

**Domesticating Radical Rant and Rage:
An Exploration of the Consequences of Environmental Shareholder Resolutions on
Corporate Environmental Performance**

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Abstract

This paper examines the effect of socially-oriented shareholder activism on one of the most visible aspects of corporate social behavior, namely corporate pollution management practice. Drawing from the literatures on social movements and organizational theory, we predict that environmental shareholder activism will have a significant influence on the environmental practice of the targeted firms by way of stirring up unwanted negative publicity. Moreover, we theorize that certain firms targeted by shareholder activism are more likely to respond positively to the demands. In particular, firms that are more dependent on reputation and sensitive to shifts in public perception such as larger and older firms as well as firms that are closer to end-user consumers are more likely to concede to the demands from shareholder activists. We use a thirteen-year panel data of 98 industrial facilities belonging to 66 public corporations to test the effect of environmental shareholder resolutions as well as its interactive effects with various firm characteristics on the environmental performance of the targeted firms. Results from a fixed-effect analysis show that environmental shareholder resolutions do have a significant effect on corporate environmental performance, and larger and older firms as well as firms that are closer to end-users are particularly responsive to the shareholder resolutions.

Every year, Coca-Cola holds its annual shareholders' meeting not in its headquarters city, Atlanta, but in its place of incorporation, quiet Wilmington, Del., in the Hotel du Pont, built by the industrialist at the turn of the last century—a century, one supposes, that Coke prefers to the current one. The crowd he faced was altogether different from the complacent gatherings of years past. The audience of roughly 400 people was an odd assemblage of simmering college students, angry water-rights activists, angrier labor-rights activists, dismayed employees, watchful plainclothes security, and white-haired shareholders bewildered by their stock's 52 percent plunge from its high of \$88 in 1998 (Morris, 2006).

The scene of Coca-Cola's annual meeting is not an abnormal, isolated event. In fact, many executives of large corporations today are faced with similar situations where activist shareholders dominate the agenda in corporate annual meetings. While annual meetings have historically been a symbolic event, rubber stamping executive intentions, the sharp increase in social activism within annual meetings has dramatically altered their dynamics. A recent report by Institutional Shareholder Services writes, “in the wake of the corporate scandals and reforms that have followed, some corporate leaders have come to the view that social and environmental issues merit the same level of discussion and disclosure as other aspects of corporate governance” (Taub, 2004). Management consulting firms such as PriceWaterhouseCoopers even began to publish manuals for CEOs on how to anticipate and deal with questions related to social and environmental issues at annual shareholder meetings (PriceWaterhouseCoopers, 2003).

This recent ascendancy of what might be usefully referred to as *social shareholder activism* focuses on the broader societal impacts of corporate behavior, as opposed to narrower, more instrumental issues related to the welfare of particular groups of shareholders (conventional shareholder activism). While social shareholder activism was importantly enabled by the rise of conventional shareholder activism—especially related to the efforts of large institutional investors such as CalPERS—the study of more conventional forms of shareholder activism has

garnered more attention, limiting our overall understanding of social shareholder activism (For an overview of the literature, see Crane, 2008; Margolis & Walsh, 2003; Orlitzky, Schmidt, & Rynes, 2003). To the extent social shareholder activism is examined, it is often embedded in broader analyses of how various stakeholders affect corporate social performance. For example, in their analysis of corporate social performance, Rehbein, Waddock and Graves (2004) showed that perceived quality of management was influenced more by stakeholders such as customers and employees than social activists. We also have a handful of other case studies and reviews of the history and current state of social shareholder activism (Hoffman, 1996; O'Rourke, 2003; Tkac, 2006) and studies on the effect of shareholder activism targeting specific social issues such as South African apartheid (Kumar, Lamb, & Wokutch, 2002; Meznar, Nigh, & Kwok, 1994, 1998).

We aim to advance knowledge of how social shareholder activism affects corporate social performance by examining the organizational characteristics that make firms more likely to respond to such activism positively. To do so, we draw on research at the interface of social movements and organizational theory (e.g., Davis et. al., 2005; Rao, 2007), conceptualizing social shareholder activism as a special case of social movement activism. While social movements scholars have typically focused attention on how movements target the state to alter societal-level policy in the past (Giugni, McAdam, & Tilly, 1999), how movement activity shapes organizational behavior has recently received increasing attention (King, 2008b; King & Soule, 2007; Lounsbury, 2001; Schneiberg & Lounsbury, 2007). However, even though this literature has highlighted how different organizational characteristics shape the responses of firms to movement activists, focal activists are often radicals engaging in tactics such as protest or boycotts. Little attention has been dedicated to the activism inside corporations or one that

facilitates the creation of legitimate agenda items in corporate decision making processes—a key gap identified over three decades ago by Zald and Berger (1978) that continues to remain unfilled.

The lack of attention to more “professional” activists is surprising given our knowledge of how the success of broader societal movements often hinge on the ability to be effective at both mainstream policy negotiation as well as grassroots activism (della Porta & Rucht, 2002; Haines, 1988; McCarthy & Zald, 1977). For instance, as Lounsbury, Ventresca and Hirsch (2003) showed in the rise of the recycling industry, the recycling movement importantly relied upon a diversity of activists at the initial phase of the movement. However, as the movement matured, the movement ultimately required the emergence of professionals in a mainstream social movement organizations—the National Recycling Coalition—that had credibility as experts and negotiators with major corporations and policymakers. In reflecting on these changes in the recycling movement, Frank Ackerman (1997, p. 45) observed that...

“Long gone are the days when enthusiasm for recycling routinely implied long hair and long hours in volunteer collection efforts; today’s NRC is dressed for success, befitting its members’ increasing prominence in both government and industry. Only the occasional (male) ponytail creeping out over a suit collar remains to recall the recyclers of yesteryear.”

Thus, a focus on social shareholder activism cannot only benefit from what we know about broader social movement dynamics, but can also speak to an important gap in our understanding of how movements shape corporations and mainstream institutions (Giugni, 1998; Giugni, McAdam, and Tilly, 1999). Unlike social movement co-optation (e.g., Jenkins, 1977; Selznick, 1966), the penetration of social movement discourse and practice within corporations holds out the possibility of continued social change, albeit in much less visible and dramatic ways (e.g., Creed & Scully, 2000). Our focus is on how corporations respond to social activism.

As recently noted, “some corporations respond to pressures by social movements by changing their strategies, structures, and routine. Others are obdurate in their resistance. Still others create Potemkin Village counter-movements to articulate their perspective—known as ‘astroturf organizing,’ in contrast to grassroots organizing” (Davis, Morrill, Rao, & Soule, 2008, p. 390). By extending some of the insights of research on the effects of “activists in the streets” to the study of “activists in the suites” (Weber, Rao, & Thomas, Forthcoming)—that is, social activists that aim to target corporations by engaging in more conventional tactics such as shareholder resolutions—we aim to broaden our understanding of business and society relations.

In this paper, we empirically focus on an important subset of social shareholder activism—shareholder resolutions that are environmentally-focused. Such environmental shareholder resolutions often aim to encourage corporations to reduce pollution or adopt sustainable practices. Drawing on a unique longitudinal dataset, we focus on how environmental shareholder resolutions shape corporate environmental performance in the context of toxic emissions. In terms of analytical focus, we concentrate our attention on how firms variably respond to the external stimulus generated by socially-oriented shareholder activists, instead of concentrating attention on the activist shareholders themselves as previous researchers have done (Eesley & Lenox, 2006; Rehbein, Waddock, & Graves, 2004).

While we frame our hypotheses with respect to how environmental shareholder activism affects corporate environmental performance, we motivate and develop them with regard to the effectiveness of social shareholder activism on corporate social responsibility. To wit, we believe that our findings are not limited to shareholder activism on environmental issues, but are more generally applicable to social shareholder resolutions and CSR in the context of business and society relations. In brief, we show that environmental shareholder resolutions have a

positive and significant impact of corporate environmental performance and that environmental activism in the form of resolutions is more likely to be responded to by firms that are large, old, and offer products that are aimed closer to end-users.

In the next section, we introduce the historical and legal background to shareholder activism and develop testable hypotheses. In the following section, we introduce our data and variables. Finally, we report on the findings from our statistical analysis and conclude with a discussion of the implications of our findings for the study of corporate social performance, research on business and society dynamics, as well as scholarship at the interface of the social movement and organizational theory literatures.

THE RISE OF SOCIAL SHAREHOLDER ACTIVISM

According to Peter Drucker, American society has gone through a remarkable revolution in the 70s, which no one really noticed. The revolution that Drucker was referring to was the rise of “people’s capitalism” ushered in by the rapid growth of pension funds (Drucker, 1996). On a similar note, Michael Useem declared that “investor capitalism” dawned in the 80s that include not only pension funds, but also other institutional investors such as mutual funds (Useem, 1996). The rapid growth of institutional investment has radically changed the world of investment. The change mainly stemmed from the fact that institutional investors generally own large portion of a company’s shares. So, they could not easily exercise the age-old implicit norm in the investment world called “Wall Street Rule,” which instructs that if a shareholder is not happy the most appropriate action is simply to sell one’s shares. “Thus, the large funds are beginning to learn what Georg Siemens, founder of Deutsche Bank and inventor of the hausbank system, said a

hundred years ago when he was criticized for spending so much of his and the bank's time on a troubled client company: 'If one can't sell, one must care.'" (Drucker, 1996, p. 211)

By early 80s, the "Wall Street Rule" has been more or less abandoned. The "rule" has been "replaced by the notion that these shareholders, rather than selling their shares, should use their resources to improve those shares' performance. Often referred to as the 'voice,' rather than the 'exit,' option, this preference, together with the demographic patterns discussed above, has led to an entirely new persona for institutional investors—as 'patient capitalists' who demand that their governance views be heard" (Barnard, 1991, p. 1152). The "patient capitalists" were also demanding owners in that they were not afraid to challenge corporate managers who did not fully honor their duty as agents of shareholders. As such, the emergence of the shareholder conception of corporate control (Fligstein, 2001) dramatically changed the investor-management relations and the culture in the corporate boardroom (Davis, 2009).

However, there are different varieties of shareholder activism. In line with the interests of large institutional investors, much of the traditional literature evaluating shareholder activism focuses on challenges to corporate management that focus on their effectiveness as trustees of corporate assets (Davis & Thompson, 1994; Smith, 1996; Useem, 1993). The core logic informing the vast majority of this agenda is shareholder welfare (Davis, 2009). In contrast, contemporary social movement activists interested in issues such as environmental sustainability increasingly engage in shareholder activism to address broader issues of societal welfare that are affected by corporate behavior—we call this *social shareholder activism*. While it is often difficult to discern the difference between societally-oriented interests and more instrumental shareholder welfare interests, these ideal typical distinctions have face validity and are useful to parse for theoretical advance.

Like conventional shareholder welfare activism, the primary strategy that socially-interested shareholders have used to pressure corporations is submission of shareholder resolutions. This strategy is based on the Securities Exchange Commission (SEC) Rule 14a-8, which defines the rights and obligations of corporate managers and shareholders concerning inclusion of shareholder resolutions in management proxy statement for shareholders' annual meetings (Manne, 1972). The rule indicates that shareholders have the right to submit a resolution, and unless corporate management files a request for omission of the resolutions to the SEC and the request is approved by SEC, management is responsible for distributing the resolution with its proxy statement. Thus, it is an effective tool that shareholders can use to obtain the attention of management.

Even though social shareholder activism has become more visible in recent years, it has deeper historical roots. For example, religious investors like Quaker and Methodist denominations have long used social screens to filter out the so-called "sin stocks" such as tobacco, alcohol and weapons manufacturers. Shareholder resolutions were first used as a major social movement strategy by Saul Alinsky in his civil rights campaign against Kodak in 1966. When Kodak repudiated its hiring agreement with FIGHT, the social movement organization that Alinsky represented, FIGHT, purchased 10 shares of Kodak and sent 700 letters to clergymen and civil rights groups in order to mobilize socially conscious shareholders of Kodak. As a result, Alinsky and FIGHT mobilized approximately 40,000 shares to support their cause (Vogel, 1978).

This strategy was adopted a few years later by Ralph Nader and his co-founders of Project of Corporate Responsibility, who submitted nine shareholder resolutions to GM's 1.3 million shareholders by virtue of their collective ownership of twelve GM shares. The so-called

Campaign GM has become the most significant milestone in social shareholder activism. As Vogel (1978: 71) asserts, “The Project on Corporate Responsibility, the sponsor of Campaign GM, was also the first citizen group to make the public interest proxy resolution central to its strategy. By forcing General Motors to include two of its resolutions on the 1970 proxy statement, it inaugurated a tactic that has developed into the mainstay of the corporate challenge movement.”

With the more general rise of shareholder activism in the 1980s, socially-oriented investors have also become much more active and demanding. The number of shareholder social resolutions filed has grown steadily over the years. According to Interfaith Center on Corporate Responsibility’s EthVest dataset, from 1971 to 1974 and from 1993 to 2006, a total of 3,281 socially-oriented shareholder resolutions were filed.¹ Annual distribution of socially-oriented shareholder resolutions between 1993 and 2005 data shows that the number of socially oriented shareholder resolutions has been quite steady with slight upward trend (see Figure 1).

Insert Figure 1 about here

An important note to stress about shareholder resolutions is that they are not just a way of venting one’s personal grievances against a corporation. The Securities Exchange Commission Rule 14a-8 section (c) clearly states that a shareholder proposal must be on a “proper subject of action by security holders.” The rule gives the management the discretionary authority to omit a proposal if “it clearly appears that the proposal is submitted by the security holder primarily for the purpose of enforcing a personal claim or redressing a personal grievance against the issuer or

¹ At the time of data gathering, EthVest did yet have the data available from 1975 to 1992. Because our analysis focuses on 1991 to 2003, this missing data is not critical for our purpose.

its management or primarily for the purpose of promoting general economic, political, racial, religious, social or similar causes” (“Securities Exchange Commission Rule,” 1971). Every year about 17% of the proposals are omitted through petitioning of the SEC (Tkac, 2006). Therefore, shareholder resolutions have to be phrased within existing institutional order and offer a clear rationale for demanding the change or the adoption of new practices.

This legal requirement forced social activist shareholders to construct a legitimate business case for their claims. As one resolution drafted and submitted by ICCR states, shareholders have constructed a new rationality which claims that “good employers, environmental stewards, and corporate citizens will more likely prosper over the long term and be accepted in their communities.” Shareholders have also argued that corporations should creatively manage the potential legal and market risk associated with irresponsible social and environmental behavior. This new rationality for corporate social responsibility (CSR) constructed by activist shareholders has been bolstered by an explosive growth in academic studies trying to link the corporate social performance with corporate financial performance (Graves & Waddock, 1994; Hart, 1997; Kanter, 1999; Kotler & Lee, 2005; Porter & Kramer, 2006).

Most socially-oriented shareholders do not construct a new rationality just for the sake of argument in shareholder resolutions. Often, they also have an inherent interest in corporate financial performance as large shareholders. Thus, their social and financial interests are difficult to disentangle. The recently launched UN Principles of Responsible Investment makes the point clear: “applying the Principles should not only lead to better long-term financial returns but also a closer alignment between the objectives of institutional investors and those of society at large” (Clemens-Hunt, Power, Gifford, & Malthouse, 2006, p. 4). Social investors strongly

believe that being good also pays off financially in the long run. Consequently, they assertively present their socially constructed “business case” for corporate social responsibility (CSR) to corporations as a viable alternative rationality for corporate governance.

Effectiveness of Social Shareholder Resolutions

Even though we have witnessed a dramatic rise in socially-oriented shareholder resolutions, we still have a limited understanding of whether they have a positive effect on corporate social performance. Using aggregate data on socially responsible investment, Haigh and Hazelton (2004) argue that social shareholder activism is an *ineffective* tool for social responsibility due to its lack of tangible power. Indeed, socially-oriented shareholders tend to control a relatively small number of shares, and social resolutions rarely get the majority support of shareholders (Rehbein et al., 2004). In spite of this general lack of perceived efficacy, there are anecdotal cases of success. For example, socially oriented shareholders have successfully forced many firms to withdraw their operations from South Africa during apartheid regimes (Meznar et al., 1994), and environmental groups have successfully engaged McDonald’s to phase out of polystyrene clamshell packaging materials (O’Rourke, 2003).

Despite their lack of conventional forms of power or resources, we argue that shareholder activists can exert significant influence on firms. Recent advances in social movement theory have repeatedly shown that relatively small social movement organizations can force large and resource-rich organizations to change their practice. For example, researchers have found that social movements can force universities to divest from firms conducting business in apartheid South Africa (Soule, 1997), influence investors’ decision making processes (King & Soule, 2007)

and shape the content of each college or university's environmental practices (Lounsbury, 2001). Other studies have shown how social movement activism facilitated the creation of new institutions such as consumer watchdog groups (Rao, 1998) and mutual companies (Schneiberg, 2002), new sustainably-oriented industries (e.g., Lounsbury, Ventresca, & Hirsch, 2003; Sine & Lee, Forthcoming; Weber, Heinze, & DeSoucey, 2008), and brought changes to corporate governance systems (Davis & Thompson, 1994).

Social movement actors often force change in targeted organizations through contentious politics and mobilization of relevant constituents. As a form of social movement, shareholder resolutions also force change through contentious interactions and by attempting to rally public support through the generation of negative publicity about the targeted firms. As Alinsky (1972) wrote in his classic book, *Rules for Radicals*, the purpose of the proxy tactic was not really to win the votes, but simply to *harass management* and *gain publicity* for their cause. As expected, Alinsky did not win enough votes, but the campaign has successfully achieved the two main goals articulated.

In fact, most socially-oriented shareholder resolutions do not get the majority of shareholder votes needed to be ratified. However, they have become a thorn in the minds of corporate managers because of the unwanted attention and negative publicity they generate (Rehbein et al., 2004). Moreover, because the interaction between activist shareholders and management takes place in front of other major institutional investor representatives and the media, it is difficult for corporate managers to simply dismiss activist shareholders' demands, even if they consider the demands trivial. A recent study by King (2008a) found that negative publicity has a strong positive effect on corporate social behavior.

Hoffman also found a positive effect of shareholder activism in his case study of Amoco. In one of his interviews at Amoco, one senior executive explained the reasons for the company's decision to create a board level environmental health and safety committee: "We were already looking at what other companies were doing. But, we didn't want to be caught by a shareholder proxy forcing us to do it. So, for a lot of industries, Amoco included, it was a defensive maneuver to counteract CERES²" (Hoffman, 2001, p. 131).

Thus, by combining various tactics that challenge corporate executives, shareholder social activists can gain more publicity for their cause. These actions can de-legitimize the target organization's social and environmental practice, and attract sympathizers among non-activist shareholders and movement activists (Gordon, 2007; Social Investment Forum, 2005). Therefore, in the context of our study, we expect that the more firms are pressured by activists through environmental shareholder resolutions, the more they are likely to produce better environmental performance.

Hypothesis 1: The environmental performance of a firm's industrial facilities will be positively related to the number of environmental shareholder resolutions the firm receives

Social Shareholder Resolutions and Corporate Response

Although we expect social shareholder resolutions to have a positive effect on corporate social responsibility in general, the effect will not be the same for every firm. As recent social

² CERES, which is an acronym for the Coalition for Environmentally Responsible Economies, is a coalition of investment groups with an interest in environmental protections. Since its founding in 1989, CERES has created a formidable market force to pressure corporations to take environmental protection seriously by mobilizing over institutional investors controlling over \$100 billion.

movement studies have indicated, firms often react very differently to external challenges from social movement actors (King, 2008b; King & Soule, 2007). Some firms readily comply with the demands, while others may comply only symbolically, refuse to cooperate, or even begin a counter-movement. The challenge is to tease apart the conditions under which firms are more likely to respond positively to social shareholder activism.

Eesley and Lenox (2006) have examined the question from a stakeholder saliency perspective, and have argued that shareholder actions are successful if the group that submits the resolution has legitimacy, power and urgency. In this study, instead of focusing on the characteristics of shareholder activist groups, we examine firm characteristics and see whether some features of the targeted firms make them more vulnerable or capable of responding to social challenges such as pressures to enhance their environmental performance. As noted above, social shareholder resolutions can generate lots of unwanted negative publicity. Negative publicity can become even more problematic to some corporations than others, if activists successfully mobilize broader stakeholder support that results in higher numbers of such resolutions. We argue that there are three firm-level characteristics that may allow firms to be better able to cope with such pressure or make them more vulnerable to attacks: their size, distance to consumers, and long-established reputation.

Size

From a theoretical point of view, firm size can affect a firm's response to the pressures from social shareholder activists either positively or negatively. On the one hand, large size can lead to greater resistance to social pressure and thus poorer environmental performance. Since large corporations are also more likely to have slack resources (Cyert & March, 1963), they often

have more capacity to effectively respond to social pressures than smaller firms. However, given the power and insularity of most very large corporations, they will typically not respond to such demands until they become more pervasive. Resource dependence theorists argue that “organizations that are large have more power and leverage over their environments,” and therefore, “they are more able to resist immediate pressures for change and, moreover, have more time in which to recognize external threats and adapt to meet them” (Pfeffer & Salancik, 2003, p. 139). Thus, organizational size alone could have negative effect on overall social and environmental performance of organizations.

On the other hand, however, large size can also make firms more exposed to concentrated social movement challenges and more vulnerable to reputation-damaging attacks. As social movement theorists have shown, in social movement context, size can become a liability as social movement targeting can result in greater media attention due to a media bias towards reporting on large, highly visible firms (Alinsky, 1972; Briscoe & Safford, 2008; King, 2008b; King & Whetten, Forthcoming; Monks, Miller, & Cook, 2004). Thus, Bob Gordon of Ethical Investment Research Services argues, “large companies face greater risk to their brand image, and face greater investor pressure as a larger number of investors have greater assets invested in the company” (Odell, 2007).

Previous studies have argued that social shareholder activists often “include the likelihood of success in their calculus when choosing proposal targets” (Tkac, 2006, p. 9). In choosing the target, social activists often consider firm size to be an important indicator of the firm’s capacity for change, their vulnerability to pressure as well as the potential for attracting other sympathizing investors to their cause (Alinsky, 1972; Tkac, 2006). As a result, well designed forms of activism often target large firms in order to gain broad resonance, catalyzing a

wider range of conventional stakeholders to join hands with initial activists. The widening of support to respond to activist demands can also be fueled by negative media publicity that can drag down a company's stock, raising the ire of other shareholders (King & Soule, 2007).

Indeed, recently, well-known commercial investment/mutual fund firms such as Charles Schwab, PIMCO, Merrill Lynch and Citigroup/Smith Barney family of funds have sometimes joined voices with social shareholder activists in voting against management on social issues in order to protect their interests (Social Investment Forum, 2005). Thus, we expect that larger firms that have the capacity to respond to activist demands may not proactively reduce pollution, but will do so in the face of pervasive and mounting pressures from social shareholder activists. In the context of environmental shareholder resolutions, we predict:

Hypothesis 2: The environmental performance of a firm's industrial facilities will be positively related to the interaction between a firm's size and the number of environmental shareholder resolutions the firm receives

Consumer Distance

Existing research on movements and organizations also suggests that a firm's dependence on end-user consumers may increase the likelihood of the firm's response to activist pressure (King, 2008a). The reason is because firms that are closer to end-user consumers are more exposed to potential social sanctions in the form of consumer boycotts which may result from activist challenge and concomitant negative publicity (Rehbein et. a., 2004). As Rehbein et al. (2004) argued, a firm's product mix is the most important determinant of a firm's social

exposure. Some products are used daily and directly by customers, and therefore, have a deeply ingrained meaning to consumers (Kelly, 2008). Corporations focused more on industrial clients face much less threat of sanction from customer stakeholders (Rehbein et. al., 2004).

Furthermore, majority end-use consumers will not even recognize the names of most industrial product companies. Thus, we expect that firms in industries that produce products that are aimed further downstream to end-users will be more sensitive to growing activist pressure in the form of shareholder resolutions. With respect to environmental shareholder resolutions and corporate environmental performance, we predict:

Hypothesis 3: The environmental performance of a firm's industrial facilities will be positively related to the interaction between the number of environmental shareholder resolutions a firm receives and facility distance to the end-users

Firm Age

As organizational theorists have argued, older organizations have better survival skills than newer organizations that are subject to the liability of newness (Hannan & Freeman, 1989; Stinchcombe, 1965). This is partly because older organizations have become more sensitive to their environments in order to protect their established reputations (Deephouse, 1996). Moreover, as social movement theorists have argued, older organizations with established reputations provide visible targets for social movement activism. The greater visibility of older firms, combined with their greater sensitivity to reputational shift, in turn, make them more likely to

respond as activist pressures mount (e.g., B. G. King, 2008; B. G. King & Whetten, Forthcoming).

For example, in early 2000s, social shareholder activists have engaged the renowned 172-year-old consumer products company, Proctor & Gamble, regarding rampant social and economic injustice that coffee growers in developing countries face (Baue, 2003). When shareholder activism groups such as the Interfaith Fair Trade Initiative and Oxfam America challenged the company management with the issue of buying fair-trade coffee, the company was willing to settle the issue outside the annual meeting promptly. This ready response is a reflection of the company's deep seated value that claims Proctor & Gamble's reputation has been "fundamental to our success for more than 160 years" (P&G, 2006, p. 2). Thus, we expect that older firms to be more responsive to challenges by shareholder activists. We expect this to be especially true in the context of environmental shareholder resolutions and corporate environmental performance.

Hypothesis 4: The environmental performance of a firm's industrial facilities will be positively related to the interaction between a firm's age and the number of environmental shareholder resolutions the firm receives

DATA AND METHOD

The challenge of measuring corporate social performance is that it is not easy to find objective and comparable data (Lee, 2008). One of the rare non-economic quantitative datasets is found in the Toxic Release Inventory (TRI). The TRI database was established under the

Section 313 of the Emergency Planning and Community Right-to-Know Act of 1986 (EPCRA) and expanded by the Pollution Prevention Act of 1990. From its inception, TRI was an extraordinary dataset that was designed to empower communities and social actors by providing them with full information on corporate pollution management practices. The TRI, however, is very complex dataset. As of 2003, TRI has collected detailed information on over 650 different toxic chemical releases and hazardous waste management from more than 23,000 federal and industrial facilities around the country. Making comparisons between over 23,000 facilities based on toxic chemical release is not a simple matter, because most facilities use and emit different combination of chemicals. The TRI covers many different industries producing a variety of products. Naturally, the type and amount of toxic chemicals released by facilities also vary enormously. Consequently, even if two firms release the same amount of toxic chemicals in terms of overall quantity, depending on the composition of chemicals released, their social and environmental effect can range from negligible to extremely dangerous.

In order to make a precise comparison between facilities, this study focuses on a single chemical substance called benzene. Benzene is an organic chemical compound that it often used in the production of gasoline, plastic, synthetic rubber and dyes. Because of its highly stable chemical structure and volatility, it is also considered an ideal solvent in industrial production of other petrochemical products. However, it is a recognized high-priority carcinogen (a cancer-causing element) in that long-term inhalation exposure to even a small amount of benzene can lead to serious blood disorder and leukemia. Moreover, benzene is a highly volatile chemical that once it is spilled, it will easily turn into gaseous form and find its way into human lungs. Because of its widespread use and notorious health effects, benzene has been a target of various lawsuits and social movement.

Focusing on benzene naturally narrows the sampling frame. Benzene is mainly produced by the petroleum industry and is consumed mostly by the petrochemical industry. The two industries account for 85% of the total domestic production of benzene waste. The sampling frame also focuses geographically on two states, Texas and Louisiana, where most benzene producing and consuming facilities are located. Together, Texas and Louisiana account for more than half of all benzene waste generated and environmental emission of benzene waste in the United States. Because the number of benzene emitting facilities was limited, instead of sampling a subset of facilities, we were able to sample the *entire population* of facilities that belong to public corporations and released more than 100 pounds of benzene to the environment either through air, water, land or transfer in 2002. TRI contained 98 facilities belonging to 66 public corporations that meet the conditions laid out above.

Dependent Variable

The dependent measure we constructed is a standardized measure of benzene waste management practice at the facility level. We labeled that variable “benzene internalization rate (BIR),” because it primarily measures the internalization ratio of an existing negative externality. The variable is constructed as a ratio between the amount of benzene internalized and the total waste generated.

$$BIR = \frac{\sum_i W_i}{\sum_i W_i + \sum_j R_j} , (i=1,2,3; j=1,\dots,4)$$

Where W_i is the amount of benzene waste that is internalized and R_j is the amount of benzene waste that is released to the environment. W_i includes the amount internally treated (W_1), recycled (W_2) or used as fuel (W_3). R_j include the amount released to water (R_1), injected or

released to land (R_2), released to air (R_3) and transferred to other facilities (R_4). We multiplied the result by 100 to get a percentage value.

Independent and Control Variables

The independent and control variables were collected from multiple sources. Because of the multi-faceted nature of social movement tactics that target polluters at different levels of organization, some data are collected on the facility-level and others on the firm-level. Our main independent variable is measures the level of environmental shareholder activism by counting the number of environmental shareholder resolutions that each firm has received in a given year. The data come from a unique new dataset called *EthVest*, which contains detailed information on over 3,000 socially-oriented shareholder resolutions initiated by socially responsible institutional investors over the last 13 years (as of Feb. 2006, it also contained some data on resolutions submitted in the early 70s). We created the variable by coding the total number of environmentally-oriented shareholder resolutions presented to each facility's parent firm in year t . According to EthVest, out of the total 3,281 socially-oriented shareholder proposals submitted between 1993 and 2005, 869 (26.5%) were environmental proposals.

We also include several control or firm characteristic variables, some of which are interacted with the main independent variable. First, we control for four facility-level characteristics. We control for the increase of use or production of benzene at the facility compared to the previous year, because the amount of benzene waste generated and released is likely to be influenced by the increase or decrease of its production or usage. Facility size is captured by the natural log of benzene waste generated since it reflects the productive capacity of the facility. Our study includes samples of facilities belonging to either petroleum industry or

chemical industry. Chemical products are mostly raw materials that go into other products, where as a big proportion of refined petroleum products are often used directly by consumers. Therefore, we use the industry dummy variable that distinguishes facilities belonging to petroleum industry from chemical industry as a measure of consumer distance. In order to address the common time-series problem of autocorrelation in the residuals, we also introduced the lagged dependent variable into the model (Keele, 2006). Corporate level controls include the logged revenue of the parent corporation and the age of the firm in number of years since its founding. Lastly, we control for the national origin of the firm (dummy variable distinguishing foreign firms from domestic firms).

Insert Table 1 about here

Estimation Model

We use a panel data of 98 facilities collected over 13 years to test our hypotheses. Panel data is very useful in dealing with unobservable unit heterogeneity bias (Halaby, 2004; Wooldridge, 2002). Researchers often choose between two commonly used estimation methods for dealing with unobserved heterogeneity bias: fixed effects model and random effects model. The key difference is their assumption of the relationship between the unobserved unit effect and the observed explanatory variables. Random effects model assumes that there is not correlation between them, where as fixed effect model does not assume anything but allow arbitrary correlation between them. To analyze our data on corporate environmental performance, we chose fixed effect OLS regression model mainly because we found the random effects assumption too restrictive, unrealistic and theoretically difficult to justify. Hausman's

specification test also confirms that the fixed effect assumption is appropriate. The null hypothesis of Hausman test is that the coefficients estimated by the random effects model are consistent and as efficient as the ones estimated by the fixed effects model. Therefore, if the random effect assumption is valid, then the coefficients from both models should not significantly differ based on the chi-square test of significance. In our test, the results indicated the random effect estimators are not as efficient as the fixed effect estimators.

RESULTS

Table 2 presents the results from the fixed-effects OLS regression analysis. Model 1 is the baseline model run with just the control or firm characteristic variables. Among the four facility-level variables, three variables had statistically significant effects on the facility's environmental performance. In particular, the effects of lagged dependent variable and the total benzene waste generated were positive and highly significant. The positive coefficient of the lagged dependent variable confirms that the trend is dynamic. Facilities that have been implementing a pollution reduction strategy in the previous year are more likely to continue to improve their environmental performance. The effect of total benzene waste generated was also positive. The result, therefore, shows that larger facilities are more likely to internalize greater amount of benzene. The increase/decrease of use or production of benzene at the facility also had a slightly positive and significant effect, while the dummy variable for petroleum industry did not have any significant effect.

Insert Table 2 about here

On the parent corporation level, all three variables were statistically significant. In particular, the variable that measures firm revenue and firm age were highly significant. As resource dependence theory would predict, the total revenue of parent firm had a significantly negative effect on the facilities' environmental performance. The coefficient indicates that, controlling for the size of facilities, larger firms are generally less likely to reduce pollution. Firm age has a highly significant and positive effect, meaning that firms with longer history and established reputation are more likely to manage their pollution aggressively. The coefficient indicates that one additional year of the firm's age is related to about 0.34% further internalization of harmful benzene emission. The slightly significant negative coefficient for the foreign ownership dummy indicates that domestic firms, in general, tend to perform better than foreign owned firms.

In Model 2, we test the lagged effect of environmentally-oriented shareholder resolution, which is our main independent variable. We have argued that shareholder social resolutions will have positive effects on the social performance of firms because they open up a channel of dialogue—whether they be contentious or conciliatory—and they bring a genuine threat to their reputation and social legitimacy. As shareholder social resolutions began to gain broader support in the media as well as investment community (Lydenberg, 2005), corporate managers became much more willing to listen to the demands of CSR advocates and negotiate a compromise. In a personal interview with one of the authors of this study, Alice T. Marlin, the founder of Council on Economic Priorities (CEP) and one of the pioneers in socially responsible investment movement said that corporate executives became much more willing to meet with CEP to discuss CSR issues in the 90s. Moreover, when the social or environmental concern raised by socially

oriented investors is reasonable, companies even wanted to settle the issue privately, instead of going through proxy battles that attract negative attention. As former executive director of ICCR Timothy Smith relates, about one third of socially-oriented shareholder proposals are not even sent out to shareholders, because they are adopted by management in private advisory meetings (Salibian, 1988). Moreover, even firms that successfully defeated social proxy resolutions often implement the demands anyway in order to avoid the same resolution next year and the accompanying negative publicity.

The shareholder social resolution data for this study includes both withdrawn and filed resolutions, in order not to lose the important effect of private settlements outside the shareholders' annual meeting. The findings from Model 2 show that, as predicted by hypothesis 1, the lagged effect of environmentally-oriented shareholder resolution is positive and statistically significant. The coefficient from this model indicates that if a firm has been subject to an environmental shareholder resolution, on average, the facilities belonging to the firm will increase their BIR by 1.81% in the following year. The effect of environmental shareholder resolutions is also clearly visible on Figure 2, which compares the longitudinal trend in average annual BIR between facilities that were subject to activist shareholder pressure and those that were not. The BIR of facilities that belonged to firms which received an environmental

Insert Figure 2 about here

Models 3 to 5 tests the three interaction hypotheses we introduced in our theoretical discussion. In Hypothesis 2, we have argued that direct and targeted engagement through the submission of shareholder social resolutions will have an amplified effect on large corporations

who face greater risk to their reputation and legitimacy from negative publicity. The result from Model 3 confirms our theoretical hypothesis. As predicted, the interaction between firm size and resolution is positive and statistically significant. In other words, larger firms have more readily and positively responded to the demands from socially-oriented shareholders' pressure.

Although larger firms are generally less environmentally responsible as indicated by the negative independent effect of firm size, the environmental performance of large firms that received environmental shareholder resolutions is substantially better than other large firms that received no shareholder resolution.

Model 4 tests our third hypothesis, which predicted that facilities that are closer to end-users will be more vulnerable to social pressures. We measure the distance to consumers through a product-based industry dummy following the theoretical reasoning provided by Miles (1986) as well as Rehbein, Waddock and Graves (2004). We have argued that firms in industries that produce business-to-business industrial products would be less vulnerable to social pressure than firms in industries that produce end-user products such as gasoline. Thus, we predicted that facilities belonging to petroleum industry would be more likely to internalize greater amount toxic waste in response to environmentally-oriented shareholder resolutions. The result from model 4 strongly confirms our prediction. The interaction effect between environmentally-oriented shareholder resolutions and petroleum-industry dummy is positive and highly significant.

Lastly, we test the interaction effect between environmental resolutions and firm age. Similar to our argument with firm size, in hypothesis 4, we have argued that firms with long history and established reputation would have greater incentive to protect their reputation. Therefore, they would respond more readily to activist pressure, which could potentially generate

lots of negative publicity around the firm. As predicted, the effect is positive and statistically significant. Model 6 presents that full model. The interaction between industry and resolution as well as firm age and resolution remain robustly positive.

Discussion and Implications

We have examined the effect to the shareholder social resolutions on one of the most conspicuous and contended aspects of corporate social behavior—i.e. corporate pollution management practice. The availability of detailed longitudinal data derived from TRI has made this analysis and findings highly compelling and robust. Based on our fixed-effect panel data analysis, we found that environmental shareholder resolutions had a significant and positive causal effect on the targeted firms' environmental performance. On average, each environmental shareholder resolution increased the benzene internalization rate of the targeted firm's facilities by about 1.8% every year.

The primary movement tactics that activist shareholders use to force changes in the targeted firm's social behaviors are direct confrontations at annual meetings and generation of negative publicity through the submission of shareholder resolutions. Drawing from the literatures on social movements and organizational theory, we have argued that larger and older firms as well as firms that are closer to end-users are more likely to respond positively to socially-oriented shareholder pressures. Our findings strongly support our theoretical hypotheses and highlight some firm characteristics that generate firm heterogeneity in response to activist pressure. This is not only of practical interest to those scholars focused on corporate social

responsibility and business and society dynamics, but also speaks to a variety of important theoretical issues.

Our study has important implications for research at the interface of social movements and organizations. Most extant social movement studies that have focalized the effect of movements on corporations have examined the role of wider societal movements that engage in varied forms of extra-institutional tactics such protests (e.g., King & Soule, 2007; King, 2008). Our study expands this line of inquiry to understand the ways in which broader societal movements work their way into the halls of corporations—essentially domesticating the rant and rage of radicals. We have some limited research on the topic (e.g., Lounsbury, 2001), but require much more intensive focus on the role of activism within corporations using institutionalized channels of influence (Zald & Berger, 1978; Creed & Scully, 2000) as well as an investigation of how radical movements enable or cultivate mainstream, professionalized variants that make radical claims more palatable and credible (e.g., Haines, 1988; Lounsbury, Ventresca and Hirsch, 2003). This routinization of charisma (Weber, 1978) may be perceived as co-optation by some (Burt, 1980; Selznick, 1966), but as our study indicates, environmental activism that became channeled into shareholder resolutions did result in changes to corporate behavior that all activists, radical or professional, could applaud.

In addition, by focusing on how the volume of environmental shareholder resolutions forced changes in corporate environmental performance of some firms, but not others, we extend an interest in tracking how social movement activity provides a crucial institutional condition for diffusion (Schneiberg & Lounsbury, 2008). For instance, the direct effect of corporate size was negatively and highly significantly related to corporate environmental performance, but turned positive under conditions of large numbers of environmental shareholder resolutions. While it

was marginally significant in model 3, it lost significance in our full model. These results do not allow us to make strong claims about how movement activity can shift corporations away from a stance of resistance, pace resource dependence theory, and towards a more “benevolent” approach supported by the recognition that slack resources could be used to avoid the pitfalls of negative press. However, the results are interesting enough to encourage future research in this direction.

With regard to consumer distance, our results do show that the direct effect of petroleum industry facilities was negatively related to environmental performance, but became positive and marginally significant when interacted with the number of environmental shareholder resolutions. Thus, in this case, socially-oriented shareholder resolution established a clearly strong effect. In addition, the interaction between the shareholder resolution and the targeted firm’s age was positive and significant, indicating that movement activity amplified the positive direct effect of firm age. More generally, these results indicate that movement activism can have varied effects on the spread of new practices—in this case, practices that enhance environmental performance in the context of toxic emissions. It would be useful to build upon our results that show how the efforts of activists can amplify or establish firm-level effects to more completely dimensionalize the characteristics of firms that make them more responsive to activist demands.

Our study also makes several important contributions to the study of business-society relations. First, we contribute to a nascent effort to study the effect of shareholder resolutions by offering a systematic analysis using an objective and longitudinal data (Eesley & Lenox, 2006; Rehbein et al., 2004). Second, while most shareholder activism studies focus on the characteristics of activist organizations, our study explores the question of heterogeneous response to shareholder activism. As such, this study presents a more complete and nuanced

picture of how social shareholder activism interacts with and influences organizations. While we were unable to examine the activist organizations themselves, we believe that a more complete account of firm responsiveness to activist demands would include detailed attention to both activist claimants and corporations. Our firm-focused analysis, thus, complements existing studies that have been almost uniformly stakeholder-focused. Third, through this study, we highlight how the literatures on social movements and organizations can be brought to bear on an important development at the intersection of business and society.

In sum, we believe our study provides one important direction for business and society scholars. By engaging directly with relevant literatures in sociology and organizational theory, business and society researchers may expand the range of their dialogue and invite cognate scholars to join. Our understanding of social shareholder activism and activism within corporations more generally still remains limited. While we examined a particular variant—environmental shareholder activism—we encourage the development of a broader array of studies on other social issues that would not only help validate the generalizeability of our findings, but contribute to a more cumulative research program. We believe that such a research program will not only expand our understanding of how the domestication of movements can effectively stimulate progressive corporate change, but perhaps also highlight how activism in corporations might play a leading role in stimulating wider societal movements that alter society in fundamental ways. This is a more ambitious agenda, but something we should begin to contemplate as corporations become venues for activist ideologies to germinate and become expressed.

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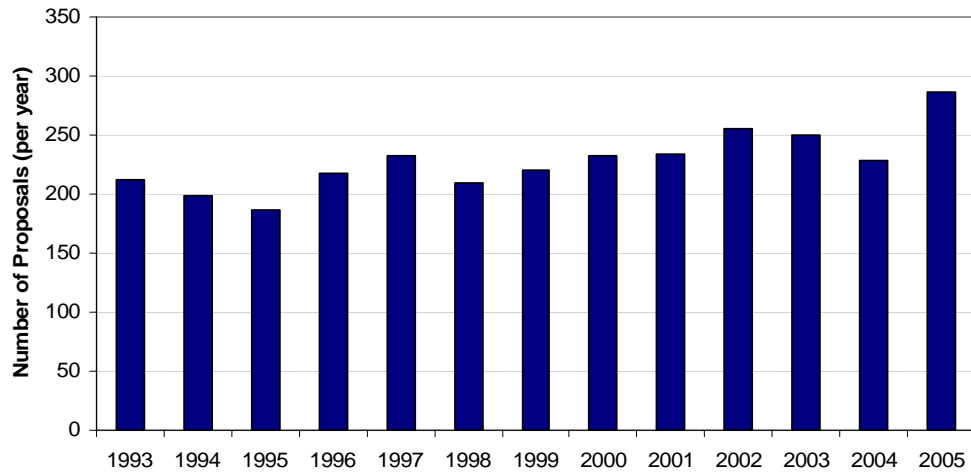
Table 1. Mean, Standard Deviations, and Correlation Matrix of Independent Variables

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9
1BIR	62.97	37.16	1								
2Lagged BIR	62.62	37.28	.83	1							
3Production/Use Level Increase	87.37	936.03	-.03	.01	1						
4Total Benzene Waste (logged)	11.63	2.33	.57	.50	.02	1					
5Corporate Revenue (logged)	24.02	1.75	-.04	-.05	.03	-.03	1				
6Firm Age	79.26	49.88	.06	.07	.05	.03	.48	1			
7Petroleum Industry	.30	.46	-.22	-.22	-.03	-.14	.20	-.18	1		
8Foreign Ownership	.23	.42	.01	.00	-.04	-.07	.14	-.09	.04	1	
9Environmental Resolutions (lagged)	.23	.55	.04	.04	.05	.04	.37	.31	-.04	-.15	1

Table 2. Results from Fixed-Effect Analysis

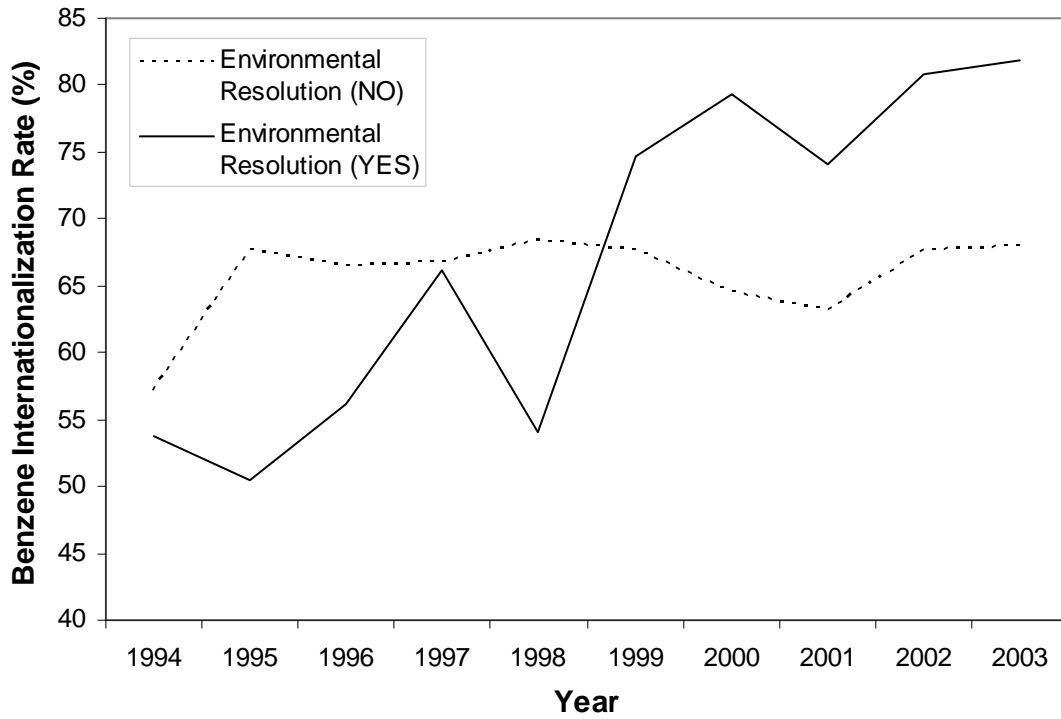
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Lagged BIR	.32***	.31***	.31***	.31***	.31***	.31***
Production/Use Level Increase	.00*	.00*	.00*	.00*	.00*	.00*
Total Benzene Waste (Facility Size)	9.35***	9.37***	9.35***	9.34***	9.39***	9.36***
Petroleum Industry	-1.50	-1.53	-1.55	-1.55	-1.52	-1.56
Corporate Revenue (Parent Size)	-15.93***	-15.38***	-15.27***	-15.40***	-15.31***	-15.25***
Firm Age	.34***	.32***	.33***	.33***	.32***	.33***
Foreign Ownership	-5.12*	-5.30*	-5.53*	-5.06*	-5.23*	-5.15*
Environmental Resolutions		1.81*	-41.53*	.57	-3.21	-32.78
Resolution x Revenue			1.72*			1.11
Resolution x Petroleum Industry				5.20**		4.86**
Resolution x Firm Age					.04*	.05*
Constant	292.8**	280.7**	278.2**	281.3**	278.7**	277.6**
R ² - Within	.40	.40	.41	.41	.41	.41
Rho	.80	.79	.79	.79	.79	.79
Observations	993	993	993	993	993	993
Number of Firms	98	98	98	98	98	98

* p<0.1, ** p<0.05, ***p<0.01; one-tailed tests



Source: EthVest Dataset, 2006

Figure 1. Number of Socially-Oriented Shareholder Proposals per Year, 1993-2005



Source: TRI, 1991-2003; EthVest Dataset, 2006

Figure 2. Trend in Environmental Performance between Facilities that Were Subject of Environmental Resolutions and Those that Were Not, 1994-2003