

## DEMAND FOR CSR: INSIGHTS FROM SHAREHOLDER PROPOSALS

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## **DEMAND FOR CSR: INSIGHTS FROM SHAREHOLDER PROPOSALS**

### **ABSTRACT**

Motivated by the increasing popularity and attention shareholder proposals on CSR attract, the purpose of this study is to provide a detailed portrayal of shareholders' demands for CSR through their proposals. To this end, we conduct a descriptive longitudinal study of the CSR proposals submitted to US corporations for the fiscal years 1996 to 2009. We use a unique coding process in which we identify both the CSR area of concern to the shareholders and the desired effect the proposal is intended to stimulate on the corporation. Our findings expose how shareholders engage with corporations mostly around the issues of governance and environment, requesting more transparency from the companies and sometimes improved actions or business decisions. Firms from a wide range of industries are targeted, with their levels of CSR performance, profitability and size attracting different kinds of requests in terms of CSR areas and expected outcomes for the corporation. Shareholders can be relatively intense in their requests for CSR, with the majority of the firms in our sample being targeted more than once a year by CSR proposals. Our study deepens our understanding of shareholders' concerns and requests for improvements in CSR.

## DEMAND FOR CSR: INSIGHTS FROM SHAREHOLDER PROPOSALS

### 1. Introduction

Shareholder proposals<sup>1</sup> on corporate social responsibility (CSR) issues have been the subject of numerous reports in recent years (e.g. Copland and O’Keefe 2012, 2013, 2014; Singer 2012, 2013; Cook 2013; IRRC 2013). These reports attest to a considerable increase in the proportion of CSR proposals in the proxy season, representing as much as half of all proposals examined (Copland and O’Keefe 2014). Examples of companies acquiescing to shareholders’ proposal requests are also regularly reported in the press (Solomon 2014; Clark 2015). The practitioner literature offers different views on this phenomenon. On the one hand, CSR proposals are viewed to signal growing investors’ concerns about CSR issues (CERES 2013, 2014b) and to act as catalysts of change towards a more responsible management (Fellow 2013). On the other hand, some criticize these proposals as distracting the management from the maximization of share value, going against the interests of “ordinary” investors (Copland and O’Keefe 2012, 2013). Nevertheless, the business literature contends that CSR proposals are here to stay (Fellow 2013), gaining support from an ever growing range of investors (Ryan 2013; Solomon 2014) with investors broadening the coverage of the sustainability-related issues they target with their proposals (Ceres 2014a).

Our study to explore the phenomenon of CSR shareholder proposals is motivated by this prediction that proposals will continue to gain in popularity in the future, combined with the significant attention these proposals attract from practitioners and the debate they generate among them. With a spirit similar to that of Graves, Rehbein and Waddock (2001), our aim is to provide an updated detailed portrayal of shareholders’ demands for CSR through their proposals. To this end, we conduct a longitudinal study of the CSR proposals submitted to US corporations for the fiscal years 1996 to 2009.

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<sup>1</sup> We use the term shareholder proposals (rather than resolutions) in our analysis to encompass all the demands for CSR shareholders present to corporations, independently of whether they will eventually be voted for.

Our study contributes to the literature by documenting, across industry and time, the growing phenomenon of CSR-related shareholder proposals using a unique and innovative classification of the outcomes requested by shareholders, wherein we distinguish requests for transparency, actions impacting operations, adoption of codes and standards, among others. Evidence about this issue has been called for in order to develop our understanding of shareholders' engagement strategies (Sjöström 2008). Indeed, while different forms of stakeholder engagement have been studied in sustainability accounting research (see for e.g. Deegan and Blomquist 2006; Archel et al. 2009; Mäkelä and Näsi 2010), shareholders' engagement through proposals has been under researched thus far. Our study aims to extend our knowledge of stakeholder engagement and demands for CSR by examining a key stakeholder group, the shareholders. We do recognize that shareholders submitting CSR proposals might not be representative of all shareholders (Gillian and Starks 2007), but based on the constantly growing responsible investment movement (see Coulson and O'Sullivan 2014; Rinaldi, Unerman and Tilt 2014), we contend that they represent a significant group of shareholders deserving our attention.

Our main findings show an increase in shareholder proposals on CSR issues over the period studied, with governance and environment being the most important areas of concern for shareholders throughout the years. We observe a significant rise in shareholders' demands for improved transparency, which is not echoed by a similar increase in demands for actions on operations. Targeted companies are spread across various industries, indicating how this mean of shareholder engagement is widespread and not industry-specific. The size, profitability and CSR performance of the targeted firms will attract different requests in terms of CSR issues and expected changes in corporations. Companies are subject to relatively intense levels of proposals, with firms being targeted more than once a year by CSR-related proposals in almost 60% of our sample.

The remaining manuscript is organized as follows. Section 2 summarizes prior literature on shareholder engagement and shareholder proposals to set the background to our study. Section 3 presents our methodology. Sections 4 to 6 organize our findings into a detailed portrayal of shareholder proposals on CSR, an empirical investigation of the companies' characteristics attracting different shareholder requests, and an analysis of activist shareholders, both in terms of nature and intensity of demands. Section 7 discusses our findings and concludes the paper.

## **2. Background**

This section summarizes the ways through which shareholders and investors engage with corporations to ask for CSR. It then details the engagement approach on which we focus, shareholder proposals.

### *2.1 Shareholders' demands for CSR*

Prior work has identified different ways for shareholders and investors to engage with corporations to demand CSR initiatives. For instance, investors were shown to request different types of environmental performance indicators (covering compliance with environmental laws, climate change and biodiversity protection) in strategic performance measurement systems to ensure both monitoring and improvement in environmental management (Rodrigue, Magnan and Boulianne 2013).

Shareholders also request disclosure on social and environmental issues (Rinaldi, Unerman, and Tilt 2014), and have done so for a long period of time. Indeed, before the more widespread publication of sustainability reports and website disclosure, shareholders were reported to seek environmental information in annual reports (Deegan and Rankin 1997). They also raised concerns about the quality of CSR information (Dawkins and Lewis 2003), which prompted some sophisticated investors to establish private disclosure channels with corporations (Solomon and Solomon 2006). In these private disclosure sessions, investors ask for supplementary social, environmental and ethical information to further their understanding of

CSR management as well as to assess management quality (Solomon and Darby 2005). Climate change is a predominant issue in these sessions, with risk management representing a major concern and business opportunities arising from climate change an emerging interest (Solomon et al. 2011). In recent years, investors also pressure firms to disclose more voluntary public disclosure and to improve the quality of their disclosure, in part through the responsible investment movement and the social ratings agencies<sup>2</sup> (Coulson and O'Sullivan 2014; Rinaldi, Unerman, and Tilt 2014). Indeed, a social rating agency was observed to confirm, complement and contradict corporate disclosures about environmental issues, thereby attempting to engage with the corporation on CSR issues (Rodrigue 2014). Social rating agencies were also viewed to engage with companies through the tone (positive, negative or neutral) of their own disclosure about corporations (Rodrigue, Cho, and Laine 2015).

## *2.2 A particular engagement approach: Shareholder proposals*

Shareholders also place demands for CSR upon corporations through shareholder proposals, an official written demand submitted to companies for consideration and potentially for vote at the annual general meeting (AGM). In the US, any shareholder that has held shares in a publicly traded corporation valued at \$2,000 or more for at least a year can introduce proposals for consideration (SEC rule 14a-8, see SEC, 1998).

Introduced proposals meet one of three types of faith. First, a corporation may choose to petition the SEC to be authorized to exclude the proposal from its proxy statement, drawing on dispositions of the SEC rule 14a-8. These dispositions allow proposals to be contested on the basis, among others, that “the proposal (1) reflects a personal grievance, (2) requires the firm to violate state, federal, or international law, (3) relates to operations accounting for less than 5 percent of the firm’s assets, sales, and revenue, or (4) deals with a “matter relating to the company’s ordinary business operations” (Tkac 2006, 4). The latter is the most frequent argument

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<sup>2</sup> Social rating agencies provide investment research on the CSR performance of companies (e.g. Sustainalytics).

set forth to be granted exclusion. Proposals for which the SEC has approved exclusion are termed omitted proposals. This omission clearly signals management's non-responsiveness to the issue raised by shareholders (Clark and Crawford 2012). Second, management can engage with the shareholders and get them to agree to withdraw the proposal in exchange for changes in corporate policies and/or activities (David, Bloom, and Hillman 2007; Logsdon and Van Buren 2009; Byrd and Cooperman 2014). Third, a proposal can be included in the proxy statement and submitted to vote by all the shareholders, thereby exposing the issue of concern at the AGM. Voted proposals do not bind management into implementing the requested changes, i.e. managers still decide whether they will enact the proposal voted on or not, even when it gets the majority of votes. This is why most activist shareholders consider managers to be the most responsive to proposals when they negotiate a withdrawal, rather than allowing a vote (Tkac 2006; David, Bloom, and Hillman 2007; Clark and Crawford 2012).

CSR-related proposals constitute a formal and visible signal of shareholders' discontent about a specific social or environmental issue (David, Bloom, and Hillman 2007; Reid and Toffel 2009). This discontent may be driven by financial concerns – associated with traditional shareholders' interests – or by investors' social and environmental moral principles (Goranova and Ryan 2014; Sjöström 2008). The ultimate value of shareholder proposals does not lie in their short-term voting results. Rather, proposals are valuable since they expose corporate policies and practices to a wide range of stakeholders (Clark and Crawford 2012). They can represent a long-term tactic adopted by shareholders to bring about changes in corporations through dialogue (Tkac 2006), a reassessment of their challenged activities (Clark and Crawford 2012) and/or industry spillover effects, with competitors of targeted firms likely to proactively adapt their CSR practices (Reid and Toffel 2009).<sup>3</sup>

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<sup>3</sup> Nevertheless, the effectiveness of CSR proposals to foster organizational change remains debated (Haigh and Hazelton 2004; David, Bloom, and Hillman 2007; Copland and O'Keefe 2014).

While accounting and finance have dedicated much attention to shareholder activism related to corporate governance and executive remuneration, to the best of our knowledge, CSR proposals are under researched.<sup>4</sup> Furthermore, despite their increasing popularity in the proxy season (Cook 2013; Copland and O’Keefe 2014), these proposals have not attracted much attention in the sustainability accounting literature (Sjöström 2008). Thus, similar to Graves Rehbein, and Waddock’s study (2001) – which assessed the overall landscape of shareholder resolutions between 1988 and 1998 – we provide an updated and detailed portrayal of shareholder proposals challenging CSR. Specifically, we aim to 1) describe the trends, issues raised and requests made in this type of shareholder demands for CSR in practices over more than a decade, 2) empirically investigate which company characteristics attract different types of shareholder demands, 3) analyse who are the sponsor shareholders and how intensive is the pressure they place on companies.

### **3. Sample and methodology**

Our sample is composed of 3,921 CSR-related proposals in the ISS/IRRC Governance shareholder proposals database presented over the period 1997-2010<sup>5</sup> for which we have complete information about whether it was omitted, withdrawn or voted for. The proposals refer to 738 unique firms.

As they target a specific corporate activity or policy, proposals constitute a wealth of information about shareholders’ demands for CSR, with respect to both the area of desired

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<sup>4</sup> For an extensive and complete review of the multidisciplinary nature of shareholder activism, see Goranova and Ryan (2014). The authors qualify this research stream as being a “relatively young and vibrant field” (1231) and note that “researchers in finance and accounting often exclude social-issue shareholder proposals as frivolous” (1249). (An exception in the finance literature is Byrd and Cooperman (2014), who investigate the way firms handled environmental and health proposals.) They also observe that the management literature devoted more attention to CSR proposals. However, the last portrayal of CSR-related proposals in this literature ends in 1998 (Graves, Rehbein, and Waddock 2001).

<sup>5</sup> We cover the proposals presented at the annual general meeting (AGM) of the fiscal years 1996-2009. As the AGM might take place in a different solar year, overall we cover all shareholder proposals presented from 22-Jan-1997 to 15-Oct-2010. In the following analysis, however, for simplicity we report data using the fiscal year it refers to.



intervention (be it human rights, environmental issues, governance or community matters) and the type of change shareholders request for the targeted practice (in other words, the expected outcome of the proposal if it was to be implemented by the corporation). Thus, for each proposal included in this database, we followed a strict coding procedure to classify the proposal along two key dimensions: the CSR area it refers to, and the expected outcome of the proposal. While we adopt a straightforward procedure to classify the CSR areas by relying on the categorization proposed by the well-known CSR rating agency KLD, we define different categories of outcomes drawing on a preliminary survey of a sub-sample of proposals and other descriptive evidence gathered by IRRC (2013).

In the first coding dimension, seven CSR areas are defined: environment, community, human rights, employee relations, diversity, product and governance (KLD 2007). Furthermore, we separately classified proposals as “controversial issues” if they referred to any of the following issues: alcohol, gambling, tobacco, firearms, military or nuclear power (KLD 2007).

With the second dimension of the coding, we want to capture the desired effect, or type of impact or expected outcome that the proposals aim to achieve. We believe this classification adds to our understanding of shareholder proposals, given that “less prescriptive proposals” are more likely to receive greater support (IRRC 2013). We define six different potential impacts: action on business operations and/or decision; adoption of code of conduct; change of policy; adoption and/or compliance with standards; change in the governance structure; and reporting. We further allow a residual category “other”, which contains remaining miscellaneous effects.

Finally, we also separately identified those (relatively few) proposals that were in fact asking companies to reduce their CSR involvement. Appendix 1 shows some examples of the proposals and their classification.

The coding was carried out in two phases. In the first phase, we trained a research assistant by conducting a pilot test on a sub-sample of proposals (n = 50). During and after the pilot test, we discussed all doubts and revised the coding rules/guidelines to address potential

ambiguous coding. The research assistant then coded all the remaining proposals. To classify each proposal, we mainly relied on the short description of the proposal provided by the ISS/IRRC database, which is indicative of the content of the proposal (see Appendix 1 for examples). In the advent of an ambiguous description, the original text of the proposal was retrieved to complete and validate the coding. The authors jointly carried out this task.

#### **4. Evolution patterns of CSR proposals**

We start our analysis from the overview of time trend over our observation period. Figure 1 shows the number of proposals presented during fiscal years 1996-2009. From 1998 to 2007, the trend steadily increased while, more recently, the trend seems to have stabilized at about 350 proposals.

Insert Figure 1 about here

##### *4.1 CSR areas*

We summarize the results of the proposals into different CSR areas using Figure 2, which shows the *incidence* of each type of proposal over the total proposals submitted each year, along with a discussion on other (untabulated) descriptive statistics and trends. As the graph shows, by far there is a large and increasing incidence of proposals addressing corporate governance issues, with a maximum of 40.4% in relation to fiscal year 2008 (this type of proposal also presents the highest absolute number of submitted proposals). Environmental issues are also quite common (through time the average percentage of environmental proposals is 19.3%), especially at the beginning of our sample period (more than 20% in the period 1996-1998) and in the most recent year (in 2009, the proportion of proposals questioning environmental issues is 29.2%). Product responsibility and diversity proposals constitute on average 16.7% and 15.8% of the submitted proposals respectively. The lowest (highest) incidence for product-related proposals is 9.1% (23.4%) in 1997 (1999). The lowest (highest) incidence for diversity-related proposals is 12.5% (19.4%) in 2008 (2001). While the number of diversity proposals has been quite steady over time,

the number of product-related proposals follows an increasing trend, with a peak (in absolute terms) in 2003. The rest of the CSR areas seem to have a relatively lower incidence: on average in the sample period we have 4.2% human rights, 8.2% employee relations, 5.2% community and 7.4% controversial issues proposals. In absolute terms, the number of these proposals does not follow a specific path. Human rights, community and controversial issues show an important peak in 2002, with 17, 26 and 32 proposals submitted respectively, while human rights proposals have two peaks: in 2002 (n = 17) and 2007 (n = 29). Employee relation proposals show a fluctuating trend up to 2004, and subsequently, a quite sharp decreasing trend.

Insert Figure 2 about here

#### *4.2 Expected outcome*

We now move on to the discussion of what the proposals actually ask companies to do, i.e. the type of change shareholders demand. Figure 3 plots the number of proposals according to the expected outcome they intend to create.

Insert Figure 3 about here

As the graph shows, the number of proposals asking for transparency (reporting) is by far higher than other types of expected outcomes (on average over time the incidence of proposals demanding any form of reporting is 41.4%, the absolute average is 119.71). Changes to the governance structure are the less requested (average incidence is 7.9%, with average n = 21.64). Actions on business operations were quite common up to 2004, they subsequently declined, settling at about the same number as those that request changes in policy. Up to 2004, the average incidence (number) of proposals on actions on business operations was 23.4% (56.7) versus 14.2% (34.3) for proposals on change of policy. After 2004, the average incidence is 16.2% (57.6) for proposals demanding actions on business operations versus 16.9% (60) for change of policy. Examples of the “most popular” proposals with actions or policy outcomes are reported in

Table 1. It is worth noting that both types of proposals may also refer to requests “against” CSR, such as for example “refraining from making charitable contributions”, or “don’t waste corporate funds on CO<sub>2</sub> reduction”, although these types of anti-CSR requests are rare.

Insert Table 1 about here

What is even more striking is the absolute inverse path of demands for actions on business operations in comparison to demands for reporting. After 2004, the decline in the demand for changes in business operations is more than counterbalanced by the rapid growth of transparency requests. While this evidence is preliminary and descriptive, we can only speculate about the reasons behind these trends. One possible explanation might be related to both the rules that apply to shareholder proposals and the desire by shareholders to improve management response to their cause. The management can petition the SEC to exclude a proposal for various reasons (see above). According to Tkac (2006), most firms oppose CSR-related proposals on the grounds that it deals with a matter relating to the company’s ordinary business operations. Thus, the likelihood that proposals asking for actions (such as using non-animal test methods for cosmetic and pharmaceutical companies, restricting sales of genetically engineered goods for food companies, or reducing toxicity of product formulations for chemical companies) will be opposed is high. On the other side, we believe demand for reporting and more transparency is harder to oppose by the management, at least by means of the SEC rules. It is also relatively easier to gain consent on among the shareholder basis as it can be “sold” as a relatively costless activity for the firm while at the same time providing shareholders with ex-post monitoring power, as – if successful– it will provide additional information to monitor managerial performance.

In order to test this idea, we ran a simple correlation analysis among the following variables: dummy variable equal to 1 if the proposal is requiring an action on business operation, 0 otherwise (*action*); dummy variable equal to 1 if the proposal is requiring to report and disclose

information, 0 otherwise (*reporting*); dummy variable equal to 1 if the proposal is omitted, 0 otherwise (*omitted*); dummy variable equal to 1 if the proposal is withdrawn, 0 otherwise (*withdrawn*); dummy variable equal to 1 if the proposal is voted for, 0 otherwise (*voted*). Table 2 reports the correlation coefficients.

Insert Table 2 about here

Evidence of the highly significant and positive correlation coefficient between *action* and *omitted* indicates that shareholders proposals asking companies to change their business operations or decisions are more likely to be opposed by the management. In contrast, the significant and negative coefficient between *reporting* and *omitted* suggests that demand for transparency is less likely to be successfully petitioned to the SEC. Furthermore, the negative correlation coefficient between *action* and *withdrawn* shows companies are less inclined to negotiate this type of request before the annual general meeting.

We now probe into the increasing demand for transparency. It consists of a total of 1,676 proposals, 73% of which refer to governance, environment or product issues (Figure 4).

Insert Figure 4 about here

From the governance proposals, we further separately identify 210 proposals requesting the *initiation* of stand-alone reporting (either labelled as social, environmental or sustainability reports). In Figure 4, this is depicted by the continuous line. Early years (1996-2001) of the sample mainly request issuance of environmental reports. There is then a constantly increasing trend starting in 2002 up to 2006, with quite a big jump in the demand for stand-alone reporting between 2005 and 2006. We try to explain what might have driven the trend in the demand for stand-alone reporting by identifying two key events: the launch of the Global Reporting Initiative (GRI) in 2000 and the release of the G2 in 2002 as well as the subsequent revision and release of the G3 in 2006. In support of this speculation, among the governance proposals, we note that

there are 9 and 19 proposals in 2002 and 2003 respectively that explicitly request “to report using the GRI guidelines”.

With respect to the rest of the demands for transparency in governance issues, the main recurring request is for political donations disclosure. This trend explains the peak in 2003, when the number of proposals requesting to “report on political donations and policy” is 35.

Transparency in environmental issues proposals mainly seeks to obtain information about energy use and pollution (especially GHG emission levels), starting from 2001. More recently, since 2006, the demand for climate change information and details on how companies will deal with risks associated with climate change have been the most prominent types of proposals, consistent with this environmental issue being predominant for shareholders (Solomon et al. 2011; Rodrigue, Magnan, and Boulianne 2013).

Finally, for transparency on products, there is no particular observable trend and the proposals mainly concern food and beverage companies and the use of genetically modified ingredients and chemical/pharmaceutical companies on drug prices policies and animal testing.

#### *4.3 Degree of success*

As the last dimension of the analysis of the trend in CSR shareholder activism, we look at the degree of success of these proposals. Byrd and Cooperman (2014, 231) note that “with limited data on negotiated and withdrawn resolutions, previous empirical studies have focused on proxy proposals brought to a vote at annual meetings where public data are available”. Along these lines, we also deem important to include withdrawn proposals in the analysis. As such, we look at both the management reactions (how many are opposed and omitted vs. how many are withdrawn by the shareholders because the management has already incorporated some initiatives towards the shareholders’ request) and voting results.

Figure 5 plots the cumulative number of proposals classified according to whether they are omitted, voted or withdrawn. First, the graph tells us that most of the proposals get voted for.

Second, it shows that the number of proposals omitted is quite constant over time: as the number of proposals grows, there is also an increasing number of proposals withdrawn. This seems to indicate that companies are listening, to some extent, to shareholders' requests.

Insert Figure 5 about here

Figure 6 shows some more details. In particular, while the proportions of proposals voted, withdrawn or omitted were essentially equally distributed in the first years, over time the proportion of proposals voted for at the AGM increased, ranging between 50% and 60%. The proportion of proposals omitted decreased and settled below 20%, and the proportion of proposals withdrawn remained relatively stable between 25% and 35%, until 2008 when the proportion increased to above 38%.

Taking the evidence in Figures 5 and 6 together, it appears that shareholders are becoming more and more successful at both negotiating with the firm (number of withdrawn proposals increases with time) and exposing their concerns to other stakeholders through the inclusion of proposals submitted to vote at the AGM (proportion of proposals voted for is the highest).

Insert Figure 6 about here

Finally, in Figure 7, we plot the average percentage of votes in support of CSR proposals. The bold line shows an increasing trend in support, although there is a sharp drop in 2007 (due mainly to the low support obtained for human rights proposals). In terms of a breakdown by CSR areas, untabulated tests show that the proposals with the highest (lowest) support relate to diversity (community), with an average support during the time period of 17.7% (6.3%). Finally, from Figure 7, we also note that generally support for proposals demanding transparency is higher than support for proposals demanding changes in business operations. The overall mean is 11.9% for proposals demanding reporting versus 9.9% for proposals demanding actions.

Furthermore, we note the constantly increasing support obtained by requests for transparency versus the fluctuating support for proposals demanding changes in business operations.

Insert Figure 7 about here

## **5. Which companies are targeted?**

This section describes the characteristics of the firms that are subject to shareholder activism. First of all, from Figure 8, we see a wide range of industries experiencing the phenomenon. We observe that a relative great proportion of proposals address companies operating in environmentally sensitive industries, such as chemicals and oil. Nevertheless, there are several proposals targeting companies in industries that are not traditionally considered environmentally or socially sensitive, such as for example business services, eating and drinking places, insurance carriers and so on, indicating how this mean of engagement is widespread and not industry-specific.

Insert Figure 8 about here

We describe shareholder proposals by considering company characteristics commonly used in social and environmental accounting literature as proxies for political visibility of the firm (Berthelot, Cormier, and Magnan 2003) and other characteristics that the financial accounting literature has found to be associated with financial shareholder activism (Flammer 2015). We consider CSR performance, Concerns, measured as the sum of the total concerns score provided by KLD; Size, measured as the total revenues; and ROA, measured as EBIT over total assets. The literature suggests that shareholder proposals would target poor CSR performers, large companies and those with lower profitability, but it is not clear which characteristics matter the most with respect to the CSR area and expected outcome of the proposals.

Table 3 presents the means of the continuous variables describing firms' characteristics (size, ROA and concerns), for each separate sub-group of proposals, classified according to the



CSR area and expected outcome. The t-test descriptively shows that both CSR areas and expected outcomes are related to the company's characteristics in different ways.

Insert Table 3 about here

For example, companies targeted for environmental, governance and human rights issues present lower CSR performance<sup>6</sup> on average than other companies subject to shareholder activism, as indicated by the mean total concerns scores. On the other hand, companies targeted for diversity and employee relation issues show better CSR performance than the rest of the targeted companies. Companies targeted for community, environment, governance and human rights proposals are generally bigger than the rest, but those targeted for diversity and employee relation issues are significantly smaller. This is somewhat surprising because despite the significant difference in size, the target companies are still large, and thus, it is unlikely that they have no management systems in place for these dimensions. Finally, requests concerning employee relations, human rights and product responsibility are demanded of more profitable companies, while environmental and governance proposals are submitted to less profitable companies.

The analysis of the expected outcomes of these proposals shows that, on average, requests for action are addressed to large companies and poor CSR performers; the adoption of codes and compliance with standards are demanded of companies that are smaller, more profitable and better CSR performers. On the other hand, proposals concerning changes to the governance structure address, on average, better CSR performers, smaller but less profitable companies. Finally, companies that are targeted for more transparency are poorer CSR performers, bigger and less profitable, which is consistent with the sustainability reporting literature (see Patten, Ren, and Zhao (2015) for an example). Collectively, this exploration shows that a unique profile of targeted companies does not appear to exist. Depending on the CSR area

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<sup>6</sup> A higher total concern score corresponds to lower CSR performance.

or the expected outcome, the average targeted company will vary in terms of CSR performance, size and profitability.

## **6. Shareholders and intensity of activism**

The last part of the analysis looks at who are the sponsor shareholders, and how intensive is their activism, in terms of how many proposals each company is subject to per year.

As Figure 9 shows, the most active sponsors are religious institutions, socially responsible investment funds and pension funds, which account for 66.5% of all proposals submitted in the sample period. The other active shareholders are individuals, special interest groups (such as for example PETA – People for Ethical Treatment of Animals; Amnesty International; Rainforest Action Network, etc.), unions and other funds. Untabulated data reveal that while the most active shareholders at the beginning of the sample period (before 2000) were religious institutions and individuals (making up between 60% to 90% of the submitted proposals), their number and their incidence over the total number of proposals have been decreasing quite sharply. The 2000's witness an exponential growth in activism of SRI and pension funds.

Insert Figure 9 about here

In order to analyse the intensity of shareholder activism, we determine how many proposals each company receives per year. Table 4 shows that companies are quite often subject to more than one proposal per year. In particular, cases in which companies get targeted more than once per year comprise 59.9% of the sample. There are also a few instances (4.9%) in which companies are seriously under pressure from shareholders, as the number of proposals submitted is greater than eight. Interestingly, the incidence of proposals being withdrawn, reflecting a positive response from the management, decreases with the intensity of the activism. For high intensity shareholder activism, it seems companies are more likely to oppose the proposal to the

SEC, thus suggesting that high intensity activism is found for the less responsive companies. Untabulated correlation coefficients between company characteristics and the intensity of shareholder activism provide evidence in line with the idea that the most visible firms are the ones most targeted by shareholders, as we find positive and significant coefficients for CSR concerns, size and environmentally sensitive industries. Furthermore, we also find a positive coefficient between ROA and number of proposals. This is not in line with the finding of financial shareholders' activism (Judge, Gaur, and Muller-Kahle 2010), which reports less profitable firms to be targeted by shareholders. This result is not surprising as it could be that CSR activism targets firms that are quite profitable and have the resources to invest in CSR-related programs and projects.

Insert Table 4 about here

Table 5 reports details of two cases of intense shareholder activism: ExxonMobil in 2010 (fiscal year 2009) and Wal-Mart in 2008 (fiscal year 2008). This allows us to provide concrete examples of intense activism and offer a more comprehensive portrayal of instances of shareholder activism through the simultaneous consideration of proposal characteristics, targeted companies and sponsors. In the case of ExxonMobil, most of the 11 proposals refer to the environment and demand transparency and were voted on, although the support received was relatively low. Nevertheless, active shareholders deem that support levels above 20% send a significant signal to management (Fellow, 2013). As such, it would appear that activists consider having sent strong messages in four out of 11 proposals submitted to Exxon. Interestingly, all proposals requesting actions on environmental issues were voted on. As for Wal-Mart (2008), the nine proposals cover a broader range of CSR areas and expected outcomes. Interesting enough, the proposals for which shareholders demanded a combination of "actions" on "product" were opposed by the firm on the grounds that they deal with the company's ordinary business. According to Tkac (2006, 4), "This last rationale is the one that most firms cite when seeking to exclude social activists' proposals. The pivotal term here is 'ordinary business operations,' which

includes day-to-day management of the firm, production, and the workforce as well as those issues on which stockholders ‘would not be in a position to make an informed judgment.’” These cases of intense activism expose the breadth of concerns shareholders may have with respect to a single firm and the variety of responses they elicit from the corporation. This detailed analysis is also consistent with our findings that different companies will be targeted along different areas and outcomes, with varying degrees of success.

## **7. Conclusion**

Stakeholder engagement is viewed as a cornerstone of social and environmental management and reporting (O’Dwyer 2005; ISEA 1999). In this paper, we sought to describe a specific type of stakeholder engagement centred on a prominent stakeholder group, shareholder proposals. We illustrate how shareholders increasingly employ this approach over the years, with dominant concerns for governance, environment, product and diversity. While actions on operations and changes in policy are demanded by shareholders, most of their requests relate to improved transparency, with frequent demands for stand-alone reporting and political contribution disclosure. With an increasing number of proposals being withdrawn over time, it appears that shareholders are becoming more and more successful in influencing corporate activities.

Shareholders target companies from a wide range of industries. The CSR areas and expected outcomes of their proposals vary depending on the firm’s characteristics, but do not necessarily follow the expected pattern found in the literature in which poor CSR performers, large and less profitable firms represent the usual targets. Multiple nuances are observed in our findings, implying that this mean of stakeholder engagement is both widespread and firm-specific. Among shareholders submitting proposals, we note a predominance of religious institutions, pension funds and SRI funds, shareholders arguably concerns by social and financial

factors. Shareholders also intensely use this mode of engagement, with almost 60% of our sample firms receiving more than one CSR proposal per year.

Our study is subject to limitations. While we describe the types of demands for CSR, we do not investigate what motivates shareholders to submit their proposals, be it economical, moral or other drivers. Future research into this issue would deepen our knowledge of shareholder activism. We also acknowledge that the portrayal we draw might not apply to all shareholders (Gillian and Starks 2007), as our proposals probably arise from CSR-aware shareholders. Future research could explore the difference between activist and non-activist shareholders to disentangle this issue.

Collectively, our findings offer a detailed portrayal of an increasingly popular means of engagement adopted by shareholders to voice their CSR concerns to the corporation they invest in. Our main contributions lie in the development of a unique categorization scheme concerning the desired effect of the proposals along with our detailed classification of the proposals along two dimensions: CSR areas and expected outcomes. With this approach, we deepen our understanding of shareholders' concerns and requests for improvement in terms of CSR.

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## Appendix 1. Examples of coding

| <b>Proposal</b>                                    | <b>CSR area</b>      | <b>Expected outcome</b>                  |
|--|----------------------|--|
| Adopt code of conduct for China operations         | Governance           | Adoption of codes                        |
| Adopt comprehensive human rights policy            | Human rights         | Change of policy                         |
| Adopt employee bill of rights                      | Employee             | Adoption of codes                        |
| Adopt EURODAD charter of responsible financing     | Community            | Adoption of codes                        |
| Adopt sexual orientation anti-bias policy          | Diversity            | Change of policy                         |
| Affirm political non-partisanship                  | Governance           | Change of policy                         |
| Develop human rights criteria for China operations | Human rights         | Actions on business operations/decisions |
| Develop renewable energy alternatives              | Environment          | Actions on business operations/decisions |
| Disclose charitable contributions                  | Community            | Reporting                                |
| Divest tobacco holdings                            | Controversial Issues | Actions on business operations/decisions |
| End political donations                            | Governance           | Actions on business operations/decisions |
| Endorse CERES principles                           | Environment          | Compliance with standards                |
| Establish board committee on sustainability        | Governance           | Change in governance structure           |
| Implement ILO standards                            | Employee             | Compliance with standards                |
| Implement MacBride principles                      | Diversity            | Compliance with standards                |
| Increase board diversity                           | Diversity            | Change in governance Structure           |
| Increase or promote use of cage-free eggs          | Product              | Actions on business operations/decisions |
| Issue global warming report                        | Environment          | Reporting                                |
| Issue sustainability report                        | Governance           | Reporting                                |
| Link executive pay to social criteria              | Governance           | Change in governance structure           |
| Reduce greenhouse gas emissions                    | Environment          | Actions on business operations/decisions |
| Report on EEO (equal employment opportunities)     | Diversity            | Reporting                                |
| Report on pesticide reduction in supply chain      | Product              | Reporting                                |
| Restrict sales of gene-engineered goods            | Product              | Actions on business operations/decisions |
| Review animal welfare standards                    | Product              | Change of policy                         |

## Tables

**Table 1. Most frequent proposals with expected outcome for actions or policies**

| <b>Action on business operations</b>          | <b>Change of policy</b>                    |
|---|--|
| Develop military contracting criteria         | Adopt comprehensive human rights policy    |
| Develop renewable energy alternatives         | Adopt drug price restraint policy          |
| Divest tobacco holdings                       | Adopt sexual orientation anti-bias policy  |
| Increase container recycling/recycled content | Affirm political non-partisanship          |
| Restrict sales of gene-engineered goods       | Implement equality principles              |
| Reduce greenhouse gas emissions               | Review animal welfare standards            |
| Reduce toxicity of product formulation        | Review job cuts and relocations            |
| Set GHG emissions reduction goals             | Review suppliers' animal slaughter methods |
| Take steps to prevent predatory lending       | Review/amend human rights policy           |
| Use non-animal test methods                   |  |

**Table 2. Correlation between expected outcomes and proposal success**

|                  | <i>action</i> | <i>reporting</i> |
|------------------|---------------|------------------|
| <i>action</i>    | 1             |                  |
| <i>reporting</i> | -0.437***     | 1                |
| <i>omitted</i>   | 0.092***      | -0.043**         |
| <i>withdrawn</i> | -0.075***     | -0.016           |
| <i>voted</i>     | 0.001         | 0.048**          |

\* p<0.05, \*\* p<0.01, \*\*\* p<0.001

**Table 3. Company characteristics and shareholder proposals**

| <i>Mean of CSR Performance, Size and Profitability by CSR Area</i> |           |                       |                         |                     |         |
|--|-----------|-----------------------|-------------------------|---------------------|---------|
| CSR Area   | Proposal? | N. obs. <sup>1)</sup> | Concerns<br>(CSR perf.) | Size<br>(Sales M\$) | ROA     |
| Community  | No        | 3699                  | 5.35                    | 43,377.0            | 0.11    |
|  | Yes       | 187                   | 5.66                    | 54,067.1***         | 0.11    |
| Controversial<br>issues  | No        | 3622                  | 5.39                    | 44,649.4            | 0.11    |
|  | Yes       | 264                   | 5.00*                   | 33,492.7            | 0.12    |
| Diversity  | No        | 3294                  | 5.63                    | 46,412.5            | 0.11    |
|  | Yes       | 592                   | 3.84***                 | 29,863.5***         | 0.11    |
| Employee<br>relations  | No        | 3579                  | 5.46                    | 44,564.7            | 0.11    |
|  | Yes       | 307                   | 4.18***                 | 36,042.9**          | 0.13*** |
| Environment  | No        | 3153                  | 5.18                    | 41,552.1            | 0.11    |
|  | Yes       | 733                   | 6.12***                 | 53,954.1*           | 0.10*** |
| Governance   | No        | 2901                  | 5.2                     | 41,569.8            | 0.12    |
|  | Yes       | 985                   | 5.83***                 | 50,729.1***         | 0.10*** |
| Human<br>rights  | No        | 3714                  | 5.3                     | 43,542.3            | 0.11    |
|  | Yes       | 172                   | 6.77***                 | 51,430.5***         | 0.12*   |
| Product  | No        | 3240                  | 5.35                    | 45,080.1            | 0.11    |
|  | Yes       | 646                   | 5.41                    | 37,929.7            | 0.13*** |

| <i>Mean of CSR Performance, Size and Profitability by Expected Outcome</i> |           |                       |                         |                     |         |
|--|-----------|-----------------------|-------------------------|---------------------|---------|
| Expected<br>outcome  | Proposal? | N. obs. <sup>1)</sup> | Concerns<br>(CSR perf.) | Size<br>(Sales M\$) | ROA     |
| Actions  | No        | 3089                  | 5.25                    | 42,623.9            | 0.11    |
|  | Yes       | 797                   | 5.79***                 | 48,804.1***         | 0.11    |
| Adoption<br>of codes   | No        | 3842                  | 5.38                    | 43,988.2            | 0.11    |
|  | Yes       | 44                    | 4.09**                  | 35,436.6*           | 0.15*** |
| Change<br>of policy  | No        | 3283                  | 5.36                    | 43,922.9            | 0.11    |
|  | Yes       | 603                   | 5.36                    | 43,720.4            | 0.11    |
| Compliance<br>with standards   | No        | 3517                  | 5.59                    | 46,091.6            | 0.11    |
|  | Yes       | 369                   | 3.16***                 | 22,921.2***         | 0.13*** |
| Governance<br>structure  | No        | 3585                  | 5.40                    | 44,607.3            | 0.11    |
|  | Yes       | 301                   | 4.92**                  | 35,365.0***         | 0.10**  |
| Other  | No        | 3775                  | 5.32                    | 43,444.2            | 0.11    |
|  | Yes       | 111                   | 6.82***                 | 59,100.3***         | 0.11    |
| Reporting  | No        | 2225                  | 5.14                    | 41,565.1            | 0.12    |
|  | Yes       | 1661                  | 5.67***                 | 47,007.7***         | 0.11*** |

<sup>1)</sup> We lose 35 observations due to missing data on CSR performance  
\*, \*\*, \*\*\* t-test significant at 10%, 5%, 1%, respectively, one-tailed

**Table 4. Intensity of activism**

| N. of proposals per<br>firm/year | Freq. | Acc. Freq. | Firm/year | Omitted | Voted  | Withdrawn |
|----------------------------------|-------|------------|-----------|---------|--------|-----------|
| 1                                | 1,571 | 40.1%      | 704       | 11.70%  | 47.20% | 41.10%    |
| 2                                | 835   | 61.4%      | 215       | 17.20%  | 50.50% | 32.20%    |
| 3                                | 555   | 75.5%      | 96        | 18.60%  | 56.60% | 24.90%    |
| 4                                | 287   | 82.8%      | 43        | 24.00%  | 55.40% | 20.60%    |
| 5                                | 221   | 88.5%      | 24        | 22.60%  | 57.00% | 20.40%    |
| 6                                | 105   | 91.2%      | 11        | 25.70%  | 57.10% | 17.10%    |
| 7                                | 115   | 94.1%      | 12        | 27.00%  | 55.70% | 17.40%    |
| 8                                | 71    | 95.9%      | 7         | 18.30%  | 64.80% | 16.90%    |
| 9                                | 26    | 96.6%      | 3         | 34.60%  | 46.20% | 19.20%    |
| 11                               | 88    | 98.8%      | 2         | 20.50%  | 58.00% | 21.60%    |
| 12                               | 34    | 99.7%      | 2         | 35.30%  | 47.10% | 17.60%    |
| 13                               | 13    | 100.0%     | 1         | 7.70%   | 84.60% | 7.70%     |
| Total                            | 3,921 |            | 1,120     | 661     | 2,203  | 1,237     |

**Table 5. Intense activism cases: ExxonMobil and Wal-Mart**

| Proposal   | Type of Sponsor  | CSR Area     | Expected Outcome     | Success                   | Votes in Favour |
|--|------------------|--------------|----------------------|---------------------------|-----------------|
| <i>ExxonMobil AGM date: 26/05/2010</i>           |                  |              |                      |                           |                 |
| Adopt sexual orientation anti-bias policy        | Pension Fund     | Diversity    | Change of policy     | Voted                     | 22.2            |
| Preserve/restore Gulf Coast wetlands             | Religious        | Environment  | Actions              | Voted                     | 9.1             |
| Report on climate change risks                   | Other            | Environment  | Reporting            | Withdrawn                 |                 |
| Report on community hazards                      | Religious        | Community    | Reporting            | Omitted <sup>(b-2)</sup>  |                 |
| Report on energy independence through renewables | Religious        | Environment  | Reporting            | Voted                     | 6.7             |
| Report on environmental impact of fracturing     | SRI Fund         | Environment  | Reporting            | Voted                     | 26.3            |
| Report on principles to stop global warming      | Union            | Environment  | Reporting            | Withdrawn                 |                 |
| Report on risk of lower fossil fuel demand       | Individual       | Product      | Reporting            | Voted <sup>*(i-11)</sup>  | 7.8             |
| Report on water use                              | SRI Fund         | Environment  | Reporting            | Voted                     | 6.7             |
| Review impact of oil sands operations            | SRI Fund         | Environment  | Actions              | Voted                     | 26.4            |
| Set GHG emissions reduction goals                | Religious        | Environment  | Actions              | Voted                     | 27.2            |
| <i>Wal-Mart AGM date: 06/06/2008</i>             |                  |              |                      |                           |                 |
| Adopt sexual orientation anti-bias policy        | Religious        | Diversity    | Change of policy     | Voted                     | 6.0             |
| Ensure product safety                            | Pension Fund     | Product      | Actions              | Omitted <sup>(i-7)</sup>  |                 |
| Establish board committee on human rights        | SRI Fund         | Human rights | Governance structure | Voted                     | 2.0             |
| Increase or promote use of cage-free eggs        | Special Interest | Product      | Actions              | Omitted <sup>(i-7)</sup>  |                 |
| Issue global warming report                      | Special Interest | Environment  | Reporting            | Omitted <sup>(i-10)</sup> |                 |
| Report on political donations and policy         | Pension Fund     | Governance   | Reporting            | Voted                     | 12.0            |
| Review impact of poor labour practices           | SRI Fund         | Employee     | Actions              | Withdrawn                 |                 |
| Review nano-materials and product safety         | SRI Fund         | Product      | Actions              | Omitted <sup>(i-7)</sup>  |                 |
| Review/report on charitable giving/policy        | Special Interest | Community    | Reporting            | Omitted <sup>(i-12)</sup> |                 |

\* The company sought to exclude the proposal, appealing to omission rule (i-11)

*Omission rules:*

b-2: Proponent did not provide verification of stock ownership.

i-7: Relates to the conduct of the company's ordinary business.

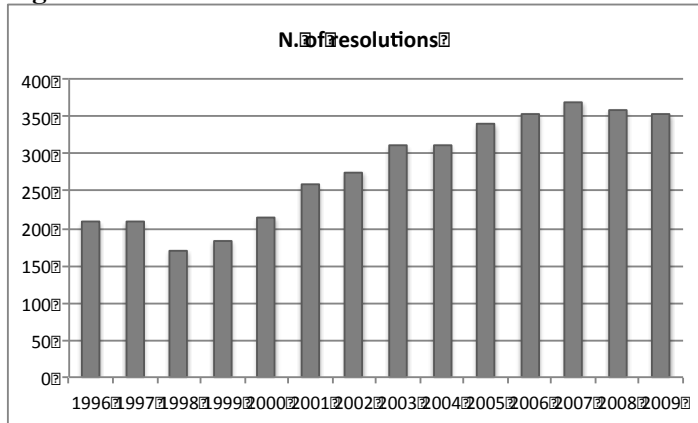
i-10: Is moot by being substantially implemented by the company.

i-11: Is a duplicate of an earlier-submitted proposal that will be included in the proxy material for the same meeting.

i-12: Did not receive the required number of votes cast at a previous shareholder meeting.

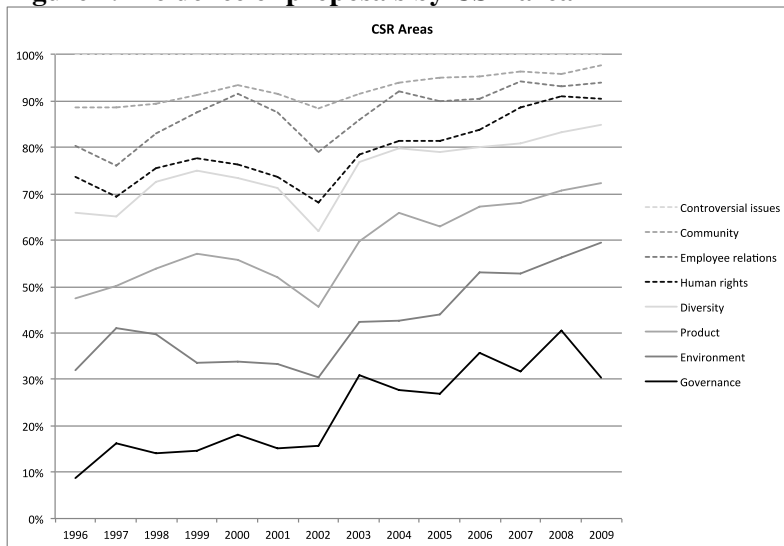
## Figures

**Figure 1. Time trend of shareholder activism**



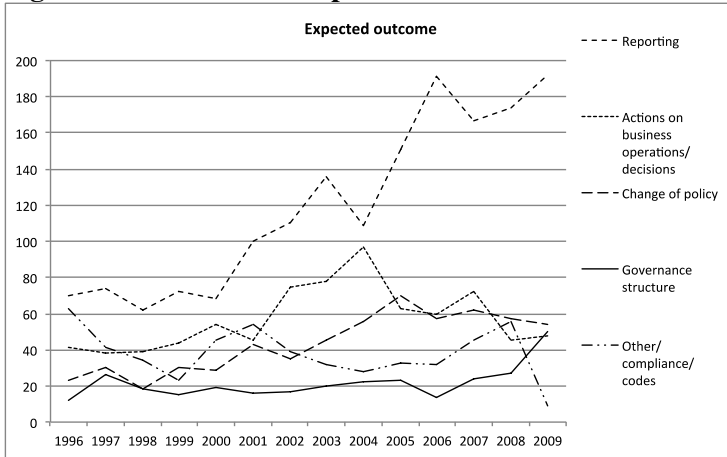
The figure shows the number of proposals in each of the fiscal years covered by the study.

**Figure 2. Incidence of proposals by CSR area**



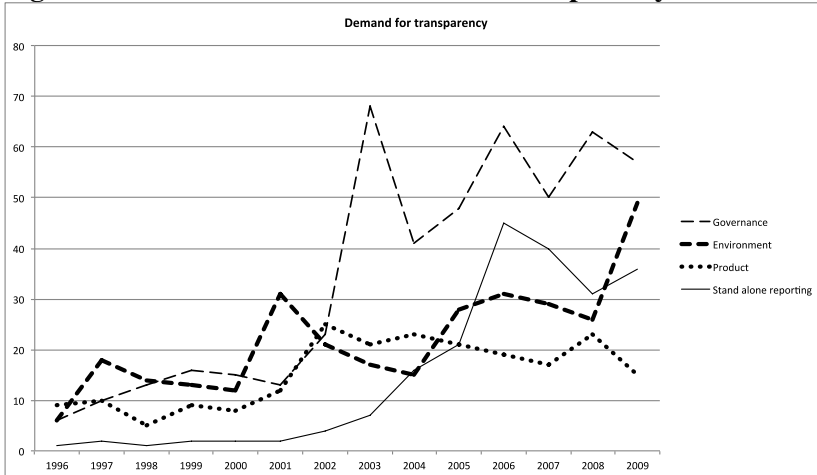
The figure shows the CSR areas covered by the proposals over the period 1996-2009 and their incidence over the total number of proposals.

**Figure 3. Time trend in expected outcome**



The figure shows the number of proposals by expected outcome over the period 1996-2009.

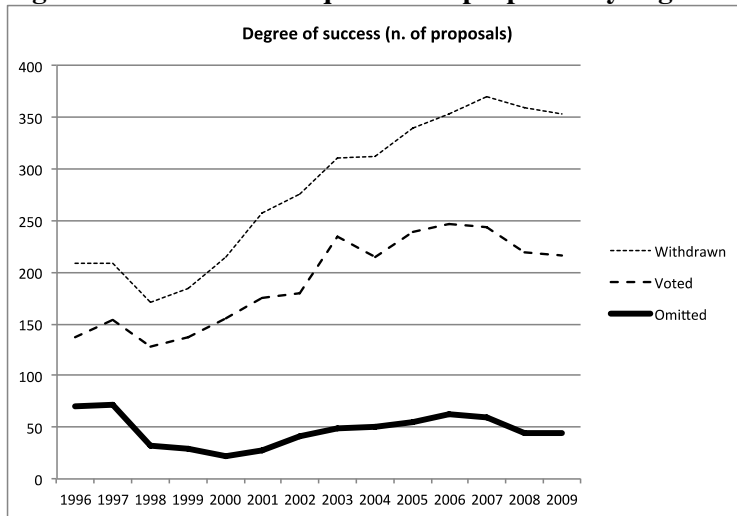
**Figure 4. Time trend in the demand for transparency**



The figure shows the number of proposals requesting transparency by CSR area over the period 1996-2009.

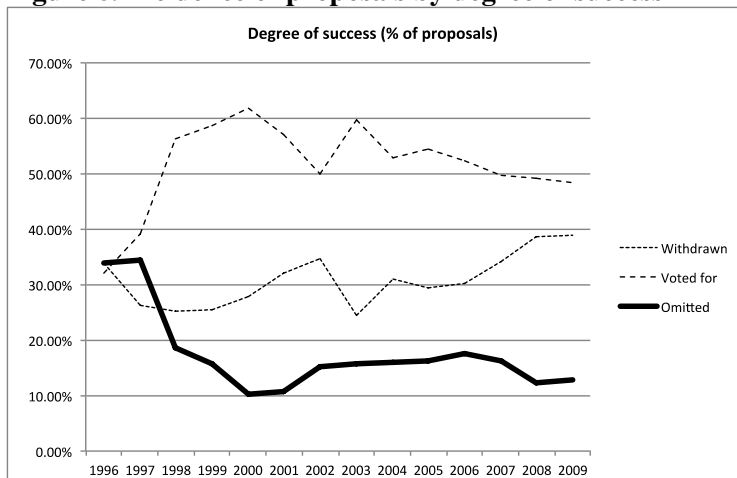


**Figure 5. Cumulative frequencies of proposals by degree of success**



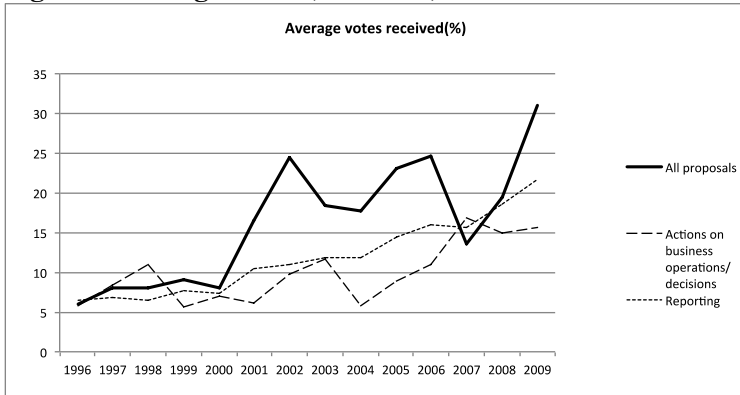
The figure shows the cumulative number of proposals by degree of success over the period 1996-2009.

**Figure 6. Incidence of proposals by degree of success**



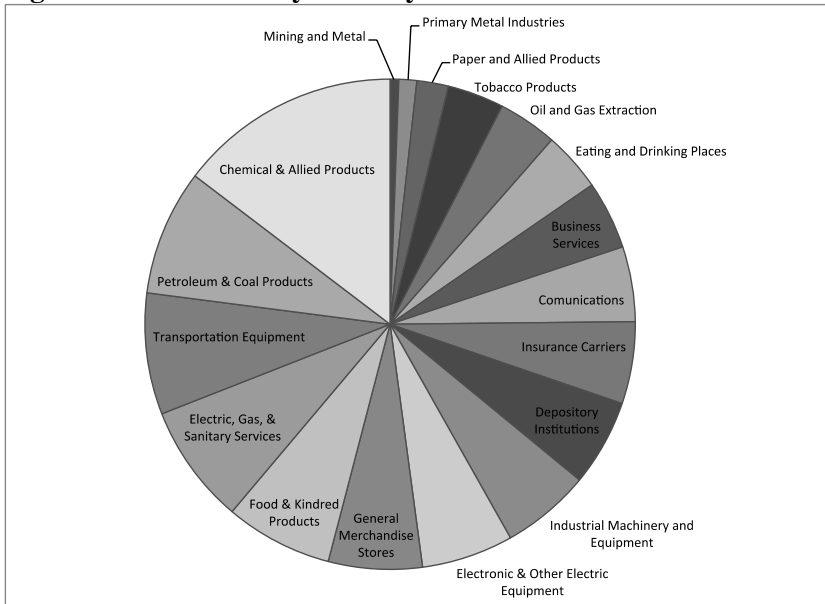
The figure shows the incidence of proposals by degree of success over the period 1996-2009.

**Figure 7. Voting results (in favour)**



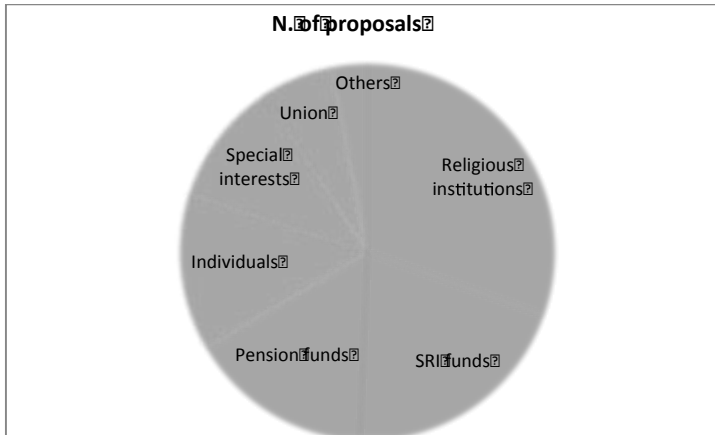
The figure shows the percentage of votes in favour received for different types of proposals.

**Figure 8. Breakdown by industry**



The figure shows the breakdown of the number of proposals by industry.

**Figure 9. Types of shareholders**



The figure shows the breakdown of the number of proposals by activist shareholder type.