organizational legitimacy.

Public relations competences and processes can play a central role in navigating organizations anchored in a complex and volatile society and installing the necessary lenses for organizational decision-making through engagement with public sphere. These lenses will enable organizations to consider a wide variety of society's rationales and to participate in public conversations through engagement. The reflective organizational practice of public relations then involves constantly adjusting the organization to the changing values and norms generated within the public sphere.

To summarize, public relations theories from a societal perspective are anchored in the concept of organizational legitimacy that suggests the survival of an organization largely depends on the organization's perceived legitimacy. In line with the organizational theory literature on organizational legitimacy (e.g., DiMaggio & Powell, 1983; Meyer & Rowan, 1977), the societal approach public relations contends that organizations will change their policies, structures or operations to conform to societal expectations about what structures and operations are legitimate. Failure to undertake this process that leads to congruence can cause a legitimacy gap between the organization and its publics. Finally, the concept of public sphere emphasized the fluidity and complexity of publics in the 21st century, highlighting the need for a constant engagement with public sphere, which is composed of local and global social actors, to achieve organizational legitimacy.  Thus, the societal approach to public relations views the main role of public relations as to legitimize the organization in society. This approach views legitimacy not as a resource to be managed by the organization through strategic communication messages, rather as a status conferred by publics based on their constitutive beliefs about the organization. From the societal perspective, then, the organization should remain cognizant of the importance of public support and confidence for the organizational survival. Public relations can help organization to remain congruent with societal expectations and values through a constant engagement with publics.

*Organizational legitimacy vs. organizational reputation.* To understand the role of public relations in establishing, maintaining, and reestablishing organizational legitimacy, one needs to understand the differences and similarities between organizational legitimacy and organizational reputation. Organizational legitimacy and organizational reputation are interrelated concepts. Indeed, some scholars argue for a multidimensional conceptualization of organizational legitimacy that subsumes organizational reputation (Deephouse & Suchman, 2008). Nevertheless, it is important to point out the differences.

As the aforementioned literature suggests legitimacy refers to the state of meeting and adhering to the norms and expectations of a social system (Suchman, 1995). Reputation is defined as the relative standing and desirability of an organization among its counterparts (Fombrun & van Riel, 2004; Tsetsura & Kruckeberg, 2009). As such, both organizational legitimacy and organizational reputation result from social construction of publics. That is, publics evaluate whether an organization deserves legitimacy and have a good reputation based on various variables such as organizational size and responsibility. Furthermore, organizational legitimacy and organizational reputation share similar antecedents and consequences (Fombrun & Shanley, 1990; Galaskiewicz, 1991). Factors such as organizational size and social responsibility affect organizational legitimacy and reputation. One of the most common consequences of the both concepts is improved access to resources (Dowling & Pfeffer, 1975). However, organizational legitimacy and organizational reputation there have important differences.

In their examination of differences between organizational legitimacy and organizational reputation, Deephouse and Carter (2005) wrote that legitimacy indicates "social acceptance resulting from adherence to social norms and expectations" (p. 329), whereas reputation involves "image, esteem, prestige, and goodwill" (p. 331). More specifically, reputation is "a social comparison among organizations on a variety of attributes" (p. 332). Because organizational reputation largely relies on comparison, reputation requires differentiation to stand out among other organizations. Organizational legitimacy builds on conformity to external pressures in the social environment if an organization (Deephouse & Suhcman, 2008; DiMaggio & Powell, 1983). Another point that distinguishes organizational legitimacy from organization reputation is related to the absence of these concepts. Building on organizational theory (Meyer & Rowan, 1977; Meyer & Scott, 1983; Pfeffer & Salancik, 1978), Deephouse and Carter (2005) argued that "a corporation can have its legitimacy questioned and channeled, and, in extreme cases, be judged illegitimate," whereas negative consequences of threats to organizational reputation are less serious (Deephouse & Carter, p. 351). That is, having less reputation than another organization does not threaten the organization's continued existence as long as the organization's legitimacy remains unchallenged (Boyd, 2000). It appears that organizational legitimacy is not a commodity to be possessed or to be managed but a condition, granted by public, reflecting an organization's alignment with societal expectations and norms while organizational reputation is based on familiarity of the organization and beliefs about what to expect from the organization in the future. Organizational reputation contributes to organizational legitimacy. Thus, the two terms are different even though they are interdependent.

## Role of Public Relations in Building Organizational Legitimacy

The field of public relations is central to building organizational legitimacy. Indeed, van Ruler and Vercic (2004) argued that public relations is primarily a "strategic process of viewing an organization from the outside, or public view…The primary concerns of communication management from a reflective approach are an organization's inclusiveness and preservation of the license to operate" (p. 7). Studies in organizational theory established that organizational legitimacy requires both strategic and institutional practices (Deephouse & Suchman, 2008; Suchman, 1995). As such, the role of public relations encompasses both strategic and institutional accounts of organizational legitimacy.

*An integrative approach.* This dissertation adopts an integrative approach to the function of public relations in building and maintaining organizational legitimacy. The societal role of public relations is interdependent to its public communication role. However, both roles of public relations are linked with each other through public sphere. Thus, the field of public relations plays an important role in achieving legitimacy through its societal and day-to-day public communication functions. Several public relations scholars have recently discussed the viability of an integrative approach to an integrative approach to public relations theory and practice (Boyd, 2000; Falkhaimer, 2007; Taylor, 2011; Raupp, 2004). For example, Raupp (2004) discussed the difference between society-oriented and organization-oriented dimensions and argued that these two dimensions can coexist to engage corporations and publics. Similarly, Taylor (2011) discussed a reconciliation of functional and cocreational approaches as a “third way.” In the specific context or organizational legitimacy, Both (2000) discussed that both institutional (e.g., facilitating changes) and actional (day-to-day strategic communication activities) public relations can help build organizational legitimacy. Therefore, this dissertation envisions two central roles for public relations in building organizational legitimacy: facilitating organizational changes in tandem with public sphere, and advancing transparency through corporate communication with publics.

*Facilitating organizational changes.* Public relations function is instrumental to build organizational legitimacy in three major areas. First, public relations function can help organizations sense the social environment of an organization to understand societal expectations and demands. By initiating communication and marinating an ongoing engagement with publics, public relations can create a platform for debate. Second, in the light of the societal expectations, public relations help the organization to implement changes (e.g., procedural, structural) into the organization. Third, public relations communicate these changes to publics to maintain organizational legitimacy.

Suchman (1995) argued that organizations can build legitimacy through frequent and intense communication with the organization’s social environment. As such, the field of public relations plays a prominent role in building legitimacy as an organization is connected to its social environment through publics (Heath, 2006; Ihlen & van Ruler, 2009: Kruckeberg & Starck, 1988). Public relations function keeps the organization cognizant of the societal expectations and to help orient the corporation according to these expectations (Holmström, 2009). The process of learning societal expectations largely relies on engagement with publics.

Through engagements, the type of change—procedural/policy or structural—that society expects from an organization can be determined (Everett, 2001). Structural changes concern "what the system is" and procedural changes concern "what the system does" (Cutlip et al., 2000, p. 234). For example, a structural change could result from creating a department on human resources and diversity; and procedural change could be new employee supporting programs. The organization then can adjust its structures and processes in response to societal expectations. These changes can keep the organization abreast with the society and maintain a working organization-public relationship (Everett, 2001). Structural and procedural changes help organizations maintain legitimacy in society (Deephouse & Suchman, 2008; DiMaggio & Powell, 1983). As previously discussed, by designing formal structures that reflect an organization's congruence with societal norms and expectations, an organization demonstrates that it is acting in accordance with societal values and norms in an effective way (Scott et al., 2000). Establishing of boundary spanning structures can signal commitment to societal norms and expectations and represent the organization to stakeholders (Rao & Sivakumar, 1999).

Finally, one of the public relations functions is to communicate the implemented changes to public, assuring that the organization have met the expectations to the best of its capability. Publics constantly define and redefine the conditions through which the organization is understood and evaluated (Heath, 2010; Taylor, 2010: Self, 2010).

Therefore, public communication penetrates at all levels of structural and procedural changes implemented within an organization. In a sense, public relations plays both as "a reproductive and a transforming social instrument" (Falkheimer, 2007, p. 292). As such, public relations communication creates positive social impact (Zoller, 2009) by a continuous adjustment of organizational decision processes to society's norms and expectations. This is the most meaningful way public relations can improve society by making it "a good place to live" (Ihlen, 2011, p. 455).

A broader view to issues management in public relations literature (Heath & Palenchar, 2009; Kent, Taylor, & Veil, 2011) can also inform the role of public relations in adjusting the corporation to societal norms and expectations. Heath (1998) defined issues management as "the management of organizational and community resources through the public policy process to advance organizational interests and rights by striking a mutual balance with those of stakeholders" (p. 274). Essentially, issues management is a public relations function that focuses on helping organizations to understand and strategically adapt to their social environment through environmental scanning and issue monitoring. Heath (1998) noted that one of the main goals of issues management is to detect as early as possible an emerging issue that is promoted by one or more stakeholders. Most recently, Kent, Taylor, and Veil (2011) envisioned an expanded role for issues management that views environmental scanning and issue monitoring through a more societal, long term approach than a short-term orientation. From this perspective, the role of public relations is to act as "organizational consciences" and guide organizations through many complexities of society by using ethical communication (p. 534). This perspective resonates with the societal role of public relations.

*Advancing transparency through corporate communication.* The concept of transparency has recently attracted growing attention in both public relations and management area (e.g., Barttlet & Golob, 2007; Guay et al., 2004; Ihlen, Bartlett, & May, 2011; Rawlins, 2009). Rawlins (2009) further explained:

> Transparency is present when organizations have “information that is truthful, substantial, and useful; participation of stakeholders in identifying the information they need; and objective, balanced reporting of an organization’s activities and policies that holds the organization accountable. (p. 74).

Gower (2006) discussed that transparency as making available information to interested parties in “accurate and balanced” ways (p. 95). Rawlins (2009) emphasized that transparency involves active participation “in acquiring, distributing, and creating knowledge” (p. 74) and argued that transparency increases trust.

Indeed, trust is essential for organizational legitimacy (e.g., Heath, 2006; Holmstrom, 2009). Meyer and Rowan (1977) posited that publics have good faith and confidence in organizations. Accordingly, this taken-for-granted nature of organizational legitimacy shields the organization from external pressures. The underlying assumption is that organizational legitimacy protects the organization from public questioning resulting from stakeholder dissatisfactions with technical performance as well as social responsibility performance. As such, organizational legitimacy is closely related to the extent of public questioning. That is, the greater the organizational legitimacy, the less public questioning and scrutiny the organization commands. Deephouse and Suchman (2008) expanded on this link suggesting that questioning is likely to arise when a familiar organization proves to be unsatisfactory. The organization is then challenged on the grounds of its performance and the values it represents and questioned on its continued existence. In a sense, publics evaluate organizational legitimacy when the organization is subject to judgment. Likewise, Pfeffer and Salancik (1978) argued “legitimacy is known more readily when it is absent than when it is present. When activities of an organization are illegitimate, comments and attacks occur” (p. 194).

Meyer and Rowan (1977) pointed out the importance of taken-for-granted nature of organizational legitimacy. They argued, “what legitimates institutionalized organizations, enabling them to appear useful in spite of the last of technical validation, is the confidence and good faith of their internal participants and their external constitutes” (p. 357-358). In other words, stakeholders have confidence and good faith that a given corporation has competence and responsibility, the main antecedents of organizational legitimacy (Epstein, 1972). This point emphasizes the importance of communication and transparency for maintaining public confidence and good faith for organizations.

Accordingly, public relations practitioners need to understand the environmental influences that affect the organization and reflect this understanding in organizational structures and operations (Holmström, 2005; Vercic, van Ruler, Butschi, & Flodin, 2001) to establish and maintain mutually beneficial relationships with its publics through communication and dialogue (Ledingham & Bruning, 1998; Kent & Taylor, 1998, 2002). Given that legitimacy is a status conferred by publics (Dowling & Pfeffer, 1975; Suchman, 1995), the nature of these relationships between an organization and its publics, in turn, determines legitimacy of the organization. In a sense, organizational legitimacy affects the relationships between an organization and its social environment; and it is largely affected by these relationships.

So far, the strategic view of legitimacy in public relations seemed to focus on the rhetorical processes developed after organizational legitimacy of a corporation having been challenged by publics. Indeed, Boyd (2000) lamented that legitimacy is often linked to crisis communication research with a focus on the aftermath of a crisis to reestablish legitimacy, when the damage is already been done. Research suggests that public relations efforts increase when trust is in decline (Kruckeberg & Starck, 1988). When the environmental threats to organizational legitimacy increase, organizations are more likely to rely on public relations strategies. Grounded in a managerial perspective, this view assumes that organizations have the ability to alter public perceptions of legitimacy through public relations strategies. For example, Dowling and Pfeffer (1975) argued that the organization can attempt, through communication, to gain legitimacy even if it fails to adhere societal norms and expectations.

However, in line with Boyd (2002) and the reflective management perspective (Holmström, 2005; Verčič et al., 2001), this dissertation envisions a role for public relations to maintain organizational legitimacy before an act that threatens its state of congruence with societal norms and expectations rather than after it takes place. From a societal perspective, by identifying the legitimacy gap (Sethi, 1979) and initiating a dialogue to narrow the gap, public relations can indeed contribute to the betterment of society (Heath, 2010). Heath and Waymer (2009) argued that “the dialogue of society is best when it helps organizations be more reflective and work for legitimacy; it voices perspectives to help society be more fully functional" (p. 201). These scholars argued that dialogue will create benefits for both organizations and stakeholders. Once stakeholders engage in dialogue with organizations they are likely to experience increased organizational accountability, a greater say in organizational operations, and increased stakeholder satisfaction (Kent & Taylor, 2002). Nevertheless, public relations opportunities and challenges largely extend to what organizations do and do not (Heath, 2010). Therefore, it is important to understand the lenses through which a corporation views its role in society. The next section discusses the approaches in management literature toward the role of business in society with a focus on societal approaches.

## Societal Approaches to Business: Corporate Social Responsibility

From the very beginning, corporations have been expected to innovate, deliver product and services, and to use resources efficiently (Porter & Kramer, 2006). What is different today is that their impact on society has increased at all levels (Heath, 2010; Valentini et al., 2012). As such, the interdependence of business and society has grown leading corporations to be more mindful about societal expectations and norms. One way to understand whether corporate organizations reflectively remain cognizant of their interdependence to the society of which they are a part is to evaluate corporations' commitment to their social and environmental responsibilities. Epstein (1972) argued that an organization is regarded as legitimate if publics perceive it to be useful and socially responsible. In the same vein, Wood (1991) argued that the degree to which principles of social responsibility put into actions can be an indicator to assess whether a corporation meets society's expectations. As such, organizations' level of commitment to social responsibility affects the dynamics of societal legitimacy (Sethi, 1979; Vogel, 2005). Building on this link, there has been indeed a deepening interest in corporate social responsibility (CSR) since the early 1990s (Carroll, 1999; Ihlen, 2008; Porter & Kramer, 2010; Taylor, 2013). The underlying assumption of CSR is that corporations have certain responsibilities to society that extend beyond economic and legal obligations. Carroll (1979) explained that the social responsibility of business "encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time" (p. 500). From this definition, it is clear that a corporation must meet its responsibilities in the markets toward its shareholders, employees, and customers. Legally, it is expected that the corporation conducts its business within the framework of the law. Furthermore, the corporation is expected to behave ethically and use its discretion to improve society. In a sense, CSR has become a coherent way of understanding the role of corporations in society today, with important implications organizational legitimacy (Heath, 2006; Ihlen, 2008; Ihlen et al., 2011; Taylor, 2013). CSR helps a corporation to gain organizational legitimacy.

Two opposing perspectives to CSR have emerged resulting from different interpretations of the role of corporations in society discussed earlier—business view and societal view. In the narrow business view (or economic view), corporations contribute to society by making a profit, which supports employment, wages, purchase, investments, and taxes. Milton Friedman (1970), one of the forerunners of the business view, started a heated debate when he argued that the social responsibility of a business is to increase its profits. Friedman noted:

> There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud. (p. 6)

From this perspective, society falls outside the zone of business; governments and non-profit organizations should be responsible for improving society. Friedman (1970) further made the point that CSR can be a major threat to the capitalist view as the profits belong to the shareholders, not to the corporations. Along these lines, Williamson (1993), in his theory of transaction-cost analysis, argued that agency problems increase when managers act on behalf of non-shareholding stakeholders, and added that the central relationship between shareholders and managers will be distorted when the additional concern for stakeholders added into the relationship. Similarly, Fama and Jensen (1983) argued that shareholder value maximization should be priority for corporate managers—not the stakeholder welfare. However, the business view has been increasingly challenged by many circles in recent years, leading management scholars to develop theories that reconcile the business view with societal approaches (e.g., Porter & Kramer, 2006, 2010).

This dissertation argues that the concept of organizational legitimacy offers a valuable perspective to understand the constructive role of corporation in society. The emphasis on the interdependencies of organization and society in organizational legitimacy resonates with the societal view in management that emphasizes the responsibilities of organizations to stakeholders (e.g., Clarkson, 1995; Freeman, 1984; Wood, 1991) as well as the societal perspectives in public relations that view the role of organization to contribute to the betterment of society (Kruckeberg & Starck, 1998; Holmström, 2005, 2009; Heath, 2006, 2010; Starck & Kruckeberg, 2001). The next sections discussed the relationship between organizational legitimacy and stakeholders and corporate social responsibility.

**Organizational Legitimacy, Stakeholders, and Corporate Social Performance**

In sharp contrast to business view discussed in the precious section, the societal view argues that corporations should serve the interests of all stakeholders (Clarkson, 1995; Donaldson & Preston, 1995; Freeman, 1984). In the business literature, the societal view is commonly characterized by Edward Freeman's (1984) *stakeholder theory* (e.g., Eesley & Lenox, 2006; Hillman & Keim, 2001; Mitchell, Agle, & Wood, 1997). Stakeholder theory posits that corporate managers should make decisions taking account of the interests of all stakeholders in a firm—including, not only shareholding stakeholders, but also employees, customers, communities, governmental agencies, and under some interpretations the natural environment.

The stakeholder theory indicates that corporations should conform to the stakeholders' expectations and act in the interest of their stakeholders. There is a clear link between the stakeholder perspective and organizational legitimacy. The stakeholder perspective provides a lens to understand how society grants and takes away corporate legitimacy. If stakeholders lose trust in the firm's performance, legitimacy may be withdrawn as "the stakeholders refuse to provide their share of reciprocal benefits" (Wood, 1991, p. 697) and lose "good faith and confidence" in organizations (Meyer & Rowan, 1977, p. 58). Shareholders sell their stock, customers stop buying products, employees refuse to give their loyalty and best performance, governments stop subsidies, and environmental groups sue firms. In other words, if the corporation becomes illegitimate in the eyes of its stakeholders, it will lose its license to operate and eventually die. Wood (1991) explains that society has right to establish and enforce a balance of power among its institutions and to grant their legitimacy. This perspective has an implicit view that business has obligations as a social institution, and it implies that society has certain sanctions that can be used when these obligations are not met.

Whereas classical notions of an organization's social responsibilities centered on short-term profit making (Friedman, 1970; Fama & Jensen, 1983), the stakeholder theory focuses on the reciprocal responsibilities between business and society consisted of multiple stakeholders. As such, there is conceptual relationship between organizational legitimacy, corporate social responsibility, and stakeholder theory. In essence stakeholder theory (Freeman, 1984) posits that an organization can affect a wide range of stakeholders in its social environment and that these groups have legitimate claims on the organization. The theory also acknowledges that there are types of stakeholder groups with varying needs and interests.

*Categorizing stakeholder groups.* Studies in management literature tended to group stakeholders in dichotomous categories, such as primary vs. secondary stakeholder, internal vs. external stakeholders, legitimate vs. illegitimate stakeholders. For example, Clarkson (1995) discussed two types of stakeholders, primary and secondary, and defined a primary stakeholder group as the "one without whose continuing participation the corporation cannot survive as a going concern" such as shareholders, employees, customers, suppliers, governments, and communities (p. 106). Secondary stakeholder groups are "those who influence or affect, or are influenced or affected by, the corporation (Clarkson, 1995, p. 107) such as the media, special interests groups, and activists. According to Clarkson, even though they are not engaged in transactions with the corporation and are not essential for its survival, these groups have the capacity to mobilize public opinion in favor of, or in opposition to, a corporation's performance.

Another approach to distinguish one type of stakeholder from another is technical or institutional stakeholder framework (Jones, 1995; Reid & Toffel, 2009). Accordingly, technical stakeholders are those who have a direct and active economic relationship with the organizational and dependent upon the organization's output such as employees, customers, and shareholders. The organization is directly dependent upon technical stakeholders for its immediate survival. While institutional stakeholders are those who have no direct economic relationship with the organization, yet they are affected by the activities. Institutional stakeholders include communities, neighbors, and the natural environment, and largely affect social legitimacy of an organization.

However, recent research has offered ample evidence that a dichotomous approach to differentiate organizational stakeholders limits the understanding of the organization-stakeholders dynamics (Agle et al., 1999; Mitchell et al., 1997). Furthermore, several scholars in the field of business ethics criticized the past attempt that ascribe stakeholder status to only human element and argued that natural environment should be considered as one of the primary stakeholders of a company (e.g., Driscoll & Starik, 2004; Phillips & Reichart, 2000; Starik, 1995). These scholars argued that the natural environment is one type of institutional stakeholder that affects organizational legitimacy. The aforementioned discussion suggests that the role of stakeholders is contingent on the situation and dependent on a set of complex variables. Nevertheless, regardless of the scope of stakeholders, stakeholder theory shares the main assumption of institutional legitimacy that the organization influences and, in turn, is influenced by the society in which it operates (Donaldson & Preston, 1995). The stakeholder theory contends that managers should balance the interest of all stakeholders, including shareholders (Clarkson, 1995; Donaldson & Preston, 1995; Freeman, 1984; Jones, 1995).

*Shareholders as stakeholders.* This dissertation focuses on one type of stakeholders—shareholders. Being one of the primary stakeholder groups and owners of the company (Clarkson, 1995; Freeman, 1984), shareholders posses a dual role for corporate organizations. In their typology of stakeholder attributes and salience (power, legitimacy, and urgency), Mitchell, Agle, and Wood (1997) categorized shareholders as *dominant stakeholders* who posses both power and legitimacy, and thus their expectations will "matter" to corporations (p. 876). As such, shareholders can improve corporate social behavior by demanding the company to be more socially responsible. Indeed, the growing movement of socially responsible investing suggests that shareholders increasingly merge social values with their investment decisions, demanding more than an acceptable financial return (Guay, Doh, & Sinclair, 2004; Rehbein, Waddock, & Graves, 2004). For example, one-third of shareholder resolutions filed in 2012 asked corporations to adopt a sexual orientation non-discrimination policy (Hamburger & Dennis, 2012). However, to date, there has been little scholarly attention, if any, on the larger impact of shareholders on society in the public relations literature. In the next sections, research hypotheses are developed based the societal views in organizational theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1997; Scott et al., 2002; Suchman, 1995), public relations literature (e.g., Heath, 2006, 2010; Holmstrom, 2005, 2009; Ihlen et al., 2009; Starck & Kruckeberg, 1988, 2001) and management literature (Clarkson, 1995; Freeman, 1984).

## Corporate Social Performance Model

Building on the work of Carroll (1979) and Wartick and Cochran (1985), Wood (1991) defined corporate social performance (CSP) as "a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the corporation's societal relationships (p. 693). The CSP model views stakeholder theory as the key to understanding the structure and dimensions of the corporation's societal relationships (Clarkson, 1995; Wood, 1991). In the CSP model, corporate policies, programs, and outcomes are directly affected by stakeholders. As such, stakeholders set the norms for corporate behavior, experience that behavior, and also evaluate it (Clarkson, 1995). Subsequent studies in management literature have used CSP as a toolkit to understand a corporation's attention to its stakeholders (e.g., Eesley & Lenox, 2006; Kacperczyk, 2009; Sharfman, 1996; Waddock & Graves, 1997). At the heart of CSP is "the interaction among the principles of social responsibility, the processes of social responsiveness, and the policies and programs designed by corporations to address social issues" (Wartick & Cochran, 1985, p. 758). Thus, CSP is a useful model for this dissertation as it subsumes corporate social responsibility and emphasizes the importance of stakeholders for linking the corporation to its social environment. The next section develops research hypotheses based on the review of the literature and presents theoretical models of the study.

## Hypotheses Development and Theoretical Models

Studies on organizational legitimacy in organizational theory, public relations, and management suggest that corporations, as an integral part of societal systems, must respond to social pressures exerted by their stakeholders to continue to exist in society. Earlier in this dissertation, it was established that a corporation targeted by a social shareholder resolution can respond in three ways: a) the corporation can simply ignore the social resolution and wait until it reaches at the proxy voting stage; b) the corporation can send the resolution to the SEC and request for the omission of the resolution from the proxy ballot; and c) the corporation can communicate with the activist shareholder group, who sponsored the resolution, to discuss and eventually implement the requested changes. Only if the corporation responds in the third way, the activist group agrees to withdraw the resolution. Literature on shareholder activism suggests that the first two outcomes—omissions and proxy votes —are different from the third outcome—withdrawals with respect to assessing shareholder activist success and corporate responsiveness (e.g., Carleton et al., 1998; Guay, Doh, & Sinclair, 2004; Logsdon & van Buren, 2009; Sjostrom, 2008; Tkac, 2006). It is also important to note that shareholder resolutions are non-binding recommendations—there are no legal consequences for the target corporations if they do not respond to the demands voiced in social shareholder resolutions (Gillan & Starks, 1998; Vogel, 1983). Furthermore, prior research documented that, even if included in the proxy, social shareholder resolutions receive low support vote from other shareholders at the corporation's general meeting (Ertimur et al., 2010; Thomas & Cotter, 2007). Then the underlying question is why some corporations are willing to engage in a conversation with the social shareholder activists to reach withdrawal agreements while others simply ignore them. Furthermore, why some corporations implement the proposed changes in the withdrawn shareholder resolutions, while others avoid implementing these changes after reaching withdrawal agreements with social shareholder activists. Inquiring this question is important for public relations research because corporations are the main social actors that public relations provide its service (Heath, 2010; Valentini et al., 2006). An organization's tangible actions in the social realm are deeply rooted in how the organization perceives its role in society.

To explain the variations in corporate responses to social shareholder resolutions, the researcher turns to management literature. Gower (2006) emphasized the need to utilize management literature in public relations research to further the understanding of organizations. McKie (2001) and Toth (2010) encouraged the applications of concepts and constructs from management models to public relations research. The next sections develop a set of research hypotheses concerning the likelihood of reaching a withdrawal agreement on a social resolution and the implementation level of a social shareholder resolution after the withdrawal outcome. Following Eesley and Lenox (2006), the factors are discussed at three levels: corporate, issue, and sponsor.

## Withdrawal Probability of a Social Shareholder Resolution

The aforementioned literature on shareholder activism suggests that shareholder activists withdrew their resolution when a) the targeted corporation agreed to implement the proposed changes (structural or procedural); b) gave a commitment to take certain steps to report on its social or environmental performance by a certain date; or c) demonstrated its willingness to appoint a team that will maintain an ongoing communication through regular meetings with the shareholder activists about the issue and set a timetable (Carleton et al., 1998; Del Guercio & Hawkins, 1999; Guay et al., 2004; Lee & Lounsbury, 2011; Logsdon & van Buren, 2008). A withdrawn social shareholder resolution, then, involves shareholder activist-corporate engagement, and it can be regarded as a success on the shareholder activist side. However, the literature noted that not all corporations respond to shareholders' requests for engagement to reach at a withdrawal agreement on the resolution. There can be many factors that affect corporate responses to social shareholder resolutions. At the corporate level, as an indicator of how a corporation considers its role in society, its commitment to its stakeholders can determine the way a target corporation responds to a social shareholder resolution.

*Corporate-level: corporate stakeholder commitment.* The pressure of social resolutions is not equally felt by all corporations. For example, Lee and Lounsbury (2011) examined the effects of environmental shareholder activism on corporate pollution management practices through using 13-year panel data of 58 public corporations. The researchers found that certain corporations were more likely to respond positively to the shareholder demands than others. In particular, their findings showed that corporations that were more dependent on organizational reputation (larger corporations and corporations that are closer to end-user consumers) were more likely to address the demands from shareholder activists. Lee and Lounsbury concluded that corporate-level characteristics could generate corporate heterogeneity in responses to shareholder activism.

This dissertation argues that the level of commitment that corporations have for their institutional stakeholders will affect corporate responses to social shareholder activism. Commitment is an important consideration in public relations theory. Indeed, commitment is one of the measures of organization–public relationship theory (Bruning & Ledignham, 1999; Ledignham & Bruning, 1998). Hon and Grunig (1999) defined commitment as the “extent to which each party believes and feels that the relationship is worth spending energy to maintain and promote” (p. 3). As such, commitment to stakeholders involves some tangible efforts that involve corporate resources at maintaining a meaningful relationship with stakeholders.

As discussed earlier, in the management literature, corporate stakeholder commitment has been associated with corporate social performance (CSP). Emphasizing the link between CSP and stakeholder commitment, Wood (1991) argued that the concept of stakeholder is the key to understanding the structure and dimensions of a company’s societal relationships. Similarly, Clarkson (1995) proposed a framework that corporate social performance can indicate stakeholder commitment of a corporation. Clarkson highlighted that a corporation’s survival depends on its ability to create value and satisfaction for each stakeholder group. In line with Freeman’s (1984) stakeholder theory, Clarkson (1995) argued that corporations engage in relationships with stakeholder groups rather than the society as a whole.

Building upon the link between stakeholder theory and CSP, many studies in the management literature used CSP as an indicator of stakeholder commitment (e.g., Eesley & Lenox, 2006; Hillman & Keim, 2001; Kacperczyk, 2009; Waddock & Graves, 1997). However, advocating for a business case of stakeholder engagement, majority of these studies examined corporate stakeholder commitment in relation to financial performance (e.g., Hillman & Keim, 2001; Waddock & Graves, 1997). The underlying assumption was that by generating value for the different stakeholders, corporations can also create value for the shareholder (Freeman et al., 2004; Porter & Kramer, 2006, 2011). With the increasing applications of social movement theory in the management research in recent years (e.g., den Hond & Bakker, 2007; Lee & Lounsbury, 2011; Reid & Toffel, 2009), corporate stakeholder commitment has been studied in the context of corporate responses to social activism. For example, analyzing stakeholder actions in United States concerning environmental issues over the period 1988 to 2003, Eesley and Lenox (2006) tested a set of hypotheses on which corporations are likely to be more engaged with secondary stakeholder groups (e.g., NGOs, activist organizations) on these issues. Using CSP as an indicator for corporate stakeholder commitment to consumers, the researchers found that corporations with high stakeholder commitment, financially well performing, and heavier polluters were more likely to be engaged with secondary stakeholders on environmentally-oriented actions.

It seems clear that both public relations and management literature have pointed out the importance of stakeholder commitment as a factor that can affect a target corporation's level of engagement with the social activists. As the literature on social shareholder activism suggests social shareholder activists file resolutions at a wide range of corporations across a number of sectors. Corporations that became target of social resolutions have varying levels of commitment to their stakeholders. The CSP model emphasizes that stakeholders set norms for corporate behavior, experience that behavior, and also evaluate it (Clarkson, 1995; Wood, 1991). This view also argues that corporations engage in relationships with stakeholder groups rather than the society as a whole. As such corporations are linked to society through stakeholders (Heath, 2006; Suchman, 1995). Based upon their view toward the role of business in society, these corporations might evaluate the pressure exerted by social shareholders through different lenses. Thus targeted corporations likely to respond to a social shareholder resolution in one of the ways mentioned above: petitioning the SEC for omission, sending to a vote, or engaging with the sponsoring shareholder activist to reach at withdrawal agreements. The dissertation focuses on corporate commitment to community and environment as an indicator of corporations' efforts for building organizational legitimacy.

*Corporate commitment to community.* Community, a basic social unit of society (Etzioni, 1999), is a legitimate organizational stakeholder with increasing power, legitimacy, and urgency due, in part, to the new communication technologies and globalization (Castells, 2008; Self, 2009, 2010). The literature on stakeholder theory in management considers community as one of the primary and institutional stakeholders of a company (Clarkson, 1995; Freeman, 1984; Mitchell et al., 1997). As such, according to the stakeholder theory (Clarkson, 1995; Freeman, 1984; Mitchell et al., 1997), corporations have an obligation to consider the needs, interests, and concerns of their local (and global) communities. Furthermore, studies in the management literature consistently found that attending the community, among other stakeholders of a corporation, is most relevant to creating organizational legitimacy (e.g., Hillman & Keim, 2001; Kacperczyk, 2009).

Community is an important concept in the public relations literature as well. Anchored in the concept of community, the communitarian view to public relations has long argued that the most important stakeholder of an organization should be its community (Kruckeberg & Starck, 1988). In particular, in the past decade, community has been a focal concept in public relations with the theoretical shift from making organizations effective to making society effective.  Studies grounded in this societal approach have advocated for the integration of community interests in the organizational decision-making process (e.g., Hallahan, 2004; Heath, 2011; Holmström, 2009; Leeper, 2001; Luoma-aho, 2009; Kruckeberg & Tsetsura, 2008; Starck & Kruckeberg, 2001; Valentini et al., 2012). Accordingly, an organization's commitment to its community largely determines its legitimacy in a given society. Heath and Ni (2010) highlighted the importance of community relations and argued that the practice of community relations is "a companion topic to corporate social responsibility" (p. 558). Building on the literature, this dissertation contends that commitment to community can contribute to organizational legitimacy.

In the management literature, community is one of the primary and institutional stakeholder groups with legitimate claims (Clarkson, 1995; Freeman, 1984; Mitchell et al., 1997; Wood, 191). Accordingly, corporations have an obligation to consider the needs, interests, and expectations of their local and global communities. Furthermore, several studies in the management research showed that attending the community, among other stakeholders of a corporation, is most relevant to creating intangible assets such as organizational reputation (Deephouse & Carter, 2005; Kacperczyk, 2009).

Despite its paramount importance for organizational legitimacy, corporations differ in their levels of commitment to the community (Hallahan, 2004; Heath, 2010). This can be explained by the old-age debate on the two perspectives—communitarianism versus libertarianism. Leeper (2001) discussed the dual concepts of communitarianism and libertarianism. The communitarian perspective values social cohesion, citizen empowerment and acceptance of responsibility (Etzioni, 1999, Bellah, 2008). In contrast, libertarianism values competition for the purpose of fulfilling self-interest. Leeper (2001) argued that the key to this dualism between communitarianism and libertarianism is a matter of positioning one's philosophy, accepting its inherent assumptions, and then conducting action based upon that perspective. If a corporation has a strong commitment to community, it is likely to view the organization as part of a larger society, assume a role to connect it to a larger whole, and aim to maximize the welfare of the larger group. Conversely, if a corporation has a low commitment to community, it is not likely to assume a role for the larger good of the society. Because of their stronger concerns for larger good of society and their belief that they have responsibilities to the society, corporations with higher levels of commitment to their community will be more likely to engage in a conversation with social shareholder activists over the social issues address in the resolutions as opposed to the corporations with lower levels of community commitment. The first research hypothesis is proposed as the following:

**H1:** Social resolutions filed at corporations with high levels of community commitment will be more likely to be withdrawn than the ones filed at corporations low levels of community commitment.

*Corporate commitment to the environment.* A corporation's orientation toward its natural environment is closely relevant to organizational legitimacy. Corporations interact with ecological systems in their local or global environments. Corporate operations can directly or indirectly create some long-term or short-term implications for the environment. As a result, corporations can affect and be affected by the natural environment. The early management literature did not consider the natural environment as one of the stakeholders of a corporation because stakeholder status has been restricted to humans only (e.g., Agle et al., 1999; Clarkson, 1995; Freeman, 1984; Mitchell et al., 1997).

However, recently there is a growing literature that argues the natural environment is one of the most important stakeholders of an organization (Driscoll & Starik, 2004; Driscoll & Crombie, 2001; Jacobs, 1997; Mobus, 2005; Starik, 2002). For example, Jocobs (1997) focused on the term "stakeholding" at philosophical level and argued that corporations both affect and are affected by the environment. He further explained that,

> The natural environment supplies as with raw materials, it assimilates the wastes that are inevitably produced in economic activity and it provides various life-support services such as climate regulation and the maintenance of genetic

diversity. The environment is affected by the decision of companies and by the economy as a whole. (p. 26).

From this perspective, the stakeholder status can be expanded to include the environment. However, it is difficult to apply the stakeholder status to the environment in practice. Environment has no voice or agency to carry out a will (Phillips & Reichart, 2000). However specific individuals and groups can be assigned to advocate for the environment at multiple levels (Burns, 2012). To some extent, environmental activist organizations or government agencies dedicated to the environmental protection play this role. In addition, there is a growing pressure on corporations to create a committee with in organizational structure that is solely responsible for environmental sustainability (Reid & Toffel, 2009).

This dissertation ascribes the natural environment a quasi-stakeholder status. Despite the environment has no agency to act as the other stakeholders have, corporate environmental responsibility can affect organizational legitimacy through the agency organizational stakeholders (e.g., community, employees). Indeed, environmental responsibility is central to organizational legitimacy. Negative externalities like pollution impose social costs onto communities uninvolved in the business transactions. Incidents such as BP Oil Spill and Exxon Valdez Oil Spill can pose threats to legitimacy of these corporations, often forcing them to reestablish their legitimacy through image restoration strategies (Harlow, Brantley, & Harlow, 2011; Muralidharan, Dillistone, & Shin, 2011). Corporate environmental responsibility performance can have an impact on organizational legitimacy of a corporation (Mobus, 2005; Vogel, 2005). Indeed, in a study of environmental performance disclosures, Mobus (2005) found that environmental responsibility performance is a strong predictor of overall organizational legitimacy. Golob and Bartlett (2007) found that, as a response to societal demands, many corporations have recently increased their environmental responsibility performance disclosures to establish and maintain organizational legitimacy.

The importance of environmental responsibility is implicit in the public relations literature as well. Most notably, the communitarian view in public relations suggests that since communities depend on the natural environment for their survival and well-being, the corporation has also an obligation to protect the natural environment and engage in environmentally responsible behaviors (Leeper, 2001; Starck & Kruckeberg, 1988). Collectively, it is predicted that a corporation's level of commitment to the natural environmental can determine its likelihood of reaching a withdrawal agreement on a social shareholder resolution.

> **H2:** Resolutions filed at corporations with high levels of environmental commitment will be more likely to be withdrawn than the ones filed at corporations with low levels of environmental commitment.

In addition to corporate level characteristics such as corporate stakeholder commitment, other factors at the issue-level can affect the outcome of social shareholder activism. In their study of corporate responses to secondary stakeholder activism (e.g., NGOs, special interest groups) on environmental issues, Eesley and Lenox (2006) emphasized the importance of the content of stakeholder requests for predicting the outcomes. Next, the discussion directs the attention to the content of the social shareholder activist resolutions.

**Issue level: Types of issues in social shareholder resolutions**

The scope of social issues that are raised and addressed through shareholder resolutions continues to expand. Sethi (1979) argued that social expectations are dynamic. The interests and concerns of shareholder activists are influenced by time and societal context in which they are located (Graves, Rehbein, & Waddock, 2001; Tkac, 2006).Thus, the social issues and demands raised in the shareholder resolutions can be very heterogonous.

The scope of the social or environmental issues raised in a shareholder resolution is likely to affect the target corporation's willingness to engage in a conversation with the sponsors and reach at withdrawal agreements. Environmental issues such as climate change and global warming have started to play a central role in the relationships between corporations and stakeholders such as activist, NGOs, and governmental agencies. A relevant example is a business and environmental coalition called the United States Climate Action Partnership (USCAP), which includes corporations such as DuPont, Shell Oil, and the American Electric Power. The corporation played a significant role in the American Clean Energy and Security Act of 2009 climate bill (Bloomberg, 2009). Being a major component of corporate social responsibility (Mobus, 2005; Vogel, 2005), corporate environmental policies receive close scrutiny by both public and private entities, and environmental practices elicit extensive reporting and attention from the media. Corporate environmental successes and failures attract extensive media coverage (e.g., BP oil spill in the Gulf of Mexico), and major news outlets release rankings based on corporate environmental performance (e.g., *Newsweek*'s Green Rankings). Therefore, corporations have the pressure to be vigilant about their environmental behaviors as they are under close scrutiny.

While companies have no discretion over some social factors such as being in tobacco industry (other than exiting the industry), companies have substantial discretion over the environmental factors that drive social investing (Rehbein et al., 2004). Even in industries such as power generation, petroleum, and chemicals, companies have the ability to engage in environmentally responsible behaviors that are easily measurable (e.g., adopt clean technologies, use renewable energy sources, etc.) (Eesley & Lenox, 2006). As such, corporations might find it more feasible to address an environmental issue requested in a shareholder resolution as opposed to a social one (e.g., human rights, diversity). Thus the following hypothesis was posed:

> **H3:** Social resolutions that raised an environmental issue will be more likely to be withdrawn than the resolutions that raised other social issues (e.g., community, diversity, human rights).

### Sponsor level: Types of institutional social shareholder activists

Institutional shareholder activists who file resolutions are not a homogenous group. Research has showed that the profile of institutional shareholders who voiced their concerns through filing resolutions has diversified significantly since the 1990s (Ertimur et al., 2010; Rehbein et al., 2004; Waddock & Graves, 2004). Historically, institutional shareholder activists include public pension funds, religious groups, environmental groups, socially responsible investing funds, and special interest groups.

Following the Enron scandal in 2001 and continuing through the recent financial crisis, particularly, public pension funds have increased their pressures on the corporate governance and social responsibility issues (Gillan & Stark, 2007; Smith, 2012). The type of organization (religious, public pension funds, activist organization) can create different levels of pressures on target corporations.

Public pension funds play a decisive role in shareholder activism. Because of their importance, public pension activism on corporate governance issues has found extensive scholarly attention in management literature (e.g., Carleton, Nelson, & Weisbach, 1998; Del Guercio & Hawkins, 1999; Gillan & Starks, 2007; Smith, 1996). Studied suggested that public pension funds have been successful in reaching withdrawal agreements with the target corporations on corporate governance issues. Notably, in a study on shareholder activism enacted by California Public Employees' Retirement System (CalPERS) between 1987 and 1993, Smith (1996) found that shareholder wealth increased for corporations that settled with CalPERS and decreased for corporations that resisted. This finding emphasizes the role of public pension fund for corporate managers.

Del Guercio and Hawkins (1999) examined the motivation and impact of public pension fund activism by focusing on five public pension funds, —California Public Employees' Retirement System (CalPERS), California State Teachers' Retirement System (CalSTRS), New York City Funds, College Retirement Equities Fund (CREF), and State of Wisconsin Investment Board Fund (SWIB). The researchers analyzed 266 shareholder resolutions filed by these public pension funds at 125 corporations between 1987 and 1993. Del Guercio and Hawkins found that corporations receiving public pension fund resolutions subsequently experience a higher frequency of governance events such as shareholder lawsuits and responsive corporate policies such as asset sales. In particular, resolutions sponsored by CalPERS, which had the largest ownership stakes among the externally managed indexed funds by that time, had the broadest and most substantial impact on subsequent events at target corporations. The researchers also found that corporations that received resolutions sponsored public pension funds and garnered enough votes to pass had a significantly higher probability of a takeover attempt. Del and Guercio (1999) concluded that,

> Shareholder resolutions are low-cost mechanisms that can be fruitfully used to further a number of goals, such as putting pressure on management, signaling to the market the views of the fund regarding target management, and building shareholder support for more costly governance activity such as takeovers. (p. 295).

While Del Guercio and Hawkins' study (1999) focused on public pension fund resolutions that received passed at the annual vote, Carleton et al.'s study (1998) focused on public pension fund resolutions that were withdrawal. More specifically, the researchers examined 62 resolutions filed at 146 corporations by TIAA-CREF between 1987 and 1993. Carleton et al. (1998) found that the public pension fund withdrew their resolutions upon the target corporation's commitment to take steps toward the proposed change. Moreover, the researches documented that, in a majority of the cases (87%), corporations took actions to implement the changes requested by TIAA-CREF.

Prior research has thus consistently documented that overall resolutions sponsored by public pension funds receive much higher votes and more positive responses from targeted corporations (e.g., Ertimur et al., 2010; Del Guercio & Hawkins, 1999; Gillan & Straks, 2007). The research has also suggested that public pension funds were generally able to reach agreements with targeted corporations (Carleton et al., 1998; Del Guercio & Hawkins, 1999; Smith, 2012). While there is mounting evidence that public pension fund activism has been influential in corporate governance issues, there is relatively little evidence on the impact of public pension fund on shareholder-corporate engagements on social issues. Considering organizational type as a source of stakeholder pressure, it is predicted that social resolutions sponsored by public pension funds will be more likely to be withdrawn than those sponsored by other institutional activists (e.g., unions, religious organizations).

> **H4:** Social resolutions sponsored by public pension funds will be more likely to be withdrawn than those sponsored by other institutional shareholder activists (e.g., religious organizations, special interests groups, SRI funds).

Thus far, the discussion has focused on the factors that predict withdrawal of resolutions as one of the outcome of social shareholder activism. However, withdrawals alone cannot demonstrate whether social shareholder resolutions can indeed create changes with the targeted corporation. The next section addresses the important question whether target corporations implement the proposed changes in social shareholder resolutions.

### Implementation Level of a Withdrawn Social Shareholder Resolution

One of the main objectives of this dissertation is to further the understanding of the factors that affect corporate responsiveness to social shareholder activism. In this section, I will focus on one issue, corporate sustainability reporting, to explore whether and to what extent target corporations respond to social expectations and demands, raised in the shareholder resolutions, to increase their organizational legitimacy. Corporate sustainability reporting was chosen to examine the implementation level of a social shareholder resolution mainly because three reasons. First, several public relations scholars documented that corporations produced sustainability reporting at different levels (e.g., Golob & Barttlett, 2007; Ihlen, Barttlett, & May, 2011; Signitzer & Prexl, 2008; Weber & Marley, 2012). Second, shareholder request for corporate sustainability reporting provides a clear example of social shareholder activism for a balance of economic, social, and environmental goals and values, challenging the Friedman's (1970) economic view of short-term shareholder wealth maximization. Finally, third, there are reliable externally verified and global guidelines (e.g., Global Reporting Initiative's Sustainability Reporting Guidelines and Application Levels) for determining the implementation level of corporate sustainability reporting, which will briefly be discussed below and later in the Methodology Chapter in more detail.

The next section revisits the concept of stakeholder commitment and discusses the impact of the target corporation's stakeholder commitment on the level of implementation of a sustainability-reporting request made by social shareholder activists through resolutions. Furthermore, the section discusses the potential impact of corporate industry classification and types of sponsors on the implementation of a sustainability-reporting request. The researcher develops a set of hypotheses guided by the concept of organizational legitimacy, which is an overarching theme that can explain corporate responses to societal pressures (e.g., Clarkson, 1995; DiMaggio &

Powell, 1983; Galaskiewicz, 1991; Heath, 2006, 2010; Meyer & Rowan, 1977; Scott et al., 2000; Ihlen & van Ruler, 2009; Starck & Kruckeberg, 1988, 2001; Wood, 1991). Before proceeding with the hypotheses, the scope and use of corporate sustainability reporting is explained from a societal perspective.

*Corporate Sustainability Reporting.* Societal expectations about the responsible role of business in society have led to developments of mechanisms that aim to improve, evaluate, and communicate socially responsible practices. The research on corporate social responsibility communication in public relations shows that large corporations have increasingly adopted global standards for reporting on their sustainability programs as a response to growing public pressure (Golob & Bartlett, 2007; Ihlen & Roper, 2011; Ihlen & Bartlett, & May, 2011; Signitzer & Prexl, 2008).

Sustainability reporting is premised on the triple bottom line approach in which three elements—economic growth, environmental protection, and social welfare—are equally considered (Ihlen & Roper, 2011, Kolk, 2003). In essence, sustainability reporting is a consequence of the definition of *sustainable development*. In 1987, the Word Commission on Economic Development (WCED) popularized the term "sustainability development" defining it as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED Brundtland Report, 1987, p. 43). Signitzer and Prexl (2008) discussed corporate sustainability as a concept that "describes the planned and strategic, management processes of working towards a balance of economic, social, and environmental goals and values" (p. 3). With its emphasis on the triple bottom approach, the notion of sustainability poses an alternative to Friedman's (1970) traditional models of short-term wealth maximization.

Corporate sustainability reporting (or corporate sustainability communication) underpins the increasing social demands on corporations to conform to expectations of societal legitimacy. At the heart of corporate sustainability reporting is public demand for transparency, which enhances the ethical nature of organizations (Rawlins, 2008). In principle, corporate sustainability reporting aims at informing stakeholders on corporate actions, measures, and plans to meet "the needs and aspirations of both current and future societies" (Signitzer & Prexl, 2008, p. 9). Sustainability reporting communication allows forming a public sphere in which public needs, interests, and expectations are discussed (Ihlen et al., 2011). From a reflective management view (Holstrom, 2007; van Ruler & Vercic, 2004), corporate sustainability communication allows corporations to become cognizant of public needs and expectations. It allows them to maintain a continuous adjustment of corporate decision processes to society's norms and expectations, leading corporations to make structural and procedural changes.

*Implementation of sustainability reports in corporations.* A central discussion in the study of sustainability reporting is whether companies have really implemented and internalized the items they include in their report. Kolk (2004) introduced the concept of *implementation likelihood* arguing that a sustainability report can be judged for the likelihood that its contents have indeed been implemented within an organization. Sustainability reporting requires a coherent approach that integrates the strategic management process of the organization, from definition of its mission to the measurement and reporting of the results achieved as a consequence of that process

(Signitzer & Prexl, 2008). In a sense, by providing knowledge about environmental, social, and economic performance measurements and results, by standardization of reporting and accounting, and external verification, the companies increase the likelihood of implementation of socially responsible behaviors.

Societal approaches to the role of corporation reviewed in the earlier sections suggest that social pressures can create certain changes within the organization and can shape, mediate, and channel institutional arrangements (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Scott et al. (2000) observed that organizations design formal structures and procedures to demonstrate that they are acting on societal expectations and values. Accordingly, organizations are driven to incorporate the practices and procedures defined by prevailing demands and expectations and organizations that do so increase their legitimacy and their survival prospects, "regardless of the immediate efficacy of the acquired practice and procedures" (p. 41). Because social pressures can create structural changes within the organization (DiMaggio & Powell, 1983; Meyer & Rowan, 1977), the changes agreed upon by the target corporations are likely to occur in those mechanisms within the corporation which are designed to address social objectives. Meyer and Rowan (1991) further explained:

> By designing a formal structure that adheres to the prescriptions of myths in the institutional environment, an organization demonstrates that it is acting on collectively valued purposes in a proper and adequate manner. The incorporation of institutionalized elements provides an account of activities that protects the organization from having its conduct questioned. The organization

> becomes, in a word, legitimate, and it uses its legitimacy to strengthen its support and secure its survival. (p. 50)

A corporation, then, is expected to make institutional arrangements and changes to address societal demands to establish and maintain its legitimacy in society. Meyer and Rowan (1991) noted, “a most important aspect of isomorphism with environmental institutions is the evolution of organizational language” (p. 50). For example, Meyer and Rowan discussed how organizations redesign the labels of organization chart as well as vocabularies of motive used to describe the activities of individuals as a response to societal pressures. Similarly, Galaskiewicz (1991) observed that societal demands can be implemented in the organization by change agents even though these changes may contradict with the corporation’s short-term goals. Faced with a shareholder request on sustainability reporting, a corporation is then expected to make institutional arrangements and changes to maintain its organizational legitimacy.

However, not all corporations produce sustainability reports and not all of them produce sustainability reports at the same level. In other words, there are different levels of how corporations produce sustainability reporting (Golob & Barttlet, 2007; Ihlen et al., 2011; Kolk, 2003, 2004). As mentioned earlier, corporate sustainability reporting is voluntary—there are no legal requirements or guidelines for corporate sustainability reporting. As such, corporations have discretionary over the quality of their sustainability reports. Prior research showed that corporations adopted the sustainability reporting practice at different levels ranging from a basic level to an advanced one (Golob & Barttlet, 2007; Kolk, 2004; Signitzer & Prexl, 2008; Weber & Marley, 2012). Indeed, Global Reporting Initiative (GRI) has designed three application levels for organizational sustainability reporting (www.globalreporting.org). The three levels (A, B, C) are a measure of the extent of application or coverage of the GRI Reporting Framework—a globally recognized framework for sustainability reporting (Kolk, 2003, 2004). The levels show the variations of corporate sustainability reporting from "beginner to advanced, and somewhere in between" (GRI Application Levels, 2013, para. 2). Thus the variations discussed above highlight some factors that might affect the implementation level of sustainability reporting. Given that sustainability reporting is a voluntary practice that helps contribute to organizational legitimacy (Ihlen et al., 2011; Signitzer & Prexl, 2008), it possible that target corporations that received a sustainability-reporting shareholder resolution and later reached at an agreement with sponsoring shareholder activists will implement this request at various levels. The next sections focus on corporate level and sponsor level factors that might affect the implementation level of sustainability reporting request.

*Corporate-level: corporate stakeholder commitment.* Corporate sustainability reporting is widespread among corporations, but it is not practiced at same level. For example, content analysis on sustainability reporting of large corporations showed that the extent of corporate sustainability reporting varied from not reporting at all to full compliance with the Global Reporting Initiative (GRI) guidelines—globally accepted high standards of sustainability reporting standards (Golob & Bartlett, 2007; Ihlen, Bartlett, & May, 2011; Kolk, 2004; Weber & Marley, 2012). Similarly, Ihlen and Roper (2011) observed that although the term sustainability was commonly used in corporate discourse, the actual of reporting of parameters on social and environmental issues were rather shallow. Kolk (2004) explained some of the reasons for not reporting such as doubts about the advantages it would bring to the organization, increasing costs, the danger of damaging the reputation of the corporation and having legal implications. Corporations might feel, for example, that providing a sustainability report might make them “vulnerable to public pressures” and constrain their activities by slowing down the completion of tasks or limiting their use of particular inputs and outputs (Kolk, 2004, p. 54). As Signitzer and Prexl (2008) put it, corporations face “the risk of waking sleeping dogs” when they issue sustainability reports. In addition, producing sustainability reports can be costly and time consuming, and often requires personnel employed to oversee the practice (Kolk, 2004; Weber & Marley, 2012). The better the quality of a sustainability report, the more company resources vested in the practice. Building on the resource dependency theory (Pfeffer & Salancik, 1983), the availability of funding and resources for gathering such a report might also affect a company’s likelihood of adopting the practice of sustainability reporting.

Based on the factors discussed above, corporations have adopted sustainability reporting at different levels. For example, GRI has three levels of reporting ranging from A (advanced level), B (medium level), and C (basic level). Den Hond and de Bakker (2007) argued that the level of corporate changes in the social realm could be understood as an expression of what that corporation believes to be its social responsibilities. The application level of sustainability reporting can be closely related to the organization’s overall commitment to its stakeholders. In essence, sustainability reporting is a communicative function of corporations reflect its “concern for social justice” and “environmental awareness” (Signitzer & Prexl, 2008). Thus it is predicted that a target corporation’s stakeholder commitment to community and the natural environment will affect its implementation level of a social request (in this case sustainability reporting).

**H5:** Withdrawn social resolutions filed at corporations with high levels of community commitment will be more likely to be implemented at a greater level than the ones filed at corporations with low levels of community commitment.

**H6:** Withdrawn Social resolutions filed at corporations with high levels of environmental commitment are more likely to be implemented at a greater level than the ones filed at corporations with low levels of community commitment.

*Industrial classification.* In addition to the extent of corporate stakeholder commitment, industry classification of the target corporation can have an impact on the implementation level of the sustainability-reporting request raised in shareholder resolutions. Prior research on the corporate social responsibility practices has indicated some difference across industries on the implementation and communication of these policies and principles (e.g., Golob & Bartlett, 2007; Signitzer & Prexl, 2008; Waddock & Graves, 1997; Weber & Marley, 2012). The line of business that corporations are engaged within an industry can explain these variations.

Corporations in the energy, oil and gas, and utility industries are dependent on the natural resources existing in the natural environment for their survival. Indeed, corporations in the petro-chemical industry—that involves petroleum products and chemical products derived from petroleum—are historically more prone to cause negative externalities to the natural environment (e.g., BP Oil Spill, Exxon Valdez Oil Spill) that threaten social legitimacy of the entire industry (Harlow et al., 2011;

Muralidharan et al., 2011). Therefore, corporations in this industry are in the spotlight and under scrutiny by the media, environmental activists, and government agencies. As a result, these corporations may be more inclined to provide information on environmental responsibility activities to their stakeholders. Indeed, Jose and Lee (2007) found that corporations in the environmentally sensitive industries, such as oil and gas, are more likely to disclose environmental performance information than companies in finance and other service industries. Likewise, Reid and Toffel (2009) found that corporations in the integrated oil, gas, utilities, and energy sectors are more likely to have greater level of corporate disclosures of climate change that other sectors such as financial services and health care. Given that social responsibility is one of the main antecedents of organizational legitimacy (Epstein, 1972) and organizational reputation (Fombrun & Shanley, 1990), and specifically environmental responsibility is predictive of overall legitimacy of an organization in a society (Driscoll & Starik, 2004; Mobus, 2005), petro-chemical corporations are more likely to have greater vigilance and concerns about corporate social responsibility issues than corporations in other industries. To corroborate their organizational legitimacy, corporations in the petro-chemical industry likely implement sustainability reporting request at a greater level than corporations in other industries such as financial services.

**H7:** Withdrawn social resolutions filed at corporations within the petro-chemical industry are more likely to be implemented at a greater level than the ones filed at corporations within other industries.

### Sponsor level: Types of institutional social shareholder activists

Having traced the relationships among corporate social performance, stakeholder commitment, industry classification, and corporate responses to social shareholder resolutions in the previous sections, the focus of the discussion is directed at the link between shareholder pressure—shareholder activists who have filed social resolutions—and the implementation level of sustainability reporting requests. As discussed earlier, this dissertation focuses only on institutional shareholders—organizations that pool large sums of money and invest those sums in various assets. Having large holdings, institutional shareholders have more influence on corporate managements compared to individual shareholders (Ertimuer et al., 2010; Thomas & Cotter, 2007) and are widely regarded as the leader of shareholder activism—particularly on corporate governance issues (Carleton et al., 1998; Del Guercio & Hawkins, 1999; Gillan & Starks, 2007; Smith, 1996, 2012).

Public pension funds (e.g., CalPERS, New York City Public Pension Fund) have been actively involved with corporate governance issues through filing resolutions. Prior research has suggested that target corporations were willing to implement the proposed changes requested by public pension funds (e.g., Carleton et al., 1998; Del Guercio & Hawkins, 1999; Smith, 1996). For example, Del Guercio and Hawkins (1999) found that resolutions sponsored by CalPERS, which had the largest ownership stakes among the externally managed indexed funds by that time, had the broadest and most substantial impact on subsequent events at target corporations. The researchers also found that corporations that received resolutions sponsored public pension funds and garnered enough votes to pass had a significantly higher probability of a takeover attempt. Del and Guercio (1999) concluded that,

> Shareholder resolutions are low-cost mechanisms that can be fruitfully used to further a number of goals, such as putting pressure on management, signaling to the market the views of the fund regarding target management, and building shareholder support for more costly governance activity such as takeovers. (p. 295).

Similarly, in a case study Carleton, Nelson, & Weisbach (1998) examined 62 resolutions filed at 146 corporations by TIAA-CREF between 1987 and 1993 found that at least 87 percent of the targets subsequently took actions after reaching withdrawal agreements with he pension fund.

Social movement literature in sociology can provide some insights into the understanding of corporations' implementation of a social request made by different types of institutional shareholder activists. For example, Rowley and Moldoveanu (2003) studied the antecedents of corporate social responsibility activities. Building on social movement theory, the researchers found that both the interest and the identity of stakeholder groups matter in pressuring companies. Applying social movement theory in management research, den Hond and de Bakker (2007) found that corporations responded to activist demands in varying degrees based on the perceived ideology of the activist groups.

In their framework of stakeholder salience, Mitchell, Agle, and Wood (1997) argued that stakeholders who possess power, legitimacy, and urgency are more salient to corporations. As discussed earlier in this dissertation, legitimacy is the "assumptions that the actions of an entity are desirable, proper, and appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574). Even though, all of the institutional shareholder activists have assets in the corporation to the varying extent, and thus they possess legitimacy; because of their different organizational identity, mission, and values, these shareholder activists may pose different levels of saliency for corporations. For example, in their study of corporate responses to stakeholder activism, Eesley and Lenox (2006) found the influence of stakeholder legitimacy on the outcomes. The researchers argued that, because of their standing in society, some stakeholder groups such as religious groups are able to elicit positive corporate changes despite using less confrontational tactics than more controversial stakeholder groups like environmental activists. Eesley and Lenox emphasized the importance of stakeholder type in estimating corporate responses to stakeholder activism on corporate social responsibility.

Several studies in finance examined sponsor saliency as an explanatory variable to estimate voting outcomes of shareholder proposals on corporate governance issues at the annual meetings and showed that sponsor type did indeed affect the voting outcomes of these proposals (e.g., Ertimur et al., 2010; Gillan & Starks, 2000, 2007; Thomas & Cotter, 2007). For example, Gillan and Starks (2000) examined shareholder proposals over a seven-year period to assess success of shareholder activism. Categorizing sponsors who filed corporate governance resolutions into three groups (institutions, coordinated investor groups, and individual investors), the researchers found that sponsor identity was an important determinant for the voting outcome.

Similarly, in a study of shareholder proposals from the 2002-2004 proxy seasons, Thomas and Cotter (2007) found that the type of sponsoring groups has an impact on the ability of proposals to attract shareholder votes. The researchers showed that private institutions, unions, and public pension institutions received much higher levels of support than individuals, religious groups, and social activists. Consistent with findings, in their analysis of board of directors' responsiveness to shareholders proposals over the period of 1997-2004, Ertimur et al. (2010) found that proposals filed by public pension funds received the majority of vote followed by unions and individuals. Ertimur et al. (2010) concluded that corporations were more likely to implement proposals that are brought to a vote or supported by shareholders with higher ownership, such as public pension funds, or with greater ability to exert pressures, such as unions.

In particular, the rise of public pension fund activism has attracted scholarly attention in the literature on shareholder activism on corporate governance issues (Gillan & Starks, 2007; Smith, 1996, 2007). Most notably, several studied examined (e.g., Smith, 1996; Del Guercio & Hawkins, 1999) California Public Employees' Retirement System (CalPERS) and Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA–CREF) as these funds have been regarded as a leader of shareholder activism on corporate governance issues since 1990s (Gillan & Starks, 2007). However, studies that specifically examine the role of public pension fund in social shareholder activism are absent in the literature.

Overall, studies have noticed that the increasing involvement of public pension funds in social issues in the last decade (Sparkes & Cowton, 2004; Sjostrom, 2008;

Tkac, 2006). According to Sparkes and Cowton (2004), the growing shareholder social activism enacted by public pension funds via filing resolutions in recent years has moved socially responsible investing from margin to mainstream (p. 49). Sparkes and Cowton (2004) further argued that,

> The growth in pension funds adopting SRI techniques and analysis is of the greatest importance for CSR, as they are the majority owners of most quoted business. As such they have the power to request, and if necessary instruct, corporate executives to include social and environmental guidelines in their business objectives. (p. 49).

Building on the existing literature, it is likely that public pension funds, which have the largest ownership stakes among the externally managed funds (Del Guercio & Hawkins, 1999), will generate more substantial influence on the target corporation than other shareholder activists groups such as religious groups (e.g., Interfaith Center on Corporate Responsibility, Sisters of Charity of Blessed Virgin Mary), SRI funds (e.g., Domini, Walden Asset Management), and special interest groups (e.g., PETA, Human Rights Campaign), and Unions (e.g., International Brotherhood of Teamsters, AFL-CIO).

**H8:** Withdrawn social resolutions sponsored by public pension funds will be more likely to be implemented at a greater extent than the ones filed by other shareholder activists.

# CHAPTER FOUR: METHODOLOGY

The previous chapters have explained social shareholder activism and discussed organizational legitimacy as an overarching theme used to understand corporate stakeholder commitment and corporate responses to social pressures exerted by shareholders—a powerful stakeholder group with legitimate claims (Agle et al., 1999; Mitchell et al., 1997). In this chapter, the methodology of the research project is outlined, including the sample, procedures, and analyses.

The purpose of this dissertation to investigate the nature and scope of social shareholder activism via filing resolutions and to develop and test models that explain the conditions under which social shareholder activists elicit positive responses to their requests. Public relations research has been often criticized for its dearth of methodological approaches (McKie, 2001; Smith & Ferguson, 2010; van Ruler, 2009). Stacks (2002) argued, "it is wrong to believe that one methodology is better than the other. Each methodology has advantages and disadvantages" (p. 5). Stacks called for applications of diverse methods in public relations research. Similarly, Ihlen and van Ruler (2007) emphasized that a broad range of research methods contributes to the growth of knowledge in the field of public relations. Specifically, Smith and Ferguson (2010) highlighted the need for large-scale studies and "greater methodological diversity" in studying the interaction between activists and organizations (p. 404). This dissertation answers calls from these public relations scholars by analyzing corporate responses to social shareholder activism over a fourteen-year period of time through a multi-methodological approach.

## Study Design Overview

This dissertation conducted a large-scale study of social shareholder activism directed at U.S. publicly traded corporations through analysis of resolutions filed between 1997 and 2011. The research design consists of three studies: 1) a descriptive analysis of all shareholder resolutions filed at U.S. corporations between 1997 and 2011 as well as a quantitative content analysis of withdrawn social shareholder resolutions; 2) theoretical model testing on the probability of withdrawing a social resolution and on the implementation level of a withdrawn social shareholder resolution; and 3) an illustrative case study on the implementation of a withdrawn social resolution. By employing a multimethod approach (McKie, 2001), the dissertation aims to explore the scope and nature of social shareholder activism via filing resolutions and the conditions under which social shareholder activists are likely to elicit positive responses from corporations on the social issues raised in resolutions.

Study 1 provides a descriptive analysis of all shareholder resolutions and social shareholder resolutions submitted at U.S. corporations between 1997 and 2011 to lay a foundation for further analysis. A quantitative content analysis of withdrawn social shareholder resolutions was conducted to explore the nature and scope of the social issues raised in these resolutions. Study 2 tested two theoretical models on the effects of corporate stakeholder commitment, issue type, and sponsor type on the outcomes of social shareholder resolutions. Finally, Study 3 included a case study of CONSOL Energy, a target corporation of a social shareholder resolution, to illustrate a structural change resulting from implementation of a shareholder request made in a withdrawn social resolution. The next section describes the sample and datasets used in this dissertation.

## Study Datasets

To address the research questions and hypotheses of the dissertation, several large datasets were used.

*Shareholder resolutions data.* Research questions and hypotheses were addressed through using shareholder resolutions. The data on social shareholder resolutions was obtained from Risk Metrics—an independent financial risk management and proxy research organization. The dataset provides information on shareholder resolutions (governance and social responsibility) submitted each year to all Standard & Poor's 1500 companies from 1993 through 2012. This dissertation analyzed shareholder resolutions filed between 1997 and 2011 (the latest year available by the start date of this research project) to study social shareholder activism enacted over the last decade. The dataset includes information such as the company name, the lead filer of the resolutions (sponsors), the annual meeting date, resolution content, and outcome. The shareholder resolution dataset is updated annually (WRDS, 2013).

The current study uses the data that were last updated on September 13, 2012. The dataset is available through WRDS—Wharton Research Data Services at the Wharton School of Business, University of Pennsylvania (http://wrdsweb.wharton.upenn.edu/wrds/ds/riskmetrics/inc). University of Oklahoma has a paid electronic access to this data source. Recently, several studies in management and public relations have used the Risk Metrics dataset to study shareholder resolutions (e.g., Ertimur et al., 2010; Reid & Toffel, 2009; Thomas & Cotter, 2007; Ragas, 2012).

*Corporate social performance data.* To address H1-H2 and H5-H6 regarding the effects of corporate community and environmental stakeholder commitment on the probability of withdrawing a social resolution and the implementation level of a withdrawn social resolution, corporate social performance measures were used. The corporate social performance data was obtained from the Kinder, Lydenberg, Domini Research & Analytics (KLD) social performance database. Access to the KLD data was obtained from WRDS available through the University of Oklahoma libraries. The KLD index of corporate social performance is compiled by an independent rating service that focuses on ranking based on environment, social, and governance factors for the period of 1991-2012 (WRDS, 2013). KLD employs independent analysts who conduct research on corporations to provide investment advice to socially responsible investors. KLD analysts use a variety of data sources (e.g., SEC filings, media coverage) to screen corporations and compile a rating on corporate social performance. KLD covers approximately 80 indicators and provides strengths and weaknesses of corporations that comprise the *Domini 400 Social Index* and *S&P 500* in seven major issue areas including C*ommunity, Corporate Governance, Diversity, Employee Relations, Environment*, *Human Rights*, and *Product*.

*Corporate-level financial data.* In this dissertation, corporate-level financial indicators were controlled in the research models because financial state of a corporation affects its responses to stakeholder activism in general (Eesley & Lenox, 2006; Reid & Toffel, 2009). The corporate-level financial data included in this study were company *size, financial performance*, *growth opportunities*, *debt*, *stock return*, and *financial slack*. Financial data was gathered from COMPUSTAT and CRSP

(University of Chicago's Center for Research in Securities Prices) databases. More specifically, accounting measures (company size, financial performance, growth opportunities, debt, and financial slack) were obtained from the COMPUSTAT database that provides financial, statistical, and market information on active and inactive global companies, covering 99% of world's total market capitalization (www.compustat.com). The COMPUSTAT database is regarded as the world's leading database providing objective financial information and commonly used in the management and finance literatures (Ertimur et al., 2010; Rehbein et al., 2004). Information on stock price was obtained from the CRSP database (http://www.crsp.com/). CRSP maintains one of the largest and most comprehensive databases in stock market research (Kacperczyk, 2009). This dataset provides historical stock market information and is publicly available.

## Study Sample

This dissertation studied shareholder resolutions filed at publicly traded corporations in the United States between 1997 and 2011. There were 14, 271 resolutions filed by shareholders at various corporations over the studied time period. These shareholder resolutions constituted the sample of the first study on descriptive analysis. Specifically, in Study 1, RQ1 and its sub-questions (RQ1a-c) were addressed through descriptive statistical analyses of all shareholder resolutions ($N$ = 14,271). This sample was broken into two broad categories: corporate governance resolutions ($n$ = 9,744, 68%) and social resolutions ($n$ = 4,527, 32%). To address RQ2, social shareholder resolutions were analyzed. To address RQ3 and its sub-questions (RQ3a-f), withdrawn social shareholder resolutions constituted the sample ($n$ = 1,017).

In Study 2, to address the first set of research hypotheses (H1-H4) on the probability of withdrawal outcome model, the social shareholder resolutions sample was further matched with corporate-level financial data. More specifically, for each target corporation that received a social shareholder resolution company size, the information on its financial performance, growth opportunities, debt, stock return, and financial slack was culled from COMPUSTAT and CRSP databases and entered. The resulting sample with non-missing data was 3,449 social shareholder resolutions (75%). Among these resolutions, 1,017 of them (39%) were withdrawn by sponsoring shareholders after reaching agreements with target corporations. To address the second set of research hypotheses (H5-H8) on the level of implementation model, all resolutions that requested corporations to issue sustainability reports comprised the sample ($n$ = 89, 8%). Study 3 included an illustrative case study from the withdrawn social shareholder sample.

After providing the various data sources used to address research questions and hypotheses, the reminder of this chapter discusses the three empirical studies in this dissertation.

**Study 1: Descriptive and Content Analyses of Shareholder Resolutions, 1997-2011**

RQ1 and its sub-questions focused on all shareholder resolutions. Specifically, RQ1 asked about the landscape of all shareholder resolutions filed between 1997 and 2011. To address this question, the researcher conducted a descriptive statistical analysis of total number of shareholder resolutions filed at U.S. corporations over the time period of 1997-2011 ($N$ = 14, 271). RQ1a further inquired about the types of institutional sponsors who filed shareholder resolutions at corporations over the study time period. To address the question, resolutions were coded based upon sponsor types. Because this study is focused only on institutional shareholders—organizations that manage large sums of money on behalf of others—individual shareholders were excluded from the analysis. The Risk Metrics data provides information on organizational types of sponsors (public pension, foundation, company, unions). However, there were some missing data for the sponsor type category (13%). The research entered the information whenever possible (for example, if Sisters of St. Francis did not have sponsor type information, the researcher undertook additional research, such as organizational website check, to identify sponsor type). Through this additional research, nearly half of the missing data was filled in (6%). Based on the shareholder activism literature (e.g., Del Guercio, 1999; Ertimur et al., 2010; Gillan & Starks, 2007; Thomas & Cotter, 2007), the resulting data on sponsor types were further organized under six categories: *public pension funds*, *religious organizations*, *socially responsible investing funds*, *unions*, *special interest groups*, and *other* (e.g., company, family foundations). A public pension sponsor is a fund that provides retirement income and is regulated under public sector law (e.g., California Public Employees' Retirement System, New York City Public Pension Fund). A religious shareholder sponsor is a faith-based organization that seeks to invest for improving corporate social impact and to divest from "sinful" companies associated with guns, liquor, and tobacco (e.g., Interfaith Center on Corporate Responsibility, Sisters of St. Francis). A socially responsible investing fund (SRI) is a private fund that consciously practices shareholder advocacy for improving environmental social and governance (ESG) issues (e.g., Calvert Asset Management, Domini Social Investments). A union sponsor is a pension fund for workers (e.g., The American Federation of Labor and Congress of Industrial Organizations, International Brotherhood of Teamsters). A special interest sponsor is an activist organization or public policy organization with a specific issue agenda (e.g., People for the Ethical Treatment of Animals, Pro Vita Advisors). Other sponsors included foundations, and company. Sponsor types obtained from Risk Metrics were coded to address the question.

RQ1b inquired about the outcomes of shareholder resolutions. Risk Metrics dataset provides outcome information for the shareholder resolutions. As discussed in the literature review (e.g., Ertimur et al., 2010; Thomas & Cotter, 2007; Tkac, 2006), there are four outcomes of shareholder resolutions: *withdrawn*, *omitted*, *voted*, and *rejected*. A *withdrawn* outcome is a resolution that was taken off from the ballot as a result of some type of engagement between the filing shareholder activists and target corporations (Carleton et al., 1998; Logsdon & van Buren, 2009; O'Rourke, 2003; Rehbein et al., 2004). An *omitted* outcome is a shareholder resolution that was excluded from the proxy ballot upon the target corporation's petition to the U.S. Securities and Exchange Commission (SEC). A *voted (passed)* outcome is a resolution that was included in the proxy ballot and voted upon at the general meeting by shareholders at the corporate annual meeting. However, a voted outcome does not guarantee that the corporation will implement the resolution (Ertimur et al., 2010). Finally, a *rejected* outcome is a resolution that was voted and rejected by the Board and other shareholders.

RQ1c asked about the proportion of shareholder resolutions devoted to social issues between 1997 and 2011. Prior research (e.g., Ertimur et al., 2010; Graves et al., 2001; Thomas & Cotter, 2007) broadly categorized the issues raised in the shareholder resolutions under two categories: corporate governance and corporate social responsibility (social resolutions, hereafter). Social resolutions ($n$ = 4,527) included issues concerning non-shareholding stakeholders such as community, diversity, employee relations, human rights, environment, and product responsibility. While corporate governance resolutions ($n$ = 9,744) included issues concerning to shareholder profits and rights such as executive compensation, board size, ownership structure, mergers and acquisitions, and director accountability. The Risk Metrics dataset provided the information about resolution type as corporate governance versus social responsibility (SRI). The researcher organized the data to further analyze.

RQ2 directed the focus on social shareholder resolutions. Specifically, the question asked about the landscape of social shareholder resolutions filed between 1997 and 2011. To address this question, the researcher conducted a set of descriptive analyses of the shareholder resolutions regarding social and environmental issues. Types of institutional sponsors who filed social shareholder resolutions and outcomes of these resolutions were identified.

RQ3 and its sub-questions inquired about withdrawn social shareholder resolutions with a focus on the content and sponsors of withdrawn social resolutions submitted between 1997 and 2011. Specifically, RQ3a-b asked about types of issues addressed in the withdrawn social resolutions, RQ3c-d asked about types of changes requested in the withdrawn social resolutions, and RQ3e-f inquired about types of sponsors who withdrew social shareholder resolutions. Prior research documented that shareholder activists agreed to withdraw a resolution when they were convinced, in private meetings, that target corporations were committed to take steps toward the issue raised in the resolution (e.g., Carleton et al., 1998; Del Guercio & Hawkins, 1999; Guay et al., 2004). A majority of withdrawn resolutions thus involves some type of engagement between the shareholder sponsors and target corporations. However, since the communication content of this engagement is not available, withdrawn resolutions provide records for researchers that signal shareholder activist-corporate engagement. Therefore, the main focus of the analysis was directed to the withdrawn resolutions that addressed social issues. The next section explains the procedures for analyzing the content of the withdrawn social resolutions.

## Content Analysis of Social Shareholder Resolutions

After analyzing the scope of social shareholder resolutions in general, the next research questions focused the attention on the withdrawn social resolutions (*n* = 1, 017). Specifically, RQ3a-b and RQ3c-d were designed to explore the content of social shareholder resolutions that were withdrawn by sponsors after shareholder activist-corporate engagements. As previously described, shareholder resolutions are proposals submitted by shareholder for a vote at the corporation's annual meeting (Guay et al., 2004). Through filing resolutions, shareholders aim to increase public awareness, to engage, and to pressure the target corporation about the issue of concern. This dissertation considered each shareholder resolution a communicative document that communicated the shareholder's views and demands in a persuasive way.

*Justification of content analysis methodology.* To address RQ3a-b and RQ3c-d, two quantitative content analyses were conducted on the withdrawn social resolutions (*n* = 1,017). The quantitative content analysis method is a valuable research technique to gain an objective, systematic, and quantitative description of the manifest content of communication (Riffe, Lacy, & Fico, 2005). More recently, Berg (2006) defined content analysis as “a careful, detailed, systematic examination and interpretation of a particular body of material in an effort to identify patterns, themes, biases, and meanings” (p. 304). Some of the common uses of content analysis are describing communication content, testing hypotheses of message characteristics, and comparing media content to the real world (Wimmer and Dominick, 2006). Content analyses are unobtrusive, cost effective, and they can reflect trends in societies (Riffe et al., 2005).

The content analysis method is central to research in communication (Lombard, Snyder-Duch, & Bracken, 2002). Conducting a content analysis of content analyses in communication research, Riffe and Freitag (1997) reported an increasing use of content analysis due in part to improved access to media content. In public relations research in corporate contexts, content analysis is often applied to mediated communication between stakeholders and organizations (e.g., Golob & Bartlett, 2007; Hou & Reber, 2011; Signitzer & Prexl, 2008). Considering shareholder resolutions as one type of communication document, this study applies content analysis technique to social shareholder resolutions.

The content analysis methodology, as applied to shareholder resolutions, is guided by Kaid and Wadsworth’s (1989) outline. The researchers wrote that any content analysis investigation should include at least the following seven steps: 1) Formulate the hypotheses or research questions to be answered; 2) Select the sample to be analyzed; 3) Define the categories to be applied; 4) Outline the coding process and train the coders who will implement it; 5) Implement the coding process; 6) Determine reliability and validity; and 7) Analyze the results of the coding process (pp. 198-199). These steps were further discussed for each content analysis.

*Coding and analyzing types of social issues.* RQ3a-b inquired about the types of issues addressed in withdrawn social resolutions. As previously mentioned, the Risk Metrics dataset provides the content of shareholder resolutions and categorize them either as corporate governance or as corporate social responsibility. To address RQ3a and RQ3b, the researcher first identified all social shareholder resolutions regarding corporate social and environmental responsibility issues that were withdrawn between 1997 and 2011. Then, to determine types of social issues (including environment), the researcher manually content analyzed each withdrawn social resolution in the sample (*n* =1,017). A coding sheet was created to ensure "replicability and reliability" of the coding procedure (Krippendorff, 2012, p. 366). KLD's corporate social performance dimensions (*community, environment, employee relations, human rights, diversity, and product responsibility*) were used to create the categories for the coding sheet. Because KLD evaluates large cap corporations based on their social performance and provides ratings for socially responsible investors (Kacperczyk, 2009; Mattingly & Berman, 2006; Sharfman, 1996; Waddock & Graves, 1997), the KLD corporate social performance categories guided the schema for coding types of issues addressed by social shareholder activists. In addition, the KLD corporate social performance dimensions largely overlap with the Global Reporting Initiative's (GRI) guidelines for social performance (commitment to employment, customer health safety, commitment to community, commitment to diversity). The only difference is that the GRI has a different environment category that subsumes product/packing responsibility. Based on the coding sheet, withdrawn social resolutions were coded under six categories: community, environment, employee relations, human rights, diversity, and product responsibility The *community* category included issues that pertain to the well being of a general community, e.g., tobacco use/smoking, violent media content, and political donations. The *environmental* category included issues that pertain to the preservation, restoration, and/or improvement of the natural environment, e.g., pollution prevention, recycling, and efficient use of energy. The *employee* category included issues that pertain to the well being of employees, e.g., work place safety and MacBride Principles. The *human rights* category included issues, e.g., human rights violations in countries of operations. The *diversity* category mainly included issues about sexual orientation anti-bias policies and equality principles. Finally, the *product responsibility* category included issues such as product safety and packaging (see Appendix B).

*Coding and analyzing types of requested changes*. RQ3c and RQ3d inquired about types of changes requested by shareholder activists in the withdrawn social resolutions. The literature reviewed in this dissertation suggests that organizations will adopt their structures, policies, and operations to conform to societal expectations about what structures, policies, and operations are socially acceptable (e.g., DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott et al., 2000; Suchman, 1995). This dissertation considered shareholder resolutions as an expression of an expectancy gap (Sethi, 1979) between social shareholders and corporations.

To understand what kinds of social expectations shareholders had from the target corporations, it was important to identify specific changes requested in the resolutions. To address this question, social shareholder resolutions in the withdrawn sample were coded based on the specific action words and contexts of the resolutions. Building on the literature on shareholder activism (Graves et al., 2001; Tkac, 2006), organizational conformity (e.g., DiMaggio & Powell, 1983; Everett, 2001; Scott et al., 2000), and a preliminary analysis of the shareholder resolutions sample, three categories were created: a) structural changes; b) policy/procedural changes; and c) communication-based changes. In this context, a structural change request refers to a shareholder demand for a long-term shift in the fundamental structure of a target corporation. A procedural change request refers to a shareholder demand for a shift in the ways a target corporation operates. A communication-based change request refers to a shareholder demand for increased corporate social responsibility communication. For example, did the resolution ask for establishing a new Board Committee on a social issue (structural change), adopting an anti-discrimination policy (policy change), or disclosure of information on a certain topic (communication-based)? (For full details, see Appendix C: Code Sheet for Types of Requested Changes).

*Intercoder reliability.* Communication researchers emphasized the importance of establishing and reporting intercoder reliability in content analysis (Lacy & Riffe, 1996; Lombard, Synder-Duch, & Bracken, 2002; Riffe & Freitag, 1997; Wimmer & Dominick, 2006). In its most simplistic definition, intercoder reliability is the extent to which independent coders evaluate a characteristic of a message and reach the same conclusion. Tinsley and Weiss (2000) noted that "intercoder agreement" is foundational to content analysis, and argued that if coding is not reliable, the analysis cannot be trusted (p. 96). A separate pilot test was used to evaluate reliability during coder training before a final test to establish reliability levels for the coding of the full sample (Lombard et al., 2002).

Lacy and Riffe (1996) noted that although 10% of the full sample is acceptable, larger reliability samples are required when the full sample is large such as the study sample in this dissertation. Because the sample is large in this study, two coders independently analyzed 20% of the research sample in order to assess the reliability of the coding schemes, (Tinsley & Weiss, 2000, p. 98). The intercoder reliability measure was assessed using Krippendorff's alpha statistic (Hayes & Krippendorff, 2007). The intercoder reliability value for coding types of social issues addressed in the withdrawn social resolution was .83. The intercoder reliability value for coding types of requested changes in the withdrawn social resolution while it was .77. These intercoder reliability values were above the acceptable value for this type of test in the communication research ($\alpha$ >.70) (Wimmer & Dominick, 2006).

## Study 2: Theoretical Model Testing

Study 2 further focused the attention on the social shareholder resolutions that were withdrawn after shareholder activist-corporate engagements. The study tested two theoretical models. The first model tests how corporate stakeholder commitment, issue type, and sponsor type affected the probability of withdrawal outcomes. The second model used a sample of all withdrawn social shareholder resolutions that requested corporations to issue a sustainability report and examines the factors that affect the implementation level of these requests by corporations. In the following sections, operationalizations of the variables and statistical methods used to address the research hypotheses in the models are described.

## Operationalization of the Variables

This section describes the variables used in the hypotheses testing. More specifically, the section defines the variables and explains how they are operationalized in the research models. First, independent (explanatory) variables are described followed by control variables. Then dependent variables are described.

*Explanatory variables.* Explanatory variables explain the dependent variables of the research models: likelihood of withdrawing of a social shareholder resolution and implementation level of a sustainability reporting shareholder resolutions. Advancing Mitchell et al.'s (1997) stakeholder saliency theory, Eesley and Lenox (2006) suggested that corporate responses to stakeholder activism should be analyzed at three levels—corporate-level, stakeholder-level, and request-level. To gain a multidimensional understanding on corporate responses to shareholder activists that filed social resolutions, Eesley and Lenox (2006) was followed. Explanatory variables were analyzed at three levels: *corporate-level*, *sponsor (shareholder)-level*, and *issue (request)-level variables*. The following sections describe the analytical procedures to operationalize the explanatory variables.

*Corporate-level variables.* The theoretical models include stakeholder commitment and industry classification variables as the main explanatory variables at the corporate-level. Corporate stakeholder commitment was operationalized by corporate social performance measures.

*Corporate stakeholder commitment.* Guided by the literature in organizational legitimacy in public relations (e.g., Boyd, 2000; Heath, 2006; Ihlen, van Ruler, & Fredriksson, 2009) and the literature in corporate social performance in management (e.g., Clarkson, 1995; Wood, 1991), the study design considered corporate stakeholder commitment as the main factor that can explain corporate responses to social shareholder activism. H1 and H2 test corporate stakeholder commitment as an explanatory variable for the likelihood of withdrawing a social resolution in the first model. And, in the second model, H5 and H6 test corporate stakeholder commitment as the main factors that affect the target corporation's implementation level of a social resolution.  It was predicted that corporations that are highly committed to community and the environment will be more likely to reach withdrawal agreements and with sponsor groups and be more responsive to their requests as opposed to corporations with poor commitment to their community and environment.

In this research, stakeholder commitment was measured by corporate social performance (CSP). Methodologies to assess CSP in the management literature include surveys or interviews with organizational members (Brickson, 2007). However, these methodologies are based on social disclosures and personal accounts, which cannot be substituted for social performance without supplementary empirical verification (Waddock & Graves, 1997). The alternative method is case studies (e.g., Heugens, Bosch, & van Riel, 2002). The common problem with the case study methodology is its lack of generalizability (Yin, 2011). Because the aim of this particular study is theory testing, a better approach to assess corporate social performance was to analyze corporate behavior in many instances rather than to study personal beliefs and disclosures that are limited to specific contexts. This type of data is not feasible to collect for a large-scale study that spans 14-year of time period. Therefore, this dissertation used the Kinder, Lyedenburg, Domini (KLD) corporate social performance data to assess corporate social performance of the targeted corporations in the sample.

The use of KLD data to operationalize corporate social performance (CSP) is pervasive in management literature (e.g., David et al., 2007; Hillman & Keim, 2001; Eesley & Lenox, 2006; Waddock & Graves, 1997). The database has been evaluated for its validity (Sharfman, 1996) and is considered to be one of the best sources available for social and environmental performance data (Waddock & Graves, 1997; Kacperczyk, 2009). Even though the KLD data has been widely used in the organizational and management literature, it has also come under criticism because of its social rankings. For example, while Chatterji, Levine, and Toffel (2009) found that the KLD environmental responsibility measures nicely capture past environmental performance, they raised some cautions about the use of other KLD indicators as a good measure of social performance (e.g., community, diversity). However, Kacperczyk (2009) argued "because the purpose of KLD is to deliver objective information on corporate attention to stakeholders to institutional investors, the rating agency has an incentive to remain objective rather than politically or ideologically driven" (p. 280). Therefore, many studies in management used KLD's social ratings as a measure of corporate social performance and as a measure of attention to stakeholders (David et al., 2007; Hillman & Keim, 2001; Kacperczyk, 2009). Indeed, the data has been validated as the best available measure of corporate social responsibility (Sharfman, 1996), and it is considered as "the gold standard" for measuring corporate social performance (Waddock, 2003, p. 371). Many studies used the KLD's social ratings as a measure of corporate social performance and as a measure of attention to different type of stakeholders (e.g., David et al., 2007; Eesley & Lenox, 2006; Hillman & Keim, 2001; Kacperczyk, 2009). Hence, recognizing the limitations noted in management research, this dissertation used the KLD dataset as a measure of commitment to stakeholders in the theoretical models. To the knowledge of the researcher, this dissertation is the first study in public relations research that uses KLD dataset to develop and test theoretical models.

KLD provides eight sub-indicators for community strengths and five sub-indicators for community concerns. If the corporation meets the threshold in each area, KLD assigns a value of one. Some researchers tend to simply aggregate strengths and concerns in the KLD data to get a single measure (e.g., Graves & Waddock, 1994). However, this method can be problematic as the two categories—strengths and concerns—are conceptually and empirically distinct constructs. In this dissertation, to construct a variable that represent *community commitment* of a corporation in the sample ($n$ = 3,449), the researcher coded corporations for their strengths and concerns in the community dimension. If a company has strengths but no concerns in the community dimension, then it was given a value of one. For example, if Starbucks Corporation (SBUX) had strengths in charitable giving and had no concerns (e.g., investment controversies, tax disputes) as reported in KLD for the 1997 and 2011 time period, it is was assigned a value of one.

Similarly, KLD provides seven sub-indicators for environmental strengths (e.g., *Pollution Prevention*; *Recycling*) and seven sub-indicators for environmental concerns (e.g., *Hazardous Waste*; *Ozone Depleting Chemicals*). The sub-indicators demonstrate for environmental strengths demonstrate the extent to which the company has environmentally beneficial products and services, uses clean energy, provides open communication about its environmental program and engages in extensive recycling. If the company meets the threshold in each area, KLD assigns a value of one, or zero otherwise. Table 1 shows KLD indicators for corporate community and environmental performance.

***Insert Table 1 about here***

To construct a measure of *corporate environmental commitment*, a variable was created to represent a company's strengths in environmental responsibility. Corporations in the sample were coded based on their strengths and concerns in the environmental area. Between 1997 and 2011, if a corporation had strengths but no concerns regarding environmental performance, it was assigned a value of one. For example, over the study time period, if Starbucks Corporation (SBUX) had environmental strengths (e.g., pollution prevention, recycling) and had no environmental concerns (e.g., agricultural chemicals, hazardous waste), it was assigned a value of one. Using the KLD data thus enabled the researcher to obtain a consistent, easily classifiable measure of community responsibility performance of the research sample.

*Industry classification.* Several studies documented the impact of industry classification on a corporate organization's responses to stakeholder activism (Den Hond & Bakker, 2007; Eesley & Lenox, 2006; Reid & Toffel, 2009; Zoller, 2009). Building on this literature, H7 in the second model tests the relation between a target corporation's industry categorization and its implementation level of a sustainability-reporting request. To address this hypothesis, an industry classification variable was constructed by using two-digit Standard Industry Code (SIC) for the companies in the sample (Den Hond & Bakker, 2007). The SIC codes indicate the corporation's type of business and they appear in a corporation's filings with the U.S. Securities Exchange Commission. The SEC provides online access to corporate filings through the Electronic Data Gathering, Analysis, and Retrieval database system (EDGAR). The database is freely available to public via the Internet. The SIC codes were obtained by searching the SEC database for each company name in the sample (http://www.sec.gov/info/edgar/siccodes.htm). To assess potential variations across industries in terms of organizational legitimacy concerns, for the purpose of this study, only companies in the petroleum, chemical, oil, and gas industry (with SIC codes between 2000 & 3999) were included in the analysis. For each target corporation that received a social shareholder resolution, a SIC industry code was entered. Following Reid and Toffel (2009), corporations in the petro-chemical, oil, and gas industry were coded one, while other industries (e.g., consumer goods, financial services) were coded zero. For example, Exxon Mobil was a target of a social shareholder resolution in 2007. After a search via EDGAR for its SIC code, it was determined that the company operates in the oil industry and thus entered a value of one. The next sections directed the attention to the variables at sponsor-level and issue-level.

*Issue level variable: Types of issues.* The types of issues addressed in the shareholder resolutions may affect how corporations respond to these resolutions (Eesley & Lenox, 2006). H3 in the first model tests the impact of issue type on probability of withdrawing a social resolution. The extant literature on social shareholder activism (Graves et al., 2001; Tkac, 2006; Sjorstrom, 2009) suggested that, in resolutions, shareholders were concerned about two major issue types—

environmental and social. Environmental issue-oriented resolutions included topics that pertained to the preservation, restoration, and/or improvement of the natural environment. Social issue-oriented resolutions included the topics that pertained to the lives of people in the society such as education and race/gender discrimination. As such, the categories created in answering RQ2 on types of issues in the shareholder resolutions were further used to address H3. Specifically, the environmental category in RQ2 was kept in order to operationalize the environmental issue-oriented variable. To operationalize social-issue oriented variable, a new variable was created by collapsing the community, diversity, employee, and human rights categories in RQ2. For each corporate social responsibility shareholder resolution in the sample, it was assigned a value of 1 if it raised an environmental issue. If the resolution raised a social issue (in one of the community, diversity, employee, and human rights categories), it was assigned a value of 0. For example, a shareholder resolution asked a target corporation to report on water waste, it was coded as environmental issue-oriented and assigned 1. However, if a shareholder resolution asked a target corporation to adopt a sexual orientation antidiscrimination policy, it was assigned 0.

*Sponsor level variable: Types of sponsors.* Prior research has documented that the type of sponsors affects the voting outcome of shareholder resolutions (e.g., David et al., 2007; Del Guercio & Hawkins, 1999; Ertimur et al., 2010; Thomas & Cotter, 2007). It is possible that different types of shareholder groups will employ different types of shareholder activism tactics and exert different levels of pressure on the targeted corporations. H4 in the first research model tested the effect of sponsor type on the likelihood of withdrawing a social resolution. In the second model, H7 tested the effect of sponsor type on the implementation level of a sustainability reporting resolution. This study considered sponsor type as a form of *shareholder pressure* that can push corporations to be responsive to social shareholder resolutions. To address H4 and H7, categories that were defined in the Risk Metrics data for institutional shareholders who filed social shareholder resolutions were used to operationalize the effect of sponsor type on probability of a withdrawal outcome. Accordingly, shareholder activist groups were organized into six groups: *public pension funds* (e.g., CalPERS, New York City Pension Funds), *religious organizations* (e.g., Interfaith Center on Corporate Responsibility, Adrian Dominican Sisters), *socially responsible investing fund* (SRI) (e.g., Domini Social Investment, Walden Asset Management), *special interest groups* (e.g., PETA), *unions* (e.g., GBPUMC), and *others* (e.g., foundations, company). Individual shareholders were excluded from the analysis as the focus of this study was on institutional shareholder activists. Specifically, H4 and H7 predicted social resolutions sponsored by public pension funds will be more likely to elicit positive responses from target corporations. To test these hypotheses, sponsor type information extracted from Risk Metrics dataset for each social shareholder resolution. A dummy variable was created for public pension funds that took on value of one if a sponsor who filed a social shareholder resolution was a public pension fund, zero otherwise.

*Control variables.* Financial indicators at corporate-level were controlled in this study in order to exclude the effect of these variables on the dependent variables—withdrawal probability and implementation level. Literature suggested that corporate financial performance can affect organizational legitimacy of a corporation; because financial indicators, such as company size, profitability, show effectiveness and competence of the corporation (Epstein, 1972, Meyer & Rowan, 1977). Organizational financial indicators have not been commonly used in public relations research. Most recently, a couple of public relations scholars have recently incorporated financial indicators as variables in corporate communication studies (e.g., Kiousis et al., 2007; Pang, Jin, & Cameron, 2007; Ragas, 2012). For example, using contingency theory, Pang et al. (2007) found that the size of an organization affected how the public relations efforts were practiced in the organization.

Management literature has recognized the effect of financial variables on corporate-stakeholder relationships (e.g., Eesley & Lenox, 2006; den Hond & de Bakker, 2007; Kacperczyk, 2009; Reid & Toffel, 2009; Rehbein et al., 2004; Thomas & Cotter, 2007). These studies were followed to construct the control variables. In Model 1 (Probability of Withdrawal) the following six financial variables were included *company size*, *financial performance*, *growth opportunities*, *debt*, *stock return (financial performance),* and *financial slack*. Model 2 (Implementation Level) included *company size, financial performance, growth opportunities*, and *debt;* however, because the sample size in the second model was relatively small (*n* = 89), *financial slack* and *performance* were excluded from the analysis. First, the researcher obtained the following accounting measures from the COMPUSTAT database. Size was measured annually as the natural logarithm of sales. Following prior research in management (e.g., Eesley & Lenox, 2006; Kacperczyk, 2009; Waddock & Graves, 1997), profitability was measured by the ratio of earnings before interest, taxes, depreciation, and amortization to total assets (EBITD/TA). Financial slack of the company was measured as the ratio of total cash holdings to total assets. Growth opportunities were measured as the ratio of market value to the book value of the company (Market-to-Book Ratio). Debt of the company was computed as the ratio of total debt to market value of the firm. The researcher used the CRSP dataset to obtain the financial performance of the company. Specifically, annual stock return of the company was used as a proxy for financial performance. In all models, year effects were included. The inclusion of the year control variable enhances the robustness of estimates (Wooldridge, 2006).

## Dependent Variables

This part directs the attention to the dependent variables of the theoretical models. In the first model the dependent variable is *likelihood of a withdrawal*, while in the second model it is *level of implementation*. The following sections describe operationalizations of the dependent variables in the models.

*Withdrawal probability of a social shareholder resolution.* Prior research has suggested that a withdrawal indicates that the targeted corporation and the shareholder activists were able to reach an agreement prior to the resolution going to a vote among all shareholders or alternatively being challenged at the SEC (e.g., Carleton et al., 1998; Doh, 2002; Guay et al., 2004; Logsdon & van Buren, 2008). From the social movement theory perspective (Lee & Lounsbury, 2011; Rowley & Moldoveanu, 2003), this study considered a withdrawn resolution as a desirable outcome for social shareholder activism and as a positive corporate response. To assess the likelihood of withdrawing a social resolution in the first model, a dichotomous variable called *withdrawal outcome* was created that took the value of 1 when a social/environmental resolution was withdrawn and zero otherwise.

*Implementation level of a withdrawn social shareholder resolution.* In the second model, the dependent variable assesses whether and to what extent a withdrawn social shareholder resolution is implemented by the target company. To analyze the level of implementation of a social shareholder resolution, the researcher initially identified all social resolutions that requested a clear structural change (e.g., establish a Global Sustainability Committee). However, the preliminary analysis showed that there were only four resolutions that asked for structural changes. Because the objective of the study was to test a theoretical model, a sample with four observations was not adequate. Therefore, the researcher turned to the resolutions that requested from target corporations to issue a sustainability report. As mentioned earlier, corporate sustainability reporting provides a useful context for this particular study because there are externally verified and globally recognized levels of corporate sustainability reporting through which the researcher could determined the implementation of a withdrawn social shareholder resolution that asked for a sustainability report.

*Corporate sustainability reporting shareholder request.* Essentially, shareholder activists that request from corporations to issue a corporate sustainability report in the social resolutions demand for increased corporate communication on corporate social responsibility issues. The underlying expectation is that corporations should practice corporate social responsibility (CSR) and then they should say they practice CSR (Ihlen, Bartlett, & May, 2011). Therefore, through sustainability-reporting resolutions social shareholder activists request for communication-based changes.

Prior research in public relations has argued that corporate social responsibility or sustainability reports can indeed be an official description of CSR activities of a corporation because the practice of reporting on corporate social performance demonstrates the corporation's willingness to be transparent and accountable for its stakeholders (Golob & Bartlett, 2007; Ihlen et al., 2011; Signitzer & Prexl, 2008; Weber & Marley, 2012). The researcher thus identified all withdrawn social resolutions that requested corporations to issue a sustainability report specifically in compliance with GRI Guidelines ($n$ = 89). A typical shareholder resolution that asked for sustainability reporting reads as the following:

> **RESOLVED**: Shareholders request that the Board of Directors take the steps necessary to require the Company's significant suppliers to each publish an annual, independently verifiable sustainability report that the Company makes available to its shareholders and stakeholders. Among other disclosures, reports should include the suppliers' objective assessments and measurements of performance on workplace safety, human and worker rights, and environmental compliance using internationally recognized standards, indicators and measurement protocols. In addition, reports should include incidents of non-compliance, actions taken to remedy those incidents, and measures taken to contribute to long-term prevention and mitigation.

The researcher identified target corporations of these resolutions and determined the implementation levels of corporate sustainability reporting based on the criteria described below.

*Identifying levels of corporate sustainability reporting.* The Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines (https://www.globalreporting.org) were used as criteria for assessing the implementation level of a withdrawn social resolution that asked for sustainability reporting. The non-profit organization provides a comprehensive framework for organizational sustainability reporting that is globally recognized (Golob & Bartlett, 2007; Kolk, 2003, 2004; Signitzer & Prexl, 2008; Weber & Marley, 2012). Specifically, GRI has developed G3.1 Reporting Guidelines which has two parts: Part 1 provides guidance in how to report, and Part 2 features guidance on the content and scope of the reporting in the form of Disclosures on Management Approach and Performance Indicators. The Performance indicators are organized into three categories: *Economic*, *Environmental*, and *Social*. The social category is further categorized into *Labor*, *Human Rights*, *Society*, and *Product Responsibility* subcategories.

Furthermore, GRI provides Application Levels to determine the level of sustainability reporting (https://www.globalreporting.org/resourcelibrary/G3.1-Application-Levels.pdf). There are three GRI Application Levels, A, B, and C that denote beginner level (C), advance level (A), and somewhere in between (B). The reporting criteria at each level reflect a measure of the extent of application and coverage of the GRI Reporting Framework. A reporting organization declares a Level based on its own assessment of its report content against the criteria in the GRI Application Levels. In addition to self-declaration, reporting organizations receive a third party opinion and the GRI check. Only after successfully completing a GRI Application Level Check, reporting organizations can include the customized GRI

Application Level Check Statement in their report, which incorporates the special GRI-Check icon. To verify the GRI Application Levels information of the corporations in the sample, an additional search was performed through cross-referencing the corporation's Level with the GRI's Disclosure Database. GRI maintains a website archive for GRI based reports of 5,297 organizations with their GRI Content Index and Application Levels (http://database.globalreporting.org/search). Therefore, GRI Application Levels constituted a reliable source for determining the implementation levels of sustainability reporting requests.

To evaluate the implementation levels of a social shareholder request that asked for a sustainability report in compliance with GRI, the researcher developed a coding schema based on GRI's Application Levels with slight modifications. Four levels of implementation were created: basic, middle, advanced, and upper. At the time of analysis (March 1-21, 2013), if a target corporation did not produce a sustainability report, it was assigned a zero. If target corporations produced a sustainability report after the resolution withdrawal date, these corporations were categorized into four levels. Specifically, if a target company produced a sustainability report at a C level which indicates that the report met the basic standards of GRI Guidelines by providing Profile Disclosures and a minimum of any 10 Performance Indicators, at least one from each of social, economic, and environment; it was assigned a value of one—*basic level*. If a target corporation produced a sustainability report at B level, which indicates that the report met the medium standards of GRI Guidelines by providing Profile Disclosures, Management Approach Disclosures, and a minimum of any 20 Performance Indicators, at least one from each of economic, environment, human rights, labor, society, and product responsibility; it was assigned a value of two—*middle level.* If a target corporation produced a sustainability report at A level, which indicates the report met the advanced standards of GRI Guidelines by providing Profile Disclosures, Management Approach Disclosures, and all of Performance Indicators as well as Sector Supplement Performance Indicators; it was assigned a value of three—*advanced level*.

In addition to producing sustainability reports at an advanced level, if a target corporation had a committee dedicated to social and environmental responsibility issues within its organizational structure, then it was assigned a value of four—*Upper level*. It was important to identify the presence of such committee within the organizational structure because it may imply the extent to which a target corporation has a serious commitment to improve its social impact on society. For example, some of the purposes of Public Responsibility Committee at Procter & Gamble include:

> …overseeing the Company's social investments and commitment to making a meaningful impact around the world, by reviewing strategies and plans for improving lives in ways that enable people thrive and that increase their quality of living…overseeing the Company's commitment to and efforts regarding environmental sustainability. (P&G Company Board of Directors, 2012).

To determine the existence of such a committee, the researcher examined corporate annual reports filed with the SEC and corporate websites for corporate governance information. Corporate annual reports explicitly indicate presence of social responsibility committees by labeling of committee names such as "public responsibility," "social responsibility," "environment health and public safety," and "sustainability." In addition, these reports include detailed information about the names of committee chairs and members as well as their annual compensations.

The Application Levels of sustainability reporting were determined by analyzing the corporate sustainability reports issued in the following year of resolution withdrawal. These reports are available through corporate websites either as downloadable documents or as web pages. The researcher first looked for the GRI Application Level of the report. If the report did not have a GRI Application Level, then the researcher closely examined the content of the report and assigned a level based on the GRI G3 Sustainability Reporting Reference sheet (See Appendix D for the details on Implementation Levels).

Between 1997 and 2011, there were total 89 withdrawn social resolutions that requested target corporations to issue sustainability reports in compliance with GRI Reporting Guidelines. Table 2 presents the names of target corporations, sponsors, sponsor types, and the levels of implementation ranging from one to four.

***Insert Table 2 about here***

Overall, the target corporations in the sample implemented the sustainability-reporting request at a slightly above average level (*M* = 2.31, SD = *1*,19). There were 17 corporations that produced sustainability reports at an advanced level and had a sustainability/corporate social responsibility committee in the organizations (upper level). There were 23 corporations that produced sustainability reports at an advanced level, while there were 27 corporations that produced sustainability reports at a medium level. Finally, 15 corporations produced sustainability reports at a basic level. Seven of them did not have sustainability reports at the time of analysis. Among the corporations that had sustainability reports, 82 percent (*n* = 68) adopted GRI guidelines. There were 14 corporations that produced sustainability reports at either basic or medium levels.

Types of sponsors examined in this dissertation were well represented in the sample. Four types of institutional shareholder activists sponsored sustainability reporting resolutions with withdrawal outcomes: socially responsible investing (SRI) funds (*n* = 44), public pension funds (*n* = 34), religious groups (*n* = 6), unions (*n* = 4), and special interest group (*n* = 1). Some of the major SRI fund sponsors included Calvert, Domini, and Walden Asset Management, while major public pension funds sponsors included New York City Pension Funds and California State Teachers' Retirement. In terms of the corporations that received sustainability reporting shareholder resolutions, it was found that target corporations varied in terms of their industries, with more resolutions targeted at corporations that operated in the field of energy, electric, mining, chemicals, gas, and oil were the primary targets of these resolutions (%59). The next section described the data analysis methods.

## Data Analysis

Several statistical analyses were used to address research questions and to test hypotheses. To address research questions (RQ1-3), a set of descriptive statistical analyses were performed. Additionally, to address RQ3 and its sub-questions on types of issues and types of requested changes in the withdrawn social resolutions, a set of quantitative content analyses was performed. To assess the research hypotheses in the first model (H1-H4), a set of maximum likelihood probit models were estimated. To address research hypotheses on level of implementation (H5-H8), a set of ordinary least square (OLS) regression analyses were performed.

*Model 1: Probit model analysis.* A probit model is a common specification for an ordinal or binary dependent variable model in econometrics (e.g., Geweke, Keane, & Runkle, 1994; Denham, 2002; Long & Freese, 2005). A probit analysis transforms a sigmoid (S-shape) response curve into a straight line that can then be analyzed by regression either through least squares or maximum likelihood (Long, 1997; Wooldridge, 2009). That is, in the probit model, the inverse standard normal distribution of the probability is modeled as a linear combination of the predictors. A probit model takes the following form:

$$\Pr\,(\mathrm{Y} = 1\ X) = \Phi(X'\beta)$$

where *Pr* refers to probability and $\Phi$ is the Cumulative Distribution Function of the standard normal distribution. The parameters $\beta$ are computed by maximum likelihood.

The power of probit analysis as a statistical method has been long established in econometrics and statistical analysis research (see, for example, Agresti, 1990; Ashford & Sowden, 1970, Long, 1997; Keane, 1992). In particular, probit models are useful in social sciences as many research situations involve the dependent (outcome) variable (*Y*) as dichotomous (e.g., legislator votes: yes/no) (Denham, 2002). In these situations, the dependent variable can only have the value of 0 or 1. That is,

$$\mathrm{Y}_i \in \{0, 1\}$$

In his book *Regression Models for Categorical and Limited Dependent Variables*, Long (1997) explained that a probit model transforms a dichotomous dependent variable into a continuous variable. More specifically, a link function F(*Y*) takes a dichotomous *Y* and gives a continuous value of *Y'*.

$$\mathrm{Y}_i \in \{-\infty, \infty\}$$

Thus, the specification can be run as the following:

$$F(Y) = Y' = X\beta + \varepsilon$$

In a sense, *Y* is transformed into a probability of *Y* between 0 and 1. Given any real value it produces a number (probability) between 0 and 1; the dependent variable is redefined based on the cumulative normal distribution (*Z*-score). In other words, the value of an independent variable ($X\beta$) is taken to be the *z*-value of a normal distribution. It is important to note that interpretation of probit test statistics is somewhat different than regression analysis. After running a probit analysis, the output of the analysis will show the coefficients, their standard errors, the z-statistic (a Wald z-statistic), and the associated p-values that allow the researcher to evaluate the goodness of fit of the model. Denham (2002) explained that first one must consider the probability level for the likelihood ratio chi-square coefficient. If the model tested has a probability level near .50, it is generally is considered a good fit (Denham, 2002; Long, 1997). When interpreting the results, it should be noted that the probit regression coefficients give the change in the z-score for a one unit change in the predictor (Long, 1997).

*Justification of probit modeling methodology.* A probit model is thus a powerful statistical analysis because it allows redefining the dependent variable in continuous variable (McCulloch & Rossi, 1994). Yet, some scholars criticize probit models because of their structures, arguing that these models are too complicated to be applicable in practice (Hausman & Wise, 1978). Woolridge (2006) also discussed some sample selection problems (pp. 576-578). Ordinary least square (OLS) regression can be also used with a binary response variable, constructing a linear probability model. However, Long (1997) noted that “the errors (residuals) from the linear probability model violate the homoscedasticity and normality of errors assumptions of OLS regression," resulting in invalid standard errors and hypothesis tests (p. 38). In addition, probit and logit models provide better estimates for large samples than OLS regression because they use maximum likelihood estimation techniques (Long, 1997).

McCulloch and Rossi (1994) wrote that both OLS and maximum likelihood are acceptable techniques to fitting the regression, but maximum likelihood is preferred because it gives a more precise estimation of necessary parameters for correct evaluation of the results. The probit model assumes that while only the values 0 and 1 for the variable *Y* are observed, there is a latent, unobserved continuous variable *Y′* that determines the value of *Y*. The prediction of a dependent variable (*Y*) is interpreted as a prediction of the probability that *Y* takes on the value 1 as a response to the independent variables (*X*). That is, probit estimates attempt to predict the effect of changes in an independent variable on the probability that the dependent variable takes the value 1 (Pr ($Y_i$ = 1). *Y′* is the variable of interest, though it is unobserved. The probit analysis thus holds the basic OLS assumptions that it is linear in the independent variables (Woolridge, 2006). Changes in the independent variables are assumed to have a constant affect on the dependent variable.

Denham (2002) wrote that log-linear modeling, such as probit analysis, is advantageous in that it allows researchers "to fit the most parsimonious model to the data under study and thus offer an accurate explanation of the relationships between variables" (p. 165). Therefore, recognizing the potential statistical issues associated with the probit models, this study employed a probit analysis for the first model to address H1 through H4, because the outcome variable (withdrawal) is a dichotomous variable (withdrawn or not), and the research design deals with large, cross-sectional data. In these cases, a probit model analysis is the right statistical model for assessing research hypotheses (Long, 1997; Woolridge, 2006, p. 575). Furthermore, previous studies on corporate responses to stakeholder requests have commonly used probit models to assess model specifications (see, for example, David, Bloom, & Hillman, 2007; Eesley & Lenox, 2006; Kacperczyk, 2009; Thomas & Cotter, 2007). For example, Eesley and Lenox (2006) estimated the likelihood that a corporation would positively respond to a stakeholder request through a probit model. Similarly, Kacperczyk (2009) examined the effect of takeover protection on corporation attention to stakeholders through a probit model (see p. 272). In a recent study on shareholder resolutions, Ertimur et al. (2010) examined board of directors' responsiveness to shareholders through a probit model as well. More specifically, the researchers estimated a maximum likelihood probit model to analyze probability of a majority vote (*Y*) using binary regressors (*X*).

In communication research, probit analysis has been less frequently used than in management research. Indeed, in a *Journal of Communication* article, Denham (2002) discussed applications of advanced categorical statics in communication research. Indicating a high reliance on cross-tabulation and chi-square analysis in communication research, Denham argued that communication research would greatly benefit from advanced categorical statistics such as log-linear modeling, probit and logit regression analyses. According to Denham probit and logit regression procedures allow scholars "to fit both theoretically driven and mathematically parsimonious models to the data under study and to avoid making statistical errors common bivariate comparisons" (p. 162).

Probit modeling has been widely used in health communication research (e.g., Hutchinson et al, 2006; Jones, Denham, & Springston, 2007). For example, using a cross-sectional data, Hutchinson et al. (2006) performed a set of probit maximum likelihood models to estimate recall of a health campaign symbol among the sample. The researchers reported marginal effects and their standard errors for interpreting the power of the tests. In public relations research, when estimating probability, linear discriminant analysis (LDA) seems to be more commonly used than probit and logit models (e.g., Ledignham & Bruning, 1998; Taylor, Kent, & White, 2001). LDA is similar to probit analysis in that it attempts to find a linear combination of features and that it has categorical dependent variable (Wooldridge, 2006).

*Probit model specifications.* In the first model, the dependent variable is whether a social/environmental resolution is withdrawn or not. Model 1 estimates the probability of withdrawal in the following formats:

$$\Pr(Wit = 1) = \Phi(\beta 1Cit\text{-}1 + \beta 2Xit\text{-}1 + \varepsilon i) \quad (1)$$

$$\Pr(Wit = 1) = \Phi(\beta 3Eit\text{-}1 + \beta 4Xit\text{-}1 + \varepsilon i) \quad (2)$$

$$\Pr(Wit = 1) = \Phi(\beta 5Iit\text{-}1 + \beta 6Xit\text{-}1 + \varepsilon i) \quad (3)$$

$$\Pr(Wit = 1) = \Phi(\beta 7Sit\text{-}1 + \beta 8Xit\text{-}1 + \varepsilon i) \quad (4)$$

where *W* indexes withdrawals, *i* indexes the corporation, and *t* is the year. *Wit* is a dummy variable taking the value of one if a social/environmental shareholder resolution was withdrawn at time *t* in Equations 1, 2, 3, and 4. In Equation 1 and Equation 2 the explanatory variables that measure the effects of corporate social performance are the company's community commitment performance (*Cit-1*) and the company's environmental commitment performance (*Eit-1*), respectively. In Equation 3, the explanatory variable is issue type (*Iit-1*), while in Equation 4, the explanatory variable is sponsor type (*Sit-1*). The vector of control variables, *Xit-1*, includes company size, profitability, financial slack, growth opportunities, debt, and financial performance. $\varepsilon i$ is the error term.

*Model 2: Ordinary least squares (OLS) regression analysis.* In second model, to address (H5-H8) level of implementation, a series of ordinary least squares (OLS) regression analyses were performed. The second model estimates the likelihood of implementation of sustainability report resolutions. Model 2 is as the following.

$$\text{Implementation Level} = b_0 + b_1 E_{it} + b_2 \text{Sponsor Type} + b_3 \text{Oil\&Gas Industry} + b_4 X_{it-1} + e_{it}$$

where the dependent variable *(Y)* is *Implementation Level* of corporate sustainability reporting, *i* indexes the target corporation and *t* is the year. *Implementation Level* is a linear function of *Environmental Responsibility Performance* of the target corporation ($E_{it}$), *Sponsor Type* who filed the shareholder resolution, *Industry Classification* of the target corporation (*Oil&Gas Industry*), and the control variables, *Xit-1*, which includes company size, profitability, financial slack, growth opportunities, debt, and financial performance. $\varepsilon_{it}$ is the error term.

*Minimizing data analysis problems.* Heterodaskedascity and serial correlation in the error term can bias the standard errors of regression co-efficient which may lead to incorrect inferences (Mella & Kopalle, 2002; Stewart, 1987; Woolridge, 2006). Before performing the actual analyses, the researcher looked for the problems of heterodaskedascity and serial correlation, and performed necessary tests to detect and address these problems. The OSL residuals were tested for heteroskedasticity using a Breusch-Pagan/Cook Weisberg test and whenever the null hypothesis of constant variance was rejected, the Huber-White sandwich estimator was used, which provides consistent standard errors in the presence of heteroskedasticity (White, 1980). After each regression estimation, variance inflation factors (VIF) were checked to ensure the average values were well under two and the condition number of the design matrix was well under 30, which suggests multicollinearity did not pose a problem (Mella & Kopalle, 2002). Given the possible multicollienairty problems among the environmental performance, petro-chemical industry, and company size variable in the second model, variables on withdrawal status were regressed and obtained a mean variance inflation factor of 1.06, which was below the commonly accepted threshold (Mella & Kopalle, 2002; Wooldridge, 2006). Because some corporations received more than one resolution per year, the observations were not statistically independent. To address this potential source of heteroskedasity, robust standard errors were computed by clustering the observations by corporation (Eesley & Lenox, 2006; Kacperczky, 2009; Woolridge, 2006). The researcher followed prior studies to address this problem by clustering the observations by corporation.

*Justification of use of regression analysis.* Regression analysis via OLS is a commonly applied statistical technique in social sciences including communication. A regression analysis can explain how the typical value of the dependent variable changes when the value of any independent variables is altered while the other independent variables are held fixed (Wooldridge, 2006). In addition to OLS regression analysis, because the dependent variable—level of implementation—is an ordinal variable that takes on four values, a cross-sectional logit regression analysis was performed. A logistic model is a type of probit model with multivariate variables (Long, 1997). Estimating the odds of an event happening, the logit function allows working with multinomial dependent variables. The results of both OLS and cross-sectional logit analysis were compared to obtain the most robust model.

To run the probit and regression analyses, the statistical package STATA 11.0 was used. The probit analysis was conducted using the *probit* command (Long & Freese, 2005). Logit analysis was conducted using the *logit* command (Long & Freese, 2005). OLS regression was performed using the *regress* command. Because the Risk Metrics is a hierarchically structured data set, that is, the same company could be involved in multiple stakeholder resolutions; *cluster* option in STATA was used. This function computes standard errors by clustering the observations by corporation.

## Study 3: An Illustrative Case Study

After Study 1 provided a foundation to understand the nature and scope of social shareholder activism via resolutions, Study 2 tested test two theoretical models that explain the factors that affect corporate responses to social shareholder resolutions. Finally, Study 3 was a case study that illustrated the process of implementing a change as a result of a social shareholder resolution that was filed and later withdrawn by a public pension fund. Conceptually, this dissertation holds that organizations would make structural and procedural arrangements in order to be congruent with societal demands (e.g., Cutlip et al., 2000; DiMaggio & Powell, 1983; Everett, 2001; Scott et al., 2000; Suchman, 1995). A case study has potential to enhance the understanding of how a social shareholder resolution may create not only procedural and communication-based changes but also structural changes. A closer look at the interactions between a shareholder activist-corporate engagement will also provide some insights into how Boyd's (2000) actional legitimacy plays out in day-to-day public relations activities of both corporations and sponsors regarding the proposed change.

*Justification of case study methodology.* Case study is an essential form of social science research that provides an intensive analysis of an individual unit such as a person, an event or an organization (Yin, 2011). Case study method is widely used in public relations research as well (e.g., Veil & Kent, 2008). Case studies illuminate and explicate the subject of the inquiry (Thomas, 2011). There are four types of cases studies: illustrative, exploratory (or pilot case study) cumulative, and critical. An illustrative case study is a descriptive study that utilizes one or two instances of an event to illustrate the research phenomenon (Yin, 2011, p. 39). Case studies may involve several data sources such as documents, archival records, and artifacts depending on the subject of the case study (Yin, 2011, pp. 10-14). Yin explained that when selecting a subject for a case study, researchers should use information-based sampling, rather than random sampling. Often, a case is selected as a key case that can shed light on the research phenomena at hand (Yin, 2011).

*The case: CONSOL Energy Inc. and NYC Public Pension Funds.* The current study analyzed a shareholder activist-corporate engagement case in which a withdrawn shareholder resolution elicited a structural change within the organization. The case involved a social resolution sponsored by New York City Public Pension Funds, a public pension fund, in which the funds requested CONSOL Energy Inc., the targeted corporation, to issue a sustainability report. This case sets an excellent context for this dissertation as the factors involved with the engagement exemplifies the main variables in the theoretical models (sponsor type/public pension, industry classification/petro-chemical, gas, and energy).

The written correspondence documents (e.g., shareholder letters, no-action letters) between the sponsor and the target corporation were analyzed. Corporate filings (e.g., proxy statements, no-action letters) were obtained from the U.S. Securities and Exchange Commission's Electronic Data-Gathering, Analysis, and Retrieval (EDGAR) system. The SEC requires that all shareholder resolution materials should be filed with EDGAR (http://www.sec.gov/edgar.shtml). A proxy statement is a statement required of a corporation when soliciting shareholder support via votes (Smith, 2012). The proxy statement, also known as a Form DEF 14A, is required to be filed with SEC before the annual meeting. This statement should include information regarding CEO and board compensation, voting procedure and information, audit committee structure and payment (Mahoney, 1991). A no-action letter is filed by target corporations to the SEC when they request the permission to exclude the resolution from the proxy vote. Most no-action letters "describe the request, analyze the particular facts and circumstances involved, discuss applicable laws and rules, and request that the SEC staff would not recommend that the Commission take enforcement action against the requester" (SEC, No Action Letters, 2013, p. 1).

In addition to the SEC filings, public relations materials published by the target corporation and the sponsor organization were analyzed. CEO letters, annual reports, and sustainability reports are fundamental component of financial public relations (Mahoney, 1991; Smith, 2012). A CEO letter is a letter written by a corporation's top executives to its shareholders to provide a board overview of the corporation's operations throughout the year (Mahoney, 1991). The letter generally covers the corporation's basic financial performance, its current position in the market, and some of its future plans. An annual report is "a formal corporate progress report issued by corporations and other organizations" (Smith, 2012, p. 242). In addition, other public relations documents such as website communication, news releases, and press briefings were analyzed.

For the resolution topic (sustainability reporting) and corporate name, a search was conducted of the EDGAR database using the name of the corporation over the period of time 2010-2012. This period of time was specified because it captures the beginning of the shareholder-corporate engagement and the implementation date of the proposed change. A total of three corporate letters, two shareholder letters, one no-action letter, three annual reports (2010-2012), two sustainability reports (2011-2012) and two proxy statements were obtained and analyzed in the case study. In addition to corporate communication, sponsor communication on its shareholder activism was examined (e.g., organizational website, press releases, Proxy Postseason Reports).

To find out whether the parties sought for publicity over the shareholder activist-corporate engagement, searches of the Factiva and Lexis Nexis databases of news content was conducted for news media outlets. The databases are available through OU university libraries. The resolution topic, sponsor name, and corporate name were used for each media outlet to search for the case from 2011 to 2012. The search included the headline, lead, and the body of all news stories that were substantively concerned with the shareholder resolution and the corporate response to the resolution, including hard news stories and soft stories (e.g., editorials and letters to the editor). The search string "CONSOL Energy AND NYC Public Pension Funds" was used to search the news stories that were published in the media outlets during the specified time period.

## Summary of the Methodological Approaches

This chapter laid the methodological grounds for the analytical portion of this dissertation. Study 1 attempted to map the landscape of social shareholder activism through filing resolutions between 1997 and 2011. Through RQ1and its sub-questions, a series of descriptive analyses aimed to identify the major issues, sponsors, and outcomes of all shareholder resolutions for the studied period. Next, attention was directed to social shareholder resolutions filed between 1997 and 2011. To address RQ2, a descriptive analysis of social shareholder resolutions was performed with a focus on sponsors and outcomes. To address RQ3 and its sub-questions (RQ3a-d) descriptive analyses and two content analyses of withdrawn social resolutions were conducted in order to provide a deeper understanding of the social topics that concerned institutional shareholders and the changes that they demanded from corporations. To address RQ3e-f on types of sponsors, withdrawn social resolutions were analyzed by organizational types of sponsoring institutional shareholders. Thus, by addressing the research questions (RQ1-RQ3), the first section prepared a foundation for hypothesis testing in Study 2.

Study 2 tested two theoretical models to explain and predict the factors that affect corporate responses to social shareholder resolutions. Specifically, Model 1 (H1-

H4) tested the effects of corporate stakeholder commitment, as measured by corporate social performance values, issue type, and sponsor type on the likelihood of withdrawing a social resolution by performing a set of probit model analyses. In Model 2 (H5-H8), the effects of corporate stakeholder commitment, industry classification, and sponsor type on the implementation level of a social shareholder resolution are tested through a set of OLS regression analyses and logistic analyses.

Finally, Study 3 analyzed a case study to illustrate how a withdrawn social shareholder resolution can elicit changes within a targeted corporation. Specifically, the case study illustrated the extent to which a target corporation implemented the proposed change requested in a social shareholder resolution and communicated the implemented changes to stakeholders. The case thus aimed to demonstrate the viability of social shareholder activism practiced through filing resolutions to improve society at large by pressuring corporations to improve their corporate social performance. Appendix E provides a list of the research questions and hypotheses along with their corresponding methodological approaches as well as the datasets used in the study.

# CHAPTER FIVE: RESULTS

This chapter presents findings of this dissertation. From a societal perspective, this dissertation analyzes social pressures on corporations exerted by shareholders—a stakeholder group that possesses power, legitimacy, and urgency (Agle et al., 1999; Mitchell et al., 1997). Specifically, the dissertation examines social shareholder resolutions—those that were concerned with corporate social and environmental responsibility issues—filed by institutional shareholder activists under the SEC rule 14a-8 as a formal mechanism by which shareholders can propose changes regarding social performance of corporations. The main focus of the dissertation was directed to the social resolutions that were withdrawn by sponsors before the annual meetings, which reflects a process of engagement between shareholder activists and target corporations managers to reach an agreement. Several methods were used to analyze the data and assess the research questions and hypotheses that guided this investigation. The task of reporting the findings was undertaken in three sections.

The first section, *Study 1: Descriptive Statistics and Content Analyses of Shareholder Resolutions*, presented the basic descriptive statistical analysis of all shareholder resolutions as well as the descriptive and content analysis of social shareholder resolutions filed by institutional shareholders at publicly traded U.S. corporations during the time period of 1997-2011. Specifically, this section reported the findings for RQ1-RQ3.

The second section, *Study 2: Theoretical Model Testing* included two parts. The first part, *Withdrawal Probability of Social Shareholder Resolutions*, reported the findings of the model testing that predicted the likelihood of withdrawing a social resolution. This section presented the results of a series of probit analyses that examined the effects of explanatory variables at three levels: corporate-level (stakeholder commitment of target corporations), issue-level (issue type), and sponsor-level (sponsor type). This part reported the results of H1-H4 on the likelihood of withdrawing a social resolution.

The second part, *Implementation Level of Social Shareholder Resolutions*, focused on the key question of whether target corporations indeed implemented social changes proposed in the withdrawn social shareholder resolutions. Focusing on sustainability-reporting requests in the withdrawn social resolution sample, this section reported the results of a series of OLS regression analyses that tested research hypotheses for the second model on the effects of corporate stakeholder commitment, industry classification, and sponsor type on the implementation level of the sustainability-reporting request (H5-H8).

Finally, the third section, *Study 3: Case Study: CONSOL Energy Inc. and NYC Public Pension Funds,* presents a critical case study on the aftermath of a withdrawn social resolution filed by New York City Pension Fund at CONSOL Energy. The case study thus illustrated the extent of a series of changes in a target corporation following a withdrawal of a social resolution.

## Study 1: Descriptive Statistics and Content Analysis Findings

This section presented the basic descriptive statistical analysis of shareholder resolutions filed by institutional investors at publicly traded U.S. corporations during the time period of 1997-2011. The section first reported the results of the analyses on all shareholder resolutions, followed by the results of social shareholder resolutions and withdrawn social resolutions.

## All Shareholder Resolutions, 1997-2011

This section provides a landscape of shareholder resolutions in order to lay a foundation to understand social shareholder activism via filing resolutions. To address RQ1and its sub-questions RQ1a-c, all shareholders resolutions filed at U.S. publicly traded corporations between 1997 and 2011 were analyzed. RQ 1 asked about a landscape of all shareholder resolutions filed between 1997 and 2011. Figure 5 displays the distribution of all shareholder resolutions filed at U.S. corporations over the time period of 1997-2011.

***Insert Figure 5 Here***

Shareholders filed total 14,271 resolutions during the 14-year period. On average, 951 resolutions were submitted each year. The annual number of resolutions has remained relatively stable over time, ranging from 755 in 2011 to 1,160 in 2007. Figure 1 shows that there was a steady increase in the number of resolutions between 2001 and 2006. The number of resolutions reached at its peak in 2007 (*n* = 1,160). This record number of resolutions may imply the increasing discontent of shareholders with the overall corporate performance before the Global Financial Crisis in 2008, which is considered one of the worst financial crisis since the Great Depression of the 1930s (Reuters, 2009). In the following years of the crisis, the number of resolution steadily decreased. Indeed, one notable trend was the decreasing number of resolution in recent years. This decrease can be partly explained by the rise of an engagement-based approach to shareholder activism in recent years discussed in the aforementioned literature (Guay et al., 2004; MacLeod, 2009; Mathiasen, Mell, & Gallimore, 2012; Sjorstrom, 2008). Furthermore, new media technologies with their networking capabilities, such as social media, may have increased the awareness and ability of shareholders to coordinate actions giving them more leverage in the engagement process with the target corporations.

*Types of institutional sponsors in all shareholder resolutions.* RQ1a asked about types of sponsors who filed shareholder resolutions at corporations. Figure 8 provides a distribution of resolutions by sponsor type over the time period between 1997 and 2011. Shareholder groups engaged in filing resolutions covered a wide spectrum, from churches to large public pension funds. The shareholders who submitted resolutions were organized into six categories: public pension funds, socially responsible investing (SRI) funds, unions, religious organizations, special interest groups, and other (an umbrella category including sponsor groups that do not fall within one of the six categories above, such as foundations, asset managers, and endowments).

Figure 6 presents distribution of all shareholder resolutions by sponsor type. The figure shows that unions were the major sponsor groups of all shareholder resolutions. They filed 45% of the resolutions between 1997 and 2011.

***Insert Figure 6 Here***

Unions such as *AFL-CIO (The American Federation of Labor and Congress of Industrial Organizations)*, *the Service Employees International Union*, *Amalgamated Bank's LongView Funds, International Brotherhood of Du Pont Workers*, and *United Steel Workers of America* pursued an active agenda concentrated on labor and corporate political contribution issues, as demonstrated in the tests of resolutions.

Religious organizations were also prominent figure in filing resolutions (24%). The most active religious shareholder group was *Interfaith Center on Corporate Social Responsibility (ICCR), Jewish Voice for Peace, Episcopal Church, Sisters of Charity of St. Elizabeth*, and *Sisters of Mercy*. Filing total 537 shareholder resolutions over the study time period, ICCR was the leading figure among religious shareholder sponsors. Most recently, ICCR representatives noted that they were cutting back on resolution filings in favor of engagement with companies (Mathiasen, Mell, & Gallimore, 2012), which may explain the overall decrease in the number of resolutions in recent years. SRI funds—asset management funds that seek to consider both financial return and social good—were also well represented sponsor type of shareholder resolutions. The SRI funds filed 15% of the total resolutions during the time period of 1997 and 2011. Further, the most active SRI sponsors were *Walden Asset Management*, *Trillium Asset Management*, *Domini Social*, and *Calvert funds*.

The analysis showed that 8% of all resolutions were filed by public pension funds. This number was relatively low compared to union or religious group shareholder activism. In the study sample, the most active public pension shareholder was *New York City Pension Funds* filing resolutions regarding both governance and social issues ($n$ = 894). The fund was particularly active in getting the corporations to include sexual orientation as a secure category in their Equal Employee Opportunity (EEO) statements. *The California State Teachers' Retirement System (CalPERS*), was active in filing resolutions regarding both social and governance issues.

Special interest groups sponsored 4% of the resolutions over the study period (Figure 6). Special interest groups have been traditionally involved with social issues.

The most active special interest shareholder groups were *Human Society of the US*, *PETA* (People for the Ethical Treatment of Animals), *Sierra Club*, and *National Center for Public Policy Research*. These sponsors are activist groups with already established social-issue agenda. For these groups, filing shareholder resolution is just another channel to engage corporations about their issue agendas.

There are also special interest groups that are formed solely for the purpose of social shareholder activism around an emerging issue such as *GE Stockholders' Alliances against Nuclear Power* and *As You Sow Foundation*. For example, *As You Sow* describes its mission as "to promote environmental and social corporate responsibility through shareholder advocacy, coalition building, and innovative legal strategies" (As You Sow, 2013). In 2011, *As You Sow* focused six of its 13 resolutions on recycling. The organization also filed resolutions regarding fracking and coal risk. A broad picture of shareholders who sponsored resolutions thus presents a wide spectrum of shareholder groups with various issue agendas.

*The outcomes of all shareholder resolutions.* RQ1b inquired about the outcomes of all shareholder resolutions. This part of the analysis focuses on the final disposition of shareholder resolutions as indicators of corporate responses to shareholder activism. Figure 7 displays distribution of all resolution outcomes per year between 1997 and 2011.

***Insert Figure 7 Here***

Figure 7 shows that roughly half of all resolutions (42%) were taken to a shareholder vote (58% of the resolutions were rejected). Voted (passed) resolutions accounted for only 3% of the resolutions. Shareholders showed the highest level of voting support for resolutions (*n* = 133) in 2009. Between 1997 and 2011, nearly 18% of resolutions were omitted via petitioning of the SEC, and 21% of resolutions were withdrawn (*n* = 2,943). This suggests that SEC omissions are a challenge for shareholder activists who want to engage corporations about a social issue. Notably, after 2001, the number of withdrawn resolutions was higher than the omitted or voted ones. Shareholder activists withdrew the highest number of resolutions in 2007 (*n* = 308). To visualize the outcomes of all resolutions between 1997 and 2011, Table 3 further provides the frequencies and percentages of resolution outcomes.

***Insert Table 3 Here***

The outcomes of shareholder resolutions are expected to vary across sponsor types (Ertimur et al., 2010; Thomas & Cotter, 2007). Figure 8 provides ratios of all resolution outcomes by sponsor type: public pension fund, SRI fund, religious organization, special interest group, union, and other (e.g., endowments, foundations, company).

***Insert Figure 8 Here***

Figure 8 shows that unions had the higher percentages in the withdrawn and voted outcomes (26%). Resolutions filed by public pension funds also had high withdrawal outcomes (18%). The figure shows that the lower levels of withdrawal rates were for special interests groups (1%) and other category (0.7%), while the higher levels were withdrawal rates for unions (26%), public pension funds (18%), SRI funds (12%), and religious organizations (11%).

*Proportion of shareholder resolutions devoted to social issues*. RQ1c inquired about the proportion of resolutions devoted to social issues in the all resolutions filed between 1997 and 2011. As described in the Methodology chapter, issues raised in the shareholder resolutions were grouped into two categories: corporate governance and social (corporate social responsibility) resolutions. Corporate governance resolutions mainly addressed the issues regarding board (e.g., board composition, director independence and qualifications), defense (e.g., removal of anti-takeover measures), executive compensation (e.g., severance packages, accounting options, levels of CEO pay), and shareholder rights (e.g., confidential voting, cumulative voting). Social resolutions concerned issues regarding antidiscrimination policies, impact on the natural environment, political contributions, human rights, health care, employee well being, smoking/tobacco, charitable contributions, and reproductive issues. The analysis showed that, out of 14, 271 shareholder resolutions, 9,744 (86%) were concerned with corporate governance issues, while 4,527 (32%) were concerned with social issues. Figure 9 provides the number of corporate governance and social resolutions filed per year between 1997 and 2011.

***Insert Figure 9 Here***

A few features of the data stand out in Figure 9. Each year, the number of corporate governance resolutions was higher than social resolutions. On average, shareholders submitted 649 governance resolutions each year between 1997 and 2011, ranging from 805 in 2007 to 453 in 2011. There were 505 governance resolutions submitted in 2001, while this number was half for social resolutions ($n$ = 242). The highest number of social resolution was filed in 2007 ($n$ = 805). Notably, in 2007 the number of all filed shareholder resolutions was highest ($n$ = 1,160). Overall, shareholders were more active in corporate governance issues than social issues between 1997 and 2011.

Figure 10 provides the ratio of social and governance resolution to total number of shareholder resolutions. Specifically, the ratio of governance resolutions was higher than social resolutions each year between 1997 and 2011. Notably, the ratio of social resolutions increased in 2011, while the ratio of governance resolutions decreased in the same year.

***Insert Figure 10 Here***

In sum, the results of the descriptive analyses so far addressed RQ1a, RQ1b, and RQ1c on all shareholder resolutions filed by institutional shareholders over the time period of 1997 and 2011. It was important to gain a clear picture of shareholder activism in general to compare the scope and nature of social shareholder activism in specific. The findings suggested that shareholder activism is focused on corporate governance issues rather than social issues. About 32% of shareholder resolutions were devoted to social issues. Major types of institutional sponsors who filed shareholder resolutions were unions, religious groups, public pension funds, SRI funds, and special interest groups. Unions were the most active sponsor type in filing shareholder resolutions followed by religious groups. Overall, shareholder resolutions received low support over the study period of time. The number of withdrawn resolutions was slightly higher than the omitted resolutions. Resolutions that were filed by unions had the most withdrawal outcome, followed by public pension funds. Since 2007 there has been a decrease in the number of resolutions filed in both social and corporate governance issue areas. This section thus provided a launch pad for analyzing social shareholder resolutions that were withdrawn after shareholder activist-corporate engagements. The next section reports the answers of research questions on social shareholder resolutions and withdrawn social resolutions.

## Social Shareholder Resolutions, 1997-2011

RQ2 directed the attention to social shareholder resolutions. The question asked about the landscape of social shareholder resolutions 1997 and 2011. Figure 11 provides distributions of social shareholder resolutions outcomes by sponsor types. The figure shows that public pension funds (27%) and SRI funds (21%) were major sponsors of withdrawn social resolutions. Religious groups were also well represented in the withdrawal outcome (19%). Unions seemed to lag behind in terms of reaching withdrawal agreements.

It is important to note that this preliminary analysis only provides the percentages of withdrawal outcomes by these sponsors. Additional analyses are required to examine the probability of having a withdrawal outcome depending on sponsor type. This topic will be addressed in the *Withdrawal Probability of Social Resolutions* part in the next section.

***Insert Figure 11 Here***

## Withdrawn Social Shareholder Resolutions, 1997-2011

The main focus of this dissertation was withdrawn social resolutions. Prior research has indicated that majority of withdrawn resolutions resulted from engagement between the shareholder activists and the corporate managers, and that in the majority of these cases the corporations agreed to the shareholders' requests (e.g., Carleton et al., 1998; Del Guercio & Hawkins, 1999; Guay et al., 2004; Logsdon & van Buren, 2008).

Withdrawn social resolutions thus imply a sense of engagement between shareholders and corporations over social issues. Figure 12 tracks total number of withdrawn social resolutions per year over the study time period.

***Insert Figure 12 Here***

RQ3 asked about the landscape of withdrawn social resolutions. Between 1997 and 2011, a total of 1,017 social resolutions were withdrawn. On average, 68 social resolutions were withdrawn each year between 1997 and 2011. The yearly number of social resolution withdrawn ranged from 29 in 1999 to 100 in 2010. There was an increase in the number of withdrawn social resolutions since 2000 until 2010. The number of withdrawn social resolutions decreased in 2011 ($n$ = 87). This decrease paralleled the general trends in all resolutions.

Specifically, RQ3a inquired about the types of issues raised in the withdrawn social shareholder resolutions. Following the codebook, the social issues addressed in the social resolutions were coded into six categories: *environment*, *community*, *employee*, *diversity*, *human rights*, and *product responsibility*. The results of the content analysis showed that environmental issues were prevalent in the withdrawn social resolutions. Figure 13 provides a distribution of social issues raised in the withdrawn resolutions.

***Insert Figure 13 Here***

The figure shows that majority of withdrawn social resolutions concerned environmental issues (41%), followed by the issues regarding community (21%), employee (16%), and diversity (14%). The least common issues were concerned with human rights (4%) and product responsibility (4%). Given that a withdrawn resolution indicates some type of action on the part of the target corporation—full or partial agreement to resolution—or some type of compromise, identifying the specific issues voiced in these withdrawn resolutions is important.

Table 4 provides a list of top five social issues and their frequencies in the withdrawn social resolutions between 1997 and 2011.

***Insert Table 4 Here***

During the period of the study, the most prominent social issues across the categories, those with over 50 resolutions, in decreasing order of frequency were environmental sustainability issues, political contribution and lobbying, antidiscrimination, and international conduct. In terms of community oriented-issues, results suggest that shareholder activists addressed several community issues in the withdrawn social resolutions (see Table 4). Overall, two most common topics were corporate political contributions and lobbying ($n$ = 92) and health care/drug pricing ($n$ = 41). Social shareholder resolutions dealing with corporate political contributions in the study sample seemed to reflect the growing tension about corporate political contributions in recent years. See Figure 14 for a trend analysis of political contribution resolutions filed between 1997 and 2011.

***Insert Figure 14 Here***

Between 2004 and 2011, shareholders filed total 235 resolutions (including all outcomes) concerned about corporate political contributions. There was a drastic increase in the number of political contribution resolutions from three in 2010 to 78 in 2011.

The second type of issue in focus was environment. Social resolutions regarding the natural environment raised a wide range of issues. The most common issue in the environmental resolutions sample was *environmental sustainability reporting* (*n* = 89), followed by the issues of recycling (*n* = 74), *greenhouse gas emission (n* = 56), *climate change* (*n* = 47), and *wildlife/animal protection* (*n* = 45). The largest number of resolutions in the environment category, sustainability reporting, asked corporations to issue a sustainability report with an emphasis on environmental issues.

An emerging trend was observed from the analysis that the resolved clauses of sustainability reporting resolutions proposed that the report include specific measures on particular subjects such as water metrics, greenhouse gas (GHG) emissions, water usage etc. For example, in early 2011, California State Teachers' Retirement System filed a resolution at Tesoro Corporation asking the corporation to produce a sustainability report. The retirement fund argued that sustainability reporting makes "a company more responsive to increasing public expectations of corporate behavior" and helps "identify gaps and opportunities, develop company-wide communication, publicize innovative practices and receive feedback." The resolution proposed the resolved clause as the following:

> **RESOLVED**
>
> Shareholders request that the Board of Directors issue a report describing the company's short- and long-term responses to environmental, social, and governance related issues and associated risks, including greenhouse gas emissions data and plans to manage emissions. The report should be prepared at

information, and made available to shareholders by November 30, 2011. (Tesoro Sustainability Report Shareholder Resolution, 2011, para. 6).

RQ3b inquired about the most common type of issue addressed in the withdrawn resolutions. Analysis of the withdrawn social resolutions filed between 1997 and 2001 indicated that social shareholders addressed five major types of issues in the resolutions: environment, community, employee, diversity, human rights, and product responsibility. Among these types of issues, environment was the most prevalent issue type, followed by community. To further assess whether the observed difference in the frequencies was statistically significant, a chi-square test was performed (Sprinthall, 2006). Table 5 provides the results of the analysis on types of issues.

***Insert Table 5 Here***

The sample of withdrawn social resolutions included 408 (41%) environmental and 212 (21%) community resolutions. The difference in the frequencies of the environmental and the community issues addressed in the withdrawn social resolutions significantly different, $X^2$ (1, $N$ = 1,017) = 8.302, $p$ < .001. This finding suggests environmental issue-oriented resolutions were more frequently withdrawn than community resolutions. Figure 15 further illustrates the percentages of environmental and community resolutions in the withdrawn resolution sample.

***Insert Figure 15 Here***

The figure shows that the number of withdrawn environmental resolutions was higher than the number of withdrawn community resolutions each year. In 2011, nearly 30% of the withdrawn social resolutions were concerned with environmental and community issues. The number of withdrawn resolutions concerned with community issues almost tripled within a year in 2011, while the number of withdrawn environmental resolutions decreased in the same year.

RQ3c asked about types of changes social shareholder activists demand from corporations in the withdrawn social shareholder resolutions. Building on the literature on shareholder activism (Graves et al., 2001; Tkac, 2006) and organizational theory (e.g., DiMaggio & Powell, 1983; Everett, 2001; Scott et al., 2000), types of changes requested in the withdrawn social resolutions were coded under three categories: a) *structural changes;* b) *policy/procedural changes*; and c) *communication-based changes*. The results of the content analysis showed that shareholders mostly requested communication-based changes ($n$ = 527, 57%) in the withdrawn social resolutions followed by policy/procedural changes ($n$ = 308, 33%), and structural changes ($n$ = 89, 10%). RQ3d asked about the most common type of change requested in the withdrawn shareholder resolutions. The analysis showed that the most common category was communication-based changes, which included requests such as reporting on policy/operations, labeling products properly, and warning stakeholders about negative impacts. To find out whether the observed difference in the frequencies between communication-based and policy/procedural changes had statistical significance, a chi-square test was performed. Table 6 provides the results. The findings indicated that the observed difference in the frequencies was significantly different, $X^2$ (1, $N$ = 1,017) = 12.1, $p < .05$. Shareholders most frequently asked corporations to perform communication-based changes.

***Insert Table 6 Here***

After discussing the issues addressed in the withdrawn social resolutions, types of sponsors who filed these resolutions were examined. RQ3e asked about major types of institutional sponsors who were the proponents of withdrawn social resolutions between 1997 and 2011. Based on the literature, this study coded types of sponsors under six categories: *public pension funds* (e.g., CalPERS, New York City Pension Funds), *religious organizations* (e.g., ICCR, Sisters of St. Francis), *socially responsible investing funds* (e.g., Walden Asset Management, Domini Social Investments), *unions* (e.g., ALF-CIO, International Brotherhood of Teamsters), *special interest groups* (e.g., PETA, Human Society of the US), and *other* (e.g., company, family foundations). Figure 16 presents the distribution of withdrawn social resolutions by sponsor type in the withdrawn sample.

***Insert Figure 16 Here***

RQ3f further inquired about the most common type of institutional sponsor who withdrew social resolutions. Majority of withdrawn social resolutions were sponsored by public pension funds (34%), followed by SRI funds (29%), religious groups (19%), and unions (11%). This distribution is somewhat different than the distribution of all resolutions by sponsor type. As previously demonstrated (Figure 6), unions were the major sponsors of all resolutions (including governance and social) (45%). However, when it came to the social resolutions that were withdrawn after corporate-shareholder engagement, public pension funds were the leading sponsors.

Because sponsor type is one of the indicators of the research models proposed in this study, it will be useful to identify the major institutional shareholders who sponsored the withdrawn social resolutions. Table 7 displays the major institutions who were the proponents of withdrawn social shareholder resolutions between 1997 and 2011.

***Insert Table 7 Here***

The table shows that public pension funds were the leading sponsors of withdrawn social resolutions (*n* = 342). In particular, New York City Fund was the most active among public pension fund sponsors (*n* = 274). New York City Employee's Retirement, New York State Common Retirement Fund, and California State Teachers' Retirement were among the public pension funds that were the sponsors of withdrawn social resolutions. Socially Responsible Investment (SRI) groups were also leading shareholder sponsors of withdrawn social resolutions (*n* = 284). The most active SRI group was Walden Asset Management (*n* = 107). In addition, Calvert Asset Management, Trillium Asset Management, Domini Social Investments, Green Century Funds, and Harrington Investments were among active SRI sponsors. Religious groups were also well represented among the sponsors of withdrawn social resolutions (*n* = 209). Interfaith Center on Corporate Responsibility (ICCR) was the leading figure filing 106 social resolutions. Some of the major union sponsors of withdrawn social resolutions (*n* = 88) include AFL-CIO, GBPUMC, and International Brotherhood of Teamsters. The resolutions filed by unions demonstrated that unions concentrated their social activism on workplace standards and antidiscrimination policies. Finally, special interest groups were the least frequent institution type in the withdrawn social resolution sample (*n* = 51). The major special interest shareholder activists were People for the Ethical Treatment of Animals (PETA), The Humane Society of the US, and Pro Vita Advisors.

This section reported the findings on the landscape of shareholder activism via filing resolutions over the time period of 1997 and 2011. The section presented major issues, sponsors, and outcomes of all shareholder resolutions in general and social resolutions and withdrawn social resolutions in specific. Further, the section reported the results of the content analyses of the withdrawn social resolutions with a focus on major types of issues addressed and major types of changes requested in these resolutions. The next section reported the results of hypotheses testing for the two theoretical models of the study.

## Study 2: Theoretical Model Testing Findings

The previous section provided a clear picture of shareholder resolutions filed between 1997 and 2011. This section reports the results of a series of probit analyses that tested the factors that affect the probability of withdrawing a social resolution through a set of hypotheses.

## Withdrawal Probability of a Social Shareholder Resolution

Prior research (e.g., Carleton et al., 1998; Del Guercio & Hawkins, 1999; Lee & Lounsbury, 2011) documented that a withdrawal indicates that corporation and the shareholder activists were engaged in a conversation about the issue and they were able to reach an agreement prior to the resolution going to a vote among all shareholders at the annual meeting. The first theoretical model in this dissertation aimed to test the factors that affect the probability of withdrawing a social resolution. Table 8 reports the descriptive statistics of variables in the model.

***Insert Table 8 Here***

Table 8 displays that, in the sample, 29.5% of the social shareholder resolutions were withdrawn (*n* = 1,017). In relation to the issue type, the withdrawal rate was 14.8% for the environmental issue-oriented resolutions while this rate was 7.5% for the community issue-oriented resolutions. In the sample, 11.2% of the corporations were in the environmentally committed category (as measured by KLD corporate social performance values) while 26.6% of the corporations were in the community committed category.

The table also shows that descriptive statistics for the control variables in the model. The average total assets of corporations in the sample were $87.72 billion. The smallest corporation had total assets of $119.84 million while the largest company in the sample had $267.95 billion. This allows for testing the research hypotheses in a sample with wide variation in company size. Studies in the management literature were followed to construct corporate-level financial variables (Eesley & Lenox, 2006; Kacperczyk, 2009). The mean market leverage (company debt) was 39.1%. In this study, the model also accounted for stock price performance by including annual stock return. The mean stock return was 12% and there was a large variation in stock returns surrounding the mean (*SD* = .39%). The mean of growth opportunities of corporations, the ratio of market value to book value of the corporation, was 1.989 (*SD* = 1.25) and ranged between 0.60 and 8.98. The wide variation in corporate growth opportunities allows accounting for the effect of growth opportunities on the outcome of shareholder resolutions. The corporations in the sample were typically profitable. The ratio of profitability ranged from -.24 to .43 (*M* = 0.15, *SD* = 0.08). Furthermore, the average ratio of cash holdings (financial slack) to total assets was 11.6%.

Table 9 reports the pairwise correlation coefficients of the relevant variables used to test H1-H4 in the first model. The pairwise correlations show a strong association between withdrawn resolutions and environmental commitment ($r = .057$, $p < .01$). The correlation between withdrawn resolution and community commitment was positive, but lacks statistical significance. Several factors might make this association between withdrawal resolution and community commitment insignificant, which will be further accounted for in the probit analyses. There was a significant correlation between withdrawn resolution and corporate sales ($r = -.133$, $p < .05$). The significant negative correlation between sales and withdrawn resolution suggests that small corporations were more responsive to shareholder resolutions. Overall, the finding is consistent with the literature that shows company size affects corporate responses to stakeholder activism (Eesley & Lenox, 2006; Kacperczyk, 2009; den Hond & de Bakker, 2007). There was a positive association between withdrawn resolution and company debt, suggesting that target corporations with greater debt are more responsive to social shareholder resolutions. These findings are largely consistent with the initial prediction that corporate-level financial variables affect withdrawal agreements and confirmed the decision to control for corporate-level financial variables in the research designs.

***Insert Table 9 Here***

Regarding the type of withdrawn resolution, there was a positive and statistically significant correlation between withdrawn environment resolution and environmental commitment ($r = .033$, $p < .01$). This association suggests that corporations with a high level commitment to the natural environment were more likely to have withdrawal outcomes on the shareholder resolutions concerning environmental issues. There was a significant association between withdrawn community resolution and community commitment ($r$ = .073, $p$ < .05). That is, corporations with a high level commitment to community were more likely to have withdrawal outcomes on the shareholder resolutions concerning community issues. Having presented the descriptive statistics and pairwise correlation analyses of the variables, the next section addresses the hypotheses of the first theoretical model. The formal hypotheses were restated before reporting the results in order to refresh the reader's memory.

*Impact of corporate stakeholder commitment.* The first set of research hypotheses focused on the relationship between corporate stakeholder commitment and the likelihood of a shareholder resolution to be withdrawn. As discussed earlier, studies in the management literature established that corporate social performance can be best evaluated by a given corporation's commitment to its stakeholders (Clarkson, 1995; Wood, 1991). To examine this relationship, the first research hypothesis was posited as the following:

> **H1:** Social resolutions filed at corporations with high levels of community commitment will be more likely to be withdrawn than the ones filed at corporations with low levels of community commitment.

The first hypothesis predicted that corporate commitment to community—one of the major institutional stakeholders of a corporate organization—had an impact on the withdrawal outcome of a social shareholder resolution. H1 was supported.

Table 10 reports the results from probit analysis models including marginal effects and associated $p$ values. It should be noted that the marginal effects indicate a change in the probability of withdrawal in response to one standard deviation increase relative to the mean of the independent continuous variables. Regarding a dummy independent variable, the marginal effect represents the difference in the distribution function when the independent variable changes from zero to one. The results show significant effects of corporate community commitment on the withdrawal outcome. Specifically, the table shows that corporations that had higher social performance values in the community dimension (community commitment) are 5.4% more likely to withdraw a social resolution than corporations with lower social performance values ($p$<0.05). This is an increase of 18.4% relative to the sample average of withdrawal ratio (0.29). This finding suggests that target corporations with high levels of community commitment were 18.4% more likely to engage with social shareholder activists and reach at a withdrawal agreement with social shareholder resolutions than those with low levels of community commitment.

***Insert Table 10 Here***

The second hypothesis focused on the impact of corporate environmental commitment on the probability of withdrawing a social shareholder resolution. More formally, the hypothesis posited that,

> **H2:** Social resolutions filed at corporations with high levels of environmental commitment will be more likely to be withdrawn than the ones filed at corporations with low levels of environmental commitment.

In the similar vein, the second research hypothesis predicted that corporate environmental commitment would affect the likelihood of withdrawing a social shareholder resolution. H2 was supported.

Table 11 reports the results from probit analysis and shows a significant effect of environmental commitment on the likelihood of withdrawing a social shareholder resolution. Specifically, the model indicates that resolutions filed at corporation with a high level of environment commitment are 8.0% more likely to be withdrawn ($p$<0.01). This is an increase of 27.1% over the sample mean (0.295). The finding suggests that target corporations with high levels of environmental commitment were more likely to engage with social shareholder activists and reach at an agreement than those with low levels of environmental commitment.

***Insert Table 11 Here***

*Impact of types of issues.* The next hypothesis directed the focus to the issue-level factors that might affect the withdrawal outcome of a social shareholder resolution. The research hypothesis was posed as the following:

> **H3:** Resolutions that raised an environmental issue will be more likely to be withdrawn than the ones that raised other social issues.

H3 was supported. Table 12 displays the results from the probit analysis and shows a significant effect of issue type on the likelihood of withdrawing a shareholder resolution. More specifically, the analysis indicates that environmental issue-oriented resolutions are 83% more likely to be withdrawn than social issue resolutions ($p$<0.01). This finding suggests that corporations and social shareholder activists were more likely to engage and reach at a withdrawal agreement on an environment oriented-issue resolution than a social issue one.

***Insert Table 12 Here***

*Impact of types of sponsors.* Next, the attention was directed to the sponsor-level factors. Research hypothesis four predicted the effect of sponsor type on the withdrawal outcome by focusing on public pension funds. The hypothesis reads that,

> **H4:** Social resolutions sponsored by public pension funds will be more likely to be withdrawn than those sponsored by other institutional shareholder activists.

H4 was supported. Table 13 presents the results from probit analysis. Consistent with the literature (e.g., Del Guercio & Hawkins, 1999; Monks et al., 2003), the analysis indicated a significant effect of being public pension fund on the withdrawal outcome of a social shareholder resolution. Specifically, the model shows that public pension funds 6.5% are more likely to withdraw a resolution than other types of sponsors ($p < 0.1$). This is an increase of 22.0% over the sample average (0.295). The finding suggests that social shareholder resolutions filed by public pensions were more likely to withdrawn than the ones filed by other sponsors.

***Insert Table 13 Here***

In order to account for the effect of corporate-level financial variables, the natural log of company size, financial performance, sales, and cash were taken and included in the probit models (H1-H4). Table 10-13 show that corporate-level financial indicators (control variables) also influenced the withdrawal decisions. Notably, large corporations were less likely to reach at withdrawal agreements with social shareholder activists in general. Thus, controlling for financial indicators improved the robustness of the model.

**Implementation Level of a Withdrawn Social Shareholder Resolution (Model 2)**

This section reports the results of research hypotheses that analyze the factors that influence the implementation level of a withdrawn social resolution. The main dependent variable of interest here is the level of implementation of a proposed change in a withdrawn shareholder resolution. The hypotheses in Model 2 aimed to examine the factors that might affect a target corporation's implementation level of a sustainability-reporting request made in the withdrawn social shareholder resolutions. Essentially, the research design examined whether and to what extent target corporations actually implemented a requested change after reaching a withdrawal agreement with sponsoring social shareholder activists. Table 14 displays descriptive analysis of the variables in the model.

***Insert Table 14 Here***

The table shows that, between 1997 and 2011, targeted corporations of sustainability reporting resolutions implemented the request on average ($M$ = 2.281, $SD$ = 1.168). Nearly 11% of the target corporations implemented the sustainability reporting shareholder request at the highest level by fully complying with GRI sustainability reporting standards and creating a CSR or sustainability unit in their organizations.  Of the subsample of corporations that received sustainability-reporting requests, 12.4% of them were in the environmentally committed category—that is, they had higher values in the corporate environmental performance dimension. Of the subsample of corporations that received sustainability-reporting requests, 13.5 % of them were in the community-committed category—that is, these corporations had higher values in the corporate community performance dimension. Public pension funds filed 32 sustainability-reporting resolutions, with the level of implementation mean 2.905 on the target corporation's part. This value was higher than the sample average ($M$ = 2.281). Socially responsible investing funds (SRI) filed 44 sustainability-reporting resolutions, with a 2.022 mean of level of implementation on the target corporation's part.

To further assess the research hypotheses, a series of OLS regression analyses was performed. Variance Inflation factor (VIF) was computed to detect presence of collinearity among the variables. To avoid any possible collinearity problem whereby two variables in a matrix are perfectly correlated (Mella & Kopalle, 2002; Stewart, 1987), environmental commitment and community commitment were entered into the analysis in different models.

*Impact of corporate stakeholder commitment.* At corporate-level, the model focused on the impact of corporate stakeholder commitment to community and environment. More specifically, the research hypothesis five predicted that,

> **H5:** Withdrawn social resolutions filed at corporations with high levels of community commitment will be more likely to be implemented at a greater level than the ones filed at corporations with low levels of community commitment.

Table 15 reports the results of the regression analysis on the level of implementation tested in four different models (Model 1-4).

***Insert Table 15 Here***

Table 15, Model 1, shows the effect of corporate community commitment on the level implementation. The coefficient estimate for corporate community commitment is positive ($\beta$ = 0.582) but lacks significance ($p$>0.1). H5 was not supported. This model continues to find significant effects of oil-petro chemical industry classification ($\beta$ =. 0.851, $p$<0.1) and public pension fund ($\beta$ = 0.818, $p$<0.01) on the implementation level, $R^2$ = .166, $F$ = 1.026, $p$<0.1.

In a similar vein, research hypothesis six predicted the impact of corporate commitment to the environment on the implementation level of sustainability reporting request. More formally, the hypothesis stated that,

> **H6:** Withdrawn Social resolutions filed at corporations with high levels of environmental commitment are more likely to be implemented at a greater level than the ones filed at corporations with low levels of community commitment.

Table 15, Model 2, shows significantly strong effects of environmental commitment on the level of implementation ($\beta$ = .614, $p$<0.1). H6 was supported. Specifically, resolutions for environmentally committed corporations increase the implementation level by 0.614, corresponding to 27% increase relative to mean level of implementation (2.281). The finding suggests that corporations that had higher social performance with regard to the natural environment (environmental commitment) produced sustainability reports at greater levels after reaching at withdrawal agreements with social shareholder activists. This model shows significant effects of oil-petro chemical industry classification ($\beta$ =. 0.891, $p$<0.1) and public pension fund ($\beta$ = 0.748, $p$<0.05) on the implementation level, $R^2$ = .171, $F$ = 1.827, $p$<0.1.

Additionally, Model 3- 4 examines the effect of community commitment on the level implementation entering the SRI sponsor type variable in the model (Table 15). Similar to Model 2, the coefficient estimate for community commitment is positive ($\beta$ =

0.573) but lacks significance ($p$>0.1). This model continues to find significant effects of oil-petro chemical industry classification ($\beta$ =. 0.855, $p$<0.1) and public pension fund ($\beta$ = 0.767, $p$<0.05) on the implementation level. As such, community commitment did not seem to a significant predictor of implementation level in these models. Thus, the analysis suggested that corporate environmental commitment was a better predictor of a corporation's implementation level of a sustainability-reporting request than corporate community commitment.

*Impact of industry classification.* The research model also tested the effect of industry category of a target corporation on its implementation level of a withdrawn sustainability-reporting request. The research hypothesis seven posed the following:

> **H7:** Withdrawn social resolutions filed at corporations within the petro-chemical industry are more likely to be implemented at a greater level than the ones filed at corporations within other industries.

H7 was supported (Table 15). Specifically, the results from the regression analysis in Model 2 indicated that target corporations in oil and gas industry were more likely to implement sustainability reporting at a higher level than the corporations in other industries ($\beta$ = .891, $p$<0.1).

*Impact of types of sponsors.* Finally, the analysis tested the effect of sponsor type on the implementation level of a withdrawn resolution that requested target corporations to issue a sustainability report. The research hypothesis eight stated:

> **H8:** Withdrawn social resolutions sponsored by public pension funds will be more likely to be implemented at a greater extent than the ones filed by other shareholder activists.

H8 was supported (Table 15). The results indicated that sustainability reporting resolutions sponsored by public pension funds generated higher levels of implementation ($\beta$ = .748, $p$<.05). Specifically, the implementation level increased by 0.748 when a public pension fund sponsors a resolution, corresponding to 33% increase relative to the mean level of implementation (2.281). In other words, target corporations produced sustainability reports at a greater level when the request was made by public pension funds. Overall, Model 2 explained 17% of the variance in a target corporation's implementation level of a withdrawn sustainability reporting shareholder resolution, $R^2$ = .171, $F$=1.021, $p$<0.05.

Further, the researchers computed a variety of OLS regression analyses including different combinations of the variables used in the research model. Table 16 displays the results from the regression models and standard coefficients. Model 5 and Model 6 excluded the industry classification variable. The effect of public pension continues in this model as well ($\beta$ = 0.782, $p$<0.01). Model 5 was significant, $R^2$ = .133, $F$ = 1.003, $p$<0.1. However, this model explained less variance (13%) than the original model with the industry classification variable.

***Insert Table 17 Here***

After computing various models, it was concluded that Model 1 explained the most variance (17%) on the level of implementation of a sustainability-reporting request in a withdrawn social resolution. Results suggested that corporations with high-level commitment to environment and corporations in the petro-chemical oil and gas industry implemented the sustainability-reporting shareholder request at a greater level. Also, corporations implemented the sustainability-reporting request at a greater level when public pension sponsors made the request.

## Study 3: Case Study Findings

To gain a deeper insight into whether and to what extent target corporations implement proposed changes in the withdrawn social shareholder resolutions, an illustrative case study was conducted (Yin, 2011). The study presented a *critical case* (Yin, 2011, p. 40) to traditional shareholder view demonstrating several structural, procedural, and communication-based changes implemented by a target corporation as a response to social shareholder pressures. Specifically, the case described developments surrounding a withdrawn social shareholder resolution on climate change (an environmental issue-oriented resolution type) filed by New York City Pension Fund at CONSOL Energy Inc. (NYSE: CNX)—an energy corporation in the coal mining and natural gas production sector.

## The Case: CONSOL Energy Inc. and New York City Pension Funds

On November 25, 2008, Jerome Richey, the General Counsel and Corporate Secretary of CONSOL Energy, Inc. (www.consolenergy.com), received a shareholder letter from Thomas P. DiNapoli at New York City Pension Funds (NYC funds)[7]. In the letter, DiNapoli informed the company that the NYC funds were sponsoring a resolution on corporation's responses to climate change (DiNapoli, T. P., Letter to Jerome Richey, November 25, 2008). Attached to the letter was a copy of the resolution. The resolution consisted of a series of *whereas* clauses followed by a

[7] There are five NYC funds: New York City Board of Education Retirement Systems (BERS); New York City Employees' Retirement System (NYCERS); New York City Fire Department Pension Fund (Fire); New York City Police Pension Fund (Police); New York City Teachers' Retirement System (TRS).

*resolved* clause. The whereas clauses discussed the importance of the issue and benefits of corporate disclosures. The resolved clause stated:

> RESOLVED: The proposal requests a report (reviewed by a board committee of independent directors) on how the company is responding to rising regulatory and public pressure to significantly reduce the social and environmental harm associated with carbon dioxide emissions from the company's operations and from the use of its primary products.

As such, the first step of shareholder activist-corporate engagement, which is called "jawboning" (Carleton et al., 1998, p. 41), took place. The shareholder letter to the targeted corporation was sent to the corporation, explaining why the corporation was targeted and what action the institution requests from the targeted corporation.

Indeed, the NYC funds have recently increased its role in social shareholder activism (Tkac, 2006; Sjorstrom, 2008). Comptroller of the NYC Funds explained the funds' role in social shareholder activism as the following:

> The New York City Pension Funds have been at the fore of shareholder activism in pressuring many of America's largest companies to improve workplace condition, protect the environment, promote human rights abroad, and adhere to accepted corporate governance standards. (*US Feds News*, 2008, para. 9).

Meanwhile, the NYC resolution found some coverage in news media. On February 23, 2009, *Natural Gas Intelligence*, a trade magazine, published a news story, mentioning CONSOL Energy as one of the "offenders" of Climate Change initiatives (para. 1). The story also featured an extensive coverage of the New York City Pension Funds' shareholder activism. Comptroller Thompson, "whose office oversees $115 billion in pension fund assets” (para. 2) was quoted to say that ‘Investors require full and transparent disclosure of the actions companies are taking to address the risks and opportunities of climate change, so that they can make informed investment decisions’ (para. 3). More importantly, the story covered the NYC’s CONSOL resolution noting that, “The New York City Pension Funds filed a resolution with CONSOL Energy requesting a report on how the company is responding to regulatory and competitive pressures to reduce greenhouse has (GHG) emissions” (para. 5).

CONSOL Energy Inc., headquartered in Pittsburg, Pennsylvania with over 9,000 employees and $5,236 billion revenues (10-K CONSOL Energy, 2012), first took an adversarial approach and filed a no-action letter to the SEC on January 6, 2009 to exclude the resolution from its proxy materials through a private attorney (Davis, L. U. Letter to Division of Corporate Finance SEC, December 30, 2008). In the nine-page letter, Attorney Davis explained that, under rule 14a-8(i)(7), the SEC should grant the no-action relief for CONSOL because the resolution related to “an internal assessment of the risks or liabilities that the company faces as a result of its operations that may adversely affect the environment or the public's health” (p. 4). Davis also provided several arguments by giving examples from the SEC’s no-action decisions in the past.

On February 23, 2009, the SEC responded to CONSOL’s no-action request allowing the corporation to omit the NYC resolution from its proxy materials (Maples, H. L. Letter to Davis, L. U., February 23, 2009). As such in 2009, the NYC Funds’ resolution requesting a report from CONSOL Energy on how the corporation responded to climate change concerns was found to be “an internal assessment” that relates to ordinary business operations of the corporation.

In 2010, the NYC funds filed the same resolution at CONSOL. This time, the resolution was withdrawn by the NYC before the annual meeting because the corporation agreed to “adopt reforms to address risks long-term associated with climate change or poor environmental practices” and “provided substantial information on its R&D projects aimed at reducing carbon emissions” (The 2010 NYC Funds Shareholder Proposal Programs, p. 18). The NYC funds announced the withdrawal in its 2010 Postseason Reports on the Shareholder Proposal Programs of the New York City Pension Funds and Retirement Systems.

The NYC Funds mentioned the withdrawals as “achievements” (Comptroller John Liu, Letter to NYC Trustees, December 2, 2010, p. 1). In the letter, the Comptroller summarized the shareholder activism in both governance and social issues arguing that,

> In 2010 the New York City Funds continued to be leaders in advancing corporate governance and responsibility reforms at dozens of portfolio companies. Several of these reforms also became requirements of all public companies as a result of recent legislation and regulation, further demonstrating the Funds’ leadership and impact. (NYC Funds Postseason Report, 2010, p. 1).

The 2010 Postseason Report also featured detailed information on the shareholder resolutions filed by the NYC Funds with their outcomes as well as the names of the targeted companies. The report included the resolution with CONSOL under the “Social and Environmental Issues-Proposals” category (p. 13). The outcome of the resolution was reported as withdrawn, noting “company provided substantial information on its R&D projects aimed at reducing carbon emissions” (p. 13).

The NYC Funds noted the withdrawal reason as company's commitment to reduce carbon emissions. However, this report was an internal communication document. Consistent with previous cases studied on public pension funds activism (e.g., Carleton et al., 1998; Del Guercio & Hawkins, 1999), the NYC Funds kept the withdrawal process private. An analysis of the organizational website and media coverage did not yield any information about the nature and the process of the withdrawal.

*Implementation of Changes at CONSOL Energy Inc.* On March 26, 2012, CONSOL Energy produced its first corporate responsibility report that captured activities undertaken in 2011 (PRNewswire, 2012). The report outlined its environmental responsibility activities and listed information on its greenhouse gas and air emissions (CONSOL 2011 Corporate Social Responsibility Report, pp. 26-33). The report devoted four pages on greenhouse gas and air emission reporting the metrics on coal emission intensity and gas emission intensity. In addition, the report detailed the Research and Development (R&D) efforts to develop strategic technology for business operations with "smaller environmental footprints" (p. 49).

Brett Harvey, the chairman of the company, introduced the report in his CEO letter to public as the following:

> CONSOL Energy's first corporate social responsibility report has been created to clearly communicate who we are, what we believe, and how we conduct our business. You will see that CONSOL Energy is no stranger to the concept of responsible business practices. Responsibility is a fundamental principle that has driven CONSOL Energy's actions since its inception nearly 150 years ago.

> Further, this report demonstrates just how strongly the company's ethics and core value—Safety, Compliance, and Continuous Improvement—influence the business decisions CONSOL Energy makes every day. (CONSOL Energy 2011 Corporate Social Responsibility Report, CEO Letter, para. 3).

In closing the letter, Harvey noted that this report would serve as "an invitation to a continuing dialogue with our partners, employees and the communities in which we operate" (CEO Letter, para. 6). In the content index of the report, it was noted that the Report was based on the Global Reporting Initiative (GRI) G3.I reporting guidelines. A verification search on the GRI's Disclosure Database for CONSOL Energy's Corporate Social Responsibility Report indicated that the company reported based on GRI's G3.1 framework (database.globalreporting.org/reports/view/9665). However, CONSOL did not provide any information on the Application Level of the report.

Most notably, in 2011 the CONSOL created a new position and hired Katharine Fredriksen as vice president of *Environmental Strategy and Regulatory Affairs* (Litvak, 2011). Fredriksen seems to have a relevant academic and professional background for consulting the company on environmental issues. Fredriksen has a bachelor's degree in Marine Biology and a MS (abd) in Civil and Environmental Engineering from Texas A&M University. Before joining to CONSOL, Fredriksen worked as a Senior Policy Advisor to the Secretary on environmental and energy issues at the U.S. Department of Treasury, as an Environmental Protection Specialist at the U.S. Environmental Protection Agency, and as a Director of Environmental and Regulatory Affairs at Koch Industries (Forbes Profiles, 2013). Fredriksen was responsible for the publication of CONSOL's first Corporate Sustainability Report (Litvak, 2012).

On April 1, 2013, CONSOL published its second Corporate Social Responsibility Report covering the corporate activities undertaken in 2012 (PRNewswire, 2013). The 2012 report was more robust than the 2011. The report followed the GRI's G3.1 Reporting Guidelines by providing Profile Disclosures and Management Approach Disclosures as well as 17 Performance Indicators. A verification search on the GRI's Disclosure Database indicated that CONSOL's the 2012 Corporate Social Responsibility Report was reported at the B medium- level (http://database.globalreporting.org/reports/view/9665).

The report also provided more specific information on air and greenhouse gas emissions (CONSOL 2012 Corporate Social Responsibility Report, pp. 40-46). Indeed, an analysis of the 2012 Corporate Annual Report indicated the company spent $267.4 million on environmental compliance (CONSOL 2012 Corporate Annual Report, p. 32). The corporate R&D efforts coordinated collaborations to replace half of the normal diesel fuel requirements with natural gas (CONSOL 2012 Corporate Social Responsibility Report, p. 48). In addition, the corporation has received several awards (e.g., Virginia Reclamation Award) and recognitions for its environmentally responsible practices, which were shared with media via news releases (Gough, 2013).

This case study thus illustrated that a social shareholder resolution might have triggered a series of progressive changes in a target corporation's social and environmental practices. Overall, the critical case study suggests that societal pressures exerted by shareholders can push corporations to make institutional arrangements even though making these arrangements may not be economically rational in terms of cost-effective analysis (DiMaggio & Powell, 1983; Galaskiewicz, 1991). More specifically, the case showed that a social shareholder resolution can engage a target corporation in an environmental issue, leading the corporation to implement structural, procedural, and communication-based changes within the organization. Implications of the case study for the concept of organizational legitimacy will be further discussed.

**Summary of Findings**

In Study 1, all shareholder resolutions, social shareholder resolutions, and withdrawn social resolutions were analyzed respectively. The results of the descriptive analysis of all shareholder resolutions filed at U.S. publicly traded corporations between 1997 and 2011 showed that shareholders filed total 14,271 resolutions during the 14-year period. On average, 951 resolutions were submitted each year. The major types of institutional shareholders that filed resolutions were public pension funds, unions, socially responsible investing (SRI) funds, religious organizations, and special interest groups.  Between 1997 and 2011, unions were the most active shareholders, filing 45 percent of all shareholder resolutions (including corporate governance and social resolutions), followed by religious groups (24%). The analysis on the outcomes of all shareholder resolutions showed that roughly half of the resolutions were taken to a vote (42%). Overall, there was low support for shareholder resolutions (3%). The percentage of resolutions that were withdrawn (24%) was higher than the percentage of those that were omitted by the SEC (18%).

After analyzing all shareholder resolutions, the analysis focused on social shareholder resolutions filed by institutional shareholders between 1997 and 2011. Institutional shareholders filed 4,527 resolutions that were devoted to social issues. Social shareholder resolutions constituted 32 percent of the total sample. In terms of the outcomes, social shareholder resolutions had relatively more voted and withdrawal outcomes than the omitted ones. Social resolutions sponsored by public pension funds received the most withdrawal outcomes, followed by SRI funds.

In the next step, the attention was directed to withdrawn social resolutions ($n$ = 1,017). The withdrawn social resolutions were of interest for the dissertation because a withdrawal outcome implies an engagement and possibly an agreement between sponsoring shareholder activists and targeted corporations on the social issue under consideration (Carleton et al., 1997; Del Guercio & Hawkins, 1999; Guay et al., 2004; Logsdon & van Buren, 2008; Proffitt & Spicer, 2003). The findings of content analysis of the withdrawn social resolutions suggested that social issues addressed by shareholder resolutions ranged widely and varied greatly in the intensity of attention they received. Social issues that were prevalent in the social shareholder resolutions were analyzed under six categories: community, environment, diversity, human rights, employee relations, and product responsibility. The most common type of issue addressed in the withdrawn social resolutions was environment (41%) followed by community (21%). In the environment category the most prevailing issue was environmental sustainability. In the community category, the issue of corporate political contributions and lobbying was the most prevalent. In the withdrawn social shareholder resolutions, shareholder activists more frequently asked for communication-based changes, such as reporting and labeling (57%) than policy/procedural changes, such as adopting a sexual orientation antidiscrimination policy (33%), or structural changes, such as establishing a board of committee or adopting a policy (10%). The analysis on sponsor types demonstrated that public pension funds were the most prominent filers of withdrawn social resolutions (34%), followed by SRI funds (29%).

In Study 2, two theoretical models were tested. The research hypotheses on the probability of withdrawing a social shareholder resolution in Model 1 were addressed through a set of probit analyses. Controlling for corporate financial characteristics (e.g., company size, profitability), corporate community commitment and corporate environmental commitment affected the withdrawal probability of a social shareholder resolution. H1 and H2 were supported. More specifically, target corporations that a had high level of commitment to community and environment, as measured by CSP values, were more likely to reach withdrawal agreements with shareholder activists on social resolutions. The results from the probit analysis on the impact of types of issues further indicated that there was a strong relation between a resolution addressing an environmental issue and its likelihood of being withdrawn. H3 was supported. The finding suggested that shareholder resolutions that raised environmental issues were more likely to be withdrawn than those that raised other social issues, such as community, diversity, and human rights. Collectively, the results of the analysis indicated the importance of environmental issues for initiating social shareholder activist-corporate engagement. Further, the findings showed that social resolutions submitted by public pension funds were more likely to be withdrawn than those submitted by other sponsor types such as religious groups, SRI groups, unions, and special interests. H4 was supported. This finding suggested that public pension funds might induce more positive corporate responses than other sponsor types to the social issues addressed in the shareholder resolutions. Figure 17 presents the empirical results from the probit analysis in Model 1 (Probability of Withdrawal).

***Insert Figure 17 Here***

In Model 2, the attention was directed to the factors that predict the implementation level of a withdrawn social resolution. To test the research hypotheses (H5-8), withdrawn social shareholder resolutions that asked corporations to issue sustainability reports were used as a sample (*n* = 89). A somewhat unexpected finding of this study was that corporate community commitment did not affect the implementation level of a sustainability-reporting request. H5 was not supported. On the other hand, corporate environmental commitment was found to be a significant predictor of the level of corporate sustainability reporting. H6 was supported. This finding suggested that corporate environmental commitment can explain more variance in the implementation level of a sustainability-reporting request made in the social shareholder resolutions than corporate community commitment. Further, the analysis found that targeted corporations in the petro-chemical oil and gas industry were more likely to implement a sustainability-reporting request at a greater level than the corporations in other industries. H7 was supported. Also, corporations implemented sustainability-reporting requests at a greater level when public pension sponsors made the request. H8 was supported. Overall, the model explained 17 percent of the variance in a target corporation's implementation level of sustainability reporting requests in a withdrawn social resolution. Figure 18 presents the empirical results from OLS regression analysis for Model 2 (Implementation Level).

***Insert Figure 18 Here***

Finally, in Study 3, the case showed that a corporation targeted by a climate change resolution implemented a series of structural, procedural, and communication-based changes. Following the withdrawal, the corporation, CONSOL Energy Inc., first created a new position on the environmental issues—a boundary-spanning role (Aldrich & Heker, 1977; Rao & Sivakumer, 1999) and produced the corporation's first sustainability report. Further, the corporation sought for external endorsement by obtaining awards and certifications regarding its environmental responsibility to enhance its organizational legitimacy (Deephouse & Suchman, 2008; Meyer & Rowan, 1977). The case study suggested that societal pressures exerted by shareholders can induce target corporations to make institutional arrangements within the organization even though making these arrangements may not be economically rational in terms of cost-effective analysis (Deephouse & Suchman, 2008; DiMaggio & Powell, 1983; Galaskiewicz, 1991; Meyer & Rowan, 1977). A number of theoretical and practical implications have emerged in interpreting the results with respect to research questions and hypotheses.

# CHAPTER SIX: DISCUSSION

The previous chapter presented the results the descriptive and content analyses of shareholder resolutions filed between 1997 and 2011 ($N$ = 14, 271) have identified major types of social issues addressed in the resolutions, the major institutional sponsor types, and the outcomes of these resolutions. The results of the research on corporate responses to social shareholder activism via resolution filing were presented. Two theoretical models have pointed out the effects of corporate stakeholder commitment, industry classification, issue type, and sponsor type on withdrawal outcomes and implementation levels of social resolutions. Further, the case study has helped to illuminate how a target corporation implemented a proposed change in a withdrawn social resolution. This chapter interprets and discusses the findings in relation to the research questions and hypotheses. The chapter consists of six sections. The first section discusses some of the important findings of the study in relation to the literature with a focus on the social issues voiced in the resolutions. The second and third sections discuss theoretical and practical contributions, respectively. The fourth section suggests implications of the study for public relations theory and research. The fifth section acknowledges the limitations of the study. Finally, the last section suggests directions for future research.

## A Societal Approach to Social Shareholder Activism

Ferguson (1984) identified social responsibility and social issues as two of the three major research areas of public relations. This dissertation examined social issues voiced by one type of stakeholder—shareholders—and investigated corporate responses to social shareholder activist demands for improved corporate social responsibility.

From a societal view, this dissertation contends that public relations is primarily concerned with social issues and values that are considered publicly relevant which means relating to the public sphere (Bentele & Nothhaft, 2010; Holmstrom, 2004; Jensen, 2002). As such, public relations facilitates reaching agreements on mutually acceptable social expectations emerged in the public sphere through engagement. The societal view to public relations considers organizational legitimacy as a rationale for practicing public relations (Ihlen & Van Ruler, 2009; Holmstrom, 2004, 2005; Vercic et al., 2001). Grounded in this societal view to public relations, this dissertation explained corporate responses to social shareholder activism through the theoretical lens of organizational legitimacy.

Such a societal approach allows theorizing how organization-stakeholder engagements, as a whole, can contribute to the betterment of society in the 21st century. The concept of public sphere plays a central role as organizational legitimacy largely rests in public perceptions, which continuously change (Holmstrom, 2004; Suchman, 1995). Public sphere suggests a discursive, dynamic process that takes place in complex interactions between organizations, institutions, individuals, and groups (Habermas, 1989; Holmstrom, 2009; Jensen, 2002; Raupp, 2004). Public sphere has been considered as mirror that helps society observe itself (Raupp, 2004). This metaphor implies that public sphere is not identical with society but a reflection of it. As discussed earlier, Bentele and Nothhaft (2010) described public sphere as a "supra-institution" which is concerned "not only one single matter, such as finance, legality, welfare—it is concerned with all" (p. 106). Bentele and Nothhaft (2010) proposed one of the most applicable conceptualizations of public sphere in the 21st century.

According to Bentele and Nothhaft, public sphere is a network of points of interest that attracts a high communication density. This conceptualization emphasizes volatility and complexity of public sphere as it constantly evolves with the interactions of connected social actors. From this perspective, stakeholders are only one of the social actors in public sphere, which is dynamic and evolving (Benetel& Nothhaft, 2010; Self, 2010). The conceptualization of public sphere as a dynamic process that evolves through communication of social actors provides a coherent understanding of organizational legitimacy and the role of public relations in achieving it.

The concept of public sphere thus suggests a more inclusive framework to understand social shareholder activism because there may be some agents in the public sphere who cannot be identified as shareholding stakeholders but still affect or can be affected by the course of shareholder activism (e.g., NGOs, activist groups). The concept of public sphere also captures the "networking" among stakeholder groups and their interactions with organizations (Jensen, 2002, p. 144). In the context of social shareholder activism, people who are members of institutional shareholder organizations (e.g., public pension funds, unions) interact with other stakeholders in the public sphere cocreating meaning (Heath, 2006; Taylor, 2010) and framing issues (Burns, 1999; Snow et al., 1986) that are deemed important in the public sphere. These members pressure their asset management organizations to invest their money in a more socially responsible way. Institutional shareholders in turn pressure corporations in which they have ownership stakes. Having a direct access to corporate boardrooms, shareholder activists thus function as a catalyst that connects corporate managements to public issues that emerge in public sphere.

The concept of public sphere can contribute to theorizing efforts in management disciplines as well. In particular, with the increasing scholarly attention in corporate responses to social movements in recent management literature (e.g., Eesley & Lenox, 2006; Lee & Lounsbury, 2011; Reid & Toffel, 2009), the concept of public sphere, with its emphasis on interconnectivity and dynamism of publics, can advance theory-building efforts. This emphasis on public sphere can shift the focus from the issues brought up by primary stakeholders (Clarkson, 1995) or salient stakeholders (Mitchell et al., 1997) to the issues that arise from the public sphere as a result of high communication intensity caused by interconnected social actors. Reductionist approaches to stakeholder relationships prevent organizations from addressing the complex expectations and demands of society at large. This dissertation argues that, moving beyond dyadic conceptualizations, organization-stakeholder relationships should be conceptualized as an interaction within the public sphere that involves local and global actors (Bentele & Nothhaft, 2010; Jensen, 2002; Self, 2010).

*Social shareholder resolutions: Transferring public sphere*. For many social activist organizations, filing shareholder resolutions is another tool to supplement a broader campaign about an issue such as climate change, global warming, or human rights (Graves et al., 2001; Rehbein et al., 2004; Tkac, 2006). Thus, important issues of the day that concerned a majority of the public are likely to be brought to the corporate attention. As such, social shareholder resolutions transfer the prevalent social issues from public sphere to corporate boardrooms.

Bentele and Nothhaft (2010) lamented that issues that generated a high level of communication in the public sphere do not always transfer to the policy-making mechanisms in society. This study suggests that social shareholder resolutions not only voice some of the pressing issues that concerned the public sphere, but also they have the potential to transfer these issues to the relevant institutional mechanisms for policy making. For example, this study showed an increasing shareholder demand for corporate political contribution disclosure. Corporate contributions to political parties, candidates or other political campaigns have been a compelling issue that has become the topic of public discourse in recent years (Blumenthal, 2013; Bobelian, 2013; Confessore, 2013). Since the 2010 *Citizens United* Supreme Court ruling that freed corporations to spend their money directly on political elections, the effort to use shareholder activism to impose more transparent practices on corporations regarding their political contributions has accelerated. Indeed, a coalition of shareholder activists has mobilized elected officials and public pension funds to petition the Securities and Exchange Commission (SEC) to require publicly traded corporations to disclose all of their political donations (Confessore, 2013). The shareholder activist campaign (www.action.citizen.org) has published a petition that has gathered nearly 500,000 public comments, more than any petition in the SEC's history (Confessore, 2013). At the time of writing this dissertation, SEC officials have indicated that they would propose a new disclosure rule (Blumenthal, 2013; Bobelian, 2013; Confessore, 2013). This is a clear example of how shareholder activism can transfer issues from the public sphere to the institution that can develop policies.

However, in some cases, corporations might get ahead of other policy-making mechanisms such as governments. For example, the Human Rights Campaign, the leading activist group on gay rights issues, reported that many large public corporations, such as Chevron and IBM, have adopted antidiscrimination policies and provided equal treatment for LGBT employees even before the issue was picked up by the U.S. government (Gunther, 2008). KLD Social Ratings, an index designed to guide socially responsible investors, started rating corporations for their antidiscrimination based on sexual orientation polices as early as 1995 (KLD Social Ratings, 2013). Thus, shareholder resolutions on social issues not only mirror the public sphere but also may actively affect the course of the public policy making process.

*Moving beyond dichotomous stakeholder conceptualizations.* This dissertation studied one type of stakeholders—shareholders. By studying shareholders who challenged corporations to address social issues relevant to stakeholders, the dissertation calls into the question of who exactly is a stakeholder. While there is no universally definition of stakeholder, Freeman's (1984) definition of stakeholder as "any group or individual who can affect or is affected by the achievement of the firm's objectives" (p. 25) seems to be well accepted in the literature across management, organizational theory, and public relations. Traditionally, management literature treats the term stakeholder as a dichotomous concept—such as, internal versus external stakeholders (Freeman, 1984); institutional versus technical stakeholders (Jones, 1995); and primary versus secondary stakeholders (Clarkson, 1995). The phenomenon studied in the dissertation—social shareholder activism—has challenged this traditional dichotomous conceptualization of shareholders because the study showed that stakeholders can take on multiple roles and memberships at the same time.

The findings in this dissertation showed that some of the major U.S. institutional shareholders (e.g., CalPERS, New York City pension funds, Walden Asset

Management, International Brotherhood of Teamsters) filed resolutions to advocate for the interests of non-shareholding stakeholders. For example, the analysis showed that, only in 2011, New York State Common Retirement Fund filed 24 resolutions to get corporations to include sexual orientation clause in their Equal Employee Opportunity (EEO) statements. Social shareholder activism is thus a clear case in which the interests of shareholders are aligned with those of non-shareholding stakeholders. Social shareholder activism has challenged a previous understanding of stakeholders as homogenous groups with a single motivation and questioned the traditional conceptualization of non-shareholding stakeholders as opposite to shareholders.

Analyzing the social shareholder activism phenomenon, this dissertation argues that conceptualizing stakeholders in dichotomous terms is reductionist in that it constrains theorizing efforts in complex relationships between organization and stakeholders. In particular, with the advent of new media technologies the lines between stakeholder types seem to have blurred (e.g., internal vs. external stakeholders). Employees of a corporation can easily turn into activists as well as become shareholders by buying company stocks. Therefore, understanding organization-stakeholder relationships in today’s world requires more complex theoretical approaches.

*Social shareholder resolutions: “Canaries in the coal mine.”* Social shareholder activists often file resolutions to identify and define problems for corporations (Graves et al., 2004). Social shareholder resolutions can be considered as a first step in trying to improve corporate social responsibility policies and actions. In essence, by filing resolutions, social shareholder activists can signal an emerging expectancy gap (Sethi, 1979) between a corporation’s policies and practices and stakeholder demands. For example, issues of climate change and sexual orientation anti-bias policies have been brought up in the shareholder resolutions long before corporations begin to address or even acknowledge these issues. Social shareholder resolutions can thus offer an opportunity for corporations to identify an expectancy gap between a corporation and its stakeholders.

Social shareholder resolutions are closely related to organizational legitimacy. Essentially, through filing resolutions shareholders point out the social issues that concern stakeholders, who, in turn, affect the success and survival of organizations (Clarkson, 1995; Cutlip et al., 2000; Heath, 2006). Public relations scholars have pointed the importance of social environmental monitoring through constant communication with organizational stakeholders to create and maintain organizational legitimacy (Boyd, 2000; Heath, 2006; Holmström, 2005, 2009). Social shareholder resolutions can provide corporations a useful mechanism to monitor and sense their social environment. Results showed that social shareholder resolutions brought issues to corporate attention before these issues were picked up by the media and acknowledged by the governments, in other words, before these issues have become public. In particular, with the rise of engagement-based approach to social shareholder activism (Guay et al., 2002; MacLeod, 2009; Sjorstrom, 2008), corporations have a choice to address societal issues without any negative publicity (e.g., activist media campaigns, boycotts). Therefore, social shareholder resolutions can function as “canaries in the coal mine,” signaling corporations about stakeholder expectations and demands generated in public sphere. However, corporations can benefit from this opportunity if they listen to the proponents’ concerns and are willing to address the proposed changes.

*Corporate stakeholder commitment.* This dissertation suggested that one way to understand whether corporate organizations reflectively remain cognizant of their interdependence to the society of which they are a part was to evaluate corporations' commitment to their social and environmental responsibilities. Epstein (1972) argued that a corporation is regarded as legitimate if publics perceive it to be practically useful and socially responsible. In the same vein, Wood (1991) argued that the degree to which principles of social responsibility put into actions through stakeholder interactions can be an indicator to assess whether a corporation meets society's expectations. As such, corporate stakeholder commitment is closely related to organizational legitimacy.

Building on this link, this study tested the impact of corporate stakeholder commitment, as measured by corporate social performance values (Clarkson, 1995; Wood, 1991), on corporate responses to social shareholder resolutions. Examination of the relation between corporate stakeholder commitment and corporate responses to social shareholder activism provided an excellent context which allowed the researcher to evaluate the purpose of the corporation in society from the societal view on the public relations (e.g., Holmstrom, 2005, 2009, Ihlen et al., 2009; van Ruler & Vercic, 2004) as well as from the stakeholder theory in management (Clarkson, 1995; Freeman, 1984).

It is important to remember that, by law, a corporation is required to put resolutions to an advisory vote by all shareholders in its proxy statement. However, corporate managers have discretion regarding whether to engage with shareholder activists to settle on an agreement on the proposed changes (Carleton et al., 1998; Del Guercio & Hawkins, 1999; Guay et al., 2004). During the engagement process, if a sponsor is convinced that a target corporation is committed to take steps to implement the proposed changes in the resolution, the sponsor then withdraws the resolution from the proxy ballot. As such, it was important to understand the factors that influence corporations to pay attention to social shareholder activism.

This dissertation focused on corporate commitment to community and the environment—two major issues addressed in social shareholder resolutions—as one of the factors that might affect corporate responses to shareholder activism. As predicted in H1, the findings of probit analysis showed that corporations that had high levels of community commitment were 5.4 percent more likely to reach at withdrawal agreements with social shareholder activists than the ones with low levels of community commitment. Further, as predicted in H2, the findings demonstrated that corporate corporations that had higher levels of environmental commitment were 8 percent more likely to reach at withdrawal agreements with social shareholder activists than the ones with low levels of environmental commitment. Thus, the results suggested that, controlling for the effect of corporate financial indicators (e.g., size, profitability), corporations with high levels of commitment to community and environmental will be more likely to engage with social shareholder activists to address the social issue raised in the shareholder resolution. These findings are consistent with studies that showed that corporate stakeholder attention affected corporate responses to secondary stakeholders (e.g., activists, NGOs) (Eesley & Lenox, 2006) and the structure of corporate governance mechanism (Kacperczyk, 2009).

One conclusion that can be drawn from interpreting the results is that there is a link between corporate stakeholder commitment and corporations' willingness to engage with social shareholder activists. Shareholder activists, acting in their dual roles of stakeholder and shareholder, bring the social issues that concerned non-shareholding stakeholders to the attention of corporate managers. Corporations that have high stakeholder commitment are considered to have “frequent, high-quality interactions” (Carroll, 1999, p. 57) and intense communication (Suchman, 1995) with their stakeholders. Corporations that maintain healthy stakeholder interactions can be more likely to be open to address societal demands expressed by shareholders.

Theoretically, by addressing stakeholder needs and expectations through meaningful interactions, corporations acknowledge their interdependencies to the society. How a corporation considers its broader role in society and positions itself toward social issues will affect its day-to-day interactions with stakeholders. Corporate stakeholder commitment thus can predict corporate actions in the societal realm, including responses to social activism. For example, Starbucks has worked to maintain an upscale clientele and has positioned itself as a socially conscious and responsive company (Baron, 2003). The way that Starbucks handles shareholder activism is likely to differ from a corporation without such a position. For example, at 2013 Starbucks’ annual shareholder meeting in Seattle a shareholder complained to the chief executive, Howard Schultz, that “the company had lost customers because of its support for gay marriage” (Allen, 2013, para. 1). In response to the shareholder’s complaint, Schultz said:

> Not every decision is an economic decision. Despite the fact that you recite statistics that are narrow in time, we did provide 38% shareholder return over the last year. Having said that, it is not economic decision to me. The lens in

> which we are making that decision is through the lens of people. We employ over 200,000 people in this company, and we want to embrace diversity. Of all kinds… it's a free country. You can sell your shares in Starbucks and buy shares in another company. (Allen, 2013, para. 3).

As such, how a corporation positions itself in relation to society is likely to affect the ways in which this corporation interacts with its stakeholders—who can decide whether "the actions of an entity are desirable, proper, or appropriate within a social system" (Suchman, 1995, p. 574) and who have legitimacy-determining power (Dowling & Pfeffer, 1975; Heath, 2006; Kruckeberg & Stark, 1988; Sethi, 1979). This link can develop a fertile scholarship in corporate communication and public relations theory and research.

Public relations theories from a societal perspective are anchored in the concept of organizational legitimacy (Boyd, 2000; Heath, 2006; Holmstrom, 2005; Ihlen & van Ruler, 2009). From this perspective, organizations will change their policies, structures or operations to conform to societal expectations about what structures and operations are legitimate. Failure to undertake this process that leads to congruence can cause a legitimacy gap between the organization and its publics. Similarly, the concept of organizational legitimacy predicts that organizations will change their structures or operations to conform to external expectations about what structures and operations are legitimate (DiMaggio & Powell, 1983; Everett, 2001; Meyer & Rowan, 1977; Scott et al., 2000; Suchman, 1995).

Grounded in these theoretical traditions, the second model focused on the implementation level of a proposed change raised in a withdrawn social shareholder resolution. To evaluate a true change resulted from shareholder activist-corporate engagement, research hypotheses 5-8 focused on withdrawn shareholder resolutions that requested corporations to issue a sustainability report. Building upon the same theoretical approach in the first model, corporate stakeholder commitment was conceived as one of the main factors that would affect the implementation of a social proposal. The results of OLS analyses showed that corporations with high levels of environmental commitment, as measured by corporate social performance (CSP) values, were more likely to produce sustainability reports at a higher level than corporations with low levels of environmental commitment (shown in Table 15). In other words, corporations with high levels of environmental commitment were more likely to produce better (in terms of quality, scope of disclosure, and organizational concern) sustainability reports than those corporations with low levels of environmental commitment. Literature on sustainability reporting (Golob & Barttlett, 2007; Ihlen & Roper, 2011; Kolk, 2004; Weber & Marley, 2012) suggests in order to produce more comprehensive, high quality sustainability reports, organizations need spend more time and resources (e.g., research, additional employees). Therefore, the application of sustainability reporting at higher levels signal the targeted corporation's attention to the proposed change in the shareholder resolution.

The analysis that tested H5 failed to find a significant relationship between corporate community commitment and withdrawal outcome. This finding should be interpreted with some caution given the measures. The dissertation used KLD dataset to measure corporate commitment to stakeholders. It is possible that the KLD measures of corporate social performance in the community dimension may not be refined enough to capture the effect corporate community commitment on shareholder activist-corporate engagement. Rather than rejecting the model outright, additional research with more precise measures is needed to definitely dismiss or support the impact of corporate stakeholder commitment on withdrawal outcomes. Nevertheless, one conclusion that can be drawn from interpreting the results of the second model is that targeted corporations' environmental commitment can predict whether and to what extent these corporations will implement the sustainability reporting request made in shareholder resolutions. This can be related to the prominence of environmental issues for shareholders. Perhaps, environmental issues offered a practical platform for corporations demonstrate their commitment. It can be inferred that corporations and organizational stakeholders find environmental issues more workable than community issues. Therefore, KLD measures proved to be a valid measure to operationalize corporate environmental commitment.

Overall, the findings suggest that, to achieve organizational legitimacy, organizational-stakeholder interactions should be considered as a whole by incorporating a broader view of the interests of both shareholders and non-shareholding stakeholders. As such, this view challenges the traditional stakeholder vs. shareholder conceptualizations in which shareholder interests have been pitted against those of stakeholders or vice versa (Freeman, 1984; Friedman, 1970; Metzler, 2001).

*Environmental issues provide a platform for engagement.* The findings of this dissertation suggested that overall environmental issues were a major interest of institutional shareholder activists in the withdrawn social resolutions. Specifically, the results of the descriptive analyses showed that 41 percent of the withdrawn social shareholder resolutions concerned environmental issues over the period of 1997-2011. Further, as seen in the answer of H3, the probability of reaching a withdrawal agreement on an environment-oriented resolution was higher than that of a community-oriented issue resolution. We must interpret these findings from both social shareholder activist and corporate management perspectives in order to have a more comprehensive view. From the social shareholder activist perspective, two main interpretations help understand the findings.

First, like other issues in social activist movements (Heath & Palenchar, 2009; Smith & Ferguson, 2010), the interests of shareholder activists are subject to their time and societal context. That is, the issues brought to the corporate attention by social shareholder activists are subject to shifts in the broader society in which organizations are located. Therefore, the prevalence of environmental issues in the withdrawn social resolutions reflects the growing awareness and concern about environmental issues in society. Indeed, a recent survey reported that the level of awareness and concern on environmental issues, such as global warming, has significantly increased in the United States (Gallup, 2013). Environmental issues voiced through various media channels often spark heated discussion on many levels of society (e.g., Al Gore's *An Inconvenient Truth*). Thus, the increasing concern for environmental issues in the public agenda manifests in the social shareholder resolutions.

Prior research showed that shareholder activists annually pick the issues on which they will focus (Graves et al., 2001; Gillan & Strack, 2007). A commonly shared concern on environmental issues provides social shareholder activists a platform for building relationships with other corporate stakeholders who share similar concerns about these issues. In particular, NGOs can facilitate collaborations and alliances with larger institutional shareholders such as public pension funds to address environmental issues at multiple levels (Burns, 2012). For example, Ceres, a SRI fund, concentrates its shareholder activism on mobilizing a network of investors and NGOs to push corporations to adopt environmentally sustainable practices (www.ceres.org). Undoubtedly, developing a strong relationship with other stakeholders, such as consumers, employees, and shareholders, through a common denominator issue is likely to enable social shareholder activist groups to exert more pressure on corporations.

Alternatively, strategic deliberations of social shareholder activists might explain the prevalence of environmental issues in the withdrawn social resolutions. It is important to keep in mind that a withdrawal is an indicator of success on the social shareholder activist part (Carleton et al., 1998; Guay et al., 2004; Profitt & Spicer, 2006). Rowley and Moldoveanu's (2003) identity-based stakeholder action perspective can explain why social shareholder activists focused their efforts on environmental issues. According to identity-based explanations of stakeholder action, social shareholder activists may focus on environmental issues, at which corporations are likely to reach agreements to take actions, to affirm the members' collective identity. In particular, considering that socially responsible investing (SRI) funds attract their client base mainly through their social activism (Tkac, 2006), it might be a strategic choice for these shareholder groups to focus their activism on environmental issues rather than other social issues, such as diversity, which are often complex to address by organizations or seem controversial (Hon & Brunner, 2000). By taking actions on environmental issues and initiating engagement with corporations about these issues, shareholder organizations may aim to differentiate themselves from other similar asset management organizations.

A possible alternative explanation has to do with framing the issues in the shareholder resolutions. Literature on social shareholder activism suggested that sponsors frame shareholder resolutions using a nonconfrontational approach and often offering a clear economic rationale for demanding the change (Rehbein et al., 2004; Lee & Lounsbury, 2011). Building on the assumption that being good also pays off financially (Porter & Kramer, 2011), these shareholders believe that corporations should creatively manage the potential legal and market risks associated with irresponsible environmental behaviors (Lee & Lounsbury, 2011). Shareholder activists might find it more convenient to link environmentally responsible practices with corporate social performance. In other words, with the overall increasing environmental awareness and concern, social shareholder activists can easily make a business case for corporate environmental responsibility as a viable frame. Whereas other social issues regarding community, human rights, or diversity can be more difficult for social shareholder activists to construct such a frame. Social shareholder activists might assume that the provision of an economic rationale for corporate responsibility and framing issues with a market logic make it easier for corporate managers to accept the demands voiced in the social resolutions, which will be a success on the social shareholder activist part.

From the corporate management perspective, as previously discussed, a withdrawn resolution signals the corporation's willingness to engage with sponsors toward solving the issue under consideration (Carleton et al., 1998; Del Guercio & Hawkins, 2003; Guay et al., 2004; O'Rourke, 2003). As soon as a shareholder activist reaches out the target corporation, the shareholder-corporate engagement process starts. The fate of a social resolution resides in the corporation's willing to continue this engagement process, often considered as a "window of opportunity" by shareholder activists (O'Rourke, 2003, p. 21). Therefore, the nature of the issue raised in the social shareholder resolution can be a decisive factor for corporate responses to social shareholder activists' calls for engagement. The results of the analyses showed that corporations were more willing to engage with social shareholder activists on environmental issues.

Several alternative explanations can shed light on this finding.

Some critics may argue about the impact of government regulations on corporations' willingness to take actions on environmental issues. Corporations may have greater attention on some of the issues because of the external regulatory environment. For example, under the Section 313 of the Emergency Planning and Community Right-to-Know Act of 1986, corporations have to report their toxic chemical releases and hazardous waste management. The regulation is later expanded by the Pollution Prevention Act of 1986. Indeed, there is extensive data called "The Toxic Release Inventory database" which provides full information on corporate pollution management practices. As such, corporations will be more willing to reach at withdrawal agreements on the environmental issues on which they have already obligations to report.

A related argument can be that shareholder requests on environmental issues do not necessarily require target corporations to make profound structural changes in the organization. Environment oriented-issue resolutions often ask target corporations to implement communication-based changes. For example, a majority of environment oriented-issue resolutions asked corporations to issue environmental sustainability reports. In these cases, the target corporations need to cull the information from related offices and put together in a coherent way. However, social shareholder resolutions that asked structural changes, such as establishing a committee on human rights, or procedural changes such as adopting a sexual orientation antidiscrimination policy will require target corporations to make institutional arrangements, which will lead to a series of profound and complex changes (Aldrich & Heker, 1977; DiMaggio & Powell, 1991).

Zoller (2009) argued, negotiations on issues and policy formations do not occur in isolation from any of the key components of society, but rather, they are sensitive to social norms at any given time and place. The growing stakeholder demand for improved corporate environmental responsibility following the recent environmental crises resulting from corporate misconduct (Eesley & Lenox, 2006; Harlow et al., 2011; Muralidharan et al., 2011) can push corporations to be more vigilant about environmental issues.

The increasing impact of corporations on the natural environment has questioned the role of the environment in mediating the relationship between business and society. Although stakeholder status has been traditionally granted to human agents who can affect and be affected by corporations (Clarkson, 1995; Freeman, 1984), recently several scholars in the business ethics literature have argued that the natural environment should be considered as one type of stakeholder (e.g., Driscoll & Starik, 2004; Jacobs, 1997; Philips & Reichart, 2000). The results of the current study corroborate this line of research emphasizing the importance of corporate environmental responsibility as an important criterion for organizational legitimacy. The pervasive adoption of corporate sustainability reporting by large corporations in recent years (Golob & Bartlett, 2007; Ihlen, 2008; Signtzer & Prexl, 2007), also documented in this study, can be explained by corporations' legitimatization efforts through socially accepted ceremonial activities (Meyer & Rowan, 1977). As organizational legitimacy of a corporation is socially constructed and is largely subjected to the dynamic perceptions of the stakeholders (Boyd, 2000; Holmstrom, 2007; Meyer & Rowan, 1977; Suchman, 1995), we can argue that environmental responsibility has become one of the main components of corporate organizational legitimacy of corporations in the 21st Century.

Indeed, environmental problems have interwoven with social problems. It is difficult to isolate an environmental problem from the society as a whole. Environmental problems have manifested on various levels of society from the local to the global. The results of this study pointed out the important role of a concerted effort to address environmental issues led by social actors in the public sphere, such as NGOs and environmentalist groups. As Burns (2012) argued, a more structured holistic approach, on all levels of society, should be taken to ensure best environmental practices are adopted and implemented across the board. More initiatives should be developed through stakeholder collaborations that are designed to lead corporations to adopt environmentally responsible policies and practices.

*Public pension funds: The game changer.* The results of this study demonstrated that institutional shareholders who demand for improved corporate social responsibility are not homogenous. The study showed that public pension funds, unions, religious organizations, SRI funds, and special interest groups were the major institutional shareholders that sponsored social shareholder resolutions. Given that the outcomes of shareholder resolutions vary across sponsor types (Ertimur et al., 2010; Thomas & Cotter, 2007), it was important to identify the major sponsor type that received the highest percentage of withdrawal outcomes.

The results of the research questions on sponsor type (RQ3e-f) showed that public pension funds were the leading institutional sponsors of withdrawn social resolutions. Nearly 82% of social resolutions filed by public pension funds were withdrawn. In other words, these funds most frequently withdrew their shareholder resolutions after reaching agreements with target corporations. As predicted in H3, social resolutions sponsored by public pension funds were more likely to be withdrawn as opposed to the ones filed by other sponsor types (e.g., religious organizations, unions). Furthermore, the results from the regression analysis testing H8 showed that withdrawn social resolutions sponsored by public pension funds were more likely to be implemented at higher levels by target corporations than the ones sponsored by other sponsor types. These findings are consistent with prior research which found that public pension funds were effective in initiating corporate governance changes (Ertimur et al., 2010; Thomas & Cotter, 2007). This finding can be explained through several interpretations.

The finding that a majority of withdrawn social shareholder resolutions were sponsored by public pension funds can be explained by stakeholder salience theory in management (Agle et al., 1999; Mitchell et al., 1999). The theory predicts that corporations will be more sensitive to stakeholders who posses legitimacy, power, and urgency. As discussed in the literature review of this dissertation, public pension funds have the largest ownership stakes among the externally managed indexed funds—the average percentage stake in target corporations owned by the funds ranges from 0.5% to 2.3% (Del Guercio & Hawkins, 1999; Gillan & Starks, 2000). Considering that the average percentage stake in target corporations by inactive institutional investors is only about 0.3%, public pension funds may be viewed as more powerful, legitimate, and salient in the eyes of corporate managements. It is difficult for corporations to simply dismiss the public pension funds' demands, even if they consider the demands trivial. Corporations may feel pressure to address the issue one way or the other. Thus, public pension funds had more leverage in the shareholder activist-corporate engagement regarding a social issue.

The finding that social resolutions filed by public pension funds were more likely to be withdrawn and implemented at higher levels can be also explained by resource dependency theory (Pfeffer & Salancik, 1978). The theory views resources as a basis of power and emphasizes interdependencies of organizations resulting from recourse dependencies. In other words, power and recourse dependence are directly linked. Accordingly, shareholders with greater resources have more power and can exert greater influences on target corporations. Because of their abundant resources, public pension funds are likely to garner more support from other shareholders, to maintain a more intense campaign for the issue they are advocating, and to attract greater media coverage. For example, the Council for Institutional Investors, a nonprofit association of pension funds with combined assets exceeding $4 trillion (www.cii.org/), regularly sends a series of letters to corporations that receive shareholder resolutions filed by its members urging their implementation. Corporations cannot easily dismiss the social demands made by public pension funds. Given the growth of public pension funds' involvement in social issues in recent years (Lee & Lounsbury, 2011; Smith, 2012), public pension funds can be a game changer in social shareholder activism.

The increasing role of public pension funds in social shareholder activism has important implications for public relations, which is concerned with how organizations relate to the public sphere through enagement (Bentele & Nothhaft, 2010; Jensen, 2002). Prior research has documented that the immediate goals of shareholder resolution is not necessarily winning proxy votes, but simply to gain corporate management's attention (Lee & Lounsbury, 2011; Logsdon & van Buren, 2008). Public pension funds can play a central role in attracting the corporate attention on a social issue. Often, religious organizations and special interest groups attempt to mobilize public pension funds to garner support for the social issue under consideration (Logsdon & van Buren, 2009; MacLeod, 2002). For example, to strengthen their bargaining position, ICCR enlist the support of public pension funds such as New York City Pension Funds for their resolutions. As the support for social shareholder resolutions increases with the involvement of public pension funds, corporations might become more willing to listen to the demands of social shareholder activists and agree on a workable solution. This means an increasing number of collaborations and alliances among social actors including corporations, NGOs, social activist groups, governments, and private persons on social issues. Public relations can play an instrumental role in facilitating engagements to reach on mutually acceptable agreements.

*Social shareholder activists demand for increased stakeholder communication*. One of the important conclusions drawn from this dissertation is that social shareholder activists mostly demanded for corporate accountability by asking target corporations to report their impact on the environment and society at large. A majority of withdrawn social shareholder resolutions between 1997 and 2011 specifically requested corporations to implement communication-based changes (e.g., report on corporate practices and polices) ($n$ = 527, 57%). In other words, social shareholder activists asked for greater corporate disclosures. One of the assumptions of shareholder resolutions that asked target corporations to disclose information can be that these corporations were already involved with socially responsible actions to a certain extent. By demanding written reports from these corporations, shareholders activists wish to monitor the progress in corporate social responsibility activities. Alternatively, the assumption can be that shareholder activists use resolutions as a first step in establishing an issue as worthy of corporate concern. In a sense, resolutions that demanded from corporations to report on a social issue expect the target corporation to improve in that area in a way that can be demonstrated to all organizational stakeholders.

The results of the regression analysis on the implementation level of sustainability reporting request (H5-H8) suggested that social shareholder activism via filing resolutions can offer a viable tool for improving corporate transparency. A majority of corporations that reached at withdrawal agreements on sustainability reporting resolutions implemented the request by producing a corporate sustainability report at various levels with a mean value of 2.281 on a one to four scale ($SD$ = 1.168). Further, the results indicated that corporations with higher level of environmental commitment (as measured by corporate social performance values) produced sustainability reports at higher levels than the ones with low levels of stakeholder commitment (27% increase relative to the mean level). Overall, the results highlighted the importance of shareholder activist-corporate engagements in pushing corporations to disclose information on their impacts on environment and society at large, increasing organizational transparency.

The implementation of corporate sustainability reporting examined here provides preliminary evidence for organizational legitimacy efforts. The practice of sustainability reporting (or corporate social responsibility) provides a way for corporations to share their social and environmental responsibility policies and practices with the different stakeholders. Further, as predicted in H6, target corporations in the petro-chemical industry produced higher levels of sustainability reports than the ones in other industry classifications. That is, corporations in different industries will have different levels of organizational legitimacy to maintain, with the implication that the more a corporation relies upon products extracted from the natural environment (for example, oil, gas, and chemicals), the more vigilant the corporation needs to be to maintain its organizational legitimacy.

Another potential explanation for these differences can be corporate concerns on organizational reputation (Fombrun & van Riel, 2004). Kreps and Wilson (1982) noted that the value of a reputation is positively related to its fragility. Because corporations that are closer to the end-user consumers are more exposed to potential social sanctions in the form of boycotts and negative publicity (Rehbein et al., 2004), a corporation's product mix is important to determine its social exposure. As oil and gas corporations (e.g., Chevron, Exxon Mobil) heavily depend on end-user consumers, their reputation can be particularly vulnerable to losses resulting from social sanctions (Reid & Toffel, 2009). Thus, corporations within the oil and gas industry may direct more attention and resources to express their positions on corporate sustainability issues.

The finding further suggests that corporate sustainability reporting practices are undertaken as a part of organizational legitimacy efforts (Signitzer & Prexl, 2008). By adopting a standardized practice that adheres to the prescriptions generated within the field, an organization demonstrates that it is acting on collectively valued purpose in a proper and adequate manner (Dowling & Pfeffer, 1975; Meyer & Roman, 1977). Thus, the sustainability reporting practice provides an account of organizational activities that helps an organization garner social legitimacy to strengthen its support and help secure its survival.

The findings showed that social shareholder activists have played a role in making sustainability reporting a norm for corporations. Indeed, today the trend of sustainability reporting has grown into an acceptable practice, a socially the right thing to do, for corporations. There are several initiatives that create global guidelines for corporate sustainability reporting (e.g., Global Reporting Initiative, UN Global Compact principles) (Golob & Bartlett, 2007; Kolk, 2004; Weber & Marley, 2012). The pervasive adoption of sustainability reporting charters an important role for communication professionals who could help corporate managers to understand different expectations and demands of stakeholders and increase transparency and features that facilitate relationship building.

*Implementation of changes: Organizational legitimacy through communication*. Legitimacy is the link that connects societal systems and institutions (Epstein, 1972). Suchman (1995) argued that an organization is connected to its society through publics. As such, the concept plays an important role in understanding the relationships between an organization and its publics—the main area of study in public relations theory and research (Ferguson, 1984; Ledingham & Bruning, 1998). Organization-public relationships are built around two key elements: stakeholders and communication. The review of the literature undertaken in this dissertation suggested that stakeholders are recognized sources of social environmental change pressures on organizations (Cutlip et al., 2000; DiMaggio & Powell, 1991; Scott et al., 2000). To gain organizational legitimacy in society organizations must constantly adjust their policies and actions to remain congruent with the expectations and demands of their stakeholders (Holmström, 2009; Ihlen, 2008; van Ruler & Vercic, 2004), including those of shareholders.

The results of this study showed that social shareholder resolutions reflect the changing social norms and expectations. Shareholders are one of the social actors in the public sphere who use a range of societal values and norms to evaluate the actions of the corporations. Changing social norms and expectations framed and voiced by various actors in society (Burns, 1999; Snow et al., 1986) constitute a source of pressure for organizations (DiMaggio & Powell, 1991; Dowling & Pfeffer, 1975; Meyer & Rowan, 1977). The findings of the Study 2 and the Study 3 confirmed that corporations implement structural and procedural changes to conform to societal expectations voiced by one type of stakeholder—shareholders.

This study suggests that understanding corporate responses to social shareholder activism requires an integrative approach to organizational legitimacy. As discussed earlier, approaches to legitimacy can be organized into two categories: strategic and institutional. Suchman (1995) discussed strategic and institutional aspects of legitimacy as two sides of the same idea. The strategic approach is that of "corporations looking out of" and working to secure legitimacy, while the institutional view is that of "society looking into" and imposing conditions for legitimacy (Suchman, 1995, p. 577). Similarly, Boyd (2000) distinguished two types of legitimacy—institutional and actional—in public relations literature. Boyd explained institutional legitimacy based on "an organization's perceived competence and responsibility to publics' interests" (Boyd, 2000, p. 351), which is close to Suchman's (1995) concept of institutional legitimacy. Boyd (2000) described actional legitimacy as legitimation strategies enacted through rhetorical tactics on a more day-to-day basis. Boyd argued that public relations efforts should involve both institutional and actional legitimacy of organizations. For the purpose of this study, actional legitimacy can be considered from the strategic legitimacy perspective. The corporate responses to social shareholder activism studied in this dissertation suggested that organizations can be judged as legitimate or illegitimate using a combination of both perspectives.

The case study provided an example for understanding the workings of organizational legitimacy—the ways in which organizations seek both strategic and institutional legitimacy. CONSOL Inc., the target corporation of a climate change resolution, responded to the proposed change by "incorporating structures and procedures that match widely accepted cultural models embodying common beliefs and knowledge systems" (Meyer & Rowan, 1977, p. 878). The corporation created a boundary-spanning role called *Environmental Strategy and Regulation Affairs*, to signal its concern about the impact of the corporation on the natural environment (Aldrich & Heker, 1977; Heugens, Van den Bosch, & Van Riel, 2002; Rao & Sivakumar, 1999). Organizations use "symbolic references and gestures" in efforts to obtain legitimacy status from a relevant public (Dowling & Pfeffer, 1975, p. 128). Meyer and Rowan (1977) highlighted the importance of the evolution of organizational language, such as the labels on the organizational chart, job titles, and vocabularies of motives used to describe the activities of individuals as a response to societal pressures. Furthermore, for this new position, the corporation employed a person who had a strong academic and professional background in environmental responsibility, which is also likely to contribute to organizational legitimacy efforts of the corporation (Aldrich & Heker, 1977). The corporation then implemented a procedural change, largely based on stakeholder communication, reporting its corporate environmental responsibility as requested in the shareholder resolution. The procedural change thus involved actional legitimacy relying on "rhetorical tactics on a more day-to-day basis" (Boyd, 2000, p. 348). In the next step, the corporation communicated to its stakeholders through corporate communication channels that the change was implemented.

When introducing the first corporate social responsibility report of the organization, CONSOL did not refer to any shareholder pressure behind this step. Instead, the corporation emphasized that it is competent and socially responsible—two elements of gaining organizational legitimacy (Epstein, 1972). Using communication strategies in its corporate public relations documents (e.g., CEO letters, CSR reports, press releases), the company attempted to establish actional legitimacy. Boyd (2000) explained that corporations undertake actional legitimacy when they attempt to demonstrate the legitimacy of a new policy or a procedure. The goal is to maintain legitimacy by giving reasons for stakeholders and that to garner their support by demonstrating that the corporation's operations are useful and the corporation is acting responsibly. CONSOL also shared the news of its rewards and recognitions regarding environmental responsibility through using various communication channels. In doing so, the corporation sought for external endorsement and used symbolic references to enhance its organizational legitimacy (Deephouse & Suchman, 2008; Dowling & Pfeffer, 1975; Meyer & Rowan, 1977). The case study confirmed the main propositions of the concept of organizational legitimacy by showing that a target corporation, faced by an external pressure, undertook a set of structural and procedural changes and communicated these changes to its stakeholders in order to maintain its organizational legitimacy.

The case study also suggested that public relations function is instrumental in the ways that organizations seek legitimacy and support by implementing the changes proposed by social shareholder activists. After implementing the changes proposed by social shareholder activists, the target corporation conveyed the message that the organization is acting in congruence with stakeholder expectations and norms. Noting the socially constructed nature of legitimacy, Suchman (1995) noted that establishing and maintaining organizational legitimacy rested heavily on communication between organizations and their social environments. In other words, organizations cannot directly extract legitimacy from their social environment; instead they rely on communication with stakeholders that demonstrate their congruence with societal expectations and norms. Communication of the implementation of changes is thus used to signal legitimation to stakeholders. Because organizational legitimacy implies some degree of justification for organizational existence in society through communication (Wæraas, 2007), public relations efforts are essential for communicating corporate actions and policies that serve stakeholders expectations and needs. Communication of organizational changes that signal stakeholder commitment can lead to organizational legitimacy, which largely rests in stakeholder perceptions (Dowling & Pfeffer, 1975; Suchman, 1995). Public relations activities thus play an important role for organizations seeking legitimacy and support by incorporating structural and procedural changes that address social shareholder activists.

The organizational legitimization process exemplified in this dissertation provides an excellent case in which cocreational and functional approaches can reconcile. An integrative approach to public relations theory and practice (Boyd, 2000; Falkhaimer, 2007; Taylor, 2011; Raupp, 2004) can explain shareholder activist-corporate engagement as a method of creating the meaning of the issue under consideration as well as corporations' efforts for maintaining legitimacy through communication. Specifically, this study provides support for Boyd's (2000) argument that both institutional (e.g., facilitating changes) and actional (day-to-day strategic communication activities) public relations can help build organizational legitimacy through applying both functional and cocreational approaches.

*Proposed model of organizational legitimacy.* This study provided evidence for the legitimization efforts of organizations as a response to societal pressures imposed by shareholder activists. The literature reviewed in this study suggested that shareholder activists are one type of stakeholders who have power to influence the organization, legitimacy of relationship, and urgency of a claim (Agle et al., 1999; Mitchel et al., 1997). Shareholder activists are thus recognized sources of environmental change pressures on organizations (Cutlip et al., 2000; DiMaggio & Powell, 1991). Through a multimethod approach, this study proved that, to maintain organizational legitimacy, target corporations implemented structural and procedural changes demanded by social shareholders activists. Based on the literature review and the study results, the dissertation proposes a model of social shareholder activism (see Figure 19).

***Insert Figure 19 Here***

The figure illustrates a simplified visualization of the process through which social shareholder activism can elicit changes in corporate practices and policies. The figure shows that the corporation is a part of an interconnected web of entities, such as NGOs, institutional shareholders, social activists, and private individuals, governments, in the social environment. This model places a social responsibility on the corporation determined by the interactions among various stakeholders including the social shareholder activists. After social issues are identified and framed by these interactions, social shareholder activists channel the social demands to the corporation through institutional mechanisms such as filing resolutions. As previously discussed, social shareholder activists can file a resolution under the SEC Rule 14a-8 which provides a legal and institutional channel for communication with corporate management. Written resolutions require a response by corporations (Gillan & Starks, 2000; Vogel, 1983), which forces them to acknowledge the issues being raised and to submit their responses on record (through the SEC). The shareholder resolution mechanism thus allows social shareholder activists to extract formal written responses from corporations to social issues that corporations may not otherwise address directly. Further, social shareholder resolutions can start shareholder activist-corporate engagement to discuss the issue under consideration. Shareholder activists withdraw their resolutions based on the corporation's commitment to address the proposed changes building upon the ongoing "good faith communication" about the issue (Logsdon & van Buren, 2008, p. 355). Prior research has shown that shareholder activists only withdraw their resolutions when the corporate management shows "sincerity and legitimate progress" towards meeting the goal or request made in the resolution (Carleton et al., 1998; Graves et al., 2001, p. 296). Faced with shareholder pressure to maintain its organizational legitimacy, the target corporation implements structural or procedural changes proposed in the withdrawn social resolutions to signal that its policies and practices are congruent with societal expectations.

Premised on interconnectedness, the interactions among social actors in the model emphasize networks and demand a collaborative process. In every step of this process, communication plays an essential role. Social shareholder activists first communicate with other shareholders and social actors. Especially, since the relaxation of the SEC's communication rule in 1992, which required shareholders to file and distribute a proxy statement with the SEC when communicating with 10 or more shareholders, shareholder activism has gained a new momentum through communication and networking (Doh, 2002; Macleod, 2009). Through communication the boundaries of corporation emerge with viewpoints of stakeholders on what it means to be legitimate and responsible corporation. As a response, corporations implement procedural and structural changes and communicate these changes to stakeholders to maintain organizational legitimacy. Building on the organizational theory, management, and public relations literature, the proposed model suggests that social norms and expectations are socially constructed and become institutionalized through stakeholder interactions. As such, shareholder activist-corporate engagement process, through which corporations and shareholder activists mutually agree to address social issues voiced in shareholder resolutions, can lead to progressive changes in society.

This dissertation supported previous literature that shows that withdrawal outcomes signal shareholder activist-corporate engagement regarding the social issue in private settings (Carleton et al., 1998; Guay et al., 2004; Logsdon & van Buren, 2008). The study proved that after withdrawals target corporations in the sample implemented the requested changes. The case study further showed that a procedural change requested in a withdrawn social resolution eventually led a series of related changes in the organizations. Thus, the study suggests that social shareholder activism can offer a viable tool to contribute to the betterment of society by engaging corporations in a conversation over social issues that arise from the public sphere and eliciting changes in corporate social policies and practices through institutional channels.

## Theoretical Contributions

Organizational legitimacy is a central concept in understanding the relationship between society and business. However, a comprehensive reading of the literature undertaken in this dissertation suggested that studies on organizational legitimacy were fragmented across several social sciences. Combining three theoretical traditions in management, organizational theory, and public relations, this dissertation proved the value of organizational legitimacy as a useful theoretical lens through which researchers across social sciences can explain and predict the voluntary compliances of corporations to societal pressures. The dissertation provided an empirical account of organizational legitimacy in a unique setting by examining corporate responses to societal expectations voiced by shareholders. The dissertation thus extended the organizational legitimacy framework by testing hypotheses on its theoretical scope and demonstrating its generality—which are the main criteria in assessing the value of a theory in social sciences (Chaffee & Berger, 1987; Littlejohn, 2002).

Organizational theory literature has recognized the challenges related to conceptualization and measurement of organizational legitimacy (Deephouse & Suchman, 2008; Heugens et al., 2002; Scott et al., 2000). Similarly, in public relations literature, even though a number of scholars emphasized the importance of the concept of legitimacy for public relations (e.g., Boyd, 2000; Heath, 2006; Ihlen & van Ruler, 2009; Metzler, 2001; Raupp, 2004), empirical accounts, to date, have been limited to explanatory case studies discussing legitimacy being gained or lost after a major crisis (e.g., Coombs, 1992; Hearit, 1995). Studies that operationalize constructs of organizational legitimacy and employ the concept in hypothesis testing are largely absent in public relations literature. This dissertation filled the gap by testing the main assumptions of organizational legitimacy in a non-traditional setting. By focusing on one dimension of organizational legitimacy, corporate social responsibility, and controlling for the other dimension, financial competence (Epstein, 1972; Heath, 2006; Kruckeberg & Starcks, 2001; Leeper, 2001), and operationalizing the concept through the measures of corporate stakeholder commitment; this dissertation offered an analytical tool for future public relations research.

This dissertation makes a variety of important contributions to public relations as well as business and society scholarship. Using organizational legitimacy as an overarching concept, the role of corporations in society was explained through societal approaches developed within organizational theory, public relations, and management. Specifically, institutional theory in organizational research posited that organizations change their structures or operations to conform to societal expectations about which structures and operations are legitimate (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott et al., 2000). This theory views stakeholders as an environmental change agent that can influence organizations (Deephouse & Suchman, 2008). Stakeholder theory (Clarkson, 1995; Freeman, 1984) in management states that an organization can affect and be affected by a wide range of stakeholders in its social environment and that these groups have legitimate claims on the organization. Finally, societal views in public relations examine the role of public relations in society and highlight the importance of constantly sensing the environment by interactions with multiple publics and adjusting the organization to the changing values and norms of publics. Specifically, community-building theory holds that organizational efforts should address the society at large to build and restore a sense of community, and that organizations inherently have responsibilities for their local and global communities (Kruckeberg & Starck, 1988; Valentini et al., 2012; Vujnovic & Kruckeberg, 2012). Fully functioning society theory contends that an organization's legitimacy is tied to its capacity to meet and exceed the normative expectations of stakeholders (Heath, 2006).

Similarly, the reflective perspective developed in the European public relations scholarship argues that, in order to gain legitimacy, organizations should develop reflective mechanisms to be able to think from the inside out and the outside in to understand societal norms and expectations and adjust their practices and policies accordingly (e.g., Holmström, 2005, 2009; Ihlen & van Ruler, 2009; Vercic, van Ruler, Butschi, & Flodin, 2001). Further, societal approaches in public relations emphasizes the vitality and complexity of the public sphere, which constantly evolves with the interactions of connected social actors (Bentele & Nothhaft, 2010: Self, 2010), for building organizational legitimacy (Ihlen & van Ruler, 2009; Jensen, 2002; Raupp, 2004).

By combining the societal approaches that explain the constructive role of business in society across three fields, this dissertation took a multidisciplinary approach to explain and predict corporate responses to societal pressures exerted by shareholders. In doing so, the dissertation answered the call from public relations scholars (Botan & Hazelton, 2006; Gower, 2006; McKie, 2001; Toth, 2010) who highlighted the need for a multidisciplinary approach to improve public relations theory and research.

Several public relations scholars called for more scholarship specifically on investor relations (Botan & Hazelton, 2006; Laskin, 2009). This dissertation conducted a large-scale study of shareholder activism on social and environmental issues. In doing so, the dissertation contributed to the scholarship on investor relations by analyzing shareholder activism—a growing movement in recent years (Kiefer, 2013; Lee & Lounsbury, 2011). Further, by developing and testing models that explained corporate responses to societal expectations of shareholders and demonstrating the importance of corporate communication in this process, the dissertation contributed to the scholarship that called for a convergence between investor relations and public relations (Botan & Hazelton, 2006; Dolphin, 2004; Laskin, 2006, 2009). The dissertation suggested the concept of organizational legitimacy as a theoretical basis for understanding the interactions between corporations and shareholders, who are increasingly becoming more concerned about the impact of corporations on society (Lee & Lounsbury, 2011; Logsdon & van Buren, 2009; Tkac, 2006; Sjorstrom, 2008).

## Practical Contributions

This dissertation was grounded in a societal view that considers the role of public relations as building and maintaining organizational legitimacy. The theoretical stance that views the main function of public relations as societal legitimation of organizations offers some important insights for public relations practice. If an organization's survival is dependent upon a generalized view that the actions of an organization are desirable and congruent with socially constructed system of norms and expectations (Suchman, 1995), the most ethical way to acquire and maintain public support and respect is building relationships through an open and honest communication between organizations and its various publics (Ledingham & Bruning, 1998; Kent & Taylor, 2002; Pearson, 1989). Public relations practitioners can play a catalyst role in building and maintaining organizational legitimacy through an integrative approach that recognizes the societal pressures exerted by stakeholders as a change agent and uses communication to help organizations gain public support and respect.

In the context of social shareholder activism, communication not only with shareholder activists but also with other stakeholders is essential. This dissertation contends that corporations would have decreased the likelihood of being targeted by a social resolution if they had installed the mechanisms to understand their social environment through engagement with the public sphere. Indeed, practitioners pointed to the growing trend of shareholder activism in recent years and highlighted the importance of communication (Kiefer, 2013). The additional analysis of the shareholder activist-corporate correspondence filed with the SEC suggests that corporate attorneys and legal counsels tended to communicate with the activists. However, building upon the results, this dissertation argues that the corporate management team should include corporate communication professionals (e.g., public relations, investor relations) who need to engage in conversation with shareholder activists along with attorneys or counsels. Communication professionals anchored in the public sphere can facilitate an ongoing engagement that will contribute to the betterment of society.

The process of understanding public expectations and acceptable corporate behaviors in a given society can only be achieved through listening to and engaging in conversations with publics, with the implication of the need for a constant engagement. The case analyzed in this study showed that building and maintain organizational legitimacy requires an integrative approach to public relations. CONSOL Energy, the target corporation of the social resolution, attempted to align itself with the societal expectations voiced by shareholders through implementing structural and procedural changes, such as creating a boundary-spanning role and producing corporate sustainability reports. The incorporation of these changes shields the organization from external pressures (Deephouse & Suchman, 2008; Meyer & Rowan, 1977). CONSOL also sought to enhance its legitimacy by obtaining external endorsements (e.g., awards, recognitions) and communicating its own right to exist by demonstrating that it is acting in congruent with the societal expectations and norms. Therefore, public relations professionals are expected to function as a change agent in the organization and to explain the theory of the organization to its various publics. This requires using ethical communication to maintain constant engagement with the public.

Social shareholder activism can also empower public relations professionals who have a societal concern with regards to corporate social responsibility practices and policies. Public relations professionals often lack direct access to the dominant coalition (Grunig & Hunt, 1984; Bowen, 2009) and do not have the authority and power to implement fundamental changes within corporations (Holtzhausen, 2012). Social shareholder resolutions can provide a platform for these public relations professionals to engage corporate managements in a conversation about the social issue under consideration. For example, public relations professionals who work in corporate social responsibility communication might be likely to favor organizational efforts to improve corporate social performance. Social shareholder resolutions might allow public relations professionals of the target corporations to push for engagement with the shareholder activists and to advance their own goals to improve the corporation's social performance. Public relations professionals can connect the target corporation to its social environment with the help of social shareholder activist engagement.

## Methodological Contributions

This dissertation has provided a number of methodological contributions. Ihlen and van Ruler (2009) suggested that pluralistic research approaches to public relations could help the field to avoid intellectual isolationism. Stacks (2002) called for public relations research that incorporates various methodological approaches. Specifically, Smith and Ferguson (2010) and McKie (2001) lamented the dearth of methodological approaches to activism research in public relations and highlighted the need for studies that examine the interactions between activists and organizations and the need for methodological diversity. This dissertation contributed to the diversity of methodological approaches by investigating one research phenomenon—social shareholder activism—through three different analytical procedures: content analysis, model testing, and a case study. Using cross-sectional panel data that covered shareholder resolutions filed at U.S. publicly traded corporations between 1997 and 2011, this dissertation provided a clear picture of social shareholder activism. Furthermore, the dissertation used several methodological approaches to explain and test the conditions under which social shareholder activists can elicit positive responses corporations.

The dissertation introduced to public relations research one proxy measure for measuring corporate stakeholder commitment: —Kinder, Lydenberg, and Domini's (KLD) corporate social performance values, which has been widely used in the management research (e.g., Graves & Waddock, 1994; Hillman & Keim, 2001; Kacperczyk, 2009; Sharfman, 1996; Reid & Toffel, 2009). The research design provided an analytical tool to operationalize corporate stakeholder commitment as one indicator of organizational legitimacy.

In addition, this dissertation introduced several large datasets that have been widely used in the fields of management and finance but unknown to public relations research. For example, the Risk Metrics dataset on shareholder resolutions can be used for testing research hypotheses grounded in public relations theories. This dissertation introduced CRSP and COMPUSTAT dataset for future public relations research in the corporate context. Incorporating corporate financial indicators in the theoretical models is necessary in the corporate public relations research. Legitimacy of a corporation partly depends on its practical efficiency (Epstein, 1972; Meyer & Rowan, 1977). In other words, corporate financial performance is an indicator of a corporation's organizational legitimacy. Therefore, corporate financial variables should be accounted for in the theoretical models that explain and predict the workings of organizational legitimacy.

## Limitations

As with any study, there are several limitations that should be taken into account when evaluating the results of this investigation and setting out on future research projects. This dissertation is limited with respect to documenting the impact of corporate stakeholder commitment on the outcomes of social shareholder resolutions. Although the KLD measures were widely used and validated by a number of management scholars (e.g., Hillman & Keim, 2001; Kacperczyk, 2009; Sharfman, 1996; Graves & Waddock, 1997), a few scholars argued that KLD measures for community dimension may produce poor predictors of corporate attention to community (Chatterji et al., 2009). Additional research with more precise measures regarding community commitment is needed in public relations research.

Nevertheless, KLD data provides a set of reliable and valid measures of corporate attention to stakeholders (e.g., Hillman & Keim, 2001; Kacperczyk, 2009; Mattingly & Berman, 2006; Sharfman, 1996; Waddock & Graves, 1997). The large number of subscriptions to KLD dataset by socially sensitive institutional shareholders is the testimony for the reliability of the dataset. However, using more objective measures, such as corporate expenditures on stakeholders as a proportion of sales or profits, would contribute to our understanding of corporate commitment to stakeholders.

This study employed probit analysis, a common specification for a binary response model, to assess the probability of withdrawing a social shareholder resolution. Advanced categorical statistics, such as probit and logit analyses, allow researchers to fit theoretically driven models to the data under study. Therefore, many communication scholars acknowledged the value of these analyses for testing hypotheses that involve categorical variables (e.g., Denham, 2002; Hutchinson et al, 2006; Jones, Denham, & Springston, 2007). Although probit models are powerful statistical analyses (Denham, 2002; Long, 1997; McCulloch & Rossi, 1994), one limitation of the probit analysis is that they require normal distributions for all unobserved components (Wooldridge, 2006). In some situations, normal distribution may not be applicable, which may lead to some errors. Future researchers should use caution while implementing probit models.

## Directions for Future Research

This dissertation conducted a study of social shareholder activism using an extensive sample of shareholder resolutions filed between 1997 and 2011. There is an ample opportunity for public relations researchers to address new issues and develop new models on shareholder activism for improved corporate social performance. Regardless of whether a resolution is withdrawn through engagement or not, the shareholder resolution process requires repeated interactions between shareholder activists and corporations. While the outcomes might vary, the process of social shareholder activism involves communication and public relations efforts. By exercising their ownership rights, attending annual meetings, interacting with the management and submitting resolutions, shareholders communicate their dissatisfaction with corporations. Social shareholder activism that uses institutional mechanisms provides an excellent setting for public relations scholars in the relational paradigm to examine how antecedents of relationships (e.g., trust, commitment, satisfactions) play out between shareholder activists—powerful stakeholders with legitimate and urgent claims—and corporate managers.

One fruitful extension of this research would be case studies based on interviews and field observations, which could contribute to the understanding of organizational legitimacy through self-accounts of the involved parties. For example, in-depth focus groups with corporate managers can extend the current study by explaining the motivations for their responses to societal expectations raised by shareholders.

Another fruitful research area for communication scholars to conduct a framing analysis of social shareholder resolutions. Social shareholder activists often reframe the issues under consideration to align the issues with their objectives as well as the corporate objectives (Graves et al., 2004). Often, social resolutions frame the issues from the corporate managers' perspectives, bringing up the potential financial benefit/loss as a result of a social issue (Lee & Lounsbury, 2011). It would be interesting to find out whether frames employed in shareholder resolutions have an impact on the outcomes of these resolutions.

Social shareholder resolutions may also provide a fruitful research setting for future rhetorical research in public relations. The correspondence between shareholder activists and corporate representatives consists of statement and counterstatement in the forms of shareholder letters, shareholder resolutions, and no-action and response letters by corporations. Considering that the SEC bases its omission decision on the arguments put forward in the shareholder resolutions and letters written by sponsors and in the no-action letters written by corporations (Gillan & Starks, 2000), it is important to conduct rhetorical analyses on these documents. Indeed, the case study showed that the correspondence that took place between the target corporation and the sponsoring shareholder activist regarding the social resolution involves a series of letters written by the both parties over a two-year time span. A close analysis of strategic choices of arguments, ethics, and persuasion tactics in this type of correspondence would certainly contribute to our understanding of social shareholder activism, as it would indicate what "each organization does and says because of what meanings and interpretations people place on those actions and statements" (Heath, 2001, p. 32).

Another aspect of social shareholder activism that requires future research is using media relations for eliciting social change; such research could illustrate the coexistence of functional and cocreational approaches in public relations (Falkheimer, 2007; Taylor, 2011). Research suggests that publicity plays an important role in evaluating the course of shareholder activist-corporate engagement (Carleton et al., 1996; den Hond & Bakker, 2007; Reid & Toffel, 2009). Because large corporations are concerned about their reputation (Lee & Lounsbury, 2011; Kacperczyk, 2009), shareholder activism involves close relationships with media. For example, the Carbon Disclosure Project (CDP), a London-based NGO that represents more than 300 institutional shareholders (www.cdproject.net) asks the top executive managers of the world's largest public corporations to disclose information about the risks and opportunities posed by climate change. In 2012, 69 percent of the S&P 500 Index corporations responded to this request by publicly disclosing the information (Who discloses to CDP, 2013). This information is then published on the organization's website as well as shared with relevant publics through communication channels. Similarly, many SRI funds maintain extensive archives of their shareholder resolution filings including the target corporations' names and responses (see for example, Walden Asset Management, Green Century Asset Management, and Ceres).

In management literature publicity has been recognized as one potentially effective tool for promoting such spillover effects, since it affects not only the direct target of a fund's activism but also other corporations who observe it (den Hond & de Bakker, 2007; Reid & Toffel, 2009). The threat of publicity might give funds leverage with target management, and might also motivate other corporations to proactively improve their corporate performance without being explicitly targeted (Del Guercio & Hawkins, 1999). However, not all shareholder activists use publicity as weapon. For example, Carleton et al (1998) found that, during shareholder activist-corporate engagements, public pensions funds kept the process private, which yielded constructive outcomes. It would be a fruitful research area to investigate the role of publicity on the outcomes of social shareholder resolutions. Public relations activists and strategies can be studied for both conditions, comparing the subjects and results.

Shareholder activists communicate and build relationships to garner the support of other shareholders, which increases the bargaining power of these shareholders and enhances the salience of the issue under consideration. Shareholder activists can achieve this goal with less expense because regulations require corporations to bear all costs of disseminating resolutions through proxy statements using the corporate communication channels. In particular, with the pervasive use of the Internet and social media, many shareholder activist organizations form networks of alliances (Guay, Doh, & Sinclair, 2004; MacLeod, 2009). For example, Investment Network on Climate Risk (INCR), a nonprofit organization of investor coalition of 100 members that manages nearly $11 trillion in assets, largely relies on the Internet to form global and local investor networks (Ceres, 2013). This area also bears fruitful ideas for network research.

The research in the field of shareholder activism for corporate social and environmental responsibility is at an infant stage, with a limited number of published articles in the business and society and management journals. Public relations theory and research likely offer new perspectives to social shareholder activism theory and research.

## Conclusion

In the 21st century the role of business in society has induced a growing discussion in academia. From a societal perspective, this dissertation suggested that organizational legitimacy provides a valuable theoretical lens that can explain the role of corporations in society, which is increasingly becoming interconnected, dynamic, and volatile (Castells, 2009; Self, 2010; Valentini et al., 2012). Organizational legitimacy is a condition that reflects consonance with societal expectations and presence of public support (Boyd, 2000; Heath, 2006; Suchman, 1995). As such, legitimacy of an organization is deeply rooted in the concept of public sphere. Therefore, this dissertation argued that a reflective public relations approach anchored in the public sphere is needed for corporations to listen to and engage with its various publics.

Social shareholder resolutions have potential for transferring the issues that are shaped by the public sphere to policy-making mechanisms. In essence, shareholder resolutions on social issues signal an expectancy gap (Sethi, 1979) between a corporation's policies and practices and societal demands. From a societal perspective, by identifying the legitimacy gap and initiating an engagement to address this gap, social shareholder activists can indeed contribute to the betterment of a society. Heath and Waymer (2009) argued that "the dialogue of society is best when it helps organizations be more reflective and work for legitimacy; it voices perspectives to help society be more fully functional" (p. 201). Indeed, social shareholder activists are uniquely positioned to influence corporate managements because they can exert their influence as a both shareholder and stakeholder (Doh, 2002). Shareholder activists in this dual role can help to provide the drive for other important stakeholders, such as consumers, employees, public pension funds, and socially responsible investors, to mobilize and exert pressure on the corporation. Corporate responses to social shareholder activism, in turn, may lead to broader changes in society. In particular, successful and large corporations are mimicked, with their model becoming the standard against which subsequent corporations are patterned and compared (DiMaggio & Powell, 1983). Thus, social shareholder activists not only can elicit direct changes in the corporations, as demonstrated in this study, but also they can create spillover effects at the industry and the societal levels.

The relationships between business and society have become more complicated than ever before with the global economic growth and increasing demands as well as active involvement of societal members (Bentele & Nothhaft, 2010; Castells, 2009; Self, 2010). This dissertation argued that organizational legitimacy provides a useful theoretical lens to understand the relationships of business and society in the 21st century. Combining three theoretical traditions—organizational theory, public relations, and management—this dissertation took a multidisciplinary approach and showed the value of the concept of organizational legitimacy in predicting and explaining corporate responses to societal expectations voiced by shareholders. The theoretical foundation of organization legitimacy recognizes the power of the public to actively shape corporate policies and practices. The concept also explains the voluntary compliances of corporations to societal expectations that require them to act in socially acceptable ways even though these practices might conflict with economic benefits (Deephouse & Suchman, 2008; Galaskiewicz, 1991; Meyer & Rowan, 1977).

Organizational legitimacy provides the theoretical basis for corporate disclosures for increasing organizational transparency, which is likely to create trust between organizations and stakeholders. This dissertation has agreed with public relations scholars (e.g., Boyd, 2000; Heath, 2006; Holmstrom, 2005; Ihlen & van Ruler, 2009; Raupp, 2004) who viewed that organizational legitimacy should be a foundational concept of public relations and argued the greater centrality of the concept for understanding the relationships between business and society in the 21st century.

Focusing on social shareholder activists, who play a dual role as shareholders and social activists, this dissertation has questioned the traditional dichotomous conceptualizations of stakeholders. The dissertation argued that, in today's complex society, the concept of the public sphere, a central concept in public relations literature from societal perspectives (Bentele & Nothhaft, 2010; Ihlen et al., 2009; Raupp, 2007), could enrich the theorizing efforts in the field of management in regards to organization-stakeholder relationships. This dissertation has argued that the expanded role of public relations in society is to keep organizations fully cognizant of the societal norms and expectations and to ensure that organizations conduct socially desired actions in return for legitimacy in society. One of the ways in which corporations can achieve organizational legitimacy is through listening to and engaging with the public sphere. This is the most fruitful area where organizational theory, management, and public relations disciplines intersect to explore and understand relationships between business and society.

# TABLES

**Table 1. KLD Corporate Social Performance Dimensions in Community and Environment Categories**

| **Strengths** | **Concerns** |
|---|---|
| *Community* | |
| Charitable giving | Investment controversies |
| Innovative giving | Tax disputes |
| Non-US charitable giving | Negative economic impact |
| Support for housing | Other concerns |
| Support for education | |
| Volunteer programs strength | |
| Other strength | |
| *Environment* | |
| Beneficial products & services | Agricultural chemicals |
| Clean energy | Hazardous waste |
| Management systems strength | Regulatory problems |
| Pollution prevention | Ozone depleting chemicals |
| Recycling | Substantial emissions |
| Other strength | Climate change |
| | Other concerns |

**Table 2. Sustainability Report Requests in the Withdrawn Social Resolutions Sample, 1997-2011**

| Target Corporations | Levels | Sponsors | Sponsor Types |
|---|---|---|---|
| EL PASO CORP | 0 | Friends of Earth | Special Interest |
| KINDER MORGAN, INC. | 1 | New York City Pension Fund | Public Pension fund |
| NATIONAL OILWELL VARCO, INC. | 2 | California State Teachers' Retirement | Public pension fund |
| SOUTHWESTERN ENERGY COMPANY | 2 | California State Teachers' Retirement | Public pension fund |
| CHESAPEAKE ENERGY CORP | 4 | California Teachers’ Retirement | Public Pension fund |
| TESORO CORPORATION | 4 | California State Teachers' Retirement | Public pension fund |
| KINDER MORGAN, INC. | 1 | New York City Pension Funds | Public pension fund |
| BURLINGTON NORTHERN SANTA FE CORP. | 1 | New York City Funds | Public pension fund |
| EL PASO CORP | 1 | New York City Pension Funds | Public pension fund |
| ALLEGHENY TECHNOLOGIES, INC | 1 | New York City Pension Funds | Public pension fund |
| THE CHUBB CORP. | 2 | Walden Asset Management | Public pension fund |
| GENERAL DYNAMICS CORP. | 2 | New York City Pension Funds | Public pension fund |
| CIGNA CORP. | 2 | New York City Pension Funds | Public pension fund |
| NEWELL RUBBERMAID INC. | 2 | California State Teachers' Retirement | Public pension fund |
| WYNN RESORTS, LIMITED | 2 | California State Teachers' Retirement | Public pension fund |
| EAGLE MATERIALS INC. | 2 | New York City Pension Funds | Public pension fund |
| RANGE RESOURCES CORP | 2 | New York City Pension Funds | Public pension fund |
| DEAN FOODS COMPANY | 3 | New York City Pension Funds | Public pension fund |
| HARRAH'S ENTERTAINMENT, INC. | 3 | New York City Pension Funds | Public pension fund |
| THE WILLIAMS COMPANIES, INC. | 3 | New York City Pension Funds | Public pension fund |
| THE HARTFORD FINANCIAL SERVICES | 3 | New York City Pension Funds | Public pension fund |
| NORFOLK SOUTHERN CORP. | 3 | New York City Pension Funds | Public pension fund |
| RAYTHEON CO. | 3 | New York City Pension Funds | Public pension fund |
| THE BOEING COMPANY | 3 | New York City Pension Funds | Public pension fund |
| SAFEWAY INC. | 3 | New York City Pension Funds | Public pension fund |
| UNION PACIFIC CORPORATION | 3 | California State Teachers' Retirement | Public pension fund |
| NUCOR CORP | 3 | New York City Pension Funds | Public pension fund |
| SAFEWAY INC | 3 | New York City Pension Funds | Public pension fund |

| | | | |
|---|---|---|---|
| MARSH & MCLENNAN COMPANIES, INC. | 4 | General Board of Pension | Public pension fund |
| AMERICAN ELECTRIC POWER CO. | 4 | New York City Pension Funds | Public pension fund |
| SPRINT NEXTEL CORP | 4 | New York City Pension Funds | Public pension fund |
| AK STEEL HOLDING | 4 | New York City Pension Funds | Public pension fund |
| MARRIOTT INTERNATIONAL, INC. | 4 | New York City Pension Funds | Public pension fund |
| VULCAN MATERIALS COMPANY | 4 | New York City Pension Funds | Public pension fund |
| KBR, INC. | 4 | NY State Common Retirement Fund | Public pension fund |
| SEARS HOLDINGS CORP | 2 | ELCA | Religious |
| COMMUNITY HEALTH SYSTEMS | 2 | General Board of Pension | Religious |
| YUM BRANDS, INC | 2 | Sister of Charity of Virgin Mary | Religious |
| BROADCOM CORPORATION | 3 | Catholic Healthcare West | Religious |
| JOHNSON CONTROLS, INC. | 4 | Benedictine Sisters | Religious |
| KELLOGG CO. | 4 | General Board of Pension | Religious |
| NOVELL, INC. | 0 | As You Sow Foundation | SRI fund |
| BALDOR ELECTRIC COMPANY | 0 | Walden Asset Management | SRI fund |
| FAMILY DOLLAR STORES, INC. | 0 | Green Century Capital Management | SRI fund |
| SOUTHWEST GAS CORPORATION | 0 | Calvert Asset Management Co. | SRI fund |
| TIME WARNER INC. | 0 | Newground Social Investment | SRI fund |
| AMERICAN INTERNATIONAL GROUP, INC. | 1 | Trillium Asset Management | SRI fund |
| UNIT CORPORATION | 1 | Calvert Asset Management Co. | SRI fund |
| DENTSPLY INTERNATIONAL, INC. | 1 | Walden Asset Management | SRI fund |
| PENTAIR, INC. | 1 | Calvert Asset Management Co. | SRI fund |
| PULTEGROUP, INC. | 1 | Calvert Asset Management Co. | SRI fund |
| ST. JUDE MEDICAL, INC. | 1 | Walden Asset Management | SRI fund |
| CHICO’S FAS INC | 1 | Calvert Asset Management | SRI fund |
| ANN INC. | 1 | Calvert Asset Management Co. | SRI fund |
| ST. JUDE MEDICAL, INC. | 1 | Trillium Asset Management | SRI fund |
| STRYKER CORPORATION | 2 | Walden Asset Management | SRI fund |
| WENDY'S INTERNATIONAL, INC. | 2 | Domini Social Investments | SRI fund |
| THE BLACK & DECKER CORP. | 2 | Calvert Asset Management Co. | SRI fund |

| | | | |
|---|---|---|---|
| ILLINOIS TOOL WORKS INC. | 2 | F&C Asset Management | SRI fund |
| RANGE RESOURCES CORPORATION | 2 | Calvert Asset Management Co. | SRI fund |
| SOUTHWESTERN ENERGY CO. | 2 | Calvert Asset Management Co. | SRI fund |
| LOWE'S COMPANIES, INC. | 2 | Domini Social Investments | SRI fund |
| J. CREW GROUP, INC | 2 | Calvert Asset Management | SRI fund |
| SIGMA-ALDRICH CORP. | 2 | Walden Asset Management | SRI fund |
| COSTCO WHOLESALE CORP | 2 | Green Century Capital Management | SRI fund |
| TIME WARNER CABLE INC. | 2 | Walden Asset Management | SRI fund |
| NICOR INC. | 2 | Calvert Asset Management Co. | SRI fund |
| WILLIAMS-SONOMA, INC. | 2 | Calvert Asset Management Co. | SRI fund |
| HEINZ (H.J.) | 3 | Calvert Asset Management Co. | SRI fund |
| FLOWSERVE CORPORATION | 3 | Calvert Asset Management Co. | SRI fund |
| ITRON, INC. | 3 | Calvert Asset Management Co. | SRI fund |
| DENBURY RESOURCES INC. | 3 | Calvert Asset Management Co. | SRI fund |
| VALMONT INDUSTRIES, INC. | 3 | Calvert Asset Management Co. | SRI fund |
| JETBLUE AIRWAYS CORP | 3 | Calvert Asset Management Co. | SRI fund |
| SOUTHWEST AIRLINES CO. | 3 | Calvert Asset Management Co. | SRI fund |
| J.M. SMUCKER COMPANY | 3 | Calvert Asset Management Co. | SRI fund |
| VALMONT INDUSTRIES, INC | 3 | Calvert Asset Management Co. | SRI fund |
| WATERS CORPORATION | 3 | Walden Asset Management | SRI fund |
| VARIAN MEDICAL SYSTEMS, INC | 3 | Walden Asset Management | SRI fund |
| CHESAPEAKE ENERGY CORP. | 4 | Calvert Asset Management Co. | SRI fund |
| CONSOL ENERGY | 4 | Walden Asset Management | SRI fund |
| HASBRO, INC. | 4 | Camilla Madden Charitable Trust | SRI fund |
| AMERICAN EXPRESS | 4 | Trillium Asset Management | SRI Fund |
| NORTHWEST NATURAL GAS COMP | 4 | Calvert Asset Management Co. | SRI fund |
| SOUTH JERSEY INDUSTRIES | 4 | Walden Asset Management | SRI fund |
| THE RYLAND GROUP, INC. | 0 | GBPUMC | Union |
| CENTEX CORP. | 1 | GBPUMC | Union |
| COSTCO WHOLESALE CORP | 2 | GBPUMC | Union |

| | | | |
|---|---|---|---|
| WASTE CONNECTIONS, INC. | 2 | Teamsters | Union |

*Notes.* Levels refer to sustainability reporting implementation levels in the following year of the withdrawal outcome. Levels of sustainability reporting were based on GRI Application Levels (www.globalreporting.org/reporting/reporting-framework-overview/application-level-information) with some modifications. The number zero (0) indicates an absence of a sustainability report by the time of analysis. The number one (1)-basic level indicates a sustainability report that met the basic standards of GRI Reporting Guidelines (C level). The number two (2)-middle level indicates a sustainability report that reported on three main GRI Performance categories (*Economic*, *Environmental*, and *Social*)—this level is somewhere between basic and advanced levels of sustainability reporting (B level). The number (3)-advanced level indicates a sustainability report in full compliance with the GRI Guidelines reporting on Profile Disclosures, Management Approach Disclosures, and Performance Indicators (A level). Finally, the number four (4)-upper level indicates full compliance with GRI guidelines and plus presence of a committee dedicated to social and environmental responsibility issues in a target corporation. See Appendix D for more details on the Application Levels.

**Table 3. Outcomes of All Shareholder Resolutions per Year, 1997-2011**

| Year | Withdrawn | Omitted | Voted | Rejected |
|---|---|---|---|---|
| 1997 | 162 | 246 | 28 | 457 |
| 1998 | 107 | 235 | 24 | 465 |
| 1999 | 112 | 177 | 39 | 464 |
| 2000 | 183 | 160 | 0 | 456 |
| 2001 | 123 | 159 | 0 | 465 |
| 2002 | 179 | 143 | 0 | 481 |
| 2003 | 220 | 185 | 0 | 677 |
| 2004 | 227 | 157 | 0 | 702 |
| 2005 | 231 | 165 | 0 | 636 |
| 2006 | 197 | 134 | 0 | 686 |
| 2007 | 308 | 158 | 113 | 581 |
| 2008 | 279 | 224 | 108 | 536 |
| 2009 | 259 | 128 | 133 | 597 |
| 2010 | 196 | 154 | 0 | 660 |
| 2011 | 160 | 122 | 0 | 473 |
| *Total (n)* | 2943 | 2547 | 445 | 8336 |
| | (21%) | (18%) | (3%) | (58%) |

**Table 4. Top Five Issues in the Withdrawn Social Shareholder Resolutions, 1997-2011**

| Issues in Environmental Resolutions | Frequencies |
|---|---|
| Environmental sustainability | 89 |
| Recycling | 74 |
| Greenhouse gas emission | 56 |
| Climate change | 47 |
| Wildlife/animal protection | 45 |
| Ceres Principles | 23 |
| Miscellaneous | 74 |
| *Total* | 408 |
| Issues in Community Resolutions | |
| Political contributions and lobbying | 92 |
| Health care/drug pricing | 41 |
| Alcohol, tobacco, firearms | 24 |
| Abortion/contraception | 12 |
| Responsible media | 11 |
| Ties to State sponsor of terror | 5 |
| Miscellaneous | 27 |
| *Total* | 212 |
| Issues in Employee Relations Resolutions | |
| International conduct | 56 |
| Antidiscrimination | 39 |
| ILO standards & Third-party monitoring | 27 |
| Workplace standards | 15 |
| Health care reform | 12 |
| Miscellaneous | 10 |
| *Total* | 159 |
| Issues in Diversity Resolutions | |
| Sexual orientation anti-bias policy | 69 |
| Equal opportunity (glass ceiling) | 24 |
| Board diversity | 15 |
| Women/minority promotion | 11 |
| Franchise/supplier diversity | 10 |
| Miscellaneous | 12 |
| *Total* | 141 |

**Table 4. (Continued) Top Five Issues in the Withdrawn Social Shareholder Resolutions**

| Issues in Human Rights Resolutions | Frequencies |
|---|---|
| Board of Committee on human rights | 12 |
| Human rights criteria for China operations | 9 |
| Forced child labor | 7 |
| Human rights criteria for Mexican operations | 7 |
| Human rights criteria for overseas sourcing | 3 |
| Miscellaneous | 2 |
| *Total* | 40 |
| Issues in Product Responsibility Resolutions | |
| Labeling gene-engineered foods | 13 |
| Product safety | 6 |
| Phasing out use of with products with PVC | 5 |
| Responsible product marketing/advertising | 4 |
| Product/services for economically disadvantaged | 4 |
| Miscellaneous | 7 |
| *Total* | 39 |

**Table 5. Chi-Square Results Comparing Environmental and Community Resolutions**

| Types of Issues | *n* | *%* | *df* | *X2* |
|---|---|---|---|---|
| Environment | 408 | 41 | 1 | 8.302*** |
| Community | 212 | 21 | 1 | |

*Note*. *** = $p < 0.001$. The analysis included withdrawn social resolutions. The other portion of the sample included *employee* (*n* = 159), *diversity* (*n* = 141), *human rights* (*n* = 40), and *product responsibility* (*n* = 39).

**Table 6. Types of Requested Changes in the Withdrawn Social Resolutions**

| Types of Changes | *n* | % | *df* | *X2* |
|---|---|---|---|---|
| Communication-based Changes | 527 | 57 | 1 | 12.1* |
| Policy/Procedural Changes | 308 | 33 | | |

*Notes*. * = *p* < .05. Percentages appear in parentheses below group frequencies. The sample included the resolutions that were categorized in one of the three groups.

**Table 7. Major Sponsor Types of Withdrawn Social Shareholder Resolutions**

| Sponsor Types & Names | *n* |
|---|---|
| **Public Pension Funds *(Total)*** | 342 |
| New York City Pension Funds | 274 |
| New York City Employees' Retirement | 34 |
| New York State Common Retirement Fund | 23 |
| California State Teachers' Retirement | 11 |
| **Socially Responsible Investing (SRI) Funds (Total)** | 284 |
| Walden Asset Management | 107 |
| Calvert Asset Management Co. | 56 |
| Trillium Asset Management | 36 |
| Domini Social Investments | 21 |
| Green Century Capital Management | 19 |
| As You Sow Foundation | 17 |
| Harrington Investments | 15 |
| Nathan Cummings Foundation | 8 |
| Northstar Asset Management | 5 |
| **Religious Organizations (Total)** | 209 |
| Interfaith Center on Corporate Responsibility (ICCR) | 106 |
| General Board of Pensions of the United Methodist Church | 23 |
| Adrian Dominican Sisters | 16 |
| Presbyterian Church USA | 11 |
| Sisters of St. Francis | 11 |
| Capuchin Province of St. Joseph | 9 |
| Oblates of Mary Immaculate | 8 |
| Sisters of St. Dominic, Caldwell, NJ | 8 |
| Sisters of Charity of St. Elizabeth | 7 |
| Sisters of Mercy | 5 |
| Christian Brothers Investment Services | 5 |
| **Unions (Total)** | 88 |
| AFL-CIO | 51 |
| GBPUMC | 15 |
| International Brotherhood of Teamsters | 15 |
| Service Employees International Union | 7 |
| **Special Interests Groups (Total)** | 51 |
| People for the Ethical Treatment of Animals (PETA) | 16 |
| Human Society of the US | 11 |
| Pro Vita Advisors | 7 |
| Sierra Club | 7 |
| Physicians Committee for Responsible Medicine | 5 |
| Jewish Voice for Peace | 5 |

**Table 8. Descriptive Analysis of the Variables in Model 1: Probability of Withdrawal (H1-4)**

| Variable | *M* | *SD* | Min | Max |
|---|---|---|---|---|
| Withdrawn Resolution | 0.295 | 0.456 | 0 | 1 |
| Withdrawn Environment Resolution | 0.148 | 0.355 | 0 | 1 |
| Withdrawn Community Resolution | 0.075 | 0.264 | 0 | 1 |
| Corporate Environmental Commitment | 0.112 | 0.315 | 0 | 1 |
| Corporate Community Commitment | 0.266 | 0.442 | 0 | 1 |
| Company Size (Log Sales) | 9.422 | 1.425 | 3.104 | 12.499 |
| Company Debt (Market Leverage) | 0.391 | 0.227 | 0.021 | 0.955 |
| Financial Performance (Stock Return) | 0.124 | 0.388 | -0.847 | 3.476 |
| Growth opp. (Market-to-Book Ratio) | 1.989 | 1.258 | 0.603 | 8.980 |
| Profitability (EBITDA/TA) | 0.155 | 0.085 | -0.244 | 0.439 |
| Financial Slack (Log Cash/TA) | 0.109 | 0.150 | 0 | 1.355 |
| Total Asset | 87.72 | 5.173 | 119.84 | 267.95 |
| *n* = 3,449 | | | | |

*Notes.* Company financial indicators (Company Size, Company Debt, Financial Performance, Growth Opportunities, Profitability, and Financial Slack) are control variables. *Company size* (Sales) in million dollars. *Company Debt*, *Growth Opportunities*, *Profitability* and *Financial Slack* are in ratios. *Total Asset* is in billion dollar.

**Table 9. Correlations among the Variables in Model 1: Probability of Withdrawal (H1-H4)**

| | *1* | *2* | *3* | *4* | *5* | *6* | *7* | *8* | *9* | *10* | *11* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 Withdrawn Resolution | 1 | | | | | | | | | | |
| 2 Withdrawn Environment Resolution | 0.645 *** | 1 | | | | | | | | | |
| 3 Withdrawn Community Resolution | 0.441 *** | -0.066 *** | 1 | | | | | | | | |
| 4 Environment Commitment | 0.057 *** | 0.033 * | 0.035 ** | 1 | | | | | | | |
| 5 Community Commitment | 0.014 | 0.006 | 0.073 *** | 0.111 *** | 1 | | | | | | |
| 6 Log (Sales) | -0.133 *** | -0.108 *** | 0.035 ** | -0.019 | 0.132 *** | 1 | | | | | |
| 7 Market Leverage | 0.030 * | -0.030 * | 0.075 *** | -0.079 *** | -0.044 ** | 0.124 *** | 1 | | | | |
| 8 Stock Return | -0.009 | 0.009 | -0.013 | -0.013 | -0.015 | -0.035 * | -0.084 ** | 1 | | | |
| 9 Market-to-Book Ratio | -0.027 | -0.011 | -0.005 | 0.066 ** | 0.159 ** | -0.080 ** | -0.677 ** | 0.065 ** | 1 | | |
| 10 EBITDA/TA | -0.030 * | 0.016 | -0.046 *** | 0.035 ** | 0.078 ** | 0.001 | -0.716 ** | 0.049 ** | 0.655 ** | 1 | |
| 11 Log (Cash/TA) | 0.014 | -0.029 * | 0.055 *** | 0.147 *** | 0.042 ** | -0.098 *** | -0.215 *** | 0.034 ** | 0.322 *** | 0.1081 *** | 1 |

*Note.* Pairwise correlation coefficients are reported. * $p<0.10$, ** $p<0.05$, *** $p<0.01$.

**Table 10. Probability of Withdrawing a Resolution: Community Commitment (H1)**

| Variable | Model (1) |
|---|---|
| | Marginal Effect |
| Community Commitment | 0.054**<br>(0.013) |
| Control Variables | |
| Company Size | -0.046***<br>(0.000) |
| Company Debt | 0.094<br>(0.189) |
| Financial Performance | 0.020<br>(0.404) |
| Growth Opp. | -0.003<br>(0.853) |
| Probability | 0.048<br>(0.782) |
| Financial Slack | -0.012<br>(0.868) |
| Year Fixed Effects | Yes |
| *n* = 3,449 | |
| *p*-value of model | 0.000 |

*Note.* Probit specification with robust standard errors in all models. Marginal effects are reported and *p*-values, which are based on two-tailed tests, are in parentheses. *p*-values **p*<0.1, ** *p*<0.05, *** *p*<0.01. *Community Commitment* refers to those corporations in the sample that had high level environment commitment as measured by KLD values in the community dimension. Company financial indicators are controlled. Goodness-of-fit of the model is reported in *p* values.

**Table 11. Probability of Withdrawing a Resolution: Environmental Commitment (H2)**

| Variable | Model (2) Marginal Effect |
| --- | --- |
| Environmental Commitment | 0.080**<br>(0.038) |
| Control Variables | |
| Company Size | -0.044***<br>(0.000) |
| Company Debt | 0.113<br>(0.130) |
| Financial Performance | 0.017<br>(0.482) |
| Growth Opp. | 0.001<br>(0.955) |
| Profitability | 0.057<br>(0.746) |
| Financial Slack | -0.024<br>(0.729) |
| Year Fixed Effects | Yes |
| *n* = 3,449 | |
| *p*-value of model | 0.000 |

*Note.* Probit specification with robust standard errors in all models. Marginal effects are reported and p-values, which are based on two-tailed tests, are in parentheses. *p*-values $*p<0.1$, $**\ p<0.05$, $***\ p<0.01$. *Environmental Commitment* refers to those corporations that had high level environment commitment as measured by KLD values in the environment dimension. Company financial indicators are control variables. Goodness-of-fit of the model is reported in p values.

**Table 12. Probability of Withdrawing a Resolution: Issue Type (H3)**

| Variable | Model (3) |
|---|---|
| | Marginal Effect |
| Environmental Issue Resolution | 0.831*** (0.000) |
| Control Variables | |
| Company Size | -0.038*** (0.000) |
| Company Debt | 0.206** (0.018) |
| Financial Performance | 0.018 (0.555) |
| Growth Opp. | 0.017 (0.328) |
| Profitability | -0.107 (0.586) |
| Financial Slack | 0.107 (0.237) |
| Year Fixed Effects | Yes |
| *n* = 3,449 | |
| *p*-value of model | 0.000 |

*Note.* Probit specification with robust standard errors in all models. Marginal effects are reported and p-values, which are based on two-tailed tests, are in parentheses. *p*-values *$p$<0.1, ** $p$<0.05, *** $p$<0.01. Environmental Resolution refers to those resolutions that addressed an issue regarding the natural environment. Company financial indicators are control variables. Goodness-of-fit of the model is reported in *p* values.

**Table 13. Probability of Withdrawing a Resolution: Sponsor Type (H4)**

| Variable | Model (4) |
|---|---|
| | Marginal Effect |
| Public Pension Fund Sponsor | 0.065* |
| | (0.085) |
| Control Variables | |
| Company Size | -0.043*** |
| | (0.000) |
| Company Debt | 0.087 |
| | (0.251) |
| Financial Performance | 0.015 |
| | (0.526) |
| Growth Opp. | 0.001 |
| | (0.960) |
| Profitability | 0.044 |
| | (0.803) |
| Financial Slack | 0.107 |
| | (0.237) |
| Year Fixed Effects | Yes |
| $n$ = 3,449 | |
| $p$-value of model | 0.000 |

*Note.* Probit specification with robust standard errors in all models. Marginal effects are reported and $p$-values, which are based on two-tailed tests, are in parentheses.
$p$-values *$p$<0.1, **$p$<0.05, *** $p$<0.001. Goodness-of-fit of the model is reported in p values.

**Table 14. Descriptive Analysis of the Variables in Model 2: Level of Implementation (H5-H8)**

| Variable | *M* | *SD* | *Min.* | *Max.* |
|---|---|---|---|---|
| Level of Implementation | 2.281 | 1.168 | 0 | 4 |
| Environmental Commitment | 0.124 | 0.331 | 0 | 1 |
| Community Commitment | 0.135 | 0.343 | 0 | 1 |
| Public Pension Fund Sponsor | 0.348 | 0.479 | 0 | 1 |
| SRI Fund Sponsor | 0.079 | 0.271 | 0 | 1 |
| Oil and Gas Industry | 0.517 | 0.503 | 0 | 1 |
| Control Variables | | | | |
| Company Size | 8.213 | 1.292 | 5.895 | 11.225 |
| Company Debt | 0.396 | 0.19 | 0.087 | 0.955 |
| Growth Opp. | 0.132 | 0.075 | -0.198 | 0.35 |
| Profitability | 1.567 | 0.66 | 0.827 | 4.933 |
| $n = 89$ | | | | |

*Note.* The analysis included all withdrawn resolutions that asked corporations to issue sustainability reports. Company financial variables (*Company Size*, *Company Debt*, *Growth Opportunities*, and *Profitability*) are control variables. *Company size* (log sales) is in million dollars. *Company Debt*, *Growth Opportunities*, and *Profitability* are in ratios.

**Table 15. Predicting the Implementation Level of Sustainability Reporting**

| Variable | Model (1) | Model (2) | Model (3) | Model (4) |
|---|---|---|---|---|
| Independent Variables | | | | |
| Environmental Commitment | ____ | 0.614* | 0.624* | ____ |
| | | (0.098) | (0.095) | |
| Pension Fund | 0.818*** | 0.748** | 0.658* | 0.767** |
| | (0.007) | (0.012) | (0.060) | (0.035) |
| SRI Fund | ____ | ____ | -0.149 | -0.082 |
| | | | (0.627) | (0.791) |
| Community Commitment | 0.582 | ____ | ____ | 0.573 |
| | (0.138) | | | (0.148) |
| Oil & Gas Industry | 0.851* | 0.891* | 0.901* | 0.855* |
| | (0.069) | (0.058) | (0.057) | (0.070) |
| Control Variables | | | | |
| Company Size | 0.110 | 0.133 | 0.118 | 0.103 |
| | (0.294) | (0.189) | (0.262) | (0.344) |
| Company Debt | 0.106 | 0.412 | 0.422 | 0.114 |
| | (0.911) | (0.657) | (0.651) | (0.905) |
| Profitability | -1.221 | -1.295 | -1.336 | -1.235 |
| | (0.572) | (0.548) | (0.537) | (0.570) |
| Growth Opp. | 0.242 | 0.269 | 0.280 | 0.247 |
| | (0.344) | (0.295) | (0.279) | (0.338) |
| Constant | 0.781 | 0.454 | 0.652 | 0.885 |
| | (0.450) | (0.651) | (0.549) | (0.426) |
| $n$ = 89 | | | | |
| $R$-square | 0.166 | 0.171 | 0.170 | 0.166 |

*Note.* Company financial variables (*Company Size*, *Company Debt*, *Growth Opportunities*, and *Profitability*) are control variables. *P* values in parentheses. Coefficients are reported. * $p$<0.1, ** $p$<0.05, *** $p$<0.01. Two tailed tests. Model (1) tests corporate community commitment while Model (2) tests corporate environmental commitment. Model (3) and Model (4) tests SRI funds as sponsor type.

**Table 16. Predicting Level of Implementation—Industry Classification Omitted**

| Variable | Model (5) | Model (6) |
|---|---|---|
| Independent Variables | | |
| Environmental Commit | 0.523 | ___ |
| | (0.161) | |
| Pension Fund | 0.782*** | 0.845*** |
| | (0.009) | (0.006) |
| Community Commitment | ___ | 0.519 |
| | | (0.190) |
| Oil & Gas Industry | ____ | ____ |
| Control Variables | | |
| Company Size | 0.108 | 0.087 |
| | (0.289) | (0.407) |
| Company Debt | 0.331 | 0.063 |
| | (0.725) | (0.947) |
| Profitability | -0.380 | -0.360 |
| | (0.859) | (0.866) |
| Growth Opp. | 0.150 | 0.132 |
| | (0.552) | (0.599) |
| Constant | 0.830 | 1.109 |
| | (0.408) | (0.284) |
| *n* = 89 | | |
| R-square | 0.133 | 0.131 |

*Note*. *p* values in parentheses. Coefficients are reported. * *p*<0.1, ** *p*<0.05, *** *p*<0.01 (Two-tailed tests).

# FIGURES

**Figure 1. Timeline of Social Shareholder Activism in the U.S.**

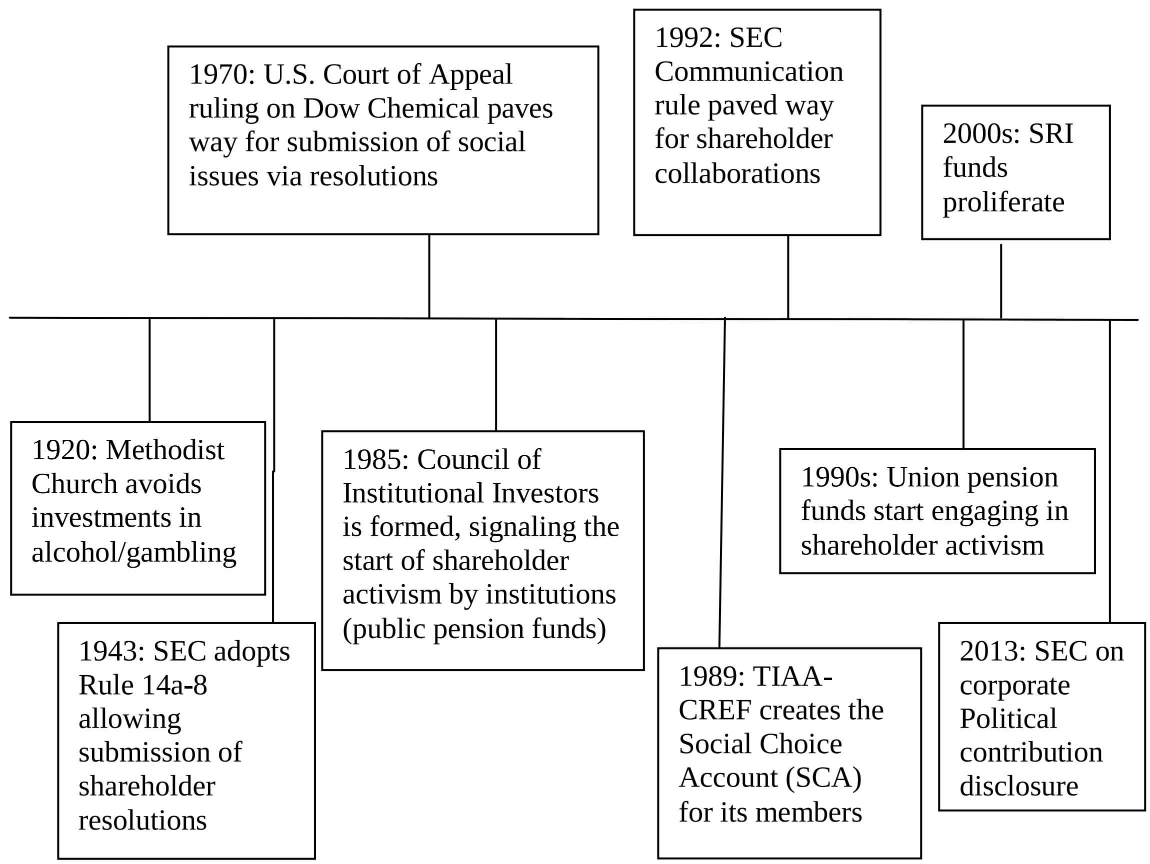


**Figure 2. Schema of the Process and Outcomes of Shareholder Resolutions**

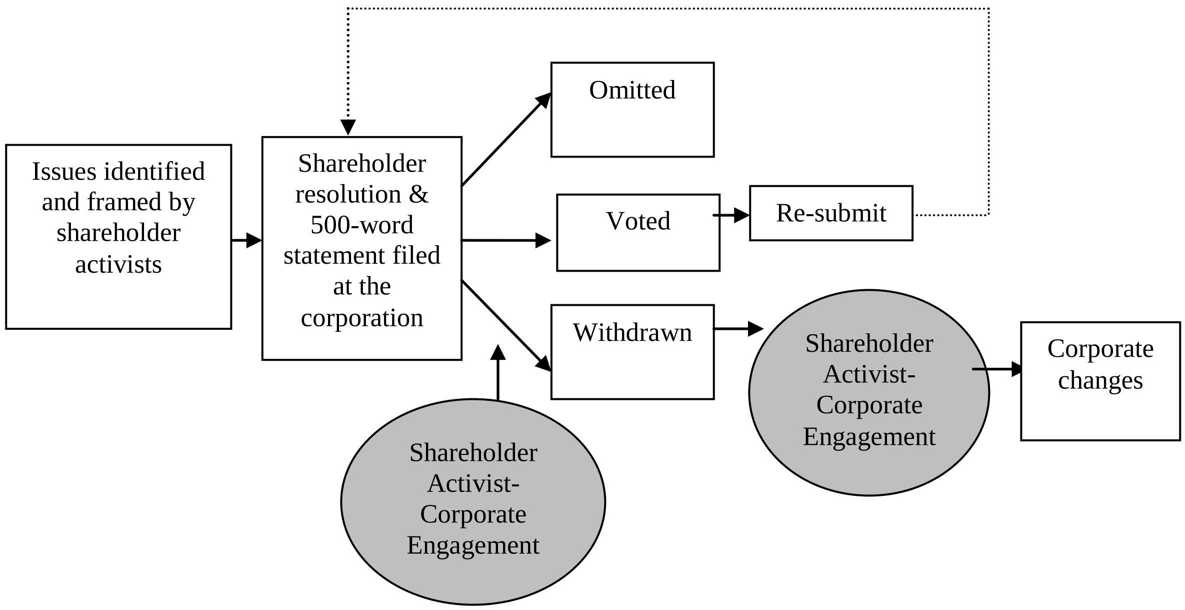


**Figure 3. Probability of Withdrawing a Social Resolution (Model 1)**

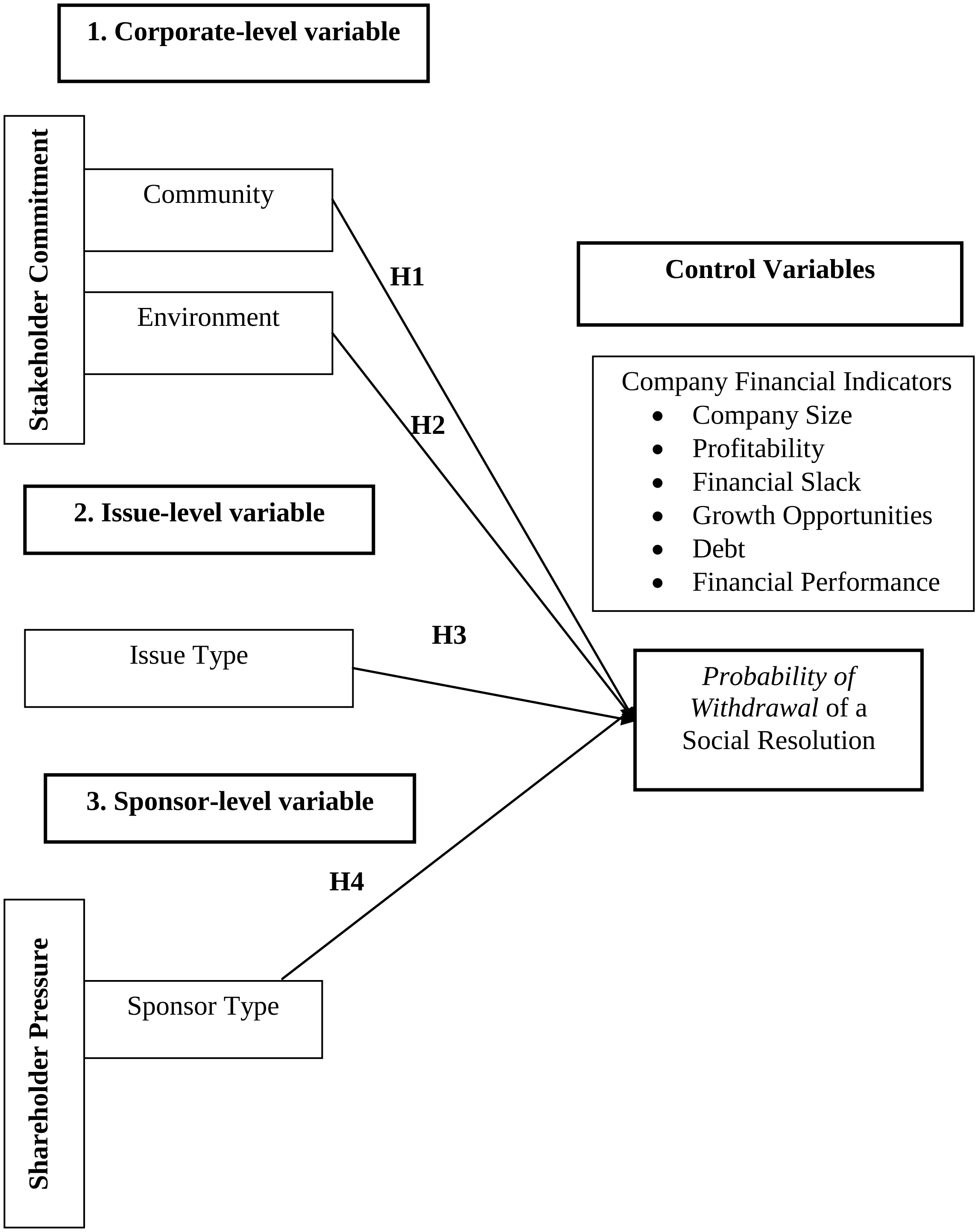


**Figure 4. Implementation Level of a Social Shareholder Resolution (Model 2)**

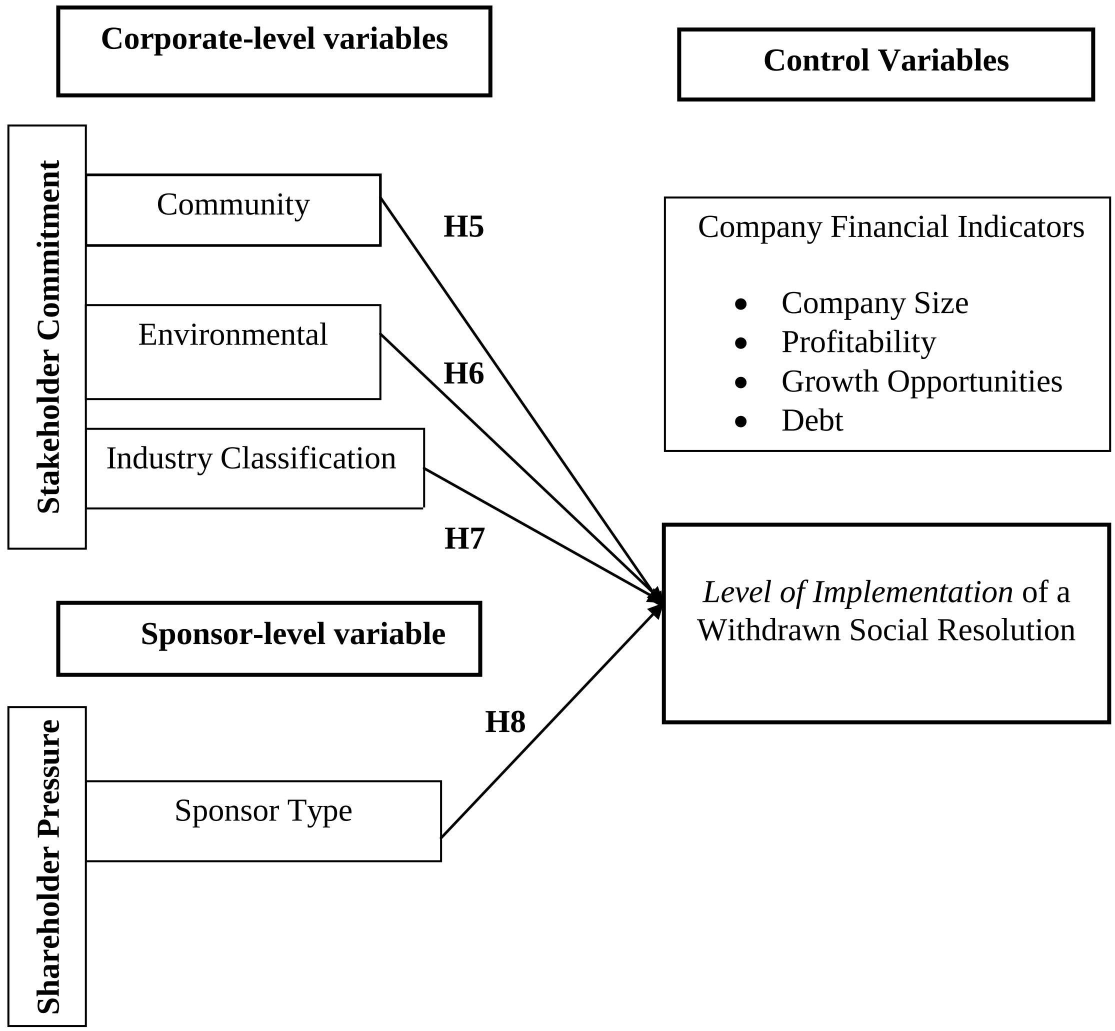
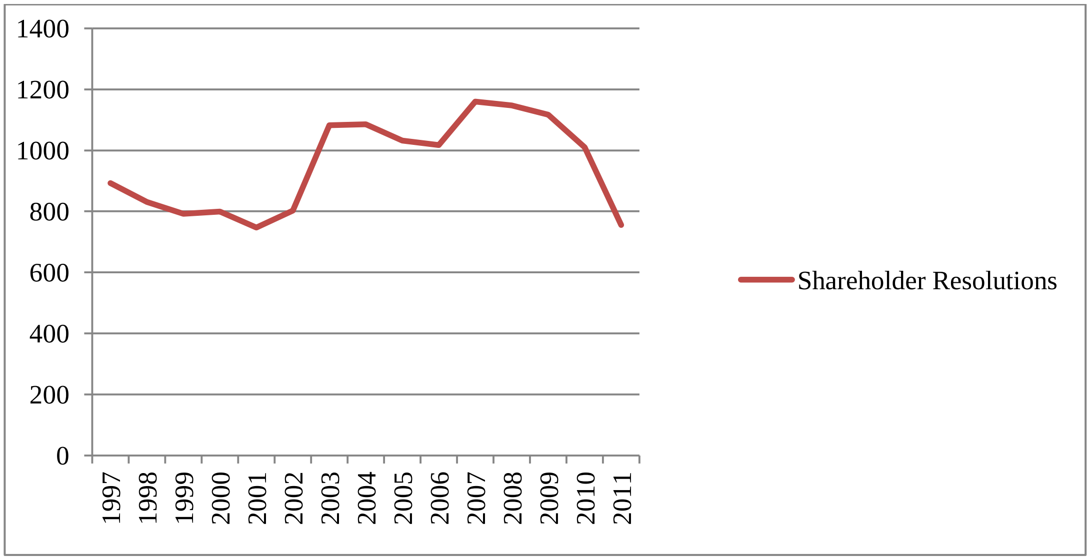
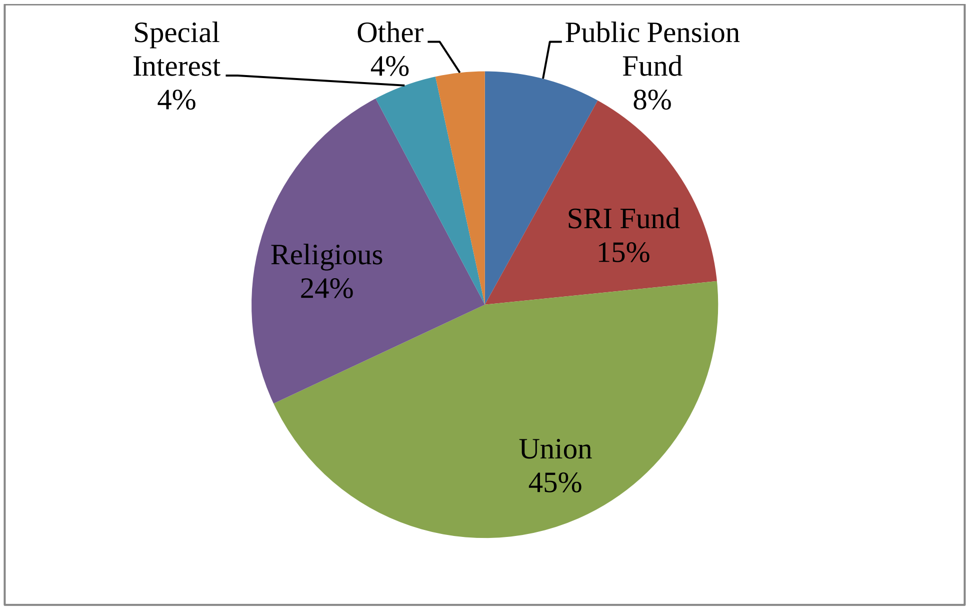


**Figure 5. Total Number of Shareholder Resolutions per Year, 1997-2011**



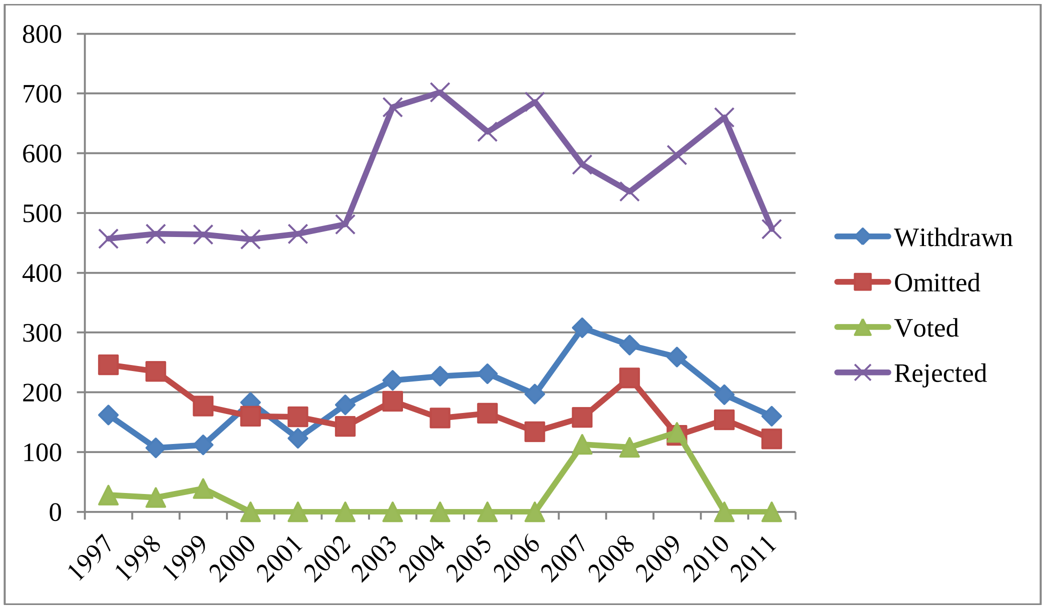

*Note. Y* axis shows the number of shareholder resolutions. *X* axis shows years.

**Figure 6. Distribution of All Resolutions by Sponsor Type, 1997-2011**



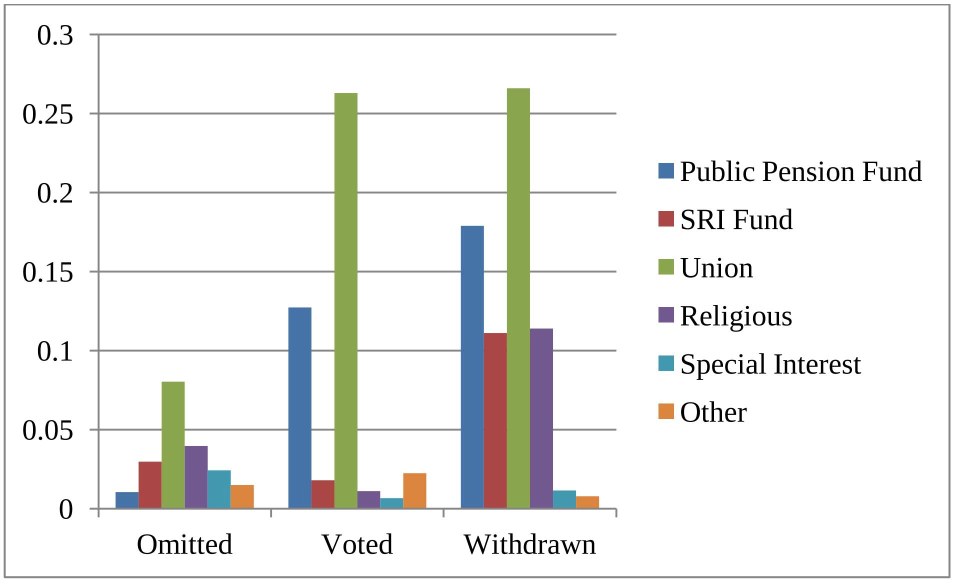

*Note*. The total number of all shareholder resolutions filed between 1997 and 2011 is 14, 271.

**Figure 7. Distribution of All Resolutions by Outcomes per Year, 1997-2011**



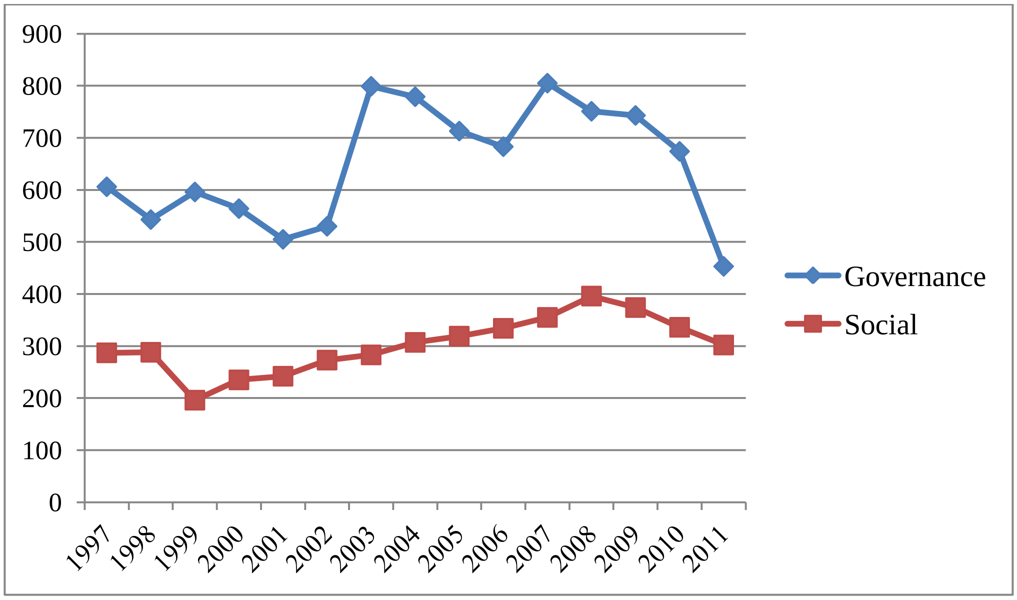

*Note*. *Y* axis shows the number of shareholder resolution outcomes. *X* axis shows years.

**Figure 8. All Resolution Outcomes by Sponsor Type**



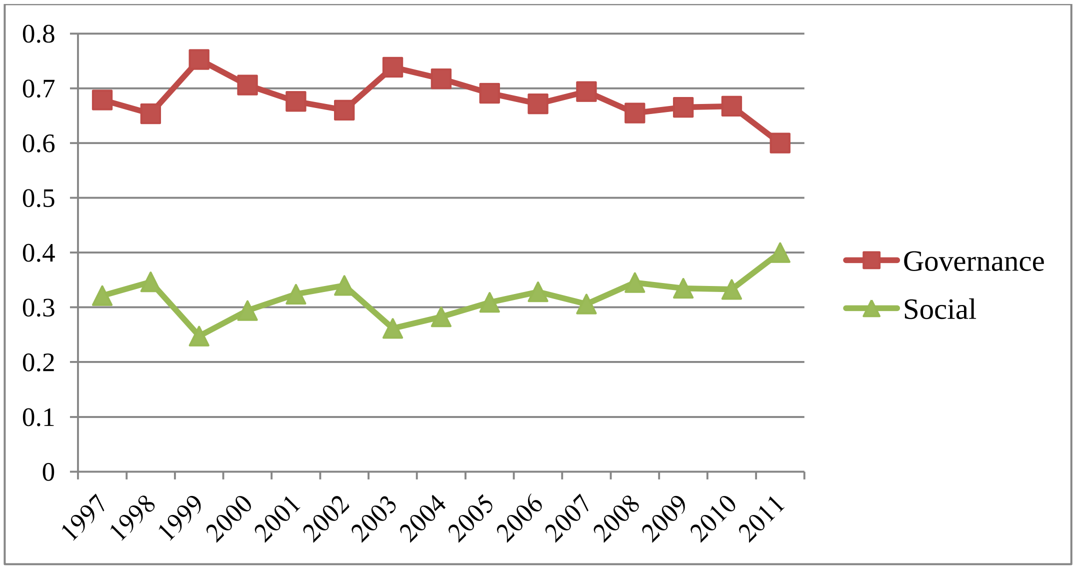

*Note. Y* axis indicates the percentages of all shareholder resolutions filed by each sponsor type.

**Figure 9. Distribution of Social and Governance Resolutions per Year, 1997-2011**



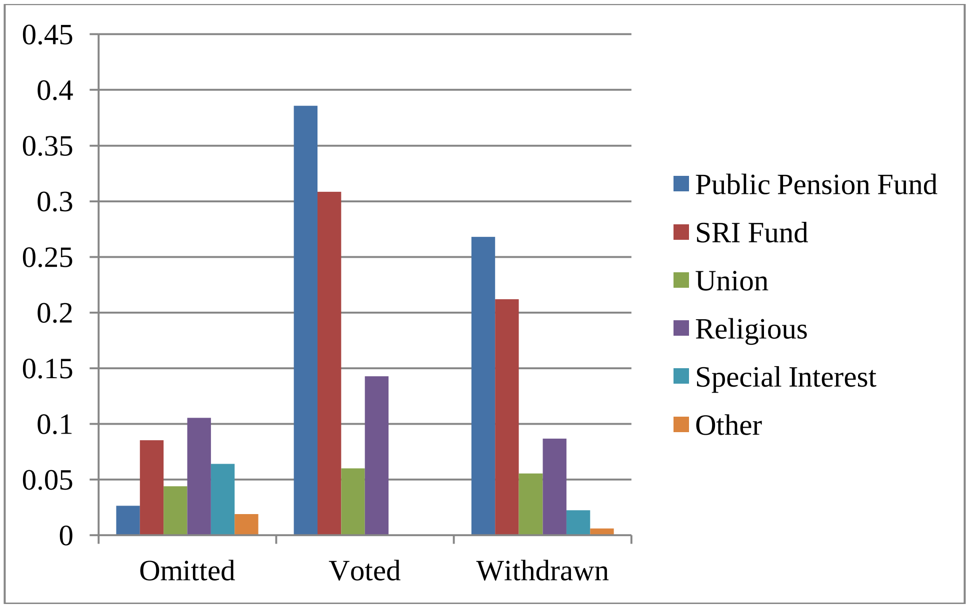

*Note. Y* axis shows the number of shareholder resolutions. *X* axis shows years.

**Figure 10. Ratio of Social and Governance Resolutions to All Shareholder Resolutions**



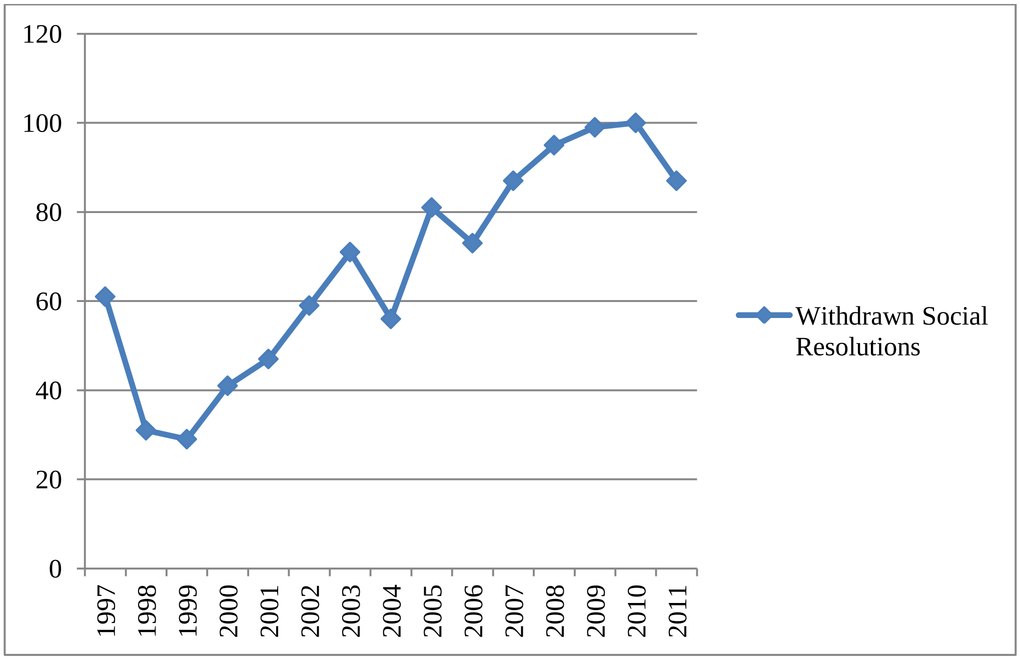

*Note*. *Y* axis shows the ratio of corporate governance and social (corporate social responsibility) shareholder resolutions to all shareholder resolutions. *X* axis shows years.

**Figure 11. Distributions of Social Resolutions Outcomes by Sponsor Types**



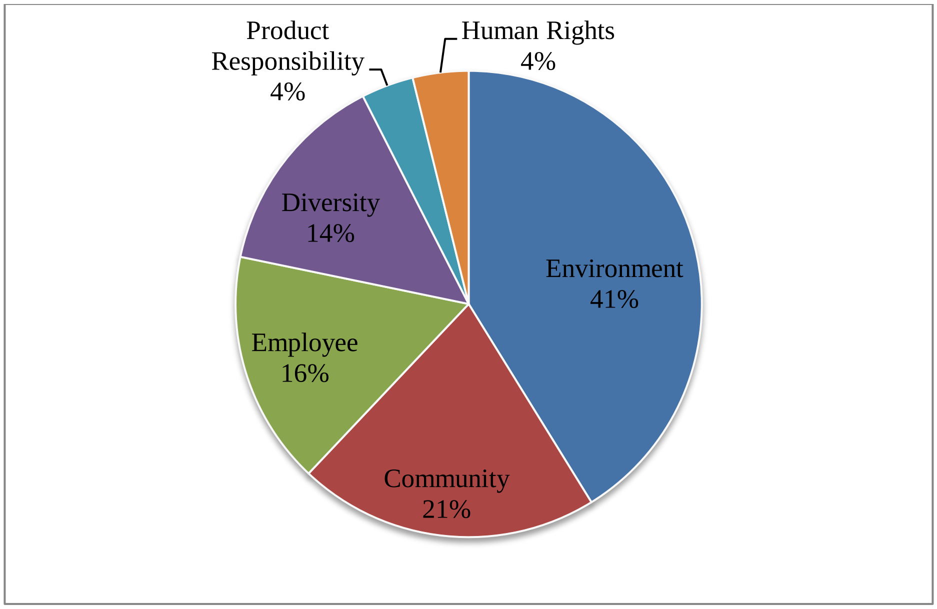

*Note*. *Y* axis indicates distribution of the ratio of social shareholder resolutions outcomes filed by each sponsor type. *X* axis shows outcomes of resolutions.

**Figure 12. Distribution of Withdrawn Social Resolutions per Year, 1997-2011**



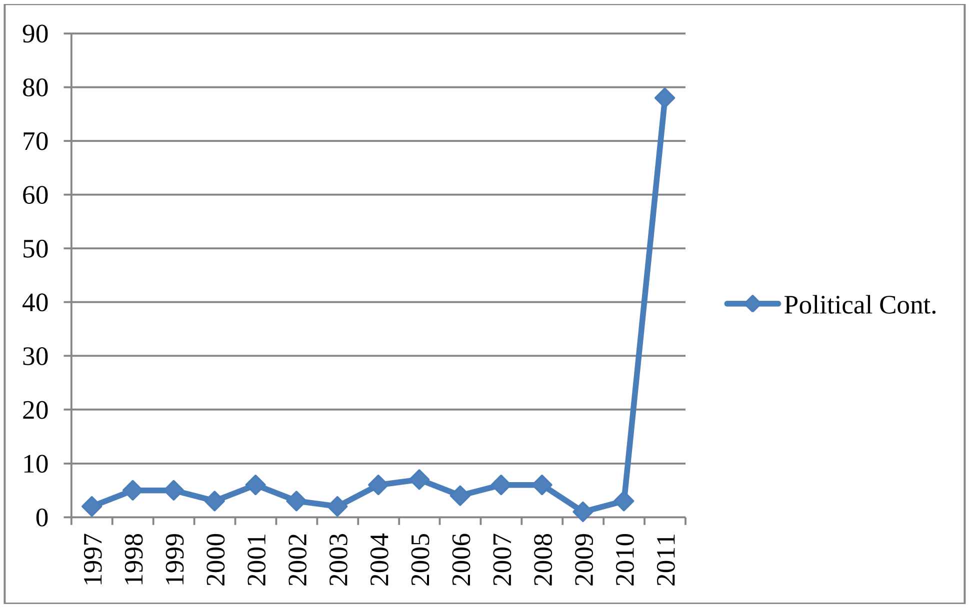

*Note*. Total number of withdrawn social resolutions is 1,017. *Y* axis shows the number of withdrawn social resolution. *X* axis shows years.

**Figure 13. Distribution of Withdrawn Social Resolutions by Issue Type, 1997-2011**



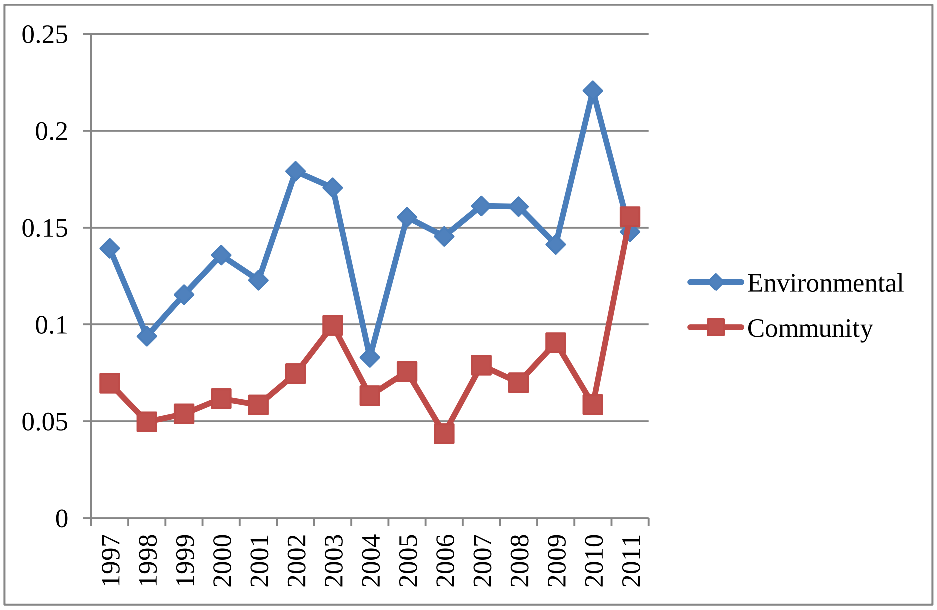

*Note.* Total number of withdrawn social resolutions is 1,017.

**Figure 14. Trend of Political Contribution Resolutions, 1997-2011**




*Note*. *Y* axis shows number of shareholder resolutions that asked target corporations to adopt or report on corporate political contribution policy. *X* axis shows years.

**Figure 15. Ratio of Environmental and Community Resolutions in the Withdrawn Resolutions**




*Note*. *Y* axis shows the ratio of environment oriented-issue (*n* = 408) and community oriented-issue (*n* = 212) resolutions to all social resolutions in the withdrawn sample (*n* = 1,017). *X* axis shows years.

**Figure 16. Distribution of Withdrawn Social Resolutions by Sponsor Types, 1997-2001**

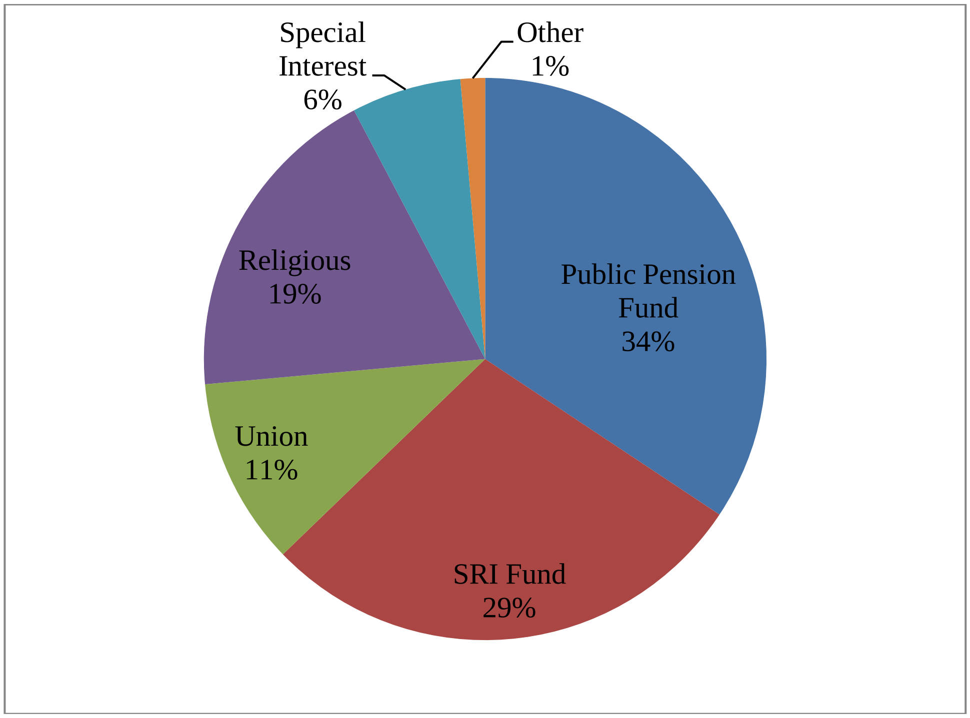
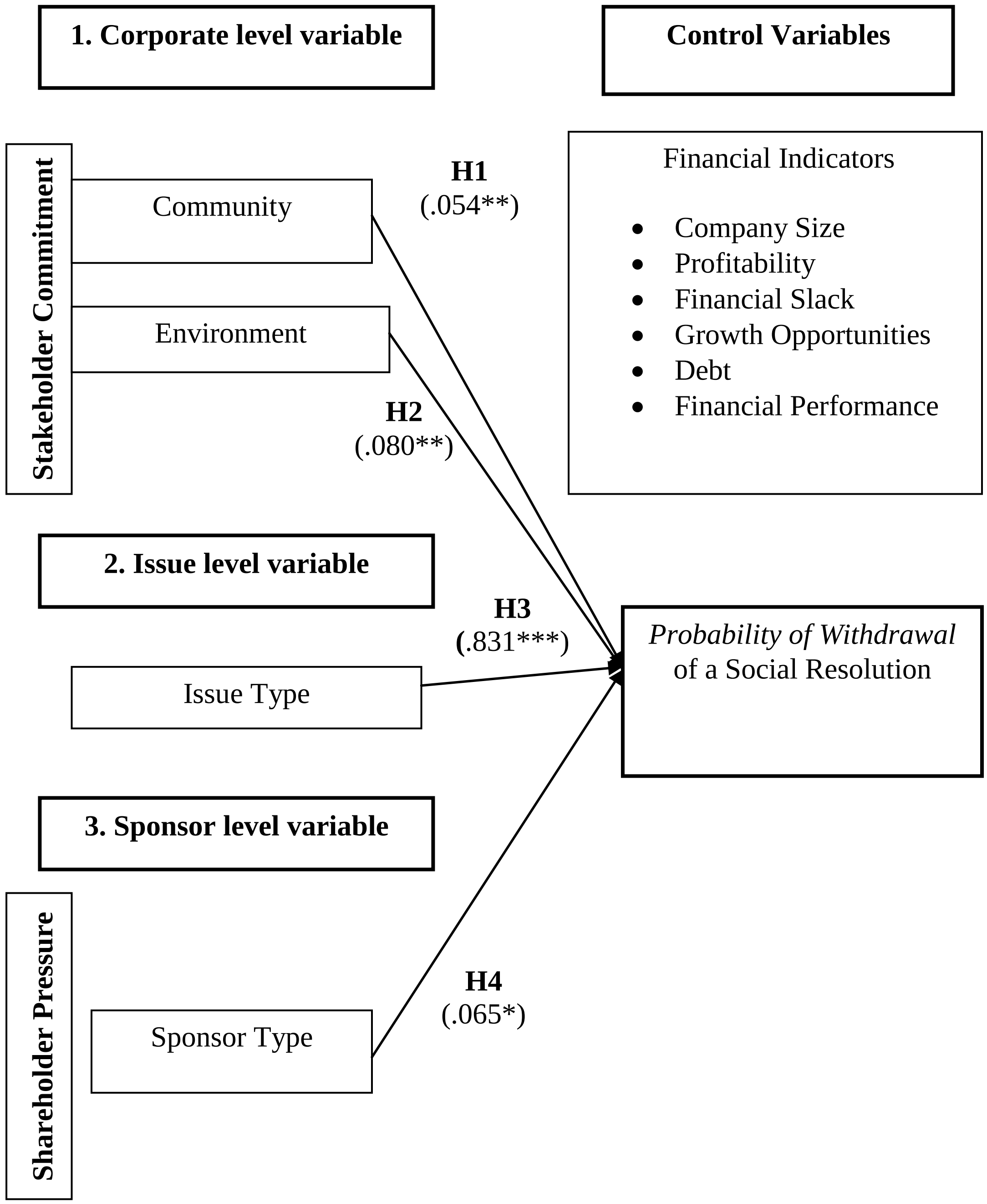
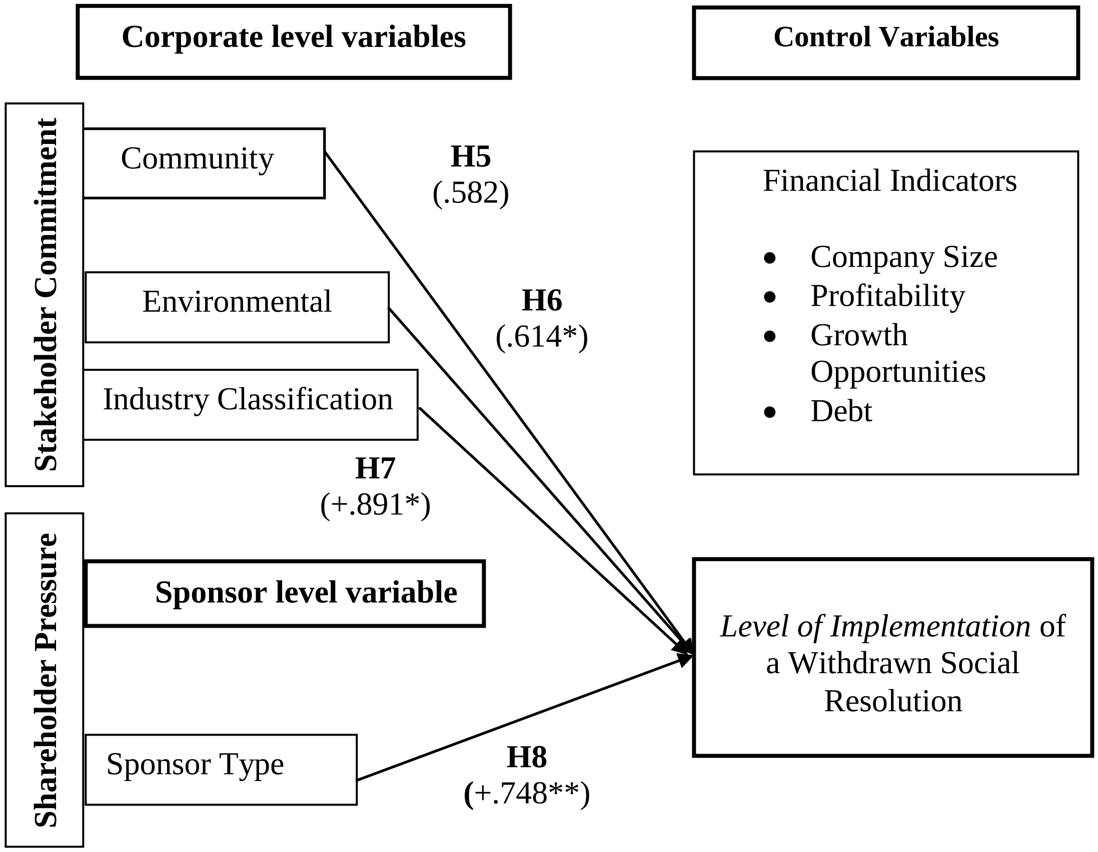


**Figure 17. Empirical Results of Probability of Withdrawal (Model 1)**



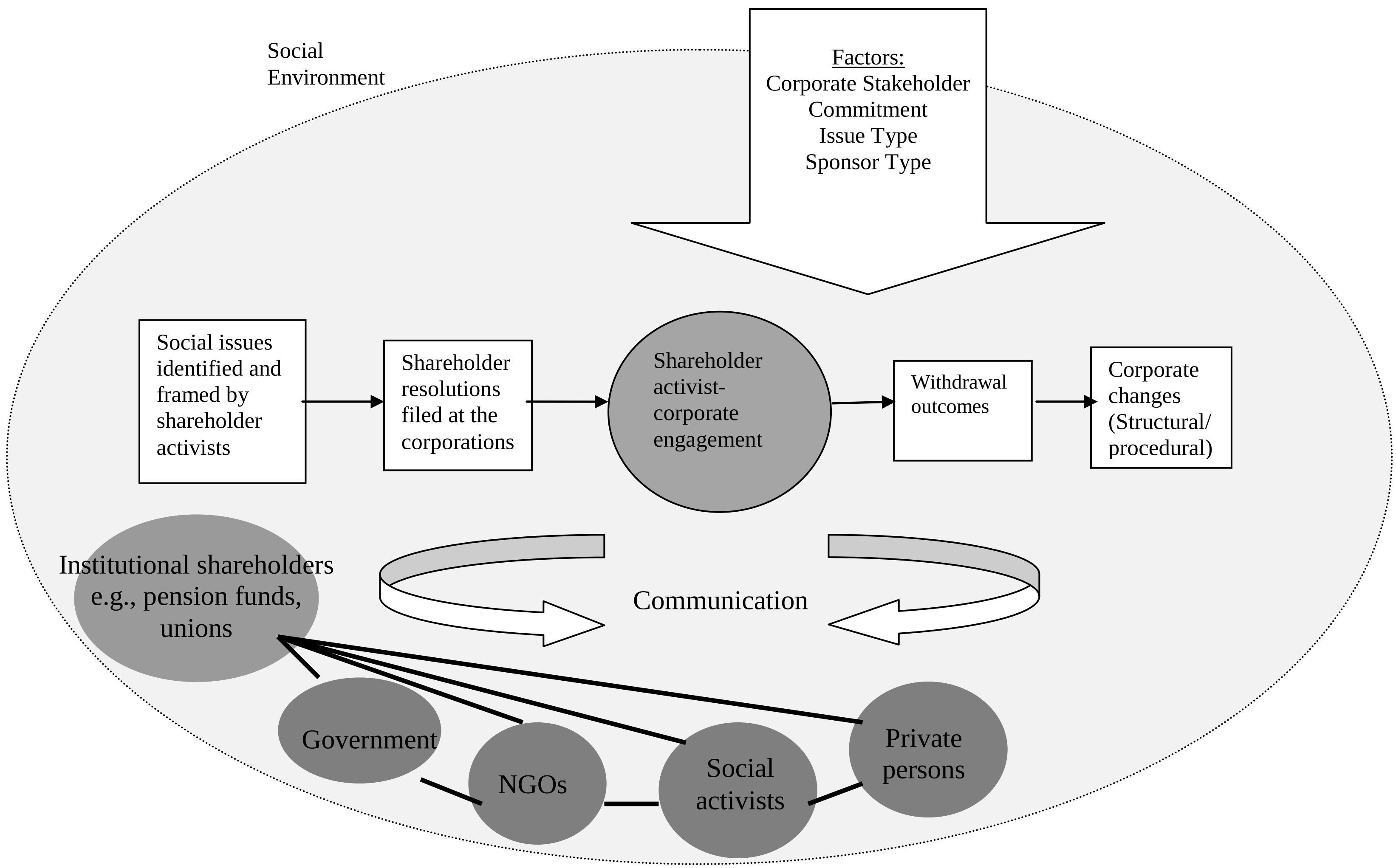

*Note*. Probit model analysis. Marginal effects are reported. Two-tailed tests.
*p*-values *$p$<0.1, ** $p$<0.05, *** $p$<0.01.

**Figure 18. Empirical Results of Implementation Level of a Social Shareholder Resolution (Model 2)**




*Note*. Results of OLS regression analysis model. Coefficients are reported. * $p$ <0.1, **$p$<0.05, ***$p$<0.01. Two tailed tests.
$R2$ = 0.171 in Model 2.

**Figure 19. Proposed Model of Organizational Legitimacy through Social Shareholder Activist-Corporate Engagement**



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# Appendix A: Example of a Shareholder Letter

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers'
Retirement System
Investments
100 Waterfront Place, MS-04
West Sacramento, CA 95605-2807
(916) 414-7410 Fax (916) 414-7442
asheehan@calstrs.com

January 11, 2010

Jennifer M. Grigsby,
Senior Vice President, Treasurer & Corporate Secretary
Chesapeake Energy Corporation
6100 North Western Avenue
Oklahoma City, OK 73118

Dear Jennifer M. Grigsby:

Enclosed, please find a CalSTRS shareholder proposal calling for Chesapeake Energy to prepare a sustainability report, our supporting statement, and our ownership verification letter from our custodian, State Street Bank. We are submitting this proposal to you for inclusion in the next proxy statement pursuant to Rule 14a-8 under the Securities Exchange Act of 1934.

CalSTRS is the beneficial owner of more than $2,000 in market value of the company's stock and has held such stock continuously for over one year. Furthermore, CalSTRS intends to continue to hold the company's stock through the date of the 2010 annual meeting.

Please feel free to contact Brian Rice at (916) 414-7413 to discuss the contents of the proposal.

Sincerely,

Anne E. Sheehan

Anne Sheehan
Director, Corporate Governance

Enclosures

cc: Aubrey K. McClendon, Chairman of the Board and Chief Executive Officer

## Appendix A: Example of Shareholder Resolution (cont'd)

CHESAPEAKE ENERGY SUSTAINABILITY REPORT RESOLUTION

WHEREAS:

We believe that sustainability reporting on environmental, social and governance (ESG) business practices makes a company more responsive to the global business environment, an environment with finite natural resources, evolving legislation, and increasing public expectations of corporate behavior. Reporting also helps companies better integrate and gain strategic value from existing corporate social responsibility efforts, identify gaps and opportunities, develop company-wide communications, publicize innovative practices and receive feedback.

Many companies are preparing sustainability reports which provide disclosure on how they are positioning themselves to be viable long-term investments. According to a 2008 KPMG report on sustainability reporting, of the 250 Global Fortune companies, 79% produce reports compared to 52% in 2005. Of the 100 top U.S. companies by revenue, 73% produce reports compared to 32% in 2005. Increasingly, companies are identifying ESG factors relevant to their business and addressing them strategically through sustainability programs and reports.

Transparency on climate change is particularly crucial as it is one of the most financially significant environmental issues currently facing investors. The Intergovernmental Panel on Climate Change's 2007 report observed that, "taken as a whole, the range of published evidence indicates that the net damage costs of climate change are likely to be significant and increase over time."

The Carbon Disclosure Project (CDP), representing 475 institutional investors globally with $55 trillion in assets, annually requests disclosure from companies on their climate change management programs. Companies are increasingly providing this climate change disclosure. The response rate to the 2009 CDP for the S&P 500 was 66%, compared to a response rate of 47% to the 2006 survey.

Chesapeake Energy has not prepared a sustainability report and did not respond to the questions presented in the 2009 CDP survey, instead providing limited information on the company's climate change management efforts.

According to Chesapeake Energy's 2009 annual report, the company acknowledges that natural gas and oil drilling and producing operations can be hazardous and may expose the Company to environmental liabilities. The 2009 annual report also states that climate-related legislation and other regulatory initiatives may result in compliance obligations with respect to the release, capture and use of carbon dioxide that could have an adverse effect on Company operations.

In a recent Newsweek analysis assessing the environmental performance of companies, Chesapeake Energy ranked 402 out of 500 companies that were considered and ranked 27 out of 31 oil and gas companies that were considered.

RESOLVED

Shareholders request that the Board of Directors issue a sustainability report describing the company's short- and long-term responses to ESG-related issues, including greenhouse gas emissions data and plans to manage emissions. The sustainability report should also include a company-wide review of policies, practices, and metrics related to ESG issues. The report should be prepared at reasonable cost, omitting proprietary information, and made available to shareholders by November 30, 2010.

*Source:* Chesapeake Corporation. T90 'W Dc, - Securities and Exchange Commission Archives, retrieved from http://www.sec.gov/divisions/corpfin/cf-noaction/14a-8/2010/calstrs040210-14a8.pdf

# Appendix B: Code Sheet for Types of Social Issues

| Types of Social Issues |
|---|
| Social issues addressed in the resolutions are coded based on the specific topics listed in the KLD corporate social performance ratings and GRI categories for corporate social performance.<br>Unit of analysis is each shareholder resolution.<br>Six categories are created: *Community, Employee Relations, Diversity, Human Rights, Environment*, and *Product Responsibility.*<br>Social resolutions are coded under one of these six categories based on the topic they addressed. Examples of broader topics are presented below each category. The examples are generated from preliminary analysis of social resolutions and KLD sub-indicators for rating corporate social performance. |

| Community |
|---|
| Charitable giving |
| Housing |
| Education |
| Health care (drug pricing, AIDS impact) |
| Indigenous people relations |
| Political contributions and lobbying (e.g., concerns about political corruption) |
| Alcohol, tobacco, gambling, firearms |
| Responsible media/marketing/advertising campaigns (e.g., discouraging smoking) |
| Military (contracting) |
| Nuclear power |
| Community relations |
| Investment controversies (e.g., investment in sin industries) |
| Other community issues |

| Environment |
|---|
| Pollution prevention |
| Clean energy |
| Water use |
| Environmental communication (reports) |
| Specific environmental principles, policies, procedures (e.g., Kyoto, CERES) |
| Property, plant, equipment (e.g., energy efficient plants, equipments) |
| Ozone depleting chemicals/toxic emissions |
| Agricultural chemicals |
| Climate change |
| Greenhouse gas emissions |
| Global warming |
| Other environmental issues |

| Employee relations |
|---|
| Union relations |
| Layoff policy |
| Cash profit sharing |
| Employee involvement |
| Retirement benefits |
| Health care |
| Work/life benefits |
| International conduct |
| Specific policies/principles (ILO principles, McBride Principles) |
| Workplace safety |
| Other employee issues |

| Human Rights |
|---|
| Indigenous people relationships |
| Overseas sourcing operations |
| Corporate international conduct (e.g., South Africa, Burma, Mexico) |
| Other human rights issues |

| Diversity |
|---|
| CEO diversity |
| Promotion of minority/women |
| Board of Director diversity |
| Women/minority contracting |
| Employment of the disabled |
| Gay & lesbian policies |

| Product Responsibility |
|---|
| Product/service quality |
| R&D expenditure for innovative product |
| Products/services for economically disadvantaged |
| Product safety |
| Other product/service issues |

*Notes.* The unit of analysis is a shareholder resolution. The categories are mutually exclusive. The examples above are not exhaustive.

# Appendix C: Code Sheet for Types of Requested Changes

| 1) Structural changes |
| --- |
| This category includes resolutions that ask for a structural change within the corporate organization such as establishing a unit or a department that will require structural arrangements for the corporation. Structural changes concern "what the system is." Structural changes require a paid position, titles, and employees.<br><u>Example:</u><br>Establish a Board Committee on sustainability<br>Establish employee matching gift program<br>Establish human rights committee |

| 2) Policy/procedural changes |
| --- |
| This category includes resolutions that ask to implement policy/procedural changes. Procedural/policy changes concern "what the system does."<br><u>Examples:</u><br>Implement MacBride principles<br>Adopt sexual orientation anti-bias policy<br>Implement ILO standards and third-party monitoring<br>Make facilities smoke-free<br>Use non-animal test methods |

| 3) Communication-based changes |
| --- |
| This category includes resolutions concerning corporate communication to shareholder as well as to other stakeholders. The category includes sustainability reporting, CSR communication, and disclosure on corporate policy/operations/actions.<br><u>Examples:</u><br>Issue sustainability report<br>Issue statements opposing affirmative action<br>Disclose political contributions in newspapers<br>Report on EEO policies, including for disabled<br>Endorse Ceres principles<br>Affirm political nonpartisanship<br>Disclose countries/guidelines for clinical trials |

# Appendix D: Code Sheet Levels of Implementation of Sustainability Reporting

| GRI Sustainability Reporting Application Level | C | B | A |
|---|---|---|---|
| Profile Disclosures | Report on:<br>1.1<br>2.1-2.10<br>3.1-3.8, 3.10-3.12<br>4.1-4.4, 4.14 , 4.15 | Report on all criteria listed for Level C plus:<br>1.2<br>3.9, 3.13<br>4.5-4.13, 4.16, 4.17 | Report on all criteria listed for Level B |
| Disclosures on Management Approach | Not Required | Management Approach Disclosures for each Indicator Category | Management Approach Disclosures for each Indicator Category |
| Performance Indicators & Sector Supplement Performance Indicators | Report fully on a minimum of any 10 Performance Indicators, including at least one from each of: social, economic and environment | Report fully on a minimum of any 20 Performance Indicators, including at least one from each of: economic, environment, human rights, labor, society and product responsibility | Respond on each core and sector supplement indicator with due regard to the materiality principle by either: a) reporting on the indicator or b) explaining the reason for its omission |

*Source:* Global Reporting Initiative. (2013). The three application levels. Retrieved from https://www.globalreporting.org/reporting/reporting-framework-overview/application-level-information/Pages/default.aspx

# Appendix D: Code Sheet: Levels of Implementation of Sustainability Reporting (cont'd)

**GRI Sustainability Reporting Guidelines G3 – Reference Sheet Principles for Defining Report Content**

**Principles for Defining Report Content**

MATERIALITY: The information in a report should cover topics and Indicators that:
• reflect the organization's significant economic, environmental, and social impacts, or that
• would substantively influence the assessments and decisions of stakeholders.

STAKEHOLDER INCLUSIVENESS: The reporting organization should identify its stakeholders and explain in the report how it has responded to their reasonable expectations and interests.

SUSTAINABILITY CONTEXT: The report should present the organization's performance in the wider context of sustainability.

COMPLETENESS: Coverage of the material topics and Indicators and definition of the report boundary should be sufficient to reflect significant economic, environmental, and social impacts and enable stakeholders to assess the reporting organization's performance in the reporting period.

Principles for Ensuring Report Quality
BALANCE: The report should reflect positive and negative aspects of the organization's performance to enable a reasoned assessment of overall performance.

COMPARABILITY: Issues and information should be selected, compiled, and reported consistently. Reported information should be presented in a manner that enables stakeholders to analyze changes in the organization's performance over time, and could support analysis relative to other organizations.

ACCURACY: The reported information should be sufficiently accurate and detailed for stakeholders to assess the reporting organization's performance.

TIMELINESS: Reporting occurs on a regular schedule and information is available in time for stakeholders to make informed decisions.

CLARITY: Information should be made available in a manner that is understandable and accessible to stakeholders using the report.

RELIABILITY: Information and processes used in the preparation of a report should be gathered, recorded, compiled, analyzed, and disclosed in a way that could be subject to examination and that establishes the quality and materiality of the information.

Standard Disclosures: Profile
Strategy and Analysis
1.1 Statement from the most senior decision-maker of the organization (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and its strategy.

The statement should present the overall vision and strategy for the short-term, medium-term (e.g., 3-5 years), and long-term, particularly with regard to managing the key challenges associated with economic, environmental, and social performance.

The statement should include:
• Strategic priorities and key topics for the short/ medium-term with regard to sustainability, including respect for

internationally agreed standards and how they relate to long-term organizational strategy and success;
• Broader trends (e.g., macroeconomic or political) affecting the organization and influencing sustainability priorities;
• Key events, achievements, and failures during the reporting period;
• Views on performance with respect to targets;
• Outlook on the organization's main challenges and targets for the next year and goals for the coming 3-5 years; and
• Other items pertaining to the organization's strategic approach.

1.2 Description of key impacts, risks, and opportunities.

The reporting organization should provide two concise narrative sections on key impacts, risks, and opportunities.

Section One should focus on the organization's key impacts on sustainability and effects on stakeholders, including rights as defined by national laws and relevant internationally agreed standards. This should take into account the range of reasonable expectations and interests of the organization's stakeholders. This section should include:
• A description of the significant impacts the organization has on sustainability and associated challenges and opportunities. This includes the effect on stakeholders' rights as defined by national laws and the expectations in internationally agreed standards and norms;
• An explanation of the approach to prioritizing these challenges and opportunities;
• Key conclusions about progress in addressing these topics and related performance in the reporting period. This includes an assessment of reasons for underperformance or over performance;
• A description of the main processes in place to address performance and/or relevant changes.

Section Two should focus on the impact of sustainability trends, risks, and opportunities on the long-term prospects and financial performance of the organization. This should concentrate specifically on information relevant to financial stakeholders or that could become so in the future.

Section Two should include the following:
• A description of the most important risks and opportunities for the organization arising from sustainability trends;
• Prioritization of key sustainability topics as risks and opportunities according to their relevance for long-term organizational strategy, competitive position, qualitative, and (if possible) quantitative financial value drivers;
• Table(s) summarizing:
– Targets, performance against targets, and lessons learned for the current reporting period; and
– Targets for the next reporting period and mid-term objectives and goals (i.e., 3-5 years) related to key risks and opportunities.
• Concise description of governance mechanisms in place to specifically manage these risks and opportunities, and identification of other related risks and opportunities.

*Source:* Global Reporting Initiative. (2013) G3-Sustainability Reporting Guidelines. https://www.globalreporting.org/resourcelibrary/G3-Sustainability-Reporting-Guidelines.pdf

# Appendix E: Research Questions, Hypotheses, Methods, and Databases

| **Research Questions/Hypotheses** | **Methods** |
|---|---|
| RQ1: What is the landscape of all shareholder resolutions filed between 1997 and 2011?<br>RQ1a: What types of institutional sponsors filed all shareholder resolutions between 1997 and 2011?<br>RQ1b: What were the outcomes of all shareholder resolutions filed between 1997 and 2011?<br>RQ1c: What is the proportion of shareholder resolutions devoted to social issues between 1997 and 2011? | Descriptive statistical analyses |
| RQ2: What was the landscape of social shareholder resolutions between 1997 and 2011? | Descriptive statistical analyses |
| RQ3: What was the landscape of withdrawn social shareholder resolutions between 1997 and 2011?<br>RQ3a: What types of issues were addressed in the withdrawn social shareholder resolutions filed between 1997 and 2011?<br>RQ3b: What was the most common type of issue addressed in the withdrawn social shareholder resolutions?<br>RQ3c: What types of changes did social shareholder activists demand from corporations in the withdrawn social shareholder resolutions filed between 1997 and 2011?<br>RQ3d: What was the most common type of change requested in the withdrawn social shareholder resolutions?<br>RQ3e: What were the types of institutional sponsors who withdrew social resolutions after shareholder-corporate engagement?<br>RQ3f: What was the most common type of institutional sponsor who withdrew social resolutions? | Descriptive statistical analyses<br>Quantitative content analysis |
| H1: Social resolutions filed at corporations with high levels of community commitment will be more likely to be withdrawn than the ones filed at corporations low levels of community commitment. | Probit modeling analyses |

| | |
|---|---|
| H2: Social resolutions filed at corporations with high levels of environmental commitment will be more likely to be withdrawn than the ones filed at corporations low levels of environmental commitment. | |
| H3: Resolutions that raised an environmental issue will be more likely to be withdrawn than the resolutions that raised other social issues. | |
| H4: Social resolutions sponsored by public pension funds will be more likely to be withdrawn than those sponsored by other institutional shareholder activists | |
| H5: Withdrawn social resolutions filed at corporations with high levels of community commitment will be more likely to be implemented at a greater level than the ones filed at corporations with low levels of community commitment. | OLS regression analyses<br>Logit analyses |
| H6: Withdrawn Social resolutions filed at corporations with high levels of environmental commitment are more likely to be implemented at a greater level than the ones filed at corporations with low levels of community commitment. | |
| H7: Withdrawn social resolutions filed at corporations within the petro-chemical industry are more likely to be implemented at a greater level than the ones filed at corporations within other industries. | |
| H8: Withdrawn social resolutions sponsored by public pension funds will be more likely to be implemented at a greater extent than the ones filed by other shareholder activists. | |
| **Measures** | **Databases** |
| Shareholder resolutions | Risk Metrics available at WRDS (Wharton School of Business, University of Pennsylvania, Research Data Services) |

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| Corporate stakeholder commitment measures | Kinder, Lydenberg, Domini Research & Analytics (KLD) social performance database available at WRDS (Wharton Research Data Services through OU) |
| Corporate financial indicators | COMPUSTAT<br>CRSP<br>University of Chicago's Center for Research in Securities Prices<br>available at WRDS (Wharton School of Business, University of Pennsylvania, Research Data Services through OU) |