

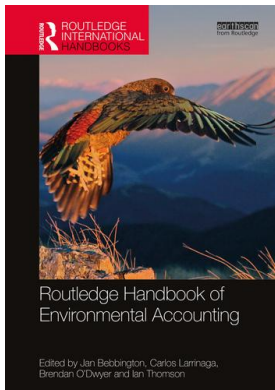
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11

SHAREHOLDER ACTIVISM AND THE ENVIRONMENT

Michelle Rodrigue and Giovanna Michelon

Introduction

Headlines such as “Investors push Exxon to list emission targets in annual reports” (Financial Times, 16 December 2018) and “Investors push power companies to end coal use by 2030” (Financial Times, 20 December 2018) are now common currency in newspapers and on social media. They represent vivid examples of shareholder activism on environmental issues, our focus of interest for this chapter. Through activism, shareholders voice to managers and boards their preferences and concerns with respect to environmental issues and rely on the power of their ownership status to generate change in corporate activities. More formally, shareholder activism can be defined as “actions taken by shareholders with the explicit intention of influencing corporations’ policies and practices” (Goranova and Ryan 2014, p. 1233). Through dialogue and engagement with companies, filing of shareholder proposals or/and discussions at the annual general meeting (AGM), activist shareholders take on a proactive role (as opposed to simply selling their shares) to stimulate transformations into environmental practices (Sjöström 2008). This chapter aims to offer a portrayal of shareholder activism on environmental issues,¹ in terms of its nature, history and current developments, and will end with some reflexions arising from our integration of academic research and trends in practice.

A brief history of shareholder activism²

Shareholder activism on environmental issues (and on social issues more broadly) emerged in the United States (US) in the 1960s and 1970s. At that time, individual investors (often called corporate gadflies), advocacy groups and religious organisations mobilised their small ownership into major corporations to request changes with respect to the major social and environmental issues of the time (Marens 2002). This movement contributed to underline the premise that “by investing in a company, one was indirectly supporting that company’s actions” (King and Gish 2015, p. 715) and emphasised the possibility for shareholders to proactively voice their concerns over company’s actions when they are at odds with their expectations and to pressure the companies for change.

In the 1980s and 1990s, in order to keep the momentum of their pressures on corporations, activist shareholders started seeking support from other large investors, such as pension funds

and asset management firms (Proffitt and Spicer 2006; Lee and Lounsbury 2011). Religious institutions remained the most active shareholders until the early 2000s, where investment and pension funds took centre stage (Michelon and Rodrigue 2015). Institutional investors and socially responsible investment (SRI) firms now dominate the environmental shareholder activism landscape (King and Gish 2015). This transformation of the field has also been accompanied by an increased professionalisation of activist investors. Shareholder groups coordinate, strategise, fill and track proposals through networks such as the “Aiming for A” Coalition, the Interfaith Center on Corporate Responsibility and the Ceres Investor Network. Within those networks, members are invited to collaborate in order to promote “leading investment practices, corporate engagement strategies and policy solutions” (Ceres 2019).

The significance of shareholder activism on (social and) environmental issues has also grown in importance over the years. While occurrences of all types of activism tactics cannot be fully documented, descriptive evidence on shareholder proposals (or resolutions) offers an evocative portrayal. In recent years, social and environmental proposals account for 50% or more of submitted requests in the US, with environmental concerns dominating the agenda (Copland and O’Keefe 2016, 2017), against about 20% documented in the early 2000s (Thomas and Cotter 2007). While support for these proposals rarely reaches the majority,³ a noticeable increase in the number of shareholders in favour of environmental proposals has been observed (Copland and O’Keefe 2016). While the phenomenon is prevalent in the US, shareholder activism on social and environmental issues is also on the rise in other regions. In Canada, for instance (see Serret and Berthelot 2013), shareholder activism emerged in the 1980s through advocacy groups. Shareholders became more active in the late 1990s, when the possibility to submit social proposals was facilitated by federal court, with the years 2000–2013 noting a significant increase in (social and) environmental resolutions among activist shareholders. On the other side, European companies are less likely to be targeted by proposals on environmental (or social) issues (Cziraki et al. 2010), mainly due to institutional, cultural and regulatory factors (Horster and Papadopoulos 2019).

Environmental shareholder activism literature: a multilevel approach

In order to provide an overview of the literature on environmental shareholder activism, we adopt a multilevel model addressing the antecedents, the process and the outcomes of the phenomenon (Goranova and Ryan 2014). While the antecedents portray the actors involved, the process opens a window into the tactics adopted by shareholders as well as into the conceptual lenses used to make sense of the phenomenon, and the outcomes summarise the impacts attributed to environmental shareholder activism.

Antecedents: who are the actors in play?

The historical account described above identifies many types of shareholders involved in activism. Broadly speaking, they can be grouped into two categories: special interest groups and mainstream investors. *Special interest groups* are said to be driven by a wider social purpose (principle or value based), and thus engaging in activism due to their environmental, ethical and social justice concerns (Sjöström 2008). We find among their ranks religious institutions and advocacy groups. They are activists becoming shareholders, in that their share ownership is just one of many mechanisms they mobilise to influence organisations (King and Gish 2015). The Dominican Sisters of Caldwell are an example of this type of activists, being particularly focused on the adoption of green practices. *Mainstream investors*, on the other hand, are shareholders

becoming activists. They are mainly institutional investors and socially responsible investment firms that engage with organisations on environmental issues, most likely out of financial concerns including risk management, returns and reputation (Sjöström 2008; King and Gish 2015). While their engagement may also be inspired by ethical values or principles, financial motives are likely to take precedence over environmental issues (Solomon et al. 2013), owing to their nature as traditional investors. Trillium Asset Management, for instance, petitioned the Chipotle restaurant chain to report on its contribution to pesticide reduction within its supply chain, in light of the criticality of pesticide use for the company's brand.

Regardless of the nature of shareholders' motivations, firms are typically more likely to be targeted by environmental shareholder activism when they hold greater "potential" for impact or change into environmental policies and practices (Goranova and Ryan 2014). Large and/or visible firms constitute relevant targets, as their status gives visibility to the activist campaign and attracts greater attention to the environmental matter at hand (Rehbein et al. 2004; Lenox and Eesley 2009). High polluters or firms in environmentally sensitive industries also attract activists' attention due to the significant consequences of their activities and hence the greater need for intervention (Rehbein et al. 2004; Lenox and Eesley 2009). Profitable firms are also under activists' radar, as their financial health is interpreted as a signal of resource availability to respond to shareholder environmental requests (Lenox and Eesley 2009).

The process: what are shareholders' tactics? How do we make sense of them?

Tactics

Shareholders may use different tactics in their attempt to stimulate change in corporate environmental practices. The nature of engagement with corporations varies significantly depending on the tactic adopted. When they choose to initiate *dialogue* with their target organisation, shareholders embark on a private engagement tactic aiming to negotiate some form of change with regard to the environmental issue at stake. While in its simplest form, dialogue could be limited to the exchange of information on environmental practices between both parties (Solomon and Solomon 2006), usually this dialogue requires ongoing, often long-term, communications between shareholders and corporations to secure an agreement (Logsdon and Van Buren 2009). In spirit, this agreement should enable shareholders and corporations to share common principles and find solutions that meet the interest of both parties (Rehbein et al. 2013). As the dialogue represents solely an opportunity to encourage change rather than a guarantee change will happen (Logsdon and Van Buren 2009), the agreement reached behind closed doors will then require further monitoring by shareholders to assess whether managers stay true to their word.

Shareholders can also decide to engage publicly with corporations through the filing of *proposals* for discussion and vote at the AGM, where their proposals are for all stakeholders to see. In these situations, the environmental campaign attracts visibility since it generates media attention and public discussion around the environmental issue at the AGM (and potentially on other tribunes as well). Such tactic is very common in the US, whereas it is less diffused elsewhere. Prior research suggests that the upmost value of proposals is not found in their short-term voting results. Since they expose problematic corporate activities to multiple stakeholder groups (Clark and Crawford 2012), they could represent a long-term engagement strategy to bring about changes in corporate policies and practices (Tkac 2006), pressure corporations to re-assess the challenged activities (Clark and Crawford 2012) and even generate changes within

non-targeted firms (Reid and Toffel 2009). In some situations, proposals will ultimately lead to *dialogue* with targeted corporations.

Divesting is also considered to be part of the arsenal of tactics at shareholders' disposal. For example, more and more investors pledge to divest from fossil fuel companies.⁴ Here, traditional economic arguments are mobilised to explain this tactic as the ultimate signal of shareholders' discontent which they express through selling their shares of the company, severing their ties with the environmental issue they condemn. Unfortunately, there is not much academic evidence as to whether this tactic actually drives a change in the underlying environmental practice of concern (or whether a systematic divestment from certain industries or products has gained sufficient momentum to trigger a strategic change in corporate operations). Furthermore, in instances where activist shareholders own a very small proportion of shares within a company, the economic signal sent by divestment is not likely to be perceived. This is where political motives for divestment may come into play. Indeed, religious organisations were shown to combine their divestment in targeted firms with public statements, in order to maintain the focus on the issue of concern and to keep on engaging with the corporation as stakeholders, transforming their "exit" strategy into an engagement strategy (Goodman et al. 2014).

Conceptualisations

Social movement and stakeholder theories stand out as prominent conceptual underpinnings to make sense of the (social and) environmental shareholder activism phenomenon (Goranova and Ryan 2014).

Social movement theory offers "insights into the process by which actors translate shared interests into collective action" (Davis and Thompson 1994, p. 152). It conceptualises environmental shareholder activism as a social movement, that is, a public, collective and organised action aiming to generate change – in this case shareholders mobilising to influence corporate environmental management and reporting. The theory is helpful to identify which *mechanisms* social movements may draw upon to influence the outcomes of collective actions (King 2008; Lee and Lounsbury 2011). *Routine disruption* aims at creating significant enough unease among managers to make them direct their attention towards the environmental issue at stake (Proffitt and Spicer 2006). *Resources and constituencies building* endeavours to gather support beyond social movement members, to add credibility to the movement and fuel its actions (Scheinberg and Lounsbury 2007). *Political opportunities* are "opportunities for mobilization imposed by the larger [social] movement environment" (King 2008, p. 29). When tied to the social movement's objectives, these opportunities reinforce the legitimacy of the movement and offer a springboard for action. Altogether, these mechanisms are conceptualised by social movement theory to potentially contribute to the success of the shareholder environmental movement (Reid and Toffel 2009; Lee and Lounsbury 2011).

Stakeholder theory is mobilised to explain the context in which firms would be responsive to activist shareholders' claims. Stakeholder salience and its attributes of power, legitimacy and urgency (Mitchell et al. 1997) are drawn upon to decompose the characteristics of the activist shareholders that are most likely to spur firms into actions (David et al. 2007). Stakeholder theory is also used in combination with social movement theory to explain which firms are likely to be targeted by shareholder activism (Rehbein et al. 2004). This view suggests that shareholders may be motivated to target certain firms to protect their interests and generate certain benefits, such as high returns or better risk management, and/or to define or affirm their identity as environmentally responsible shareholders (Rowley and Moldoveanu 2003).

Outcomes: are shareholders successful? What is “success”?

The purpose of environmental shareholder activism is to influence corporations to change their policies, practices and disclosures in order to better protect the natural environment. The explicit outcomes of such activism are thus framed in terms of corporate environmental management. Academic work offers evidence that shareholders achieve some transformation in this respect. Proposals on environmental issues have been shown to encourage participation in the Carbon Disclosure Project (Reid and Toffel 2009) and to improve environmental performance (Lee and Lounsbury 2011). However, firms targeted by environmental proposals are perceived to be riskier than their non-targeted counterparts, which negatively affects their financial performance (Vasi and King 2012). According to Logsdon and Van Buren (2009), dialogue between shareholders and investors represent the best way to secure change in corporations, although they are careful to categorise this change as incremental. Some instances of dialogue between companies and investors were reported to be useful for companies to improve their reporting practices (Solomon and Solomon 2006). Others portrayed dialogue as symbolic engagements with little underlying commitment on environmental matters (Solomon et al. 2013) or overly focused on discourses of risk and opportunities for investors and companies, casting aside environmental considerations for their own sake (Solomon et al. 2011). Altogether, knowledge regarding the environmental impacts of shareholder activism remains equivocal.

Many shareholders see value in their environmental activism beyond the explicit outcomes tied to the nature of their request. When public, shareholder activism raises awareness about or direct attention to problematic environmental issues both at the firm level (Rehbein et al. 2004) and among a broad range of stakeholders (Clark and Crawford 2012), which accentuate the legitimacy of their requests and campaigns. It can also have spillover effects, as some firms may proactively adapt their practices when witnessing their competitors being the targets of shareholder activism (Reid and Toffel 2009). Ultimately, some shareholder activists may have broader goals in mind than the explicit requests of their current campaign (King and Gish 2015). For example, shareholders engaging with corporations for increased transparency on greenhouse gas emissions might ultimately aim for encouraging a transition to a low-carbon business model. In this sense, different forms of activism might be woven together into a long-term influence strategy (Goodman et al. 2014). From this perspective, success in shareholder activism can be defined quite broadly, composed of various intangible effects that are hard to assess entirely (Tkac 2006). Some will even say that an activist shareholder's work is never done, as when an issue is “resolved”, it is time to address the next issue (Goodman et al. 2014).

Shareholder activism in the US and Europe: setting, topics and actions pursued in practice

This section is dedicated to providing an overview of which environmental topics and corporate actions are being publicly pursued by activist shareholders in recent years.

In the US, shareholder activism via submission of proposals is particularly common. Here, it is relatively easy and cheap for shareholders to advance their requests using proposals: any shareholder that has held shares in a publicly traded corporation valued at \$2,000 or more for at least a year can introduce a proposal for consideration (SEC rule 14a-8⁵). This official written demand is, potentially, up for discussion and vote at the AGM. It is important to note that submitted proposals may not be included in the proxy statement. Instead, targeted firms can decide to petition the SEC to be granted permission to omit the proposal from its proxy

statement, thereby indisputably indicating their non-responsiveness to the issue raised (Clark and Crawford 2012).

On the contrary, once a proposal is submitted, management could decide to engage with the sponsoring shareholders before the AGM and negotiate a course of action for their requests. Upon agreement, the shareholders will withdraw the proposal (David et al. 2007; Logsdon and Van Buren 2009). It is typically assumed that withdrawals are a signal that the company is more responsive to the issue at stake than when it allows a vote at the AGM (Tkac 2006; Clark and Crawford 2012). However, as explained above, discussion at the AGM grants visibility to the issue of concern and attracts the attention of all stakeholders.

If included in the proxy statement, all the shareholders will read the proposal and vote on it. Voted proposals, however, do not bind management into implementing the requested changes, even when they get a majority of votes. Regardless, as explained above, the ultimate goal of these proposals may not be the short-term voting outcome, but rather maintain the pressure high, gain support among the shareholder basis and keep management's attention on specific topics. Box 11.1 illustrates a case where the environmental issue of concern was not considered by the company, yet it generated increasing support among the shareholder basis and accentuated the pressure on the company.

Box 11.1 Activist shareholders on hydraulic fracturing: a short story of persistence and hostility

Hydraulic fracturing is a relatively recent method to extract oil and gas from low-permeability formations, such as shale and sandstone. By injecting a mix of water, sand and chemicals at a very high pressure, it creates small fractures in a formation and thus allows the oil and gas to flow through the fractures and up the production well to the surface, where they are collected and managed. Despite granting substantial access to oil and gas reserves, hydraulic fracturing remains controversial because of its potential ecological impacts (Howarth et al. 2011).

The first proposal on reporting about hydraulic fracturing appeared in the US proxy season 2010, targeting most of oil and gas companies, among which was ExxonMobil. The proposal was filed by a *coalition* of shareholders (pension funds, socially responsible investment funds and advocacy groups) dedicated to the aid and support of education, public broadcasting, environment and other selected areas of interest.

Fracturing operations can have significant impacts on surrounding communities including the potential for increased incidents of toxic spills, impacts to local water quantity and quality, and degradation of air quality. Government officials in Ohio, Pennsylvania and Colorado have documented methane gas linked to fracturing operations in drinking water. In Wyoming, the US Environmental Protection Agency (EPA) recently found a chemical known to be used in fracturing in at least three wells adjacent to drilling operations.

There is virtually no public disclosure of chemicals used at fracturing locations. The Energy Policy Act of 2005 stripped EPA of its authority to regulate fracturing under the Safe Drinking Water Act and state regulation is uneven and limited. But recently, some new federal and state regulations have been proposed. (...)

Media attention has increased exponentially. (...)

In the proponents’ opinion, emerging technologies to track “chemical signatures” from drilling activities increase the potential for reputational damage and vulnerability to litigation. Furthermore, we believe uneven regulatory controls and reported contamination incidents compel companies to protect their long-term financial interests by taking measures beyond regulatory requirements to reduce environmental hazards.

Therefore be it resolved,

Shareholders request that the Board of Directors prepare a report by October 1, 2010, at reasonable cost and omitting proprietary information, summarizing 1. the environmental impact of fracturing operations of ExxonMobil; 2. potential policies for the company to adopt, above and beyond regulatory requirements, to reduce or eliminate hazards to air, water, and soil quality from fracturing.

By reading through the proposal, we gain some insights into how shareholders bring forward their arguments and frame their issues. The proposal starts off reflecting on the environmental and health impacts of fracturing on the surrounding communities, and the lack of mandatory disclosure on fracturing chemicals. It recalls the public exposure of the issue in the media and the potential reputational damage and litigation risk. Thus, the shareholders formally request that the company issues a report discussing the environmental impact of fracturing operations and potential policies to minimise hazards. The recommendation of Exxon’s board is to vote *against* the proposal, essentially on the grounds that the company is complying with all regulation and any additional information would not be necessary.

The coalition of shareholders keeps pressure high by submitting the proposal for the following three years. Although the prominence of the proposal continues to grow, it never reaches the majority of votes (see Table 11.1). The board continues to recommend voting against the proposal in all years. In 2011 and 2012, Exxon even petitioned the SEC to omit the proposal from the AGM arguing – once again – that information was widely available in mandatory disclosures, that is, that the proposal was already “implemented”.

Shareholders mobilise also outside the AGM. For example, in 2013, a shareholder advisory group (As You Sow) and an investment advisory firm (Boston Common Asset Management), which also sponsored the proposals, issued a “transparency” ranking for companies operating with hydraulic

Table 11.1 Percentage of shareholder support for activist proposals

Year	Sponsor *	Status	% support
2010	As You Sow	Voted	26.3
2011	Park Foundation	Voted	28.2
2012	Park Foundation	Voted	29.6
2013	New York City Pension Funds	Voted	30.2
2014	New York City Pension Funds	Withdrawn	--
2015	As You Sow	Voted	24.9
2016	Park Foundation	Voted	24.5
2017	Park Foundation	Voted	38.7

* On behalf of several co-filers.

fracturing, entitled “Disclosing the Facts” (<http://disclosingthefacts.org/>). In this ranking, Exxon performed poorly, lying at the bottom of the ranking (discloses 2 items out of 32).

A change of direction occurred on 3 April 2014: the coalition announced that it will withdraw the most recent proposal from discussion at the AGM due to an agreement reached with the company (with the help of other external constituents). Unfortunately, six months afterwards, on September 30, the Washington Post reported that the disclosures provided by the firm do not report the information the firm and shareholders agreed upon. “Exxon continues to discuss generalized practices but provides no concrete data on whether it is actually reducing risks and impacts at each of the plays in which it is conducting fracking” are the reported words of Danielle Fugere, President of As You Sow.

In 2015, the shareholder proposal campaign is reactivated. Exxon transparency score is still among the lowest in the 2015 Disclosing the Facts Report and the proposal was debated and voted for in the 2015 AGM. Despite gaining relatively lower votes than in 2013 (see Table 11.1), the proposal still attracts considerable support with its all-time highest proportion in 2017, when the coalition changed the focus of the proposal from hydraulic fracturing per se to “reporting on methane emission”. Regardless, ExxonMobil continues to seek to exclude the proposal from voting or recommends voting against it.

Although this example is a case of “no change” (we are not aware that ExxonMobil has – at the time of writing – satisfied shareholder requests), it illustrates that shareholders are persistent in their requests for more transparency, despite the hostile responses from the firm. It also narrates a story of organised actions, where the campaign is not only addressing the corporation publicly during the AGM, but also through other mechanisms, such as the production of transparency rankings, aimed at publicly shaming opaque corporations. Furthermore, it tells us that shareholders closely monitor if and how companies implement the requests, even after reaching an agreement.

There have not been resolutions on hydraulic fracturing (or methane emissions) targeting Exxon in most recent years. However, the coalition of shareholders continues to provide annual transparency scores on hydraulic fracturing. ExxonMobil’s transparency score continues to be low (even in 2019), but the industry seems to be slowly improving, as the average transparency score is increasing.

References and useful sources

Howarth, R. W., Ingrafea, A. and Engelder, T. 2011. Should fracking stop? Extracting gas from shale increases the availability of this resource, but the health and environmental risks may be too high. *Nature*, 477(7364), 271.

The text of shareholder proposals can be retrieved in the proxy statements (form DEF 14A) through the SEC EDGAR file (www.sec.gov/edgar/searchedgar/companysearch.html).

A search in the ISS/IRRC (Institutional Shareholder Services/Investor Responsibility Research Center) database in the period 2015–2017 reveals a total of 465 proposals submitted to 224 US companies on environmental issues (representing about 20% of all submitted proposals), quite evenly distributed in the three years. On average, in each year

companies are targeted by 1.3 proposals, but there are few notable exceptions. For example, three companies in the oil industry (Chevron, Dominion Energy and ExxonMobil) are targeted with more than 13 proposals each over the period considered. Interestingly, about half ($n = 222$) contain requests aiming at improving *reporting and disclosure* of environmental issues. Other types of requests include *action on business operations* ($n = 160$), and changes in *policy or governance structure* ($n = 83$). Among the most common environmental reporting requests are proposals asking companies to produce a sustainability report, report on policies addressing climate change and climate change risk, as well as reporting information about corporate greenhouse gas emissions. Few other proposals encourage companies to disclose information about recycling policies, or other more industry-specific items such as use of pesticides, hydraulic fracturing, deforestation, palm oil and renewable energy. Most of the proposals that require adoption of policies or changes in business operations focus on reducing greenhouse gas emissions, adopting (or producing) renewable energy and taking action to tackle climate change impacts of corporate operations. Governance-related proposals generally ask to establish a board committee to tackle environmental responsibilities, link management remuneration to environmental criteria and appoint a director with environmental expertise. Overall, climate change and carbon risk feature highly among activist shareholders' priorities.

Michelon and Rodrigue (2015) noted that, up to 2009, proposals demanding action on business operations were more likely to be omitted from discussion at the AGM, suggesting that these types of proposals typically do not trigger a positive response from companies. However, proposals that focus on reporting and disclosure were more likely to be voted for and less likely to be omitted. Similarly, in the period 2015–2017, 2.7% (6.9%) of proposals asking for reporting (actions) were omitted, and 68% (51.2%) were voted, leaving 29.3% (41.9%) proposals to be withdrawn. On average, voted proposals have 22.63% of votes in support, with proposals asking for reporting obtaining the highest support (27%).

Shareholder proposals are less common in Europe than in the US, mainly due to the institutional features of European markets and regulations,⁶ as well as due to the different nature of the shareholder basis (Renneboog and Szilagyi 2013). Not least, European companies are leaders in sustainability reporting (KPMG 2017), compared to the US counterparts, and generally more engaged on sustainability, in line with the different regulatory developments and political commitments of the European Union (Renneboog and Szilagyi 2015; Horster and Papadopoulos 2019). This does not imply that shareholders do not engage with companies. Rather, they are more likely to voice their concerns through shareholder dissent over management proposals, that is, shareholder votes cast in opposition to the board's voting recommendation (Cziraki et al. 2010; Sauerwald et al. 2016).

Cziraki et al. (2010) documented only 290 proposals submitted by shareholders in Europe over the period 1998–2008, with only 21 of them being on social and environmental issues. Renneboog and Szilagyi (2015) however also reported that over the period 2005–2010, the management themselves put up for vote a total of 439 proposals, mostly related to charitable donations and political expenditures. A search in the Minerva database suggests that in the period 2015–2017, only 15 proposals were submitted by shareholders on environmental issues, seven of which asking for specific environmental information, and eight to adopt specific policies or change business operations to tackle issues related to climate change, renewable energies and strategic resilience in the transition to a low carbon economy. This last campaign goes beyond European borders as it was launched by a coalition of investors that targeted companies worldwide. Box 11.2 illustrates this campaign.

Box 11.2 Climate change and strategic resilience

In December 2014, concern grew among shareholders that the oil and gas sector was not adequately preparing itself for the transition to a low carbon economy and the related necessary industrial changes. Despite the fact that shareholder proposals are rare in the UK market – and if anything – more common in the context of proxy fights (where shareholders are seeking a change of management), a group of shareholders known as the “Aiming for A” coalition filed a resolution at BP Plc (United Kingdom) and Royal Dutch Shell Plc (The Netherlands).

The “Aiming for A” coalition includes the Local Authority Pension Fund Forum, a number of UK and international pension funds, the UK Church Investors Group as well as US and Canadian faith investors. The coalition was convened by CCLA Investment Management in 2011/2012, to support extractives and utilities companies in preparation for the low-carbon transition. Ultimately, the proposals called for increased disclosures on the assessment and management of systemic risks that unmitigated temperature rises pose for the global economy and therefore to the companies’ short-, medium- and long-term commercial resilience, in terms of business models and capital expenditure plans in the context of the shift to a low-carbon energy mix:

That in order to address our interest in the longer term success of the Company, given the recognised risks and opportunities associated with climate change, we as shareholders of the Company direct that routine annual reporting from 2017 includes further information about: ongoing operational emissions management; asset portfolio resilience to the International Energy Agency’s (IEA’s) scenarios; low-carbon energy research and development (R&D) and investment strategies; relevant strategic key performance indicators (KPIs) and executive incentives; and public policy positions relating to climate change. This additional ongoing annual reporting could build on the disclosures already made to CDP (formerly the Carbon Disclosure Project) and/or those already made within the Company’s Annual Report and Sustainable Development Report.

The management of both Shell and BP recommended shareholder support to the resolutions, as being in the best interests of the company and its shareholders and the resolutions passed with 98.8% and 98.3% in Shell and BP, respectively.

The following year (2016), the US members of the “Aiming for A” coalition submitted to Chevron and ExxonMobil the same proposals. Both companies petition the SEC to omit the proposal but were not successful, and despite the vote against recommendation put forward by both boards, the proposals received 40.8% and 38.1% of votes in support at Chevron and ExxonMobil, respectively.

Following the relatively high support received on the proposal, in March 2017 Chevron published its first “Managing climate change risks” report, and this led the coalition to withdraw their proposal from the 2017 proxy season, illustrating that strong votes (albeit not a majority) can lead to company action.

On the contrary, ExxonMobil maintained its hostile response to the initiative, trying to omit again the proposal from the AGM but unsuccessfully. Some 62% of shareholders voted for the resolutions, against the board recommendation (The Guardian, 31 May 2017).

Companies like ExxonMobil seem to be generally resistant to requests to disclose information about its management of climate risk or other environmental issues. In its 2014 report “Energy &

Carbon – Managing the Risks”, the company stated that a 2°C scenario does not merit examination because it is “not reasonably likely to occur” (2017 Investor Climate Compass). Shareholders maintain pressure on Exxon in recent years, with nine shareholder resolutions on climate change from 2014 to 2019. The Securities and Exchange Commission (SEC) has also increased scrutiny on Exxon’s climate risk reporting.

This box illustrates not only that shareholder activism on the environment is a global phenomenon, with coalitions of shareholders spreading across national borders, but also speaks to the increasing importance that investors put on environmental risk, and in particular climate change. It also narrates that corporate response varies across different countries, and that some companies are more likely to engage and listen to shareholders than others. Furthermore, it suggests that shareholder attention on certain issues may attract scrutiny by different stakeholders, including regulators.

References and useful resources

Full information about members of the “Aiming for A” coalition can be found at: www.ap4.se/globalassets/dokument/rapportarkiv/2015/institutional-cofiling-group-bp-and-shell-2015.pdf

The full text of the resolution can be downloaded at: www.iccr.org/special-resolution-strategic-resilience-2035-and-beyond.

The Guardian: www.theguardian.com/business/2017/may/31/exxonmobil-climate-change-cost-shareholders

2017 Investor Climate Compass: www.eenews.net/assets/2017/05/15/document_cw_01.pdf

Conclusion

Our overview of environmental shareholder activism offers some rays of hope. It shows that some shareholders are concerned about environmental issues (with climate change at the top of their list) and endeavour to leverage their ownership to pressure corporations into change. The tenacity of some shareholders on the matter is noticeable and some accomplishment cannot be denied. But our overview also underlines some causes for concerns. The fact that US shareholder proposals focus on requesting additional environmental information rather than changes in operations harming the environment is troubling, as it is likely to lead to incremental rather than substantive changes (if any) and to direct managers’ attention towards reporting rather than action (Gold & Heikkurinen 2018). More broadly, the co-existence of two motivations for activism, the principle-based motivation of special interest groups and the financial motivation of mainstream investors, is disquieting, since the dominance of the latter in the investment world could be a threat to the legitimacy of the former (Michelon et al. 2020).

Ultimately, this chapter generally highlights how environmental shareholder activism represents a fertile ground for research. In some respect, environmental shareholder activism remains a “black box”, as the inner workings of activism campaigns have not been explored yet. We know little about how investors view and approach activism, how they mobilise – and whether it matters for securing change and what type of change. For example, as the tactic of dialogue occurs behind closed doors, access is challenging for academics. Given that dialogue is viewed as one of the most effective tactic (Logsdon and Van Burren 2009), undertaking scholarly work on the matter may lead to useful insights. Similarly, while the tactic of divestment has been adopted for some time, the effectiveness of the approach in transforming the problematic

activities remains to be assessed. Paying attention to how shareholders' motivations shape their tactics and strategy is also of importance. Additionally, as presented in Boxes 11.1 and 11.2, corporate responses to activism vary in many respects and deserve further attention. Of particular interest is the impact of shareholders' motivation (principles or profit) on both the recognition and response to their request.

Altogether, these questions point towards one of the most challenging – and also one of the most significant – avenues of research on shareholder activism: the way success is defined, shaped and assessed. Not only academic research on the explicit outcomes of environmental shareholder activism is ambiguous, but the broader consequences of activism are also the basis of various speculations (and hopes) with little accompanying evidence. Our exploration into practice suggests that persistence could play a role in securing and maintaining some changes. Among the many questions to pursue, we encourage reflecting about the following: on what grounds can we affirm that environmental activism is successful? Successful for whom? Is it enough for activism to meet shareholders' (performance) expectations? Only once we better understand what success is and how it is shaped will we know whether environmental shareholder activism can play a significant role in tackling the enormous environmental challenges of our time.

Notes

- 1 Broadly speaking, there are two streams of shareholder activism: (1) financial shareholder activism, focusing, for example, on governance, executive compensation, etc.; and (2) social shareholder activism focusing on societal considerations such as environmental protection, labour conditions, etc. (Goranova and Ryan 2014). This chapter concentrates on a subset of the latter, namely, environmental activism, although it will refer to social activism more generally when appropriate.
- 2 Our brief historical account covers shareholder activism on social and environmental issues altogether as both types of activism share similar roots.
- 3 Box 11.2 features an exceptional case where proposals received majority support.
- 4 <https://gofossilfree.org/divestment/commitments/>.
- 5 www.ecfr.gov/cgi-bin/text-idx?SID=797d170e7970e40bfe223dfe9b8e0bbf&mc=true&node=se17.4.240_114a_68&rgn=div8
- 6 High ownership requirements make it difficult to file proposals in most markets (especially for individual investors) – <https://corpgov.law.harvard.edu/2019/01/07/climate-change-and-proxy-voting-in-the-u-s-and-europe/>.

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