

Changing the world through shareholder activism?

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As one of the more progressive facets of the socially responsible investment (SRI) movement, shareholder activism is generally recommended or justified on the grounds that it can create social change. But how effective are different kinds of activist campaigns likely to be in this regard? This article outlines the full range of different ways in which shareholder activism could make a difference by carefully going through, first, all the more specific lines of action typically included under the shareholder activism umbrella and, second, all of the different ways in which it has been suggested that these could influence the activities of commercial companies. It is argued that – although much more empirical research is needed in the area – there are at least theoretical reasons for thinking that it will be difficult to influence companies through the standard actions of filing or voting on shareholder resolutions. However, some alternative strategies open to activists may allow them to increase their efficacy. It is specifically argued that even individual investors could be able to push for corporate change through devising a radically self-sacrificial campaign that manages to get the attention of powerful forces outside the corporate sphere.

Keywords: corporate governance, proxy voting, shareholder resolutions, social campaigns, socially responsible investment

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Shareholder activism is generally taken to be one of the main facets (or investment strategies) of socially responsible investment (SRI) and it could be defined as the practice of using shareholder rights and privileges to try to make companies improve their social, ethical and/or environmental performance. Most commonly, shareholder activists use their right to introduce and vote on resolutions at companies' annual general meetings to try to make them change their policies on certain social or environmental issues. But other kinds of campaigns are also typically associated with shareholder activism; for instance, engaging in dialogue with corporate managers, writing letters to other investors, and sending out press releases. These practices have become increasingly popular among investors with a social or political agenda ever since «Campaign GM» in the early 1970s, when a small group of investors tried to get the big auto company General Motors to (among other things) appoint an African American to their board of directors. According to some recent reports, the total assets of individuals and institutions engaged in some kind of activist campaigns is now as much as \$703 billion in the U.S. and €730 billion in Europe (Eurosif 2006; Social Investment Forum 2006).

Quite interestingly, rather little attention has been given to the practice of shareholder activism in the philosophical and/or political discussions of SRI. To the extent that it is mentioned at all, shareholder activism is most often held out as the more «change»-oriented alternative to certain passive forms of SRI; specifically as a stark contrast to the avoidance approach practiced by the majority of SRI actors. The received view among a great number of both commentators and proponents of socially responsible investment is that there essentially are two rather different underlying motivations or justifications of SRI as such: one is «consistency» and the other «social change» (cf. Cowton 1998; Domini 2001; Mackenzie 1997). «Consistency» is generally suggested to motivate various kinds of screening efforts, i.e., decisions to actively invest in certain companies and/or to refrain from investing in others based on their social or ethical characteristics.¹ Investors more keen on «social change», however, are then sometimes suggested to be better off engaging in shareholder activism. Cowton, for instance, summarises this view as follows:

What, then, is the ethical basis for SRI as described earlier? Two strands, woven together in some discussions of the ethics of investment, are discernible. The first, which follows naturally from the *prima facie* case already stated, seeks to ensure that consistent standards of behavior are applied in all areas of life. [...] A pure avoidance strategy might be the outcome of such a perspective. [...] The second discernible perspective, which can complement the first, tends to emphasize the consequences of corporate actions upon others [...]. This view is often reinforced by regarding stockholders not as speculators or even investors, but as owners who not only possess rights and privileges but also have responsibilities which entail a degree of involvement. If a duty not to impose damage or harm on other people is regarded as

a minimum responsibility [...] then it might be concluded that the avoidance of certain investments is appropriate, as under an 'integrity' approach. However, a wider view of responsibilities is often taken, which tends to justify supportive criteria or engagement in stockholder activism. (Cowton 1998: 187–188)

Indeed, Cowton is right in noting that some of the most prominent proponents of the view that SRI needs to go more in the direction of social change tend to favour shareholder activism exactly for this reason. Mackenzie, for instance, suggests in his critical review of the SRI movement:

The procedures used by funds to enable people to avoid investing unethically are not well suited to the pursuit of corporate reform. In order to rise to the challenge of corporate reform, ethical funds need to become better at engaging with companies and persuading them to change. This may require a significant shift in priorities from 'screening' to engagement. (Mackenzie 1997: 2)

Although there are grounds for being somewhat critical of the simplistic dichotomy between the two «perspectives» of consistency and social change implied in the quotes above, this article will not argue about general distinctions. Instead, the topic is about the more concrete question of whether shareholder activism really should be the natural alternative for investors interested in changing the world or «making a difference» as they say. That is, can shareholder activism really be as socially effective as it generally is held out to be? And if so, what kinds of activist campaigns are likely to be most effective?

It should be noted that these questions ultimately are of an empirical nature and therefore cannot be answered without further empirical investigations. However, one could say that the present article does the theoretical preparations needed for such investigations: first of all it outlines the full range of theoretically distinct ways in which shareholder activism could make a difference. It does this by carefully going through, first, a wide range of more specific lines of action typically included under the shareholder activism umbrella and, second, the many different ways in which it has been suggested that these could influence the activities of commercial companies. Furthermore, the article reports on various considerations of both empirical and theoretical nature that the previous literature on the subject has suggested to be relevant to evaluations of the efficacy of various activist campaigns. The conclusion of the article could be viewed as a challenge for future empirical studies: namely, that there are theoretical reasons for thinking that mainstream shareholder activism is quite unlikely to be socially effective.

The article is divided into two main parts. The first part focuses on the social effectiveness of the most typical activities of shareholder activists, i.e., the filing of shareholder resolutions and voting on matters of corporate concern at the annual general meeting. Even though proponents of the SRI

movement generally suggest that such actions could be effective, even for *individual* activists, it is argued that there currently is little empirical support for this view – and furthermore, as just noted, theoretical reasoning speaks against it. In the second part of the article, some alternative suggestions as to how shareholder activists can make a difference are outlined and discussed. Even though many of these suggestions also seem difficult to be utilised in an effective manner by most investors, it is argued that their potential is somewhat greater. Focus in this part is on the likely characteristics of especially promising activist campaigns.

Making a difference at the AGM

When you invest in a limited liability company, typically through buying some of its shares on the stock market, you become a shareholder in that company and are generally considered to be a (part) owner of the company. As an owner or shareholder you enjoy certain rights and privileges in relation to the company you own. Now these rights and privileges are the tools which shareholder activists generally use to try to persuade companies into changing their ways. Domini and Kinder, for instance, write:

The [shareholder] activists start from one basic fact: shareholders own the company. Supposedly management works for them. At least once a year shareholders have the right to elect directors, and to propose and vote on resolutions relating to corporate policy. If the owners fail to exercise their power to direct corporate policy, they waive a powerful means for change. (Domini & Kinder 1986: 8–9)

Before getting into the particulars about whether various activist campaigns can become «powerful means for change», it may be interesting to note the other main actors of the corporate governance scheme implicit in the quote above. Although shareholders generally are regarded as the owners of companies, they are in fact quite far removed from the day-to-day business of the companies they hold shares in. The most direct responsibility over the regular activities of these companies rests with the *management* of the corporation – that is, it is the management that decides on, e.g., the recruitment of workers, employee compensation, and different particulars concerning production. Even though they sometimes may be interested in hearing what certain shareholder representatives think about these things, managers are not obliged to consult or seek permission from the shareholders of the corporation when they make these kinds of decisions. Furthermore, the most direct responsibility of *overseeing* the managers' work of running the company lies with the *board of directors* of the company. It is the directors who act as the primary representatives of the owners and who review (and

help with) the major decisions of managers to hold the managers accountable for what they do.

Now as Domini and Kinder note, at least once a year companies (at least in most countries) are required to hold a meeting with their shareholders – the so-called annual general meeting (AGM). The AGM is really the only place where shareholders can exert their direct power over the corporation and get to meet and discuss issues concerning the activities of the company with the managers and the board of directors in a formal way.² Obviously, then, the AGM is a central battleground for shareholder activists who wish to influence the direction of the company. In the literature from proponents of the SRI movement, two things that shareholders can do in connection with the AGM are generally highlighted as the main tools of shareholder activists: (1) the proposal of shareholder resolutions and (2) the voting on (shareholder and management) resolutions. In the first two subsections below, we will first discuss the probability of investors influencing companies *directly* by either proposing or voting on resolutions. Then in the third subsection, we will turn to discuss some suggestions about the possible *indirect* or *social*, effects of such lines of action.

Proposing shareholder resolutions

How are shareholders thought to be able to influence the behaviour of a certain company through proposing resolutions at its AGM? Well, a resolution in the context of corporate governance can perhaps be compared to a bill or a motion in the context of public policy making (although we will later note an important dissimilarity here), i.e., it is a proposition to the effect that the company should do something rather specific or that the corporate charter of the company should be amended in some specific way. For instance, the set-up of the board of directors, general operational matters and changes in the capital structure, could all be topics for resolutions at a company's AGM. In most countries, both the management and individual shareholders can introduce these kinds of resolutions and, obviously, it is this latter possibility which is the point of departure for shareholder activists in the present context. Melton and Keenan explain how resolutions most often are used and how they can be utilised by shareholder activists, as follows:

Proxy resolutions, which can be sponsored by shareholders or management, often are used to address issues, ranging from ordinary and uncontroversial “house-keeping” measures (such as minor changes in bylaws, or operations), to the creation of new classes of stock or the election of an entirely new slate of corporate directors. [But], as social activists discovered more than twenty years ago, such resolutions can also be used to call attention to a company's poor environmental record, its bad labor relations, or its involvement in countries with oppressive regimes, among other

things. In recent years, more shareholders – particularly religious organizations and public sector pension funds – have effectively utilized their access to proxy ballots to make themselves heard on a wide variety of social issues. (Melton & Keenan 1994: 45)

Resolutions on matters such as the environment, labour issues or involvement in countries with oppressive regimes are sometimes referred to as «social resolutions» (Domini 2001; Sparkes 2002).³ Certainly, it would seem like a successful introduction of a resolution of this sort could make a considerable difference to the way a certain company conducts its business – given, of course, that the resolution also receives the majority of votes at the AGM. If a company is asked to review its labour practices, for instance, or to consider the impact of its activities on the environment to a greater extent, then important social progress could be made. According to Kinder et al., the possibility of investors proposing shareholder resolutions really presents a unique opportunity for creating social change:

Proxy resolutions open the door to corporate management – private-sector opinion makers whom social activists could not otherwise reach. And the resolutions are surprisingly effective. This tactic is somewhat like the method generations of hill-billy humorists said Ozark farmers used to get a mule's attention: They hit him between the ears with a two-by-four. [...] A leading specialist in proxy solicitations, Georgeson & Company, [actually suggests that] «it is largely through the use of the proxy process that shareholders have succeeded in capturing the attention of the corporation». (Kinder et al. 1993: 8–9)

Now, one would think that with such a number of individuals and institutions having filed a great number of social resolutions over the course of many years, proponents of the SRI movement should be able to produce hard empirical evidence of the impact of all this activity. As several commentators have noted before me, however, the area is actually characterised by a conspicuous lack of empirical evidence (cf. Schepers 2003; Wen 2009). Many books produced by SRI proponents are full of examples of social resolutions, mainly resolutions put forward by large organisations or shareholder lobby groups (cf. Brill et al. 1999; Brill & Reder 1993; Domini 2001; Domini & Kinder 1986; Harrington 1992; Lowry 1993; Melton & Keenan 1994; Miller 1991; Ward 1991), but – apart from an abundance of anecdotes – very little attention seems to have been given to proving empirically that these resolutions have created tangible social change.

It has been pointed out to me that SRI proponents perhaps could appeal to certain empirical studies concerning the effects of resolutions on corporate governance issues filed by large institutional investors in the U.S. in the 1990s (see e.g. Del Guercio & Hawkins 1999; Karpoff et al. 1996; Smith 1996; Wahal 1996.). Some of these studies indeed indicate that the proposal of shareholder resolutions can be very effective in terms of changing corporate policies.

However, the characteristics of these resolutions are obviously quite different from the social resolutions of shareholder activists and, furthermore, it remains a contentious issue in this literature whether these corporate governance resolutions really had any tangible effect on corporate operations.⁴

The lack of clear empirical support for their view should be quite disturbing for proponents of shareholder activism – and this is a point we will return to in the following pages. Lacking empirical evidence *against* their view, there is little more than speculation to lean on. But in what follows it is suggested that, if one considers the legislation surrounding shareholder resolutions in most countries, there are at least theoretical reasons for thinking that the idea that investors can influence corporate behaviour by introducing social resolutions actually seems rather far-fetched.

The legislation surrounding shareholder resolutions varies to a considerable degree between different countries and it is therefore hard to say exactly what the possibilities for influencing corporate behaviour through the resolution process are for each and every investor. However, in most countries and cases, it seems, it is rather hard for shareholders to successfully introduce shareholder resolutions on social issues.⁵ The first problem has to do with the introduction of resolutions on *social* issues specifically. We mentioned earlier that the primary responsibility for the day-to-day activities of the corporation rests with the management of the company. This is not just a figure of speech – in most countries, this means that managers have the right to ignore resolutions that could be said to deal with the «ordinary business» of the corporation, or there are formal rules which prohibit shareholder resolutions on such matters (Blair 1995; Logsdon & Van Buren 2009). Exactly what should be counted as the «ordinary business» of the corporation and what should not be, of course, open for interpretation and debate. In very many cases, however, the governmental agencies which supervise these things seem to have been more keen on granting managers exclusive control over central corporate activities than on allowing shareholders to have a say in such matters (cf. Kinder et al. 1993; Sparkes 2002).

The consideration above suggests a general problem for shareholder activists, as indeed many other commentators have noted (cf. Melton & Keenan 1994; Vogel 1978). Issues about, say, what products a certain company should manufacture (e.g. whether it should produce tobacco or not) or what production process should be used (e.g. to what extent this should be environmentally sustainable) could of course be said to be «general production issues». And issues about discrimination, and whether or not a company should employ equal opportunity practices in their employee recruitment, could be said to be «general personnel issues». There are many reports on cases where social resolutions have been excluded with reference to the «ordinary business» clause. Sparkes, for instance, reports on one of the most infamous cases in the U.S.:

Shareholder rights are not unlimited [...] as the [US Securities and Exchange Commission (SEC)] only allows 'resolutions going beyond ordinary business which are therefore suitable subjects for shareholder review through the proxy process'. Probably the most high-profile SEC decision in this regard was over Cracker Barrel in 1992. Cracker Barrel was a US store chain that was alleged to have a policy of not employing homosexuals. In 1992 the New York City Employee Retirement System attempted to file a shareholder resolution requesting the company 'to implement non-discriminatory policies relating to sexual orientation and to add explicit prohibitions against such discrimination to their corporate employment policy statement'. The SEC ruled that this was a 'personnel' matter, and as such was part of the 'ordinary business' of the company, meaning that the resolution could not be filed. (Sparkes 2002: 31)

Some further and more general problems can be added to the consideration above. First of all, most countries have strict rules, not only governing what resolutions may be about, but also governing what type of investors are allowed to propose such resolutions. In the U.K., for instance, in order to be eligible for proposing shareholder resolutions you must either control at least 5% of the total voting power of all the outstanding shares of the company (which, of course, could be huge sums!), or you must get the backing of 99 other investors who each hold shares worth at least £100 (Sparkes 2002; Strätling 2003). These criteria are extremely strict and it seems hard for typical *individual* investors, with only moderate amounts of disposable income, to be able to meet them. Things are a bit easier in the U.S., which may explain why shareholder activist campaigns in general have been more common there (Louche & Lydenberg 2006), but still only investors who hold more than 1% of the total voting power of the corporation, or \$2000 in shares, and have held these for at least a year, are eligible for proposing shareholder resolutions (Logsdon & Van Buren 2009). The restriction on time alone could be a serious impediment for *any* investor who wants to propose shareholder resolutions on social issues – not to mention timely ones.⁶

A further kind of problem for investors who wish to propose shareholder resolutions is that, in most countries, shareholders are required by law to circulate their resolution proposals to all of the other shareholders of the corporation (Lang 1996; Strätling 2003). In many cases, it may be almost impossible to find accurate information from second-hand sources about exactly what people are shareholders in a given corporation (Ward 1991). And, even if you somehow could get access to this information, sending out a copy of your resolution to the many thousands who most often hold shares in public companies will cost loads of money. In some countries, the corporations themselves are required to send out information about resolutions a few weeks before the AGM, both those proposed by management and those proposed by shareholders – this is often referred to as the «proxy ballot» or «proxy statement» of the corporation. Certainly, if you could get

the company to circulate your proposal on this statement you would fulfil the requirement that all shareholders should be notified, but, in most cases, shareholders are required to cover the costs of this service themselves (Strätling 2003). All in all, we might conclude that the costs associated with filing shareholder resolutions would seem to make this a very impractical tool for effective use by everyone but the most well-off shareholder activists.

The considerations above should not be taken to imply that it is strictly *impossible* for shareholders to successfully introduce resolutions on social issues. However, they show some of the great difficulties involved in doing so and, in light of these difficulties, it seems rather improbable that very many attempts by socially minded investors to change corporate behaviour through an introduction of social resolutions will be socially effective. Now we should also remember that there is a further necessary step: in order to be able to influence corporate behaviour through the successful filing of social resolutions, these resolutions also need to get enough votes at the AGM (at least for the resolutions to pass formally). In the following subsection, we will discuss what power investors have in this process.

Voting on resolutions

According to many SRI proponents, as noted above, the most powerful tool of shareholder activists is the right to file *and vote* on shareholder resolutions. This could be taken to suggest that the most straightforward strategy for an investor who wants to make a difference through shareholder activism would be to first file a shareholder resolution on some social issue and then try to vote this resolution through at the AGM. But it may be noted that there are other possibilities here as well. Even when investors are unable to propose resolutions of their own, they could vote on shareholder resolutions sponsored by other investors – under certain circumstances, perhaps other shareholder activists have successfully proposed a social resolution to be voted on at the AGM (Ward 1991). Furthermore, investors of course have the possibility to vote on (or, most often, against) different resolutions proposed by the management (Brill & Reder 1993; Domini 2001).

But how likely is it that the voting behaviour of a single investor will be able to change corporate behaviour? When reading some of the books from proponents of the SRI movement, one certainly gets the impression that this is extremely likely – even *individual* investors, they seem to say, can create social change in this way. According to Judd, for instance, «[t]he crux of [the activist] approach is that corporations operate on a one-share-one-vote principle, allowing even a shareholder with a small stake in the company to bring up questions about social issues at annual meetings and to file shareholder resolutions» (Judd 1990: 10). Domini also writes: «Now that you

know the impact that even a small positive vote can have, you have no reason not to read through the [proxy] material, make a decision, and cast a vote.» (Domini 2001: 103).

Once again, however, none of these writers presents much empirical support for their views on this matter. To be fair, many of the different social resolutions filed by campaigning groups are reproduced in SRI books together with the percentages of votes in favour and against (cf. Domini & Kinder 1986; Lowry 1993; Melton & Keenan 1994; Sparkes 2002; Vogel 1978). However, these lists are far from establishing the efficacy of individual activists' votes and, furthermore, it is interesting to see that there only very seldom are substantial percentages of votes in favour of social resolutions – a point which some SRI proponents actually concede (I will return to this in the next subsection). Lacking clear empirical knowledge, one may once again consider the legislative and factual context surrounding votes at AGMs in different countries. The following considerations suggest that there are at least theoretical reasons for thinking that the possibilities for investors to influence corporate behaviour through voting on resolutions are also very slim.

The first problem here is that not all kinds of investments in companies actually carry voting power. Many empirical studies have shown that most *individual* investors invest only *indirectly* in company shares, i.e., they invest in unit trusts or other kinds of funds, and thus they cannot cast votes directly at AGMs on their own. On top of this, however, it should be noted that many countries have a system of so-called 'A' and 'B' shares and that these shares carry different voting rights. While the rule may be one share-one vote with regard to 'A' shares, the situation is rather different with regard to 'B' shares – often these are only one share-one tenth of a vote, or they simply lack voting power altogether (Rini 2002). While there normally is at least some trade in 'A' shares on the stock market, the majority of shares available on the stock market are 'B' shares. Thus, in the majority of cases, the shares which typical investors – both individual and institutional – deal with actually carry very little in the form of voting rights. This is of course the same with bonds and other kinds of investments popular among all kinds of investors.

The considerations noted above are relatively unimportant in the present context, however, since even one share-one vote makes it extremely hard even for investors who control a considerable amount of 'A' shares to be decisive in votes at most public companies' AGMs. The number of outstanding shares in most companies on the world's stock markets, it should be noted, is enormous; for instance, the average number of shares in a company listed on the New York Stock Exchange was roughly 150 million at the end of December 2007 (New York Stock Exchange 2007). (The total number of shares in the largest company, Exxon Mobil, was over 8 billion.)

Hence, it would be extremely unlikely, even in theory, that any single investor's votes would be decisive in a vote at any of these companies' AGM.

To this *theoretical* unlikelihood of being decisive, as we might call it, should be added the circumstances surrounding voting power and voting procedures in most countries, which makes for an even larger *practical* unlikelihood of single investors' votes being decisive. First of all, it may be noted that most of the shares on the world's stock markets actually are controlled by a rather small group of extremely rich institutions – e.g., pension funds, mutual funds, insurance companies, and other kinds of financial trusts. Institutional investors control over 70 percent of total shareholdings in the U.K. and over 60 percent in the U.S. – where they also stand for over 80 percent of all share trades (Mallin 1998; Wen 2009). Now this is true also with regard to most individual companies – that is, the majority of shares in most quoted companies are controlled by a handful of large organisations. For this reason, it would actually seem totally insignificant how any single *individual* investor votes, since these large organisations can steer the company in whatever direction they want. In more than 95% of decisions at AGMs, it may be noted, the decision rule is simple majority (Maug & Rydqvist 2001). Of course, things could perhaps be different if institutional investors *themselves* became shareholder activists to a greater extent but, as we will see later, there are legal obstacles to their doing so.

Add to this a further way in which the voting procedure works in most countries. As noted above, companies sometimes send out information about resolutions a few weeks before the AGM, and this is often referred to as the «proxy ballot» or «proxy statement» of the corporation. It is called so because shareholders should be able to vote «by proxy», i.e., they need not attend the AGM themselves but may simply signal to the management (often by way of checking some boxes on the ballot and sending it back to the company) in what way they intend to vote. Now, as a matter of fact, extremely few shareholders indeed attend AGMs – according to a recent estimate from the U.K., only one in a thousand shareholders actually attends the AGM of «his» or «her» company (Strätling 2003). Furthermore, very few investors even use the proxy ballot to make an active vote – that is, they just sign the ballot and send it back to the company (Bottomley 2003). We now come to the heart of the present point; in most countries, not declaring ones' voting intention on the proxy ballot gives managers the right to use these votes in whatever way they see it fit (Maug & Rydqvist 2001). Thus, one could say that the voting procedure is *rigged* in some sense to go the managers' way. According to some recent estimates in both the U.K. and the U.S., on an average only about 3–4% of the votes cast at corporate AGMs actually go against the managers' recommendations (Maug & Rydqvist 2001; Strätling 2003; Webb et al. 2003). And, of course, as the system works, this is only to be expected. If managers are opposed to social resolutions,

which they often tend to be, then, it seems extremely hard for social investors to vote such resolutions through at the companies' AGMs.

The considerations above may seem quite discomfoting, and many activists have complained that the modern corporation is far from being democratic. Vogel relates the story of one shareholder activist, Saul Alinsky, who dreams of the following scenario:

I want to be able to move those stockholder meetings into Yankee Stadium – and this goes for all corporations. They will have their thousand or so stockholders there, and we'll have 75,000 people from Proxies for People. I want to see the chairman of the board – in front of the cameras and the mass media, with 75,000 people voting "aye" on one of our resolutions – announce that 98% of the stock is in his hands [and] votes "nay," and they win. I want to see him look at 75,000 people and tell them that they haven't got a damn thing to say about it. (Vogel 1978: 214)

The considerations above should certainly be extra frustrating from the perspective of shareholder activism – even though many investors may group together and try to make a company change its ways, it seems virtually impossible to get a social resolution passed at a larger-sized company's AGM. Given the poor possibilities in this regard, one may of course wonder why shareholder activists bother to propose and vote on resolutions at all – that is, why the focus has been so much on resolutions in the first place. In the following subsection, we will discuss one possible explanation of this.

The social dimension of resolutions

Our focus so far has been exclusively on the *direct* impact of proposing and voting on resolutions. Since there seems to be very little possibilities for investors to make a direct difference through filing and voting on resolutions, we said, one might wonder why shareholder activists focus so much on resolutions in the first place. The answer, according to some writers, is that filing and voting on resolutions can have considerable *indirect*, or *social*, effects. According to Kinder et al., for instance, «[t]he [shareholder resolution] proponents'» goal is not so much the resolution's passage – they rarely win – as the start of a dialogue with the company. Shareholder activists often accomplish through talk what they cannot through the ballot process» (Kinder et al. 1993: 8). It may be noted that some very prominent proponents of the SRI movement, like Domini (2001), prefer to talk about «direct dialogue» instead of shareholder activism, and perhaps we could understand this terminological choice (at least partly) in light of the kind of suggestion just mentioned as well.

The present subsection briefly discusses some possible indirect effects of proposing and voting on resolutions at a company's AGM. In order to categorise the different suggestions here, we may start by considering who the

intended receivers of the social message of proposals and votes are. According to one suggestion, the intended receivers would primarily seem to be managers and/or directors. According to this idea, namely, even though a certain attempt to vote a resolution through at the AGM may have little chances of succeeding, it may still have an impact on the decisions of managers and directors. Lowry, for instance, writes:

Until 1988 concerned investors sponsoring shareholder proxies operated under the assumption that their proxies would never pass if they were opposed by management; generally that assumption was correct. Nevertheless, shareholders were content with 3 to 5 percent of the total votes and the frequent media attention their proxies received. In fact, most corporate managers take shareholder proxies seriously. They are concerned that their annual meetings run smoothly, that controversy be avoided, and that most, if not all, shareholders are supportive of company policies and practices. (Lowry 1993: 27)

Brill et al. (1999) similarly write:

Most social resolutions fail to gain more than 10 percent of the vote; but they do bring into focus important issues that companies sometimes do not want called to public attention. The threat of exposure is often enough to motivate companies into taking actions they otherwise would not. Exposure is even more of a concern today, when information travels quickly, is easily available, and is being monitored by social investors, activist groups, the media, and the public at large. (Brill et al. 1999: 143–144)

The reason for why proposing and voting on resolutions may have a tangible impact on managers and directors, according to these writers, even though there is no real chance of the resolutions' passing, would be that managers and directors are hypersensitive to the «threats of exposure» which such acts are thought to consist in.⁷ Is this true? Well one must certainly agree that it is possible that some managers and directors are hypersensitive to these things. However, for the third time, SRI proponents have done little in the way of producing solid empirical evidence which proves that this really is the case for most managers.

Interestingly enough, we see in the quotes above that some of them actually admit that extremely few social resolutions have ever been successful. It is obviously hard to measure the social effects of shareholder activism in general and the success of these kinds of attempts at influencing managers and directors in particular. Some commentators try to suggest that even though most managers state that they are not influenced by social interest groups, sometimes their behaviour indicates that they are (Mackenzie 1997; Vogel 1978). However, this suggestion could be turned the other way around as well – even though some managers may state that they pay close attention to what social interest groups say, it is not clear whether this actually influences their decisions.

In the end, theoretical considerations suggest that it is simply implausible to think that many companies would hire managers who are so hypersensitive to the whims of the smallest group of people as SRI proponents make them out to be. According to standard economic theory, the central aim of managers is to maximize shareholder wealth, that is, to maximize the share price. Now, even though in reality managers may be far from perfectly economically rational, it is in a sense their job to try to be so – and it simply seems irrational for them to pay attention to the «threats of exposure» from social investors *unless* the threats in fact are backed up with some kind of real power. As long as shareholder activists have as little influence in the actual votes at corporate AGMs as they do, then, it would seem foolish for managers to pay more attention to their resolution proposals and voting behaviour.

It should be noted, furthermore, that simply proposing or voting on a certain resolution in fact is something quite different from actually talking to the kind of groups that Brill et al. discuss, or even threatening to talk to these groups. Perhaps talking to the media and spreading information to other activist groups actually are quite promising ways in which even individual investors can make a difference to corporate practices – we discuss these suggestions in the following section. At the present juncture, however, it is not ideas of this kind that we are discussing and, surely, media coverage does not follow *automatically* from a proposal of or vote on a (social) resolution at a generic company's AGM.

While the suggestion that managers are hypersensitive to the resolution proposals and voting behaviour of social investors seems to fail, another suggestion may be that such kinds of behaviour may influence *other investors* to propose similar resolutions or vote in a similar fashion. In our discussion above, it may be noted that the focus was only on the possibilities for *single* investors to make a difference at AGMs, but it may of course be argued that this is too narrow. Investors may also act as *collectives*, and perhaps the distinction between single investors and collectives is not as clear cut as it may initially seem. By acting in a certain way, a single investor may give rise to more investors acting in this way, creating a kind of collective effect. Domini, for instance, seems to be after some idea of this kind when she writes:

When a large percentage of the owners of the world's business enterprises believe that profit must not come at the loss of human or environmental justice, then companies will respond. They will serve as effective means of delivering desired goods and services to the population in a manner that does not harm their owners, who are – after all – living beings. If the owners of the economic engine of the world recognize that money doesn't help if you can't breathe, then they will create rules that allow for both breathable air and financial return. [...] The socially managed portfolio is a part of something larger than itself; it is a part of a global reformation of the way business is done. (Domini 2001: 17)

We should certainly grant that the more of other investors one is able to include in a collective voting campaign, the more likely it is that the campaign will be effective. Miller correctly notes, in relation to shareholder activism, that «[a]s a lone investor, any actions you might take might not be nearly as effective as those taken in concert with other like-minded individuals» (Miller 1991: 328). However, it is not obvious exactly how this persuasion of other investors is supposed to work.

A first problem is that the majority of votes cast at most limited companies' AGMs actually are proxy votes (Bottomley 2003; Strätling 2003) – that is, the majority of the voting shareholders cast their votes long before the AGM even starts, and it certainly seems hard to influence these shareholders' voting behaviour by voting in a certain way at the AGM. Furthermore, it is unclear whether even a quite successful persuasion of other *individual* investors will do the trick. Even though other individual investors probably are the ones most likely to be impressed by an individual activist's resolution proposals and voting behaviour, the real power over the corporation, as suggested by the considerations above, rests in the hands of the managers and institutional investors. In order for a collective shareholder campaign to work, it should also be noted that it is not only necessary that all of the investors in this collective be persuaded to feel sympathetic to the initiating investor's social cause, but they also need to vote on exactly the same resolutions and in a similar way. As some writers suggest, this need for organisation on the part of the initiating investor may in itself make proposing and voting on resolutions a difficult way of influencing corporate behaviour (Powers 1971; van der Burg & Prinz 2006).⁸

The alternative route is of course to focus on institutional investors rather than on individual such, or that institutional investors *themselves* should become shareholder activists.⁹ This is probably a more fruitful suggestion. However, a rather different kind of problem arises for this route, namely that institutional investors actually are very much like large companies. Just like large companies, investment institutions have managers who are hired on the basis of their leadership skills and their understanding of economics and finance; these managers are expected to live up to certain economic goals; they have principals – the beneficiaries – who expect a certain return on their assets and so forth. In fact, institutional investors may be even more bound to the goal of maximising profits than commercial companies. According to the so-called «prudent man» rule, a legal rule that exists in most countries, trust managers are to manage trusts in the sole (financial) interests of the beneficiaries (Blair 1995; Powers 1971). Many institutional investors appeal to this prudent man rule – or, more generally, to their duties as fiduciaries (Sandberg forthcoming) – to explain why they refrain from engaging in shareholder activism on social and environmental issues. And given all of this, if it is hard for individual investors to influence

corporate managers and directors to do a certain thing, it seems equally hard – if not harder – to influence the managers of large investment institutions to do this thing.¹⁰

The considerations above suggest that it is hard for shareholder activists to influence corporate behaviour through proposing and voting on resolutions, even when the possible indirect effects of such behaviour are taken into account. Before leaving this discussion about resolutions, a final problem with focusing on resolutions as the vehicle for shareholder activism should be noted. It was suggested at the outset of this section that a resolution in the context of corporate governance could be compared to a bill or a motion in the context of public policy making. A problem with this analogy, however, is that, unlike legislative bills, most resolutions actually are not binding. As Brill et al. (1999: 142) put it, «[m]ost resolutions are non-binding requests or recommendations by shareholders to managers. Even with a majority vote, a resolution does not become company policy without management approval». We see here, then, the ultimate example of the lack of power that shareholders have over corporate practices as compared to, for instance, the managers of the corporation.

However, if resolutions basically are requests, why couldn't investors just raise their hand at the AGM, address the managers straight out and tell them what they think they should be doing? In the next section, we outline some potentially more promising possibilities in the realm of shareholder activism.

Alternative shareholder activism

Much of the debate over shareholder activism, as should be obvious by now, has focused on the right of investors to propose and vote on resolutions at the AGMs of the companies they hold shares in. But we will now leave this discussion and instead focus on some potentially more promising possibilities that are open to investors in this context. As noted at the outset of the article, many other ways in which one can use one's power as a shareholder to create corporate changes have been suggested in the literature and these are often taken in under the umbrella term of shareholder activism. Domini, for instance, writes:

The second aspect of socially responsible investing [apart from positive and negative screening] is direct dialogue. You can leverage your ownership of a piece of a business to gain a place at the table and to raise a broad range of issues. [...] This dialogue takes many forms. Delivering a social audit to a company for enrichment and comment is a way of alerting corporate management to issues. Letters written to gain clarification or to express either concern over or thanks for a position the company has taken can lead to good results. Consumer boycotts, selective purchase cam-

paigns, and even lying down in front of bulldozers have been used. But the most structured and widely used form of direct dialogue with corporate management teams is the voting and filing of shareholder resolutions. (Domini 2001: 22)

Interestingly, some of the suggestions in the quote above are not things that one really needs to be a shareholder to engage in (nor are they things that investors can do *in their role as shareholders*); for example, consumer boycotts and (simply) lying down in front of bulldozers. For this reason, we may disregard those suggestions in the present context. However, there are certainly a lot of things that investors can do because they are shareholders or investors, and which potentially could lead to corporate changes or more socially beneficial outcomes. Before discussing the strategic issue of what line of action could be most effective for shareholder activists, let us simply go through some of the most commonly suggested lines of action in the present context. Although they are often mentioned in passing, namely, few authors give a more thorough introduction to the whole range of alternative actions open to shareholder activists; what the fundamental point of these actions is; and also how these relate to each other.

The first suggestion stems from the fact that the AGMs of corporations are a kind of social gatherings where managers, directors and shareholders meet, discuss and decide on important issues concerning the future of the company. In our discussion in the previous section, focus was mainly on the part about decisions – i.e. the resolutions which management or shareholders can propose and which then are voted on. According to some writers, however, the discussions at AGMs are just as important as the decisions. Most importantly, all shareholders – irrespective of how much voting power one has – have the right to ask formal questions to the directors of the companies. Ward explains the formal procedure at most AGMs as follows:

The Chair will start the meeting by making a general statement about the year's performance, and presenting the Annual Report and Accounts. The shareholders will then be asked to approve any changes to the Board and the appointed auditors, to ask questions, and occasionally to vote on resolutions.

You get your opportunity to put a question after the Chairman's statement. It can be intimidating to do so, especially at a large company meeting, so practice in advance. Give your name, and say whether you are a shareholder or a proxy. (Ward 1991: 138)

According to some writers, asking questions at the AGM is actually a strategy employed by many shareholder activists. This strategy can be seen as a part of the more general suggestion that it is important to start a direct dialogue with corporate managers or directors. Other ways of starting a direct dialogue with managers and directors could be to write letters to them directly, to set up meetings with them or to simply go to their corporate headquarters and try to talk to them (Brill et al. 1999). Ward writes:

As an example of what can be done, Father Patrick O'Mahoney, a Catholic priest in Solihull, wrote to about a hundred companies on behalf of the Archdiocese of Birmingham's £2.5m investment funds. Some companies tried to brush him off, but others took trouble over their replies, and in some cases situations seem to have received attention at board level, which would not have been the case without him. (Ward 1991: 135)

The lines of action suggested above could of course be combined in various ways and also combined with more traditional activist activities. According to some writers, the most common campaign strategy among retail SRI funds starts with contacting the managers of companies engaged in activities which are perceived as socially or environmentally problematic and having a constructive dialogue. If the managers are not persuaded to change their ways and give up these activities, however, social resolutions are proposed and the dialogue enters a more confrontational phase. If the social resolution process also fails, finally, quite often all shares in the company are sold and further investments in the company are avoided (Sparkes & Cowton 2004). Some writers explicitly distinguish between constructive and confrontational ways of talking with companies and discuss the merits and demerits of these lines of action in different situations. It is sometimes said, for instance, that dialogue tends to be more confrontational in the U.S. than in the U.K., reflecting different cultural and/or legislative traditions (Louche & Lydenberg 2006).

While proposing hostile shareholder resolutions, or simply threatening to do so, may be considered fairly confrontational as compared to constructive dialogue, some writers suggest that even more confrontational methods may be appropriate. If both talking to managers and proposing resolutions (or threatening to do so) fails, one suggestion is that activists could try to disrupt AGMs by, for instance, organising a demonstration outside its venue. According to Lang, for instance,

[s]ome organised groups, such as the Campaign Against the Arms Trade, have adopted much more proactive stances at AGMs and have positively sought to disrupt the meetings. If you believe the company can be persuaded to change its stance through persuasion and reason, such disruption is likely to make your job more difficult. If you believe that a large company is basically ruthless and will pursue profits at all costs, then a demonstration at an AGM can focus media attention on a company and up the pressure. (Lang 1996: 117–118)

Organising demonstrations may not be the only option here – another possibility may be to try to disrupt the AGM from within. Lang (1996: 115) writes: «The presence of the press means directors need to be on their best behaviour – photographs of security staff forcibly removing shareholders do not promote the image of a caring and responsible company.»

The two suggestions above implicitly appeal to the power of the media and accept that the media can play an important role in a successful social campaign. Now, ideas similar to this have already been noted in our discussion of the social dimension of resolutions. According to Melton and Keenan, for instance, «while proxy activists seem unlikely to overcome the tendency of most shareholders to vote with management or decline to vote on resolutions dealing with social issues, they can and have changed corporate behaviour. Such resolutions, *when combined with a campaign to publicly expose the perceived «wrongdoing» of a corporation, can bring results»* (Melton & Keenan 1994: 49–50, emphasis added). Rather than simply hoping that the media will write about some other line of action they have pursued, then, shareholder activists could go directly to the media and try to influence both the managers of the company (or companies) in question and the general public to see the social problems connected with a certain kind of corporate activity. Although not all reporters may be interested, some reporters could be persuaded to see the public interest in certain social issues related to the corporate sector. Ward gives the following recommendations in connection with her suggestion about asking questions at the AGM above:

Send out a press release in advance and after the meeting, speak to any reporters from the financial press who are present. They may be interested in you as a 'news angle'. Take along copies of your literature, and a further press release, to give to them and any other shareholders who are interested. (Ward 1991: 139)

The media is not the only power outside corporations that activists can go to, and the managers and directors are not the only ones with whom activists can start a dialogue. As noted previously, many writers hold the practices of institutional investors central to what goes on in the business world. Perhaps individual investors can be more aggressive in their campaigns to try to persuade institutional investors (although it certainly seems difficult to do so, as noted above). Domini and Kinder, for instance, write:

The willingness of big institutions to vote against management leads me to believe that more institutions can be persuaded to support social issue proxy efforts and similar campaigns. This is where the individual ethical investor can play an important role. The institutions will not move of their own accord. They respond to pressure. So it is critically important for ethical investors to know who controls their pension fund, for example. They should study the organizations in which they are involved – from colleges to charities – and see who runs their money. The right questions about their votes may yield interesting results. (Domini & Kinder 1986: 209)

Furthermore, as Domini and Kinder indicate here, institutional investors are not the only kind of larger organisations that investors could contact. They may also contact charity organisations and other kinds of activist

ones, and perhaps they may even try to collaborate further with these organisations. Brill and Reder write:

If you qualify to propose shareholder resolutions for one or more companies, you can become a particularly effective activist by informing progressive organizations whose causes you support that you will submit resolutions for them. In 1987 People for the Ethical Treatment of Animals (PETA), working through friendly shareholders, introduced resolutions at major cosmetics companies' annual meetings demanding the release of animal test data. [...] In 1990 Colgate-Palmolive became the first company to make this data public. The Council on Economic Priorities reports that Colgate-Palmolive is now a corporate leader in substantially reducing its number of animal tests and/or actively researching alternatives. (Brill & Reder 1993: 22–23)

The last resort, if both dialogue and resolutions fail, and probably one of the most provocative possibilities, according to some writers, is to simply take corporations to court. While it should be noted that ethical arguments are not always relevant in a legal context, many ethically unacceptable corporate activities are problematic also from a legal point of view. According to Powers, «[c]orporate law allows the stockholder legal recourse [...] if he believes that management's practices are ultra vires (that is, beyond the powers granted by the state charter), negligent, illegal, fraudulent or involve a clear abuse of discretion» (Powers 1971: 107). If shareholder activists are successful at filing a legal case against a certain company, it is not implausible to think that taking the company to court sometimes could be very effective. Powers continues:

The following example shows where it might apply to the social investor. A company, operating in violation of state pollution laws, has not yet been prosecuted by the public authorities. The stockholder can bring a derivative suit in order to force the management to comply with the pollution laws. Again in this case, the initiative and not its ultimate success in court, could bring the desired result, since the action might persuade management to comply in order to avoid prosecution or harmful publicity, or might force the public authority to take action to force compliance. (Powers 1971: 107)

Characteristics of promising possibilities

So far, we have only attempted to describe in some more detail the full range of suggestions as to what shareholder activists may do apart from proposing and voting on resolutions. Now what should one say about these suggestions? Obviously they are of quite different character, and the suitability for use by different kinds of investors may vary to a great degree between different suggestions.

First and foremost, it is important to stress that much more empirical research is needed in relation to all of these suggestions. While the share-

holder resolution process is discussed at some length in many books on SRI, it should be noted that many of the suggestions given above are only appealed to as last resorts when the problems connected with proposing and voting on resolutions are encountered. If proponents of the SRI movement want to build a strong case for the idea that SRI really makes (or can make) a difference, however, some evidence stronger than just the anecdotal one is needed.¹¹ In the remainder of this section, what the author of this article takes to be some general characteristics of the kind of campaigns that are the most promising in the present context are outlined. While most of the conclusions above have been negative, it is important not to neglect the real possibilities that shareholder activists actually have for creating positive social change through alternative activist campaigns.

Although it is hard to say exactly what kind of activist campaigns have the greatest potential for social progress here, the first general characteristic of especially promising campaigns is probably that *forces or powers outside the corporations themselves* are used to put pressure on companies to change. One kind of thinking that is close at hand but which shareholder activists probably should focus less on is the appeal to the hypersensitivity of managers and directors. If the talk of «direct dialogue» and asking questions at AGMs is taken at face value, the idea once again seems to be that investors can influence managers to change their companies' ways, either by way of moral argumentation or through some kind of threats of exposure. However, as suggested above, it is not very likely that managers actually will listen to activist shareholders if their threats are not also backed up by some kind of real power – financial or otherwise. Some SRI proponents indeed share this pessimism. According to Brill et al. (1999: 141), for instance, «[i]nvestors with small holdings have only a slim chance of reaching the ear of upper management». According to Lang, furthermore, some managers have indeed developed quite elaborate strategies, which allow them to counteract social investors who ask questions at their AGMs:

As some shareholders and pressure groups have begun to use AGMs to put public pressure on companies, directors have adopted some subtle procedures to exert control of the AGM. Some companies will direct investors who hold single shares to sit together – possibly even corralled in by security staff. The chair of the meeting can then try not to call anyone sitting in that block. [...] Other companies attempt to reduce the effectiveness of questions by controlling the sound system, so questioners seen as troublemakers are seated where they don't get the opportunity to speak through a microphone. (Lang 1996: 117)

I will not elaborate on these observations here. The point is simply that shareholder activists' campaigns are much more likely to achieve their goals if forces outside corporations are used to put pressure on these companies. As we have seen, the managers and directors of modern corporations have

immense powers over these corporations and their activities, and thus they also have immense powers over societal activities in general and over people's lives. In order to influence managers and directors, shareholder activists need to appeal to forces that can balance this kind of corporate power. When I say «forces outside corporations», I am thinking primarily of large organisations (commercial or not), the media, governments and the legal system. If investors were to get one or more of these forces on their side, their social campaigns would probably become a whole lot more effective.

Exactly what activists should do to get these kinds of outside forces on their side is certainly not obvious. Maybe writing letters to institutional investors, sending out press releases or taking companies to court would work. The idea that governments are forces that social campaigners can appeal to is an idea that is not as common as the others in the literature on SRI (although Powers talks about influencing «the public authority to take action to force compliance»). To the extent that social campaigns can put pressure on government agencies or officials to make some relevant legislative changes, however, this would indeed seem to be a great power to be reckoned with (cf. Sandberg forthcoming).

Now, a second characteristic of especially promising campaigns is that they probably would have to be self-sacrificing in a very real way – that is, they would probably cost both a lot of money and a lot of time and effort. Many writers note the enormous costs which often come with taking influential companies to court. Powers, for instance, writes:

The impediments to successful derivative suits are truly monumental. For example, in some cases (though dependent upon relevant state law), if the shareholder holds less than five percent of the outstanding stock of the corporation or his stock has a market value of less than \$50,000, he must post security to cover the “reasonable” legal and other costs incurred by the company in its legal defence; if the stockholder loses, he forfeits the security. Of course, the litigant's own legal expenses in the drawn-out legal process common in this type of suit will be substantial. The investor should also be advised that success rates in this sort of suit are low. (Powers 1971: 107–108)

More generally, however, we should probably concede that any successful activist campaign on the part of an investor is likely to be both extremely time-consuming and quite costly. To see this, consider first the following line of reasoning: even though the lines of action discussed above are open to investors as investors, or as shareholders, some readers may feel that there still is nothing in these lines of actions which depend on the fact that the agent in question is an investor. That is, also non-investors can write letters to institutional investors, send out press releases and participate in protests outside some company's AGM. So what is the reason for holding out these things here, and not discussing, e.g., consumer boycotts and other kinds of even more progressive lines of actions open to activist civilians? Well, the

reason given by most SRI proponents, as should be rather clear by now, is that investors are in a better position to use the first group of actions in effective social campaigns. Because investors are shareholders in, or generally considered (part) owners of companies limited by shares, they have certain rights and privileges in relation to these companies that they can use to influence these companies' activities in a way in which non-owners cannot.

Now if the line of reasoning above is to work for the kind of actions currently under discussion, it must be the right to extensive information about (and perhaps the publicly accepted affiliation to) the company they hold shares in that put shareholders in a better situation than others to influence companies through, e.g., writing letters to institutional investors and sending out press releases. However, there is an obvious problem with this appeal to the informational advantage of shareholders. Many writers (especially in the corporate governance literature) complain that it is often hard for investors to get a hold of relevant and accurate information about the activities of the companies they invest in. While investors may be in a better situation than non-investors when it comes to *having access* to information about the companies they have invested in, then, it is often extremely time-consuming and costly to actually *get a hold* of this information (cf. Char-kham & Simpson 1999; van der Burg & Prinz 2006; Webb et al. 2003).

We may take this as a general reason for thinking that most successful activist campaigns need to become quite self-sacrificing and accept different kinds of costs. In order for letters to institutional investors or press releases to the media to be sufficiently appealing to these forces, investors would plausibly have to gather a considerable mass of information about the relevant companies and build a strong case about a certain moral problem related to their business activities. As noted above, Domini and Kinder suggest that asking institutional investors «[t]he right questions about their votes may yield interesting results» (Domini & Kinder 1968: 209). Furthermore, Ward (1991: 139) says about media exposure: «They may be interested in you as a 'news angle'. Take along copies of your literature, and a further press release, to give to them and any other shareholders who are interested.» However, asking the right questions and presenting a sufficiently interesting news angle surely takes a lot of preparation. And preparation is also important for making a strong legal case against some company.

There are further reasons to think that the more self-sacrificing a certain activist campaign is, the greater potential it has to influence corporate behaviour. Of course, simply printing out information material to a large number of investors or reporters may be quite costly. Ward summarises the points above quite nicely by saying that «[t]he costs of running a campaign could be heavy, especially since you will get much further if you make your presentation well argued and researched, easy to read, and interesting and

attractive enough not to go straight into the bin» (Ward 1991: 133). One of the main reasons why one may think that the most successful social campaigns by shareholder activists will be rather self-sacrificing, however, is that there is anecdotal evidence to suggest that many of the suggestions discussed above will be actively countered by the targeted companies. Some writers note that giving extensive information to reporters, although an effective way of influencing public opinion, may open activists to libel charges. Lang, for instance, writes:

1995 saw the start of one of Britain's longest running libel trials when Greenpeace London protesters were sued by the hamburger chain McDonalds for libel after they wrote a leaflet connecting the company with cutting down of the rainforest – an allegation McDonalds have repeatedly denied. In Austria the head of the country's largest electricity company took a Greenpeace campaigner to court for defamation because he had said that building a new coal-fired power station was tantamount to wilfully killing people because of the additional deaths which would result from the greenhouse effect. The Austrian campaigner won, but at the time of writing the critics of McDonalds were still in court. (Lang 1996: 42–43)

The kind of repercussions described above is probably to be expected. As suggested repeatedly throughout this article, corporate managers and directors have immense powers, and also vast resources at their hands, and they can use these to circumvent the initiatives of investors or to try to put the pressure back on the shareholder activists. However, this is something that shareholder activists might have to accept if their campaigns are to become really effective.

Of course, not all self-sacrificing stunts of activists will be effective in getting powers outside the corporation to influence companies to change their ways. It should be emphasised again that, given the available (lack of) empirical evidence, it is hard to say in any more detail what investors should do to make a considerable difference in terms of corporate practices or societal outcomes. Through devising a radically self-sacrificial activist campaign and receiving help from powerful forces outside the corporate sphere, however, perhaps even individual investors could be able to push for corporate change. At least if these campaigns are sufficiently well-planned and carried out with sufficient efficiency.

Conclusions

According to most proponents of the SRI movement, investors who really want to make the world a better place should become shareholder activists and try to influence socially problematic companies «from within» to change their ways. In this article we have discussed different suggestions regarding what this recommendation might mean more exactly, and evalu-

ated these suggestions critically. Unfortunately SRI proponents present little empirical evidence of the efficacy of different kinds of shareholder activist campaigns. Judging from certain general characteristics of the corporate governance systems in place in different countries, however, it really seems quite difficult for most investors to make a non-negligible difference by taking a social stand in this way. The laws and power structures surrounding the decision making at corporate AGMs give a single investor so little power that the standard actions of filing and voting on shareholder resolutions seem to leave exceptionally little room for change and shareholder activists should most likely seek alternative ways of trying to influence companies.

Some of the suggestions that have been considered more promising are the suggestions that investors could write letters to or contact institutional investors and try to make them vote differently on resolutions; alternatively they could send press releases to the media with extensive information surrounding some morally problematic activities. Another suggestion is that they could try to charge companies with unlawful behaviour and bring them to court. Unfortunately, these suggestions plausibly would have to be rather time-consuming and costly to be effective. They may also make investors open to counter-charges from the companies in question, which may be extremely detrimental to both the reputation and the wallet of both individual and institutional investors. This raises the question of how probable is it that shareholder activists will see the proposed kind of radical campaigns as attractive. In the end, however, it would seem like these are the campaigns that both activists themselves and empirical researchers should look more into. At least if the overall goal of SRI is to influence companies and to thereby «change the world».

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Notes

- ¹ For an in-depth treatment of the appeal to consistency, see Sandberg (2007).
- ² In some countries, an extraordinary (or emergency) general meeting can also be called, but this is seldom done (cf. Maug & Rydqvist 2001).
- ³ It may be noted that I use this term in a broad sense here, i.e. to refer to all kinds of resolutions that shareholder activists may wish to introduce at corporate AGMs – including proposals of directors and so on.
- ⁴ According to Karpoff et al. (1996: 393), for instance, '[t]here is no persuasive evidence that [corporate governance] proposals increase firm values, improve operating performance, or influence firm policies'. See also Schepers (2003) for some critical comments in this context.
- ⁵ It may be noted that I follow the main bulk of the SRI literature here and focus primarily on Western countries with relatively well-functioning corporate governance systems (like the US, Canada, Western Europe and Australia). Obviously, the possibilities for efficient shareholder activism are even worse in many other countries where the corporate governance systems are quite different (cf. Sparkes 2002).
- ⁶ Since proposals should be filed at least 6 months prior to the AGM, in reality, investors need to have held the shares for at least 18 months. According to Lang (1996: 116), furthermore, 'companies do not normally announce the actual date of the AGM until a few weeks beforehand, thus making it very difficult to dovetail the two dates (particularly since the company is unlikely to have ever received an independent shareholders' resolution before, and will almost certainly not welcome it)'.
- ⁷ According to some writers, failed resolutions may have additional possibilities of influencing managers if they reach the kind of figures indicated in the quotes above, i.e. if they receive more than 3% or 10% of the votes. Under the U.S. corporate governance system, namely, a resolution which did not pass at an AGM can be put back on the following year's proxy ballot if it receives 3% of the votes the first year. In the second year it is 6% and after that it is 10% (cf. Vogel 1978; Sparkes 2002).
- ⁸ According to Powers (1971: 93), it is actually unclear whether such co-ordinations are legal – they may be in violation of anti-trust laws.
- ⁹ According to Vogel (1978: 94), for instance, '[t]he most important long-term impact of the Campaign to Make General Motors Responsible was that it began to erode the practice of institutional neutrality in stockholder elections'.
- ¹⁰ To these considerations, it may be added that corporate managers and directors often work closely together with institutional investors in drafting their resolutions and setting their agenda, since they know that the institutional investors are the dominant owners of the companies and, thus, have the ability to dominate the votes at the AGM. For this reason, I believe, institutional investors on their part are also more likely to want to collaborate with management than with individual investors – especially shareholder activists who, as I have said, tend to be rather anti-management. According to Strätling (2003: 76), for instance: 'In order not to tarnish the reputation of the companies they invest in, institutional investors are more likely to approach members of the board directly in order to raise grievances than to resort to shareholder proposals or to vote against recommendations of the board of directors.'
- ¹¹ It may be noted that one empirical study (Carleton et al. 1998) has been conducted on private negotiations between one of the largest pension funds in the U.S. and a number of companies targeted by them on corporate governance issues. According to this study, dialogue with managers was actually successful in over 90% of the cases. However, the authors themselves concede that this figure probably is not generalisable, and that we know very little about the average efficacy of dialogue with managers.