

CRANFIELD UNIVERSITY

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How shareholder activism influences company non-financial
performance

School of Management

PhD

Academic Year: 2012–2018

Supervisors: Professor Hugh N. Wilson
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the degree of PhD

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ABSTRACT

Shareholders have become increasingly active in endeavouring to influence companies' non-financial performance, but enquiries into this form of shareholder activism are limited and fragmented. It is as yet unclear what aspects of company non-financial performance are of most interest to shareholders. Researchers have yet to uncover the conditions under which shareholder interventions succeed, or how boards respond beyond simple increases in disclosure. Furthermore, research in emerging markets is almost non-existent.

This thesis addresses these gaps in two main ways. First, a systematic literature review provides a synthesis of the state of academic knowledge about shareholder activism that aims to influence corporate environmental and social performance. Theoretical perspectives appropriate to this phenomenon are critically appraised, and data from the literature are organised into a new process model of shareholder influence. An agenda to direct future research in this burgeoning field is articulated.

Second, an empirical study investigates non-financial shareholder activism in the context of companies listed on the Johannesburg Stock Exchange, drawing on interviews with a range of participants, as well as media reports and company documentation. An enhanced process model of the phenomenon is proposed that details a broad range of shareholder interventions, and shows how their impact is moderated by several variables. A typology of directors' actions and concomitant outcomes is detailed, showing the presence of a feedback loop to the factors moderating the process. A set of environmental, social and governance (ESG) issues of interest to contemporary shareholders is presented, showing what shareholders believe constitute company non-financial performance. Insight is provided into contradictions in the concept of ESG, particularly in the conflation of company environmental and social performance and company governance processes.

A concluding discussion then explains how this two-pronged approach has enriched the existing knowledge base, implications for practitioners are provided and an enhanced research agenda is offered.

Keywords

Non-financial shareholder activism; corporate environmental performance; corporate social performance; corporate governance; corporate social responsibility; corporate sustainability; ESG.

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KEY TERMS

Definitional issues are discussed in some detail in the introduction, but summary definitions of selected key terms are provided below in the order in which a reader is likely to encounter them.

Shareholder	‘The holder of a share issued by a company and who is entered as such in the certificated or uncertificated securities register, as the case may be’ (South Africa, 2009). For the purposes of this research, no material distinction need be made between shareholders and investors (which is also the approach taken in the legislation referenced above). A shareholder may be an individual or an organisation.
Shareholder activism	The use of a shareholder’s ownership position to influence company practices and performance (adapted from Sjöström, 2008).
Financial shareholder activism	A form of shareholder activism that aims to influence the financial performance of a company (adapted from Gillan and Starks, 1998).
Non-financial shareholder activism	A form of shareholder activism that aims to influence the <i>non</i> -financial performance of a company (adapted from Gillan and Starks, 1998).
Corporate sustainability	In line with the classic Brundtland (1987) definition of sustainable development: ‘meeting the needs of a firm’s direct and indirect stakeholders . . . without compromising its ability to meet the needs of future stakeholders as well’ (Dyllick and Hockerts, 2002, p. 130).
Corporate social responsibility (CSR)	Davis (1973) provides a seminal definition: ‘the firm’s consideration of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm . . . (to) accomplish social benefits along with the traditional economic gains which the firm seeks’ (p. 312).
Company environmental performance (CEP)	‘the results of an organisation’s management of its environmental aspects’ (International Organization for Standardization, 1999).

Company social performance (CSP)	The results of an organisation's management of its social aspects (adapted from International Organization for Standardization, 1999).
Corporate governance	'The system by which companies are directed and controlled' (Tihanyi, Graffin and George, 2014, p. 1535).
ESG	Environmental, social, and governance. The terminology may be applied to a company's activities (Limkriangkrai, Koh and Durand, 2017) or to its performance (Van Duuren, Plantinga and Scholtens, 2016) or more generally to 'issues' (Galbreath, 2013).

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Stern's 'Review of the Economics of Climate Change' (2006) exemplified the societal influences that have led to widespread rethinking on how businesses might better manage their environmental and social impacts (The Economist, 2006; Sterner and Persson, 2008). The approach that an oil company took to managing safety had dramatic implications for the environment in the Gulf of Mexico in 2010 (Rushe, 2013). Decisions with respect to subsidised accommodation taken by mining companies in the platinum belt of South Africa led, at least in part, to loss of life and investor confidence in 2012 (Reddy, 2012). A recent publication issued by the Intergovernmental Panel on Climate Change confirmed its earlier assessment report's ascription of the causes of global warming to anthropogenic antecedents, with the major impact due to fossil fuel consumption and industrial processes (Pachauri and Meyer, 2014; IPCC, 2018).

Notorious governance failures at Worldcom and Enron (The Economist, 2002; Peregrine, 2016) likewise changed the mindsets of regulators and the public. However, the economic travails of the years that followed the global financial crisis of 2007–2008 constrained the efforts of managers and shareholders alike to focus on matters not directly related to financial performance (Bansal, Jiang and Jung, 2015). It is perhaps not surprising, therefore, that until recently the academic discourse on shareholder activism has been preoccupied primarily with how shareholders influence managers to enhance corporate financial performance (Denes, Karpoff and McWilliams, 2015), albeit often through an insistence on corporate governance reform (Calluzzo and Dudley, 2015).

While there is widespread recognition of business's environmental and social impacts, there is no indication that consensus is being reached on what, exactly, business should be doing about them. A recent news article looked back nostalgically to a time (the 1960s) when the leader of a major US business could describe as a necessary duty of companies that of balancing employee wellbeing and the national interest with the generation of profit (Yang, 2013). Yet this period also saw the classic denunciation of corporate social responsibility by Milton Friedman: 'there is one and only one social responsibility of business – to use its

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resources and engage in activities designed to increase its profits so long as it stays within the rules of the game' (1970).

What can be said with confidence, however, is that there is a groundswell of opinion forming that holds that business today, perhaps more specifically large business today, must take more responsibility for corporate sustainability issues than might have been the case in the past. This may be seen on a wide set of fronts. In the context of illegal and destructive tin mining in Indonesia, George Monbiot could write in the popular press of Apple offering '21st Century technology – with 19th Century ethics' (Monbiot, 2013). Regulators in South Africa have implemented a code of governance for companies listed on the Johannesburg Stock Exchange (JSE) that makes it incumbent on directors to explicitly consider sustainability issues (Institute of Directors of Southern Africa, 2009). In the same country, legislation now requires all businesses above a minimum size to constitute a Social and Ethics Committee (South Africa, 2009).

A recent global survey of chief executive officers (CEOs) found that only a third of those interviewed believed that business is doing enough to act on sustainability challenges (Lee et al., 2013). These views are not restricted to practitioners, with the theme for the 2013 Annual Meeting of the Academy of Management chosen to be 'Capitalism in Question', a situation ascribed at least in part to the prominence of movements protesting against economic, social and environmental wrongs (Adler, 2014). Academics writing for practitioners have suggested that companies can obtain a competitive advantage by careful management of their impact upon society and the environment (*cf.* Porter and Kramer, 2006).

Shareholders are individuals and institutions who hold all or part of a company's equity (South Africa, 2009). In the main, they hold their shares because they wish to participate in the financial returns that the company generates (Anabtawi and Stout, 2008). Some shareholders, however, are also interested in that company's non-financial performance, and may be sufficiently interested to want it to change (Clark, Salo and Hebb, 2008). The pressure on companies from such shareholders is increasing (Hadani, Doh and Schneider, 2019), and it is the

actions of these shareholders, and the results of their actions, that form the subject of this thesis: non-financial shareholder activism.

This non-financial activism is informed by increased levels of disclosure by companies (Hoff and Wood, 2008) in response to pressures to report on environmental, social and governance (ESG) performance in accordance with initiatives such as the Global Reporting Initiative (Alonso-Almeida, Llach and Marimon, 2013) and the Carbon Disclosure Project (Lee, Park and Klassen, 2015). The increasing importance of non-financial shareholder activism and its dynamically changing nature help to make this phenomenon a worthwhile and rewarding object of research (*cf.* Folger, 2005, p. 60).

1.1 Thesis structure

The introduction to this thesis commences by discussing several concepts that pertain to describing and analysing the phenomenon of non-financial shareholder activism, and a justification is provided for the terminology that has been selected to use in this research. The aims of and rationale for the research are then explained, and the overall research methodology is outlined and situated in the chosen ontology and epistemology. A summary is offered of the main theoretical perspectives that will later in this thesis be brought to bear on the phenomenon of non-financial shareholder activism. Records of publications and plans for future ones are then provided.

The research aims are addressed in two ways. The first is through a systematic literature review, which is presented in Chapter 2. After passing through the journal's revision and resubmission process, this review was accepted for publication in the *International Journal of Management Reviews* (Cundill, Smart and Wilson, 2018a). With the exception of a supplementary methodological section (Appendix A) it is provided here largely unchanged from the revised version submitted and accepted in 2017 by the journal editors. The references for this article have been incorporated into a consolidated references section at the end of this thesis.

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The second way in which the research aims are addressed is through an empirical study, presented in Chapter 3. This chapter develops and extends a paper that was submitted and accepted for presentation at the 2018 meeting of the Southern Africa Institute for Management Scientists. Now unconstrained by the brevity required for a conference paper, a far richer explanation of the empirical findings is presented in Chapter 3.

In addition, Chapter 4 draws upon the empirical data of Chapter 3 to offer an explanation of the relationship between company governance and company environmental and social performance (CEP and CSP), concepts frequently conflated by both academics and practitioners (Cubas-Díaz and Sedano, 2018; Thomson Reuters, 2017).

Chapter 5 concludes the thesis. The contributions of the systematic review and empirical work are drawn together. The limitations of the research are outlined. An agenda for further research is proposed, implications for practitioners are offered, and the thesis is brought to a close with a set of personal reflections.

1.2 The domain of interest

If you are not sure what the word means or what you mean by it, wouldn't it be very much better if you ceased to use it at all?

(C.S. Lewis to his pupil George Sayer; Sayer, 1997, cited in McGrath, 2013, p. 164)

1.2.1 Corporate sustainability?

This thesis can conceivably be situated in the broad domain of corporate sustainability. Many of the ideas behind this concept are by no means new. Charles Babbage wrote in 1832 about the importance of reducing waste in industrial processes, illustrating his arguments with six varied uses for different parts of a butchered cow's horns (Desrochers, 2009). By the beginning of the 21st century sustainability had become an increasingly common topic of conversation among senior managers and boardroom executives (Grayson and Kakabadse, 2013). Structures were now being put in place at board level to set sustainability-related strategy and also to monitor its implementation (Klettner,

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Clarke and Boersma, 2014). This interest in corporate sustainability has also been reflected in the academy, with the development of a substantial body of literature investigating its various aspects (e.g. Arena et al., 2009; Wolf, 2013; Adams et al., 2015; Epstein, Buhovac and Yuthas, 2015).

Definitions of corporate sustainability vary (e.g. Lo and Sheu, 2007; Barnett, Henriques and Husted, forthcoming). However, a representative definition of this concept, closely tied to the arguably underlying concept of sustainable development (Brundtland, 1987) may be found in Dyllick and Hockerts (2002): 'meeting the needs of a firm's direct and indirect stakeholders . . . without compromising its ability to meet the needs of future stakeholders as well' (p. 130).

Two important results flow from this definition. The first is that corporate sustainability is not merely financial in nature, although a case may be made that no form of corporate sustainability is possible in the absence of economic sustainability (Epstein, Buhovac and Yuthas, 2015). Stakeholders such as communities may have social and environmental needs that must be met if this definition of corporate sustainability is to be fulfilled (Figure 1).

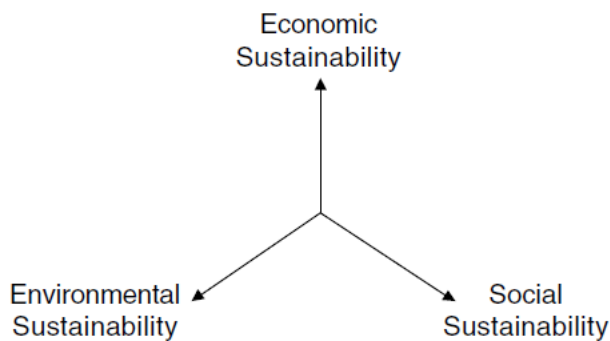


Figure 1: Three dimensions of sustainability (Dyllick and Hockerts, 2002)

The second result relates to timeframes. The concept has both present and future aspects, as stakeholders have current needs that they expect to be met, and future stakeholders will have (perhaps different) needs that they in turn will expect to be met (Brundtland, 1987).

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For the purposes of this research, however, the concept of corporate sustainability is problematic, being a notoriously complex and context-specific construct (Rego, Cunha and Polónia, 2017). By way of an example at the level of practice, a colleague in senior management remarked to this researcher: 'We're a chemicals and explosives company – we don't *do* sustainability!' (M8). A blunt view, but one perhaps covertly shared by many other business people, particularly those involved in the extractive industries. Digging a hole and removing from the earth thousands of tons of a non-renewable resource such as iron ore seems almost to provide a definition of what is *not* sustainable, at least in the longer term. Nevertheless, the largest business in this senior manager's company was at the same time promoting its sustainability-related expertise.

While the example above could be downplayed as merely the difference between advertising spin and a company's internal views, there are other and more serious reasons why the terminology of corporate sustainability is unhelpful in the context of this body of research. In some ways this is a pity, as it is a term that is widely used in both practitioner and academic circles (e.g. Lee et al., 2013; Rasche and Waddock, 2014). It has thus been helpful as a starting point for conversations for me to answer questions as to what my area of research is. An alternative and attractive descriptor of the field as 'social issues in management' is not yet widely recognised (Wood and Logsdon, 2016). While it serves a labelling purpose for this thesis, the terminology of corporate sustainability has proved less useful to deploy as a concept in the research itself. The reasons for this are threefold and are related to the two definitional results noted above.

The first is that the term is unhelpfully broad. Because it collects together economic, social and environmental aspects of corporate behaviour, it makes it difficult to describe exactly what is meant by a sustainable company. In popular parlance, a company that 'does sustainability well' would be a company with exemplary environmental and, often, social performance, with little reference to its financial results (e.g. Corporate Knights, 2018). Yet assuming for the moment that shareholders have a legitimate claim on the company, many in the proverbial class of widows and orphans are financially dependent on ongoing, growing and

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reliably distributed dividends to have their own financial needs met. One might imagine that they are likely to have a rather different perception of corporate sustainability, one more linked to economic factors. The vagueness of the term's boundaries is worsened when it is used almost interchangeably with the term ESG (so Youmans and Tomlinson, 2017). ESG-related terminology will be analysed in some detail in Chapter 4 of this thesis.

The second reason relates to the concept of stakeholders. For our purposes it is unnecessary to enter the contested field that deals with the idea of shareholder primacy. Holders of this view would conceivably strip down the above definition of corporate sustainability by substituting 'stakeholders' with 'shareholders'. Dyllick and Hockerts' (2002) definition of stakeholders, however, alludes to one of the inherent problems of the concept by referring to direct and indirect stakeholders, although they do not go on to explain exactly what they mean by these groupings. Clarkson's (1995) useful early work builds on that of Freeman (1990) and others, defining stakeholders as 'persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future' (p. 106). He goes on to define a primary stakeholder (probably equivalent to Dyllick and Hockerts' (2002) direct stakeholder) as 'one without whose continuing participation the corporation cannot survive as a going concern' (p. 106). This topic is dealt with in detail in the mainstream stakeholder literature (e.g. Donaldson and Preston, 1995; Parmar et al., 2010; Richter and Dow, 2017).

What makes corporate sustainability's definitional reliance on stakeholder concepts particularly problematic for our purposes is that different stakeholders have different needs, and the very idea of corporate sustainability appears to require that these needs be met. What is not clear is how to first decide who or what constitutes a legitimate stakeholder and, once this decision is made, which of these stakeholders' needs are themselves legitimate and, once this decision is in turn made, how these needs are to be prioritised. This last is naturally particularly important, given that that 'orthodox' economic theory is generally predicated upon the idea of finite if not scarce resources (Black, Hartzenberg and Standish, 2000). These problems are interwoven with those various strands of

stakeholder theory that describe themselves as descriptive, instrumental or normative, helpfully simplified by Jones (1995) as answering the different questions, 'what happens? what happens if? and what should happen?', respectively' (p. 406). These strands remain distinct and, arguably, unreconciled (Miles, 2012; Miles, 2017).

The third reason that the terminology of corporate sustainability is problematic for my purposes here relates to timelines. The world may reasonably be described as fraught with radical uncertainty (King, 2016). As an interviewee (E12) remarked, it is difficult, particularly for outsiders, to evaluate the decisions of company managers even if one limits one's scope to financial implications only. There are of course relatively short-term rules of thumb that one can deploy to determine the size of dividend that may be extracted from a company in any particular half-year, with varying degrees of concomitant risk. But issues involving the environment or society often only become evident over much longer time periods than the usual financial reporting periods (Regner and Tovey, 2007). This mismatch creates a serious challenge when it comes to devising management incentives, with the risk of managers pursuing short-term financial goals at the expense of longer-term impacts (Epstein and Roy, 2007). Not only that, it is very difficult to evaluate the overall economic, social and environmental sustainability of a company if it is unclear what demands may be placed on it in the future by social and environmental circumstances. For these three reasons I chose not to make the concept of corporate sustainability central to researching the phenomenon of non-financial shareholder activism.

1.2.2 Corporate social responsibility?

A related and currently topical concept is that of corporate social responsibility (CSR) (Aguinis and Glavas, 2012). The term is a comforting one, often based on the idea that the company, being a legal persona, not only enjoys rights conferred by society, but also carries responsibilities towards that same society (Brown and Forster, 2013). This notion is bound up with the related concept of corporate citizenship (Baumann-Pauly and Scherer, 2013).

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Yet this too is a problematic concept for the purposes of this research. To begin with, not unlike the situation with corporate sustainability, there is not an uncontested definition of corporate social responsibility (Van Marrewijk, 2003). It is typically described in terms of actions that company managers take that go beyond what is required by the law (McGuire, 1963; Jamali and Karam, 2018). But if CSR only exists in the gap between company performance and legal requirements, does a company then suddenly become less socially responsible in the event that legislators enhance the regulatory framework (Mukherjee, Bird and Duppati, 2018)? And what of the situation when a corporate entity owns subsidiaries in two countries, one of which has more demanding legislation than another, and ensures that these subsidiaries operate at similar levels? (It is of course a contested question as to whether such an approach may be regarded as a sign of good governance (Dowell, Hart and Yeung, 2000; Bondy and Starkey, 2013)). Does this mean that one subsidiary is less responsible than another (Wei et al., 2017)?

One way of unpacking the concept of CSR is to consider the motivations that may underlie a company's engaging in such practices. These motivations may be categorised as arising from considerations of morality, from a perceived business case, or for reasons of legal compliance. I will consider each of these in turn.

First, managers may elect to apply principles of morality, wheresoever these may originate, in the way that they manage a company. These moral principles may in practice be applied in several ways, of which the following are typical:

- They may serve a negative role as a screen whereby the company deliberately does not engage in practices such as bribery of government officials (*cf.* Xstrata's statement of policy, 2012).
- They may serve a positive role whereby the company purposely engages in practices such as providing healthcare systems in developing countries (*cf.* AngloAmerican, 2018).
- They may lead to a system of offsets whereby the company attempts to mitigate certain adverse effects which it has upon the world around it; for

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example, providing vocational training to artisanal miners displaced by the company's mining operations in order to upgrade their skill levels, allowing them to take up meaningful employment in other contexts (*cf.* AngloGold Ashanti, 2013).

Such actions may certainly be construed as falling in the bounds of CSR. The situation is, however, frequently complicated in practice by conflating CSR with corporate philanthropy, more recently and perhaps more politically correctly termed corporate social investment (CSI) (e.g. MTN, 2018). Companies may attempt to portray themselves as leaders in CSR by giving away money to worthy causes. Yet such philanthropy may not only have little to do with the negative social and environmental impacts of the company's operations, it may in fact mask these impacts from public view (Borghesi, Houston and Naranjo, 2014). In some cases where this CSI crosses the rather indistinct border into the land of corporate political activity, such expenditure may no longer be beneficial to society, but only to a corrupt elite (Lyon et al., 2018). Even should this border not be crossed, the availability of funds for CSI presents temptations to managers to indulge their whims by supporting pet projects (*cf.* the developments at the South African Institute for Chartered Accountants recounted by Poplak (2018)).

A second possible motivation relates to a perceived business case for CSR. Doubtless there are strong arguments that sound business cases can be made for participation in CSR (e.g. Carroll & Shabana, 2010). By 'business case' I mean that there is a positive financial return available to companies that pursue CSR, or at least certain forms of it (Sullivan and Gouldson, 2017). This financial return may be derived from one or more of four sources:

- Cost and risk reduction: for example, a firm may simultaneously reduce both its environmental impact and its manufacturing costs by implementing improvements to the ways that resources such as fuel and electricity are consumed in its manufacturing operations. This approach is often termed that of eco-efficiency (Dyllick and Hockerts, 2002).

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- Competitive advantage (*cf.* Porter and Kramer, 2006): for example, a firm may gain an advantage over its rivals by making available to a white goods manufacturer a blowing agent for polyurethane insulation that is not harmful to the ozone layer, thereby allowing it to charge a higher price for its products.
- Building a responsible brand: for example, a company manufacturing outdoor clothing may enhance its brand in the eyes of its customers by committing to responsible sourcing of the materials that go into its products (Fowler and Hope, 2007).
- Synergistic value creation (*cf.* Haanaes et al., 2013): a biofuels manufacturer may develop a cost-effective process for converting cellulose into fuel, using waste material that would otherwise end up in a landfill, thereby reducing the impact upon the environment that the equivalent petroleum extraction activity would have (The Economist, 2010).

This linkage between company financial performance and company social and environmental practices is important. Later in this thesis evidence will be introduced from empirical sources as to how shareholders may view this linkage. Yet this motivation seems to undermine what lies at the very core of CSR. If a company's management team decides on a particular course of action because of the positive impact on the financial bottom line that will result, this seems to have very little to do with 'social responsibility' (Karnani, 2011; Wang and Bansal, 2012). If there is a sound financial case to engage in these activities then surely this is merely business as usual, undertaking risk with the hope of (financial) reward? Nothing beyond the commonly understood responsibility to shareholders for generating adequate financial returns is involved. Such a situation appears to inevitably drift back to the notorious (to some) position of Friedman (1962), with his often-quoted belief that the social responsibility of business is to maximise profits while staying in the boundaries of the law. The counter-argument that CSR-related performance and financial performance may be maximised together

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runs afoul of Jensen's (2002) explanation that this is impossible unless these two forms of company performance are by and large the same thing.

The third main motivation for companies to engage in CSR relates to situations of coercion. This coercion may arise from a range of sources, with regulatory coercion being perhaps the most obvious. In the South African context, one example is that of the Broad-Based Black Economic Empowerment Act (South Africa, 2004), with which companies are required to comply. This legislative instrument's objectives include 'empowering rural and local communities by enabling access to economic activities, land, infrastructure, ownership and skills'. CSR-related activities in which a firm may engage in order to achieve compliance with this legislation may include philanthropic giving to charities that provide supplementary schooling to disadvantaged communities, or the establishment of preferential procurement regimes to support new ventures owned by black people.

An argument, however, could be made that companies that comply with or succumb to coercion when it comes to engaging in CSR are not being responsible at all, but are merely taking pragmatic business decisions. Legal compliance may be pursued to avoid costly fines or criminal sanction of the executive. Companies may engage in CSI, perhaps in conjunction with a marketing campaign trumpeting their civic-mindedness, merely to comply with the above-mentioned empowerment legislation.

This brief analysis shows that company actions that may appear on the surface to fall into the category of CSR may in fact be nothing of the sort. A case may certainly be made that actions arising from moral principles could legitimately be classified as CSR. However, as Demos noted in an early edition of *Harvard Business Review* (1955), untangling moral motivations from more pragmatic reasoning is hard. This difficulty, the lack of a firm basis for deciding what company practices constitute CSR and what practices don't, renders CSR a less than ideal concept on which to anchor the research contained in this thesis.

1.2.3 Corporate non-financial performance

For the reasons discussed above, the concepts of corporate sustainability and corporate social responsibility have not been used as building blocks for this research. Instead, the arguably more concrete concept of company *performance* has been focused on, and specifically company environmental and social performance. This choice is in alignment with the trend noted as early as two decades ago by Carroll (1999) of researchers attempting to operationalise concepts relating to CSR rather than focusing on the concept itself. Several advantages accrue to this decision.

First, these concepts of performance are well established in the academic literature (Muller and Kolk, 2010; Dixon-Fowler, Ellstrand and Johnson, 2013; Walker, Ni and Dyck, 2013; Weber and Gladstone, 2014; Escrig-Olmedo et al., 2017). Second, the use of these concepts does not necessitate taking a view on normative issues, as company environmental and social performance can be understood relatively simply in terms of outcomes and impacts (Wood, 2010). This is not of course to say that this performance may not be understood by means of social constructions involving societal perceptions, or in otherwise subjective ways (Singh, Darwish and Potočnik, 2016). Third, these concepts naturally allow for the consideration of the real impacts of companies upon the environment and society, an area of interest to me. Fourth, use of the language of performance potentially allows for the actual measurement of what is happening – outcomes of events can therefore be evaluated (Escrig-Olmedo et al., 2015; Wood, 2010).

The making of this last point is not to downplay the difficulties sometimes involved in measuring these aspects of company performance. The measurement of company financial performance is a far more mature field of study than that of company non-financial performance (Chatterji and Levine, 2006). Despite this, serious deviations between financial reporting and the realities of financial performance take place with distressing regularity, the implosion of Steinhoff being a recent and spectacular example (Crotty, 2018g).

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Further complicating measurement matters, most definitions of performance would exclude the consequences of such non-financial performance risks as did not materialise (Chatterji and Levine, 2006). For example, at the time of writing, the perceived social performance of Glencore had just fallen sharply as a consequence of the US Department of Justice instituting enquiries into its operations in several countries (Financial Times, 2018). It was widely known that Glencore was running such risks, but many were of the opinion the company's management possessed the necessary suite of skills to operate in difficult jurisdictions without running into problems (Hume, Sheppard and Sanderson, 2018). This complication relating to risk is, however, also inherent to the measurement of financial performance, and need not concern us further at this point.

Not least among measurement problems is the fact that the mere disclosure by companies of their non-financial performance has frequently been used as a proxy for the content of the performance itself (Robinson, Kleffner and Bertels, 2011). An example of this practice in the environmental field is the Carbon Disclosure Project. Originally focused, as its name suggests, on getting companies to disclose their carbon-related performance, it has however more recently attempted to also produce an index of companies' carbon-related performance (Nieland et al., 2012).

An additional measurement problem is that the perception of a particular company's non-financial performance may vary widely, depending on the specific metric under consideration. However, a range of initiatives in recent years are making this issue of non-financial performance measurement easier and the results more robust. In the environmental field these initiatives range from the US's Toxic Release Inventory (Gouldson and Sullivan, 2007) to the Carbon Disclosure Project mentioned above (Lee, Park and Klassen, 2013). In the social field initiatives such as the Fair Labour Association and Worldwide Responsible Apparel Production are well-known examples (Chatterji and Levine, 2006).

A growing number of service providers have also, with varying degrees of rigour, assembled environmental and social performance metrics on a wide range of

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companies. Those currently in use by academic researchers include Thompson Reuters ASSET4 (Ioannou and Serafeim, 2012) and KLD (Shalchian, Bouslah and M'Zali, 2015), as well as sustainability indices such as the Dow Jones Sustainability Index (Hawn, Chatterji and Mitchell, 2015). There is also an increasing large source of such data from companies' own reports, typically issued on an annual basis (e.g. Omnia, 2018), as well as from industry bodies such as the Chemical & Allied Industries Association (2017).

Wood's (2010) review of the measurement of CSP (her definition of CSP includes CEP) provides a useful overview of the issues involved. She points out that what determines the quality of metrics is the underlying theory, the extent to which the phenomena of interest are observable, and how reliable and accurate the observers are. These determinants were borne in mind during the empirical work that was carried out as part of this doctoral research.

Complete articles have been written about CEP and CSP without even attempting to define the terms (*cf.* David, Bloom and Hillman, 2007), but such an approach risks reducing our understanding of the processes involved (Gilley et al., 2000). First, CEP and CSP are constructs, following Bisbe, Batista-Foguet and Chenhall's (2007) definition: 'theoretical creation[s] that can be defined in conceptual terms but cannot be observed and therefore [are] anchored to observable reality by means of indicators' (p. 812). For a working definition of CEP we follow Trumpp et al. (2013) in using the ISO Standard 14031 definition: 'the results of an organisation's management of its environmental aspects' (International Organization for Standardization, 1999). An equivalent definition for CSP can be obtained by merely replacing 'environmental' with 'social'.

It is, however, worth noting Wood's seminal definition of CSP: 'a business organisation's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships' (1991, p. 693). This definition is interesting in that it does not draw the boundary line for performance around the company but includes aspects of what is happening inside the company. As a result, it includes processes internal to the company as well as outcomes of these

processes. Such internal processes will be excluded when CSP itself is considered in this thesis, but I will return to the link between processes and outcomes in Chapter 4.

Something must also be said about the relationship between the terms CEP and CSP, and company non-financial performance. At this preliminary stage, non-financial company performance will be taken to be the combination of CEP and CSP. To put it negatively, it refers to those aspects of company performance that are not captured in the more commonly used term of company financial performance. This will be revisited in some detail in Chapter 4, where certain vexed aspects of corporate governance that have been identified during the empirical work will be considered.

1.2.4 Narrowing the domain

Given that corporate non-financial performance is the output component of the phenomenon of interest, the broad area of corporate governance may be considered to be an input component of the phenomenon. It is at the intersection, or at least one of the intersections, of these two components that my research takes place (Figure 2). Additional intersecting components will be introduced in due course.

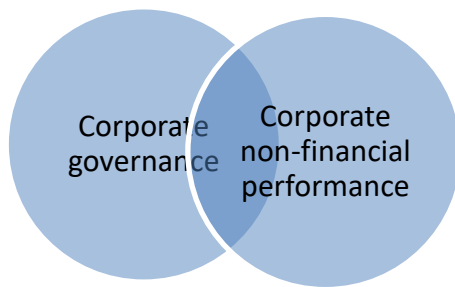


Figure 2: Narrowing the domain

The field of corporate governance is broad, but for the purposes of this research it may be divided in two: those aspects of governance that take place primarily

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inside company boundaries, and those aspects of governance that take place primarily outside the boundaries of the company (*cf.* Bekiris, 2013).

The focus of much of the research into corporate governance is on companies' governing boards (Kumar and Zattoni, 2014). In the field of practice this is exemplified by the latest draft of the King Report on Corporate Governance for South Africa (Institute of Directors of Southern Africa, 2016). Written largely in the form of a code for use by companies, it defines its topic as follows: 'Corporate governance, for the purposes of King IV, is about the exercise of ethical and effective leadership by the governing body' – an internal perspective – and then goes on to express this leadership in terms of four main responsibilities of this body. These responsibilities are providing strategic direction, approving policy to effect strategy, providing informed oversight, and disclosing (p. 2).

Yet there are actors other than company directors, actors external to the companies concerned, who play a part in corporate governance. Governments set up the legislative frameworks that serve as enablers of the processes of corporate governance (Kock, Santaló and Diestre, 2012). Specialist bodies and commissions such as the Institute of Directors of Southern Africa develop codes of good practice such as the King Report mentioned above. These codes are sometimes incorporated into legislative frameworks such as South Africa's Companies Act (South Africa, 2009). Even where this doesn't happen, such codes may serve as norms that exert influence over the processes of corporate governance (Aguilera and Jackson, 2010). Regulators, whether government agencies such as the Takeover Regulation Panel or private entities such as the Johannesburg Stock Exchange, are able to enforce legislation and other regulatory instruments (Takeover Special Committee, 2018; Wierzycka, 2018).

Civil society, too, plays a role. Non-governmental organisations (NGOs) such as the Centre for Environmental Rights may hold companies to account, highlighting aspects of company performance that they find unacceptable, and praising performance that is in line with their expectations. Communities may organise, applying pressure upon companies that they believe are impacting them adversely (Washinyira, 2016). The media, too, can play a role by publicising both

company performance and the activities of social society (Harber, 2018). All these parties may play a role in the governance of companies, and may be classified as a subset of the company's external stakeholders, having rights or interests in the company concerned. This narrows the domain of interest further (Figure 3).

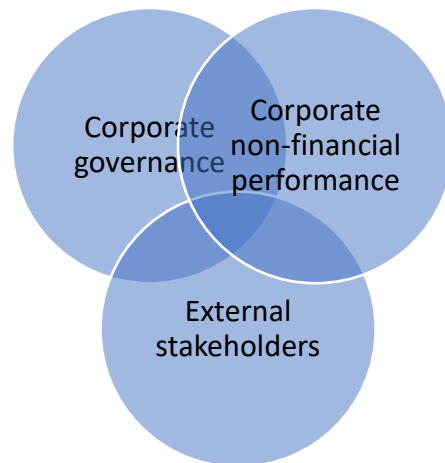


Figure 3: Further narrowing the domain

There is another group of external stakeholders, company funders, that may also be involved in the corporate governance process. At the risk of oversimplification, such funders may be lumped into two broad categories: providers of debt and providers of equity. The former are usually but not exclusively banking institutions. They are naturally interested in the governance of the companies to which they lend money, as poor corporate governance practices may place their funds at additional risk. Their role may be conducted in private, in the form of confidential discussions with company management about issues of concern, a situation that has occurred in my own corporate life (M8). At times the role may become public, with the funder not only withholding additional funding, but publicising why this is being done (e.g. Hogg, 2016; Viviers and Theron, under review). Their actions may also be explicitly aimed at company environmental and social performance (e.g. Tong, Watanabe and Hodges, 2018).

The second category, providers of equity financing, is the one on which this thesis is focused. This subset consists of company stakeholders that are shareholders,

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and they can play a role in the governance of companies. This is a role that Daily, Dalton and Cannella (2003) note has become important, and has recently been described as ‘shareholder-driven corporate governance’ (Anand, forthcoming). Shareholders may be argued to have an even greater interest in the performance of the companies in which they’re invested, as they usually stand to lose their investment before debt funders. The counterargument, of course, is that shareholders may be able to trade out of their investment quicker than a bank can recall a loan. Regardless of this, in many jurisdictions, and particularly in the case of companies listed on stock exchanges, shareholders can be actors in the corporate governance process. They may of course choose not to act, but they can should they so wish.

It is here, at the intersection of corporate non-financial performance with corporate governance, and specifically in that area of corporate governance affected by shareholders, and influenced by other external stakeholders, that the research detailed in this thesis has taken place (Figure 4). This intersection is described by the term non-financial shareholder activism.

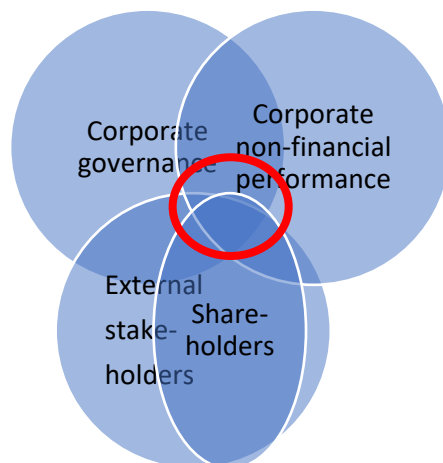


Figure 4: The area of interest: non-financial shareholder activism

It is worth noting that the most common form of shareholder activism is that aimed at enhancing the financial performance of the target company (Gillan and Starks, 2007). Such activism is typically carried out by relatively large investors, as the

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costs involved can be significant, requiring a large shareholding in a company for the potential returns to justify the expense (Crespi and Renneboog, 2010). Non-financial shareholder activism has some commonalities with financial shareholder activism (Goranova and Ryan, 2014). However, the aim of non-financial shareholder activism is not primarily that of enhancing company financial performance, although this may also be a motivation (Clark and Hebb, 2005; Lydenberg, 2007). Instead, the primary aim is to make changes to the company's environmental or social performance (Sjöström, 2008). It is this latter form of shareholder activism that constitutes the phenomenon that is researched in this thesis.

The definition of shareholder activism has evolved and expanded in recent years. Wen (2009) observed that traditionally the term meant simply 'the use of voting rights attached to ordinary shares to assert and achieve political, financial or other objectives' (p. 311). Sparkes and Cowton (2004), whose work informs that of Wen, saw this narrow description as technically correct, but observed that this shareholder action may go beyond submitting and voting on resolutions at company AGMs to include the use of publicity and dialogue with managers to achieve the desired aim or change. Sjöström (2008), in the context of non-financial shareholder activism, defined it as 'the use of ownership position to actively influence company policy and practice' (p. 142), and went on to list several mechanisms available to shareholders. She did not include the mechanisms of screening and divestment in her review, confining her analysis to those mechanisms that can be deployed without a change of ownership. Other researchers have followed a similar approach, taking the view that ownership stakes and trading behaviour represent only latent intentions (Goranova and Ryan, 2014).

These are significant exclusions, since screening forms the primary basis on which the burgeoning and arguably influential industry of socially responsible investment is largely built (Laurel-Fois, 2018). Likewise, the mechanism of divestment with the aim of changing company policy and practice has become increasingly prevalent and visible in the popular and business press (MacAskill,

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2015; Carrington, 2015; Sleire and Holter, 2018), and has attracted the notice of the academy since at least the days of anti-apartheid campaigning (Simon, 1984).

This issue will be dealt with in some detail in the literature section of this thesis. However, at this point it is sufficient to state that Sjöström (2008) provides us with a suitable working definition to explore this phenomenon, with the caveat that it be understood in a more expansive way than she has used it. The practices of screening (both positive and negative) and divestment by their nature involve ownership positions, even if the position taken is that of deciding not to invest in the company. With this caveat, her bringing together of the concepts of ownership, influence and policy and practice serves as a useful basis on which to proceed.

This research has been encouraged by Daily, Dalton and Cannella's (2003) observation that investigations of the deployment of shareholder activism as a governance mechanism would 'benefit from greater consideration of the processes by which shareholders seek to institute governance changes Additionally, these approaches will require expanded theoretical foundations on which to build future research' (p. 377). The interplay between company performance and governance in companies subject to shareholder activism will be discussed in some detail in Chapter 4.

This thesis makes several contributions to knowledge. Through a detailed review of the academic literature the processes of non-financial shareholder influence were examined, and a new and theoretically informed conceptual model was developed. This model was extended by a programme of empirical work to include interventions largely ignored by the academy thus far, detailing the moderating factors affecting the process. A typology of board actions and concomitant outcomes was provided, and the presence of a feedback loop affecting the activism process was identified and explained. Contributions to theory are made through the exploration and application of Hirschman's theory of exit, voice and loyalty, social movement theory, stakeholder salience theory, signalling theory and symbolic management. Finally, a new research agenda for this growing field of study was provided.

1.3 Research aims and objectives

The overall aim of this thesis is to gain a greater understanding of how shareholders can exert influence over company environmental, social and governance performance. Such understanding is important both from the point of view of activists seeking changes in company non-financial performance, as well as from the perspective of company managers who may be exposed to such influencing attempts.

In order to achieve this aim, several objectives were laid out. The first was to determine the state of knowledge about this phenomenon in the academy. The second was to make use of this knowledge to develop a conceptual model of the process of non-financial shareholder activism. The third was to carry out a theoretically informed empirical assessment of how this process is taking place in an emerging but sophisticated economy, that of South Africa. The fourth was to evaluate these empirical findings in light of the existing state of knowledge. The fifth was to develop a research agenda for the future.

1.4 The research question

The overarching research question is: how can shareholders influence the non-financial performance of the companies they invest in? In order to answer this high-level question, a range of subsidiary questions were investigated. These are detailed in the literature and empirical work that follows, particularly in section 2.2 with its accompanying Appendix A, and section 3.3.

The literature review focuses on company environmental and social performance, excluding to the extent possible the concept of corporate governance performance. This allowed for a focused review of research directed at shareholder activism that doesn't have as its primary target company financial performance, while avoiding a potentially distracting detour into questions about the role governance plays in company non-financial performance, and the extent to which governance is itself a component of this performance. These questions form the subject of Chapter 4.

1.5 Ontological and epistemological considerations

My views on ontology and epistemology changed significantly during the course of pursuing the PhD. Having trained and practised as a professional engineer my instinctual framework was one of realism and positivism. Creativity in the engineering field is certainly to be encouraged, but in the limits imposed by a real world. Allowing a combustible combination of gases to form where there is the likelihood of a source of ignition leads to predictable and potentially catastrophic results – real results and not merely perceptual ones.

This instinct was, however, modified by my lifelong interest in and study of history. Satisfied as I am that there is such a thing as historical reality, I am deeply cognisant that my knowledge of this historical reality is necessarily both partial and imperfect. I do not know everything about this reality, and that body of knowledge that I do have contains inaccuracies. I view reality as independent of my existence, but my knowledge of it is dependent on myself and other factors. This knowledge is affected by my perspective (where I am standing, which provides by no means a god's eye view), by how I process the data from my senses (which may be impacted by my psychological state, my expectations, and my memories), and by the communities to which I belong (academic and otherwise) (Wright, 1992).

In endeavouring to put a label on the approach that I have adopted in order to carry out this research, I have sometimes described myself as a critical realist, as this approach allows one to avoid the opposite poles of irrationality and a purely positivist concept of reality (Collier, 1994). This is certainly not to say that I am a disciple of Roy Bhaskar, with whose work I am slightly familiar but only through his interpreters. For example, my ontology does not follow the structure of his three domains of empirical, actual and real (Easterby-Smith, Thorpe and Jackson, 2012).

This is to say, however, that my belief is that I have been researching a real phenomenon, non-financial shareholder activism, that has real effects (changes or non-changes in company non-financial performance). Not only that, but also that I am deeply aware that my knowledge of this real phenomenon and its effects

can only come through a partial and imperfect process of observation, and it is this understanding with its concomitant reflection on the results of my research that constitutes the 'critical' part of the label.

This reflection is complicated by the nature of the enquiry that I have undertaken. By choosing to use interviews and documentary artefacts as the main data for my empirical work, additional layers of interpretation appear between the phenomenon, its effect and me. This does not change the fact that there remains an underlying reality that I am investigating. It does, however, introduce new possibilities of error and bias that need to be understood in the process of analysing and interpreting the data – an additional need to be 'critical' of the 'reality' that I am researching.

Consequently, slightly to my surprise, my epistemology in this research is a constructionist one. I cannot fulfil the independence requirements of a positivist approach, as I have been a participant in the phenomenon that I am researching. While I am exploring relationships of causality, a primary output of my research is a greater understanding of the phenomenon as a whole.

The implications for my research methodology are profound. The methodology is therefore qualitative, as I am not attempting to count anything. The data collected are in the form of words, describing the experiences of participants and observers of the process of the phenomenon. The analysis is carried out by means of comparison and triangulation, and part at least of the outcome involves contributions to theory and the offering of new insights into the phenomenon – constructionism indeed, if not 'strong' constructionism (Easterby-Smith, Thorpe and Jackson, 2012). Bhaskar describes the process of scientific work as 'the social production of knowledge by means of knowledge' (cited in Collier, 1994, p. 54). I will certainly go with him thus far.

1.6 Research methodology

While this thesis is presented in partial fulfilment of the requirements for the PhD degree, I originally enrolled at Cranfield University School of Management in the International Executive Doctorate (DBA) programme. The reasons for the

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subsequent change to the PhD programme are provided later in section 5.5. In line with the DBA programme requirements, my research commenced by developing a preliminary paper on corporate governance mechanisms that can be deployed to enhance corporate sustainability, this last term being one I later largely discarded for reasons provided above in section 1.2.1.

This preliminary work was then developed further into a critical review of a selection of academic literature, evaluating how companies organise in order to address issues relating to corporate sustainability. During this process it became clearer that the corporate governance mechanism of most interest to me involved the relationship between shareholders and the companies in which they invest. This thinking then led to the development of a scoping study focusing on this relationship, in the context of corporate sustainability.

The subsequent research was planned to take place in two main phases, always attempting to bear in mind the perhaps obvious requirement that the chosen methodology had to be capable of answering the overarching research question (Campbell, 2015). The first phase of research was to be literature-based. The process followed is briefly summarised in section 2.2, the introductory section of the article that follows this thesis introduction. A more detailed description of the methodology was removed from the body of the article at the suggestion of the reviewers in order to keep within the journal's requirements for article length. This now appears in Appendix A, and has been substantially expanded to explain the methodology in more detail than was possible in the published article.

The second phase of the research involved qualitative empirical work carried out to extend the contributions made during the literature phase of research and to more fully answer the research question. The detailed methodology for this research is described in section 3.3 of the empirical work that follows.

1.7 Ethical considerations

The literature work that was carried out in the earlier phases of research involved only secondary sources, and so did not trigger the need for a formal ethics approval process to be followed. This did not of course mean that there were no

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ethical issues to be considered in the course of carrying out the research. Three of the maxims detailed in the 2012 version of Cranfield University School of Management's 'Code of Conduct regarding Research Activities' were particularly apposite to this literature work.

First, the requirement to remain familiar with the relevant academic literature was fulfilled by continuing to update the literature base for the review while the review process continued. That process has also continued during the empirical phase of the research. Second, the requirement to submit my research to review was fulfilled through presenting the work at doctoral colloquiums and, most rigorously, through the publishing review process (see section 1.10 below). Third, the requirement to avoid methodology that may enhance or conceal researcher bias was fulfilled by basing the review on a systematic process of data collection, and explaining how additional data were acquired and incorporated into the review.

Another maxim from this code described the importance of acknowledging advice and assistance given. I have already acknowledged at the beginning of this thesis the invaluable contributions made by my supervisory panel throughout the PhD process. In addition to this, and pertinent to the literature review that forms part of this thesis, however, were the contributions made by the anonymous reviewers of *International Journal of Management Reviews*. Their comments and suggestions were deeply helpful to me in strengthening the contributions that I have been able to make.

The situation was naturally rather more complex when it came to conducting the empirical work. These complexities arose because data were gathered from human participants, and because unpublished material informed some of the research findings.

First, issues relating to human participants. As described in section 3.3, data were acquired through interviews supplemented by follow-up calls and correspondence – a 'moral enterprise', in Kvale's view, who writes that interview research is permeated by ethical issues (2007). There were occasions when subjects requested to go off the record ('Don't quote me on this' – S4), and this was respected. Even where no such request was made, the content of some of

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the conversations contained controversial aspects which could have embarrassed participants. In order to avoid breaching any confidentiality agreements, whether explicit or not, such data were anonymised in the reporting and discussion of findings. For example, a direct quotation may be provided of what someone said, but without providing sufficient information to link this quotation to an individual or an organisation.

A second issue related to power differentials. When this research commenced I was working in a senior position in a company. Some of the possible interview subjects worked in this organisation, or had contractual arrangements with it. I was cognisant of the likelihood that some potential participants might tell me what they thought I'd like to hear, attempt to settle scores with others in the organisation, or not be prepared to talk frankly to me lest their careers be damaged if I didn't keep their views confidential.

To mitigate these risks I excluded all potential participants that I thought would be subject to these hindrances. This left me with a small subset of participants with whom I had a sufficiently strong relationship that, in my judgement, I believed they would tell me the truth as they understood it. The concern about power differentials was largely restricted to this subset of individuals. In other cases the interviewees perceived me simply as a researcher, with little or no influence over their lives. This is not to discount other asymmetries between the interviewer and interviewee, as the interview process is by its nature an instrumental dialogue (Kvale, 2007). It is merely to state that such asymmetries were of a different order to those arising from participants' organisational positions.

Unpublished material was handled in one of two ways. Some of it was subject to confidentiality agreements. A primary example is company documents that I had access to in the course of carrying out my usual work, but that were confidential. Such material was used to inform my thinking, but was not formally analysed and coded. Further, my access to such documentation ended when I retired from the company at the end of March 2017, and the terms and conditions of my employment involved an ongoing commitment to confidentiality. This has been honoured.

Other material, while unpublished, was not subject to any such agreement. An example of this might be the minutes of a company AGM. Such material, if found to be of interest, was coded and analysed, and could be referred to whether anonymised or not.

Where the data source was a published report, such as a media article, I recognised no necessity for anonymity. Since such material was already in the public domain, it could be referred to explicitly, even if it contained material of a potentially controversial or embarrassing nature.

1.8 Relevant theoretical perspectives

Several theoretical perspectives have been deployed in this research to explain the phenomenon of non-financial shareholder activism. The relevant theories are outlined in section 2.3 in the systematic literature review, where their application to the phenomenon is explained. The process model that is then developed in section 2.4 is discussed in light of these theories, extending their applications. Further theoretical contributions are made in section 3.4, where a similar approach is followed to provide theoretically informed insights into what was found during the empirical phase of the research.

For introductory purposes, Table 1 provides an overview of these theories that are of interest. Going beyond the restricted format of a glossary, the table lists key references that explore these perspectives; it also offers a summary of the theories' relevance to the research.

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Table 1: Theories of interest pertaining to non-financial shareholder activism

Theory	Summary description	Key references	Application in this research
Exit, voice and loyalty	Actors may respond to organisational decline by breaking ties with the organisation (exit) or by retaining ties and attempting to change it. The higher the degree of loyalty to the organisation, the more likely voice will be preferred over exit (Hirschman, 1970).	Hirschman (1970); Hirschman (1980); Saunders (1992); Bahshur and Oc (2015)	Deployed to describe and explain the influencing interventions available to non-financial shareholder activists (sections 2.3.2, 2.4.2, 2.4.3.5, 2.6, 3.4.2, 4.4 and 5.1).
Agency	Principals and agents may have different goals, with the result that their relationships require governance to cope with information asymmetry and the costs of risk-bearing (Eisenhardt, 1989).	Jensen and Meckling (1976); Fama (1980); Fama and Jensen (1983); Eisenhardt (1989)	While this theory is prominent in corporate governance literature, this research shows that it has a limited contribution to make when explaining the phenomenon of non-financial shareholder activism (sections 2.3.1, 2.4 and 4.4).
Stakeholder	It is not only controlling shareholders that may have legitimate claims upon a company, but other parties too (Hill and Jones, 1992).	Freeman (1984); Donaldson and Preston (1995); Phillips, Freeman and Wicks (2003); Hasnas (2013)	This theory was used above (sections 1.2.1 and 1.2.4) to discuss the domain of interest. It is helpful to explain shareholder heterogeneity and the influence that non-shareholding actors may exert, as well as aspects of managerial decision-making (sections 2.3.1, 2.4.2, 2.4.3, 2.4.4, 3.4.1, 3.4.2.3, 3.4.2.4 and 4.4), and provides a foundation for stakeholder salience theory (below).
Stakeholder salience	Stakeholders' potential for influence is described in terms of their power, legitimacy and	Mitchell, Agle and Wood (1997); Neville, Bell and Whitwell (2011)	These three stakeholder attributes are considered when explaining the influence that non-financial shareholder activists may have over

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	urgency (Mitchell, Agle and Wood, 1997).		company managers (sections 2.3.4, 2.4.2, 2.4.3, 2.4.4, 2.5, 2.6, 3.2, 3.4.2, 4.4, 5.1, 5.3 and 5.4).
Social movement	Dissatisfied actors may coordinate their efforts to effect change in, <i>inter alia</i> , business practices (Georgallis, 2017).	Tilly (1978); McAdam (1982); Davis and Thompson (1994)	This theory is used to explain the involvement of actors other than shareholders in the non-financial shareholder activism process (sections 2.3.1, 2.4.1, 2.4.2, 2.4.3.1, 2.4.3.4, 2.4.3.5, 2.6 and 4.4).
Institutional	This explains how organisations function by viewing them as parts of complex social systems, with its neo-institutional form explaining organisational isomorphism as a result of coercion, mimetic processes and normative pressures (DiMaggio and Powell, 1983).	DiMaggio and Powell (1983); Suddaby (2010); Greenwood, Hinings and Whetten (2014); Meyer and Höllerer (2014)	The theory has potential for explaining interactions in the company, particularly when managers are subject to institutional pressures originating outside the company (section 2.3.1), and may illuminate how they react to normative influences (section 3.4.1).
Signalling	This explains the behaviour of actors with access to different information, and how one party must choose whether and how to communicate information, and how the receiving party must choose to interpret this information (Connelly et al., 2010).	Spence (1974); Connelly et al. (2010); Taj (2016)	The theory is useful in explaining both directions of the two-way communication process between non-financial shareholder activists (sections 2.3.3, 2.3.4, 2.4.1, 2.4.2, 3.4.2.1 and 4.4) and company managers (sections 2.4.5, 3.4.2.3 and 4.4) and the role played by enabling actors (2.4.3) and moderating factors (3.4.2.2).
Symbolic management	This differentiates between actions of substance and actions that are designed to carry primarily symbolic meaning (Stevens et al., 2005).	Westphal and Zajac (1994); Zajac and Westphal (1994); Westphal and Zajac (1998); Rodrigue, Magnan and Cho (2013)	This theory is useful in explaining how managers react to shareholder interventions (sections 2.3.3, 2.4.1, 2.4.2, 2.4.3, 2.4.5, 3.4.1, 3.4.2.3 and 4.4), providing clues to their motivations and intentions.

1.9 Presentations, publication, awards and plans

1.9.1 Symposium presentation

Cundill, G.J. (2015), 'Non-financial shareholder activism: influencing corporate environmental and social performance', *British Academy of Management DBA/Executive doctorate colloquium*, Cranfield, 12 November 2015. This allowed me to present an early version of my research to a peer group for comment.

1.9.2 Doctoral colloquium presentation

Cundill, G.J. (2018b) 'How non-financial shareholder activism influences companies' environmental, social and governance practices', *British Academy of Management Doctoral Symposium*, Bristol, 3 September 2018. This presentation focused on the empirical work detailed in this thesis and provided me with useful guidance particularly with respect to explaining my methodology.

1.9.3 Poster

Cundill, G.J. (2018c) 'Does E&S really go with G?', *British Academy of Management Doctoral Symposium*, Bristol, 3 September 2018. This poster explored the relationship between company environmental and social issues and company governance issues, which is discussed in Chapter 4. It allowed me to test my thinking with symposium attendees.

1.9.4 Refereed conference paper

Cundill, G.J., Wilson, H.N. and Smart, P. (2018d) 'How non-financial shareholder activism influences companies' environmental, social and governance practices', *The Southern Africa Institute for Management Scientists Conference*, Stellenbosch, 16–19 September 2018. This paper was an early and abbreviated version of the empirical work carried out for my doctoral studies (Chapter 3).

1.9.5 Published journal article

Cundill, G.J., Smart, P. and Wilson, H.N. (2018a) 'Non-financial shareholder activism: a process model for influencing corporate environmental and social performance', *International Journal of Management Reviews*, 20, pp. 606–626.

CHAPTER 1: INTRODUCTION

This article was a development of the literature review carried out as part of my doctoral studies (Chapter 2).

1.9.6 Awards

Best In Track Award and first place in Best Paper Awards for the 30th Conference of the Southern Africa Institute for Management Scientists (2018), for the paper 'How non-financial shareholder activism influences companies' environmental, social and governance practices'. All of 100 full papers and 64 work-in-progress papers were submitted to a double-blind review process, and 63 full papers and 57 work-in-progress papers were accepted.

1.9.7 Academic journal article in preparation

Cundill, G.J., Wilson, H.N. and Smart, P. 'How non-financial shareholder activism influences companies' environmental, social and governance practices'. Journal yet to be determined. This article is being developed from the empirical paper referred to in 1.9.4 above.

1.9.8 Academic conference papers in preparation

Cundill, G.J. and Wilson, H.N. 'ESG's misleading nature'. Chapter 4 is being revised for submission to the 2019 conference of the Southern Africa Institute for Management Scientists.

Cundill, G.J., Wilson, H.N. and Smart, P. 'Focus on performance'. Section 1.2 is being re-worked for submission to the 2019 conference of the British Academy of Management.

1.10 Signposting

The phenomenon of interest, non-financial shareholder activism, has now been defined and has been situated in the broader domains of company non-financial performance, corporate governance and shareholder activism. A justification has been offered for the choice of terminology in this research. Aims, objectives and a rationale for the research have been outlined. An overview of the research methodology has been provided, informed by ontological and epistemological

CHAPTER 1: INTRODUCTION

reflection. Ethical issues relating to the research have been discussed, and a summary of relevant theoretical perspectives that will be deployed in the research has been tabled. Presentations, publication of and plans for the research have been listed.

Chapter 2 of this thesis reviews the academic literature describing non-financial shareholder activism. This provides the foundation for the empirical research that is described in Chapter 3. This review, however, goes beyond summarising the current state of knowledge of the phenomenon. Contributions are made by developing a process model of non-financial shareholder activism incorporating often neglected elements of the activism process, by providing theoretical explanations of the working of the model, and by fashioning an agenda to guide future research in this area.

The review is presented largely unchanged from the revised version submitted and accepted by the editors of the *International Journal of Management Reviews*, where it was published (Cundill, Smart and Wilson, 2018a).

2 HOW SHAREHOLDER ACTIVISM INFLUENCES COMPANY NON-FINANCIAL PERFORMANCE: A SYSTEMATIC LITERATURE REVIEW¹

2.1 Summary

Shareholders have become increasingly active in endeavouring to influence companies' environmental and social practices. In comparison with the mature field of financially-motivated shareholder activism, limited enquiries have been carried out on its non-financial counterparts. This article synthesises the knowledge base through a review of the academic literature, exploring shareholder activism intended to impact corporate environmental and social performance. Theoretical perspectives appropriate to this phenomenon are critically appraised, in particular insights from social movement theory, Hirschman's theory of exit, voice and loyalty and stakeholder salience theory, as well as the roles of signalling and symbolic management actions. Data from the literature are organised into a process model of non-financial shareholder influence. Underpinned by the influencing context, this conceptualisation centres on three primary shareholder interventions: divestment, dialogue and shareholder proposals. These interventions are enabled through a range of actors and tools: coalitions, non-governmental organisations, codes and indices, the media and regulators. The interaction between interventions and the enabling actors and tools helps to determine managers' perceptions of shareholder salience. These perceptions subsequently shape the organisational behaviours that impact companies' symbolic and substantive environmental and social performance. An agenda to direct future research in this burgeoning field is articulated.

2.2 Introduction

Shareholder activism has been studied for more than a century (Gillan and Starks, 2007; Rutterford, 2012), tracking a trajectory of increasing influence on

¹ Published under the title 'Non-financial shareholder activism: a process model for influencing corporate environmental and social performance' (Cundill, Smart and Wilson, 2018a).

company managers (McKinsey & Company, 2014). Typically, the purpose of this activism has been to improve a company's financial performance (Martin and Nisar, 2007; Schneider and Ryan, 2011; Denes, Karpoff and McWilliams, 2017), and only comparatively recently have shareholder activists begun to prioritise environmental and social performance (Goranova and Ryan, 2014). With the rise in awareness of global sustainability challenges among incoming generations, such priorities are now widely on display in the press (e.g. Flood, 2015; McKibben, 2015). In the United States (US) the number of shareholder proposals relating to environmental and social issues has risen by half in the past decade, with more than 400 in 2015 (US SIF, 2016). The Interfaith Centre on Corporate Responsibility (ICCR) alone filed 67 climate-change related proposals that year (ICCR, 2016).

Academic examination of this sub-field of shareholder activism has commenced but is yet to establish a body of evidence comparable to that of financial shareholder activism. By way of illustration, Goranova and Ryan's (2014) review of the academic literature brought together the streams of financial and social shareholder activism. In their table of activism outcomes, only 5 of 38 papers reviewed relate to social or environmental performance. Sjöström's (2008) review of shareholder activism for corporate social responsibility, a construct integrally linked to corporate environmental and social performance (Aguinis and Glavas, 2012), identified 34 articles and working papers, most of which were published after 2003. The pace of publication has increased and more than half of the articles that form this article's literature base appeared after Sjöström's review. This burgeoning body of literature points to the need for the assembly and organisation of ideas which are currently partial and fragmented.

This review locates, critically appraises and synthesises relevant academic literature that examines shareholders' influence over companies' environmental and social performance. The methodology used to develop the literature base for the review is described in Appendix A. In summary, a systematic approach was used to create a foundational set of articles which was then supplemented through interactions with other academics and the wider literature base. This

article is situated in the context of a broad body of literature dealing with company stakeholders, classically described by Freeman as ‘any group or individual who can affect or is affected by the achievement of the organisation’s objectives’ (1984: 46). The subset of stakeholders of primary interest in this review is shareholders, those who have an ownership stake in the organisation, and the activity of these shareholders that will be examined is that of non-financial activism, the influencing of company environmental and social performance by using this ownership stake (Sjöström, 2008).

Most research has been carried out in the US and to a lesser extent the United Kingdom (UK). The reasons for this may include the well-established tradition of shareholder activism in the US (Rutterford, 2012), the existence of the US ICCR’s large database on social shareholder activism (Clark, Salo and Hebb, 2008), and the availability of detailed analysis on US companies’ social and environmental performance from, *inter alia*, KLD Research and Analytics and the US government’s Toxic Release Inventory (Fisher-Vanden and Thorburn, 2011).

I now analyse the main theoretical approaches used in the expanding sub-field of non-financial shareholder activism. I then provide a process model to show how shareholders may influence company management and how they may increase managers’ perceptions of their salience to achieve their aims. These shareholder interventions and their enablers are evaluated in light of the main theoretical approaches. Finally, an agenda for further research based on the process model is offered prior to concluding remarks.

2.3 Theoretical approaches to non-financial shareholder activism

I have identified a range of theoretical approaches in the academic literature that deals with shareholder activism relating to company environmental and social performance. Exemplar references from this literature are provided in Table 2. What follows is an analysis of some of the most prominent and potentially useful theories that will in subsequent sections be brought to bear on a process model for this form of shareholder activism.

Table 2: Primary theoretical approaches in the shareholder activism literature

Theoretical perspective	Exemplar references
Agency theory	Jensen and Meckling (1976); Fama (1980); Fama and Jensen (1983); Eisenhardt (1989)
Stakeholder theory	Freeman (1984); Donaldson and Preston (1995); Phillips, Freeman and Wicks (2003); Hasnas (2013)
Institutional theory	DiMaggio and Powell (1983); Suddaby (2010); Greenwood, Hinings and Whetten (2014); Meyer and Höllerer (2014).
Social movement theory	Tilly (1978); McAdam (1982); Davis and Thompson (1994)
Exit, voice and loyalty	Hirschman (1970); Hirschman (1980); Saunders (1992); Bahshur and Oc (2015)
Signalling	Spence (1974); Connelly et al. (2010); Taj (2016)
Stakeholder salience theory	Mitchell, Agle and Wood (1997); Neville, Bell and Whitwell (2011)

2.3.1 Understanding relationships: principals, stakeholders, institutions and social movements

Agency theory would seem eminently suitable for explaining shareholder-management interaction because of its intuitive and legally based view that shareholders, as principals of the company, delegate authority to managers as their agents so that the latter may perform the service of managing the company (Jensen and Meckling, 1976). This is indeed the primary framework deployed by scholars in the case of financial shareholder activism (Davis and Thompson, 1994; Goranova and Ryan, 2014). Yet it is less suitable to describe what is usually a minority group of shareholders (Logsdon and Van Buren, 2009) attempting to exert influence over managers with respect to corporate environmental and social performance. In such a situation, a simplistic application of agency theory results in the problems of determining the principal's expectations and even exactly who the principal might be. Corporate financial performance over a period frequently serves as a proxy for the principal's desires when financial shareholder activism is being considered (Boerner, 2006). However, the interests of non-financial shareholder activists may diverge from those of other shareholders.

CHAPTER 2: SYSTEMATIC LITERATURE REVIEW

The process of identifying the principal when the shareholder body is heterogeneous warrants examination in light of stakeholder theory, which recognises that managers have to make decisions in light of a range of disparate and almost certainly conflicting interests (Parmar et al., 2010). Developed as it has been to cater for a set of actors ranging from employees to governments to trade associations, stakeholder theory can cope with a potentially heterogeneous shareholder base (Donaldson and Preston, 1995). This descriptive capability is useful to map shareholder entities and their demands pertaining to corporate environmental and social performance (Lee, 2008; Henisz, Dorobantu and Nartey, 2014). However, it falls short of being able to explain exactly how these shareholders' influencing attempts may impact on the company itself (Frynas and Stephens, 2015).

What is needed is an understanding of how managers react to attempts by shareholders to influence aspects of company environmental and social performance. Institutional theory can be deployed usefully to describe intra-organisational processes (Bengtsson, 2007; Luo, Lan and Tang, 2012). It can be applied beyond a single organisation to explain phenomena at the level of the organisational field (Greenwood, Hinings and Whetten, 2014), which could prove helpful in describing the effects of non-financial shareholder activism on a particular industry or sector of business. It has been argued, however, that the theory's primary purpose is to understand how and why organisations react to certain aspects of their environment and not to others (Suddaby, 2010).

When a company's environment includes a shareholder attempting to exert influence over its environmental or social performance, institutional theory suggests managers may take their cue from established norms (Daudigeos, 2013); for example, by publishing a sustainability report. In an uncertain environment, organisations may adopt a mimetic strategy (DiMaggio and Powell, 1983), modelling their response to activists on that of their peers with isomorphic results. Institutional theory also explains how coercion is an influencing mechanism that may work when others don't (Kostova, Roth and Dacin, 2008): a

shareholder dissatisfied with, say, a company's polluting activities may engage with government agencies to encourage enforcement of regulations.

Institutional theory therefore seems to have important insights to offer when examining non-financial shareholder activism. In the company, it can explain the impact of managers' actions on corporate environmental and social performance through an evaluation of how and why the actions of individuals take place (Suddaby, 2010). Extending the analysis to the context in which companies operate, it may explain how non-financial shareholder influence is affected by such institutional conditions as regulation and the presence of non-governmental organisations (NGOs) (Campbell, 2007).

Agency theory's description of relationships with the company as a nexus of contracts (Fama, 1980) fails to capture the range of actors that may be involved in non-financial shareholder activism – activism that may be described as comprising a social movement (Goranova and Ryan, 2014). Social movement theory argues that such a movement is likely to form when the interests of actors are shared, are few and are readily recognised (Tilly, 1978) – a situation readily obtainable when shareholders are seeking to influence social and environmental company behaviour. A sense of shared identity and social ties help to develop social infrastructure, such as the ICCR, which allows mobilisation towards a specific objective as the activists begin to acquire control of required resources (Davis and Thompson, 1994). Such mobilisation may be enhanced during periods of instability, such as protest action against globalisation, which render the status quo susceptible to influence (McAdam, 1982). I turn now to consider the influencing act itself.

2.3.2 Forms of influence: exit, voice and loyalty

Shareholder attempts to exert influence on company environmental or social practices are often described in terms of Hirschman's (1970) concept of voice. In Hirschman's conception, voice is a political action, aimed at changing an undesirable state of affairs while remaining invested in the company (Bahshur and Oc, 2015). In the case of non-financial shareholder activism, action may take

the form of dialogue with company managers, or shareholder proposals at a general meeting (Clark and Hebb, 2005).

Because most researchers adopt definitions of shareholder activism that exclude any fundamental change in the relationship between the shareholder and the company (Gillan and Starks, 1998), divestment is usually excluded from the discussion (Rho, 2006). By defining all shareholder activism as forms of voice, Hirschman's second action, exit, is neglected, thereby reducing the theory's explanatory power. In contrast to Goranova and Ryan (2014) I have included screening and divestment in my analysis, grouping them together in the process model I describe later. Screening based on social or environmental criteria is fundamental to most socially responsible investment approaches (Richardson and Cragg, 2010) and it would seem unwise to exclude this. Similarly, there have been times such as during the campaigns against South African apartheid when divestment was a widely publicised form of shareholder activism (Beaty and Harari, 1987). These activities also may be described in terms of the use of an ownership stake to exert influence.

It would seem important to be able to explain why a shareholder may choose between the options of voice and exit. Hirschman (1970) attempted to do so by introducing a third construct, namely loyalty. Different from exit and voice in that it is not an action, loyalty can be regarded as a moderator of these actions (Saunders, 1992), its presence usually making exit less likely and voice more so (Hirschman, 1970). While Barry (1974) is unnecessarily unkind in describing loyalty as 'an ad hoc equation filler', its usefulness is reduced because it is not the only determinant of the choice between exit and voice. Hirschman himself (1980) later noted that both voice and exit may be suppressed by external circumstances, regardless of loyalty. As I shall note later, these circumstances include the regulatory environment as well as the environmental or social issue of concern to the shareholder.

2.3.3 Forms of response: signals and symbols

To influence corporate environmental and social performance, shareholders will attempt to convey information to managers (Lewis and Mackenzie, 2000; Haigh

and Hazelton, 2004; David, Bloom and Hillman, 2007), a form of signalling (Spence, 1974). To achieve the shareholder's aims this signalling needs to be observable by management (Connelly et al., 2010), and the anticipated outcomes of signalling may be adversely affected by unintended negative signalling (Taj, 2016). Managers in turn may send signals to shareholders, either in response to shareholder action or to pre-empt it (Goranova et al., 2007; Miller and Triana, 2009; Zhang and Wiersema, 2009; Robinson, Kleffner and Bertels, 2011).

Having signalled to managers a desire for a change in company performance, it is reasonable for a shareholder to expect a response. Often the desired response would entail changes to company operations that are substantive – actual and concrete changes (Ashforth and Gibbs, 1990). Managers may not wish to make these changes, however, and may therefore engage in symbolic actions that appear to conform to shareholders' desires, but do not actually result in changes to organisational activities (Rodrigue, Magnan and Cho, 2013). These symbolic actions are decoupled from actual practices (Meyer and Rowan, 1977), but provide a legitimising explanation of company actions (Zajac and Westphal, 1995). Managers may in this way lead shareholders to believe that their demands have been met, thereby relieving any pressure being brought to bear upon them (Westphal and Zajac, 1998). Such symbolic management may impact deleteriously on the effectiveness of shareholder influence, as I will note later.

2.3.4 Acquiring managers' attention: stakeholder salience

Managers typically have many demands upon their time, and work in a world replete with conflicting signals. They are constantly having to answer, at least by their actions, Freeman's question as to 'who and what really counts' (1994: 411), a question of identification: which stakeholders and which issues should they take into consideration? Shareholders seeking to exert influence naturally want managers to perceive them as salient. Mitchell, Agle and Wood, (1997) studied stakeholder identification and salience by considering stakeholder attributes. Defining salience as 'the degree to which managers give priority to competing stakeholder claims' (p. 854), they proposed that a stakeholder's salience may be determined by evaluating its attributes of power, legitimacy and urgency. Power

is a stakeholder's ability to get another entity to do something it otherwise would not have done; legitimacy is the perception that a stakeholder's actions are desirable or appropriate; and urgency is the extent to which a stakeholder's claims call for immediate attention (Mitchell, Agle and Wood, 1997). Gifford (2010) found the theory to be useful when applied to the shareholder subset of stakeholders, and I shall use its insights repeatedly in later discussion of my process model as I describe managerial perceptions and actions when under pressure from shareholders.

It is surprising that this potentially useful theory has seen limited development (Neville, Bell and Whitwell, 2011). While salience has typically been understood in terms of perceptions (Mitchell et al., 2011), Eesley and Lenox (2006) redefined it in terms of actions. This may prove to be a useful modification, allowing for greater empirical assessment of the construct, not least when attempting to determine the effectiveness of shareholders' attempts to influence company performance. Neville, Bell and Whitwell (2011) distinguished carefully between the stakeholder and the stakeholder's claim, resulting in a more nuanced definition of stakeholder salience: 'the prioritisation of stakeholder claims by managers based on their perception of the degree of power of the stakeholder and the degree of moral legitimacy and urgency of the claim' (p. 369). They went on to show that managerial response is thus determined, at least in part, by managers' identification and then prioritisation of the stakeholder itself, as well as by their identification and prioritisation of the claim the stakeholder is making on the organisation. Perrault and Clark (2016) found that stakeholder status and reputation affected managerial response, suggesting that Mitchell, Agle and Wood's (1997) model may be usefully extended to incorporate other elements.

Having laid a foundation of theoretical perspectives on shareholder-manager interaction, I now discuss a process model that describes how shareholders may influence company environmental and social performance.

2.4 A process model for non-financial shareholder influence

I chose the term 'influence' as it may be used to describe the interactions between shareholders and companies without unduly limiting the nature of these

interactions. This terminology is in line with that used recently by Goranova and Ryan (2014) and McNulty and Nordberg (2016). I define influence as the altering of what would otherwise have been the course of events in the absence of an influencing intervention (Coughlan et al., 2001). In the context of shareholder-company interaction, such influence would not normally extend to the point where shareholders assume managerial duties: to do so would be to take on the very roles of the agents who are appointed to manage the company (Fama and Jensen, 1983). Current codes of corporate conduct would not support shareholders taking on such a role, both because shareholders don't have fiduciary duties to the company (Institute of Directors of Southern Africa, 2016), and because of the impracticality of attempting to manage a company by means of shareholder referendums (OECD, 2015).

Shareholder influence is exercised through shareholders intervening in the affairs of the company. By using the term 'intervention' I am following to an extent the approach of Bunge (1967), whose logic was that 'if you want to achieve outcome O in context C, then use intervention type I' (Denyer, Tranfield and van Aken, 2008, p. 395). Bunge's concept of the technological rule is more prescriptive than I have attempted to be in this research. It is, however, a useful way to lay out how the phenomenon of interest occurs, within what context, and with what outcomes.

An intervention would normally involve some form of positive action by an entity or entities, and this is largely the case in the way that I have deployed this term in the research that follows. The apparent exception is that of negative screening, described in section 2.4.2.1. From the perspective of a company manager, the actions of an entity that elects not to take up a shareholding in the company may be completely invisible. It may be argued that such actions do not constitute an intervention in the company, since there may be no direct interaction between the entity and the company. This act of avoidance may still be explained as a conscious action by the entity, however, and this act may also be a result of the entity wishing to influence the company's environmental and social performance (for example, by publicising the reasons for its act of avoidance in the media). In

the discussion that follows, therefore, negative screening is also described as a shareholder intervention.

2.4.1 The context of influence

Figure 5 outlines a process model for shareholder influence on company environmental and social performance. It starts with the context in which this influencing takes place, as this has an impact on the influencing act and its outcomes. Current research distinguishes between institutional and smaller shareholders (Clark and Hebb, 2005), not forgetting agency issues between investors and fund managers (Hirst, 2017), and the discussion that follows will show how different categories of shareholders may choose different approaches to exert influence. This is particularly pertinent to non-financial shareholder activism by actors as disparate as a giant pension fund such as CalPERS (Barber, 2007) and an individual gadfly (Mathews, 2015). Shareholders' motivations may differ: for example, a union's interest in employee working conditions (McCabe, 2000), a pension fund's consideration of the impact of a company's activities on its other investments (Kiernan, 2007), and an investor's desire to reduce non-financial risk (Ho, 2016).

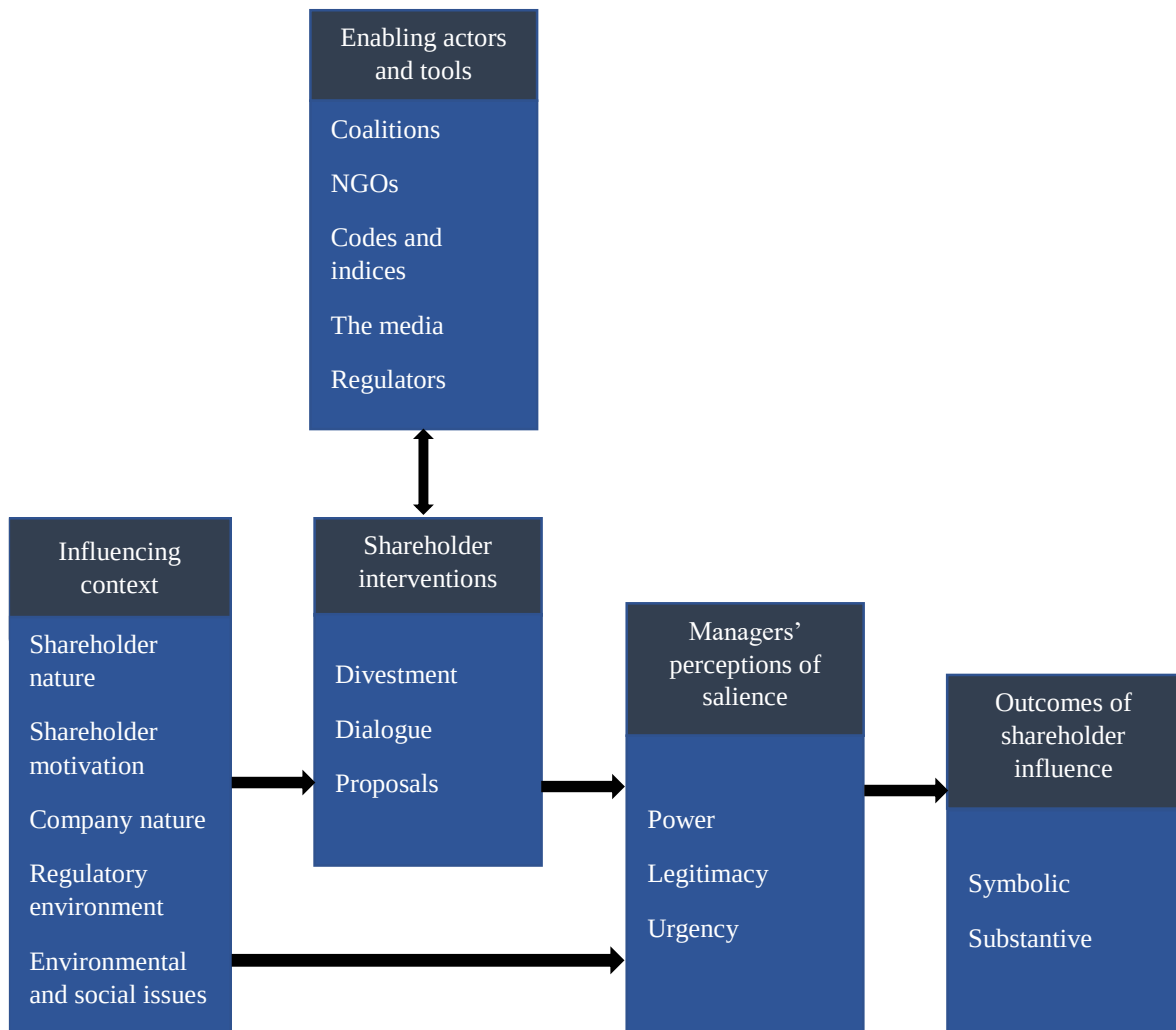


Figure 5: A process model for shareholder influence

Company characteristics and the sector in which a company operates have also been shown to impact shareholder actions (Judge, Gaur and Muller-Kahle, 2007). Adopting a social movement perspective, Rehbein, Waddock and Graves (2004) find evidence that company size is a determinant of whether shareholders may target it, and whether its environmental performance is of concern, or whether it is in an industry known to have a poor employment or community interaction record. Activists may elect to work in a cooperative manner with progressive companies, while candidly challenging companies adopting a policy of resistance (den Hond and de Bakker, 2007). However, as will be described in greater detail in the discussion on the outcomes of shareholder influence, a company that

sends accommodating signals to a shareholder may merely be engaging in a symbolic management exercise (Marcus and Goodman, 1991).

Changes in the regulatory environment over the years have been shown to impact significantly on shareholder activism (Rutterford, 2012) and on its effects (Kock and Min, 2016). The means of this impact may range from facilitating shareholder proposals to encouraging socially responsible investment (Yamahaki and Frynas, 2016). Lastly, to provoke shareholders to act there must be an environmental or social issue, or combination of issues, that matters sufficiently to shareholders for them to commence their activism (Judge, Gaur and Muller-Kahle, 2007). The nature of the issue may determine the activist's approach: an investor may, for example, see ethical screening as the only legitimate intervention in a particular industry (Van Duuren, Plantinga and Scholtens, 2016). It may also alter managerial perceptions of shareholder saliency: a scandal recently unearthed could provide the support of urgency to the shareholder's attempt at influence (Löscher, 2012).

2.4.2 Interventions

A close reading of the literature reveals three fundamental influencing interventions available to shareholders: divestment of shares, dialogue with management, and shareholder proposals at general meetings. Linked to these interventions, the literature describes a set of enablers that may increase managers' perceptions of the salience of the shareholder. I will now analyse these interventions and associated enablers, evaluating them in light of the main theoretical perspectives described earlier.

2.4.2.1 Divestment

Shareholders dissatisfied with a company's environmental or social performance may choose to sell all or part of their shareholding in that company. This 'Wall Street Walk' can be described in terms of Hirschman's (1970) option of exit (Nooteboom, 1999), and has been recognised as a form of shareholder activism (Admati and Pfleiderer, 2009). The application of this influencing approach extends beyond simple divestment, as the same principle may lead to a

shareholder not investing in a company, business sector or geography in the first place (Eccles and Viviers, 2011). This has been described as a strategy of avoidance (Sparkes and Cowton, 2004), a term that appears in Farrell's (1983) extension of Hirschman's (1970) work to include the construct of neglect (in the context of employee satisfaction). This strategy is frequently referred to as ethical screening (Collison et al., 2009).

The flip-side of this screening approach, albeit less common, is best-of-breed investing (Hood, Nofsinger and Varma, 2014) – investing only in companies that have particularly progressive environmental and social practices. Such an action does not form part of Hirschman's (1970) analysis, where his starting point was that of someone who was already a holder of shares in a company. Nevertheless, such a starting point takes for granted that an antecedent action has taken place, that action being the acquiring of shares in the first place.

To preserve symmetry with Hirschman's (1970) construct of exit, this antecedent action can be named 'entrance'. The term is not found in the main reviews of Hirschman's work (*vide* Barry, 1974; Laver, 1980; Saunders, 1992; Dowding et al., 2000), although Hvinden (1984) starts the title of his article on employment relationships with 'Exits and entrances'. 'Entrance' does appear, although not prominently, in the shareholder activism literature Glac (2014). Somewhat surprisingly, Glac (2014) does not reference Hirschman's work, but his constructs are integral to her thinking. The third section of her useful article is headed 'Socially Responsible Investing: Exit and Entrance Instead of Voice' (p. 43, 2014), although she does not go on to make explicit use of the term in her discussion of screening.

Divestment is not always practical. It presupposes the context of a reasonably liquid equity market to keep the cost of exit low, not the case for all companies or all markets (Wen, 2009). Neither is it an option for passive investors bound to follow a specific index (Gifford, 2010), the index here serving to enforce loyalty to its constituents. Furthermore, large investors may be unable to sell their holdings without substantially damaging share prices and their own returns (Rao and Sivakumar, 1999), again raising the exit cost. These are examples of why

shareholders may exhibit apparent loyalty to a company, despite concerns over its environmental or social performance (McNulty and Nordberg, 2016).

Also, the effectiveness of the divestment intervention may be questioned. In the absence of any other engagement process, divestment or screening fails to send a clear signal to managers as to what aspects of a company's environmental or social performance a shareholder is unhappy with (Eccles, 2010). By divesting from (or not investing in) the company, investors forfeit the ability to exercise their voices as shareholders. A better way to wield the divestment stick, therefore, may be to signal to managers by threatening to sell, rather than by selling immediately (Gifford, 2010; Crifo and Forget, 2013). However, if the threat of divestment is to be perceived as salient by management, the consequent divestment or screening process must carry real, negative implications for the company. I turn to this now.

Managers' perceptions of the salience of divestment and screening activities may be seen in terms of the power that these actions have to affect the company's cost of capital (Haigh and Hazelton, 2004; Lewis and Mackenzie, 2000). To have a measurable effect on the share price, however, a significant proportion of the investor community must refuse to hold the share in question, and this is not usually the case (Johnsen, 2003). At the height of the anti-apartheid divestment campaign, the IRRC concluded that 'divestment will in all probability never have a direct economic effect on any South Africa-related company' (Beaty and Harari, 1987: 38). Fossil fuel divestment and restriction policies are perhaps the equivalent course of action today, but in 2014 accounted for only \$42.9 billion in money manager and institutional investment assets – barely 0.1% of the \$36.8 trillion assets under professional management in the US (US SIF, 2015). It is apparent, therefore, that managers need not worry overmuch about their companies' cost of capital being materially affected by ethical investors who rely on screening and divestment approaches, unless these investors become far more prevalent. Given this lack of power, shareholders contemplating the use of this intervention to influence managers may need to consider increasing managers' perceptions of the legitimacy and urgency of their demands by involving one or more of the enablers that I will describe later.

2.4.2.2 Dialogue

Shareholders may exercise their voices (Hirschman, 1970) by engaging in dialogue with a company's management with a view to influencing the company's environmental and social performance. While such dialogue is usually conducted in private (Logsdon and Van Buren, 2009), the shareholder may write articles, issue press briefings, address conferences or become involved in industry initiatives (Lewis and Mackenzie, 2000), thereby adding an element of urgency to the discussions. Public confrontation, however, is generally regarded as fundamentally different to dialogue (Logsdon and Van Buren, 2009), and may harm managers' perceptions of the legitimacy of the shareholder's demands.

Dialogue may be used as a stand-alone intervention. This is frequently the case with large institutional shareholders who find it comparatively easy to gain access to a company's management because managers recognise their power and legitimacy (Gifford, 2010). Furthermore, such shareholders usually do not wish their activism to become public knowledge, lest the company in which they have invested be damaged (Wen, 2009). These shareholders may be too large to easily exit their investment and, therefore, they are likely to seek to exercise influence via their voice (Hirschman, 1970). More usually, dialogue is part of a broader process of interaction and is typically a precursor to a shareholder resolution (Haigh and Hazelton, 2004; Sparkes and Cowton, 2004).

There are times, however, when dialogue only occurs once a resolution has already been submitted (O'Rourke, 2003). In this case the urgency associated with the shareholder resolution process may have raised managers' perceptions of the salience of the shareholder's demand and they may then elect to enter into dialogue with the shareholder. There are other factors that may cause a company to agree to engage privately with shareholders. By keeping the engagement behind closed doors, potentially reputation-damaging issues can be kept from the media, and political actors such as regulators can be kept ignorant of problematic environmental and social corporate performance (Rehbein, Logsdon and Van Buren, 2013). Secrecy makes it difficult for powerful and legitimate shareholder/stakeholder coalitions to form around shared interests, thus reducing

the possibility of social mobilisation and allowing the company more flexibility to shape the dialogue's agenda (Rehbein, Logsdon and Van Buren, 2013).

Given the time and resources expended by both shareholders and managers in the process, it would seem important for both parties to determine how effective dialogue is for influencing companies' environmental and social performance. The evidence in the academic literature on this is both incomplete and inconclusive. Dialogue may result in the shareholder obtaining preferential access to information not readily available in the public domain (Clark and Hebb, 2005; Logsdon and Van Buren, 2009), which may be the shareholder's desired outcome. By its nature dialogue is likely to result in managers reaching a better understanding of the expectations of shareholders, potentially causing them to alter company practices accordingly (Logsdon and Van Buren, 2009). While these outcomes reduce information asymmetry between the parties by enabling the two-way signalling process, they don't necessarily constitute a substantive impact by shareholders on environmental and social performance. However, the process may enable shareholders to signal clearly to managers what their expectations are, allowing managers to understand shareholders' motivations. As Van Cranenburgh, Liket and Roome (2013) show in a broader stakeholder context, this may help managers formulate responses that are practical for the company and address at least in part shareholders' concerns. It may, however, also enable them to merely craft a more plausible symbolic response instead of encouraging a substantive change in corporate performance (Westphal and Zajac, 1998).

There are indications that companies may acquiesce to shareholder requests simply because they do not have the time or resources for lengthy dialogue (Rehbein, Logsdon and Van Buren, 2013). Such acquiescence may, however, be merely a symbolic management exercise by managers (Westphal and Zajac, 1994). Reviewing research into one institutional investor's ongoing dialogue with companies on social issues, Wen (2009) notes that managers responded to the investor's concerns in more than 95% of cases. Sparkes and Cowton (2004) are less sanguine in their assessment of the effectiveness of dialogue, finding that

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NGOs campaigning in the public arena view private dialogue as futile. Lewis and Mackenzie (2000) observe that much dialogue in the UK is limited to investors requesting clarity on company policy and informing the company of the investors' own ethics policies – symbolic actions not likely to influence environmental and social performance significantly.

What is evident from the literature is that the effectiveness of dialogue is difficult to research, not least because of the lack of public artefacts (Logsdon and Van Buren, 2009; Wen, 2009). When the content of discussions that take place in secret is unknown, and when even the fact that such discussions have taken place may not be disclosed, it is practically impossible to draw lines of correlation, let alone causation, between shareholder-manager dialogue and a change in a company's environmental or social performance (Mallow and Sethi, 2016). It is doubtless because it is difficult to research this approach to influencing that most of the empirical literature describing shareholder activism concentrates on shareholder proposals, for which information is readily available. This is despite the reported increasing popularity of the use of dialogue (Rehbein, Logsdon and Van Buren, 2013) and despite the widely held view that dialogue is more powerful than public activism (Goranova and Ryan, 2014).

Examples certainly exist of investors claiming that their entering into dialogue with a company resulted in changes to that company's actions. Two cases in point are USS's interactions with Balfour Beatty and with GlaxoSmithKline (Clark and Hebb, 2005). However, in neither case did the companies acknowledge that shareholder influence played any part in changing its actions. A detailed study of Goldcorp's interaction with a shareholder coalition does show a changed approach, but whether that change was substantive is questioned by the researcher himself (Dhir, 2012).

In summary, except for the role that dialogue may play in the shareholder proposal process, or the threat of a shareholder making use of this process (Lewis and Mackenzie, 2000), there is no unequivocal evidence in the reviewed literature that shows that shareholder dialogue impacts on managers' actions with respect to environmental or social issues. This implies that shareholders are not

in a position to determine the extent to which they should deploy their resources in this area as opposed to choosing an alternative approach to influencing, nor can they determine how they may best increase managers' perceptions of their salience in the dialogue process.

2.4.2.3 Shareholder proposals

There is another way in which shareholders may choose to make their voices heard, rather than exiting their investment (Hirschman, 1970). In many jurisdictions, shareholders have a right to present proposals at a company's Annual General Meeting (AGM) and invite other shareholders or their proxies to vote on them (Gillan and Starks, 2007).

In the past, most proposals relating to environmental and social issues were filed by small shareholders and faith-based groups for whom financial return was not the sole determinant of their investment strategy. Their numbers have now been swelled by share-owning NGOs and unions (Matsusaka, Ozbas and Yi, 2016), as well as an increasing number of institutional investors for whom divestment is an unattractive option (BlackRock, 2016). Because this particular process of shareholder-management interaction is arguably the focus of environmental and social shareholder activism (Lydenberg, 2007), it is well worth examining its outcomes. The norm is for shareholder resolutions on social and environmental issues to fail to be passed by vote (Haigh and Hazelton, 2004), as it is seldom the case that interest in such resolutions is widely held. Even when this hurdle is crossed, the resolution is only precatory (Dhir, 2012) and thus not binding, although companies are increasingly likely to implement resolutions that do achieve a majority vote (Goranova and Ryan, 2014). This is probably a result of the perceived legitimacy of a significant proportion of shareholders expressing their views in this way.

The shareholder proposal process, sometimes referred to as the proxy process (Amao and Amaeshi, 2008), does, however, allow shareholders to exert influence. It is a formal way for shareholders to signal their discontent with a company's policies and practices (David, Bloom and Hillman, 2007), thereby bringing an issue to the attention of management. The effort required to prepare

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and submit such proposals may also increase managers' perceptions of the salience of these shareholders, their perceived legitimacy being increased by their demonstrably taking the matter seriously (Gifford, 2010).

Being a public process, it exposes aspects of a company's policies and practices to a variety of stakeholders (David, Bloom and Hillman, 2007). If these stakeholders have similar interests, this may provide an opportunity to develop a social infrastructure to mobilise more broadly to pressure the company. This, in turn, may lead to managers seeing the shareholder as more powerful and imparting a sense of urgency to their responses. A tabled proposal may lead to negative publicity and a level of embarrassment for company managers (Clark, Salo and Hebb, 2008). Proposals may be a useful public education tool (Emel, 2002) and may influence political processes involving regulators and others, using existing social infrastructure for mobilisation purposes. A perceived increase in urgency may then lead to management engaging in dialogue with the shareholder concerned (Dhir, 2012), an outcome which is possibly the shareholder's main objective (O'Rourke, 2003).

The literature on substantive outcomes of the proposal process is ambiguous (Clark, Salo and Hebb, 2008). Dhir (2012) remarks that shareholder proposals may translate into future company policy, although this may be decoupled from company practice. A limited range of case-study research has provided some evidence of shareholder resolutions leading to improvements in companies' social and environmental performance (e.g. Emel (2002) on Freeport-McMoran). It appears more common, however, for shareholder activism to be reported without clear indications of its effects (e.g. Sjöström (2010) on Cisco, Google and Yahoo!). The IRRC's database notes shareholder resolutions that were withdrawn before voting as an indicator that some form of compromise between the shareholder and management was reached. However, no convincing data exist showing whether companies made any substantive changes desired by the shareholder after the proposal was withdrawn (O'Rourke, 2003).

More frequent in the literature are observations that such interventions are largely unsuccessful (Haigh and Hazelton, 2004), leading at best to marginal changes in

company practices. It would be an unusual manager who would willingly give up executive power to a shareholder, so a shareholder proposal may lead to the unintended consequence of managers acting to safeguard their discretionary powers (David, Bloom and Hillman, 2007). David, Bloom and Hillman's (2007) research establishes a negative relationship between proposals and corporate social performance, a finding explainable in terms of symbolic managerial action (Westphal and Zajac, 1998). Fisher-Vanden and Thorburn (2011) established that climate-related shareholder resolutions led to companies joining the Climate Leaders and Carbon Disclosure Project (CDP) voluntary initiatives – symbolic actions.

Nevertheless, there is evidence that resolutions become more effective in changing practice if the company or its peers have previously been targeted in this way (Reid and Toffel, 2009). Proffitt and Spicer (2006) attribute this path-dependent effect to the impact of an increase in perceived legitimacy of the shareholder by the company's management. O'Rourke (2003) suggests that the shareholder proposal process may be effective, but only as part of a larger campaign. As noted earlier, mobilisation around the issue of interest will be facilitated by the building of social infrastructure, particularly in a context of political opportunity (Davis and Thompson, 1994).

Not all shareholders see the process as useful, with some viewing it as a blunt and often ineffective instrument (Clark and Hebb, 2005). The very specificity of many environmental and social proposals may count against their gaining support from a majority of shareholders (Towner, 2014). This is borne out by social movement theory's emphasis on the importance of issues needing to be both shared and readily recognised (Davis and Thompson, 1994).

2.4.3 Enabling actors and tools

I turn now to a set of actors and tools that may serve as enablers, enhancing (or perhaps detracting from) the perceived salience of shareholders seeking to exert influence through the three interventions analysed above. The interactions between the enablers and the shareholder interventions take place in a multiplicity of ways. Shareholders may form coalitions, collectively mobilising to

introduce proposals to advance their interests. NGOs may take up shareholdings to exercise influence. Other shareholders may create investment codes to promote environmental responsibility and solicit the support of the media and regulators to further their aims.

2.4.3.1 Coalitions

Interaction between a shareholder and a company need not be one-on-one nor need it be direct; there is a range of other possibilities. A high proportion of attempts by shareholders to influence companies on environmental or social matters arise from shareholder coalitions. One of the best-known is the ICCR (Dion, 2009), founded in 1971. Numerous other shareholder-led coalitions exist, ranging from those such as the Council of Institutional Investors (Lewis and Mackenzie, 2000) which were set up to promote shareholder influence in general, to organisations such as the Shareholder Action Network (Haigh, 2006) that focus on social and environmental issues.

The roles that these organisations play vary considerably, but there are some functions that most of them fulfil to some extent at least. They follow developments in their area of interest, identify relevant issues for action, disseminate information relating to these issues, and propose strategies and tactics for action (Neubaum and Zahra, 2006). They also serve as a rallying point for individual shareholders seeking to influence companies (Clark, Salo and Hebb, 2008). Shareholder activism can be costly, and these organisations facilitate cost-sharing with other shareholders (Neubaum and Zahra, 2006). These activities are readily described in terms of social movement theory, as they bring together shareholders who share similar interests and often focus on just one or a few of these interests. They provide a social infrastructure by facilitating ties between shareholders and afford them a shared identity – that of being members of a like-minded crowd. Lastly, they promote mobilisation by pooling and controlling coalition member resources.

There is broad agreement in the academic literature on the factors that may make such coalitions influential. Tighter coalition coordination increases shareholder salience in the eyes of managers (Neubaum and Zahra, 2006). The involvement

of large and hence apparently powerful institutional investors is generally regarded as important (Sparkes and Cowton, 2004), their status increasing the salience of other shareholders (Perrault and Clark, 2016). Clear framing by coalitions of the sometimes disparate voices of an array of shareholders makes it easier for managers to understand shareholders' expectations (Neubaum and Zahra, 2006), ensuring the clarity of signals that are sent.

Nevertheless, as already noted, evidence of the ability of these coalitions to effect changes in companies' environmental or social performance is not overwhelming. One likely reason is that, as indicated earlier, managers are unlikely to attribute their actions on environmental or social performance to shareholder pressure. What coalitions do provide, however, is an opportunity for individual shareholders to increase managers' perceptions of their salience by helping to create the conditions of a social movement, bringing together actors with shared interests and pooling resources to facilitate mobilisation.

2.4.3.2 Non-governmental organisations

A stakeholder that has become increasingly influential (Guay, Doh and Sinclair, 2004) is the NGO wishing to make its voice heard. Some NGOs, such as the CDP, establish codes of practice or reporting (Luo, Lan and Tang, 2012) that may be used as tools by shareholders. These will be considered in the section immediately following this one. NGOs include religious, environmental, labour and other interest groups (Logsdon and Van Buren, 2009). They may elect to purchase a shareholding specifically to exert influence over a company's environmental or social performance, perhaps hoping that better organisational knowledge may strengthen their arguments (Briscoe and Gupta, 2016). Some such as ShareAction (ShareAction, 2016) provide shareholders with tools and encouragement to exercise their voice on corporate environmental and social performance. NGOs such as Fossil Free Stanford (Fossil Free Stanford, 2015) encourage shareholders to divest themselves of companies of whose performance they disapprove. Rather like shareholder coalitions, they may contribute towards the shareholder activism movement by mobilising shareholders with specific interests, providing the social infrastructure for the

group to thrive in. However, their activities are not normally restricted to purely shareholder-based actions and tend to include other influencing interventions such as boycotts, demonstrations and media campaigns (Emel, 2002).

The actual effect of NGOs' activities on companies' performance is uncertain, however (Guay, Doh and Sinclair, 2004; Marshall, Brown and Plumlee, 2007). Emel (2002) found that companies were prepared to be influenced by NGOs only in non-core areas of their operations, such as the provision of social services. Managers may elect to address NGO pressure in symbolic ways by arranging site visits, preparing reports and supplying press releases (Kolk, 1999), thereby signalling their apparent responsiveness and potentially defusing conflict with shareholders and other stakeholders (Nartey, Dorobantu and Henisz, 2013) while not changing the company's substantive performance.

2.4.3.3 Indices and codes

This category of enablers comprises tools rather than actors that shareholders may use to increase managers' perceptions of their salience. Some examples are sustainability indices such as the Dow Jones Sustainability Index (DJSI), the FTSE4Good, and the FTSE/JSE Johannesburg Stock Exchange's Socially Responsible Investment Index (JSE SRI) (Collison et al., 2009; Hamann et al., 2009; Robinson, Kleffner and Bertels, 2011), the last-named having recently become the FTSE/JSE Responsible Investment Index. Others are sets of principles such as the United Nations Global Compact's Principles for Responsible Investment (PRI) (Post, 2013), and still others are reporting standards and platforms such as the CDP. The sources of such indices and codes may range from NGOs to professional bodies to companies (Kolk, van Tulder and Welters, 1999), or to combinations of a variety of stakeholders (Fransen and Kolk, 2007). (Government actors will be discussed below, but it is worth noting that some of these initiatives can be classified as a form of civil regulation (Kolk, Levy and Pinkse, 2008).)

Shareholders may use these tools in a variety of ways. They may demand that companies comply with industry codes. They may divest from companies that are not part of a sustainability index. They may make use of information from

company reports prepared in accordance with such codes to take decisions about who and how to target with their influencing interventions. They may pressure managers to demonstrate the quality of their disclosures by employing external assurance providers (Perego and Kolk, 2012).

There are those who hold the view that standards such as these exercise substantive influence, and that companies and whole industries will change their behaviour if their performance is observed, measured and reported (Reid and Toffel, 2009; Slager, Gond and Moon, 2012). Empirical evidence offers little support for this belief. Cho et al. (2012) even found that company environmental performance is negatively related to membership of the DJSI, another example of symbolic management activities.

Part of the reason for this may be that such indices and codes can be used by managers to either pre-empt or respond to shareholder pressure. Once a company has appeared on an index or is shown to have implemented a code, the salience of shareholder demands may diminish as a result of the company having enhanced its own legitimacy. This reduces, at least relatively, the legitimacy of shareholder demands. Cho et al. (2012) noted that inclusion in the DJSI relates more to the symbolic action of disclosure than actual performance, and that the DJSI thus appears to be reducing companies' incentives to improve their performance. In their assessment of the FTSE4Good, Collison et al. (2009) found nothing to contradict these results, noting that engagement with companies at risk of being excluded from the index does result in the criteria of the index being met. These criteria, however, focus on policies and disclosure rather than substantive performance. In the South African context, Hamann et al. (2009) found no statistically significant evidence of membership of what was then the JSE SRI being linked to corporate social performance, with the sole exception of Black Economic Empowerment indicators.

2.4.3.4 Media

The media may be described as an enabling actor, providing shareholders with a means to exercise and strengthen their voice (Flew, 2009). The media are certainly able to increase the salience of other actors, mainly by exercising

normative power (Gifford, 2010), often through threatening an executive's reputation and public standing (Neubaum and Zahra, 2006). Jia et al. (2016) found that in the context of environmental performance the more negative and more local the media coverage, the greater the impact on corporate performance. The media may also be used by shareholders who are threatening to divest or who are attempting to solicit support for a proposal scheduled to be voted on at an AGM (O'Rourke, 2003), enhancing the volume and potentially the clarity of the signal they wish to send to the company's management. The effects of a shareholder's involvement of the media in a matter of environmental or social performance may also extend beyond the target company. Similar companies may perceive such action as a threat that they may be next in line or may be adversely affected by dint of their operating in the same sector (Waldron, Navis and Fisher, 2013) – a mimetic force acting at the level of the institutional field.

However, as noted earlier, use of the media may also detract from a shareholder's perceived legitimacy and undermine whatever relationship may exist with the company (Gifford, 2010). A compromise approach is to use the media to raise awareness of particular issues rather than to publicly confront a company (Gifford, 2010), thereby permitting mobilisation on an issue without directly targeting an individual company. While media campaigns are often referred to in the literature as a useful tool for exerting influence (Oh, Park and Ghauri, 2013), there is little clear evidence of their stand-alone effectiveness when it comes to changing a company's environmental or social impacts. The media are also available to companies, who may use them to weaken a shareholder's influencing attempts (Kolk, 1999; Henisz, 2014), possibly detracting from company performance in the process (Calveras and Ganuza, 2016). Returning to the foundations of social movement theory, it may be best for shareholders to view media use critically, focusing on where this can publicise shareholder interests (Davis and Thompson, 1994) and, perhaps more controversially, destabilise the political status quo (McAdam, 1982).

2.4.3.5 Regulators

The regulating environment is described in my process model as a contextual factor, an antecedent to shareholder influence (Kolk and Levy, 2001). It was, after all, a change in regulation that allowed social and environmental shareholder proposals to be first filed in the US in 1970 (Goranova and Ryan, 2014). That change in regulation was achieved by an activist in the District of Columbia Court of Appeals (*Medical Committee for Human Rights v. SEC*). Such action falls in Hirschman's (1970) construct of voice, as he describes the situation where an appeal is made through another entity which enjoys some measure of influence over the company. It would be incorrect, however, to limit the role of regulators to the context in which shareholder influence is exerted, as they can fulfil a directly interventionist role too. It is noteworthy that other forms of shareholder influence rely largely on management's cooperation to be effective. Regulators are not limited in this way (O'Rourke, 2003) and, therefore, may enable shareholders to increase dramatically their salience in terms of power and urgency.

Regulators may enhance shareholder salience in several ways. Shareholders may threaten to lobby regulators when managers prove resistant to their demands, and there is evidence that, in accordance with social movement theory's predictions, shareholder activism is more effective when companies or sectors are under the threat of regulation (Reid and Toffel, 2009). Regulators may make use of information from shareholder activists to develop appropriate legislation and enforcement regimes (David, Bloom and Hillman, 2007; Rehbein, Logsdon and Van Buren, 2013). Regulators may even facilitate activism by supporting shareholder initiatives (Gifford, 2010). Lastly, there are externalities that can only be addressed effectively by regulators (Haigh and Hazelton, 2004), and in these cases it makes sense for shareholders to involve the authorities accordingly.

Managers faced with concerted action by shareholders and regulators may react in a variety of ways. They may, of course, simply comply with what government asks of them (Ward, Brown and Rodriguez, 2009). Historically, however, they have engaged in corporate political activity to oppose regulatory action (Kolk and

Pinkse, 2005; Hadani, Doh and Schneider, 2016). In a similar manner to that described above, they may form coalitions to increase government's perceptions of their own salience (Kolk and Pinkse, 2007). They may also promote the adoption of voluntary environmental and social programmes to deflect onerous regulatory instruments (Lyon and Maxwell, 2007).

2.4.4 Managers' perceptions of shareholder salience

Managers are not noted for a desire to give up their autonomy to parties external to the company (Gelter, 2009). Therefore, for a shareholder to exert influence over managerial decision-making to effect a change in corporate environmental or social performance, managers will need to perceive the shareholder as salient (Waldron, Navis and Fisher, 2013). As noted earlier, Mitchell, Agle and Wood (1997) have suggested that this salience may be expressed in terms of stakeholder power, legitimacy and urgency, with other attributes such as status and reputation also playing a role (Perrault and Clark, 2016).

The influencing context has a role to play in establishing the perceived salience of a shareholder. A shareholder may enjoy greater power and legitimacy if its shareholding is relatively large (Clark and Hebb, 2005), or if it has a reputation for directing adverse media attention to corporate targets (Waldron, Navis and Fisher, 2013), salience here being increased by threat. A sympathetic regulatory environment may affect a shareholder's perceived power (Kock and Min, 2016), and the nature of the environmental or social issues under consideration are likely to affect managerial perceptions of the influencing attempt, particularly if peer companies have already been targeted (Judge, Gaur and Muller-Kahle, 2010; Waldron, Navis and Fisher, 2013). The nature of the claim the shareholder has on the company will also impact on managerial perceptions, particularly its moral legitimacy (Neville, Bell and Whitwell, 2011; Dhir, 2012).

As already noted, shareholder salience may be perceived not just in terms of the identity and characteristics of the shareholder (Mitchell, Agle and Wood, 1997), but in terms of the action taken by the shareholder (Eesley and Lenox, 2006). The threat of divestment provides a shareholder with power and urgency only to the extent that its shareholding is both significant and unlikely to be taken up by

another investor at a price comparable to that already ruling (Beaty and Harari, 1987). Similar constraints apply in reverse to an investor that has screened a company out of its potential investment universe, with probably even less perceived legitimacy because it currently has no shareholding in the company (Johnsen, 2003). Dialogue exercised alone may enhance managers' perceptions of the shareholder's legitimacy, but offers little in the way of power and urgency (Rehbein, Logsdon and Van Buren, 2013). Shareholder proposals make use of a legitimate regulatory approach to influence, but their power is restricted by the need to gather wide-spread support, as well as by managers' knowledge that the vote is usually non-binding (Dhir, 2012).

Managers will tend to see coalitions of shareholders as having greater power, legitimacy and status than individual shareholders (Neubaum and Zahra, 2006; Perrault and Clark, 2016), and an NGO may offer a similar boost to a shareholder seeking to exercise influence (Emel, 2002). Codes and indices may provide legitimacy to shareholders seeking changes in corporate performance (Kolk, Levy and Pinkse, 2008), potentially adding mimetic pressure if they are adopted by a company's peers (Perego and Kolk, 2012). The media can raise both the power and urgency of a shareholder's efforts (Gifford, 2010), while regulators, whose legitimacy depends on the legitimacy of the ruling government itself, can similarly enhance managerial perceptions of power and urgency (O'Rourke, 2003).

2.4.5 Outcomes: symbolic and substantive

The outcomes sought by shareholders seeking to influence corporate social and environmental performance are as heterogeneous as the shareholder base and the range of environmental and social issues of potential interest. A shareholder may wish only to receive a briefing from managers on the company's social policies (Clark and Hebb, 2005) or may demand that an oil company ceases drilling in ecologically sensitive areas (King, 2014). This diversity in shareholder expectations means that overall remarks about the outcomes of non-financial shareholder activism risk being either misleadingly superficial or unhelpfully case-

specific. However, some summary observations may be made with a degree of confidence.

When used alone, divestment or screening interventions offer managers limited information and, therefore, have minimal impact on their decision-making with respect to environmental or social company practices (Eccles, 2010). While the dialogue process facilitates clear signalling from shareholders as well as managers, its confidential nature prevents other parties from drawing firm conclusions as to its effectiveness (Logsdon and Van Buren, 2009). Shareholder proposals, which provide information to managers and may be readily observed, have been shown to result in changes to company policy, but have had little demonstrable impact on substantive company practice (Dhir, 2012) – an example of symbolic management action.

Coalitions can enhance the salience of shareholders engaging in any of these three interventions (Neubaum and Zahra, 2006), as can NGOs, but the resultant outcomes remain constrained. However, in certain circumstances NGOs may be satisfied by a symbolic response from companies such as increased disclosure (Marshall and Brown, 2007). Shareholders who pressure companies to implement codes and indices may in fact encourage managers to act symbolically to the detriment of substantive corporate environmental and social performance (Cho et al., 2012). Involving the media may well strengthen shareholders' influence over managers, but is also likely to cause managers to deploy at least some company resources to fight back in the media (Henisz, 2014; Calveras and Ganuza, 2016). Cooperating with regulators, while subject to resistance from managers (Hadani, Doh and Schneider, 2016), may offer the most realistic opportunity to drive substantive change in company performance.

I move now from describing the process model to outlining a future research agenda for shareholder influence over corporate environmental and social performance. I note weaknesses in the existing research, explain some barriers to research that have probably contributed to these weaknesses, and suggest directions for future research, using the process model as an organising framework.

2.5 Towards a research agenda

A selection of research opportunities is summarised in Table 3, structured in line with the process model of Figure 5. Commencing with the context, the heterogeneity of the shareholding universe encourages research into whether different types of shareholders approach influencing differently. As I noted in my Introduction, little is known about non-financial shareholder activism in the developing world, despite the serious social and environmental impacts of business in these geographies. Also, academic research is limited almost exclusively to listed companies, with little consideration of other ownership models such as private equity partnerships.

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Table 3: Future research opportunities

Process model constituents	Relevant Concepts	Research opportunities
Influencing context	Shareholder nature Shareholder motivation Company nature Regulatory environment Environmental and social issues	Determine whether different types of shareholders have a particular affinity for deploying particular interventions and enablers. Study shareholder-management interactions outside the Anglo-American stock exchange context; in particular, the fast-growing economies and heavily impacted societies and environments of Asia, and companies not listed on stock exchanges.
Shareholder interventions	Divestment Dialogue Proposals	Uncover shareholder decision-making processes and rationales that lead to the deployment of specific interventions to exercise shareholder influence. Study situations of confidential dialogue between shareholders and management, researched, for example, on a case-study basis via participant observation or auto-ethnography.
Enabling actors and tools	Coalitions NGOs Indices and codes The media Regulators	Uncover shareholder decision-making processes and rationales regarding the choice of enabling actors and tools. Investigate the interplay between the enablers and the extent to which their effectiveness is path-dependent. Determine the conditions under which the deployment of these enablers may lead to a reduction in managers' perceptions of shareholder salience, for example via negative or contradictory signalling. Determine the impact upon the influencing process of any misalignment between outcomes desired by shareholders and those desired by enabling actors, particularly in coalitions. Determine whether NGOs that become shareholders increase or reduce their influence over managers.

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		<p>Conduct a comparative analysis into whether the soft law approach of voluntary and self-regulation of companies is a more effective enabler for shareholder influence than approaches involving hard law.</p> <p>Investigate the largely un-researched roles that other actors (for example, proxy advisory firms) may play, or may be able to play, in enabling shareholder influence over corporate environmental and social performance.</p>
Managers' perceptions of salience	Power Legitimacy Urgency	<p>Investigate how managers identify and perceive the salience of shareholders wishing to influence environmental and social performance vs. those interested in financial performance.</p> <p>Identify other shareholder attributes that may affect managers' perceptions of their salience.</p> <p>Explore the extent to which a perception gap may exist between the influence shareholders actually wish to exert, and the influence that managers believe they wish to exert, perhaps using signalling theory as a basis.</p> <p>Determine the conditions under which managers may take pre-emptive steps to reduce shareholder salience.</p>
Outcomes of shareholder influence	Symbolic Substantive	<p>Explore management rationales associated with symbolic and substantive responses to shareholder influence.</p> <p>Conduct longitudinal analyses of outcome effectiveness, particularly with a view to exploring relationships between symbolic and substantive managerial responses.</p> <p>Explore aspects of company performance that trigger shareholder attempts to exert influence on its environmental and social performance.</p> <p>Investigate what types of outcomes may lead to increased or decreased use by shareholders of the range of enabling actors and tools.</p>

The decision-making processes that a shareholder may go through to decide on which interventions to deploy, and in what sequence, do not appear to have been investigated with any degree of rigour. It would be natural to extend such an investigation into a shareholder's involvement of enablers too. At the level of individual influencing interventions, the divestment and proposals interventions are by their nature comparatively transparent. Little is known, however, of the inner workings of the dialogue process between shareholders and companies.

The deployment for purposes of non-financial shareholder activism of each of the enabling actors and tools described in the process model provides fertile ground for future research. The interplay between them, the possible negative effects that some of them may have on managerial perceptions of shareholder salience, and the impact of differing agendas among the actors are all important issues, but currently under-researched. The degree to which taking up a shareholding increases the influence of an NGO is far from clear, as is the degree to which voluntary regulation of company environmental and social performance can replace a hard law approach. Furthermore, there are other actors such as proxy advisory firms that have the potential to play a significant but currently un-researched role in the influencing process – perhaps a missed opportunity for environmental and social activists to increase their salience with managers.

As more research focuses on financial than non-financial activism, there is insufficient recognition that the use of the needle of influence by a single shareholding activist has a different quality to the wielding of a club by a hedge fund (Gantchev, 2013; Goranova and Ryan, 2014). Little is known about how managers identify and perceive the salience of shareholders that engage in specifically non-financial shareholder activism, and the range of shareholder attributes that may influence these perceptions. In addition, the decision-making processes followed by managers subject to such activism remain largely opaque to academic enquiry. It is likely that significant gaps exist between the messages that shareholders attempt to send to managers, and how these managers perceive these influencing attempts. The cause and nature of these perception gaps should reward further study. Further, the conditions under which managers

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may take pre-emptive steps to reduce shareholder salience have not been studied.

Lastly, there are significant weaknesses in the academic literature regarding the outcomes of social and environmental shareholder activism. Much of the empirical work focuses on symbolic outcomes such as the adoption of a new code of conduct (Lydenberg, 2013). Little evidence is available to indicate substantive changes in corporate environmental and social performance, and less still that credibly links such changes to the interventions of shareholders. The perspectives of signalling and symbolism (or decoupling) should prove useful in such investigations. Company performance outcomes may also result in feedback loops, whether these be the original trigger for shareholder influencing, or the choice by shareholders of specific enablers to enhance their influence, both topics that would bear further investigation.

Not surprisingly, most of the weaknesses identified above are linked closely to the barriers characteristic of research into this domain. At least part of the reason that less research has been carried out into such activism in developing economies and on companies not publicly listed is that useable information is less readily available. Another barrier to understanding this phenomenon is the potentially long-term nature of the influencing process and the likely path-dependence of the effectiveness of the influencing interventions and enablers. Longitudinal studies typically require more and patient resources than, say, a historical event study approach.

The inherent confidentiality and anonymity associated with certain aspects of the processes may constitute the greatest barrier to research (Goranova et al., 2017). Detecting what takes place during private dialogue between shareholders and managers, uncovering managers' perceptions of shareholder salience, and discerning what takes place in company offices in response to shareholder influence, present serious challenges to researchers. The last is especially crucial for researchers attempting to discern the extent to which changes in corporate environmental and social performance are related to shareholder influence and which arise from other sources entirely.

Pursuing this research agenda will extend our understanding of the burgeoning field of non-financial shareholder activism. It will allow further development of this process model, explaining influencing processes as yet imperfectly understood. Additional enablers may be found to play important roles in this form of activism, and guidance may be developed for shareholders seeking to influence corporate environmental and social performance, as well as for managers having to respond to such pressures.

2.6 Conclusion

This article has synthesised the literature concerned with shareholder influence over company environmental and social performance by means of a process model. The model views shareholder influence as exerted through shareholder interventions enhanced by enabling actors and tools, these choices being shaped by the context of this influence. Managers respond to these interventions depending on the shareholder's perceived salience – which again depends on the context – leading to symbolic and/or substantive outcomes. I have evaluated selected theoretical perspectives on the phenomenon of non-financial shareholder activism, noting several limitations of the agency, stakeholder and institutional perspectives. Hirschman's constructs of exit, voice and loyalty provides a useful framework for the options available to shareholder activists, and social movement theory can explain how enablers facilitate the necessary social infrastructure and mobilising conditions for shareholder influence. The insights of stakeholder salience theory allow these interventions and enablers to be analysed in terms of its constructs of power, legitimacy and urgency. Furthermore, the role of signalling between shareholders and managers is significant in the influencing process, together with the temptation for managers to engage in symbolic actions to avoid making substantive changes to practice.

The constituents of context, interventions and enablers in this new process model enable a rich analysis of antecedents to managers' perceptions of shareholder salience. My application of signalling theory to the ways in which shareholders attempt to influence managers warns of the dangers inherent to information asymmetry. My distinction between symbolic and substantive responses by

managers exposes attempts to avoid major changes to organisational functioning. I hope my proposed research agenda will prove useful to guide future scholarship in this important and burgeoning field.

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This marks the end of the systematic literature review article published in *International Journal of Management Reviews* (Cundill, Smart and Wilson, 2018a). The empirical work that follows builds, *inter alia*, on a selection of the gaps in the academy's knowledge that I identified in the research agenda presented above (Table 3). Specifically, this work includes the carrying out of research in an emerging market, exploring what non-financial issues are of interest to shareholders, identifying the factors that moderate the process of non-financial shareholder activism, outlining the impact of such activism, and examining how companies may act to pre-empt such activism.

3 HOW SHAREHOLDER ACTIVISM INFLUENCES COMPANY NON-FINANCIAL PERFORMANCE: AN EMPIRICAL INVESTIGATION

Summary

Shareholder activism aimed at influencing companies' non-financial performance has become more widespread. Evidence on its impact is limited, however: notably, research is yet to uncover the conditions under which such shareholder interventions succeed, or how boards respond beyond symbolic actions such as disclosure. Furthermore, research in emerging markets is almost non-existent. This study investigates this phenomenon in the context of companies listed on the Johannesburg Stock Exchange, drawing on interviews with a range of participants, as well as media reports and company documentation. A new process model of the phenomenon is presented that details a broad range of shareholder interventions, and shows how their impact is moderated by a number of variables. A typology of directors' actions and concomitant outcomes is detailed, showing the presence of a feedback loop to the moderating factors. A typology of ESG issues of interest to contemporary shareholders is also presented.

3.1 Introduction

This chapter describes an empirical investigation into how shareholders influence the non-financial performance of the companies that they invest in. This investigation was carried out by developing and analysing a data set made up of interviews conducted with a range of participants in this process of non-financial shareholder activism, as well as media reports and company documentation. I contribute to the body of knowledge about this phenomenon by presenting a new process model of non-financial shareholder activism and detailing a typology of directors' actions and concomitant outcomes. I show how a feedback loop from these actions and outcomes affects factors that moderate the activism process, and I present a typology of ESG issues of current interest to activist shareholders. The primary focus of this chapter is on empirical data – in Chapter 5 the findings

will be compared with the academic literature base, where contributions to theory are also offered.

3.2 Background

Four helpful literature reviews summarise what is known about this phenomenon. Sjöström (2008) was the first to systematically examine the body of academic knowledge analysing shareholder activism for corporate social responsibility. Viviers and Eccles (2012) reviewed the research carried out into socially responsible investment, a concept closely linked to the phenomenon of interest. Goranova and Ryan (2014) analysed research into non-financial shareholder activism (social shareholder activism, in their terminology) together with its older sibling, financial shareholder activism. Lastly, Cundill, Smart and Wilson (2018a) – presented as Chapter 2 above – reviewed the literature on shareholder activism aimed at influencing corporate environmental and social performance.

Collectively these reviews provide a rich description of what is known about non-financial shareholder activism. The incidence of such activism is on the rise (Goranova and Ryan, 2014), with religious groups being particularly active and NGOs and unions increasingly becoming involved (Sjöström, 2008). This is matched with a rapid increase in academic research in this area (Goranova and Ryan, 2014). In her systematic review, Sjöström (2008) reported just one relevant article published in the 1980s, two in the 1990s, but 31 in 2000–7. Crucially, the evidence of shareholders' ability to influence companies' performance is equivocal (Sjöström, 2008; Cundill, Smart and Wilson, 2018a), and research into the processes of shareholder activism is scarce (Goranova and Ryan, 2014). It is evident, however, that non-financial shareholder interventions may be enabled by other actors such as the media or regulators, which may enhance managers' perceptions of these shareholders' salience (Cundill, Smart and Wilson, 2018a).

These reviews also call for further research into certain aspects of this phenomenon. Existing research is largely focused on the USA and UK (Cundill, Smart and Wilson, 2018a), with emerging markets being neglected, even those with such well-developed financial markets as South Africa (Sjöström, 2008; Viviers and Eccles, 2012). It is as yet unclear what ESG issues are of most

interest to shareholders, as well as the ways in which shareholders may want companies to change their non-financial performance (Sjöström, 2008; Viviers and Eccles, 2012). The effect of activist characteristics on the influencing process warrants further investigation, as does the environment in which this process takes place (Viviers and Eccles, 2012; Goranova and Ryan, 2014). The conditions under which companies may elect to take pre-emptive action to protect themselves from such activism have yet to be explored (Cundill, Smart and Wilson, 2018a). Finally, there is still little understanding of the impact of non-financial activism, both at the level of the company and of society (Sjöström, 2008; Viviers and Eccles, 2012). As I shall discuss later, this study responds to this agenda by offering insights into each of these interesting areas.

3.3 Research objectives and method

The overarching research question under consideration in this thesis is: how can shareholders influence the non-financial performance of the companies they invest in? This is the question that the empirical work that follows attempts to answer.

A full explanation for my choosing to work with the construct of company non-financial performance was provided in the introduction to this thesis (section 1.2.3). Brief reasoning for focusing the systematic literature review on company environmental and social performance appears in section 1.4. Not surprisingly, however, in the course of carrying out the empirical research I did not find the same precision among practitioners that I have attempted to adhere to in the conceptual work described above. Relatively early in the empirical work I therefore attempted to remain true to the idea of a researcher being reflexive, and modified the constructs that I was investigating to include the topic of governance. This added complexity to the research, but has enriched the findings of the research in several ways. These and other related issues are discussed in detail in Chapter 4.

In order to explore the overarching research question, five subsidiary questions were investigated in the empirical work that follows:

CHAPTER 3: EMPIRICAL INVESTIGATION

- What ESG-related issues are of interest to shareholders?
- What interventions do shareholders deploy when attempting to exert influence over companies?
- What factors moderate the influence that shareholders can exert?
- How do managerial actions affect these moderating factors?
- What are the outcomes of these shareholder influencing attempts?

The research was carried out in the context of companies listed on the Johannesburg Stock Exchange (JSE). This context was chosen primarily because it is a context with which I am familiar and in which I am situated, and where I have access to a range of participants for interview purposes. For the reasons that follow it is also a suitable and potentially rewarding context to research.

African business and management research is currently enjoying a significant degree of interest in the academy (Kolk and Rivera-Santos, 2018). I noted earlier the call for investigatory work in emerging markets (Sjöström, 2008; Viviers and Eccles, 2012). While these authors did not define what they meant by such markets, this is a broadly recognised term coined in 1981 by Antoine van Agtmael while working at the International Finance Corporation (The Economist, 2017). It enjoys widespread use amongst investment practitioners, with MSCI's Emerging Market Index being probably the most common expression of the group's constituents (MSCI, 2018).

Countries falling into this grouping are widely disparate in nature, but they are generally described as economically and technologically backward (Ramamurti, 2012), with their institutions not having matured to the level usually found in more developed countries (Jindra, Hassan and Cantner, 2016). South Africa is classified as one such country (Mogapi, Sutherland and Wilson-Prangley, 2019). It does, however, have levels of corporate disclosure and transparency more akin to those found in developed countries than its emerging market peers (Patel, Balic and Bwakira, 2002).

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The implications of this are several and are supportive of my research approach. First, South Africa's social and economic circumstances place it within this group of emerging economies that have not enjoyed the same level of attention by researchers of shareholder activism as have more developed economies. Second, the high levels of disclosure and transparency found in corporate South Africa enhance the practicality of researching the phenomenon in this context. Finally, although I will later point to problems in regulatory enforcement in South Africa, the country's well-developed legislative framework, deep capital markets and vibrant civil society (du Plessis, 2016; UNEP FI, 2007) bear strong similarities to those in developed countries, increasing the likelihood that the findings of this research can be translated to such situations.

The primary source of data was a series of 42 interviews that were conducted with 35 subjects, beginning in 2014 and with the last being in May 2018. (One of these subjects was employed in two different roles during the data collection period, and therefore appears twice in Table 4 below). The interviews were carried out using a semi-structured protocol. Base sets of questions were prepared ahead of the interviews and were tailored to suit the role of the person being interviewed, and to incorporate insights gleaned during the research process. A generalised version of the questionnaire showing the broad approach that was taken may be found in Appendix B. In practice the focus of the interview would be on obtaining information about the interviewee's own direct involvement in the process of non-financial shareholder activism. Thereafter, their thinking on other such situations of which they had knowledge would also be solicited. This approach was adapted over time, not least in that my initial attempts to restrict questions to matters relating to company environmental and social performance were soon discarded in favour of capturing views on governance as well.

Where practicable the interviews were recorded and transcribed (43 of the interviews). In five cases interviewees did not appear comfortable to be recorded, and therefore notes were taken of what transpired during the discussions, to be coded and further analysed later. The transcriptions were carried out by third parties following an 'intelligent verbatim approach'; i.e. while filler and repeat

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words were left out to enhance the readability of the transcripts, grammatical errors were not corrected and no other changes were made to what was said. I reviewed all transcripts for accuracy by listening again to the interview while reading the transcript and correcting any errors in transcription that I identified. Those errors that were found tended to result from the transcriber misunderstanding technical or in-house terminology. The process also allowed me to remind myself of the nuances of pauses, laughter, etc. that sometimes gave clues as to the interviewee's thoughts and feelings about a particular issue.

Several subjects were interviewed more than once, mainly those interviewed early in the process. This was usually to ask additional questions on topics that had developed in interest or to clarify statements that they had made that appeared later in the research process to warrant exploring further. There was also a range of email correspondence with certain of these interviewees for follow-up purposes and to explore new or emerging issues. The initiator for such a follow-up was usually their reported involvement in a new phase or instance of non-financial shareholder activism.

Identification of suitable interview subjects was carried out in three main ways. First, a convenience sampling approach was used, where suitable subjects with whom I was acquainted from my practitioner experience were identified. Second, media reports were analysed to identify persons who were involved in the non-financial shareholder activism process and who might offer useful material for analysis. Third, a snowballing approach was used when interview subjects suggested additional subjects who might usefully contribute to the research. I appreciate that convenience sampling is not without its detractors, but it is recognised as a useful approach to qualitative study if the subjects are chosen appropriately, and if the researcher describes and reflects on the process followed (Campbell and Cowton, 2015).

The interview subjects were selected based on their falling into one of three main groupings, these groupings being based on the conceptual model presented in Chapter 2 (Figure 5). The first of these was 'shareholders'. This group of subjects was made up of three individual shareholders, five asset and portfolio managers

from four different asset management companies (companies that manage shareholdings on behalf of others), and eight analysts, consultants and engagement specialists from six asset management companies. The decision to combine both individual and institutional shareholders into a single grouping was deliberate (see Key Terms, p xiv). This is because the primary focus of my research is the *process* of non-financial shareholder activism, rather than differentiating the actions of individual shareholders and institutional investors.

These interviewees were selected to provide insights into the activities of both individual shareholders and institutional investors, into activists both prominent and less visible and, in the case of institutional investors, to gain insights from actors inside their institutions that had broader investment responsibilities and those with a narrower ESG-related focus. This selection of shareholders included proponents of all six interventions that are described in section 3.4.2.1 below.

The second group of interviewees were 'enablers' (in the terminology of Chapter 2 above; cf. Gond and Piani, 2014) who appeared to contribute to the activism process. Two of these interviewees worked for NGOs, one was an attorney specialising in non-financial shareholder activism, three were consultants providing services to NGOs and companies, one worked for a regulatory body, four were academic researchers working in areas related to the phenomenon of interest, and two were journalists specialising in ESG-related matters. This group was assembled to gain a broad spectrum of views from such enabling actors. Participants were identified both from personal contacts and by determining from the media who appeared to be playing such roles. The group was also extended to include the academy, members of which provided me with their insights into the area that I was investigating, and perhaps more importantly allowing me to triangulate some of my findings by testing my thinking with them.

It would have been possible to interview other company stakeholders, such as employees or members of communities affected by company operations. I decided not to do so, however, since based on the findings of the literature review reported in Chapter 2 the academy has not identified such stakeholders as playing a significant role in the non-financial shareholder activism process unless

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carried out through one of the enabling actors displayed in the conceptual model of Figure 5. It is worth noting at this point that, during the course of the empirical investigation reported in this chapter, questions posed to interviewees were sufficiently open-ended as to allow for the identification of *disabling* actors and tools as well, and the new model presented in Figure 7 is in part a consequence of discovering such effects.

The third group, again selected in line with the conceptual model displayed in Figure 5, was composed of senior company managers and one outsourced service provider. These managers were working for four companies, two of which were in the chemical manufacturing and mining services sector, one of which was in the mining sector, and the last of which provided services to such companies. The outsourced service provider was included because she and her team would be brought in by such companies and associations of such companies in order to develop reports on and communicate their performance. These interviewees were selected because of their detailed knowledge of the processes under investigation, and because these sectors have significant exposure to a range of environmental and social issues.

In making this selection one limiting factor was a consequence of my intention to observe the phenomenon of shareholder activism from three main perspectives: that of shareholders, of enabling actors, and of managers within companies subjected to such activism. This approach should have reduced any bias inherent to taking a single point of view on the phenomenon. However, company managers knowing that I was speaking to entities holding shares in their companies (and I was transparent to these managers with respect to this issue) would be understandably reluctant to speak candidly of such interactions if they believed there was any risk of their views becoming known to such shareholders. I therefore restricted my selection to managers with whom I had a sufficiently close relationship to give me grounds to believe they would entrust me with their views with the minimum of self-censorship. A further limitation to this selection related to the ethical concerns described in section 1.7, where details are provided.

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Pertinent to the selection of the convenience sample is my own biography (Bansal, Smith and Vaara, 2018). It would be incorrect to classify this empirical work as engaged scholarship. Until recently, however, I had been working as a practitioner in a corporate setting, with the majority of my work relating to company environmental and social performance. I also hold shares in a range of companies listed on the JSE. While this means that I have had to be cognisant of my own prejudices and pre-conceived notions during the research process, it is to be hoped that my background has made possible deeper empathy for the subjects than would otherwise have been the case (Bansal, Smith and Vaara, 2018). It has also allowed me to incorporate insights from my experiences as a manager and as a shareholder into this research. In the interests of transparency where explicit reference is made to these experiences these are coded as M8 or S17, as per Table 4 above. Heeding le Carré's warning that 'pure memory remains as elusive as a bar of wet soap' (2016, p. 6), I wrote up these insights in the form of an analytical memo and included this in the NVivo database.

I chose not to extend the sample of interviewees beyond the set of 35 for two main reasons. First, this sample offered insights from all actors identified in the literature work of Chapter 2 as playing significant roles in the process of non-financial shareholder activism. Second, as I completed the coding for the last interviews there were indications that I was achieving a measure of theoretical saturation. I found that the data from the last interviews contributed little in the way of new insights into the process, rather confirming what I had found and offering additional examples of how the process unfolded. Triangulation of this view was provided by my second data source, the media (see below), where my ongoing reading of the business press was now having a similar result.

The interviews were carried out in a variety of settings. 13 were conducted in restaurants or coffee shops, 5 took place in private offices or meeting rooms, and 24 took place telephonically, sometimes after a preliminary introductory meeting in person. A summary description of these interviewees may be found in Table 4 below. The code column serves as a key for referencing these interviewees in this empirical study.

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Table 4: Interviewees

Type of actor	Role	Code
Shareholder:	Manages family's investments	S1
	Manages boutique investment fund	S2
	Takes interest in personal pension investments	S3
	Engages in shareholder activism using own funds, and advises others	S4
	ESG analyst at boutique investment fund	S5
	Engagement manager for small ethical investment fund	S6
	Portfolio manager at mid-size asset manager	S7
	Pension funds manager for religious organisation	S8
	Previously: engagement manager for small asset manager	S9
	Responsible investment manager for large asset manager	S10
	Engagement manager for large asset manager	S11
	Sustainable and responsible investment manager for large asset manager	S12
	Analyst at mid-size asset manager	S13
	Portfolio manager at mid-size asset manager	S14
	Consultant at mid-size asset manager	S15
	Portfolio manager at mid-size asset manager	S16
	Holder of shares in a preservation fund (myself)	S17
Enabler:	Mining specialist for activist NGO	E1
	Analyst for environmental reporting	E2
	Environmental consultant focused on reporting	E3
	Previously: managed sustainability index	E4
	Attorney involved in shareholder activism	E5
	Employed by NGO focused on improving industry levels of responsibility	E6
	Sustainability reporting consultant	E7
	Academic in the area of company governance	E8
	Academic in the area of corporate responsibility	E9
	Academic in the area of corporate responsibility	E10
	Academic in the area of responsible investment	E11
	Journalist	E12
	Journalist	E13
Manager:	Manages legal and stakeholder engagement issues	M1
	Manages investor relations	M2

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	Manages legal, risk and compliance issues	M3
	Reporting specialist (outsourced)	M4
	Environmental specialist	M5
	Sustainability and reporting specialist	M6
	Manages safety, health, environment and risk issues	M7
	Managed safety, environment and CSI issues (myself)	M8

Two secondary sources of data were also developed to investigate this phenomenon: media reports and company-related documentation. An extensive collection of media reports (see Table 5) was assembled and analysed to inform the data collection and analysis process. While naturally subject to the distortions common to secondary sources (Adams, Smart and Huff, 2017), they provided useful background material and, as noted above, suggested potential interview subjects and topics to probe.

Table 5: Media sources

Publication	Number of articles
Business Day	120
Financial Mail	32
Financial Times	9
Moneyweb	7
Business Times	7
Other	22
Total	197

Most of these articles were collected through a daily reading of a selection of the South African press, occasionally supplemented by interview subjects. The overwhelming majority of these articles came from titles owned by Tiso Blackstar: *Business Day*, *Financial Mail*, and *Business Times* (a part of *Sunday Times*). As is usual with such newspapers, some of their published reports were sourced from news agencies such as Bloomberg (e.g. Agency staff, 2018). The articles from the UK's *Financial Times* had been re-printed in *Business Day*.

Relevant company-related documentation, where available and not subject to confidentiality constraints, was also reviewed. Section 1.7 explains the pertinent ethical considerations relating to the use of such documentation. Table 6

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summarises the documents that formed part of the body of data that was analysed.

Table 6: Documentary artefacts

Documentation type	Number of documents
Policies and charters	24
Legislation and codes	16
Performance and activity reports	20
Company and industry ratings	44
Investor presentations and handouts	49
Notices to shareholders	9
Stock Exchange News Service announcements	35
Documentation relating to individual stakeholders	6
AGM documentation and recordings	9
Voting recommendations	3
Topical reports and newsletters	4
Advertisements	4
Total	223

The data analysis process that culminated in the development of an enhanced process model of non-financial shareholder activism is depicted below in Figure 6. The interview data, together with the selected media reports and documentary artefacts, were imported into NVivo, a computer-assisted qualitative data analysis software program. The data was coded with this programme through a careful and sometimes repeated reading of the data, with codes being applied manually to relevant data selections. While these three data sources were analysed together, the more detailed information available from the interviews naturally formed the primary source, with the media reports and other documents supplementing this source and offering additional points of triangulation.

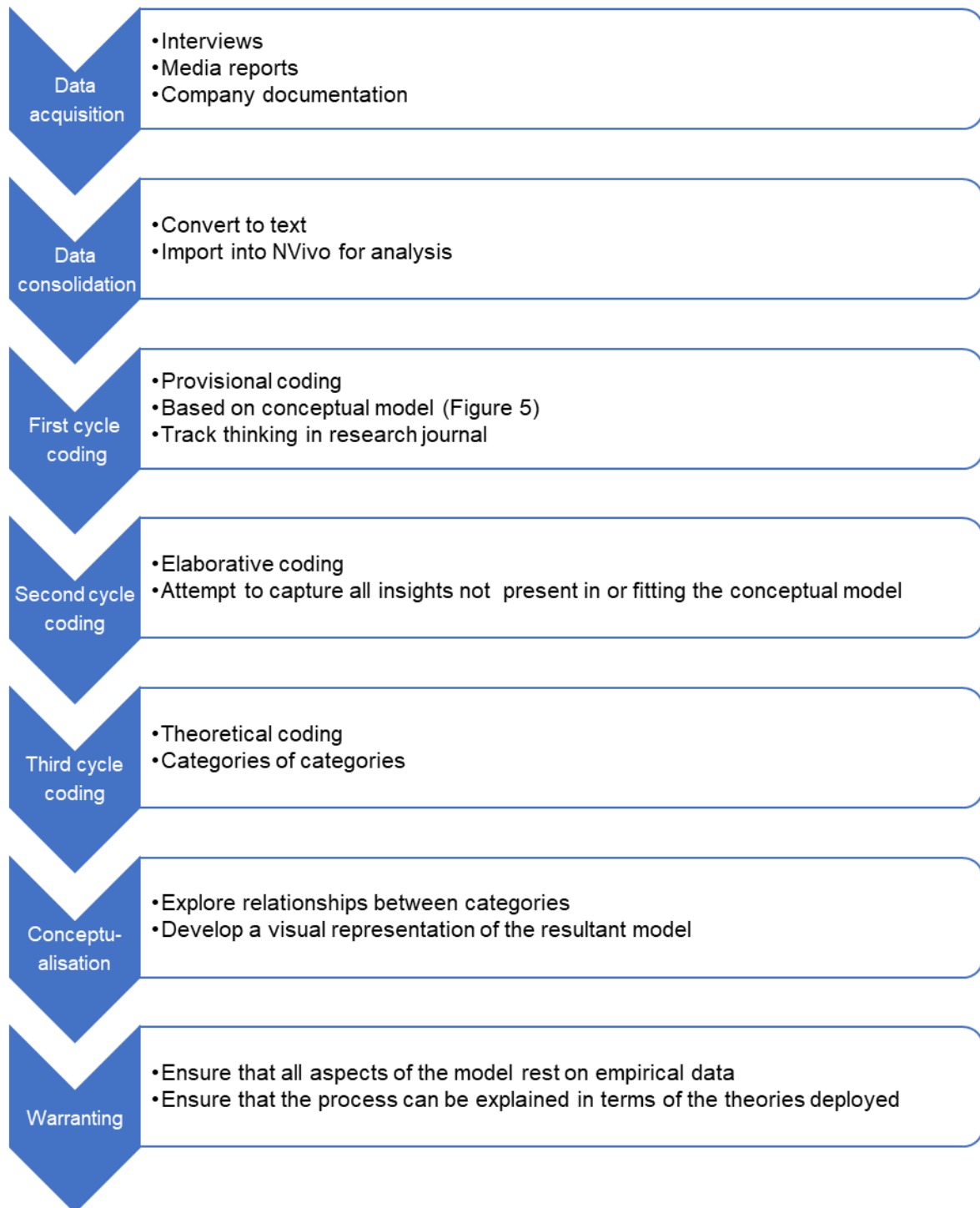


Figure 6: Data analysis process

Following Saldaña's (2013) advice, coding of the data commenced shortly after data acquisition commenced, and a research journal was kept to allow for reflection on what was being learnt. The contents of this journal were not analysed in the same way as the data described above. The journal did, however,

provide a useful point of reference for me to look back on as my research progressed, both reminding me of earlier insights that might otherwise have been neglected as new data became available, and recording points of interest potentially worth investigating further.

A provisional coding scheme was established based on the process model developed during the literature work (Figure 5), while remaining cognisant of the risks associated with such an approach (i.e. finding only what one is looking for). An elaborative coding approach was then followed to describe the new insights that were on display in the empirical data that I was analysing (Auerbach and Silverstein, 2003).

The interim result of this was an overly-complex and at times duplicated and messy code book. This interim coding book then served as the basis for a complete revision of the coding, with the previously coded data being substantially reorganised into a final code book. This was done by creating 'categories of categories' (Saldaña, 2013, p. 277), developing an abstract view of the detailed and concrete codes that preceded this step, thereby laying a foundation on which a new conceptual model could be built. These coding schemes may be found in Appendix C.

The next step was to explore the relationships between these higher-level categories and, once this was complete, depict the model that resulted (Figure 7). The final step was to revisit this model to ensure first that all its aspects could be warranted from the empirical evidence that forms the basis of this work, and second that all aspects of the process that it described could be explained in terms of the theoretical perspectives that had been deployed for this purpose.

3.4 Results and discussion

3.4.1 ESG issues of interest to shareholders

Before moving on to discuss the interventions of non-financial shareholder activists it would be appropriate to first specify what non-financial performance issues appear in the data. Tables 7, 8 and 9 taken together offer a typology of the main non-financial topics that seemed to be of interest to shareholders in the

course of carrying out this research. These issues have been classified as environmental, social or governance in their nature, and separate tables are provided for each of these classifications for the purposes of readability. The impact commonly associated with each of these issues is included in the tables, and this usually indicates why the issue may be of interest to a non-financial shareholder activist. A referenced exemplar of each these issues is also provided to enrich the description of the issue. This is sometimes drawn from interview data, and sometimes from documentary artefacts or media reports.

There is of course some permeability in the boundaries between these classifications. By way of example, an environmental issue such as waste disposal can result in a social impact if a community's drinking water is poisoned by leaching toxic materials. Some issues can correctly appear in more than one classification: remuneration policies are typically regarded as a governance issue, but they certainly have social impacts as well (Viviers, 2015). This ambiguity can also extend to the motivations of the shareholder. One activist that I interviewed focuses primarily on governance issues but saw himself as working for 'a better society' (S1), a social motivation suggesting that governance issues themselves have social dimensions.

These tables do not pretend to be an exhaustive list of ESG-related issues in the South African context – if proof were needed of this, Viviers' (2016) analysis of the interests of a single shareholder activist identified additional issues such as the management of HIV-related concerns. What they do offer, however, is evidence that South African company directors should be prepared to be engaged by shareholder activists on a wide range of non-financial issues, and it provides guidance about the main ESG issues currently of interest to such activists. What follows is a discussion of a selection of findings related to certain of these issues that are often neglected in the academic literature. In this way I contribute to our understanding of the issues on which non-financial shareholder activists wish to engage, provide a foundation for part of the research agenda that I propose later in this thesis, and suggest areas that managers may need to be ready to engage on in the future.

Table 7: Environmental issues of interest to shareholders

Classification	Issue	Impact	Exemplars
Environmental	Fossil fuel use and greenhouse gas emissions	Climate change	Shareholder proposal submitted to Sasol (Davies, 2018)
	Sulphur dioxide emissions	Human health	Chemical companies' emissions levels tracked by investment analyst for, <i>inter alia</i> , raising with company managers (S5)
	Water consumption	Depletion of limited national resources	CDP Water programme (National Business Initiative, 2016)
	Waste disposal	Soil and water contamination; human health	MSCI's ESG rating of JSE listed company (MSCI ESG Research, 2018)
	Non-compliance with environmental regulations	Risk of prosecution; fines; damage to reputation; shutdown of operations	Raid by Green Scorpions on AELMS' Modderfontein operations (AECI, 2016)

It is noteworthy that comparatively few environmental issues were flagged by South African shareholders to be of interest. This is despite well-funded initiatives such as the Corporate Accountability Programme of the Cape Town-based Centre for Environmental Rights, which has identified and publicised environmental issues of potential concern relating to the activities of companies listed on the JSE (Centre for Environmental Rights, 2016). The main exception to this apparent lack of interest was when poor environmental performance could lead to a significant deterioration in financial performance: '... we would potentially investigate what they're doing in terms of environmental ... really from the point of view of what could be potential financial loss' (S13). Such losses would typically be linked to the risk of fines and operational shutdowns as a result of non-compliance with environmental regulations. A manager remarked that shareholders have asked environmentally-related questions about a business '... not because [of] their emissions standards [but] because they're not manufacturing ... The ones we deal with, they really don't care about carbon footprints' (M2).

This exception arguably removes this aspect of shareholder activism from the 'non-financial' camp, as it may then be merely another lever that financial shareholder activists may elect to pull on in order to improve the company's and

hence their own financial returns. A detailed analysis of shareholder motivations is beyond the scope of my research, but this finding does feed into related areas of enquiry into how business cases may be made for companies to improve their environmental and social performance (Carroll and Shabana, 2010; Busch and Lewandowski, 2017), and how investors may enhance or at least not damage their returns by investing in environmentally and socially responsible companies (Orlitzky, Schmidt and Rynes, 2003). Given the philosophical challenges noted in the introduction above as to what constitutes ‘corporate responsibility’, no additional attempt will be made at this point to delve deeper into this topic.

A second noteworthy point related to environmental issues is the apparent lack of interest by shareholders in encouraging companies to pursue ‘green technologies’. Fossil fuel use is a contentious issue in South Africa, a country with little oil and gas (Davis Tax Committee, 2016), but with substantial coal reserves, albeit perhaps not quite on the scale of popular perceptions (Hartnady, 2010). These reserves are exploited for electricity generation and for production of petroleum and chemical products. Both processes result in significant emissions of carbon dioxide, with the result that South Africa’s carbon emissions are disproportionately large in relation to the size of its economy (The Economist, 2018b). There has been some limited shareholder interest in this issue – one boutique fund manager is not permitted by one of its clients to invest in either South African coal companies or in Sasol, the primary producer in South Africa of petrochemical products from coal (S5). The client, however, is not South African.

A shareholder merely insisting that coal is not an appropriate source of energy or feedstock, however, creates something of a quandary for a coal mining company. Outside of the South African context Royal Dutch Shell, an obviously fossil-fuel based company, is reportedly investing as much as USD 2bn in renewables and clean fuel technology, although this does not appear to have won over environmentally sensitive shareholders (Bousso, 2018). Exxon Mobil, although lagging its peers, has also followed such an approach, but given its ‘no comment’ attitude it is difficult to ascertain its motivation (Agency staff, 2018). No equivalent

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‘push’ from shareholders is evident in the South African context. This is despite support having been made available by the country’s government to deploy green energy initiatives and invest in the green economy (South Africa: Department of Trade and Industry, 2018). Possible reasons for this may be investors’ realisation of the long-term hollowing out of the country’s manufacturing economy, together with an understanding by shareholders of managers’ reluctance to invest in initiatives with a comparatively long pay-back time, in an uncertain and problematic economic environment.

Large parts of South Africa suffer from water scarcity (South Africa: Department of Water and Sanitation, 2015), with Cape Town’s recent travails having been reported internationally (Watts, 2018). This does not, however, appear to be an issue that has attracted the attention of many activist shareholders. The CDP Water is ostensibly an investor-driven initiative (‘Written on behalf of 617 investors with US\$63 trillion in assets’: National Business Initiative, 2016, cover). The report writers, however, found no year-on-year improvement in the rates of response to their questionnaires, indicating that companies view the topic as insufficiently material for them to take even the largely symbolic action of disclosing their performance, let alone taking steps to enhance it. Arguing from silence is risky, but it is perhaps telling that the report writers state that ‘water is top of mind for the media, government and the public in South Africa (National Business Initiative, 2016, p. 1), but at no point other than two references to the global set of investors mentioned above do they provide the slightest indication that the topic matters to South African shareholders.

Table 8: Social issues of interest to shareholders

Classification	Issue	Impact	Exemplars
Social	Employment opportunities and job losses	Societal unemployment levels	‘The biggest problem in SA is not the gap between the CEO and the workers; it’s between people who get paid any salary at all, and the 36.7% of South Africans who want jobs but can’t get them’ – senior

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			investment officer (Rose, 2018b)
	Equal employment opportunities	Unfair discrimination	MSCI's ESG rating of JSE listed company (MCSI ESG Research, 2018)
	Remuneration policies and practices	Societal inequality	'Any increase in disparities in South Africa should be of concern to all' – voting guidance on a JSE listed company (S6)
	Employee housing policies and practices	Social stability	'After Marikana there's been a massive drive that people must get their own houses, but then you do the surveys [and] you see these people actually ... [want to] build their own houses where they come from . . . they actually want the money (C1)
	Black equity ownership	Transformation of economy and society	'Emil Buhrmann is creating new empowerment deals every day. People think I'm Tokyo Sexwale's godfather' said the company chairman (Hasenfuss, 2005b)
	Broad-based black economic empowerment	Transformation of economy and society	Unsuccessful initiatives by a fund manager to engage with company black equity partners in a bid to accelerate transformation in companies in which they held shares (S9)
	Corporate social investment	Social upliftment	CSI spend is an indicator tracked by some analysts (S5)
	Wealth creation	Funding through taxation for education, health care and pensions	Avowed motivation of prominent shareholder activist (S2)
	Occupational health and safety	Employee health and safety	The 21 deaths at Sibanye's South African mines in the first half of 2018 has been met with investor disfavour (Steyn, 2018b), and coincided with a halving of the company's share price
	Compensation for occupational fatalities	Livelihood of bereaved families	'The question is: how much do you pay the bereaved families where they've lost a family member, which is your employee? How sustainable have you left them? And you know what? Only one

			company ever came out to say what they pay' (S4)
	Noise and dust from operations	Nuisance to communities; respiratory and other health disorders	An analyst observed that only one coal company publishes dust fall-out figures, and wishes that more would do so; 'I wish people would do more with noise' (S5)

The social sphere offers a broader range of issues of interest to South African shareholders than that of the environment. This is perhaps not surprising, given the country's history of troubled intra-societal relations (Sparks, 2003). One of the initiators of the CDP in South Africa recalled his experience with a leading shareholder representative body: 'No, we don't think it's a material issue, we're too busy worrying about black economic empowerment, climate change is not an issue' (E3).

Employment conditions are certainly a social issue that has been raised by shareholder activists in developed markets (e.g. Van Cranenburgh, Liket and Roome, 2013). However, given South Africa's unusually high levels of unemployment, the capacity of companies to create employment opportunities is perhaps of more importance to the government and to unions (*cf.* Mahlakoana and Paton, 2018). There is, not surprisingly, limited evidence of shareholders expressing their views publicly on this politically sensitive subject. By way of example, the country's declining mining industry is continuing to shed jobs, and as a result is receiving the opprobrium of the government and unions (Marrian, 2018). These two stakeholders tend to blame company managers as being overly focused on profits at the expense of the workforce, implying if not overtly stating that shareholder primacy is to blame.

In the absence of insight into possible private dialogue between shareholders and managers it is not possible to draw firm conclusions as to the influence shareholders with non-financial interests may be having over managers in this area. There are clear indications, however, that shareholders are of the view that the economic sustainability of a company is primary, and that first ensuring this at least reduces the level of job losses that may otherwise take place – an example of this being the increasing public recognition that labour-intensive

deep-level gold and platinum mining is rapidly being replaced by shallow and mechanised options (Seccombe, 2018b).

There is a link here to remuneration policies and practices. Regulators and others in the western world are paying ever more attention to the subject of pay disparities, and this has long been an emotive issue in South Africa too (Rose, 2018b). It is possible, however, to argue that the gross inequalities in income in South Africa arise at least as much from the very high unemployment rate as from pay disparities (Seekings and Natrass, 2016). It would be a brave shareholder, however, that risked pillory by engaging in public attempts to influence a company to focus on increasing employment at the expense of raising shop floor wages – far safer, and more politically acceptable, to focus on the easier target of executive remuneration (*vide* Lewenson, 2018).

Provision of housing or of housing benefits is a fraught topic in South Africa, not least because failures and dishonesty in this area were allegedly a cause of the unrest that preceded the massacre of miners by police at Marikana in 2012 (E1). While the topic does appear on the radar of some shareholders (Moeti, 2016), the agenda is largely driven by community-based NGOs (e.g. The Benchmarks Foundation, 2013). (As an aside, it is interesting that Lonmin, the company implicated in the events leading up to the 2012 shootings, had been a long-standing constituent of the JSE's SRI Index, and remained on the index thereafter – an example of symbolic actions being rewarded with public recognition, while substantive actions by managers fall short of the expectations of employees and others).

Black equity ownership is certainly an issue on which shareholders have exerted influence on companies, but arguably in regressive ways. Company managers may devise schemes to increase the proportion of the company's shares owned by black individuals or black-controlled entities. Their motivations will often involve the desire to increase the company's opportunities to obtain government business. Such schemes carry costs, however, and due to their nature may require shareholder approval. These costs may be more than shareholders are prepared to incur. Shareholders may therefore elect to prevent company

managers from enhancing the social performance of the company (in this case its level of black equity ownership). This has been done by telephoning company managers ahead of an AGM and advising them that they will vote against such a scheme (M2), with the result that the proposed scheme was withdrawn and watered down. Another example of arguably regressive influence in this area would be accusations of racism by an activist against a company offering a share incentive scheme only to black employees, encouraging shareholders to vote against such a scheme (Fleming, 2018).

Occupational health and safety is occasionally raised by shareholder activists as a concern. This is most evident in the mining industry – on the face of things not too surprising as the industry is a comparatively risky one, particularly in the South African context of aging and deep-level mines. Unions have been particularly vocal on this point in the media (Gouws, 2018), but there is little evidence of their investment holding companies attempting to exercise influence through their shareholdings (S9). In a similar way to that described above under environmental regulatory compliance, it is unclear to what extent shareholder interest in occupational health and safety is driven by concern for the employees, rather than by concern for the financial implications for the company arising from poor occupational health and safety.

The Sibanye case is a recent example of this. In the first half of 2018, 21 of the 45 fatalities recorded in the South African mining industry occurred in a single company, Sibanye (Steyn, 2018a). During this time the company's share-price fell from R160 to R80, ostensibly at least in part because some shareholders were unhappy to be invested in a company with such a poor safety performance. A different perspective, however, could be that financially savvy investors had taken the view that this unsatisfactory non-financial performance would lead to a de-rating of the company's share price because of its likely financial performance in the future. First, fatal incidents result in temporary mine closures by the industry's regulators, resulting in reductions in production and thus revenue. (An example of the impact of such temporary closures is Lonmin's recently reported improvement from 276 000 tonnes to 20 000 tonnes of production lost in a year,

directly attributable to an improved safety performance with concomitantly fewer closures (Seccombe, 2018c)). Second, a spate of such incidents may indicate a lack of competent operations management, which would be likely to lead to higher costs and lower revenue. Third, these fatalities led to the instigation of a lawsuit against Sibanye in the US, with potential costs for the company and hence lower returns to shareholders (Mtongana, 2018). Untangling the web of shareholder influence in this case is not possible with the available data.

Table 9: Governance issues of interest to shareholders

Classification	Issue	Impact	Exemplars
Governance	Adherence to King Code	Established good practice	'They were saying, "Oh, we are adhering to King II and this and this", but I said "but hang on but you're not. Look at this"' (S4)
	Remuneration policies and practices	Managerial performance incentivised and rewarded; managerial reward aligned with returns to shareholders	'Logan flags the fact that "sugar production" is listed as one of the performance conditions attached to the awarding of share options for Tongaat Hulett executives. "It would seem that this prioritises increasing the amount of sugar being farmed, rather than the economic value being created", he says' (Rose, 2018a)
	Corporate reporting	Transparency and accuracy	'The report states that executive directors' short term incentive . . . is capped at 100% of fixed remuneration. Despite this . . . the short term incentive is only capped at 244.2% . . . The statement that [it] is capped at 100% is most misleading and to be deplored' (S6)
	Auditor selection and rotation	Credibility of corporate reporting	' . . . the flavour of the month, which for obvious reasons is governance, specifically as it relates to the external auditors after the IRBA pushed through this mandatory rotation, yada-yada, and the whole KPMG debacle' (M2)
	Director skills and experience	Discharging of fiduciary duties	'There was no detailed analysis of the skills and experience of the board' (S6)

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	Director over-commitment	Discharging of fiduciary duties	'... people at that stage were sitting on twenty boards and saying that, actually, nobody can do a proper job if they are sitting on that many boards' (S9)
	Director independence	Discharging of fiduciary duties	'Clearly this board is aware that independence is an issue and to appoint a chair who is patently not independent and a Lead Independent Director whose independence must be questioned is seriously problematic' (S6)
	Meeting attendance by directors	Discharging of fiduciary duties	'Two years ago Eric decided he couldn't fulfil his duties as a director at Remgro. We decided that even if he attended 50% of the board meetings it was good enough' said the chairman (Hasenfuss, 2005b)
	Control structures and anti-takeover provisions	Shareholder rights	'For the past three years Naspers has avoided revealing the substantial level of opposition to its controversial remuneration policy by lumping its two classes of shares together when disclosing voting details, in what seems like contravention of JSE rules' (Crotty, 2018e).
	Character of leaders	Integrity of governance approach	'Our point of departure on ESG is always governance because that gives us a good sense of the character of individuals in the companies, the character of leadership, and the trustworthiness of leadership and management' (S12).
	Regulatory and enforcement environment	Shareholder rights	The awarding of appraisal rights to Albie Cilliers in the LA Concorde et al. judgement by the High Court on 26 June (<i>Cilliers v La Concorde</i> [2018])
	Authority to issue shares	Dilution of shareholder interest	'This is a broad and sweeping authority which the directors are seeking. The resolution gives no reasons why they would wish to issue shares nor does it give any indication of the price at which they may issue such shares' (S6)

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	Share repurchases	Unequal treatment of shareholders	'The directors seek the authority to buy back shares subject only to the limitations of the various laws and regulations. . . . We do not believe that share buy-backs are to the advantage of minority shareholders' (S6)
	Involvement in bribery and fraud	Increase in corruption in government and the private sector	'When news of the ANN7 payments broke it was impossible not to recall Bekker's reference to corporate governance being what you do after you've won the game' (Satchwell and Elster, 2018)

The majority of company governance issues that are of interest to South African non-financial shareholder activists are likewise of interest to their peers in other developed markets. Representative examples of research into a broad range of these issues include Spira and Page (2010), Kock, Santaló and Diestre (2012), Misangyi and Acharya, (2014), Kaczmarek and Nyuur (2016), and Oh, Chang and Kim (2018). Two areas worthy of specific attention in the South African context, however, relate to reporting and to legal recourses available to shareholders.

South Africa has for some time been a leader in the area of corporate reporting, particularly on governance matters. The retired South African judge Mervyn King is the chairman of the International Integrated Reporting Council and emeritus chairman of the Global Reporting Initiative. His work for the Institute of Directors of Southern Africa resulted in the influential 'King codes' of corporate governance (*inter alia* Institute of Directors of Southern Africa, 2009). Yet it has become painfully apparent that the reporting process can degenerate into a symbolic action of 'ticking the reporting box' (S4) when the substance is missing. This is despite the call in King III for non-financial information to be independently assured (Institute of Directors of Southern Africa, 2009).

A shareholder's careful reading of a bank's report showed that it failed the test of internal consistency, claiming as it did that the variable component of executives' remuneration was capped at 100% of their fixed remuneration, while

acknowledging elsewhere in the report that they potentially stood to gain more than double that amount (S6). Naspers, a company with two classes of shares, has been accused of lumping the voting records of these shares together in its public reports in order to hide growing shareholder dissatisfaction with its remuneration policies (Crotty, 2018e). In both these cases, despite regulations awarding certain rights to shareholders, company managers have apparently acted in such a way, whether wilfully or negligently, as to withhold information from or mislead shareholders interested in certain governance-related matters.

The second area is governance-related shareholder rights that are now being tested in South Africa's courts. Three high-profile cases have occurred in the past three years. The first was a failed attempt by shareholder Dave Woollam to have four directors of Lewis Group declared delinquent for, *inter alia*, alleged breaches of the National Credit Act that would have prejudiced low-income customers of the company (Crotty, 2016b; Crotty, 2016c). The second was the legal battle of several shareholders with Sovereign Foods, which included accusations of unjust enrichment of the directors, and involved the restriction of shareholder rights and a black economic empowerment transaction (Crotty, 2016a). The third case involved shareholder Albie Cilliers who obtained a landmark judgement awarding appraisal rights, reported in *Cilliers v La Concorde* [2018].

Space does not allow for unpacking the details of these cases. They all, however, involved minority shareholders who had unsuccessfully attempted to exercise their voices on governance issues through the more usual activism processes of dialogue and voting. In two cases the shareholders were of the view that following the only exit option available would have proved too costly, encouraging temporary loyalty to their shareholdings. They therefore decided that coercion was the best option available to them, and commenced legal action accordingly.

Institutional theory would suggest that normative pressures might have been usefully brought to bear on the managers concerned. However, as one shareholder observed, 'That CEO, he has been through the media, the grind, he's been made this awful guy, and he just shook it off. . . . So those kinds of people don't generally have very thin skins, I think. That's why they are there' (S1).

Again, it could be argued that there were financial motivations involved, and that these cases may not constitute non-financial shareholder activism in its 'pure' form, if such a form exists. Nonetheless, issues of governance were their points of attack, and therefore these interventions can be considered in the ESG fold, problematic as that grouping sometimes proves to be, as will be explored in Chapter 4.

3.4.2 A new process model of shareholder influence

Based on the empirical work that I have carried out I can now present a new process model of non-financial shareholder activism (Figure 7). Shareholders attempt to exert influence over company boards by means of one or more interventions available to them. There are of course actors other than boards of directors that take action in companies, but the institutional processes in companies are not the focus of this study. South African law states that 'the business and affairs of a company must be managed by or under the direction of its board' (South Africa, 2009), suggesting that this model is not overly simplified. Waldron, Navis and Fisher (2013) adopted a similar simplification of company executive teams in their analysis of company responses to activism, thus offering a useful precedent.

Moderating factors affect the operation of these interventions. Company boards take action as a result of these interventions, leading to a range of possible outcomes. Certain of these outcomes may result in a feedback effect, impacting upon the moderating factors that in turn affect shareholder interventions. I now explain these interventions, moderating factors, board actions and outcomes through a careful analysis of the empirical data that I have collected.

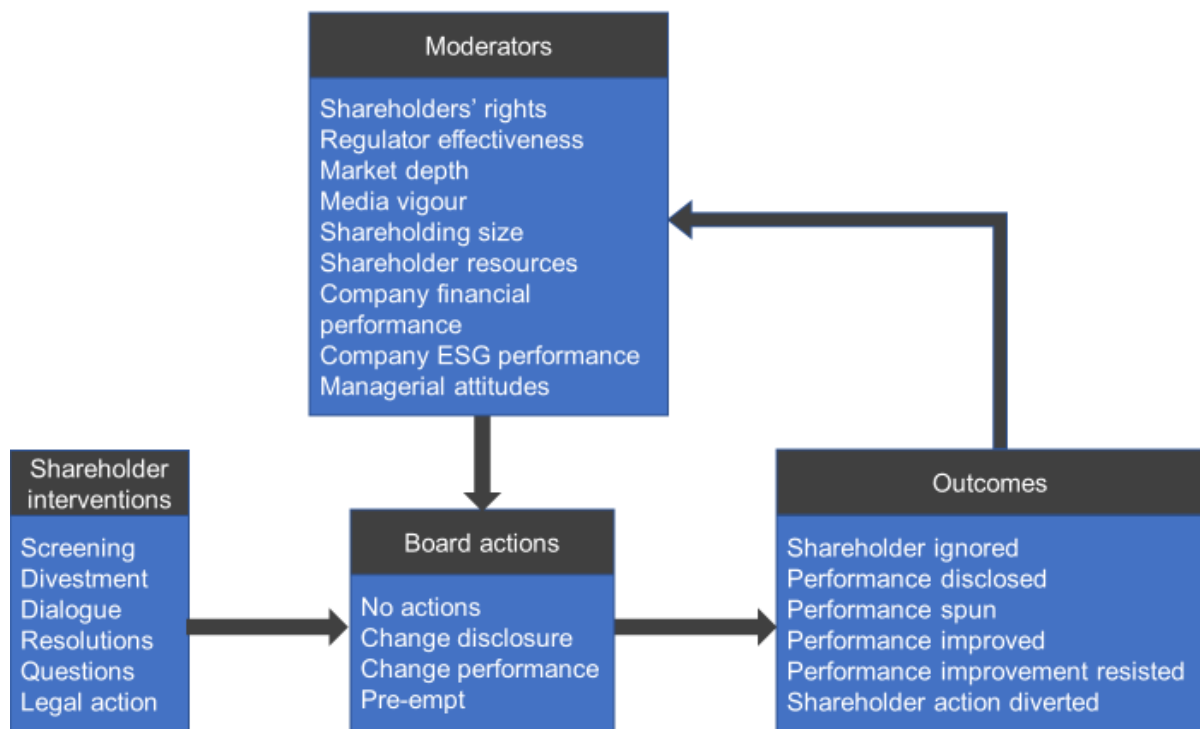


Figure 7: A new process model of non-financial shareholder activism

My data analysis revealed six interventions that shareholders are using to exert influence over company managers (Table 10).

Table 10: Shareholder interventions

Intervention	Example
Screening (positive and negative)	The now defunct NedBank BGreen exchange traded fund, which screened its constituents on the basis of the Carbon Disclosure Project and Clean Development Mechanism databases (Nedbank Capital, 2012)
Divestment	Contemplating selling shares in Steinhoff International Holdings N.V. in October 2017 due to concerns about governance after German authorities raided the company's offices (S17)
Dialogue	An investment asset manager meeting with the chairman of a company's Social and Ethics Committee to discuss an environmental issue that's of concern (S11)
Submitting and voting on resolutions	An environmental NGO's unsuccessful attempt to submit a resolution about air emissions for consideration at a company's AGM (Davies, 2018)
Asking questions of directors	An asset manager asking whether a holding company was using its position to push for improved environmental and social performance (S9)

Legal action

Dave Woollam's application to the Cape High Court to have four directors of Lewis Stores declared delinquent alleging, *inter alia*, corporate governance failures (Crotty, 2016b)

Screening

Screening and divestment, while sometimes disregarded by academic researchers as forms of shareholder activism (*vide* Sjöström, 2008), are both deployed in the South African context, albeit to a limited extent. The bases used for screening can become complicated and potentially self-contradictory. An analyst pointed to the example of a company that a positive screening approach might include in a portfolio due to its involvement in battery technology, but whose involvement in cobalt mining in the Democratic Republic of Congo might lead to its exclusion from a negatively screened portfolio (S5). Old Mutual Investment Group is now using the MSCI ESG research methodology as the basis for its Responsible Investment Equity Investment Fund, which appears to follow a negative screening system (Johnson, 2016). This approach I have explained earlier (section 2.4.2.1) in terms of extending Hirschman's theory of exit, voice and loyalty to the antecedent action of entrance. Given Old Mutual Investment Group's strong commitment to shareholder engagement it would be interesting to determine whether the actions of its engagement team and the managers of this particular fund are carried out completely separately or whether they inform and support each other – an intriguing research opportunity for the future.

Divestment

Divestment is the choice to exit one's shareholding in whole or in part, and takes place when a shareholder activist's loyalty is, for whatever reason, insufficient to continue to hold the share and exercise voice. It tends to be a last resort when other attempts at engagement have failed and is often but not always preceded by the shareholder notifying the company of its intentions (S11). This is noteworthy, because in the absence of such notification it may be difficult and time-consuming for a company to find out who has been selling its shares, and hence determine the possible reasons for this divestment – a lost opportunity to send a clear signal to the company. Share sales take a few days to be settled,

and usually involve relatively opaque nominee companies (M2). There are indications that divestment's importance as a mechanism has declined over the years as the exercising of voice becomes more accepted in the investment community (Rose, 2018b). It remains an important last resort for some shareholder activists – as one remarked, he has no desire to 'get involved in Vietnam-like situations' (S2). It is worth realising, however, that in such cases the divestment may not be carried out in the hope that it would lead to a change in the company's non-financial performance, but to mitigate negative impacts suffered by the shareholder (Crotty, 2018f). The potential linkage between the divestment mechanism and shareholder appraisal rights will be considered below when discussing legal action that shareholders may engage in.

It is unusual in the South African context for company managers to fear divestment by non-financial shareholder activists, except in the few cases where the activist holds a large proportion of the company's shares. 'Why are you criticising us and still holding the share? If we're so horrible, then just sell the share and go away. Exit, because we don't want to change' is how one interviewee recalled his conversation with a company's board (S9). In another company, a manager stated: 'that's not so much a threat, I mean we would be delighted if [large fund manager] halved their shareholding' (M2).

An activist that holds enough shares to make a material difference to the share price if it divests can, however, impact a company. By putting downward pressure on the share price the activist may raise the company's cost of equity, although this is generally only material if the company is wishing to raise additional capital. Usually more powerful is the institutional force involving social norms – CEOs and their peers often view the company's share price as an indicator of the quality of their managerial capabilities, a matter of social pride (S9). Perhaps more important still is the potential impact upon the company's remuneration system, as senior managers are often incentivised by mechanisms linked to the company's share-price. A share scheme that ends up under water as a consequence of a share price re-rating may make it difficult for the company to attract and retain superior talent (S9).

An example of a company taking the divestment threat seriously is that of Naspers, which was recently at risk of being excluded from MSCI indices because of a governance issue – unequal treatment of shareholders because of its control structure that awards more voting rights to holders of its unlisted A shares than its listed N shares. Exclusion from the index would result in index-tracking funds divesting their shares in the company, and so Naspers management reportedly engaged with MSCI in a bid to avoid this (Hedley, 2018a). When MSCI announced that it would not exclude Naspers from its index, the company's share price rose as much as 9.4% (Hedley, 2018d). Investors that have a significant shareholding in a company may be reluctant to divest, however, due to the financial loss that they may suffer if it becomes known that there is a large hangover in the share (S9). 'I don't think I've ever heard of anyone off-loading shares in anger, because then you sell at a discount' (M2).

Dialogue

Dialogue between shareholders and managers, usually but not always taking place in private, and the submitting of and voting on shareholder resolutions in general meetings are probably the most widely recognised forms of shareholder activism. These mechanisms may be deployed sequentially, as was evident at the Steinhoff International Holdings N.V. annual general meeting of 20 April 2018. Some shareholders engaged in dialogue with directors to warn them ahead of time of their voting intentions, with the result that a resolution was removed from the agenda (Lerche, 2018; Steinhoff, 2018). The sequence may also be reversed – for example, companies listed on the JSE are now required to engage in dialogue with shareholders if more than 25% of shareholders vote against the company's remuneration policy (Rose, 2018a), a recent case of this being PSG (Crotty, 2018a). Shareholders may also take the view that their vote against a particular resolution should serve as the precursor to a discussion: 'It's not enough to vote and walk away' (S11). It has been known, however, for such a shareholder to ignore requests by a company to engage after such an intervention (M2). Frequently a longer sequence is involved, with dialogue being followed by voting on proposals, followed in turn by further dialogue (S11). If the

shareholder feels that it has been listened to during the first dialogue, it may choose as a gesture of good faith to abstain during the proposal voting process rather than to vote against company management, hoping to enhance its legitimacy and to facilitate an ongoing engagement process – ‘we’re . . . not going to vote against you while we’re still talking’ (S9).

Shareholders, particularly larger ones, may have direct access to the company board, particularly the CEO and chief financial officer (CFO) (M3). It is quite common, however, for the dialogue to take place via the company secretary (S9). This appears to be particularly the case when the dialogue is linked to the submission of shareholder proposals, a process that falls in the purview of the company secretary (S2). Another channel, which may serve as a precursor to using either of the above routes, is of course the investor relations function in the company (S5). These channels may also operate in parallel (S2). Shareholder presentations and teleconferences also provide opportunities for non-confidential dialogue between shareholders and companies (S6). Shareholders may also elect to deploy prominent people such as Bishop Seoka to engage in the dialogue process in order to enhance their perceived salience (S8).

Dialogue may take place in several ways, with telephonic discussions being probably the most common method (M2). Email correspondence naturally constitutes an important mode of communication, just as it is in most other facets of business (E5). A face-to-face discussion, if the shareholder is able to obtain it, may be the most effective way of carrying out such a dialogue with the minimum risk of miscommunication (S11). A campaign of letter-writing, whether confidential or publicised, may form the run-up to and foundation for such a discussion in person (S2). Letter-writing is a mechanism that is available to shareholders with limited resources, although it does require time and effort to ensure coherency and clarity in its execution (S3).

Dialogue may have several purposes. It may be aimed at directly changing a company’s ESG performance (S3). It may, however, be at least partially focused on educating company managers about shareholders’ ESG-related concerns, presumably in the hope that changes in performance may happen later as a result

(S5). It may also have as its aim the acquisition of more detailed knowledge of the company's non-financial performance (M7). This last form of dialogue appears to be less prevalent than in the past, because of the proliferation of information available from index and ratings companies (E4).

Shareholder proposals

There are various situations that might result in non-financial shareholder activists voting against company management on shareholder proposals, with the usually restrained newspaper *The Economist* recently enthusing that 'Campaigners on a dizzying array of issues regard proxy voting as an exciting new weapon' (2018a). Except for the black equity ownership schemes discussed above, it would be an unusual if not unprecedented situation were a company's board to submit proposals for shareholder approval that relate directly to company environmental or social performance. Governance-related proposals are another matter entirely, however, as a raft of regulatory requirements requires companies to prepare proposals for the AGM on such governance issues as director (re)election, auditor appointments and remuneration policy (South Africa, 2009).

Subject to the requirements of section 65(3) of the Companies' Act (South Africa, 2009), shareholders may submit proposals of their own for consideration by the company's shareholders. A recent example of this was the unsuccessful attempt made by Theo Botha and the Raith Foundation to have Sasol's shareholders vote on a climate change-related proposal. The company refused to table the proposal at its AGM on the basis that its shareholders did not enjoy the right to vote on a proposal of this nature. It also declined to release the legal opinion that it had relied on to come to this conclusion (Davies, 2018).

Another unsuccessful attempt of this nature, this time in the arena of governance, was that of Chris Logan and others to have provisions removed from Textainer's company bye-laws that prevent shareholders from suing its directors (Crotty, 2018b). This would have been a double-layered case of shareholder influence, as Logan and others were shareholders in Trencor, which in turn held 47.8% of Textainer's shares. Logan and others were therefore attempting to exert influence

over Trenchor so that Trenchor in turn would exert influence over Textainer (Logan, 2018). Trenchor's board, however, did not allow the proposals to go forward to the Trenchor AGM (Crotty, 2018c). The board, like Sasol's, stated that it was not convinced that shareholders had the right to vote on the matter, and also suggested that the proposals were insufficiently detailed for other shareholders to be able to make up their minds as to what course of action should be taken. The board did not close the door completely, however, stating that its views were not final and that it might yet be prepared to call a special general meeting for the purpose of voting on these resolutions (Logan, 2018). A proposed unbundling of Textainer may render this apparent openness meaningless, however.

Shareholders have been able to exert influence on the proposal voting process through the development of stewardship or proxy policies. These policies set out the basis on which a shareholder will vote on a range of issues (e.g. Active Shareholder, n.d.). Such policies appear to enhance the influence of shareholder activists in several ways. A shareholder may make investee companies aware of its policy, signalling to directors before an AGM not only how it will vote but also why it will vote in that way (S9). Such an action may increase the directors' perceptions of the shareholder's legitimacy as the latter's actions may then appear to be reasoned rather than arbitrary. It may also allow managers sufficient time to consider taking action in order to deal with a shareholder's concerns. A large shareholder advising a company just before the AGM that it will vote against its remuneration policy doesn't allow managers much time for anything other than pleading with the shareholder to at least downgrade its action to an abstention (M2).

One of the first institutional shareholders' decision to develop and adopt a proxy policy led to it assisting other institutions to produce and use their own policies (S9). Such collaboration, whether formal or informal, is an example of shareholder networks' increased ability to exert influence upon companies (Yang, Uysal and Taylor, 2018). In the situation where an owner's shareholding is managed by a third party, a stewardship policy may make it easier for the asset manager to vote the owner's shares in accordance with the owner's preferences.

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In this way the owner can exert influence without having to issue the asset manager specific instructions on each resolution for each investee company (S4). With a similar effect to a voting policy, a shareholder may also prepare voting recommendations for a specific AGM, and then make these recommendations available to other shareholders (S6). Such an action may lead to other shareholders voting in line with it, and may also result in the media publicising the ESG issues that are of concern to the shareholder (e.g. Crotty, 2018a).

The South African regulatory framework requires directors of listed companies to be elected (and re-elected) by shareholders, and this is effected by means of resolutions presented by the company at general meetings (South Africa, 2009). This provides an additional lever of influence for shareholders. If the board is unresponsive to a shareholder's views on, say, the company's social performance, the shareholder may then vote against the appointment of the company's chairman in order to signal its displeasure (S9). It is very unusual for a director to be subjected to the ignominy of being voted off the board, although this happened recently at 4Sight Holdings' 2018 AGM (Hasenfuss, 2018b). However, when a non-executive director received a lower percentage approval vote than most of his peers at the latest (2018) AGM of Steinhoff there were audible gasps and murmurs from those in attendance – with the tension palpable during the voting process, the chairman attempted to lighten the mood with a comment about her fellow-directors viewing the voting results as a competition (S17). While doubtless not the case universally, some directors may certainly feel hurt by a low approval rate for the re-election, and may therefore take action to avoid a recurrence, actions that may involve acceding to shareholder demands (S9).

Asking questions

One intervention that appears remarkably prominent in the South African context is that of asking questions at general meetings; remarkable in that it appears that

the international academic literature is largely silent when it comes to this intervention. Questions asked in these meetings by shareholder activists feature prominently in the South African press, particularly when deployed by such proponents of this approach as Chris Logan (Hasenfuss, 2014), Dave Woollam (Laing, 2016) and Theo Botha (this last the subject of recent academic research: Viviers, 2016).

The South African legislative framework allows shareholders to ask the board questions, with or without providing notice of their intentions (South Africa, 2009). This is a direct way of exercising one's voice in the presence of the board, and potentially having it heard further afield as well (Hirschman, 1970). There have of course been cases of chairmen refusing to entertain shareholder questions, although such a refusal runs the risk of attracting public opprobrium, particularly if the company is a prominent one (Crotty, 2017; Hasenfuss, 2017). After such a refusal one activist has contemplated legal action against the company to establish firmly in law the shareholder's rights in this regard (E5).

This intervention carries certain advantages for shareholders. Since shareholders are not required to submit questions in advance of the meeting, they provide an opportunity to put directors 'on the spot' (S2). The note of urgency this supplies adds to the perceived salience of the shareholder's action. It also provides an opportunity to force a response from the board in situations where attempts to enter into dialogue with the company by means of, for example, letter writing have been ignored (S9). Since it is the company that arranges for the minuting of the meeting, it is not unknown for answers to shareholder questions to be downplayed in the meeting records. At least one shareholder activist, however, is renowned for pointing out such practices at subsequent AGMs (M2). The AGM also provides an opportunity for shareholders to attempt to increase their legitimacy in the eyes of directors at a meeting at which they plan to ask questions by offering public approval where it may be due: 'If you also only just say bad things about people, you get known as sort of wicked'. 'I think you've gotta use it, also, as a forum to praise when things are praiseworthy'. 'It shouldn't just be about bloody kicking people's backsides' (S2).

Legal action

Another intervention that is now being used in South Africa and that is also largely absent from the academic literature on non-financial shareholder activism is legal action. One shareholder activist explained his recourse to legal action like this: 'you can write all the stories in the media that you want . . . I think, ultimately, somewhere, somebody has to decide, and that would, ultimately, be a judge' (S1). Faced with resistance by company managers, he decided: 'I think the only way you make those people sit up and listen is when you stand up for your legal rights . . . And they know it' (S1).

Not every shareholder activist would be prepared to make use of this intervention, however, not least because of the costs. 'They threw, I think, about thirty-five million rand of legal fees at that', observed one activist who went this route (S2), and of course such managers are using the company's funds against its own shareholders. The jurisprudence in this area of law in South Africa is still relatively immature. In section 3.4.1 above, however, three recent cases of this were mentioned in the discussion on shareholder rights. This area of law is also attracting the attention of the academy (e.g. Yeats, 2015). 'The legislation's potent', remarked an activist attorney. 'It's just knowing how to use it, and you almost have to be like a doctor, you've just gotta poke around until you find a soft spot' (E5) – indications that this intervention may well come to play a more prominent role in the future.

Legal action by shareholders may take one of two main forms. The first is when a company's board appears to have ridden roughshod over a shareholder, ignoring its rights. An example of this was Naspers' refusal to make a trust deed available to a shareholder before a vote was taken on modifying it, which required the intervention of a specialist attorney before the company acquiesced to the request (S4). A second is when legal processes are followed by a shareholder that doesn't have sufficient voting rights to achieve the desired end – the unsuccessful attempt by Dave Woollam to remove company directors mentioned above was such a case. These actions need not necessarily involve the courts or other regulatory bodies such as the Takeover Regulation Panel. For example,

where a shareholder wishes to exit from its shareholding in a company and has grounds to exercise appraisal rights, ‘the process can just be effected by the exchange of a number of emails’ (E5). However, should the company resist the shareholder, the courts are then available as a recourse (*cf. Cilliers v La Concorde* [2018]), offering protection to a shareholder seeking to divest from the company.

3.4.2.2 Factors that moderate shareholder influence

Nine significant factors that moderate the impact of shareholder interventions have become apparent during the data analysis phase of this research. Four of these relate to the context in which the activism takes place, two relate to the shareholder itself, and three to the respective company. As I will now explain, these moderators may serve to enhance the board’s perception of the salience of shareholder interventions, or in some cases to reduce their influence.

Table 11: Moderators of shareholder influence

Type	Moderators	Exemplars
Contextual	Shareholders' rights	‘People start to realise we have rights here, this has been proven. More people can do that, more of us can stand up’, explained a shareholder activist (S1)
	Regulator effectiveness	‘Absolutely useless, useless! I don’t rely on any regulators for anything’, asserted a shareholder activist (S4)
	Market depth	‘I think it comes down to market size, how many shares are listed on the JSE, and, also, I think it comes down to how much you can actually buy, what shares you can actually buy’, was the view of a portfolio manager (S16)
	Media vigour	‘Perhaps there just aren’t enough of them. . . . There are maybe five financial journalists that are actively engaged in the market and really pay attention’, reflected an attorney acting on behalf of shareholder activists (E5)
Shareholder	Shareholding size	‘We were a very small fund. . . . So the first thing would be, who are these little people?’ pointed out an ex-asset manager (S9)
	Shareholder resource	‘Unfortunately, having to fight these fights costs money . . . and it doesn’t only cost money, it costs a tremendous amount of time. I don’t think people really know how much time this takes’, said a shareholder activist (S1)
Company	Company financial performance	‘People are wanting us to be politically correct. I’m sick and tired of people nitpicking when we are producing superior returns,’ grumbled a company chairman (Hasenfuss, 2005a)

	Company ESG performance	'Keep us just on the back of the curve', said a chief executive when the company's performance in the Carbon Disclosure Project deteriorated. 'Not a leader, but not falling off the back either' (M8)
	Managerial attitudes	'They have pretty thick skins and that has been proven' pointed out a shareholder activist (S1)

Contextual factors

The first moderator is that of shareholder rights. These are determined primarily by the legislation governing companies, and secondarily by the company's memorandum of incorporation. A robust framework of shareholder rights may mean that codes of good practice in corporate governance take on a less prominent role, since shareholders are able to make direct use of the legislative framework, rather than relying on companies following such codes (S2). The new Companies Act (South Africa, 2009) has now strengthened the hands of South African shareholders, providing remedies that were not previously available. 'We have very progressive minority protection rights', remarked one shareholder activist (S1). Some of these, such as appraisal rights, apply primarily to financial shareholder activism (Rhodie, 2018), while others support the efforts of non-financial shareholder activists. One need only acquire a single share of a company to gain the right to ask questions of directors at an AGM, this opportunity providing 'a significant safeguard' to shareholders (S2). The exercising of this right is made easier in that companies are now required to provide shareholders with electronic access to the AGM, reducing the costs and time commitment that travelling to a possibly inconvenient meeting location might have involved (S2).

Shareholders do not of course have the right to manage the company, something expressly excluded by the governing legislation (section 66(1), South Africa, 2009). A shareholder may, however, question whether directors are conducting themselves in accordance with the requirements of the Companies Act (section 76, South Africa, 2009). More powerfully, as already noted above, shareholders may vote against the re-election of directors who do not respond to their attempts to influence company non-financial performance. At the least this signals discontent, and such an intervention may potentially go so far as the removal of directors from the company board (S9). Such provisions are in marked contrast

to the situation in, for example, Bermuda, where company bye-laws may protect directors from shareholders, even in cases of proven gross negligence (Crotty, 2018c).

The second moderator is the degree of effectiveness of the regulators tasked with, *inter alia*, defending shareholders' rights. An energetic and focused regulator that a shareholder can rely upon to act promptly can make it difficult for a board wishing to ignore a shareholder intervention. Supine regulators, by contrast, may lead to a culture of impunity in company boards, who may believe they have little to fear should they neglect to recognise the rights of the company's activist shareholders.

Some South African shareholders are firmly of the view that the country's regulators fall largely into the latter category. Speaking of the JSE, 'I've had very bad experiences' complained one activist (S1). A perceived failure of the JSE to act decisively against a company after a corporate governance transgression resulted in him losing money, arguably led directly to one shareholder's extended series of campaigns against ESG-related transgressions by listed companies (S4). 'It's one thing to have regulations . . . [but] there should be effective policing. I think that's always been a problem in this country' said an asset management consultant (S15). 'Our legislative regime is fantastic', pointed out a journalist, but 'the administrative muscle just isn't there' (E13).

Such beliefs came very visibly to the fore in an almost unprecedented letter sent by ten institutional investors to the boards of Resilient REIT Limited and three associated companies after allegations of serious corporate governance failures. While acknowledging that investigations by regulators were already in process, the investors called for a comprehensive independent investigation into what had transpired, clearly displaying a lack of faith in the regulators' own work (Public Investment Corporation et al., 2018).

A full explanation of the reasons for this perceived ineffectiveness is beyond the scope of this research. Several important issues are worth tabling here, however. First, as a listed entity itself the JSE's regulatory responsibilities may be in conflict with its responsibilities to its own shareholders, and to its clients (S1). Second, in

certain circumstances regulators may not engage in enforcement action if they believe that 'the industry has been running with the topic' (E4). Third, skilled personnel in regulatory bodies are often attracted to more lucrative positions in the entities they are supposed to be policing, and therefore may not wish to engage too fiercely with potential future employers (E9). This employee turnover can result in frustrating engagements with regulator bureaucracy by companies attempting to improve their non-financial performance, as they deal with inexperienced officials unable to follow logical processes (M7). Fourth, in the case of certain enforcement agencies such as the Directorate for Priority Crime Investigation, it became apparent in a parliamentary committee meeting that even the Steinhoff debacle had not led to an investigation, not least because there was apparently no capacity in the agency to carry out such an investigation (Ensor, 2018). This and other enforcement failures have been widely attributed to deliberate efforts by senior politicians and civil servants to damage the capabilities of enforcement agencies (Hoffman, 2018).

Despite this, some lights do shine through the gloom. Action by the 'Green Scorpions', the enforcement arm of the Department of Environmental Affairs, has led to some companies having to report to their shareholders that they are facing prosecution, and to explain what they are now doing to deal with the identified non-compliances (M5). Companies are also taking increasing note of media interest and interventions by specialist NGOs, at least in part because if they don't 'suddenly you are on the radar of the regulators' (M7). Evidence has also been provided above of the successes that non-financial shareholder activists are starting to achieve in the country's courts. 'You can see in their judgements that they are alive to questions of governance' said a lawyer of the South African judiciary – 'I think judges are becoming emboldened' (E5).

Market depth is a moderator that acts primarily upon the interventions of screening and divestment. If the stock market has only a single technology company listed, a shareholder cannot follow a 'best-of-breed' approach to screening out companies with inferior ESG performance, and likewise cannot divest from such a company without losing exposure to the sector as a whole. 'I

think it comes down to . . . what shares you can actually buy' said a portfolio manager, speaking about the South African equities market (S16). 'You have such a limited scope to actually invest in good assets, that I . . . don't think [non-financial performance] plays a role'. 'Globally I think it's possibly a little bit easier because you've got a much broader opportunity set' mused the asset management consultant. He observed at the same time that governance issues could be taken into account, but that when it came to considerations of environmental and social performance 'there's only so much opportunity really' (S15).

'If it's not in the media, it's not happening!' (E1). The media, both traditional and social, can certainly have a very significant moderating effect on non-financial shareholder activism. Some shareholders may choose not to make use of the media, particularly if they are able to exert influence through private and confidential dialogue. Others, however, would subscribe to the view that 'it's always useful to have a [name withheld] in your pocket, so that when . . . a company tells you to go get stuffed . . . it's fantastic, you just have [name withheld] write about it, and then, boof [sic], there you've got your publicity' (E5).

There is evidence that company boards do not wish to be embarrassed by shareholders' engagement with the media (M2), although 'some guys are such dogs, they don't mind being seen in the public as dogs' (S2). What one engagement practitioner described as the 'scandalisation' effect can be powerful – directors are 'not wanting to be seen to be . . . facilitating larceny and environmental destruction and social decay' (S9). One shareholder activist was 10 minutes away from being interviewed on a radio station when she received an unexpected and conciliatory call from an asset manager's chief investment officer, with the result that she softened her public criticism. Keeping a company in the press for a fortnight after an apparently failed engagement at an AGM allowed another activist to push an agenda, he believed (S4).

The press also has an informing role to play, educating both investors (E11) and the financial sector as a whole (E4). It can also contribute to building the brands

of asset managers who wish to be seen as responsible investors, adding to their salience in the eyes of investee company managers (S11).

A lack of relevant expertise in media houses may, however, mean that the more complex forms of non-financial shareholder activism are not reported on. 'Dinosaurs' is how a consultant described the mainstream business media, relating how he'd sometimes guided a journalist on what questions to ask (E3). It may be difficult for activists to identify journalists who understand the issues involved (E13). The media may merely accept the narrative provided by the company if it's better prepared than that of the shareholder (E12). Media naturally gravitate towards controversy rather than good news stories (E4), and stories rapidly lose impact as they age (E3). This has some advantages for activism, which tends to be controversial, but some disadvantages too, as activism campaigns are often prolonged and drawn-out in nature. It is also important to note that a failed activism attempt that is widely reported in the media is likely to strengthen the hand of management, rather than shareholders (S1).

'I don't do Twitter and all of that, although I probably should', said one shareholder regularly quoted in the business press (S2). While the above discussion refers primarily to the traditional media, social media's role as a moderator is broadly similar. In certain circumstances it may offer more impact (E4), and may provide 'governance by embarrassment' when, for example, it is used to publicise letter-writing campaigns (E5). It can also provide confirmation to activists that what they're writing is being read, as they can see the resultant feedback online (S1).

Shareholder characteristics

There are also two shareholder characteristics that serve as moderators of the activism process. The first is that of the size of shareholding that is held in the company: the greater the shareholding, the greater the perceived power and legitimacy of that shareholder in the eyes of the board. 'We have the firepower and bandwidth to get that foot in the door' was the view of a large asset manager (S11). Major shareholders always have a direct line to the CEO and CFO, said a senior manager in a listed company, confirming that the company focused on the 'material' shareholders (M3). Large shareholders enjoy one-on-one sessions with

company managers (E7), and this typically results in them having more information than other shareholders (M2), allowing them to target their efforts more effectively.

This situation is naturally viewed with concern by smaller shareholders: ‘with my few shares, nobody’s gonna listen to me’, sighed one (S3). Another expressed the view that one company’s shareholder engagement process may have been undermined by its focus on larger shareholders (S6). There are ‘huge limits until votes can be mustered from the institutions’ agreed a third (S2). This situation can be alleviated to a degree by the formation of shareholder coalitions, described in section 2.4.3.1 of the systematic literature review above: ‘You can show up with your friends’, said an engagement manager (S11). This has not been common practice in South Africa thus far, at least partially due to competition law compliance concerns, as a portfolio manager pointed out when questioned at the JSE’s 2018 ESG Investor Briefing (S17). The letter mentioned above that was sent to directors of Resilient REIT Limited and associated companies is a notable exception to this situation.

The second shareholder characteristic that moderates the activism process is the resources at the disposal of the shareholder. These resources may be described in terms of the dimensions of time, money, courage and knowledge. Time, because the interventions of dialogue, resolutions, asking questions and instituting legal action usually require a substantial amount of work by the activist. Engaging in these processes requires ‘a lot of homework’ (S2), and many an opportunity is lost because ‘people just don’t have the time to read’ and to research and gather background information (S1). Money is a particularly important resource if the course of legal action is chosen. A successful activist said that he wouldn’t attempt this course of action again because of the risk of financial loss – ‘I have to look at my family first’ (S1).

Courage appears to be a particularly important shareholder characteristic in this process. Theo Botha, a well-known shareholder activist, was described as ‘brave’ by another activist who spoke of the ‘guts’ shareholders needed to exercise their rights (S2). Another spoke of the loneliness and stress experienced as a result of

his own efforts (S1), and an interviewee described a prominent female shareholder activist as having ‘the biggest [deleted] that I’ve seen’ (E5).

Knowledge is the fourth important resource needed by the non-financial shareholder activist. Many institutional investors have recognised this and are now appointing in-house ESG specialists (S15), as there is a widely held belief that the investment community’s understanding of ESG issues is limited (E2, E4). A detailed knowledge of company law appears crucial, as these interventions all take place in structures that exist only as a consequence of such law (S2).

Company characteristics

Certain company characteristics also serve as moderators of the process of non-financial shareholder activism. Exemplary financial performance can lead to a feeling of invincibility in company boards. ‘If you don’t like us, someone else will’ may be heard by a shareholder who is trying to explain to a director why it believes the company should enhance its ESG performance (S9). This situation weakens the power that the screening and divestment interventions have to effect change. Such performance may also encourage some shareholders and asset managers to turn a blind eye to ESG issues. Naspers’ extraordinary rise in value created such a situation until comparatively recently (S4).

As a corollary, a deterioration in a company’s financial performance may result in heightened scrutiny of its non-financial performance, most commonly resulting in its governance coming under the spotlight. Recent examples of this include Grand Parade Investments, where a decline in share price to 30% of the company’s intrinsic net asset value led to shareholders attempting to force two new directors onto the board (Crotty, 2018j). Long-term value destruction at Tongaat Hulett led to the unusual situation of a majority of shareholders voting against its remuneration policy, forcing the company to engage with its shareholders (Njobeni, 2018). RMB Holdings’ financial losses in its property portfolio led to shareholders questioning managers’ profit-share arrangements (Hasenfuss, 2018a).

Company ESG performance plays a more nuanced role. Some company leaders choose to stay ‘below the radar’ of non-financial shareholder activists (M1). By avoiding the publicity that leaders in ESG performance may enjoy as well as the notoriety that may accrue to laggards they are able to maintain a degree of anonymity in a pack of their peers. Such an approach isn’t available to all companies, as the inherent nature of their business may place them in the public eye. An example of this is Sasol, the listed company with the highest emissions of greenhouse gases in South Africa (CDP, 2017). The company faces pressure in this area from shareholder activists (Davies, 2018), and is now regarded as a ‘test-case’ for what such activists are able to achieve (S6). It is worth noting, however, that it is not only a company’s absolute ESG performance that counts, but also whether it’s performance is improving or deteriorating. ‘They were terrible and they’re still bad, but they’re not as bad as they were’, an analyst observed of Glencore (S5).

The last moderator is a function of the kind of people that are directors of the company under consideration. Where directors are sensitive to the opinion of the public and their peers, the ‘scandalisation factor’ can exert a powerful influence over their behaviour (S9). This tends to be the case when these directors already have a good reputation in the eyes of the public – adverse reports in the media are likely to ‘galvanise’ them into action (S2). ‘Nobody wants to look like a person that’s destroying the environment’, and some directors may indeed feel hurt if they’re accused of doing so (S9). There are also indications of the presence of a generational effect at work here, with younger managers being seen as more interested in non-financial issues (E7).

There are, however, directors that seem impervious to public opprobrium. In such cases, an activist observed, ‘I think the only way you make those people sit up and listen is when you stand up for your legal rights’, and follow the route of legal action (S1). One example of this apparent tone-deafness is the matter of executive pay. Years ago, regulators in South Africa made it mandatory for listed companies to disclose their executives’ pay, in the hope that executives might be embarrassed into moderating their pay demands. An opposite effect appears to

have occurred, however, as many executives seem to have ignored societal views in a bid to ensure that their remuneration keeps up with that of their peers (Crotty, 2018h).

At least part of the reason for these kinds of behaviour can be explained in terms of managers' beliefs. For example, there are certainly executives who are sceptical about the idea of human-induced climate change (E3). Others are disillusioned as a result of perceived unfair harassment by governments, unions and communities (M1). This can then lead to ESG vulnerabilities identified by, for example, MSCI being relegated to the level of 'their little nonsense' by these executives (M2).

3.4.2.3 Board actions and intervention outcomes

There is a plethora of outcomes that may result from the efforts of non-financial shareholder activists, a subject that thus far has not been critically examined by the academy (Cundill, Smart and Wilson, 2018a; Hadani, Doh and Schneider, 2019). These outcomes are preceded by actions taken by the company's board, another under-researched area (Goranova and Ryan, 2014). The empirical data that I have acquired and analysed has allowed me to develop typologies of the primary actions that boards take as a result of shareholder interventions, and of the outcomes of these interventions. These typologies appear in Table 12 below, where I link these outcomes to the actions taken by company boards. I will now discuss how boards go about taking these actions, and provide examples of the resultant outcomes. Notably, this discussion goes beyond the usual focus on company disclosures (*cf.* Marshall, Brown and Plumlee, 2007), as research indicates that the link between disclosure and improved performance is tenuous (Tang and Demeritt, 2018).

Table 12: Board actions and intervention outcomes

Board actions	Intervention outcomes	Exemplar quotations
Do nothing	Shareholder ignored	'No matter what issue you raise, if it's a contentious issue, environmental, or social, or whatever, I think they'll give you a stock response and then, if you bother to say I don't like your stock response, I think it's not good enough, they will just ignore you', said a shareholder (S3)

CHAPTER 3: EMPIRICAL INVESTIGATION

Deal with ESG disclosure	Performance disclosed	'What typically happened was the disclosure got really good, but there was no marked improvement in performance' said a consultant, referring to the impact of the Carbon Disclosure Project (E2)
	Performance spun	'If you look at their bottom-line or triple bottom-line reporting, it's just dull. There's nothing there. And they don't even write them themselves. . . . This is, as far as I'm concerned, florid platitudes', said an attorney acting on behalf of shareholder activists (E5)
Deal with ESG performance	Performance improved	'There were certain small issues that we would win on, like re-election, we completely shifted that. The different share classes and not allowing high-voting classes to vote on the changes in capital on lower-voting classes but more widely held shares. So I think we won those', explained an ex-asset manager (S9)
	Performance improvement resisted	'At first, if we go, there might be a bit of hostility, if you like, why are you interfering with our business? Go away', said an engagement manager (S11)
Pre-emption	Shareholder action diverted	I think [the company's] perception is that belonging to the SRI would have some impact on our reputation out there . . . and maybe in the future investors might . . .', mused a senior environmental manager about the JSE's Socially Responsible Investment Index (M5)

First, and very commonly, the board may decide to do nothing, and disregard shareholders' attempts at influence, deeming their efforts immaterial to the company. On the face of it directors are perfectly entitled to do so (S9), as South African legislation explicitly states that 'the business and affairs of the company must be managed by or under the direction of the board, which has the authority . . .', etc. (section 66, South Africa, 2009). Questions to and requests of the company may therefore be merely ignored (S1), an option that some companies may take to the point of notoriety (S2). One of the potential consequences of doing so, however, is that shareholder activists may escalate the situation, drawing on the support of the media and other stakeholders to increase their salience in the board's perception (S2).

It is worth noting at this point that the decision taken to ignore the shareholder may well be taken at a level rather lower than the board. One shareholder noted that a company answered both hers and a friend's letters in identically worded replies, but that when she followed up no further responses were received (S3). This may mean that an investor relations officer had been given standard instructions on how to deal with a certain type of query, but had no latitude to engage in more depth on the issue. A more concrete example relates to a letter-

writing campaign in which Old Mutual Investment Group engaged (Old Mutual Investment Group, 2018). The group's managing director wrote to the CEOs of 100 South African companies, explaining the group's position on ESG issues (Gobodo and George, 2018). When I asked an investor relations officer what her company's CEO had thought of the letter, her response was that she didn't think he'd seen it. It had arrived in her inbox (not his), she'd sent it to another functional manager to ask if there was anything that needed to be 'done', and when he replied in the negative she took no further action (M2). The limitation of simplifying shareholder-company interaction by focusing on the board's actions has already been discussed above. This finding does, however, point to a potentially interesting research opportunity, that of determining how the gatekeeping function in companies works in the face of non-financial shareholder activism.

A second and frequently observed response is for the board to decide that changes need to be made to the level and manner of disclosure that it provides about the company's activities. This may be done in a positive way that involves increased transparency, displaying not only the company's virtues but also the less satisfactory parts of the company's ESG performance. A large mining company failed to refer in its annual chairman's statement to employee fatalities that had occurred in the past year. On being challenged by a shareholder activist the chairman apologised, and these annual statements now include this tragic aspect of non-financial performance (S4). When Investec faced shareholder pressure at its AGM not to reappoint KPMG, an audit firm disgraced by its facilitation of state capture in South Africa, it took the unusual step of including with the results of the meeting an extended explanation of the rationale behind its decision (Marriage, 2018). Naspers responded to shareholder outrage at its remuneration policies by doubling the length of the remuneration section of its annual report and despatching its chief people officer to visit shareholders and explain what it was doing (Hedley, 2018c; Rose, 2018c).

An increase in transparency is not the only option available to boards, however. Instead, the well-developed techniques of the spin doctor may be deployed, and a misleading picture of the company's performance portrayed to external

stakeholders. This can be very difficult to detect, even when company reports dealing with non-financial issues are subjected to a level of independent assurance, as is encouraged by South African codes of corporate governance (E2). 'There's a lot of made up stuff in there' remarked an analyst about a company's report (S5), while acknowledging that he could not necessarily tell which parts fell into that category. A consultant involved in analysing companies' reports of their carbon emissions spoke of how 'people get to game the system' (E2). This is borne out by a conversation I held with a company's senior environmental manager at the launch of the South African CDP Water report on 6 December 2017. He bemoaned the pressure being brought to bear on him by his management to increase his company's score in the CDP, and spoke of how he could easily comply with their demands by exploiting the '[name withheld] effect', but did not wish to do so. He was here referring to a well-known consultant with a deep understanding of the CDP scoring system, who was known for touting his services on the basis that, just by commissioning him to complete the company's CDP questionnaire, the company's score would increase (M8).

One form of potentially misleading ESG disclosure is the much maligned but widely practiced art of 'box-ticking', an unintended consequence of the implementation of certain codes and reporting initiatives (S15). 'We tick the box and as long as it gets ticked, we can get it out there, we move on' (M6). Rather than indicating substantive changes in company disclosure practices this can often be merely a symbolic management exercise (S15), a case of form over substance in the view of PSG's CEO Piet Mouton (Barron, 2018). While perhaps not falling strictly into the category of 'spin', burying the shareholder in an avalanche of data may result in the cessation of the activist intervention, a technique sometimes used against environmental activists (M1). A CEO who had been concerned that the company's annual report did not contain sufficient information on the company's environmental and social performance was pleased the next year to receive a more comprehensive section for him to review, with his primary comment being that it was now 'thicker' (M8).

The third possible board response is for it to consider making changes to the company's ESG performance. This too may be done in a positive way, with the board deciding that the company's practices need to change at least partially in line with shareholder expectations, and implementing the necessary actions to achieve this. Alternatively, and not infrequently, the board may choose to resist making any improvements to the company's non-financial performance.

At first glance shareholders appear able to claim some success in this area. In the face of shareholder pressure, Sibanye commissioned an independent investigation into its sharply deteriorated safety performance (Seccombe, 2018a), PSG and Naspers both bruted abroad that they were changing their pay practices (Crotty, 2018a; Hedley, 2018b), and Tongaat Hulett commenced a study of its remuneration policy and reported that no bonuses had been paid where profit targets had not been met (Marais, 2018).

The extent to which these companies' non-financial performance improved is, however, a contested area. Investigations do cost management time and the company money, but do not necessarily result in action, and may again be examples of boards engaging in symbolic action to deflect shareholder influencing attempts. It is unclear on what basis Tongaat Hulett would have paid bonuses anyway in the absence of the company achieving planned profit levels. Writing a year after Naspers committed to improve, one journalist's take was that 'the result is a substantially improved remuneration report in terms of disclosure, but the outcomes are unchanged' (Crotty, 2018d).

There are, however, examples of companies making changes to their non-financial performance as a result of shareholder intervention. One company delayed implementation and changed the terms of a broad-based black economic empowerment transaction when key institutional shareholders advised its management that the transaction would not receive the required level of votes at the imminent AGM (M2). The same company, again at the behest of large shareholders, altered its memorandum of incorporation to force the re-election of its two executive directors every two years (M2), a change naturally not devised independently by its CEO and CFO. A former asset manager told the delightful

story of how, after he became known for raising concerns about director over-commitment, Cyril Ramaphosa came up to him on one occasion (before he returned to government to take up the role of deputy president) telling him not to worry, as he had been attending all his board meetings (S9).

What is certainly quite common is for boards to resist improving company non-financial performance. To a limited extent, this resistance is facilitated by the country's primary corporate governance code (Institute of Directors of Southern Africa, 2009), which follows the 'apply or explain' approach. Boards may therefore feel that if they can just explain why they have taken a particular decision, there is no onus on them to make changes to the way they are doing things (E5). 'They know they can just dry you out with legal stuff and fees and time', said one activist who had faced legal action from a company after an intervention (S1). 'They threw, I think, about thirty-five million rand of legal fees at that', recalled another who was involved in the process (S2). Reference has already been made above to Sasol's and Tencor's refusals to allow shareholder-proposed resolutions at their 2018 AGMs. When questioned on governance issues at one particularly testy AGM, the chairman 'told us to get knotted', threatened to resign (which resulted in other shareholders offering him immediate support), and allegedly used the press to publicly attack the asset manager accosting him (S9).

The last course of action that a board may follow is one of pre-emption, a tactic that Yang, Uysal and Taylor (2018) suggest may well be effective. In the discussion thus far, I have described board behaviours as reactions to the interventions of non-financial shareholder activists. Boards may, however, act proactively to 'head off' issues, and there are indications that such an approach is becoming increasingly prevalent (S11). A board may also see shareholders targeting a peer company, and may then act to avoid its own shareholders following a similar course. 'We're going to war with you!' warned the executive chairman of Grand Parade Investments before a general meeting of shareholders (Crotty, 2018j). Such overt and belligerent action by boards is unusual, but there is certainly evidence that boards may act to avoid shareholder action if they think it will be effective (S9).

Such pre-emptive action often takes the form of a signalling process. At the 2017 Naspers AGM the chairman, Koos Bekker, attempted to denigrate the whole idea of corporate governance by describing it as a ‘hygiene factor’ that would ‘very seldom’ lead to company failure. He observed that the football team Real Madrid doesn’t win football matches because team members wash their hands after going to the toilet (Elster and Fraser, 2017). Adopting such a negative approach carries risks, however, and Bekker’s widely-reported views were made to look ridiculous just months later when Steinhoff collapsed as a result of corporate governance lapses – by far South Africa’s largest ever corporate failure (Satchwell and Elster, 2018).

It is much more common for boards to take a positive approach to pre-emption. Such actions might include the publication of sustainability reports, the contents of which are viewed with a degree of cynicism by some informed investors (S3). An ESG analyst observed that the CEO of a large mining group had ‘embraced’ the idea of ESG, leading a panel discussion on ESG issues at an influential mining conference to ‘show the market that I’m very serious about this’. ‘It’s all this politics of course and optics and he knows it and he just basically has learnt a few key buzzwords that look impressive to everyone in the room’ was the analyst’s perhaps unkind assessment of the CEO’s actions (S9). Pre-emptive tactics may also involve substantial disclosures, however, such as when Truworths suddenly published details of its remuneration practices a week before its AGM to avoid threatened shareholder action (Crotty, 2018i).

A notable and perhaps surprising example of pre-emption involves the JSE’s SRI. Unlike what has happened subsequently in other jurisdictions, the development and adoption of this index appears to have been driven largely by companies wishing to display their virtue, rather than institutional investors wishing companies to become more responsible (E4). Managers in certain larger companies were looking for a tool to use as they sought to manage relations with their investors, and wished to find a way of obtaining recognition for their ESG performance. Once the index was in place other companies took the view that merely being listed as a constituent of the index would enhance their reputation for ESG

performance (M5). Being viewed as responsible, and ‘trying to do the right thing’ has been seen as a useful shield against non-financial shareholder activism (M1).

3.4.2.4 Feedback loops

I have considered above the interventions available to non-financial shareholder activists, and have discussed those factors that moderate these interventions. I have analysed the actions that company boards take as a result of these interventions, and the outcomes that arise as a consequence of these actions. I now move on to the last aspect of the conceptual model that I have developed in the course of pursuing this empirical phase of my research, the presence of a feedback loop that impacts upon the moderating process.

The academic literature has typically portrayed non-financial shareholder activism as an essentially linear process, moving from antecedents to outcomes via shareholder and managerial actions (e.g. Goranova and Ryan, 2014). I found, however, that at least some of the boards’ actions result in a feedback loop that runs back to the moderating factors described earlier. There are two cases when this is obvious: first, when boards choose the path of resistance. For this choice to have its desired effect, it must of course have an impact upon the shareholder intervention process. The second case is that of pre-emption, described immediately above, that likewise would have no purpose if it wasn’t aimed at reducing the likelihood and the impact of shareholders intervening. Examples of both of these cases appear in the discussion above.

Yet the data show other examples of feedback loops that are not so obvious, and may in some cases be counter-intuitive. The decision to ignore a shareholder seems on the face of it to be a null result: the shareholder has attempted to influence the company’s ESG performance, but has failed to do so, and so things are back to where they started. This is not necessarily the case, however, since if other boards have witnessed the failed attempt they may be emboldened to follow the same approach. In this way norms of behaviour – in this case a behaviour of resistance to shareholder demands – are developed and reinforced. This may have been the situation when Tencor refused to allow Logan and others to table resolutions at its 2018 board meeting. As explained above in

section 3.4.2.1, earlier in the year Sasol had prevented shareholders from tabling climate change-related proposals at its AGM on the basis that it did not believe that shareholders were entitled to do so. Trencor used the identical argument just months later, albeit supplementing this with additional reasons (Crotty, 2018f).

The matter of disclosure is more nuanced. A board that chooses to increase disclosure of the company's performance may strengthen activists' hands by reducing the information asymmetry between itself and them. Shareholders may then be able to target their efforts more accurately and to greater effect. The spin doctor's strategy, by way of contrast, may make a shareholder activist's life more difficult. The company may be able to enhance its reputation in the eyes of other stakeholders, whether these be regulators, civil society or the public, simultaneously reducing the legitimacy of the shareholder's demands.

Paradoxically, an improvement in company non-financial performance may reduce the salience of shareholder interventions in the eyes of the board. If the company can point to a track record of improving performance, it may be able to portray the attempted interventions by shareholders as unrealistic and therefore illegitimate, or at the least reduce their perceived urgency.

3.5 Conclusion

This empirical work contributes in several ways to the body of academic knowledge about non-financial shareholder activism, responding to the research agenda that was described in the background section 3.2 above. First, the study was carried out in the under-researched context of an emerging market. Second, it provides a typology of ESG issues currently of interest to shareholders in this market. Third, it offers a new process model of non-financial shareholder activism that details a broad range of shareholder interventions, and shows how these are affected by a range of specified moderators. Fourth, a typology of board actions and the resultant outcomes of non-financial shareholder activism is detailed. Fifth, the presence of a feedback loop, including both pre-emptive and reactive actions, that affects the moderating factors is explained.

CHAPTER 3: EMPIRICAL INVESTIGATION

In Chapter 5 I will bring together these empirical contributions with the conceptual and theoretical contributions made by Chapter 2's systematic literature review, providing a synthesis of this thesis's overall contribution to knowledge. What now follows is a discussion of the sometimes problematic concept of ESG. It is a development of a poster presentation that was displayed at the 2018 British Academy of Management Doctoral Symposium, a copy of which may be found in Appendix D.

4 DO E&S REALLY GO WITH G?

4.1 Summary

ESG is an acronym used frequently by practitioners and academics when speaking of those forms of investment and activism not focused primarily on the financial bottom line. I will argue in this chapter that ESG is a problematic term, conflating as it does aspects of performance and process. I will explain why it is helpful to replace it with the constructs of company non-financial performance and company governance, warranting my arguments from my empirical data. Similarities and differences between shareholder activism aimed at influencing non-financial performance and governance processes are discussed, and theoretical explanations are offered. The implications of my arguments are then offered, including an apparently needed reminder that governance impacts *all* forms of company performance, and not merely environmental and social performance.

4.2 Unhappy bedfellows?

‘What does ESG stand for?’ (The Economist, 2018c; cf. Galbreath, 2013). What indeed? The acronym is applied widely, and practitioners speak sometimes glibly about ESG issues (National Business Initiative, 2009), ESG considerations (S11), ESG risks (National Business Initiative, 2009), ESG factors (National Business Initiative, 2012), and ESG metrics (S5). The ‘ESG landscape’ (E8) includes ESG policies (S15), ESG ratings (MSCI ESG Research, 2018), ESG engagements (S11), ESG signals (Old Mutual Investment Group, 2016) and even ESG personnel (M2). Yet despite the term’s ubiquity, during the empirical phase of this research practitioners seemed a little uncomfortable when asked why company governance was being lumped together with environmental and social issues and, when pushed, seemed to lean towards the view that the ‘G’ was indeed different in nature to ‘E’ and ‘S’ (S12, S15).

A representative practitioner attempt to answer the question posed by *The Economist* may be found in the ‘Code for Responsible Investing in South Africa’ (CRISA) (Institute of Directors in Southern Africa, 2011). Here, ‘ESG means

environmental, social and governance’ (p. 9). Quite, but these three terms aren’t even the same parts of speech, the first two being adjectives and the third a noun (Merriam-Webster, 2018). Perhaps unsurprisingly the acronym is most commonly used adjectivally as evidenced above, but it is also sometimes deployed as a noun; for example, ‘I find with ESG there’s [sic] so many inconsistencies’ (S5).

CRISA does expand its definitions further, stating that ‘Sustainability includes economic and ESG considerations’ (p. 9). This apparent separation of financial issues from ESG issues provides some support for my decision to view ESG issues as being closely linked but not synonymous with non-financial performance for the purposes of my empirical research. However, the Code also confusingly states that ‘In order to avoid any misunderstanding in CRISA the terminology “sustainability” and “ESG” are [sic] used in order to indicate an understanding of governance in its wider sense, encompassing behaviour that supports sustainable development (p 7). This seems to imply that ESG is a sub-set of governance, rather than governance being a sub-set of ESG.

The academy itself has not always been a model of clarity when using this acronym. Limkriangkrai, Koh and Durand (2017) commenced their article by stating that they would be analysing ESG *activities*. After explaining what environmental and social activities they were referring to they went on to state that governance ‘incorporates firm ethics and integrity, including principles such as . . .’ (p. 461). Neither ethics, nor integrity, nor principles would normally be regarded as activities *per se*. Van Duuren, Plantinga and Scholtens (2016) described ESG factors as non-financial dimensions of a company’s performance, with environmental relating largely to company impact, social being a combination of impact and interventions, and governance seemingly a blend of structures and policies. Verheyden, Eccles and Feiner (2016) saw ESG as a matter of performance, synonymous with non-financial performance. By way of contrast, Galbreath (2013) described non-financial performance as just one component of ESG, which in his view also incorporated additional components related to risk management and managerial competence. Taking a different tack,

Vasudeva, Nachum and Say (2018) described all three aspects of ESG as referring to practices rather than performance.

The paragraph above barely scratches the surface of the academy's use of the acronym ESG, but I am not attempting to provide a comprehensive survey of the topic. What I believe I have done, however, is to reverse the point of view that Eccles and Viviers (2011) took when they stated that 'the academic literature has referred to the broad genre of investment practice that integrates a consideration of "environmental, social and governance" (ESG) elements by a bewildering array of names' (p. 389). Here we have a single acronym that appears to be used by practitioners and academics alike to refer to a surprisingly diverse range of concepts.

I am mindful of an interviewee's comment that attempting to come up with a new acronym to replace ESG would be a 'waste of time' (although he immediately mused that he was rather attached to the term 'stewardship') (S5). Instead, what I will attempt to do in this brief discussion is to show that the first two letters of the acronym are most usefully applied to company *performance* and the third to company *processes*. I will relate this view to non-financial shareholder activism by discussing whether there are any substantive differences in the interventions available to shareholders who have differing interests in the ESG arena, and whether the operation of the moderating factors already detailed in section 3.4.2.2 is affected by these differing interests. I will then offer some thoughts on likely theoretical explanations for my findings, and conclude with the implications of my argument.

4.3 Performance vs. processes

Sections 1.2.3 and 1.2.4 of this thesis are foundational to my argument that ESG brings together company performance and company processes. In the first of these sections I explained how company non-financial performance can be described as comprising both environmental and social components. In the second I moved from the basic definition of company governance by Tihanyi, Graffin and George (2014), provided in the Key Terms above, to differentiate the

processes involved based on whether internal or external bodies were the primary actors.

The governance process, therefore, may be described by means of the model depicted in Figure 7. Actors both inside and outside the company provide inputs to the systems that govern the company. Thus governed, the company delivers a certain performance which has financial, environmental and social components. Therefore, governance processes are distinct from company performance, and are an antecedent of company performance, whether this be financial or non-financial in nature (Oh, Chang and Kim, 2018).

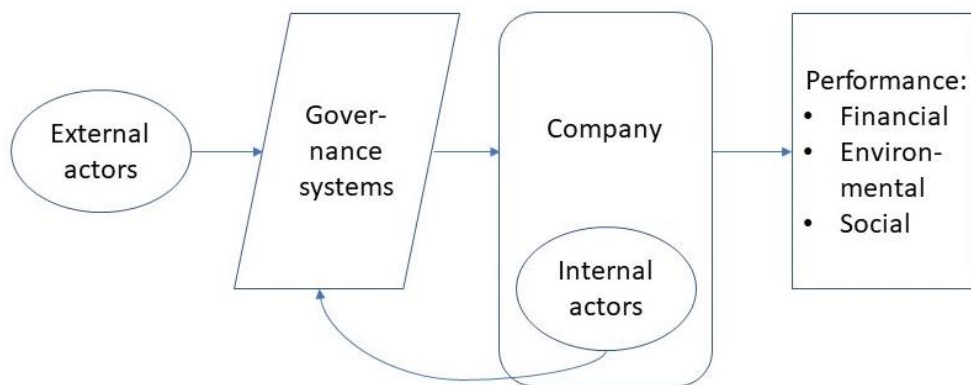


Figure 8: Company governance process

A consideration of the actions of shareholder activists provides support for this simple model. In some cases shareholders target company performance directly. A resource-based company was challenged at its AGM by one activist, asking why it did not pay compensation to the families of employees who had been killed while working at its facilities (S4). In another case, large shareholders refused to vote for a Broad-based Black Economic Empowerment transaction, resulting in the development by company managers of a revised scheme that offered fewer benefits to society at large (M2).

In other cases, activists take aim at the company's governance processes. Just Share, a non-profit shareholder activism and responsible investment organisation, views climate change as 'possibly the greatest challenge of our

time' (Just Share, 2018a). Consequently, it has commenced a shareholder activism process against Sasol, a company whose emissions exceed those of the whole of Portugal (Just Share, 2018b). Its desired outcome is a change in Sasol's environmental *performance* (i.e. a reduction in greenhouse gas emissions), and to this end Just Share submitted a resolution aimed at changing the company's *governance* of environmental issues (Davies, 2018). Prominent shareholder activist Chris Logan was unhappy with the financial *performance* of Textainer and therefore attempted to make changes to its *governance* by submitting a resolution to its majority shareholder Tencor (Logan, 2018). Logan's actions would be seen by some as falling into ESG activism, but it could equally be argued that he was in fact engaging in financial shareholder activism, as his attack on the company's governance was merely a means to the end of improved financial performance.

This model also shows the peril to investors who lump governance together with environmental and social performance. Shareholders who have concerns around governance may be heartened by remarks such as 'it's funny how this ESG thing is becoming part of the whole investment decision process now' (S5). Asset managers who do pay attention to the 'ESG thing', however, frequently consign analysis of the quality of company governance to an 'ESG specialist' (S15). If this specialist is unable to exercise a material influence on the asset manager's investment process, investee company governance processes may remain 'something that you looked at but not necessarily something that you take heavily into consideration' (S13). Governance processes, which have an impact on the financial returns that are the reason for most individual and institutional shareholdings (S15), thus risk being kept on the periphery already occupied by company non-financial performance: 'there's no real box that we tick on that front when we make our [decisions]' (S14).

4.4 Interventions and moderators

With one possible exception, my empirical research has not provided any substantive evidence that the interventions available to shareholders differ depending on whether the shareholders are targeting environmental or social performance, or governance processes. An investor may screen Sasol from its

portfolio or sell its existing shareholding in the company because of the entity's climate change-related environmental performance (S5), and may treat Steinhoff in exactly the same way because of concerns about the company's governance (Sasfin, 2017). Shareholders may engage in dialogue with company boards on social issues (M2) as well as governance (S11). Voting on resolutions may take place whether these resolutions deal with environmental or social matters or have to do with governance. Questions may be asked by shareholders at AGMs on any matter, whether they be environmental, social or governance-related (Section 61(8)(d), South Africa, 2009).

The one possible exception is legal action. With the limited jurisprudence that exists at the time of writing (E5) I cannot state unequivocally that there is no material difference in the legal recourses available to shareholders who wish to intervene with respect to environmental and social issues on the one hand, and governance processes on the other. It is possible that a detailed legal review may show this to be the case, but such an exercise is well beyond the scope of this thesis. Examples of legal action taken by shareholders with respect to governance processes and company social performance matters were provided earlier in sections 3.4.1 and 3.4.2.1. Certainly, there are cases of activists taking legal action against companies (and regulators) because of problematic environmental performance (e.g. *Mining and Environmental Justice Community Network of South Africa and others v Minister of Environmental Affairs and others* [2017]). The cases that I am aware of, however, do not fall neatly into the category of *shareholder* activism.

The effect of several of the moderators does not appear to be dependent on whether the topic of interest to the non-financial shareholder activist is environmental, social or governance-related. A deep equity market tends to facilitate screening and divestment interventions regardless of the particular interests of the shareholder (S16). Similarly, a vibrant media environment can provide a scandalisation effect for a variety of ESG-related matters (S9). Finally, greater shareholder resources, whether these be in terms of time, money,

courage, knowledge or resilience, would generally be useful to activists of whatever shade or stripe (S11).

Shareholder rights may moderate non-financial shareholder activism in slightly different ways depending on whether it is company environmental and social performance that is in view, or governance. An increase in shareholder rights is in fact a change in the governance system (see section 1.2.4) and, therefore, is not so much a moderator as a causative agent in its impact on governance processes. It remains a moderator, however, for shareholder influence over environmental and social performance since, as noted in 4.2 above, activists may attempt to cause changes to company governance in order to, in turn, change company non-financial performance.

The effectiveness of regulators may moderate shareholder influence over all ESG-related aspects of company performance and processes. It is worth noting that for our purposes regulators may be classified as comprising two main groups. The first group includes those who carry responsibilities related to shareholder rights *per se*. An example of such an entity is the JSE, which is tasked *inter alia* with ensuring that listed companies comply with the rules of the stock exchange. This group of regulators may directly support or hinder the efforts of shareholders seeking to influence company governance processes. The second group includes entities responsible for regulating company environmental and social performance, such as the national Department of Environmental Affairs. Such entities may also be considered as being part of the broader governance system, but may act independently of shareholders and company boards in cases of unacceptable non-financial performance. Ineffectiveness on their part may hinder the efforts of environmental and social activists and may even result in activists acting against them as well as the company concerned. The court case cited earlier in this section is an example of this.

A large shareholding will assist any shareholder activist to have its voice heard in the boardroom (S11). It may, however, be particularly useful to those interested in company governance because, as noted in section 3.4.2.1, South African legislation requires a range of governance-related matters to be voted on at

company AGMs. A large shareholding may enable an activist to exert a powerful influence over the board on these governance-related votes, acting either alone or by forming coalitions with like-minded investors (S11).

Company financial performance is a particularly powerful moderator when it comes to governance issues. As described in section 3.4.2.2, the board of a company with strong financial results may feel able to ignore shareholder influencing attempts. Simultaneously, many of its investors may be tempted to turn a blind eye to governance transgressions because the performance itself seems to indicate that all is well (S9). A deterioration in financial performance may, of course, serve as a trigger for disgruntled shareholders to start questioning governance processes more closely, as was the case at Tongaat Hulett (Rose, 2018a).

Company environmental and social performance plays a stronger moderating role when these are the areas of concern to shareholders. As already discussed, Sasol's exceptionally large carbon footprint exposes it to the attention of environmental activists (S6). From the opposite perspective, a company able to demonstrate an improvement in its environmental and social performance may be able to delegitimise those shareholders seeking even more improvements (M2).

Lastly, managerial values appear to serve as a stronger moderator in the environmental and social arena than in governance. Approaches to governance are something about which reasonable people may disagree – for example, the replacement of the original King Code of Corporate Governance that was published in 1994 by revised codes in 2002, 2009 and 2016 does not mean that directors who implemented the original code were irresponsible or ill-intentioned, but merely that better ways of executing the governance process have been developed. Environmental and social issues tend to be much more value-laden. A director who 'wants to be seen as a good, upstanding member in the community . . . [is] not wanting to be seen to be [someone who] is facilitating larceny and environmental destruction and social decay' (S9).

4.5 Theoretical explanations

The brief discussion above shows that there are similarities as well as differences in the shareholder activism process when company environmental or social performance is in view, as opposed to when governance is the focus. These similarities and differences may be explained through the theoretical perspectives introduced in section 1.8 and deployed to formulate the conceptual model that is developed and discussed in Chapter 2.

Hirschman's theory of exit and voice (Hirschman, 1970) is again the starting point and may be applied to all ESG-related shareholder activism. A shareholder must first decide whether it wishes to retain its shareholding or, taking a step back, take up a shareholding in a company, an antecedent action described in section 2.4.2.1 as 'entrance'. Hirschman's construct of loyalty (Flew, 2009) determines whether the shareholder follows the route of exit, or chooses to exercise its voice through dialogue, submitting and/or voting on resolutions, asking questions at AGMs, or instituting legal action.

Further similarities may be explained by the theories of signalling, symbolic management and stakeholder salience. To be effective in their activism efforts, shareholders need to signal to directors what outcomes they seek (Spence, 1974), whether this be a change in the company's environmental or social performance or a change in the way that the company is being governed. Company boards, in turn, send signals back to activist shareholders (Goranova et al., 2007), whether the signal be a rejection of the shareholder's influencing attempt (S9) or a positive response showing that the board accepts the shareholder's views by encouraging an out-of-favour chief executive to retire earlier than planned (S2). These board responses may be substantive, such as acquiescing to the request for an independent investigation into governance failures (Anderson, 2018), or symbolic, by publishing carbon footprint performance data while doing nothing to reduce greenhouse gas emissions (E2).

In all these cases, the influence that shareholders are able to exert over company boards may be explained in terms of stakeholder salience theory's three constructs of power, legitimacy and urgency (Mitchell, Agle and Wood, 1997).

While it is likely that a large institutional shareholder seeking to bring company governance processes into line with acknowledged codes may enjoy more legitimacy in the eyes of a board than a fringe environmental organisation demanding that a coal company cease operations, the same theory can explain how the board views both of them.

There is an important difference, however, between shareholders who aim to exert influence over governance processes and those who wish to alter company environmental and social performance. This difference centres on the relationship between the shareholder and the company, as set out in section 2.3.1. Corporate governance is commonly explained in terms of agency theory (cf. Jensen and Meckling, 1976; Fama and Jensen, 1983). A shareholder focused on governance processes would typically be seeking to address the agency problem, attempting to ensure that managers act in the best interests of shareholders rather than succumbing to the temptations of personal enrichment to the detriment of those shareholders.

The situation is usually different when it comes to shareholders seeking to influence company environmental and social performance. Risking a sweeping generalisation, the majority of shareholders in companies listed on the JSE are interested primarily in financial returns (S15). Credence may be lent to this view by the failure of Nedbank's BGreen exchange traded fund to gain traction (du Preez, 2018). This means that environmental and social shareholder activists will usually constitute a comparatively small proportion of a company's shareholder base (Logsdon and van Buren, 2009). As a consequence, agency theory is not a particularly helpful explanatory framework, as it is not primarily an agency problem that the environmental or social shareholder activist is attempting to solve.

When the shareholders of a company are not a relatively homogeneous body, it is no longer clear exactly who the principal is on whose behalf the agent (management) is working. Such a heterogeneous situation then calls for the deployment of stakeholder theory, discussed in section 2.3.1. This theory's ability to explain how company boards may take into account the differing and

sometimes contradictory claims the company's various stakeholders may make upon it (Parmar et al., 2010) makes it suitable for describing the subset of these claims made by a heterogeneous shareholder base.

Stakeholder theory may not, however, offer a convincing explanation of the phenomenon of environmental and social shareholder activism when it is, say, a single shareholder, holding a single share, who is seeking to influence a company board. On the face of it, a board would appear well within its rights to ignore such a shareholder and to focus on the desires of the overwhelming majority not making any such demands. Yet in the South African context Theo Botha, a single shareholder often holding only a single share, has been successful in exerting influence over company boards (Viviers, 2016). In this situation social movement theory may serve as a useful adjunct to stakeholder theory.

The lone shareholder's interests may well be shared by other societal actors (Tilly, 1978), such as communities adversely affected by the company's operations. If the shareholder avoids developing an extensive shopping list of demands and instead narrows the area of interest to a focal point, there will be a greater chance of broader societal mobilisation in its support. Social movement theory holds that the recognisability of the issue is also a crucial matter (Tilly, 1978). A child sickened because of water poisoned by industrial effluents is more readily identifiable than the effects of anthropogenic greenhouse gas emissions, until perhaps recently.

A little more tentatively, social movement theory may also provide an explanation for an aspect of the non-financial shareholder activism phenomenon that surprised me during the course of the empirical phase of this research. In October 2017 I was reaching the end of an interview with a responsible investment manager when he asked me what I thought the trajectory of environmental and social shareholder activism would be in South Africa in the months and years that lay ahead (S10). My reply was that I expected a decline in activity, at least in the short term. My reasoning was that the country's economic prospects were bleak and, therefore, I expected most shareholders to be increasingly focused on company financial performance. This had been observed at an international level

after the global financial crisis a decade before, a situation that I discussed in the opening paragraphs of the introduction to this thesis (*cf.* Bansal, Jiang and Jung, 2015).

My prediction has been proved wrong and, far from declining, non-financial shareholder activism has become increasingly prevalent in the year that followed that discussion (S1) despite South Africa having fallen into an economic recession in the interim. Social movement theory posits that periods of instability create an environment where mobilisation relating to social issues occurs more easily (McAdam, 1982). This may well explain the continuing rise of non-financial shareholder activism in South Africa – a country where instances of social and political unrest are regular occurrences.

4.6 Implications

I noted in the introduction to this chapter that at least one interviewee was less than convinced that discriminatory work on the acronym ESG was worthwhile. I am also deeply cognisant that the acronym enjoys very widespread acceptance in the investment and corporate environments. Suggesting, as I am, that it is a flawed and potentially misleading concept is therefore risky, particularly inasmuch as the acronym is not foundational to my thesis, and hence I am not currently in a position to offer a detailed and rigorous analysis with fully warranted arguments. I have not seen such a detailed and rigorous analysis in the literature, which may mean there are significant contributions yet to be made in this area – remaining well aware, of course, that not all gaps in the literature are interesting and should be explored.

Nonetheless, I believe that this discussion has achieved the following: I have confirmed the widespread usage, both by practitioners and academics, of the term ESG, thereby suggesting that knowing what is meant by the term is likely to matter. I have demonstrated that it is used as a descriptor for a variety of different things, which suggests the potential for miscommunication in the practitioner world and opportunities for more careful thinking about the concept by the academy. I have differentiated between environmental and social performance on the one hand and governance processes on the other, showing that

governance impacts on financial as well as non-financial company performance. I have pointed to similarities as well as apparent differences in the shareholder activism process as it pertains to environmental or social performance and governance processes, and have offered summary theoretical explanations of these findings. Lastly, I believe that this brief exploration of the topic has implications for practitioners, and provides potentially fruitful ideas for a research agenda, both of which I shall offer in the chapter that follows.

5 CONCLUSION

This thesis commenced with an introduction to the phenomenon of non-financial shareholder activism, supported by a detailed discussion of the constructs that I chose to use in this research, and an explanation as to why I have avoided some of the terminology commonly in use in this field. The aims and objectives of the research were outlined, and the research question was stated. I described my ontological and epistemological approach and introduced the research methodology that would be expanded in sections 2.2 and 3.3. Ethical implications of the research were discussed, and relevant theoretical perspectives were summarised, before I recounted how the research has been presented and published thus far.

The published systematic review of the literature (Chapter 2) then identified and discussed what is known about non-financial shareholder activism. Relevant theoretical perspectives were applied to the data to explain the phenomenon, and a new conceptual model of the shareholder influencing process was developed and explained in light of these perspectives. A research agenda was proposed to offer direction for the further development of this field of study.

My qualitative empirical investigation (Chapter 3) took cognisance of this research agenda while remaining focused on developing answers to the overarching research question of how shareholders can influence the non-financial performance of the companies they invest in. With a database developed over several years from interviews, company documents and media reports, an enhanced process model of shareholder influence was generated. This model extended earlier studies of the process to include the intervention of legal action, and detailed the operation of a range of factors that were shown to moderate the influencing process. A typology of board actions and outcomes of non-financial shareholder influence was described, and the presence of a feedback loop moderating the process was identified and explained. A typology of ESG issues of interest to shareholders was also offered.

CHAPTER 5: CONCLUSION

In Chapter 4 I considered what I argue to be a problematic term frequently encountered in this area – ESG. After introducing some ways in which it is used by practitioners and academics I proposed that its components should be differentiated on the basis of whether they refer to performance or to processes. Similarities and differences in shareholder activism targeting these components were examined, and these were explained by employing the theoretical perspectives deployed earlier in this thesis.

This concluding chapter will describe the contributions made by this doctoral research. It will explain the research's limitations, and suggest implications for practitioners. The research agenda of Chapter 2 is substantially expanded by incorporating insights gleaned from the empirical work that I carried out. The thesis is then brought to a close with selected personal reflections on my doctoral journey.

5.1 Contributions – answering the research question

The original, overarching research question was: how can shareholders influence the non-financial performance of the companies they invest in? After a detailed discussion of the constructs I chose to use I answered this question in two ways: first, by synthesising the fragmented body of academic literature that analyses aspects of non-financial shareholder activism; and second, through extending this synthesis by a qualitative analysis of non-financial shareholder activism in the context of companies listed on South Africa's JSE. The systematic literature review of Chapter 2 contains its own unique contributions to knowledge which are summarised in its conclusion, section 2.6.

I will now state the overall contributions made by this thesis through answering the original research question.

Contribution 1: Conceptualising and measuring activism outcomes

Shareholder activism has been described as occurring in two 'streams', one financial, the other social, with 'social' understood as including environmental components (Judge, Gaur and Muller-Kahle, 2010; Goranova and Ryan, 2014). This latter stream is the subject of my research and for which, as I have explained

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in section 1.2.3, I have used the term non-financial shareholder activism. The results of financial shareholder activism are typically reported using such recognised financial performance metrics as size (e.g. company market value and sales), profitability (e.g. return on assets and return on equity) and growth (e.g. sales growth and free cash flow) (Carrothers, 2017). The social stream, by way of contrast, tends to report the outcomes of shareholder activism using the constructs of CSR (Eding and Scholtens, 2017), sustainability (Lafarre and Van der Elst, 2018), or ESG (Aw, LaPerla and Sivin, 2017).

As I explained in the introduction, section 1.2, and Chapter 4, these constructs are problematically complex. They incorporate normative aspects and questions of time horizons, and conflate company performance with company governance processes. I contribute to the study of shareholder activism, and particularly to the underresearched area of the outcomes of such activism (Sjöström, 2008; Viviers and Eccles, 2012), by showing how using the construct of non-financial performance rather than CSR, sustainability or ESG offers advantages to researcher and practitioner alike.

While company environmental and social performance measures are not as well developed as those that measure financial performance (Chatterji and Levine, 2006), the efforts of such NGOs as the Global Reporting Initiative have become increasingly accepted (see section 1.2.3 for other examples). In some jurisdictions, South Africa included, listed companies are encouraged to have their non-financial performance reports independently assured (Institute of Directors of Southern Africa, 2009). This growing pool of data should provide future researchers with a plethora of opportunities to investigate the outcomes of non-financial shareholder activism if they conceptualise this in terms of environmental and social performance. Addressing the current dearth of longitudinal studies of this phenomenon (see Table 3) should also be made easier by this performance data. In addition, differentiating company performance from company processes in this way will facilitate more careful examination of what is happening *inside* those companies subjected to shareholder activism, such activism also forming part of the broader governance processes to which

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companies are subject (section 1.2.4). The benefits to practitioners of conceptualising outcomes in this way are detailed in section 5.3.

I do of course remain cognisant that there may be good reasons to consider the outcomes of such shareholder activism in terms that encompass contexts broader than the company itself. One such case is when the desired outcome is not so much a change in the way that the *company* is managed but a change in the way that a *country* is managed – for example, when the activist's intention is to effect changes in country climate change policy (Richardson, 2018). Albeit related, this is a different phenomenon from that researched in this thesis, which has defined shareholder activism as an act of influencing the *company*, rather than broader society (see Key Terms above, adapting Sjöström, 2008). This is not to say that company non-financial performance does not create social value (Brest, Gilson and Wolfson, 2018), but to insist that the impact of the company on society is an additional process (Wood, 1991), of which non-financial shareholder activism may serve as an antecedent.

Contribution 2: Aspects of company non-financial performance

This thesis's second overall contribution has to do with the issues of interest to non-financial shareholder activists; in other words, what constitutes the company non-financial performance that these shareholders may wish to influence? The database established while carrying out the empirical work has enabled the development of a typology of ESG issues (Tables 7, 8 and 9). This typology, while interesting as a whole in that it displays the breadth of the range of issues on which company boards may face shareholder activism, provides two notable insights that contribute to our understanding of this phenomenon.

The first relates to the inclusion of governance issues in this typology (Table 9), which on the face of it appears to contradict my argument in section 1.2.4 and Chapter 4 that governance is different in kind to 'environmental and social'. Yet my inclusion of governance in reporting on the empirical work is in fact foundational to my argument. As I noted in the methodological section 3.3, when carrying out the systematic literature review it was comparatively easy to focus on environmental and social performance through a careful selection of search

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strings (Appendix A). This allowed me to home in on a range of carefully written articles such as that by Van Cranenburgh, Liket and Roome (2013) who had not included governance with the company performance mix. But as I observed in section 3.3, the messier world of reality did not allow me to maintain this neat distinction when I began collecting data in the field. I would be misrepresenting what I found were I not to display how governance features in the thinking of participants in the non-financial shareholder activism process in South Africa.

By doing so I have been able to display the external governance role (Strine, 2017) that such activism plays in exerting influence over company performance, and differentiate activism that is aimed directly at company performance from those efforts that seek to change company governance processes (Marquardt and Wiedman, 2016) with the expectation that this will in turn result in a change in company performance. By taking this approach I provide an alternative perspective to the work of Goranova et al. (2017) whose analysis of shareholder activism was based on corporate governance processes being an *antecedent* to shareholder activism.

Secondly, it is evident from the analysis in section 3.4.1 that social issues in South Africa carry significantly more weight with investors than do environmental issues. Interestingly, investors may seek to influence company boards to *reduce* the social performance of a company in a bid to mitigate the potentially adverse financial implications of such performance improvements. The case of private dialogue ahead of an AGM that was described in section 3.4.1 is one such example. In contrast, academic examination of this form of shareholder activism has been overwhelmingly focused on *improvements* in environmental and social performance (so Dimson, Karakas and Li, 2015; Perrault and Clark, 2016; Ivanova, 2017).

This finding offers new ways of conceptualising the motivation of some shareholders, who may seek to protect their financial interests by engaging in such non-financial activism. The idea of achieving higher financial returns by investing in ‘vice’ stocks is well known (Ahrens, 2004); perhaps these actions could be viewed as shareholders encouraging a little vice in companies whose

boards they see as too virtuous? In any event, this provides a different perspective on the established phenomenon of shareholder heterogeneity and the potential usefulness of stakeholder theory to explain it (Donaldson and Preston, 1995; Parmar et al., 2010).

Contribution 3: Neglected interventions

A third contribution I make to understanding shareholder influence is a consequence of the way that I have defined shareholder activism. In section 1.2.4 I explained how academic treatments of this topic generally exclude the screening and divestment interventions (*cf.* Sjöström, 2008; Goranova and Ryan, 2014), and went on to discuss how this narrowness of definition divorces the bulk of the shareholder activism literature from the large body of work on responsible investment (Viviers and Eccles, 2012). I do not wish to downplay the fact that much of this second body of work does not focus on shareholder influence over companies, but is devoted to a very different issue: the nature of the relationship between company non-financial performance and company financial performance, a topic masterfully surveyed more than 30 years ago in Ullman's aptly named article 'Data in search of a theory' (1985; *cf.* Orlitzky, Schmidt and Rynes, 2003). To put it another way, can an investor make more money, or at least not sacrifice financial returns, by investing in companies with exemplary environmental and social performance (Statman and Glushkov, 2009)?

This is largely just a change in the unit of analysis from a company to an investment portfolio of the closely related and also much investigated question: can managers increase a company's financial performance by paying attention to environmental and social issues (e.g. Russo and Fouts, 1997)? This was not the question I was interested in exploring in this tranche of research, as I showed when discussing the concept of the business case for CSR and sustainability in section 1.2.2. It was therefore in part to pre-empt the need to sift through unrelated research results that led to my decision not to include responsible investment terminology in the search strings for the systematic literature review reported in Chapter 2 (see Appendix A).

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Notably, however, my literature and empirical work have together shown how much is lost by excluding the interventions of screening and divestment from the non-financial shareholder activist's toolbox. I have demonstrated in sections 2.3.2 and 2.4.2.1 that exit, with its antecedent partner of entrance, are real options available to activists when loyalty fails to hold sway (Hirschman, 1970; Hirschman, 1980). I have described how the media and codes and indices serve as enablers of these neglected interventions (sections 2.4.3.3, 2.4.4.4 and 3.4.2.2). In the South African context large-scale divestment campaigns such as the fossil-free movement (Flood, 2015) have yet to gain traction, perhaps a little ironically given that South African business was itself the subject of one of the earliest such campaigns in the 1980s (Beaty and Harari, 1987). My empirical work, however, has demonstrated how these two interventions interact with other shareholder activism interventions; an asset manager's insistence on dialogue prior to taking any divestment decision being one such example (section 3.4.2.1), and another the pre-emptive discussions reported between Naspers' management and MSCI in an ultimately successful bid to stop the latter from excluding the company from one of its indices (Hedley, 2018d), an action that would have resulted in many investors screening it from their holdings (section 3.4.2).

My empirical research also extends the intervention suite enjoying attention from academics by including two more elements of non-financial shareholder activism. While the practice of shareholders asking questions at AGMs is occasionally referred to in passing by researchers (e.g. Sjöström, 2008), with the exception of Viviers (2016) (and notably her work is on a South African activist), its use and effect have been largely ignored by the academy. I have detailed how the South African regulatory framework enables questions at AGMs, how a vibrant and expert media can strengthen the practice, and how shareholders may increase their salience in the eyes of the board both by being well informed and prepared, and by giving praise where it is due (section 3.4.2.1).

Another intervention I analyse that has been largely ignored in management research, and hence is absent from my review of the academic literature (Chapter

2), is that of shareholders taking legal action to achieve their ends. As I stated in section 3.4.2.1 it is quite possible that this topic is well represented in the legal literature – see the dissertation by Pike (2013) and the thesis by Yeats (2015), both based in South Africa – and is regarded as out of scope by management researchers. Yet in a similar way to the cases of screening and divestment described above, the neglect of this intervention by management scholars results in a failure to comprehend how multifaceted the activism process can be. This of course has direct reference to the overall research question: how can shareholders exert influence?

My empirical research has shown that this intervention's coercive nature can be a particularly powerful way for shareholders to increase their salience and exert influence over a company board (sections 3.4.1, 3.4.2.1, 3.4.2.2 and 3.4.2.3). Yet at the same time legal action is not a process that is commenced without other activism interventions such as dialogue and asking questions and voting at AGMs having already taken place (section 3.4.2.1). I also show a further integration of legal action in the activism process in that when it is used to exercise appraisal rights, it forms a precursor to the divestment action, limiting the shareholder's costs in the process (Pike, 2013). The conceptual models of Figures 5 and 6 that were developed in the course of pursuing this research thus contribute to knowledge by demonstrating that the variety and interplay of interventions available to non-financial shareholder activists is broader than most current research would lead an academic or practitioner to believe.

Contribution 4: Enabling and disabling the influencing process

Shareholder activism does not take place in a vacuum but is affected by contextual factors (Judge, Gaur and Muller-Kahle, 2007; Rehbein, Waddock and Graves, 2004) and by entities other than shareholders and company directors. My research contributes to understanding how these moderate the activism process. In the systematic literature review of Chapter 2 I described these entities as enabling actors and tools, terminology similar to that used by Gond and Piani (2013; 2014) in their analyses of the role played by the PRI in enhancing the perceived salience of shareholder activists. That review contributed to knowledge

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by explaining these effects on the process by analysing not just the impact of context but by bringing together a suite of enabling actors and tools usually researched individually: coalitions (Dion, 2009), NGOs (Guay, Doh and Sinclair, 2004), indices and codes (Collison et al., 2009), the media (Flew, 2009), and regulators (Kolk and Levy, 2001) – and explaining their combined effect in light of the theoretical perspectives developed in section 2.3.

The empirical work of Chapter 3 takes this analysis further through showing how entities other than shareholders and company directors may have a *disabling* effect and not just an enabling one. This is displayed in the enhanced process model of Figure 7, where I describe these effects through the action of factors that I found to moderate the non-financial shareholder activism process in South Africa. Table 11 shows how these may be categorised as contextual in nature, or as characteristics of the respective shareholder or investee company.

Several features of this table are notable. There are of course strong similarities between it and the set of enabling actors and tools of section 2.4.3.1. The impact of the media is one such example (Gifford, 2010), although I have added nuance by showing how it may be co-opted by company actors to weaken a shareholder activist's position (section 3.4.2.3). Likewise the importance to non-financial shareholder activism of the regulatory context is well established (Rutterford, 2012; Kock and Min, 2016), but my research introduces a greater level of granularity by showing how the enabling impact of strengthened shareholder rights may be countered by the disabling effect of ineffective regulators (section 3.4.2.2).

Judge, Gaur and Muller-Kahle (2010) investigated antecedents of shareholder activism and found that company profitability was positively related to social shareholder activism. My analysis of cases of activism aimed at changing company governance processes found the opposite situation, where a deterioration in financial performance rendered companies more vulnerable to attack (section 3.4.2.2). This finding does not contradict Judge, Gaur and Muller-Kahle's (2010) work, but rather bolsters my argument (Chapter 4) that in the

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context of activism governance is indeed different in kind to ‘environmental and social’, again showing weaknesses inherent to ESG terminology.

Contribution 5: Outcomes of activism

The fifth overall contribution concerns the outcomes of shareholder influencing attempts, a seemingly important area of research (for why else would shareholders attempt to exert influence other than for an outcome?) that thus far contains only ‘fragments of insight’, in the recent words of McNulty and Nordberg (2015, p. 4). Leaving aside for our purposes effects on broader society and shareholders themselves, their proposed model of active ownership views outcomes as changes in firm policy and firm performance. There are similarities here to the shareholder activism model of Goranova and Ryan (2014) on which they drew, the outcomes of which are given as firm performance, practices, governance and reputation (p. 1232). My analysis of activism outcomes differs from theirs in several important ways.

By choosing to work with the construct of non-financial performance I have been able to differentiate performance outcomes from changes to company processes – practices and governance in Goranova and Ryan’s (2014) terminology – which as noted in section 3.4.2.3 may be argued to be primarily under the control of the board and not shareholders (South Africa, 2009). Admittedly such a differentiation could have seen me exclude policies from non-financial performance, since such documents would normally form part of a company’s internal governance system (Tihanyi, Graffin and George, 2014). I have, however, not done so, because I have shown in section 3.4.1 that the writing of a policy may be exactly the outcome that an activist is looking for (*cf.* Lewis and Mackenzie, 2000). This interest in policies may be in part a consequence of the box ticking approach taken by, *inter alia*, certain responsible investment indices (Cho et al., 2012), but to assert this would be going beyond the data currently at my disposal.

Further, changes in company (or directors’) reputations may indeed be a consequence of shareholder activism (*cf.* Crotty, 2017b), but I would argue that

this is not a direct outcome but a subsequent or second-level result (see the differentiation between ‘issue’ and ‘impact’ in Table 7). Instead, the model of Figure 7 supplemented by Table 12 provides a parsimonious interpretation of the empirical data by drawing a straight line between the actions of boards and the results of these actions. Such an approach to representing the data has several advantages: it makes clear to researchers as well as company directors and their advisers the basic choices available to company boards in the face of non-financial shareholder activism; it likewise clarifies to activists and researchers the basic set of company responses that may ensue as a result of their efforts; and it differentiates between disclosure and performance. This last is particularly important, given that these are far from being two sides of the same coin (Dhir, 2012; Tang and Demeritt, 2018). As was the case with company policies, disclosure may indeed be the outcome an activist is looking for (Marshall, Brown and Plumlee, 2007), but such disclosure does not necessarily constitute a change in the performance that is being disclosed (section 3.4.2.3).

Strengthening this contribution is another ‘fragment of insight’ provided by the theoretical analysis of section 2.3.3 that is discussed in section 2.4.5, and in which I differentiated between substantive and symbolic outcomes. Westphal and Zajac’s important work on symbolic management focused on incentive plans for CEOs (Westphal and Zajac, 1994; Zajac and Westphal, 1995), and provided evidence that policy changes were an example of such symbolic action (Westphal and Zajac, 1998). By extending their ideas on governance to environmental and social performance I provide a way of classifying activism outcomes as either substantive changes to company non-financial performance, or symbolic actions taken by boards in order to deflect, even if temporarily, the attentions of apparently unruly shareholders (section 3.4.2.3).

Contribution 6: Boards impacting activists

Closely linked to this is a sixth contribution: the detection in my empirical study of a feedback loop from board actions and concomitant outcomes that affects non-financial shareholder activism by impacting upon the factors that moderate the process. As I explained in section 2.3.4, shareholders may seek to increase

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managerial perceptions of their salience by acting to increase their legitimacy and power and the urgency of their demands (Mitchell, Agle and Wood, 1997). This feedback loop shows the countervailing process of boards acting to reduce shareholder salience in order to mitigate pressure on the company. It is true that at times such action could be construed as accommodating, potentially allowing such companies to be classified as 'stakeholder firms', a term used recently by Ali (2017). More commonly, however, such action takes the form of resistance, and is aimed at reducing shareholder salience, whether absolutely or by altering salience asymmetries with other stakeholders more supportive of the board (Conaty and Robbins, in press).

Contribution 7: Results situated in theory

My findings are supported and explained by relevant theory. I have shown in section 2.3.1 that, unlike in the case of much financial shareholder activism (Davis and Thomson, 1994), agency theory is of limited value in explaining this phenomenon as heterogeneous shareholder bases make it difficult to define unambiguously who the principal is on whose behalf managers should be acting (Jensen and Meckling, 1976). Stakeholder theory was shown to be helpful in identifying and distinguishing the various claims made upon managers' attention and time (Henisz, Dorobantu and Nartey, 2014). Mitchell, Agle and Wood's (1997) important development of this into stakeholder salience theory was used in section 2.3.4 and elsewhere to explain how shareholder activists can increase the likelihood of managers' paying attention to them. The insights of institutional theory were deployed to explain how institutional conditions external to the company, whether normative or coercive, impact upon managerial decision-making processes (Campbell, 2007). Social movement theory proved useful in showing how social infrastructure, of which the ICCR is an example, facilitates the actions of non-financial shareholder activists (Thompson and Davis, 1997). Hirschman's concepts of exit, voice and loyalty (1970), extended to include 'entrance' (cf. Glac, 2014), supported a broader conception of interventions available to activists than has previously been the case (sections 2.3.2, 2.4.2. and 3.4.2.1). The concept of signalling helped to show how shareholders can

alert companies to their intentions (Connelly et al., 2010), and explains managerial communications in turn (Miller and Triana, 2009). Last, as already detailed above, outcomes of the shareholder activism process were distinguished based on their symbolic or substantive nature (Rodrigue, Magnan and Cho, 2013).

5.2 Limitations

Before considering the implications of my research for practitioners and the potential it offers academics, it is worth stating several limitations to which it is subject. One set of these pertains to the literature review that appears in Chapter 2, which was by design primarily a review of the *academic* literature. While a small selection of practitioner literature was also discussed, it is quite possible that important insights into the activism process have become apparent to practitioners but have yet to enjoy the attention of academics. In addition, as the methodology described in Appendix A makes clear, the systematic approach deployed to assemble the primary body of literature necessarily resulted in the exclusion of a significant body of other academic work. An important example of this is that most of Viviers' research was not included because it was not published in internationally accredited journals. Some of her writing did indeed prove useful during the later empirical work, particularly because of its South African focus (Viviers and Eccles, 2012; Viviers, 2015; Viviers, 2016; Viviers and Theron, under review). Another consequence of the approach was that articles not published in English were not reviewed. This probably contributed to the acknowledged preponderance of research carried out in US and UK contexts that formed the basis for the review (see section 2.2).

Other limitations pertain to the empirical work that is reported in Chapter 3. Perhaps the most significant of these is the risk of my personal bias adversely affecting the research results. Having worked as a practitioner in the field of company environmental and social performance I have my own strongly held views as to how the world works. I have attempted to mitigate this risk of bias in five ways: by explicitly referencing those occasions when I report on my personal involvement in the activism process (see section 3.3); by choosing interviewees

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unlikely to be influenced by my own views, as described in section 1.7; by including media articles and documentary artefacts in the data, over which my influence extended only to their selection and coding; by subjecting my research to my supervisor's review; and by maintaining a research journal to facilitate reflection throughout the process (*cf.* Easterby-Smith, Thorpe and Jackson, 2012).

My empirical work is also subject to limitations inherent to the qualitative research approach. The methodology that I chose meant that I was not usually observing the non-financial shareholder activism process directly, but that I was investigating it through what participants said about it, and what the media reported about it. This means that the sample of interviewees I chose and the selection process I followed for media articles and company documentation will have had a material impact upon the base data which I then analysed. I have attempted to compensate for any resultant bias by extensive triangulation, comparing the views of interviewees with each other, with documentary artefacts, and with what was reported in the media. At times, as noted in section 3.3, this required repeated interactions with interviewees to clarify or query certain points. The empirical work also carries the limitation that it was conducted in a single country, and only on companies listed on the JSE. This limitation was deliberate, however, and also constitutes one of the research's strengths, addressing as it does the identified need for research such as this in an emerging market (see Table 3). As observed in section 3.3, it is also worth noting that the sophistication of South Africa's financial markets does help to make the research findings more directly applicable to markets in the developed world.

As noted in section 4.5, Chapter 4 is limited by its own brevity and the summary nature of its engagement with the question of the meaning of the acronym ESG. Having made these limitations explicit, however, they in turn provide starting points for supplementary research to engage more deeply with this topic, a topic that I argue has not enjoyed sufficient attention, given the demonstrably prolific use of ESG terminology.

In summary, while the research reported in this thesis is subject to a range of limitations, I contend that the findings are both valid and reliable. Valid, in that I have shown that the qualitative methodology I chose to use is appropriate for obtaining answers to the research question (Kvale, 2007) and that a sufficiently broad data set underlies the analysis (Easterby-Smith, Thorpe and Jackson, 2012). Reliable, in that the research question is clear (section 1.4), my own role has been explicitly described (sections 1.7 and 3.3), constructs have been carefully defined (section 1.2) and there is demonstrable parallelism both in the empirical data set and between the empirical data and that derived from the literature (Miles, Huberman and Saldaña, 2014).

To rephrase this in the terminology preferred by Auerbach and Silverstein (2003), my confidence that my interpretation of the data is justifiable has been strengthened through interactions with practitioners with whom I have discussed my findings, and through interactions with other researchers when presenting my work at the British Academy of Management's Doctoral Symposium (2018) and the Southern Africa Institute for Management Scientists Conference (2018). My belief that my theoretical constructs can be transferred to other contexts is bolstered by the substantial correlation, albeit with notable differences, between the results of the empirical research that I carried out in South Africa and the results of my literature review based largely on US and UK studies.

5.3 Practitioner implications

A process as multifaceted as non-financial shareholder activism involves a wide range of participants in its execution. Such actors range from shareholders and asset managers to NGOs, coalition conveners, regulators and journalists ('enablers', in the terminology of Figure 5), to boards of directors and their advisers. The research detailed in this thesis carries implications for each of these.

Shareholders wishing to exert influence on company non-financial performance naturally wish their efforts to be rewarded with as much success as possible. My research facilitates this by displaying the full palette of interventions available to them (sections 2.4.2 and 3.4.2.1) and alerting non-financial shareholder activists

to the array of moderators that may enhance or detract from the efficacy of their interventions (section 3.4.2.2). This affords them an opportunity to evaluate which companies are most likely to respond to their efforts, as well as to involve other actors who may be able to increase the efficacy of their chosen interventions. Further, by sensitising shareholders to the range of possible outcomes of their activism (sections 2.4.5 and 3.4.2.3), I help them to determine ahead of time how to discern whether companies have in fact met their expectations, or whether the board is attempting to divert their efforts by engaging in symbolic management.

Those enabling actors (section 2.4.3) that contribute to the process of non-financial shareholder activism can also benefit from the results of my research. Activist NGOs may be able to optimise their support for shareholders pursuing similar objectives, helping to form coalitions to enhance their salience in the eyes of company boards. Journalists who increase their knowledge of the activism process will be able to report more accurately on events, as well as understand the role they are playing, whether wittingly or not. Legislators can strengthen the hands of shareholders or of boards by taking into account the impact of shareholder rights on the activism process. Enforcement agencies may reprioritise their efforts through a deeper understanding of the key role they play in regulating activism.

Company boards should of course always be cognisant of the general environment in which the company is operating, but my research shows that they may be caught off guard by the pressures shareholders may bring to bear on the company (e.g. Elster and Fraser, 2017). Knowing the non-financial issues that may be of concern to shareholders (Tables 7–9), the interventions shareholders may deploy (Table 10), and what factors may strengthen or weaken shareholders' hands (Table 11) can reduce the risk of such a situation developing before mitigation measures can be put in place. An understanding of the options available to boards can only enhance directors' ability to decide whether pre-emptive measures may be appropriate, as well as what actions would be most advantageous to the company and its stakeholders if it becomes the object of such activism.

Lastly, practitioners may also benefit from considering the construct of non-financial performance that I have chosen to work with. By framing their demands in terms of company performance, shareholder activists can signal clearly to company boards the outcomes they hope for. This then allows directors who wish to placate these activists the freedom to institute appropriate actions in the company to achieve such outcomes, as internal company processes are their responsibility and not that of shareholders (South Africa, 2009). In addition, a shareholder focusing on company performance will be less easily deflected by a board that responds to an intervention merely by devising policies or indulging in other possibly symbolic actions such as writing explanatory letters to shareholders (e.g. Crotty, 2018d).

5.4 Future research directions

A proposed research agenda for the field of non-financial shareholder activism (Table 3) was developed in the review published in the *International Journal of Management Reviews* (Cundill, Smart and Wilson, 2018a) and that appears as Chapter 2 of this thesis. This brief section is not aimed at supplanting that agenda, a contribution in its own right. What I will now do, however, is point to where the empirical work described in Chapter 3 developed several of the areas suggested by that agenda, and I will supplement that agenda where this empirical work has suggested additional lines of potentially fruitful enquiry that were not obvious in the earlier analysis of the literature.

My empirical work was of course not aimed at the impossibly broad task of addressing the full research agenda described in Table 3. The aim was to answer the research question of section 3.3; i.e. how shareholders can influence the non-financial performance of the companies they invest in. I did, however, situate the empirical work in the context of this research agenda, focusing on selected areas while drawing on insights from earlier work carried out in South Africa (section 3.2). This enabled me to address, at least in part, several of the opportunities identified in the agenda.

My empirical research was carried out in an emerging economy rather than an Anglo-American context, and included the analysis of different types of

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shareholders' sometimes differing choices of interventions. These shareholders' decision-making processes were investigated, and cases of confidential dialogue were uncovered. The enhanced process model that resulted extended the concept of enablers to a group of moderators promoting or hindering the shareholder activism process. Examples of parallel and sequential deployment of interventions were described. Managerial perceptions of shareholder salience were explored, and evidence was found of pre-emptive action being taken by companies. Aspects of company performance that trigger and moderate shareholder influencing attempts were identified and investigated. The question of which outcomes might affect future shareholder interventions was analysed in terms of a feedback loop to the influencing process.

These findings suggest that nine directions stand out as offering the potential to reward more detailed exploration, building further on the research agenda of Table 3.

The first pertains to those factors that moderate the shareholder intervention process; these could be usefully examined in more detail to find out how they differ from the factors that moderate the related phenomenon of financial shareholder activism.

The second is related: an exploration of what insights may be gleaned from an analysis of the differences between the set of enabling actors and tools discerned in the academic literature (section 2.4.3) and the set of moderators identified during the empirical work (section 3.4.2.2).

A third currently unexamined area is that of the largely opaque process of decision-making by directors and other actors in companies that are subject to the attentions of non-financial shareholder activists.

The fourth opportunity would be to explore how boards can respond to shareholder influencing attempts in ways that do not detract from the claims of the company's other stakeholders.

The fifth would be to study the interactions between asset managers and company boards in cases where (as noted in section 3.4.2 in the case of Old

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Mutual Investment Group) different actors in a single asset manager engage with the same company in different ways and with potentially different ends in view.

The sixth research opportunity would involve exploring how shareholder motivations affect the influencing process. The challenges associated with a heterogeneous shareholder base were discussed in section 2.3.1; non-financial shareholder activists' motivations may overlap to a greater or lesser degree with their financially motivated fellow shareholders (S1, S2), but there is limited information on how these motivations affect their activism.

The seventh would be to determine the impact of gatekeeping functions inside companies exposed to non-financial shareholder activism, as noted in section 3.4.2.3.

The eighth would be to research the causes of regulator ineffectiveness, and in particular the extent to which such ineffectiveness is a result of company actions aimed at pre-empting activist efforts, and hence another component of the feedback loop described in section 3.4.2.4.

The ninth area that I suggest would be profitable to examine is whether the divide between environmental and social performance and governance processes is indeed as wide and as clear as I have argued in Chapter 4, and to determine in detail the implications of this divide for activists and managers. To put this another way, are shareholder activists who focus on governance involved in any way in non-financial shareholder activism, when governance processes may be argued to have an impact on all forms of company performance?

This section's proposed research directions, supplementing the detailed agenda provided in Table 3 of Chapter 2, bring to an end the formal report on the research I have carried out towards obtaining the PhD qualification. What now follows is in the spirit of my intention to develop as a reflexive researcher and practitioner (*cf.* Mitev and Venters, 2009).

5.5 A concluding and personal reflection

The outcome of this doctoral research process is quite different from what I expected in 2012 when I began, but the underlying theme and motivation remained constant – a desire to see companies improve their environmental and social performance.

When I commenced this research I was working as a senior manager in a group of chemicals, explosives and property companies, carrying responsibility for environmental, health and safety issues for the group and guiding its CSI spend. At the time I expected continuing to work in a corporate role for the foreseeable future and therefore chose to enrol in Cranfield's DBA programme, believing a professional doctorate to be the most appropriate route for me to follow. I found the structure of this programme with its strong practitioner focus helpful, as I had had limited prior exposure to academic research processes, bar a single module of laboratory research for my first chemical engineering degree and a short research paper written as part of my MPhil (Cundill, 2012). The DBA's cohort-based approach and regular access to senior academics enabled me to form interesting and helpful relationships from which my research has benefited.

Many vignettes of these interactions come quickly to mind when recalling this period. A lunchtime introduction by my then supervisor to Anne Huff resulted in her encouraging me to explore social movement theory, an approach I hadn't previously considered. Later, the first round of feedback on the manuscript I had submitted to the *International Journal of Management Reviews* called on me to consider incorporating signalling theory; I had just received this feedback when Benedetta Crisafulli presented her doctoral research to our cohort, research substantially based on this same theory heretofore unknown to me. 'Like the realtor's "location, location, location" mantra, surely "colleagues, colleagues, colleagues" is key to research and theory building' (Folger, 2005, p. 55).

The DBA study process resulted in changes to my research ideas and my career aspirations, and ultimately led to me changing my study plans too. My initial work was focused on corporate governance mechanisms for corporate sustainability, developing my thinking on a topic in which I was already deeply involved as a

CHAPTER 5: CONCLUSION

practitioner. As I delved further into the subject I began to realise that I was becoming more interested in those aspects of corporate governance that originated outside the company. I had some knowledge of these aspects from dealing with shareholder questions and the challenges posed by activist communities and from working with soft law instruments when guiding the Responsible Care initiative for the Chemical and Allied Industries' Association of South Africa.

I was also beginning to find the challenges of the research process so stimulating and the interaction with members of the academy so enjoyable that I began to plan for a life outside the corporate environment. Consequently, and with the encouragement of my supervisory panel, I moved from the DBA programme to that of the PhD, largely because of this degree's more widespread acceptance by the academic community.

These have been deeply enjoyable years. They have not been without their frustrations, not least when I chose to temporarily suspend my studies due to work pressures, but the rewards of developing knowledge, the satisfaction of work completed and recognised, and the delight of conversing with like-minded individuals have more than compensated for these. I look forward to the years to come when I intend to continue to research, to write, to teach, and to implement some of what I have come to know – I hope not merely to interpret what is happening in the world, but in my own way go on to change it as well (Marx, 1932).

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Appendix A: Review methodology: further details

This appendix provides further details on the methodology that I followed to develop the body of literature that served as a basis for the review that appears in Chapter 2 of this thesis. It is summarised in the third paragraph of section 2.2 in the review and referred to in the overall methodology section 1.6 of Chapter 1.

A preliminary scoping study of a selection of academic and practitioner literature was carried out by searching a range of databases and websites for articles and reports on the interaction between shareholders and companies with respect to environmental and social issues. This scoping study was used to identify terminology associated with the phenomenon of interest and, in particular, the relevant actors and types of interactions between them.

The scoping study informed the development of search strings for the next stage of the review, which was undertaken in line with the protocols for systematic review developed by Tranfield, Denyer and Smart (2003) and Denyer and Tranfield (2009). These protocols were influenced by the evidence-based approach for informing policy and practice, and particularly with how such an approach has been deployed in the field of medicine. The authors then presented ways in which this approach can be used in the area of management research.

The process commences with a planning stage where, having identified the need for a review, a proposal is prepared for how the review will be carried out. To enhance objectivity, this proposal is then reviewed by other academics or practitioners. The review proper then begins with the identification of key terms which will be used in the search process. Databases are then searched, the quality of the articles is assessed, data is extracted and then synthesised. The findings from the process are then reported and disseminated, with a view for them to be incorporated into practice.

For this phase of the research, the primary review question was: How do shareholders influence executives with respect to a firm's environmental and social impacts? Subsidiary questions that were considered in the course of the review to enable the answering of the primary review question were:

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- What is the range of environmental and social impacts that is of interest to shareholders?
- Have these interests changed over time?
- Are there different classes of shareholders, whose interests diverge?
- What conditions lead to shareholders deciding to exert influence over the executive?
- Are there examples of when shareholders have influenced executives?
- What executive decisions and actions result from shareholder influence?
- What changes in environmental and social impacts result from executive decisions and actions?
- What theoretical perspectives might be deployed to address the phenomenon of interest?

The search strings used appear in Table 13.

Table 13: Search strings

Number	Name	String
1	Shareholder	shareholder* OR stockholder* OR investor* OR owner*
2	Executive	executive* OR board* OR director* OR 'chief executive*' OR CEO* OR 'chief financial officer*' OR CFO* OR manage*
3	Impact	environment* OR soci* OR ESG OR responsibility OR CS* OR sustainability

The citation databases searched were Proquest, EBSCO Business Source Complete, Science Direct, Scopus and Web of Science. Only articles written in English and that appeared in scholarly peer-reviewed journals were included at this stage. There was no restriction placed on the year of publication other than those inherent in the operations of the electronic databases searched. Duplicates were removed from the sample, and an initial screening was carried out by reviewing each article's title and removing references obviously unrelated to my study. A second screening was then conducted by reviewing the titles, abstracts and keywords for each of these articles. A third screening of the articles was carried out to determine relevance and quality 'fit'. I was aided by using the Chartered Association of Business Schools' Academic Journal Quality Guide

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(Harvey et al., 2010) ratings as a proxy for journal quality, excluding any articles from journals that were not listed in the guide.

The data extraction form that I used evolved during the course of the process, but in its final form appears in Table 14:

Table 14: Data extraction form

Data	Rationale
Author(s)	Basic bibliographic information.
Title	Basic bibliographic information.
Year of publication	Basic bibliographic information.
Journal	Basic bibliographic information.
Country(ies) of study	Contextual information.
Type of shareholder and company	Contextual information.
Details of influencing mechanisms deployed	Intervention information.
Decisions and actions taken by the executive	Outcome information.
Theory employed	Explanatory ability.
Key findings	Outcome information.
Limitations	Outcome information.
Suggestions for further research	Outcome information.

Under the guidance of the journal reviewers I extended my original data set, adding to it from the academic literature by cross-referencing, advice from expert academic panel members (including a systematic review library technician) and academic research dialogues. Aided by serendipity, these all contributed to the generation of my final sample of 127 articles from 58 academic journals, together with two articles from Social Science Research Network, one conference paper and seven books. This foundational body of literature was then analysed and synthesised using an integrative approach. References from the grey literature were included where appropriate in order to supplement, complement and illustrate the academic literature, in line with the guidelines in Adams, Smart and Huff (2017).

Appendix B: Typical interview questionnaire

This appendix provides an exemplar of the interview questionnaire that I used when collecting data for the empirical work that is presented in Chapter 3. The methodology followed appears in section 3.3, where mention is made of the fact that the questionnaire was modified in practice both to fit the specific situation of the interviewee and to take cognisance of insights gained earlier in the research process.

Preliminaries:

- A brief explanation of the research that I'm carrying out;
- A discussion about any concerns the interviewee may have about confidentiality;
- Note that I'd be happy to answer any of the interviewee's questions, and quite prepared to share findings at a later stage.

Base questions:

- What roles have you played in the interface between shareholders and companies?
- Can you think of any situations in which you have seen a shareholder attempt to influence a company's ESG practices?
 - What did the shareholder do?
 - What impact did these actions have on the company?
 - In what ways did the company respond to these actions?
- If you can't think of any such shareholder attempts, are there any attempts by other stakeholders that you can recall?
- Do you see the company's shareholders as falling into different categories and, if so, how would you categorise them?
 - Do these different categories of shareholders make use of different approaches when attempting to influence company's ESG practices?
 - If so, in what ways do these approaches differ?

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- In what ways do companies' responses to shareholders vary depending upon the type of shareholder involved, and/or the approach made use of by the shareholder?
- Can you describe situations when shareholders (or, failing that, stakeholders):
 - Divested or decline to invest in a company?
 - Submitted shareholder proposals?
 - Engaged in dialogue with management?
 - Formed coalitions with other shareholders?
 - Involved NGOs?
 - Expected the company to be on an ESG-related index?
 - Involved regulators?
 - Involved the media?
- Have you seen companies do anything pre-emptively to discourage shareholders from attempting to influence the company's ESG practices?

Closure:

- Offer thanks;
- Ask for ideas of other people that I should perhaps be speaking to;
- Ask for any last comments, questions or concerns.

Appendix C: Code books

This appendix contains the code books that were used for the three main stages of data analysis, described in the methodology section 3.3

Provisional coding scheme:

- Context
 - Shareholder nature
 - Shareholder motivation
 - Company nature
 - Regulatory environment
 - Issues
- Shareholder interventions
 - Divestment
 - Dialogue
 - Proposals
- Enablers
 - Coalitions
 - NGOs
 - Codes & indices
 - The media
 - Regulators
- Managerial perceptions
- Outcomes
- Good quotes

Interim coding scheme:

- Context
 - Shareholder nature
 - Shareholder motivation
 - Adherence to codes and laws
 - Company nature
 - Regulatory environment
 - Issues
 - Environmental
 - Governance
 - Social
 - Social environment
- Shareholder interventions
 - Divestment

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- Dialogue
 - Build relationships
 - Provide information
 - Request information
 - Site visit
 - General meetings
 - Remove directors
 - Shareholder questions
 - Voting on proposals
 - Legal action
 - Praise
 - No action (silence)
 - Board presence
- Enablers
 - Coalitions
 - NGOs
 - Codes & indices
 - The media
 - Regulators
 - Employees
 - Funders
 - Advisers
 - Communities
 - Competitors
 - Customers
 - Peer companies
 - Unions
 - The academy
 - The taxi driver
- Managerial perceptions
 - Adds value
 - Canary
 - Coercion
 - Complexity
 - Concern re risk
 - Corporate values
 - Disillusioned
 - Don't lose money
 - Don't slag behind back
 - Employee retention
 - Ethics
 - Expertise

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- Fear
- From hell
- Good practice
- Groundswell
- Job role
- Knowledgeable
- Legitimacy
- Management reason for action
- Materiality
- Mimetic
- Need economic sustainability
- No concern
- No emotions
- Not confrontational
- Not our role
- Opportunities
- Patience
- Peer comparison
- Personal liability
- Power
- Regulatory compliance
- Reputation
- Scared
- Scored wrongly
- Screening
- Sense of responsibility
- Shareholders don't care
- Simplification
- Time and effort
- Too onerous
- Waste of time
- Outcomes
 - A new world
 - Accountability
 - Apologise
 - Appear responsible
 - Ask for guidance
 - Board committee
 - Change accounting policies
 - Community upliftment
 - Create engagement tools
 - Culture

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- Delay
- Directors declared delinquent
- Disclosure
- Dishonesty
- Educate investors
- Equitable treatment of shareholders
- Follow global standards
- Gaming the system
- Incremental improvements
- Investor brand
- Irregular conduct
- Lead by example
- Legal action
- Long-term
- Manage compliance
- Manage risk
- Management action
- Monitoring
- No outcome
- Peer comparison
- Performance improvement
- Precedent set
- Pre-emption
- Prioritisation
- Provide access
- Provide information
- Publicity
- Refuse to answer
- Relationship building
- Education
- Support
- Resistance
- Restitution
- Share price fall
- Smear
- Spin
- Stay below radar
- Strategic change
- Target setting
- Ticking boxes
- Training
- Transparency

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- Understand impact
 - Write policy
- Good quotes
- Barriers
- Enabler's motivation

Final code book

- ESG issues
 - Environmental
 - Social
 - Governance
- Shareholder interventions
 - Screening
 - Divestment
 - Dialogue
 - Resolutions
 - Questions
 - Legal action
 - Other
- Moderators
 - Shareholders' rights
 - Regulator effectiveness
 - Market depth
 - Media vigour
 - Shareholding size
 - Shareholder resources
 - Company financial performance
 - Company ESG performance
 - Managerial values
 - Groundswell
 - Other
- Board actions
 - Do nothing
 - Deal with ESG disclosure
 - Deal with ESG performance
 - Pre-emption
 - Other
- Outcomes
 - Shareholder ignored
 - Performance disclosed
 - Performance greenwashed

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- Performance improved
 - Performance improvement resisted
 - Shareholder action diverted
 - Other
- Feedback loop
- Good quotations

Appendix D: Poster

