Participation and discourse in shareholder engagement: Behind the scenes at ICCR

ABSTRACT

The complex and dynamic relationships between business and civil society have become the focus of increased attention in our unsettled times. While civil society activists have drawn public attention to the negative effects of corporate behaviour on social and environmental issues (den Hond and de Bakker 2007, Guay et al. 2004), shareholders focused on ESG issues have increasingly engaged behind-the-scenes (Goldstein 2011, Logsdon and Van Buren 2009). Concerns have been raised about the consequences of non-participation of broader stakeholders and civil society in shareholder engagement (Coumans 2012, Dhir 2012). This article demonstrates that stakeholder participation and deliberation are frequently used in the preparation stages of dialogue but that this broader participation in direct dialogue is perceived by shareholders as eroding the trust built between individuals over time. We challenge the claim that it is participation per se which erodes trust and explore opportunities for greater stakeholder participation in dialogue.

Key words: shareholder engagement; stakeholder participation; discourse ethics

INTRODUCTION

‘Dialogue’ between the corporation and shareholders is said to be where the “real action typically occurs” in shareholder engagement (Logsdon and Van Buren 2009: 353). Dialogue aimed at changing corporate behaviour on ESG and ethical issues goes beyond shareholder resolutions (Lewis and Mackenzie 2000, Logsdon and Van Buren 2009) which could represent only the tip of the iceberg of shareholder activism (Goranova and Ryan forthcoming). While highly relevant to shareholder engagement, little is known about behind-the-scenes dialogue due to its private and confidential nature. In an era of calls for greater
transparency and accountability of business in society (Bebbington et al. 2007, Matten and Crane 2005) we question how broad participation can be ensured in behind-the-scenes dialogue on ESG and ethical issues. By applying a participatory and dialogic approach to primary stakeholders: shareholders active in engagement, we analyse the nature of their dialogue.

This paper probes the blackbox of engagement dialogue to unpack the nature of and motives for behind-the-scenes dialogue. We ask how participatory and dialogic practices are used during the engagement process: who participates in behind-the-scenes dialogue; what the nature of their participation is; and at what stage of the engagement process these practices occur.

LITERATURE REVIEW

Participation and deliberation

Public deliberation has “exploded in popularity” among organisations as a strategy to manage political and economic challenges (Lee and Romano 2013: 734). The development of concepts such as ‘stakeholder democracy’ reflect increasing interest in the participation of all stakeholders whose welfare is affected by organizational decisions (O'Dwyer 2005, Matten and Crane 2005, Smith 2004). Work on deliberative democracy in the public sphere (Fung 2005) has been extended to firm-society relations with the notion of the politicization of the corporation (Palazzo and Scherer 2006). Deliberation and civic participation are argued to lead to greater organizational legitimacy (Palazzo and Scherer 2006). In a world where corporate accountability is sought and reporting standards on social and environmental issues proliferate, stakeholder democracy appears to offer a tantalizing opportunity to improve corporate responsibility (Matten and Crane 2005).

Despite widespread support, participatory and deliberative approaches are not without their critics. Lee and Romano (2013) suggest that public deliberation events are an
organizational strategy which can repress social movements. Others point to the normative idealism of these approaches in light of the continuing predominance of shareholder-centric forms of governance and have highlighted the power imbalances between NGOs and corporations (O'Dwyer 2005).

However, even from a shareholder perspective there is some evidence of broader stakeholder participation and dialogue. Research shows there has been growing collaboration between investors and other stakeholders cutting across national boundaries and different sectors (McLaren 2004). In addition, companies have been led to engage directly with a broader group of stakeholders through pension fund corporate activism which has increasingly focused on transparency (Hebb 2006).

Shareholder engagement

Shareholder activism or engagement, “the use of ownership position to actively influence company policy and practice” (Sjöström 2008: 142) is recognised as one of the main responsible investment (RI) strategies representing assets of €1.95 trillion in Europe and $1.54 trillion in the US (Eurosif 2012, USSIF 2012), and is predicted to become the preferred approach of institutional investors (Vandekerckhove et al. 2008, Juravle and Lewis 2008).

Research indicates the vast majority of shareholder engagement remains private (Goldstein 2011, Becht et al. 2009, Carleton et al. 1998) with privacy frequently cited as essential for building trust (Black and Coffee 1994, Logsdon and Van Buren 2009, Gifford 2010). While shareholder activity can lead to positive outcomes (Goodman et al. forthcoming), doubts have been raised about the use of shareholder engagement on social issues when those parties who are affected by the issue have not participated fully in, or approved the action (Dhir 2012, Coumans 2012). While this criticism is based on one case and includes the more public strategy of filing a resolution it raises important questions about the nature and quality of behind-the-scenes dialogue (Dhir 2012). This investigation responds
to calls for a credible and legitimate process in shareholder engagement to ensure other stakeholder voices are considered in decision-making (O'Dwyer 2005, Dhir 2012)

**APPROACH**

A discourse ethics approach provides a normative, ethical and process perspective of communicative action outlining the features of an ‘ideal speech situation’. Habermasian discourse ethics has been used by a number of studies; for example, to develop codes of ethics (Gilbert and Rasche 2007, Lozano 2001), on work in CSR (Scherer and Palazzo 2007) and in the stakeholder engagement literature (O'Dwyer 2005, Reed 1999, Smith 2004, Unerman and Bennett 2004). Focusing on the process rather than content of ethical decision-making, discourse ethics responds to calls for ensuring the quality of the process of engagement (Scherer and Palazzo 2007, Dhir 2012) and as a normative approach it is valuable for addressing the need for norms and standards in shareholder engagement on ESG and ethical issues (McLaren 2004). A discourse ethics approach gives primacy to moral reasons beyond profit seeking (Beschorner 2006) which is in line with the ideology of socially-driven investors such as religious organisations (Lee and Lounsbury 2011, Goodman et al. forthcoming).

The underlying philosophical principles of discourse ethics are to achieve a universally validated norm which requires consensus and which is achieved through practical discourse (Habermas 1992). The goal of engagement from this perspective should be to reach a decision which everyone affected finds acceptable rather than to create norms concerning the substantive content. We identify the key motifs of Habermas’ discourse ethics approach as: consensus, argumentation, plural participation, non-coercion, and transparency. Taking a hybrid approach which combines the structure of a theoretical framework with the explorative interpretative nature of a grounded theory approach, we use these motifs to guide our
interrogation and interpretation of our data while maintaining the exploratory nature of this study (Hebb 2006).

**METHOD**

This qualitative investigation into the nature of behind-the-scenes dialogue on ESG and ethical issues is based on the responses of 43 semi-structured interviews with shareholder members of the Interfaith Center on Corporate Responsibility (ICCR). As a shareholder coalition of around 300, primarily faith-based organisations, representing over $100 billion in invested capital, ICCR stands at the forefront of shareholder engagement on ESG and ethical issues. Dating back to 1971 the ICCR’s engagement database keeps track of all resolutions and dialogues undertaken by the ICCR and its members and has been used in a number of research papers (Clark et al. 2008, Logsdon and Buren 2008, Logsdon and Van Buren 2009, Rehbein et al. 2013). The breadth and depth of experience within the ICCR makes it an ideal source for qualitative in-depth interviews.

The interviews were semi-structured and based on an interview protocol although the order of questions was flexible (Bryman and Bell 2007). Interviews were conducted by telephone and lasted between 30 minutes and an hour. They were summarized immediately as well as being recorded and transcribed to facilitate data recollection. Analysis was undertaken by reviewing the notes made during the interviews and the transcripts and repeated iterations made between the data and the theoretical perspective to constantly compare the two. NVivo 10 software was used to facilitate the coding process.

We further developed a survey to identify the key characteristics of behind-the-scenes dialogue based on the literature and reviewed by a number of academics familiar with the engagement literature. We encouraged interviewees to complete the survey leading to 27 responses. While this is not a random sample we use the survey responses to triangulate the interview responses.
RESULTS

Our investigation finds clear evidence that elements of dialogic and participatory approaches are used in behind-the-scenes dialogue however different elements are used at different stages. Figure 1 provides a summary of the main activities and the actors involved at each stage of behind-the-scenes dialogue.

**Insert Figure 1 here**

There was widespread consensus from the interviews and surveys about the sequence of activities in the dialogue process. This falls broadly in line with the engagement process identified in previous research (Logsdon and Van Buren 2009, Goodman et al. forthcoming). However, our findings extend this work by exposing in detail the activities and actors involved in behind-the-scenes dialogue.

Notably, a broader range of actors are involved earlier in the process and play a key role in providing information and knowledge, whereas at later stages the participants are almost always limited to the company representatives and the shareholders with external experts included only occasionally. The lack of inclusion of stakeholders at the objective setting, dialogue and dialogue conclusion stages appears, at the outset, to support the concerns voiced about the alignment of shareholder objectives and affected stakeholder welfare (Dhir 2012, Coumans 2012).

ICCR, as a coalition of shareholders, facilitated both dialogic and participative practices. Interviewees broadly agreed that ICCR supported and enabled the sharing of information and knowhow through discussion and dialogue with other shareholders and a wide range of stakeholders at its three face-to-face meetings each year.

Table 1 indicates the extent of the presence or lack of the key motifs of Habermasian discourse ethics at each stage of the dialogue process from the shareholders’ perspective. We use a star rating system whereby a - shows no evidence and 1-3 stars show an increasing
degree of evidence. A rating of 3 stars means that the practice was close to the ideals laid out by discourse ethics.

**Insert Table 1 here**

By far the most frequent and widespread reason given for the effectiveness of behind-the-scenes dialogue was trust. The fear of the erosion of this trust was also the principal reason given for not inviting broader stakeholder participation into direct dialogue with companies. We challenge the perceived negative causal relationship between participation and trust and argue that the factors given for eroding trust are not necessarily attributable to stakeholder participation per se. Rather we identify the importance of a long-term commitment, individual relationships, truthfulness, a rational tone and aiming for consensus. Thus, we suggest that if stakeholders can demonstrate these attributes, trust relationships in behind-the-scenes dialogue could be maintained while stakeholder participation is increased.

**DISCUSSION AND CONCLUSION**

We contribute to the existing shareholder engagement literature by providing insights into the under-researched area of behind-the-scenes dialogue developing a clearer picture of when, how and with whom dialogic and participative practices are used. In response to calls for a credible and legitimate process to ensure other stakeholder voices are considered in decision-making (O’Dwyer 2005, Dhir 2012) we argue that a Habermasian discourse ethics lens can be used to evaluate the process of behind-the-scenes dialogue identifying the distance between practice and ideal speech. We find that stakeholder participation is perceived by shareholders as eroding the trust built between individuals over time. However, we challenge the claim that it is participation per se which erodes trust thus providing an opportunity for greater stakeholder participation in dialogue.
REFERENCES


Figure 1 Main activities and actors at each stage of behind-the-scenes dialogue

![Diagram showing main activities and actors at each stage of dialogue]

Table 1 Extent of presence or lack of the key motifs of discourse ethics

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Acknowledgements

Thanks to Laura Berry, ICCR, and all those members who generously offered their time and shared their insights; to the Responsible Investing Initiative at the Carleton Centre for Community Innovation (3ci) for making this research possible; and to Tessa Hebb and Andreas Hoepner for their collaboration, help and support throughout the research and writing process.

This work has partially been supported by SUR (Secretaria d’Universitats i Recerca) of the DEC (Departament d’Economia i Coneixement) of the Government of Catalonia: AGAUR 2014FI_B2 00144