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Non-governmental Organizations, Shareholder Activism, and Socially Responsible Investments: Ethical, Strategic, and Governance Implications

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ABSTRACT. In this article, we document the growing influence of non-governmental organizations (NGOs) in the realm of socially responsible investing (SRI). Drawing from ethical and economic perspectives on stakeholder management and agency theory, we develop a framework to understand how and when NGOs will be most influential in shaping the ethical and social responsibility orientations of business using the emergence of SRI as the primary influencing vehicle. We find that NGOs have opportunities to influence corporate conduct via direct, indirect, and interactive influences on the investment community, and that the overall influence of NGOs as major actors in socially responsible investment is growing, with attendant consequences for corporate strategy, governance, and social performance.

KEY WORDS: corporate governance, corporate social responsibility (CSR), corporate stakeholders, non-governmental organizations (NGOs), shareholder activism, socially responsible investing (SRI)

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Introduction

According to the Investor Responsibility Research Center (IRRC) and the Interfaith Center on Corporate Responsibility (ICCR), shareholder resolutions urging corporations to adopt more socially responsible business practices are on the rise (ICCR, 2003). These resolutions are garnering increasing attention by institutional investors, small and large shareholders, and company executives. Non-governmental organizations are often at the center of these resolutions, using their status as advocates, advisors, and, increasingly, shareholders, to push for change. In this article, we explore the relationships between socially responsible investing (SRI), non-governmental organizations (NGOs), shareholder activism, corporate governance, and corporate social responsibility (CSR). We are interested particularly in understanding how NGOs use SRI and shareholder activism to pressure corporations to improve CSR. As a secondary area of investigation, we also focus on the impact of these efforts on corporate governance.

We begin by reviewing the growth of SRI, and its impact on CSR. We then document the

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increasing influence of NGOs in the realm of SRI. Drawing from ethical and economic perspectives on stakeholder management and agency theory, we develop a framework to understand how and when NGOs will be most influential in shaping the ethical and social responsibility orientations of business using the emergence of SRI as the vehicle for accomplishing these objectives. We examine both the visible strategies of NGO influence via shareholder activities and the indirect influence via broader advocacy directed toward shareholders and investors. We evaluate the effectiveness of NGO roles along a continuum that reflects greater NGO commitment and control. Our research domain is primarily focused on NGO and SRI activity in North America and, to a lesser extent, Europe. The implications of our findings, however, may have relevance for phenomena in other developed regions of the world, such as Australia and New Zealand, and may even serve as a harbinger of future directions in the emerging nations of the world.

The UN (2003) currently describes an NGO as: "any non-profit, voluntary citizens' group which is organized on a local, national or international level. Task-oriented and driven by people with a common interest, NGOs perform a variety of services and humanitarian functions, bring citizens' concerns to governments, monitor policies and encourage political participation at the community level. They provide analysis and expertise, serve as early warning mechanisms and help monitor and implement international agreements." Another approach to the classification of NGOs is to distinguish between "operational" and "advocacy" NGOs (van Tuijl, 1999). Operational NGOs provide social services such as education, health, or human relief, whereas advocacy NGOs lobby governments, corporations, and international organizations. In this paper, we are primarily interested in advocacy NGOs, including those consortia or clearinghouse NGOs that serve other investors and NGOs through information compilation, analysis, and dissemination.

Socially responsible investing and shareholder activism

In this section, we introduce and define the key constructs and review recent trends in SRI, CSR, corporate governance, and shareholder activism. These concepts are central to our main arguments, and provide a context for our subsequent discussion of the emergence of NGOs, and our theoretical development and propositions.

Growth of SRI in U.S. and Europe

SRI is an investment approach that uses both financial and non-financial criteria to determine which assets to purchase, but whose distinguishing characteristic is the latter. In SRI, investors typically look at a company's internal operating behavior (such as employment policies and benefits) and external practices and policies (such as effects on the environment and indigenous people), as well as its product line (such as tobacco or defense equipment) to determine whether they should become owners of the firm. Schueth (2003) traces the origins of SRI to early biblical times. However, the contemporary notion of using the power of financial markets to signal displeasure with certain corporate practices or to encourage others dates to the 1920s, when various religious groups stipulated that their investments not be used to support "sin" shares (liquor, tobacco, gambling). SRI gained more widespread appeal in the 1960s, when the Vietnam War, civil rights and women's movements, environmental concerns, and other controversial political and social issues became factors in investment decisions. More broadly, some have argued that all investments inherently possess ethical dimensions, whether explicitly or implicitly (Domini and Kinder, 1986). Hence, SRI may be viewed as a subset of broader investment theory, with the ethical component made explicit and expressly specified. SRI has grown rapidly over the past decade, totaling $2.34 trillion in the U.S. in 2001, of which $1429 billion was in screening only, $305 billion was in shareholder advocacy; $601 billion was in screening and shareholder advocacy, and $8 billion was in community investing (Social Investment Forum, 2001). The $2.34 trillion figure compares with $40 billion in 1984, $639 billion in 1995, and $1.2 trillion in 1997. Table I provides a general (and partial) timeline of socially responsive affinity-based investing milestones.

TABLE I
A selective timeline of socially-responsive affinity-based investing milestones

Year	Development
1918	Teachers Insurance and Annuity Association (TIAA) begins offering guaranteed-return pension plans.
1920	Methodist Church chooses to avoid investments in alcohol and gambling. Shortly thereafter, the Quakers investments change to avoid any weapons manufacturers.
1952	College Retirement Equities Fund starts offering teachers variable-annuity funds. It now sponsors eight funds, including the $108 billion CREF Stock Account, the largest single-managed equity fund in the world.
1965	Church groups in Sweden co-found ANSVAR SRI Fund.
1969	First socially responsible shareholder resolution against Dow Chemicals over napalm production.
1971	Insurance company USAA launches its first mutual fund for military officers. The company now has 41 funds and $28 billion in assets.
1971	The first ''modern'' SRI mutual fund, the Pax World Fund established.
1982	Calvert Social Investment Fund created, by 1987 the nation's first and largest family of socially and environmentally screened funds.
1980	AARP offers its first mutual fund, a money-market account, to mature adults. AARP members now invest some $15 billion, including SRI funds.
1984	Friends Provident Stewardship Fund launches U.K.'s first ethical mutual funds.
1986	Calvert SIF becomes the first mutual fund to sponsor a shareholder resolution on social issues.
1986	First Canadian SRI mutual fund, Ethical Growth Fund, launched.
1987	Two Danish funds launched, Danske Invest Miljo and DK Miljo Invest.
1989	Norwegian SRI specialist launches Gront Norge (Green Norway).
1989	TIAA–CREF creates the Social Choice Account (SCA) for its members.
1989	First public trust offering SRI to public launched by Australian ethical Investments.
1992	UNITY, a non-profit investment manager formed by six trade unions and Franklin Templeton/Nedcor Investment Bank, creates Community Growth Fund, South Africa's first socially responsible fund.
1993	Dutch ''ethical savings bank'' subsidiary ASN Aandelenfonds launches Groenprojectenfonds (Green Project Funds) on Amsterdam Stock Exchange.
1996	Norwegian insurance giant Storebrand develops Global Principle Fund with help of Amnesty International, Human Rights Watch and University of Oslo.
1998	National Provident Institution (NPI) investment managers work with World Wildlife Fund for Nature (WWF) to launch proprietary SRI fund in U.K.
1999	First Asian SRI fund (United Global Unifem Fund) in Singapore.
1999	Japanese SRI specialist Good Bankers builds first mutual fund with Nikko Asset Management, the Eco-Fund.
1999	Storebrand develops Norwegian Red Cross Fund.
1999	Launch of Dow Jones Sustainable Development Indexes.
2000	TIAA–CREF and second-largest US mutual fund house Vanguard launch index-type SRI mutual funds, the latter based on Calvert Social Index.
2000	Federated Investors and its subsidiary, InvestLink Technologies launch TPA Advantage, a self-governing affinity group designed to help members build their customer base by pooling resources related to SRI.
2000	The Pension Disclosure Regulation amends the 1995 Pensions Act to require all UK occupational pension funds to disclose the degree to which they take into account ethical, social, and environmental considerations.
2000	Humane Society of the United States launches the Humane Equity Fund in partnership with Salomon Brothers Asset Management.
2001	Development agency Diakonia coordinates with six Swedish Churches and NGO's including Humanix, Save the Children Fund, and WWF.
2001	German Green Party inserts SRI clause into REISTER pension legislation.
2002	In March, the Australian government passes the Financial Services Reform Act requiring investment firms to report on the extent to which they take into account environmental and social considerations in investments.
2003	Sierra Club opens family of three mutual funds with Forward Management.

Source: Various sources. Some information adapted from Belsie, L.: 2001, 'Rise of the Name-Brand Fund: A Few Affinity Groups Help Investors Put their Money where their Hearts Are. Christian Science Monitor 13 August, 16.

SRI in other countries shows similar trends (Schwartz, 2003; Sparkes, 2002). About $5 billion is invested in SRI funds in the United Kingdom (U.K.). Although this is only somewhere between 1% and 5% of all funds invested, this figure has been doubling every 2 years (Commission of the European Communities, 2001; Skorecki, 2001). An interest in investing for social purposes is growing rapidly in continental Europe, too (Skorecki and Wassener, 2001). Despite a strong environmentalist lobby and influence of the Green Party (now in a coalition government with the Social Democrats), Germany has lagged behind in SRI, partly because an "equity culture" is relatively new to Germans. However, SEB Invest, which set up Germany's first ethical fund in 1989, saw inflows from retail and institutional investors rise 10-fold in 2000 despite a general market downturn. Italy only has about 12 SRI funds, but their total value (Euro 2.3 billion) makes the country the second biggest market in Europe after the U.K. (Michael Jantzi Research, 2003). Over half of the SRI funds under management in Italy are in one fund managed by Sanpaolo IMI banking group and aimed at the Catholic investor. Sweden also is a growing market for SRI, shaped in large part by the country's strong environmental movement. ABP of the Netherlands, Europe's largest pension fund with roughly $175 billion in assets, announced in 2001 that it would invest nearly $200 million in a socially responsible style, marking the first time a leading fund allocated substantial assets to ethical investing (Wine, 2001). In sum, SRI has become an increasingly popular investment approach across advanced industrialized countries and, as Schueth (2003, p. 191) notes, the impressive growth of the social investment industry is a consumer-driven phenomenon.

Corporate social responsibility

CSR is the notion that companies are responsible not just to their shareholders, but to other stakeholders (workers, suppliers, environmentalists, communities, etc.). While CSR is viewed by some as a dangerous notion that can divert management's attention from maximizing shareholder value (Friedman, 1962), many corporate executives now take this alternate view to strategic management seriously. Their reasons range from agreeing with the concept of CSR (a progressive view of the role of business in a post-modern society) to wanting to avoid the negative publicity that may influence customers to take their business elsewhere (a view more in line with preserving shareholder value). Evidence that CSR and economic performance are not mutually exclusive, and can even be complementary, bolsters the case that SRI can help investors encourage firms to "do well while doing good." Such evidence is important to NGOs as they seek to demonstrate that their interventions can have social benefits without necessarily sacrificing financial returns. Further, understanding the goals of SRI advocates is important to our focus on how NGOs use SRI tools to influence corporate behavior in general. A better understanding of the impact of SRI on CSR will provide critical feedback to NGOs and other SRI advocates who need to know whether SRI is an efficient and effective use of resources.

Corporate governance

Corporate governance refers to the relationship between corporate owners (shareholders) and managers, and is central to the notion of "agency" (Jensen, 2001). Under situations of "good" corporate governance, managers are held accountable for the performance of a company by a board of directors, whose job is to represent the interests of shareholders. Under "bad" or "poor" corporate governance, there is a breakdown in the system. Managers may take actions that are not in the best interests of the shareholders, the board of directors does not adequately monitor management's activities, shareholders do not pay close enough attention to the company's performance, or some combination of the three. As we will suggest below, NGOs use SRI in certain cases to influence people or institutions that are in key corporate governance positions.

Shareholder activism

Shareholder activism is a mix of SRI, corporate governance, and stakeholder capitalism. Traditional notions of corporate governance presume that the sole interest of shareholders is maximizing the

returns on their investments. In this context, shareholder activism occurs when disgruntled shareholders loudly complain that management is not acting in the best interests of shareholders, and threaten to do something about it. More recent work suggests a broader definition whereby corporations act in the interests of other stakeholders who have non-financial interests in the activities of the firm (Mitchell et al., 1997). Activists often file shareholder resolutions related to social or environmental issues at corporate annual meetings, or use other measures including SRI and the media, to try to shape corporate actions.

The following example helps to illustrate how CSR, corporate governance, and shareholder activism are related (Morrison, 2001; Sparkes, 2002). In the late 1990s, the Taskforce on the Churches and Corporate Responsibility (TCCR), a Canadian NGO, focused on Talisman Energy – a Canadian oil company operating in Sudan. Human rights abuses in Sudan had been widely reported, and TCCR lobbied Talisman to: adopt clear human rights standards for its operations; create an independent organization to verify compliance with those standards; and cease operations if the independent monitor concludes the company cannot comply with its own standards. The TCCR proposals gained the support of major investors, including retirement funds of Ontario teachers and municipal employees and Quebec. The motion gained 27% of the vote – not enough to carry, but the media impact was sufficient to hang over the Talisman share price. Analysts estimated the Sudanese impact discounted the market price by 25%. A year later, Talisman withdrew from Sudan. This approach recognizes the need for global ethical standards for business, and the role that multinationals can play in establishing higher standards of conduct in locations where they operate.

Non-governmental organizations

This summary of SRI, CSR, corporate governance, and shareholder activism is necessary to set the context for our analysis of the actors that are the focus of this paper: NGOs. The rising influence of NGOs is one of the most significant developments in international affairs over the past 20 years. NGOs first rose in prominence in mid-1984, when a range of NGOs, including church and community groups, human rights organizations, and other anti-apartheid activists, built strong networks and pressed U.S. cities and states to divest their public pension funds of companies doing business in South Africa. By the end of 1989, 26 states, 22 counties and over 90 cities had taken some form of binding economic action that, when combined with broader public pressure, helped generate the thrust for passage of the 1986 Comprehensive Anti-Apartheid Act over the veto of President Reagan (Lowenberg, 1999). The Act banned new U.S. investment in South Africa, export sales to the police and military, and new bank loans, except to support trade. The combination of domestic unrest, international governmental pressures, and capital flight posed a direct, sustained, and ultimately successful challenge to the white minority rule, resulting in the collapse of apartheid (Wright, 1990).

NGOs have grown in number, power, and influence since the 1980s (The Economist, 2000). Their force has been felt in a range of major public policy debates, and NGO activism has been responsible for major changes in corporate behavior and governance (The Economist, 2003). Estimates of the number of NGOs vary widely, although most analyses concur that the number is growing. The Internal Revenue Service counted 819,008 501 (c)(3) corporations (known commonly as not-for-profits) for fiscal year 2000, up from 692,524 in 1997 (Wall Street Journal, 2001). In 1998, it was estimated that the total size of the ''independent sector,'' which includes 501 (c)(3) corporations as well as civic leagues, social welfare organizations, and religious congregations reached 1.2 million organizations. These organizations employed an estimated 10.9 million individuals with revenues of nearly $680 billion (Independent Sector, 2001).

Some observers now regard NGOs as a counterweight to business and global capitalism (Foreign Policy, 2000; Scholte, 2000). Although there are problems with this perception (Kapstein, 2001), the emergence of NGOs seeking to promote more ethical and socially responsible business practices is beginning to cause substantial changes in corporate management, strategy, and governance (Doh and Teegen, 2003). One vehicle used by NGOs to advance their agenda is shareholder activism. NGOs

may buy shares of corporations and use ownership to forward proxies and other resolutions to effect change. They often use their status to urge institutional shareholders such as large public employee pension and retirement funds to pressure changes in corporate governance and conduct. They also work with and through socially responsible investment funds, serving as advisors and experts on ethical and social responsibility screens used to determine the composition of such funds, and by drawing attention to shortcomings in the mechanisms used by such funds to choose and retain specific stocks within their portfolios.

In the next section, we explore recent literature in stakeholder and agency theory to provide the theoretical underpinnings for our discussion of the different techniques used by NGOs to influence corporate social responsibility through SRI.

NGO influence on corporate responsibility through social investment: stakeholder and agency perspectives

The impact of NGOs on corporate responsibility through social investment can be described and classified by integrating established theories from management and economics. Drawing from agency and stakeholder theory, and financial theories of the firm, in this section we describe a range of influencing mechanisms that NGOs use to influence corporate behavior through investment vehicles such as managed funds and proxy initiatives.

NGO influence on CSR through SRI: agency perspectives

Agency theory, or as it is sometimes known, principal–agent theory, has offered an approach to the financial organization and corporate governance of private business firms that centers on why managers and owners do not, necessarily, behave in consort (Jensen and Meckling, 1976). Agency researchers have also identified tools and techniques to provide incentives for managers to act on behalf of shareholders (Demsetz, 1983; Jensen and Meckling, 1976). In particular, agency theory has helped to understand the need for vertical monitoring in order to enforce agency contracts (Hill and Jones, 1992), and has called attention to the costs of such monitoring (Eisenhardt, 1989).

To the extent there are challenges in insuring that agents fully represent the interests of their relevant principals, and that the interests of managers and owners are properly aligned, such challenges can be rectified by improving the risk allocation between managers and owners, increasing incentives to better align managerial decisions and ownership preference, and improving the monitoring and oversight of managers (Beatty and Zajac, 1994; Boeker, 1992; Tosi et al., 1997; Zahra and Pearce, 1989). These mechanisms have fallen primarily into three categories: (1) establishment of an independent board of directors that oversees the activities of top management (Dalton et al., 1998; Pfeffer, 1972); (2) the presence of large block shareholders who take an active interest in the activities of top management (Fields and Mais, 1994); and (3) a market for corporate control that serves to discipline managers for poor performance (Eisenhardt, 1989; Jensen and Meckling, 1976; Zahra and Pearce, 1989).

When NGOs serve as shareholders, or intervene in the relationships between corporate agents and principals, they have the opportunity to alter the incentives and oversight systems that exist between these two classes of interests, and change the alignment structure in a manner to force incorporation of socially and ethically oriented behavior.

NGO influence on CSR through SRI: stakeholder perspectives

Some researchers, however, view traditional applications of agency as too narrow in their failure to incorporate non-shareholder stakeholder interests. Stakeholder management is focused on those interests and actors who affect, or in turn are affected by, the corporation (Freeman, 1984). Through identification, evaluation and assessment of stakeholders and stakeholder relationships, firms can best navigate the public and private strategic environments in which they operate, and in so doing, account for the range of relationships, responsibilities, and interaction in their strategy formulation and implementation (Cummings and Doh, 2000). Stakeholder theory seeks to systematically address the question of which stakeholders do and do not deserve or require

management attention through evaluation of relationships between organizations and stakeholders based on exchange transactions, power dependencies, legitimacy claims, or other claims (Mitchell et al., 1997). Stakeholders affect a company's efforts to influence and benefit from favorable public policy through the political advantage process (Cummings and Doh, 2000) and use different types of influence strategies depending upon the nature of the stakeholder relationship (Frooman, 1999).

Mitchell et al. (1997) developed a theory of stakeholder identification and salience based on managerial assessments of stakeholders' possession of one or more of three relationship attributes: power, legitimacy, and urgency. According to Mitchell et al. (1997, p. 865), a party to a relationship has power "to the extent it has or can gain access to coercive, utilitarian, or normative means, to impose its will in the relationship." Legitimacy is defined as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Mitchell et al., 1997, p. 865), while urgency is reflective of "the degree to which stakeholder claims call for immediate attention" (Mitchell et al., 1997, p. 867). These researchers cite the example of shareholder activism toward large corporations to improve performance, as well as the experience of the African National Congress in its successful effort to become a definitive stakeholder of South African companies when it acquired legitimacy by winning free national elections.

Using the influencing mechanisms described below, NGOs may be able to take advantage of their position as high-saliency stakeholders to influence corporate managers and investment funds. NGOs clearly have power and urgency. While our focus here is on the SRI aspect of NGOs, these organizations can employ other tactics (as described in a previous section) to exhibit their power as stakeholders. Similarly, NGOs possess the attribute of urgency, since they can play a critical role in persuading firms to change policy in high-profile situations (such as the Brent Spar case involving Royal Dutch Shell). The attribute of legitimacy is less clear. While NGOs and their supporters may argue that they serve as a constructive check on corporate power, others (Kapstein, 2001) contend that NGOs are unaccountable entities that suffer from a similar lack of restraints. On balance, though, NGOs can make a strong case that they are viable stakeholders in corporate decision-making.

Integrating stakeholder and agency concepts: instrumental stakeholder theory

A number of efforts have been undertaken to integrate principles of stakeholder and agency perspectives on management (Hill and Jones, 1992) and to operationalize stakeholder concepts so that they might have instrumental value (Donaldson and Preston, 1995; Jones, 1995). Building on these efforts, we suggest that stakeholder advocacy and shareholder activism can accomplish NGO goals, and the simultaneous pursuit of these strategies can be particularly effective.

Jones (1995) attempted to offer an instrumental theory of stakeholder management by arguing that a subset of ethical principles (trust, trustworthiness, and cooperativeness) can result in significant competitive advantage. He begins by suggesting that core assumptions in management and economics describe the relationship between the modern corporation and its environment: (1) firms have relationships, called contracts, with many stakeholders; (2) firms are run by professional managers; and (3) firms exist in markets in which competitive pressures influence behavior but do not necessarily penalize moderately inefficient behavior. Jones reviews and summarizes both agency and transactions costs perspectives on contracting, and points out the failures that can occur when key variables do not perform efficiently and in consort, as summarized above in our review of agency theory. Jones (1995, p. 412) suggests, however, that in addition to the technical solutions offered to the agency problem described above, "there is another way to reduce opportunistic behavior, however – the voluntary adoption of standards of behavior that limit or eliminate it."

Drawing different inferences from classic economic and institutional theory than are sometimes generally agreed, Jones argues that honest, trusting, and ethical relationships result in positive reputation effects and minimize opportunism, as contracting parties interact and grow to depend on the reliable

behavior of their business partners. Importantly, this voluntary but genuine trust-building further reinforces positive responses, and serves as a constraint to opportunism. People who are honest, demonstrate personal integrity, do not lie, cheat, or steal, and honor their commitments are clearly moral in nature and are desirable partners for a large range of economic relationships. Jones (1995, p. 422) argues that such behavior can have measurable impacts on competitive advantage, and "because ethical solutions to commitment problems are more efficient than mechanisms designed to curb opportunism, it follows that firms that contract (through their managers) with their stakeholders on the basis of mutual trust and cooperation will have a competitive advantage over firms that do not."

As applied to corporate social responsibility, Jones (1995, p. 435) suggests that in "certain types of corporate social performance are manifestations of attempts to establish trusting, cooperative firm/stakeholder relationships and should be positively linked to a company's financial performance. Corporate social performance would then be defined in terms of the contracting relationship rather than particular behavior." This integration of agency and stakeholder perspectives, supported from the theoretical basis of ethical decision-making and relationship-building provides a valuable backdrop for evaluation of interactions among firms, NGOs, and the action of investing funds to affect corporate social responsibility, behavior, and performance.

In sum, stakeholder and agency theory can help highlight the ways in which NGOs can influence corporate management and policy via direct ownership stakes, public advocacy, and pressure on other investors and stakeholders. In the next section, we describe the four influencing strategies NGOs use to affect such behaviors.

Corporate responsibility through social investment: NGO influencing strategies

As Mitchell et al. (1997) acknowledge, the role of stakeholders is highly situational and dependent on a number of variables related to the perception of stakeholders by managers and other socially constructed variables. Hence, NGOs use different influencing strategies to affect CSR, using various socially responsible vehicles and intermediaries. Briefly, NGOs may serve as advocates pressing institutional investors to engage in more social responsible investing, and they may engage in shareholder activism using proxies and other strategies to pressure individual companies to change behavior and practice. They also provide advice, consultation and input for SRI funds. Finally, NGOs may themselves sponsor funds, often focusing on a particular subset of SRI practices. Figure 1 depicts these four influencing strategies. Table II illustrates the relative progression of strategies in terms of increasing commitment and influence.

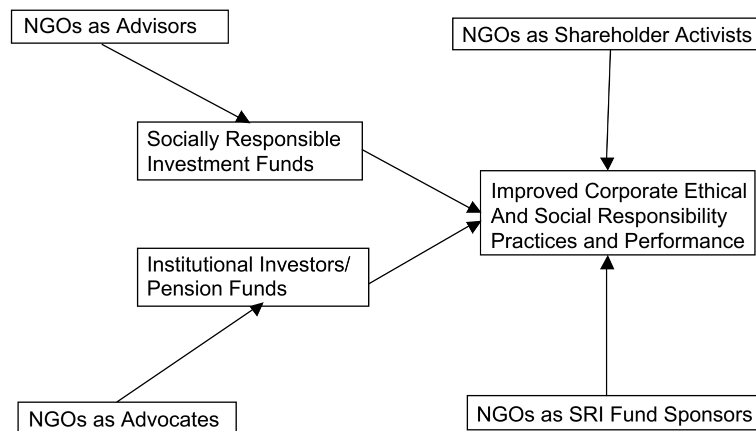

Figure 1. Multiple influencing roles of NGOs in the socially responsible investing system.

TABLE II
Evolution and progression of NGO influencing strategies

Increasing commitment and direct influence	NGO role	Influencing strategy	Example
↓↓	Advocate	NGO advocacy toward institutional investors and pension funds	Influencing large pension and mutual funds such as California Public Employee Retirement System (CALPERS) and the Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA–CREF)
↓↓	Adviser/consultant	NGO advice/consultation for SRI funds	Advising SRI funds such as Calvert and Domini and serving as clearinghouses such as Investor Responsibility Research Center (IRRC) Interfaith Center for Corporate Responsibility (ICCR), and the Shareholder Action Network
↓↓	Company shareholder	NGO shareholder activism	Initiating proxy contests and initiatives such as Friends of the Earth with Exxon-Mobil
↓↓	Multi-company shareholder	NGO sponsorship of SRI funds	Sierra Club fund sponsorship
↓↓	Multiple/integrated strategies	Use of above strategies simultaneously or sequentially	Sierra Club, Friends of the Earth, others

NGO advocacy toward institutional investors and pension funds

NGO influencing strategies may simply take the form of advocacy efforts designed to press other shareholders, particularly institutional investors, to urge changes in managerial behavior or management officers. Hence, as shown in lower left of Figure 1, NGOs, as stakeholders, influence corporate management through advocacy directed toward institutional and individual shareholders. The TCCR-Talisman Energy case described earlier is one such instance. Another example is the pressure exerted by NGOs during the South Africa divestment campaign, as is the efforts of student groups to persuade institutional investment funds (particularly university endowments) to remove certain stocks from their portfolios. NGOs concerned about human rights abuses and anti-democratic orientation of Burma's military junta played a significant role in persuading Massachusetts and 23 municipalities (including New York City) to pass selective purchasing legislation in the mid-1990s (Guay, 2000). When the U.S. Supreme Court ruled the Massachusetts law unconstitutional in 2000, NGOs turned to these local governments with divestment plans, many of which were adopted. This year Breast Cancer Action, a San Francisco-based advocacy organization, is lobbying investment managers to co-author a resolution requiring the cosmetics company Avon Products to study the feasibility of removing possible carcinogens from its products. Thus far, Domini Social Investments, Trillium Asset Management, and Walden Asset Management are sponsoring the resolution.

NGO advice/consultation for SRI funds

NGOs serve as advisors, information analysts, and consultants to funds focused on socially responsible investing, as depicted in the upper left of Figure 1. Socially active clearinghouses such as the Investor Responsibility Resources Center (IRRC), the

Interfaith Center for Corporate Responsibility (ICCR), and the Shareholder Action Network, often working with socially responsible mutual funds and pensions funds, serve as coordinating mechanisms.

Domini Social Investments, the manager of the Domini Social Equity Fund, makes its proxy vote public for each of the more than 400 companies in the fund's portfolio (Detroit News, 2000). ''Last year we became the first mutual fund manager in the country to publish its proxy voting decisions,'' said Amy Domini, founder and managing partner of the firm. ''We put them on our Web site, www.domini.com, for all to see.'' In 1999, Domini cast votes on 1180 items, supporting 33 social-issue resolutions in 27 companies, including eight the firm helped place on the ballot. For example, Domini voted to support a resolution asking Home Depot to phase out its use of old growth wood and, partly as a result of this effort, the company announced plans to discontinue sales of wood from endangered forests by 2002. In the first half of 2001, Domini filed 10 resolutions on a range of issues, including several seeking to require companies to achieve higher diversity in their boards of directors, increase environmental reporting, and improve overall working conditions.

The ICCR in New York reports that there was a substantial increase in socially oriented shareholder resolutions for the 2003 proxy season over 2002 (ICCR, 2003). As of 1 February, at least 862 shareholder proposals had been filed, compared with 802 in all of 2002. Among the fastest-growing issue areas for resolutions are concerns about chief executive officer (CEO) compensation and the practice of combining the positions of CEO and chairman of the board (concerns that appear to be shared by shareholders more broadly), global warming, and sexual orientation anti-bias policies. Corporate governance resolutions were most popular, with 625 filed. At least 237 social and environmental resolutions had been filed by mid-February, up slightly from that point in 2002. The leading categories within social and environmental resolutions included global warming, global labor standards, healthcare and drug development, equal employment opportunity, tobacco, AIDS, and sustainability reporting. By mid-February 2003, ICCR itself had filed 140 resolutions with 92 companies.

A number of independent shareholder activism research and advocacy organizations have emerged to coordinate and share information among individual NGOs. These include the Shareholder Action Network (www.shareholderaction.org), the ICCR (ICCR-http://www.iccr.org), and the Institutional Investor Responsibility Center (IIRC-www.iirc.org), and CERES (www.ceres.org). Each of these organizations works on broad shareholder campaigns that cut across human rights, social responsibility, and environmental issues and organizations.

NGO shareholder activism

As shown in the upper right of Figure 1, NGO shareholder activism constitutes a direct challenge to boards and managers and draws attention to shareholder demands and by extension, the inadequacy of managerial actions (Parthiban et al., 2001). Although managers can neutralize boards through control of director nominations (Walsh and Seward, 1990), activism may upset the relationship between managers and a cooperative board. The human capital of directors depends on their performance as custodians of shareholder rights (Fama and Jensen, 1983), but is increasingly tied to broader stakeholder interests, whether such stakeholders are themselves shareholders or not (Parthiban et al., 2001). NGOs can influence corporate management and policy, and this influence can take several forms: public announcements, shareholder proposals, direct negotiations with managers, and proxy contests. NGO influence as shareholders may be limited where the dominance of large block shareholders such as institutional investors provides them with voting majorities and constrains the voice of minority shareholders. On the other hand, because of their public profile and stakeholder status, NGOs may influence corporate governance to a degree disproportionate to the shares owned, although some minimal number of ownership shares is required to engage in any of these activities.

Friends of the Earth's (FOE) foray into shareholder activism began in the wake of the Exxon Valdez oil spill in Alaska in 1989 (FOE, 2001). FOE staff and supporters attended the annual Exxon shareholders meeting and protested the failure of Exxon to exercise precaution in the Prince William

Sound. Inside the meeting, FOE raised questions of the Chairman and Board of Directors. Outside, FOE joined in a large demonstration against the company (FOE, 2001). At the 1990 Exxon shareholders meeting, FOE arranged for the filing of four shareholder resolutions to pressure Exxon to adopt better safety procedures and environmental policies. FOE was also able to obtain proxies for over 400,000 shares from members and supporters. FOE also worked in the unsuccessful effort to get former Senator Gaylord Nelson, the founder of Earth Day, placed on Exxon's Board (FOE, 2001). On 27 May 1999, Mobil shareholders approved their $81 billion merger with Exxon Corporation. At the Mobil shareholder meeting at which the deal was approved, Brent Blackwelder of FOE stood up to oppose the merger, saying it would create monopoly power and suggesting it would ally Mobil with what he called "Exxon's truculence in dealing with environmental issues" (Hamilton, 1999). While, in these cases, the positions of FOE were unsuccessful in changing the outcome of Exxon's policies, FOE did persuade other NGOs and stakeholders to support their position, and brought unwelcome public attention to the oil company.

NGO sponsorship of SRI funds

Finally, NGOs themselves are beginning to initiate socially responsible investing funds, as depicted in the lower right of Figure 1. In the mid-1990s, when the Sierra Club, the oldest, largest and one of the most influential environmental advocacy groups in the country, began looking to invest in socially responsible mutual funds, it was unable to find a fund that met its very strict definition of social and environmental responsibility (Belsie, 2001). All the funds invested in one or more companies the group could not support. Hence, the club's investment advisory committee decided to hire outside financial advisors and screen their recommendations according to its strict criteria (Belsie, 2001). The Club had previously established a separate investment fund to use for buying small holdings in companies it views as particularly harmful to the environment so that it could attend meetings of those corporations as shareholders and sponsor shareholder resolutions urging the companies to change their practices. In 2001, the group started its own mutual fund so that environmentally minded investors could invest using the same screen (Cushman, 2001). In January of 2003, the Club officially launched The Sierra Club Stock Fund and the Sierra Club Balanced Fund. The funds will be managed by San Francisco-based Forward Management. Both funds use screens, which were originally developed for use with the Sierra Club endowment's equity investments, to exclude companies with poor environmental performance. Forward Management will pay a portion of its management fees to the Sierra Club for identifying securities that meet the established environmental screening guidelines (SocialFunds.com, 2003). The Sierra Club will use this monetary infusion to support its ongoing environmental activism. This arrangement between the two organizations provides another way for these funds to promote a healthier environment.

In 2000, the Humane Society of the United States launched the Humane Equity Fund, a no-load, long-term growth fund interested in promoting animal welfare (Belsie, 2001). Other groups, including the AFL–CIO, are planning their own investment vehicles. Prior to starting the mutual fund, the Humane Society had been investing its own money in a selective, animal-friendly portfolio. Salomon Brothers Asset Management recommended promising companies and the Humane Society ensured that the firms are not involved in such areas as meatpacking, hunting equipment, or goods (such as cosmetics) that use animals to test products. In February 2000, the group then started marketing a similar fund to its members. As of early 2001, the Humane Equity Fund had attracted $10 million in assets.

Evolution, progression, and multiple use of NGO influencing strategies

We may think of the influencing strategies described above along a continuum reflecting an evolution of NGO involvement in efforts to affect corporate behavior through various investment vehicles. Table II offers a graphical depiction of these multiple strategies and their progression, including some of the specific examples cited here.

In the early stages of NGO activity, NGOs simply lobby or pressure other investors to take into account the NGOs' views in their investment behavior, and as SRI funds became part of the financial landscape, NGOs worked with those funds to develop more credible screening approaches and investment strategies. These first two strategies are largely indirect; they reflect NGOs working through intermediaries – moderators or mediators of their agenda. Once NGOs themselves become shareholders, they may have a direct impact on corporate behavior through their shareholder status, and as NGOs themselves found mutual funds, they have the opportunity to leverage the investment funds of others to influence changes in corporate behavior. These strategies are more direct, and in the case of the latter, allow NGOs to amplify their influence.

NGOs often use several of these influencing strategies to accomplish their goals. In the case of FOE, multiple advocacy and activism strategies occurred simultaneously. As the Appendices illustrate, one common outcome of shareholder resolutions appear to be their withdrawal once boards agree to consider or act on the issues that are the focus of the resolutions. For example, shareholders withdrew resolutions from Duke Energy, Cinergy, Goodyear and Texaco when they agreed to enter into discussion on global warming. Resolutions at Alcoa and Hasbro were withdrawn pending discussion on CERES, the global environmental reporting standard, an important element of which is the Global Reporting Initiative.[1] The resolution regarding criteria for underwriting the Three Gorges Dam, a controversial project in China, was withdrawn from Citigroup as was a resolution regarding fuel consumption at Ford and GM. Hence, even when resolutions fail to garner a majority of shareholder votes, the combination of activism and the public messages associated with it can accomplish NGO goals. In the case of the Sierra Club, the mutual fund initiative complements and reinforces its other activism and advocacy efforts, providing a comprehensive multiple-front influencing strategy that takes advantage of the range of tools and techniques available to it. By founding a mutual fund, NGOs such as Sierra Club may be better able to recruit and retain members, showing how these various strategies can be complementary and mutually reinforcing.

Conclusions: the future of NGO influence on SRI

The main contribution of the research presented here is to model the ways in which NGOs use SRI to try to change the behavior of certain firms. It is clear that NGOs are increasingly influential actors on the political-economic landscape. Their emergence has added a new dimension to corporate governance and disrupted traditional relationships between investors, boards of directors, and corporate officers. As NGOs have grown and matured, both as individual organizations and on a collective level, they have come to occupy an important and influential position in corporate governance and in society.

It is important to emphasize that NGOs have other tools to influence corporate behavior. Some, such as working with firms to devise labor and environmental codes of conduct, are more cooperative in nature than is SRI. Others are more adversarial, and may include negative advertising or media campaigns and lobbying governments to enact regulations or legislation opposed by business. Another area of research is to obtain a better understanding of when NGOs utilize these and SRI-related strategies, and their records of success or failure.

A next step would be to study whether firms that respond to NGO pressures for greater social responsibility are as successful (in terms of profitability, market value, prestige, or other measures) as those companies that do not. The research to date on this aspect of SRI is mixed. Molloy et al. (2002) argue that, while recent studies provide evidence supporting a link between CSR and economic performance, good environmental performance does not necessarily cause good financial performance. On the other hand, the Aspen Institute (1998) reports that analysts and investors who seek and use information about the business results of environmental linkages will have an advantage over their peers who ignore such non-economic information. Pearce and Ganzi (2002) interviewed 32 asset managers in the U.S. and U.K. and found that the subjects of corporate social, environmental, and ethical performance have become more closely associated with financial performance and good corporate governance, and that the number of large institutional investors and fund managers engaged with

these issues has grown substantially. Finally, a CERES (2002) report concludes that U.S. company directors and institutional investors face a growing financial and legal risk that global climate change will adversely affect the value of the assets for which they have fiduciary responsibility. While climate change is an extraordinarily complex issue, this report's message to U.S. corporate directors and institutional investors is straightforward: failure to assess the risks of climate change for one's company or investment portfolio would not only be imprudent, it could represent a significant breach of fiduciary responsibility, and carry potentially serious legal liabilities. Further research in this area has important practical implications for business executives, who must decide how, indeed whether, to respond to NGOs using SRI strategies against their firms.

Notes

[1] The *Global Reporting Initiative* (GRI) was established in 1997 to develop globally applicable guidelines for reporting on the economic, environmental, and social performance, initially for corporations and eventually for any business, governmental, or non-governmental organization. Convened by the Coalition for Environmentally Responsible Economies (CERES) in partnership with the UN Environment Program, the GRI includes participation of corporations, NGOs, accountancy organizations, business associations, and other stakeholders from around the world (GRI 2002). The GRI's 1999 draft Sustainability Reporting Guidelines represent the first global framework for comprehensive sustainability reporting, encompassing the "triple bottom line" of economic, environmental, and social issues.

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