One Proxy at a Time: Pursuing Social Change through Shareholder Proposals

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Don't be evil. This directive is Google's corporate motto and perhaps the most succinct proclamation of the notion of corporate social responsibility (CSR). While it seems that no one could argue with the desire for a corporation not to "do evil," the related conviction, that corporations should take positive steps in order to "do good," is controversial. According to economics and finance textbooks, the sole goal of a corporation is to maximize shareholder wealth. But some investors believe that corporations have the power and responsibility to act to benefit others: workers, the local community, the environment, and even humanity as a whole. These activists, both individuals and institutions, alone and in organized groups, seek to reduce pollution, increase workplace diversity, safeguard human rights around the world, eliminate animal testing, or improve third world access to medicine, among other goals. Activist investors operate from within the corporation, using their legal rights as shareholders to place socially responsible resolutions on corporate proxy statements, to be voted on by all shareholders at an annual meeting.[1]

CSR shareholder activism is a little-studied area in modern financial markets.[2] This article uses a comprehensive data set to shed some economic light on several questions, including, Why is CSR controversial? Who are these activist investors? What firms do they target? What do they ask for, and how successful are they?

Should Corporations Engage in Socially Responsible Business Activities?

Socially responsible investors and activists answer this question with a resounding yes and follow up with one of two reasons: because being socially responsible is good business practice or because the world will be a better place with socially responsible corporate behavior. To better understand the motivations, requests, and actions of social resolution sponsors, let us look at each rationale in turn.

When a business case can be made for CSR, it is in both the firm's and society's best interests for the firm to engage in the recommended behavior, whether it be increasing the proportion of environmental packaging or strengthening international labor standards. Socially responsible actions will lead to higher profits, benefiting shareholders as well as overall social welfare. Occasionally activists argue that there is a direct link between a change in corporate operations and cost reductions. More typically, however, the channels through which an increase in profitability is claimed to occur are only indirectly related to a firm's financial performance: building goodwill and trust, increasing exposure (advertising, in effect), and improved employee satisfaction.

In these indirect business-case justifications, consumers' and employees' positive feelings are claimed to increase sales and profits. Underlying this business case for CSR is a fundamental assumption that at least some consumers prefer buying products that allow them to "do good" and may even be willing to pay a little more for products or services that claim to help solve the world's problems.[3] Whole Foods Market Inc. and the Body Shop are examples of businesses built on this model. Their customers are not only buying environmentally friendly, premium products but also, perhaps, experiencing some satisfaction from participating in the stores' social mission.[4]

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Many firms that do not sell their socially responsible reputation as explicitly as Whole Foods does also use a business case as a rationale for decisions to have a climate change policy, to strengthen labor standards, or to make charitable donations. Even if no direct or easily measurable relation links these actions and firm revenues, the firm may perceive that being a good corporate citizen results in positive publicity and the potential for greater customer goodwill and loyalty.

In all of these cases, socially responsible corporate actions are good business that benefits shareholders. Given the right incentives to maximize profits, corporate management should actively seek out and implement such strategies. Therefore, while some activist investors will cite a business case for their proposals, such opportunities are likely to be exploited even without a formal shareholder proposal.

Instead, most proxy proposals implicitly rely on the second rationale for responsible corporate behavior: a corporation has a responsibility to society and the community. CSR advocates believe the world will be a better place if corporations undertake socially motivated policies and actions. One prominent and definitive statement of this philosophy was stated in a letter by Google's founders, Larry Page and Sergey Brin, to prospective shareholders prior to the initial public stock offering in 2004: "We believe strongly that in the long term we will be better served—as shareholders and in all other ways—by a company that does good things for the world even if we forgo some short term gains." CSR activists see corporations as powerful tools for social change because of their economic power and public visibility, and some activists are quite willing to sacrifice some financial gains in order to achieve these goals.

Not everyone agrees that a CSR agenda benefits society. A notable example of this viewpoint is Milton Friedman's well-known 1970 *New York Times Magazine* editorial titled "The Social Responsibility of Business Is to Increase Its Profits."[5] At its heart, the argument is not one over the desirability of doing good deeds but over the role of corporations in the provision of such services. Opponents argue that charitable services—for instance, improving the living standard of laborers in Southeast Asia—are best provided by individuals through other organizations such as charitable organizations and churches. Firms, it is argued, are organized to provide goods and services, and everyone is better off if firms limit themselves to pursuing maximizing profits as their sole objective.

The concern here is not that firm shareholders are necessarily worse off if the firm pursues a costly socially responsible agenda but rather that the economy as a whole will suffer.[6] If firms have dual objectives, capital will not be allocated according to its most productive use given the general legal and social environment. This efficiency loss can be translated into a welfare loss for the economy as a whole—a drag on the level and possibly the growth rate of the standard of living. Often proponents of CSR draw a distinction between what's good for a corporation (maximizing profits) and what's good for society (less pollution, higher wages, etc.) with little or no regard for the costs of such policies in terms of less production of goods and services. With an efficient capital market to optimize the production of goods and services and return maximal profits to shareholders, social goals are in a better position to be met by other means, including private donations (out of the corporate profits) and nongovernmental organizations.

The conflict between these two opposing views on the social responsibility of corporations is personified by social activists who would like corporations to maintain a dual objective and firm management who are compensated, both implicitly (in the labor market for CEOs) and explicitly via their pay packages (such as options, performance-based pay, etc.), for the financial performance of the firm. CSR activists have a large toolbox of potential strategies to attempt to influence corporations even if they are not stockholders. For example, People for the Ethical Treatment of Animals (PETA) uses advertising, public outreach and education campaigns, and demonstrations to raise awareness of its concerns and promote change. An important complement to these strategies, for those activists who are or become stockholders, is the shareholder proposal (also known as a shareholder-sponsored resolution). Activists can use these proposals to lobby the management at individual firms to undertake CSR reform such as tightening environmental controls and implementing antidiscrimination policies, among others.

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1. Many activist investors use shareholder proposals as part of a larger campaign to effect social change. Some activists use additional strategies such as media campaigns, consumer boycotts, and divestment programs in which stock is not held in firms that are pursuing socially undesirable policies or activities.
2. Most studies of shareholder activism in the financial research literature focus on shareholder proposals relating to issues of corporate governance. For a survey of such papers see Karpoff (1998), Black (1997), and Gillan and Starks (1998). Chidambaran and Woidtke (1999) and Thomas and Cotter (2005) are examples of studies that include statistics on social proposals as well. Other literatures have focused on shareholder activism more from a sociological, rather than an economic, perspective. Examples include Profitt (2002) and Graves, Waddock, and Rehbein (2001).
3. The 2001 Corporate Citizen Watch Survey (Hill&Knowlton/Harris Interactive) found that 36 percent of consumers consider corporate citizenship an important factor in their purchasing decisions.
4. Whole Foods' "Declaration of Interdependence" (www.wholefoodsmarket.com/company/declaration.html) emphasizes sustainability, stewardship of the environment, and community involvement. The Body Shop's values include promoting human rights, eliminating animal testing, and environmental protection (www.thebodyshopinternational.com/web/tbsgl/values.jsp).
5. *New York Times Magazine*, September 13, 1970. See also "Rethinking the Social Responsibility of Business," www.reason.com/0510/fe.mf.rethinking.shtml, October 2005.
6. If firm shareholders know of the CSR agenda of firm management, they can make their own decision as to whether to own stock, thus relegating investor "harm" to the cases in which management takes unobservable or unexpected actions that meet social goals, while decreasing profits, but are not valued by some shareholders.

The Basics of Shareholder Proposals

The process of submitting a shareholder proposal to be included on a proxy statement is regulated by Securities and Exchange Commission (SEC) Rule 14a-8. Any shareholder who has continuously held shares for one year worth at least $2,000, or 1 percent of firm value, may submit at most one proposal of 500 words or less per annual meeting. The costs to the submitting shareholder are not large—the firm pays for the printing of proxy statements and mailings to shareholders.[7] However, the submitting shareholder is required to be present at the annual meeting to present the proposal to shareholders.

Activist investors use their legal rights as shareholders to place socially responsible resolutions on corporate proxy statements, to be voted on by all shareholders at an annual meeting.

A shareholder cannot submit just any proposal, however, and be assured that it will be included on the proxy and put to a shareholder vote. The firm's management can petition the SEC to exclude a proposal on several grounds, including cases in which the proposal (1) reflects a personal grievance, (2) requires the firm to violate state, federal, or international law, (3) relates to operations accounting for less than 5 percent of the firm's assets, sales, and revenue, or (4) deals with a "matter relating to the company's ordinary business operations."[8]

This last rationale is the one that most firms cite when seeking to exclude social activists' proposals. The pivotal term here is "ordinary business operations," which includes day-to-day management of the firm, production, and the workforce as well as those issues on which stockholders "would not be in a position to make an informed judgment." Each exclusion needs to be approved by the SEC and is requested at the discretion of firm management. This discretion means that some firms will request permission to exclude proposals that other firms allow to go on the proxy statements. Proposals that are excluded are said to be "omitted"; examples include a call for NBC to fire Tom Brokaw and a request for Shoney's to report on their equal opportunity employment practices.

Shareholders may resubmit proposals each year, but firms are allowed to exclude proposals that previously did not receive more than 3 to 10 percent of the vote, depending on how many times the proposal was voted on previously and the amount of time between submissions. These exclusionary criteria and resubmission requirements are in place to deter repetitive frivolous proposals and their associated costs to the firm and ultimately to shareholders in general.

Shareholder proposals, even if they receive a majority vote of the shareholders, are precatory, or nonbinding, on corporate management. Therefore, shepherding a proposal through to a vote and even garnering widespread shareholder support are not guarantees of corporate action or even a response in the form of an open dialogue. This feature reduces the level of shareholder proposals. Were majority-supported proposals binding, there would likely be more proposals, more petitioning of the SEC for omission, more public campaigns to woo shareholder votes, and more firms going private to avoid this cost of being publicly owned.

Data on Shareholder Proposals

The data used here to study socially responsible shareholder activism are from the Investor Responsibility Research Center (IRRC) and include all social shareholder proposals monitored by the IRRC over the 1992–2002 period. IRRC is an independent corporation providing research and analysis on corporate proxy activity to a variety of institutional investors and organizations. This particular data set does not include any corporate governance proposals related to issues such as board structure, CEO compensation, and poison pills.[9] The raw data contain information on the proposal topic (an IRRC code), a more precise statement of the resolution, the proponent/sponsor, the corporation targeted, year, status (withdrawn/voted on/omitted), and percentage vote, if applicable. In total, during this period there were 2,829 social shareholder proposals.

To better organize the analysis, each proposal was assigned an additional topic code (see the sidebar on page 16). For example, proposals calling for the restriction of gene-engineered food sales by Procter and Gamble and actions to reduce nuclear accidents at PG&E power plants were both categorized by IRRC as "energy and environment" proposals. The new topic code in this article places the former proposal in the "food/agriculture" category while the latter is categorized as an "energy" proposal. Similarly, I aggregate the IRRC data on proposals concerning withdrawal from South Africa, maquiladora operations, and human rights for workers in Burma into a topic titled "international operations." In addition, a categorization was created to sort the resolution proponents into the six types described below: Individual shareholders, pension funds, unions, religious organizations, social organizations, and socially responsible mutual funds. Finally, the data were expanded via extensive research to determine the final outcomes of the proposals that were withdrawn by proponents before the annual meeting. Using Internet searches, proponent and company Web sites, annual reports, and personal contacts, information was found on 298 of the 859 withdrawn proposals and coded to indicate the type of corporate-proponent interaction (for example, action by the firm, dialogue, no action) that prompted the withdrawal.

Who Engages in Social Activism via Shareholder Proposals?

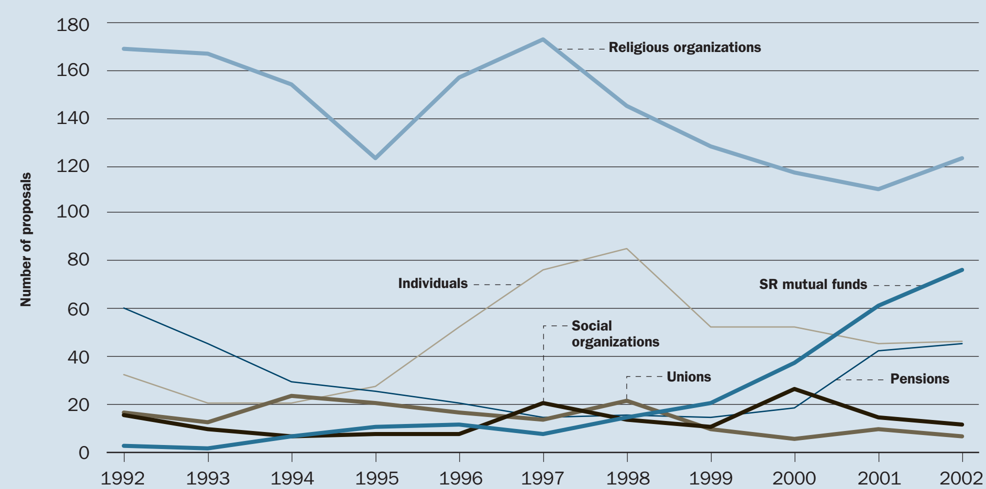
The shareholders who sponsor social resolutions can be categorized into several distinct groups according to their goals, motivation, and level of organization.

1. Individuals—Investors who meet the ownership requirements with their individual stockholdings in a particular firm. These investors typically do not act in a coordinated fashion. A few, such as Evelyn Davis, have risen to the level of "corporate gadfly" because of their persistent sponsorship and vocal participation at annual meetings (see Trigaux 2002). Among these activists, the motivation to pursue shareholder activism stems from personal preferences.
2. Pension funds and endowments—Large institutional investors consisting mostly of defined benefit public pension funds (NYC, CalPers, etc). While a pension fund should arguably be motivated to pursue financial returns on behalf of beneficiaries, some papers have argued that these public pension funds are pursuing political goals.[10]

7. The SEC reports that the average estimated cost to the firm of including a shareholder proposal is $87,000—$50,000 for printing distribution and tabulation of the votes and $37,000 to determine if the proposal should be included. This cost has fallen more recently because of the SEC's approval of the Internet as a means of distributing proxies and shareholder information.
8. Other permissible reasons for exclusion of a proposal include duplication of another proposal, issues relating to board membership elections, cases where the firm has already implemented the proposal or the action is not within the power of the firm to implement, and proposals dealing with specific amounts of cash or dividends. For a full discussion, see SEC Rule 14a-8.
9. The data set does include proposals to increase the ethnic and gender diversity of corporate boards.
10. See Romano (2001) and, for a more detailed study of the activism programs of several public pensions, Del Guercio and Hawkins (1999).

3. Unions—Labor unions such as the AFL-CIO and the UBCJWA (carpenters and joiners) that manage multiemployer defined benefit pension funds. While the data include proposals from eighteen different unions, only a few sponsored more than one proposal from 1992 to 2002. In the years since 2002 the unions have withdrawn from social advocacy and focused entirely on corporate governance proposals. Unions have engaged in the political process through donations, endorsements, and policy advocacy since their inception, so their interest in social shareholder activism is not surprising. While union pensions have the same goal as public and private pensions (to meet beneficiary obligations), unions also have another well-defined motive—benefiting union workers, particularly the members of their union. Union pension funds pursue social shareholder activism most strongly among the firms that employ their members. For example the Communication Workers of America submitted proposals at GTE, AT&T, and Ameritech.
4. Religious organizations—The Interfaith Center on Corporate Responsibility (ICCR) is the primary coordinator of shareholder proposals by religious organizations. ICCR is a coalition of 275 faith-based institutional investors; members (and examples) include churches (the Episcopal Church), pensions (the United Methodist Church pension), orders (the Sisters of Charity), faith-based health care corporations (the Advocate Health Care System), and religious foundations (the Catholic Foundation/Aquinas Funds). As evidenced by this list, ICCR member organizations are largely though not exclusively Christian. In their own words, ICCR members "utilize religious investments and other resources to change unjust or harmful corporate policies, working for peace, economic justice and stewardship of the Earth." The motivations of this group draw on common religious values, and the goals center on social and economic justice.
5. Social organizations—Thirty-six different nonreligious organizations, each founded to promote social change of a relatively limited scope. For example, the mission of the Jessie Smith Noyes Foundation is to "protect and restore Earth's natural systems and promote a sustainable society," and it sponsors proposals seeking to restrict gene-modified products and limit environmental hazards. PETA, on the other hand, is solely interested in issues related to animal rights. Shareholder activism is a slightly less natural strategy for these groups, compared to religious organizations, since they may not have a natural pool of invested assets, such as a pension, on which to base their stockholder activism. Also in contrast to religious organizations is the individual, noncollective nature of their activism.
6. Socially responsible mutual funds—Firms such as Calvert, Domini, and Pax that manage mutual funds for investors who want to invest their money according to ethical guidelines. Effectively, these firms engage in shareholder activism as a business, and this motivation distinguishes this group from the others described here. These funds typically follow a two-part strategy: screening out investments that are not, by their definition, socially responsible, and investing in some such stocks while targeting them with proposals to change their behavior. These mutual funds strive to provide both the performance and social criteria that their investors demand. This goal may lead socially responsible mutual funds to be more strategic than other activist investors. Specifically, fund managers likely weigh costs and benefits, in terms of return performance, to decide which stocks to screen out and which to pursue with shareholder resolutions. Not surprisingly, since their shareholder activism is part of the service being sold by these funds, mutual funds report more information on investment policies, activities, and results than other socially responsible investor groups.

Figure 1
Number of Proposals over Time by Proponent Group



Source: Compiled by the author from IRRC data

Socially Responsible Shareholder Activism over Time

On average, 257 different proposals were submitted each year between 1992 and 2002. While the yearly number of proposals has remained relatively stable over time, ranging from 212 in 1995 to 303 in 1997, this stability masks some interesting comparisons and trends across the various proponent groups.

Figure 1 provides a look at the number of proposals made by each type of proponent over the years 1992–2002. A few features of the data stand out. During each year, religious organizations made the largest number of proposals. This pattern may reflect the fact that religious organization proponents are predominantly members of the umbrella organization ICCR and agree on many social issues. The existence of ICCR therefore facilitates proposals via economies of scale in organization and implementation. The social organizations group, in contrast, is made up of many distinct groups with no common agenda (for example, PETA and Friends of the Earth). Thus each group must mount its own campaign to address the issue(s) in which it is interested. Individuals, like social organizations, are also a diverse group but post a large number of proposals in aggregate because of the presence of a few very active investors; for example, Evelyn Davis accounts for 69 (14 percent) of the 507 proposals submitted by individuals.

The second feature that stands out is the recent rise in shareholder activism by socially responsible mutual funds. In 2001 and 2002 these mutual funds submitted more proposals than individuals did and nearly two-thirds the number sponsored by religious organizations. It is unclear what motivated this growth in activism, but it coincides with the bear market of 2000–02. Socially responsible mutual funds may have turned to activism as a way to add value for investors when the return performance on the portfolios suffered. The relative inactivity of unions in the social proposal arena is evident as well. In recent years the unions have become much more active in corporate governance–related proposals rather than the social proposals analyzed here.

Table
Top Fifty Targeted Corporations, 1992–2002

Company	Number of Shareholder Proposals
General Electric	86
Chevron/Texaco	64
Exxon/Exxon Mobil	60
Philip Morris	54
AT&T	46
General Motors	42
JPMorgan Chase	38
RJR Nabisco	38
DuPont (E.I.) de Nemours	37
Citicorp/Citigroup	35
PepsiCo	35
United Technologies	30
Wal-Mart Stores	29
Loews	28
Unocal	26
Bristol-Myers Squibb	25
IBM	25
Johnson & Johnson	25
GTE	24
Ford Motor Company	23
UST	23
Lockheed Martin	23
Boeing	22
Atlantic Richfield	21
Merck	19
Procter & Gamble	19
American Brands	18
Minnesota Mining & Manufacturing	18
Raytheon	18
American International Group	17
Baker Hughes	17
Kmart	17
McDonald's	17
Abbott Laboratories	16
Dillard's	16
Donnelley (R.R.) & Sons	16
American Express	15
Lilly (Eli)	15
Time Warner	15
Caterpillar	15
Cooper Industries	14
Disney (Walt)	14
Eastman Kodak	14
Aetna	13
American Home Products	13
Chrysler	13
Sears Roebuck	13
Allied Signal	13
Dayton Hudson	13
Anheuser-Busch	12

Source: Compiled by the author from IRRC data

Thus, shareholder proposals are a nontrivial and consistent feature of the modern financial market. But what are these activists asking for? What firms are they targeting? And how successful are they in prompting a change in corporate behavior?

What Corporations Are Targeted by Social Activists?

During the period studied, 566 different corporations were targeted by social proposals. Two hundred one were targeted only once while seventy-three were targeted ten times or more (see the table). Recall that by SEC rules, multiple shareholders may not submit the same resolution in the same proxy season. Therefore, these numbers represent distinct proposals and involve no double counting.

What drives an activist's decision to target one corporation rather than another? Foremost among the targets are corporations that are pursuing policies or operations that activists wish to change. These targets include manufacturing firms producing pollution in their production process and firms operating in countries where labor is cheap and abundant. Target firms also may have market power that activists want to tap in order to economically force a change in other agents' behavior. Among these would be firms that buy inputs from suppliers that have vendors in cheap labor countries. Finally, high-profile target firms are likely to value consumer goodwill and may undertake actions for this reason; these firms are not engaging in explicitly irresponsible behavior but have the "name" to aid in social change. Therefore, it is not surprising that manufacturing firms are targeted more than service or technology firms, which are much less likely to pollute and employ outsourced labor. Larger firms are targeted more than smaller firms with less economic power and less name recognition.[11]

For the socially responsible mutual funds, there may also be an unstated relation between the expected return on a corporation's stock and its likelihood of being screened out of the portfolio. The fund manager's desire to post good fund performance implies that the higher the expected return on the stock of a firm, or the lower its correlation with the remainder of the portfolio, the more likely a stock is not to be screened out but rather to be held by the fund and targeted.

This list shows that activists are actively and directly targeting only a small fraction of public corporations. While General Electric, the most targeted firm in this period, faced an average of eight proposals per year, the fiftieth-ranked firm received only an average of one per year. Indeed, most publicly traded corporations in the U.S. market did not experience even one proposal in this time period. It is important to note, however, that there may well be a larger, indirect effect on firms that are economically similar to the targeted firms. Successful activism may alter the actions of some corporations, thereby putting pressure on their competitors to follow suit because they do not want to be a target in the future. These positive byproducts of shareholder activism may also guide an activist's choice of targets. Firms that attract more media attention and at which success is more likely will strengthen these indirect effects and are more likely to be targeted.

Shepherding a proposal through to a vote and even garnering widespread shareholder support are not guarantees of corporate action or even an open dialogue.

One measure of whether success is more likely is if a corporation has a reputation of being a good corporate citizen. If so, the company's top management may be more willing to listen and to act on the concerns of socially activist investors. To assess whether this type of company is targeted, the data on all proposal targets are matched with a list of the 100 Best Corporate Citizens, compiled each year by *Business Ethics* magazine. To be on the list, a firm must score well in its service to four stakeholder groups: stockholders, employees, customers, and community. In 2000–02, the years for which *Business Ethics* created its list, 14.5 percent of the proposals submitted were targeted at firms that are good corporate citizens. This result suggests that activists also include the likelihood of success in their calculus when choosing proposal targets rather than targeting only poor corporate citizens.[12]

What Are the Activists Asking For?

The answer to this question comes in two parts. First, on what topics or social issues are the activists submitting resolutions? Second, what type of action is being requested? For example, does the resolution ask for a report to be issued or for a substantive change in operations?

A full list of all resolution topic categories can be found in the sidebar on page 16. Overall, the three most common topics for shareholder proposals are international conduct, environmental issues, and antidiscrimination; the least common topics are media/TV and animal rights. One way to understand this ranking is to recall that shareholder activism is a tool to effect social change, a tool that is complementary to other methods such as political action, publicity campaigns, and boycotts. Important issues of the day that a large fraction of the population is concerned about are more likely to be pursued by all methods, including shareholder activism. This reasoning might explain the prevalence of resolutions involving international conduct during a

11. See Romano (2001), Thomas and Cotter (2005), and Del Guercio and Hawkins (1999) for studies of the targeting decisions of activist investors in the case of governance proposals.
12. The targeting of these corporations may also reflect some disagreement among activists as to what constitutes good citizenship.

period that included the passage of NAFTA and rising concerns over globalization. The level of public support or awareness is not the only driver of shareholder activism. The relatively small number of proposals on animal rights, for example, may reflect both a relative lack of widespread support along with a preference among these activists for other methods such as reducing consumer demand for animal products.

The characteristics and motivations of the various proponent groups are also helpful for understanding the distribution of social issues pursued (see Figure 2). As a group, social organizations have the least concentrated activism strategy, submitting proposals in fifteen of the sixteen topics. This pattern is not surprising considering that social organizations are a very diverse group, each with their own issue of concern. A similar observation holds for activism by individuals. In some issues, such as energy, animal rights, or reproductive issues, social organizations and individuals are responsible for all, or very nearly all, of the proposed resolutions.

Successful activism may alter the actions of some corporations, thereby putting pressure on their competitors to follow suit because they do not want to be a target in the future.

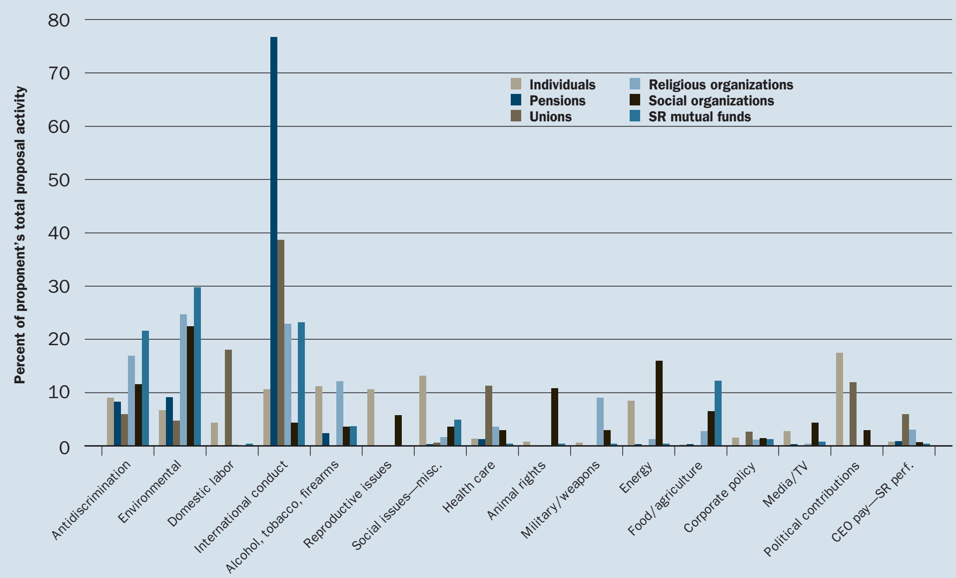
In contrast, pension funds have the most concentrated proposal strategy, with almost 70 percent of their proposals within the topic of international conduct, predominantly related to labor issues and antidiscrimination policies overseas. This concentration aligns with another significant area of pension fund proposals, domestic antidiscrimination issues. What explains the activism of pension funds in these areas and not others? These topics are in some ways the least controversial in the socially responsible universe. It is difficult to find a person who would mount an argument in favor of discrimination based on age, race, gender, or other personal characteristics. Since the pension funds pursuing activism are public funds representing government workers in their states, they are subject to the scrutiny of a diverse group of constituents, including state legislatures. It is plausible that this scrutiny would lead pension funds to pursue issues on which there is the most consensus.

Unions sponsor a large number of employment-related proposals (for example, international conduct and domestic labor). Some of these proposals, such as those asking for higher wages in nonunion jobs or better working conditions overseas, can be seen both as a concern for economic justice and as a way to benefit union employment. When the nonunion workers are direct substitutes for union labor, a higher wage for nonunion workers makes the union workers relatively more attractive. In addition, the labor movement began as a social movement and has long included political activism; issues like economic justice and the need for workers to unite to put pressure on corporations to act ethically are part of union history and culture. Thus shareholder activism can be seen as a modern tool in a long history of union activism.[13]

Like pension funds, socially responsible mutual funds serve a heterogeneous group of investors or beneficiaries. Mutual fund investors, however, can directly guide their investments to funds that they prefer—in this case, where their individual preferences include a desire for high performance and some shareholder activism activity. These mutual funds then would be expected to engage in proposals that match the priorities of a range of socially responsible investors. Socially responsible mutual funds do indeed have a diverse strategy, splitting their proposal activity more evenly than pension funds across environmental issues, antidiscrimination, international conduct, and food/agriculture. Implicit in their choice of activism issues and targets is, of course, the motivation to invest in firms that are likely to perform well.

On the question of the type of action requested by activists, recall that shareholder proposals are, for many activists, only one step in a long campaign to effect a change in

Figure 2
Distribution of Topics by Proponent



Source: Compiled by the author from IRRC data

corporate policies or actions. Therefore, what activists ask for and what they want may be two different things. The design of a shareholder resolution is a strategic one: Ask for too much and you may get nothing, ask for too little and risk leaving your objective unmet. Often activists claim to adopt the latter strategy as a way to open the door to future proposals or dialogue. Given these considerations, it is plausible that activists are asking for some corporate action in their proposals that is less than or equal to their final goal.

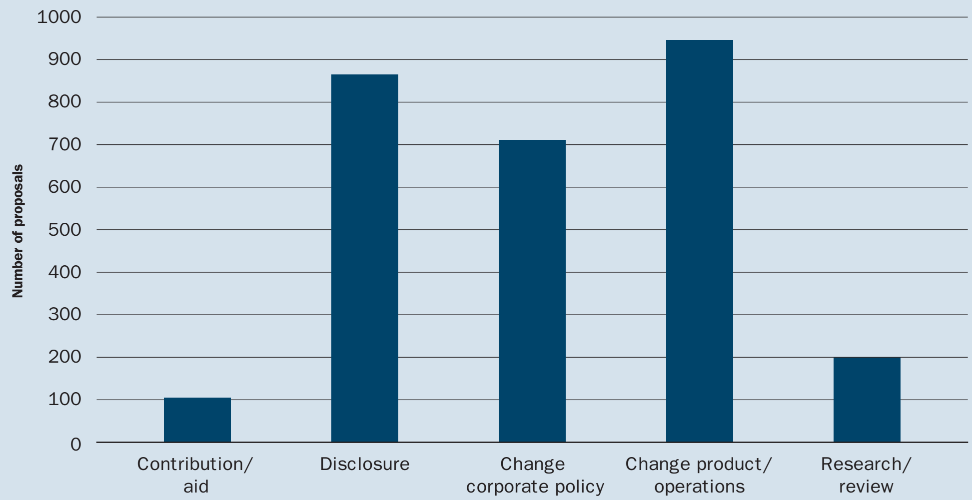
With this observation in mind, what are activists asking for? Figure 3 displays the content of shareholder resolutions coded by the requested action. In principle, activists could ask for any of the following actions in their specific proposal:[14]

1. make a contribution or extend financial aid;
2. disclose information or issue a report;
3. change a corporate policy unrelated to production or main business;
4. fundamentally change operations, production, or marketing practices, including price; or
5. research or review an issue.

The most common type of action requested is a well-defined change in corporate policy or a fundamental change in operations (items 3 and 4 above). Examples of a requested change in corporate policy are the endorsement of the MacBride Principles (nondiscrimination in Northern Ireland) or a call to increase board diversity. Policy

13. Interestingly, in more recent years (since the end of this data set in 2002), unions have switched their shareholder activism strategy to sponsor corporate governance proposals rather than call for socially responsible firm behavior. See Thomas and Cotter (2005).
14. This categorization was designed by the author and each proposal was assigned an action code based on the description of the resolution supplied by the IRRC.

Figure 3
Action Requested in Shareholder Proposals



Source: Compiled by the author from IRRC data

changes like this are requests for solid action but do not relate directly to the firm's operations or the selling of its main product. In contrast, a proposal asking Philip Morris to stop selling tobacco products cuts to the core of the firm's business or profits. Other examples of these proposals are a request to reduce carbon dioxide emissions or to change pricing policy to make drugs cheaper in developing countries. Actions requiring a substantive change in production methods or those that fundamentally affect a firm's core business are the most likely to be eligible for omission by the SEC and are hence the least likely to be successful.[15]

The second most common proposal type is one requesting disclosure of information that the corporation already possesses, such as an equal employment opportunity report. One of the most common disclosure requests is for information on environmental impact and compliance with the Ceres Principles, a ten-point code of environmental corporate conduct formulated by the Ceres organization.[16] The disclosure proposal typically serves one of two purposes: either as a first step in establishing an issue as worthy of corporate concern or to facilitate monitoring as a follow-up to corporate action.

Much less often, shareholders request that a firm conduct a review of a social issue (for example, gender pay equity or suppliers' labor standards). Implicit in these requests is the ultimate disclosure of information compiled as a result of the review or research process. Finally, about 4 percent of proposals (105 of 2,826) request that the corporation initiate or discontinue contributions to a particular social cause; the most common requests related to reproductive issues. Not surprisingly, perhaps, these requests come from individual investors and religious and social organizations. Pension funds, socially responsible mutual funds, and unions did not sponsor any such proposals during this period, perhaps reflecting a desire to pursue less specific and potentially controversial proposals.

With the exception of the requests for contributions, all shareholder groups proposed all types of proposals with respect to the actions desired on the part of the corporation. Unions, in particular, focused on disclosure requests related to their interest in labor standards for overseas production operations and corporate political contributions. This information would not otherwise be available, and, without it, no further campaign to change corporate policy or operations could be attempted.

How Successful Are Activists?

It is difficult to observe the success of shareholder activism. True success occurs when the corporation takes the action desired by the shareholder. However, the ultimate goal of proposal sponsors is not always obvious and often is not confined to the action requested in the proposal. For example, an activist asking for a report on radiation emissions may be ultimately trying to get the firm to reduce emissions or perhaps even to close down a plant. In the analysis here, the focus is on the final disposition of shareholder proposals as indicators of activist success: Is the proposal omitted by the SEC? Is it withdrawn by the sponsoring organization? Or is it carried to a vote of shareholders? Finally, does the corporation actually meet the requests for action?

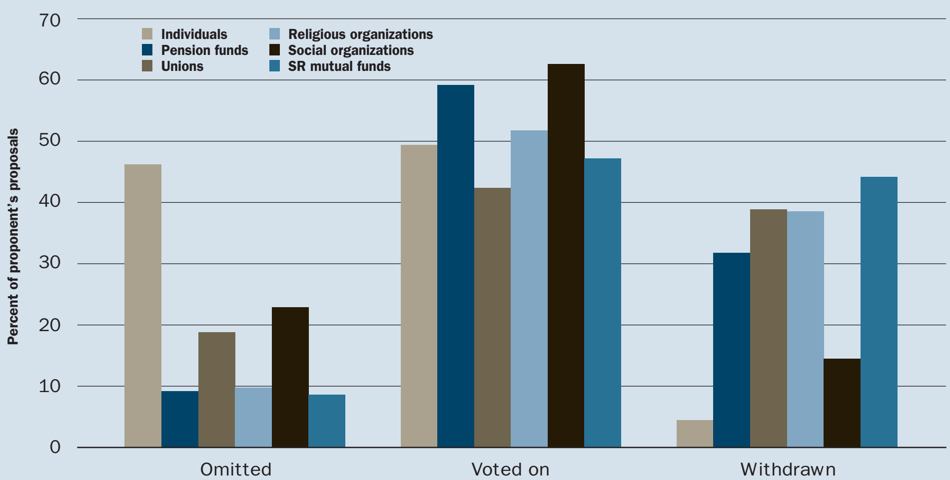
The design of a shareholder resolution is a strategic one: Ask for too much and you may get nothing, ask for too little and risk leaving your objective unmet.

A few more details regarding the resolution process will be helpful in interpreting the data on activist success. The actual filing of a social resolution depends largely on the shareholder or group sponsoring the resolution. Institutional shareholders such as socially responsible mutual funds, pension funds, and religious organizations often attempt a dialogue with the company prior to pursuing a resolution.[17] It is not unreasonable to assume that individuals may e-mail or call to voice their opinions, but the likelihood of a corporate response to such an approach is relatively low versus dialogue with a larger, institutional investor. Thus the fact that a resolution is even sponsored may indicate that initial attempts to change corporate behavior or actions have failed. This possibility suggests that some shareholder activism occurs under the radar and that the analysis of resolution data may understate the success of activists' efforts.

Although neither omitted nor withdrawn resolutions result in a shareholder vote, these two outcomes are very different with respect to assessing activist success. An omitted resolution is one that has been actively challenged by the firm. Moreover, the firm's opinion that this resolution concerns matters that are not within the shareholders' purview is officially supported by the SEC. Effectively, omitted proposals are dead proposals and a clear instance of activist failure at using a proxy proposal to prompt social change. In contrast, a withdrawn resolution usually signals some type of action on the part of the corporation—dialogue, agreement to resolution, or some other compromise. Withdrawal can be viewed as indicating some level of success.[18] Indeed, as shown below, the data support this association as well.

15. The next section includes a discussion of this issue.
16. See www.ceres.org for more information on the Ceres Principles and the Ceres coalition of institutional investors and corporations.
17. For an interesting case study of TIAA-CREF negotiations on corporate governance proposals, see Carleton, Nelson, and Weisbach (1998).
18. Further strengthening this view is the low cost of continuing a proposal through to a vote. The sponsoring shareholder needs only to show up at the annual meeting. Thus, there seems to be no obvious reason for an activist shareholder to withdraw a resolution other than to please firm management in return for some corporate action.

Figure 4
Distribution of Proposal Outcomes by Proponent



Source: Compiled by the author from IRRC data

The interpretation of proposals that go to a shareholder vote is even less clear.[19] Since a corporation is not bound to enact a shareholder resolution even if it receives a majority of the shareholder votes, there is no reason to think that a vote percentage gives much of an indication of the likelihood of corporate action. Vote percentages can, however, be seen as a measure of the depth of shareholder support, and in this sense higher totals may be an achievement for certain proposals sponsors, buttressing their other efforts for social change and allowing the campaign to continue with resubmission of the proposal in the future.

With these observations in mind, we turn to the data (see Figure 4). Overall, 17 percent of proposals are omitted via petitioning of the SEC. Across proponent groups, individual investors are the least successful when judged by the percentage of proposals omitted. Nearly 45 percent of proposals sponsored by individuals are omitted (as are roughly 20 percent of proposals by unions and social organizations). In contrast, less than 10 percent of proposals sponsored by socially responsible mutual funds, religious organizations, and pension funds are omitted. The low levels of omitted proposals by socially responsible mutual funds and religious organizations are likely the result of their expertise in submitting proposals and choosing targets. Via the ICCR, religious organizations have a great deal of experience running coordinated activism campaigns and thus can be expected to be selective and efficient in their proposal activity. Similarly, socially responsible mutual funds are selling their activism as a service to fund investors, implying that they have a strong profit incentive to be successful.

The higher omission rates partly reflect the topic of the proposals submitted by the sponsoring groups. For example, reproductive issues are sponsored by only individuals and a few social organizations, and 78 percent of these proposals are omitted, most on the grounds of a violation of proxy rules or the ordinary business exemption. And, as mentioned earlier, pension funds tend to sponsor proposals on less controversial social issues.

Interestingly, of the five types of action, proposals requesting a fundamental change in production or operations are the least likely to be omitted (12 percent). This fact might seem surprising given that matters relating to the company's ordinary business operations can be omitted under rule 14a-8. The low omission rate of these proposals may reflect a more nuanced interpretation of the rule via precedent from prior SEC decisions. Many proposals that directly relate to a firm's core business are allowed to continue to a shareholder vote. Examples of such proposals that went to a vote include a proposal to Gerber Foods to eliminate direct advertising of infant formula and a call for General Electric to withdraw from the weapons business.

Roughly half of all proposals (52 percent) are taken to a shareholder vote. Of these, the average level of shareholder support is 8.2 percent while the median is 7 percent. Indeed, only four of the 1,472 proposals in the data set that went to a shareholder vote won the support of more than 50 percent of the shareholders.[20] The low vote percentage may reflect little support among the larger group of shareholders or the withheld votes of large institutional investors. Conventional (non–socially responsible) mutual funds and many pension funds and endowments commonly withhold votes on social issues, but this abstention is effectively counted as a vote against the proposal.[21]

A withdrawn resolution usually signals some type of action on the part of the corporation—dialogue, agreement to resolution, or some other compromise—and can be viewed as indicating some level of success.

Withdrawn proposals account for almost a third of all social proposals. The relative rates of withdrawal across proponent groups are consistent with the supposition that withdrawal of a proposal indicates some dialogue, compromise, or action on the part of the corporations. Individual shareholders and social organizations hold smaller stock positions than organizations like socially responsible mutual funds, unions, or religious organizations. Thus their ability to gain the attention of corporate management is much lower. Indeed, individuals and social organizations have the lowest rates of withdrawal of their proposals, 3 percent and 15 percent, respectively, compared to withdrawal rates of 40 to 45 percent for unions, religious organizations, and socially responsible mutual funds.

19. Voted-on proposals are often resubmitted in subsequent years, indicating a clear lack of action on the part of the corporation following the prior submission. These same proposals, however, disappear from the data at some point; this disappearance may reflect either a satisfactory corporate response or the termination of an activist campaign due to the lack of the potential for success. Thomas and Cotter (2005), using data from SEC filings and press releases, report a corporate response rate of 0.05 percent for voted-on social proposals.
20. Information regarding a corporate response was available for three of these four proposals that received a majority shareholder vote. CBRL Group Inc. (the publicly traded parent company of Cracker Barrel) explicitly adopted the antidiscrimination policy requested in the proposal while the other two firms appear to have substantively undertaken the actions requested. In one case, current JCPenney rules demand "strict compliance with all applicable laws and regulations of the countries of manufacture" after a 1996 proposal to report on labor standards for overseas suppliers. Additionally, while no definitive response of Chase Manhattan Bank (formerly Chemical Bank) was found following a proposal to "support new international financial safeguards" in 1996, the current environment initiatives for JPMorgan Chase include participation in several environmental lending standards.
21. For shareholder proposals related to corporate governance, rather than social responsibility, studies show that the vote totals and the support of institutional investors is much higher. This pattern is not surprising in that governance proposals are aimed at increasing firm value, an objective on which all shareholders are presumed to agree. See Karpoff (1998) for a survey and Thomas and Cotter (2005) for more recent vote totals.

Examples of Proposals by Topic

Diversity/nondiscrimination
- EEO reports
- Board diversity
- Predatory lending
- Report on glass ceiling
- Domestic partner benefits (both pro and con)
- Sexual orientation nondiscrimination (both pro and con)

Environmental
- Adopt Valdez/Ceres Principles
- Radiation releases
- Greenhouse gases (CO_2 emissions)
- "Pure Profit" environment risks
- Alaska National Wildlife Refuge drilling

Domestic labor
- Workplace standards
- Health and safety policy
- Plant closings

International conduct
- World debt crisis (debt cancellation criteria/policy)
- Foreign operations in Northern Ireland, South Africa, Burma, China, Nigeria, and maquilidoras
- NAFTA
- Labor standards for overseas suppliers
- Child/slave labor
- ILO standards
- Implement MacBride Principles

Alcohol, tobacco, firearms
- Decrease youth smoking, tobacco sales
- Smokefree restaurants
- Gun sales

Reproductive issues
- Contributions to abortion providers
- Contraception warnings

Social issues—miscellaneous
- Matching shareholder gifts
- Charitable contributions (both pro and con)
- Social criteria for financial decisions

Health care
- Health care policy and reform
- Drug pricing/restraint
- Marketing of infant formula

Animal rights
- Animal research

Military
- Foreign military sales and contracts
- Star wars/space weapons
- Land mine production
- Economic conversion of military assets
- Criteria for military contracts

Energy
- Energy conservation
- Nuclear plants (information and closure)
- Sustainable energy policy
- Alternative power sources

Food
- Genetically modified food (label, report, phase out)
- Milk, dairy pricing

Corporate policy
- Implement ethical criteria for board outsiders
- Money laundering
- Corporate tax benefits and subsidies

Media
- Reduce television violence/raise broadcast standards
- Eliminate negative images in marketing ads

Political issues
- End or disclose political donations
- Affirm nonpartisanship
- Enact shareholder vote on political donations

Executive pay—tie executive pay to
- Social performance
- EEO record
- Health care quality
- Overseas labor standards
- Reduction in teen smoking

In an effort to obtain a clearer picture of the effects of corporate activists and the type of success that is represented by a withdrawn proposal, the interaction between firm and proposal sponsors was researched for the 859 withdrawn proposals. Web sites (of both proponents and firms), Google searches, newspaper databases, and direct contact with proposal sponsors yielded information on 298 (35 percent) of these withdrawn proposals. Given the tendency of proponents to trumpet successes and hide failures and the tendency of the media to find corporate action more newsworthy than proponents who back down from proposals, this sample of 298 proposals likely contains a high percentage of corporate response. This likelihood provides a lower bound on the number of withdrawn proposals that were successful (in the sense that corporations responded sufficiently to prompt a withdrawal) and an upper bound on the activists' success rate. With an appropriately broad definition of "successful," including any corporate response, dialogue, or action, the absolute number of successes is likely higher while the success rate overall is likely somewhat lower.

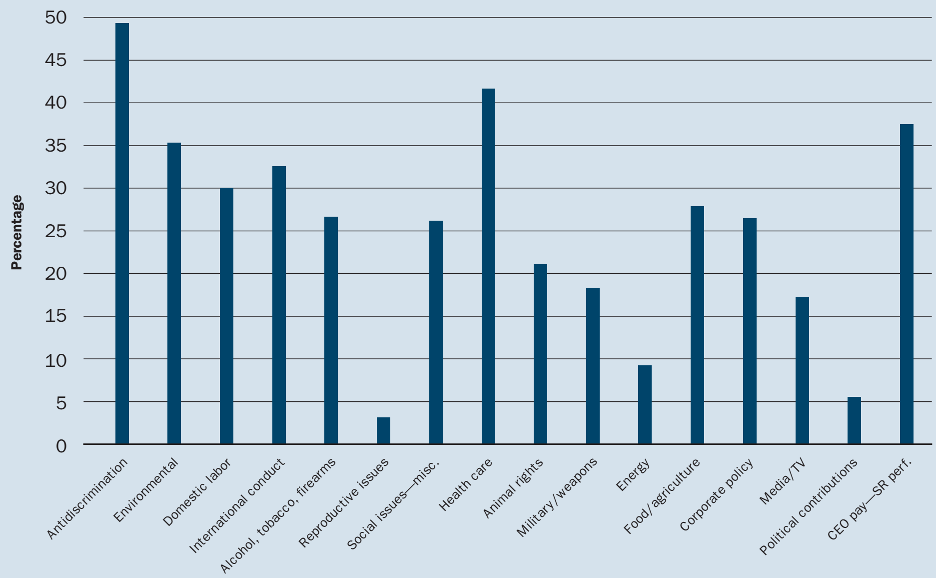
The total impact of CSR activism is quite difficult to measure but likely larger than the estimates provided here.

In 79 percent of the 298 withdrawn resolutions for which follow-up information was obtained, the final outcome was a concrete action on the part of the firm. In most of these cases the firms agreed to take the action requested by the shareholder, whether it was, for example, to implement the MacBride Principles, withdraw operations from Burma, or release U.S. Equal Employment Opportunity Commission (EEOC) data. Another 19 percent of the resolutions resulted in dialogue between activists and the firm without any commitment to action on the part of the firm. This outcome may be interpreted as a concession by activists in some sense since the firm did not change its behavior during the observation period. Activists, however, often argue that dialogue is a positive step and leads to future changes in corporate behavior. Indeed, the data reveal several cases in which prolonged dialogue resulted in eventual action on the part of the firm. In only three cases was there a report of no interaction between the activist and the firm after a proposal was withdrawn. These data support the idea that withdrawn proposals can be viewed as activist successes.

Therefore, 30 percent, the percentage of withdrawn proposals in the entire data set, is a reasonable lower bound on the rate of success of socially responsible shareholder activists. If the analysis is restricted to only the nonomitted proposals, this success rate increases to 36 percent of the proposals that might have gone or did go to a vote. Moreover, among the withdrawn proposals some evidence was uncovered of positive corporate responses (action) following shareholder votes even though these votes are not binding and did not reach majority status in any case. This finding further increases the estimate of activist success.

But how should we interpret this success rate? Is it high? One possible comparison is to shareholder proposals requesting corporate governance reforms. These proposals request changes in executive compensation, antitakeover measures, and board structures, among others. Chidambaran and Woidtke (1999) analyze withdrawn corporate governance proposals and find that only 17.6 percent of governance proposals are withdrawn compared to 43.5 percent of social proposals in their sample period (1989–95). Used as a measure of firm response or action, these higher levels of withdrawals for social proposals are not surprising. Governance proposals directly relate to corporate control and, in some cases, the compensation of top management.

Figure 5
Percentage of Proposals Withdrawn by Topic



Source: Compiled by the author from IRRC data

Firm management would plausibly be less likely to acquiesce on these issues that directly affect their status and livelihood.[22]

Using the withdrawn status of a proposal as a measure of activist success, one can construct a rough measure of activists' success rate given the topic of their proposal.[23] Figure 5 illustrates the percentage of proposals withdrawn for each of the sixteen proposal topics. Antidiscrimination proposals are the most effective or successful. Roughly half of all these proposals are withdrawn likely because they often call for a relatively low-cost response, such as a statement of nondiscrimination policy or a release of information regarding EEOC practices (which is merely a public disclosure of information the firm is required to report to the EEOC). The figure clearly shows, however, that activists are successful and able to effect some corporate change in a wide variety of categories. The only topics in which activists have a success rate less than 10 percent are reproductive issues, energy, and political contributions.

Conclusion

Enticed by the economic power corporations wield, many social activists and organizations have embraced the potential for corporations to be agents for social change. Pursuing this goal through shareholder proposals and the corporate ballot box has often been a successful strategy, especially for religious organizations, unions, and socially responsible mutual funds. When sponsored by these organizations, 40 to 45 percent of proposals during the 1992–2002 period were withdrawn, likely indicating some type of corporate response. For the 35 percent of withdrawn proposals for which information on the activist-firm interaction could be located, almost 80 percent resulted in a concrete corporate response, including either an ongoing dialogue with the sponsoring group or the implementation of the proposal itself.

To maximize the impact of their campaigns, activists most commonly target large, well-known corporations. Achieving a corporate response from these firms increases publicity and puts pressure on competitor firms to follow suit in order to avoid negative publicity and yield a potential competitive advantage to their rivals. For example, in 2004 Bank of America and Citigroup, facilitated by the Rainforest Action Network, competed to formulate increasingly comprehensive and strict climate change policies. Thus the total impact of CSR activism is quite difficult to measure but likely larger than the estimates provided here.

As discussed, social responsibility is not universally accepted as a desirable objective for corporate decision making. Perhaps the most telling development regarding the increasing power of CSR activists is the new phenomenon of anti-CSR shareholder proposals.[24] What was once taken as a given—that the sole objective of corporate management was to maximize the profits of the firm—is now clearly in doubt.

22. Carleton, Nelson, and Weisbach (1998) find that TIAA-CREF, the pension fund for university faculty and administrators, was very successful in negotiating with firms to adopt governance changes during the period 1992–96. Seventy-one percent of firms they targeted with proposals took action prior to a shareholder vote; however, these proposals concerned the relatively less contentious issues of board diversity, the issuance of blank check preferred stock, and confidential voting.
23. This measure does not include the proposals that were voted on by shareholders, which cannot be confidently assessed as either successes or failures.
24. The Free Enterprise Action fund has targeted several corporations in an effort to eliminate CSR policies and programs. See www.freeenterpriseactionfund.com/advocacy.html.

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