Institutional Logics and Shareholder Resolutions

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Extended Abstract

Recent research has investigated the role that institutional logics play in developing different strategies by firms within the same industry (Lounsbury 2007; Shipilov, Greve and Rowley 2010; Thornton & Ocassio 1999). The purpose of this paper is to examine whether institutional logics also influence the strategies that firms adopt in response to shareholder activism. More specifically, does the strength of a firm's corporate governance logic influence the firm's responsiveness to a shareholder resolution?

Institutional logics are "the socially constructed, historic patterns of material practices, assumptions, values, beliefs, and rules by which individuals and organizations produce and reproduce their material subsistence … and provide meaning to their social realty." (Thornton & Ocassio 1999: 804). In decision making, institutional logics provide a framework for understanding how strategic interests and decisions are formulated. The logic helps to determine which sets of possible alternatives will be deemed to be acceptable, and then encourages the decision maker to choose the option that is consistent with the prevailing institutional logic. This leads to "logic-consistent decisions that reinforce extant organizational identifies and strategies." (Lounsbury 2007).

In terms of shareholder resolutions, this theory suggests that the firm's institutional logic should influence the firm's responsiveness to shareholder activism. More specifically, firms with a strong corporate governance logic would make decisions that are consistent with that institutional logic. Similarly, firms with a weak governance logic would tend to shun implementing policies and procedures that would strengthen the firm's governance. In other words, the firm's corporate governance logic would guide decision making with respect to the responsiveness of a firm to a shareholder resolution. This suggests that firms with a strong governance logic would be more responsive to shareholder activism, while firms with a weak governance logic would be less receptive.

Institutional investors control access to the financial resources that are necessary for the firm's survival. Researchers find that firms are more responsive to shareholder resolutions that are put forward by institutional investors.

Finally, shareholder resolutions can be grouped into three categories: corporate governance issues, social responsibility issues (CSR), and operation matters. Scholars find that shareholder resolutions that involve CSR issues tend to be the most favourably received. CSR resolutions are far more likely to be successfully negotiated than corporate governance resolutions. They also receive greater shareholder support when voted on annual general meetings (AGMs).

Shareholder resolutions are attempts to close the gap between what the firm is actually doing, and what the dissident shareholder would like the firm to do. There are a number of possible outcomes when a shareholder resolution is proposed, varying from engagement to confrontation. One option is for the firm and the dissent shareholder to come to a satisfactory compromise such that the resolution is withdrawn and consequently the resolution is not put to a vote on at the annual general meeting (AGM). From the proposer's point of view, this is often the best solution. "Although a withdrawal does not mean a company is willing to concede on an issue, it does indicate a firm's willingness to discuss the issue." (Graves, Rehbein & Waddock 2001). A second level of responsiveness occurs when the shareholder resolution is passed by a majority vote at the AGM. This indicates widespread support for the issue. A third level occurs when the resolution receives less than majority support at the AGM. Since it has received some support, management and the board cannot simply ignore the issue. Finally, some resolutions are voluntarily omitted from being voted on at the AGM. This can be either for technical reasons, such as not complying with legal requirements or because the proposer thought that the resolution would receive low shareholder support. This represents the lowest level of engagement.

Using a sample of 885 shareholder resolutions filed in Canada during the ten-year period from 2002 to 2011, responsiveness was coded categorically taking on the values 4 (successfully negotiated), 3 (passed at the AGM), 2 (did not receive majority support at the AGM), and 1 (omitted from being voted on at the AGM).

The empirical results indicate that firms with a strong governance logic (as proxied by the annual corporate governance rankings determined by the *Report on Business*) are more responsive to shareholder proposals, regardless of whether the resolution concerns a corporate governance issue or a social responsibility issue. Furthermore, firms are more responsive to shareholder resolutions that are proposed by institutional investors.

The findings support the institutional logic perspective. A firm's response to a shareholder proposal is governed by its institutional logic. Firms that have a strong governance logic are more responsive to shareholder activism than firms that have a weak governance logic. Furthermore, the results indicate that the nature of the shareholder resolution does not influence the firm's responsiveness. Once again, this is consistent with an institutional logic perspective that argues that interests, values and decision making assumptions are embedded within a prevailing logic. The logic then helps to determine which organizational alternatives are consistent with the prevailing logic. A strong governance logic encourages firms to respond favourably to shareholder resolutions regardless of the content of the resolution.

The study is not without its limitations. The sample is of shareholder resolutions filed with Canadian companies. The Canadian legal and cultural context is different from other jurisdictions. Also, banks have an enormous influence on the Canadian economy and the policies and procedure that they adopt tend to have a trickle-down effect on other Canadian companies (Gray 2011).

The purpose of the study was to conduct a more fine grained analysis of the responsiveness of firms to shareholder resolutions. Using an institutional logic perspective, the results indicate that Canadian companies are more responsive to shareholder resolutions when the firm has a strong corporate governance logic. Such a logic makes the firm more open to engagement and less apt to be confrontational with the dissident shareholder. The firm's responsiveness is not a function of the nature of the shareholder resolution but it is positively related to whether or not the resolution is proposed by an institutional investor.

References

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