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Tim Benijts[a]
[a] Applied Psychology, Thomas More University College, Molenstraat, Antwerpen, Belgium
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Socially responsible investment and financial institution's response to secondary stakeholder requests

Tim Benijts*

Applied Psychology, Thomas More University College, Molenstraat, Antwerpen, Belgium

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In order to gain influence over firms, secondary stakeholders can opt for socially responsible investment (SRI) – an investment approach that uses both financial and non-financial criteria to determine which assets to purchase [Guay, T., J. P. Doh, and G. Sinclair. 2004. "Non-governmental Organizations, Shareholder Activism and Socially Responsible Investments: Ethical, Strategic and Governance Implications." *Journal of Business Ethics* 52 (1): 125–139]. In this article, we argue that SRI, besides a tactic to gain influence over firms, can also be seen as a financial institution's characteristic on the basis of which secondary stakeholders can decide to (not) target a financial institution. It is theorized – based on organizational legitimacy theory – that a financial institution's supply of socially responsible financial products (proxied by the number of products and/or assets/deposits managed) signals a financial institution's likelihood of response to specific stakeholder requests. This relationship is theorized to be positive: the more important SRI is to a financial institution, the higher the likelihood of response to such requests.

Keywords: SRI; stakeholder management; sustainable finance

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1. Introduction

Although the literature on socially responsible investment (SRI) – an investment approach that uses both financial and non-financial criteria to determine which assets to purchase (Guay, Doh, and Sinclair 2004, 126) – has grown rapidly in volume as well as in diversity, the relationship between SRI and secondary stakeholders has been underexplored. Secondary stakeholders are diverse and include those who are not directly engaged in the organization's economic activities such as *inter alia* community activists, non-governmental organizations (NGOs), religious organizations and consumer interest groups (Savage et al. 1991). Although secondary stakeholders lack a formal contractual bond with or direct legal authority over the organization, evidence suggests that they have an increasing – and at times considerable – influence over corporate decision-making (de Bakker and den Hond 2008; Eesley and Lenox 2006; Zietsma and Winn 2008). This influence is gained through the use of influence tactics such as stockholder resolutions (Waygood and Wehrmeyer 2003); boycotts (Davidson, Worrell, and El-Jeffy 1995; Garrett 1987; Paul and Lydenberg 1992; Pruitt, Wei, and White 1988); media campaigns (Wartick 1992) and letter-writing campaigns (Smith and Cooper-Martin 1997).

*Email: tim.benijts@thomasmore.be

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Also SRI is commonly presented as an influence tactic (Vandekerckhove, Leys, and Van Braeckel 2007, 2008; Waygood and Wehrmeyer 2003). Waygood and Wehrmeyer (2003), for instance, assert that through SRI, investors divert capital away from one area and into others thereby consequently affecting, through the companies' share price, its cost of capital. They argue that the more capital is diverted away from a company, the higher the influence on the company's cost of capital is and the higher the company's incentive to respond to stakeholder requests will be. In addition, Vandekerckhove, Leys, and Van Braeckel (2008) argue that besides the use of absolute criteria of inclusion and/or exclusion and comparative criteria ('best-in-class') investors can via SRI also engage with management on non-financial issues in order to encourage a change in corporate behavior.

Alternatively, instead of viewing SRI as an influence tactic, SRI can also be seen as a financial institution's characteristic just like size (Eesley and Lenox 2006; Rowley and Berman 2000), capital reserve (Lenox and Eesley 2009), corporate social responsiveness (Scholtens 2009) or the stage of the firm's life cycle (Jawahar and McLaughlin 2001). For instance, financial institutions – organizations that collect funds from the public to place in financial assets such as stocks, bonds or bank deposits – can offer no, some or only socially responsible financial products (SRFPs or SRI) (Benijts 2010). Such variance in supply of SRFPs by financial institutions tends to be common in various European countries as well as in the USA and Japan (Sakuma and Louche 2008; Social Investment Forum 2008; Vigeo 2008).

In the literature, it is commonly argued that such characteristics of the firm relate to the stakeholder's decision on which firm to (not) target (Hendry 2006; Lenox and Eesley 2009; Rehbein, Waddock, and Graves 2004). Hendry (2006), for instance, theorized that (1) the better known the firm's brands are; (2) the closer the firm is to the consumers in the supply chain; (3) the larger the firm and (4) the more influential in its organizational field, the higher the likelihood that the firm will be targeted by secondary stakeholders. Rehbein, Waddock, and Graves (2004, 239) assert that 'activists are selective in their targeting of companies, choosing the most visible (largest) companies and those whose practices raise specific issues of interest to society'. Similarly, Lenox and Eesley (2009) argue that the likelihood that a given firm is targeted by activists is positively related to the firm's size and visibility but negatively related to the firm's capital reserve.

In addition, it is also argued that firm's characteristics relate to the firm's likelihood of response to stakeholder requests (de Bakker and den Hond 2008). Eesley and Lenox (2006), for instance, argue that small firms are more likely than large firms are to positively respond – this is in ways consistent with the stakeholder's request – to a stakeholder request for change. When applied on the financial industry, this suggests that financial institutions' likelihood of response to stakeholder requests can vary in terms of their supply of SRFPs. In other words, financial institutions that offer no SRFPs are expected to behave differently in response to specific stakeholder requests than financial institutions that offer only SRFPs. This, however, raises questions with respect to how financial institutions' responses to stakeholder requests differ. In this article, we seek to contribute to this debate. We theorize – based on organizational legitimacy theory – that a financial institution's likelihood of response to specific secondary stakeholder requests is positively related to a financial institution's supply of SRFPs. In other words, the more SRFPS are offered by a financial institution, the higher the likelihood that the financial institution will respond to such secondary stakeholder requests.

This article is structured as follows. The first section highlights three differences between the 'SRI influence technique' and the 'SRI characteristic technique'. In the second section, we theorize on how a financial institution's supply of SRFPs is related to its response to secondary stakeholder requests. We discuss successively (1) how to proxy a financial institution's supply of such products; (2) the requests secondary stakeholders can make and (3) why and how a financial institution is likely to respond to these requests. In the third section, we reflect on the practical implications of our findings. The final section concludes.

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2. SRI influence technique versus SRI characteristic technique

It is commonly argued in the literature that secondary stakeholders, those on whose continuing support the firm's survival does not depend (Clarkson 1995), frequently target corporations. Lenox and Eesley (2009), for instance, identified 552 activist campaigns directed against 273 firms in the USA during the period 1988–2003. Fineman and Clarke (1996) found that secondary stakeholders accounted for firm pro-environmental responses in four UK industries (supermarkets, power, automotives and chemicals), while Doh and Guay (2006) reported on differences in NGO activism in Europe and the USA. Similar conclusions are drawn by Frooman (1999), Jensen (2003) and Hendry (2006).

In order to gain influence over corporate decision-making secondary stakeholders deploy various 'tactics', a technique through which (secondary) stakeholders aim to gain influence over firms in order to evoke corporate change (den Hond and de Bakker 2007). The arsenal of tactics at stakeholder's disposal (the stakeholders' toolbox) tends to be large and heterogeneous. Winston (2002), for instance, distinguishes between (1) engagement and support; (2) social auditing and reporting; (3) shareholder activism; (4) moral stigmatization and shaming; (5) selective purchasing laws; (6) government-imposed standards; (7) economic pressure techniques and (8) litigation. Similarly, den Hond and de Bakker (2007) assert that stakeholders can opt for boycotts, petitions, marches, letter-writing campaigns, rallies, sabotage, blocking of gates, occupation of premises, internet activism, lawsuits, cooperation, shareholder activism, street theater (positive and negative), publicity or research reports. Also SRI is regularly depicted as such a stakeholder tactic (Vandekerckhove, Leys, and Van Braeckel 2007, 2008; Waygood and Wehrmeyer 2003).

SRI, an investment approach that uses both financial and non-financial criteria to determine which assets to purchase (Guay, Doh, and Sinclair 2004, 126), covers a broad spectrum of financial products. Benijts (2010, 53) puts it this way: 'it appears that a SRI market consists of different segments built up around the different products in the market'. This heterogeneity arises from the use of various non-financial (positive and negative) criteria; the different financial products on which these apply; the specific demands of either retail and institutional investors as well as cultural differences (Benijts 2010; Cowton 1999; Eurosif 2003, 2006; Laufer 2003; Louche 2004; Lozano, Albareda, and Balaguer 2006; Signori 2009; Vandekerckhove, Leys, and Van Braeckel 2007, 2008). Secondary stakeholders can use SRI as either an 'influence technique' or a 'characteristic technique'. In the first case, secondary stakeholders use the mechanisms inhibited in SRFPS (notably, engagement procedures and the selection processes of firms to change corporate behavior. In contrast, in the characteristic technique, secondary stakeholders use SRI as a selection method for financial institutions. So, for instance, Greenpeace's decision to (not) target Citigroup or Banco Santander via a stakeholder tactic (e.g. petitions or letter-writing campaigns) can depend upon Citigroup's or Banco Santander's supply of SRFPs. Yet, though SRI plays a key role in both approaches, there are three differences between this influence and characteristic technique. These differences refer to (1) the focal organization; (2) the underlying process of how change in corporate behavior is intended to be realized and (3) the relationship between the secondary stakeholder and the financial institution. In the next paragraphs, we shed light on these three differences.

2.1. *Focal organization*

First, both techniques differ with respect to the focal organization. Whereas in the characteristic technique, the focal organization is a financial institution, companies tend to be the focal organization in the influence technique. Hence, the set of focal organizations is larger and potentially more heterogeneous in the influence technique. For instance, in the influence technique, SRI can be used to divert capital away from polluting chemical companies into information technology

companies with outstanding environmental practice or SRI can be used to start a dialogue with mining companies violating human rights. In contrast, in the characteristic technique, the focal organizations are exclusively financial institutions.

2.2. *Underlying process of change*

Second, both techniques differ with respect to the underlying logic of how change in corporate behavior is aimed to be achieved. Frooman (1999, 196) asserts that such a change can be achieved by 'more than one route of influence', namely either direct or indirect via another stakeholder. A similar distinction is suggested by den Hond and De Bakker (2007, 913), who assert that besides direct strategies, stakeholders can opt for indirect strategies, 'through which stakeholders strengthen their position in the organizational field by seeking support from other powerful and legitimate actors'.

This distinction between direct and indirect strategies also applies on both SRI techniques: whereas the influence technique favors an indirect route of influence, the characteristic technique applies a more direct route of influence. In other words, in the characteristic technique, the secondary stakeholders are linked directly to the financial institution (which is also the focal organization), whereas in the influence technique, stakeholders are linked to the focal organization through SRFPs. Consequently, this implies that in this latter case, stakeholders rely exclusively on the mechanisms inhibited in SRFPs to evoke corporate change. Waygood and Wehrmeyer (2003), Eurosif (2006) and Vandekerckhove, Leys, and Van Braeckel (2007, 2008) assert that two mechanisms come into play, which can (but do not have to) be applied simultaneously within a single SRFP (Louche 2004).

On the one hand, SRFPs integrate non-financial (positive and negative criteria or inclusion and exclusion criteria, respectively) criteria into the selection process. These criteria can be either absolute (e.g. negative criteria not to invest in weapons) or relative (e.g. best-performing companies within a single industry) and do originate out of (retail or institutional) clients' preferences, preferences of financial products' developers or internationally accepted norms (e.g. conventions of the International Labour Organization (ILO). Eurosif (2006, 3) calls this 'norms-based screening'). Waygood and Wehrmeyer (2003) assert that the underlying logic of these criteria is market logic: by diverting capital away from one Company A into Company B, the cost of capital of Company A increases, whereas the cost of capital of Company B is lowered. Given that the cost of capital is important to companies for, among others, financing investments (Auerbach 1983; Modigliani and Miller 1958), such changes in cost of capital are important incentives to change corporate behavior. Yet, it is also acknowledged that given the limited market share of SRI on financial markets worldwide, SRI's influence on the cost of capital is albeit modest (Heinkel, Kraus, and Zechner 2001).

On the other hand, these financial products can apply different forms of engagement. Engagement hereby refers to a set of techniques (such as dialogue, voting practices) through which SRFPs try to encourage more responsible business practices. Sparkes and Cowton (2004) argue that this technique is likely to become the preferred method of institutional investors. Engagement is distinct from the application of criteria as it does not aim to evoke corporate change through changes in the firm's cost of capital, but through a continuing discussion between the firm's management and the SRFP's managers. Therefore, Leys, Vandekerckhove, and van Liedekerke (2009) argue that engagement is only possible and meaningful when an investor relationship exists that is supposed to continue. Vandekerckhove, Leys, and Van Braeckel (2008) distinguish between 'soft and hard variants' of engagement. 'Hard engagement' comes close to shareholder activism in which concerns are translated into shareholder resolutions that are filed at the targeted companies' annual general meetings (AGMs). This variant is often

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used in the USA and to a lesser extent in Europe and Japan (Eurosif 2006; Sakuma and Louche 2008). In contrast, Europe tends to favor more 'soft engagement', which is more informal by nature and takes form through dialogue with the targeted companies' management. For instance, Vandekerckhove, Leys, and Van Braeckel (2007) refer to Portfolio21, a joint effort of European continental investors in which these appoint a screening firm to monitor invested companies on, among others, respecting ILO conventions. In case the screening firm finds allegations that point to serious norm breaching of these conventions, it addresses the company's management in writing. Hence, the European soft variant of engagement comes more close to active shareholding. Nevertheless, both variants arise from the rights of ownership of the SRFP in the targeted company. Yet, though both variants do not rule out (at the long run) a divestment, it is the communication with the company's management that distinguishes engagement from simply applying non-financial criteria.

In case of the characteristic technique, secondary stakeholders do not rely on both SRFPs' mechanisms. In contrast, in this technique, SRI (more specifically, the supply of SRFPs by a financial institution) is used by secondary stakeholders to determine which financial institutions should (not) be targeted and consequently the tactics used by these stakeholders are decoupled from the mechanisms inhibited in SRFPs. This implies that once a financial institution is selected, secondary stakeholders can rely on various stakeholder tactics such as letter-writing campaigns, boycotts or negative publicity campaigns (Winston 2002). Hereby, more processes to evoke change become possible.

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2.3. *Relationship between the secondary stakeholder and the financial institution*

Third, previous differences also imply a different relationship between the secondary stakeholder and the financial institution. Turcotte (1995) argues that relationships between business and secondary stakeholders generally fall into three types along a continuum: conflict, mixed and collaboration. Similarly, Hendry (2006) argues that relationships are either adversarial or cooperative. Adversarial relationships arise when secondary stakeholders 'force' a company to change without enlisting its cooperation (Hendry 2006, 76), whereas cooperative relationships in contrast arise from 'processes of exchange' between secondary stakeholders and the company (Ring and Van de Ven 1994) or as Schneider (2002, 214) asserts 'influence without the formal authority to command'.

In the influence technique, this relationship tends to be cooperative. Secondary stakeholders and financial institutions can cooperate in three ways (Eurosif 2003, 2006; Franck and Böcke 2003; Guay, Doh, and Sinclair 2004; Lozano, Albareda, and Balaguer 2006; Schaefer 2004). First, the cooperative nature arises from the secondary stakeholders' freedom to (not) join in an SRFP and to (not) use the underlying processes of change. Here, secondary stakeholders act as 'buyers'. Second, secondary stakeholders can cooperate with financial institutions in developing and managing SRFPs. Here, secondary stakeholders act as 'co-producers'. Franck and Böcke (2003) argue that secondary stakeholders can play this role in various phases of the development and management of a SRFP. For instance, it is asserted that secondary stakeholders can participate in independent monitoring committees in which responsibilities can vary from simply advice on admittance of firms in the investment universe (list of investable firms) to drawing up (a part of) the methodology through which firms will be researched. In addition, they found that secondary stakeholders can even have a veto in admitting firms in the investment universe. Research of Lozano, Albareda, and Balaguer (2006) and Signori (2009), however, suggests that the role of secondary stakeholders as 'co-producers' varies across countries and SRFPs. For instance, on the Spanish and Italian SRI market, the involvement of NGO's was found to be minimal (Lozano, Albareda, and Balaguer 2006; Signori 2009), whereas, in contrast, in Sweden NGOs are more

involved as they supply 'funds with detailed information on ethical issues and on company activities in relation to these issues' (Kreander 2001, 45). Third, secondary stakeholders can cooperate with financial institutions in promoting and selling SRFPs. Here, secondary stakeholders acts as 'co-distributors' as they advise their members and the general public to invest in such products. WWF International, for instance, applied such a 'co-distributor approach' by supporting the Living Planet Fund managed by Sarasin AG, a Swiss asset management company. In return for their support, the stakeholders receive a portion of the management commission (mostly, a percentage on the assets under management) or a payment in terms of the SRFPs sold to its members (Lozano, Albareda, and Balaguer 2006; Munoz-Torres, Fernandez-Izquierdo, and Balaguer-Franch 2004; Signori 2009). Though these fees increase the secondary stakeholder's funding, this funding, however, can also put the stakeholder's independency at risk (Guay, Doh, and Sinclair 2004).

In contrast, in the characteristic technique, the relationship between the secondary stakeholder and the financial institution tends to be less cooperative and potentially more adversarial. Here, a financial institution can be subject to various stakeholder tactics (den Hond and den Bakker 2007). Though these tactics may be cooperative by nature, Hendry (2006) argues that these are mostly adversarial especially when the conflict escalates over time. In this respect, den Hond and den Bakker (2007) already argued that when a conflict endures over time, activist groups increasingly will use tactics aimed at mobilizing large numbers of protesters or will use tactics aimed at material damage (e.g. boycott or blocking of gates).

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3. SRI as a financial institution's characteristic

The use of SRI as a characteristic technique raises questions with respect to how financial institutions' responses to secondary stakeholder requests differ in terms of a financial institutions supply of SRFPs. In the next paragraphs, we theorize successively (1) how to proxy a financial institution's supply of such products; (2) the requests secondary stakeholders can make on the basis of this supply of SRFPs and (3) how a financial institution is likely to respond to these requests.

3.1. *Proxy for a financial institution's supply of SRI*

Though there is an international tendency in the financial industry to produce and promote SRI, there remains, nevertheless, some variance in the use of SRI by financial institutions in Europe, the USA and Japan (Eurosif 2003, 2006; Louche and Lydenberg 2006; Sakuma and Louche 2008). Vigeo (2008), for instance, found, based on the analysis of 437 European SRI funds active in June 2007, that financial institutions differ in terms of (1) the number; (2) the average size and (3) the asset allocation of SRI funds offered. Similarly, Eurosif (2006, 10) asserted 'a growing number of players, including many in the mainstream', indirectly suggesting that not yet each European financial institution is involved in SRI. Also in various European countries, such as Belgium (Benijts 2010), Italy (Signori 2009), the Netherlands (Benijts 2010) and Spain (Lozano, Albareda, and Balaguer 2006; Munoz-Torres, Fernandez-Izquierdo, and Balaguer-Franch 2004), differences between financial institutions in terms of SRI were found. A similar conclusion holds for the USA. The North-American Social Investment Forum (2006, 11) argued in its '2005 Report on Socially Responsible Investment Trends' that 'social or environmental factors will become an increasingly common component of mainstream investment management'. Again, this implied that not yet each American financial institution was active in the field of SRI which was also demonstrated by the (albeit) limited market share of SRI on the American funds market (11%; Social Investment Forum 2008). Similarly, Sakuma and Louche (2008,

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436–437) detected in Japan 'some commitments towards mainstreaming' and asserted that 'Japan is not an exception when it comes to SRI'.

Given the variance in supply of SRFPs between financial institutions, it consequently becomes possible to classify financial institutions in terms of this feature. Hence, a financial institution's supply of SRFPs (SRI-activeness, hereafter) can be seen as a financial institution's characteristic just like the soundness of its balance sheet (Flannery and James 1984), its size (e.g. in terms of number of employees), its corporate social responsibility (Scholtens 2009), its range of activities or its strategy (Berger and Humphrey 1997). This, however, also raises questions with respect to how to proxy a financial institution's SRI-activeness. Here, the literature provides several insights.

First, Benijts (2010, 53) states that when deriving a framework for comparing socially responsible retail investment markets, an important issue relates to 'which financial products can be viewed as socially responsible ones'. Depending on the definition applied, some financial products will be socially responsible ones, whereas others will not. Consequently, the proxy of SRI-activeness tends to be intertwined with the definition of what entails an SRFP. Second, it is argued that though SRI predominantly takes form through investment funds, the proxy should not exclusively be restricted to such financial products (Eurosif 2006; Jeucken 2004; Signori 2009; White 2005). If done so, a potential considerable amount of financial products (and thus financial assets) is left aside which can have negative repercussions on a financial institution's SRI-activeness. In this regard, for instance, Louche (2004) asserted that Triodos Bank relies strongly on socially responsible savings accounts which would imply – though Triodos Bank views SRI as its main strategic competitive advantage – a rating of low SRI-activeness when only SRI funds would be taken into account. In addition, it is also found that the supply of socially responsible savings accounts is found to be country specific. Benijts (2010), for instance, found that in December 2005, savings accounts accounted for 67.8% of the socially responsible financial assets in the Netherlands, but only for 7.7% in Belgium. Therefore, the proxy should take into account all financial products (including saving accounts, saving deposits and certificates of deposit) that do meet the predefined non-financial criteria. Third, the proxy should also take into account the differences in size between financial institutions. If not, large financial institutions will always be more SRI-active than small financial institutions only due to their size. Therefore, Benijts (2010) argues to take relative proxies (proxies corrected for differences in size between financial institutions) instead of absolute proxies.

The literature provides three possible proxies for a financial institution's SRI-activeness. First, it is asserted to use, per financial institution, the percentage of the number of financial products that take into account non-financial criteria. In this respect, Cowton and Thompson (2000), for instance, argue that the social bank Triodos applies such non-financial criteria to all its products. Consequently, Triodos Bank would rank high in terms of SRI-activeness. Although the proxy's advantage lies in its ability to express SRI-activeness in a single digit, it does not take into account the assets under management of SRFPs. This can be troublesome as a large number of such products do not necessarily equal a significant amount of assets under management. In this respect, Vigeo (2008) asserted that in June 2007, the median size of such a European socially responsible fund was €112 million considerably less than a European non-SRI fund and that the largest European SRI fund was 3.45 times bigger than the 10th largest European SRI fund.

A second proxy tends to overcome these problems: the percentage of assets/deposits managed on the basis of non-financial criteria. So, for instance, Louche (2004) asserted that Triodos Bank applies non-financial criteria to all its assets under management which implies a high SRI-activeness. In contrast, Novethic (2005) reported that on September 2004 Macif Gestion and Axa Investment Management only managed a small percentage of the assets on the basis of non-financial criteria and, thus, would rank low in terms of SRI-activeness. Yet, though this proxy

overcomes the problems associated with the former proxy, its main disadvantage is its difficulty to calculate. More specifically, problems can arise in obtaining data on the assets invested in socially responsible saving deposits as these data tend to be less publicly available (Benijts 2010).

Third, it is suggested to combine both proxies into a single weighted average proxy. Though such a proxy does not overcome the difficulties associated with each proxy individually (e.g. availability of data), it nevertheless allows better capturing the heterogeneity of the SRI market by paying attention to both the number of SRFPs and the assets under management. Questions, however, may arise with regard to the weighting of each proxy (e.g. 25% Proxy A and 75% Proxy B versus 65% Proxy A and 35% Proxy B).

Consequently, regardless of the proxy, financial institutions can be categorized in terms of their SRI-activeness. In this view, low SRI-activeness and high SRI-activeness may be conceived as two ends of a continuum along which financial institutions lie. Financial institutions that are positioned rather at the left end of the continuum would qualify as financial institutions with a low SRI-activeness. Characteristic for these financial institutions is the relative low number of SRFPs and the relative limited assets/deposits managed on the basis of non-financial criteria (e.g. 2%). For these financial institutions, SRI makes a rather small contribution to the overall financial institution's activities. Consequently, it can be assumed that SRI's contribution to yearly turnover or net profit is limited. Hence, these financial institutions tend not to be market leaders in the field of socially responsible investing (Buzzell, Gale, and Sultan 1975). In contrast, financial institutions that are positioned at the right end of the continuum would qualify as financial institutions with a high SRI-activeness. Characteristic for these financial institutions is the relative large number of SRFPs and the relative large amount of assets/deposits managed on the basis of non-financial criteria (e.g. 85%). For these financial institutions, SRI makes a rather large contribution to the overall financial institution's activities and consequently contributes significantly (and sometimes exclusively) to the yearly turnover or net profit. Hence, these financial institutions tend to be market leaders in the field of SRI for whom SRI is a strategic competitive advantage (Buzzell, Gale, and Sultan 1975). Cowton and Thompson (2000) and Louche (2004) assert that Triodos Bank is such a financial institution.

3.2. *Stakeholder requests*

Research into the question is also necessarily shaped by the underlying conception of the term stakeholder request. Eesley and Lenox (2006, 768) argue that the stakeholder request refers to 'the specific issues championed by the stakeholder' or to 'particular stakeholder issues'. So, for instance, an environmental activist group can request a firm to do something about pollution immediately affecting local residents or to reduce its emissions of greenhouse gases to contribute to the fight against global warming (Hall and Taplin, 2007). Similarly, peace activist groups can request firms to reduce or to stop the production of landmines (O'Dwyer 2006) or social activist groups can ask firms to cease activity in Burma (den Hond and de Bakker 2007). Typically, these requests originate out the organization's characteristics such as its activities, region of activity, norms, procedures or goals (Eesley and Lenox 2006; Hall and Taplin 2007; Suchman 1995). Similarly, also a financial institution's SRI-activeness can result into two SRI-related stakeholder requests.

Primo, secondary stakeholders can refer to the inconsistency in products offered by the financial institution. In such SRI inconsistency requests, secondary stakeholders raise questions such as 'Why do non-financial criteria apply only to a limited set of financial products' or 'Why do non-financial criteria apply only to investment funds and not to the financial institution's own portfolio of stocks and bonds?'. For instance, a peace activist group can highlight that negative criteria to ban landmines only apply to a small number of SRI funds but not to all investment

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funds. Similarly, an environmental activist group can question a financial institution's policy to apply other environmental criteria to socially responsible funds than to non-socially responsible funds (Louche 2004). Secundo, secondary stakeholders can question the concept of SRI applied by the financial institution (Franck and Böcke 2003; O'Rourke 2003). In such SRI concept requests, SRI itself and not the internal inconsistency is subject to stakeholder requests. In this situation, stakeholders highlight issues such as weak procedures to measure SRI, lack of control of data used to screen firms or no/limited consultations of stakeholders (Franck and Böcke 2003; Louche 2004). For instance, a peace activist group can demonstrate that despite the use of negative criteria producers of landmines are still present in SRI funds or that these criteria are not in line with internationally recognized standards. Similarly, an environmental activist group can highlight that the environmental criteria do not exclude the presence of nuclear energy and consequently that the financial institution's definition of SRI is inadequate. Both requests are facilitated by the fact that SRFPs tend to be more transparent than non-socially responsible ones. This transparency (Dubbink, Graafland, and van Liedekerke 2008) is reflected in the information publicly available on (among others) (1) the number and type of negative and positive criteria; (2) the role of the advisory committees (if present); (3) the top 10 of firms and countries invested and (4) the usage of pioneer screening versus best-in-class screening (O'Rourke 2003) (non-limitative list).

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3.3. *Financial institutions' responses*

Finally, the question arises with respect to how financial institutions' responses to these two requests differ in terms of a financial institution's SRI-activeness. Here, organizational legitimacy theory – a key element in the organizational studies the literature or as Suchman (1995, 571) asserts 'an anchor-point of a vastly expanded theoretical apparatus' – provides a theoretical framework (see also Deephouse and Carter 2005; DiMaggio and Powell 1983; Meyer and Rowan 1977; Pfeffer and Salancik 1978; Powell and DiMaggio 1991; Scott 1995). Suchman (1995, 574) defines organizational legitimacy 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'. Obtaining organizational legitimacy (legitimacy, hereafter) is important as it enhances the stability and the comprehensibility of the organizational activities (Suchman 1995) as well as it ensures an organization's survival by demonstrating that it acts according to a collectively valued purpose in a proper and adequate manner (Meyer and Rowan 1977). As such 'audiences perceive the legitimate organization not only as more worthy, but also as more meaningful, more predictable, and more trustworthy' (Suchman 1995, 575). Two elements in Suchman's definition are notable.

First, Suchman (1995, 574) refers to 'actions of an entity'. He argues that these actions are 'generalized' resulting in 'an umbrella evaluation' of the entity (Suchman 1995, 574). In other words, he argues that legitimacy is a holistic concept in this sense that the entity's method of operation, output, goals or domain of activity are reviewed and finally result in a final judgment of either being a legitimate or a non-legitimate entity. When judged as legitimate, different advantages arise for the entity such as reputation, an intangible corporate resource that refers to 'the overall emotive estimation of a firm by its constituents' (Fombrun 1996, 37). This reputation influences the survival of the organization (Rao 1994), allows attracting better applicants, enables firms to charge premium prices and attracts investors (Fombrun and Shanley 1990). In contrast, if judged non-legitimate, these advantages are absent (Deephouse 1996).

This insight also applies on financial institutions: also a financial institution's SRI-activeness matters when 'calculating' its legitimacy. However, SRI-activeness contributes differently for financial institutions at the two ends of the continuum (low versus high SRI-activeness). For

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financial institutions with high SRI-activeness, SRI contributes significantly (or even exclusively in the Triodos case) to the overall, 'umbrella evaluation of legitimacy'. For instance, the legitimacy of a retail bank that manages 90% of its assets on the basis of non-financial criteria will depend for 90% on these activities. Similarly, a retail bank that offers 30 SRI funds (on a total of 40) will depend for its legitimacy, in relative terms, more on these SRI funds than on the non-SRI funds. The same also applies for financial institutions with low SRI-activeness. For these institutions, the contribution of SRI to the 'umbrella evaluation of legitimacy' will be rather limited. For instance, a retail bank that manages only 0.5% of its assets on the basis of non-financial criteria will depend only for a very small extent on these SRI activities for its legitimacy. Similarly, a retail bank offering a single SRI fund (on a total of, for instance, 300 investment funds) will depend for its legitimacy more on these latter non-SRI funds. Summarized, it can be theorized that the more important SRFPs are to a financial institution (or the higher its SRI-activeness), the more these SRFPs will contribute to its legitimacy.

Second, Suchman (1995, 574) argues that legitimacy is 'socially constructed' as it arises from 'congruence between the behaviors of the legitimated entity and the shared (or assumedly shared) beliefs of some social group'. Similarly, Deephouse (1996, 1025) argues that legitimacy is a 'status conferred by social actors' and that, from a perspective from a particular social actor, a 'legitimate organization is one whose values and actions are congruent with that social actor's values and expectations for action'. Common in both definitions is that legitimacy arises when the values and the actions (Deephouse 1996) or behaviors (Suchman 1995) of the legitimate organization are in line with those of the social actors. This implies that, if the organization's values, actions or behaviors significantly depart from the social actors' standards, these actors can request the organization for changes. Consequently, such social actors' requests can become a legitimacy threat to the organization when taken into account improperly (O'Donovan 2002). In this respect, for instance, Eesley and Lenox (2006) found that a difference in the norms between a coalition of four environmental NGOs and British Petroleum (BP) concerning the drilling for oil in the Arctic National Wildlife Refuge of Alaska, initiated a debate on BP's legitimacy.

This insight also applies on the two SRI-related stakeholder requests identified earlier. In essence, via SRI inconsistency and SRI concept requests, secondary stakeholders tend to normative disapprove (some off) the financial institution's actions and to question the 'rightness' of (some of it's) actions (Driscoll and Starik 2004, 59). For instance, a peace activist group, demonstrating that despite the use of negative criteria, producers of landmines are still present in SRFPs (an SRI concept request), refuses to give a positive, normative evaluation of the organization and its activities and thus to not confer moral legitimacy (Suchman 1995). Similarly, an environmental activist group, demonstrating that environmental criteria do only apply to a limited number of financial products (more specifically, the socially responsible ones; an SRI inconsistency request), highlights that the financial institution's activity does not promote societal welfare as defined by the stakeholder's socially constructed value system. Again, the stakeholder is unwilling to confer moral legitimacy. In both cases, the absence of moral legitimacy can reflect negatively on a financial institution's reputation and consequently, its survival. Summarized, both an SRI inconsistency and an SRI concept request pose a legitimacy threat to the financial institution (O'Donovan 2002).

Previous insights are important in understanding how financial institutions with low and high SRI-activeness respond to SRI-related stakeholder requests. Ashforth and Gibbs (1990) as well as Suchman (1995) view legitimacy as an operational resource that financial institutions extract from their environment and, consequently, they can manage. In line with this strategic approach to legitimacy, financial institutions can deploy a heterogeneous arsenal of techniques (Oliver 1991). O'Donovan (2002), following Dowling and Pfeffer (1975), argue that all firms' responses represent a distinct point on a scale that ranges from avoidance/inertia to conforming to public's values. Yet,

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it is also stressed that even within the subset of conforming to public's values many responses are possible. For instance, Dowling and Pfeffer (1975) differentiate between (1) responses in which the firm conforms to stakeholder requests; (2) responses that aim to alter social perceptions of the organization and (3) responses that aim to alter the society's values. In general, these responses are distinct in terms of how the divergence between societal norms and organization's norms – the legitimacy gap – is reduced. Consequently, a dichotomy arises of possible financial institutions' responses. On the one hand, financial institutions can resort to avoidance/inertia responses or reduce the legitimacy gap through a societal change instead of an organizational change. Such responses correspond to a low likelihood of response to stakeholder requests. On the other hand, financial institutions can also seek to reduce the legitimacy gap not by a societal change but by an organizational change via changing internal procedures, reconsidering an organization's geographical area of activity or even redefining organization's moral standards. Such responses correspond to a high likelihood of response to stakeholder requests.

Which insights are generated through this theoretical framework with respect to differences in financial institutions' responses to secondary stakeholder requests? Theory suggests such responses will differ in terms of a financial institution's SRI-activeness. Financial institutions with high SRI-activeness offer a relative large number of SRFPs and/or manage a relative large amount of assets/deposits on the basis of non-financial criteria. Hence, the financial institution's legitimacy will depend significantly on the public approval of these activities. Consequently, stakeholders' SRI inconsistency and concept requests pose a serious legitimacy threat and therefore as argued in population ecology (Carroll and Hannan 1989) and institutional theory (DiMaggio and Powell 1983), these financial institutions are more likely to respond. As SRI contributes significantly to the financial institution's yearly turnover and net profit, these financial institutions will opt for responses (1) in which the firm conforms to stakeholder requests or (2) that aim to change social perceptions of the organization (Dowling and Pfeffer 1975). Summarized, the financial institution's management will attribute high stakeholder salience to such requests (Mitchell, Agle, and Wood 1997).

In contrast, financial institutions with low SRI-activeness offer a relative limited number of SRFPs and/or manage a relative small amount of assets/deposits on the basis of non-financial criteria. Hence, the financial institution's legitimacy will depend to a minor extent (or even not) on the public approval of these activities. Consequently, stakeholders' inconsistency or concept requests pose a, albeit, minor (or no) threat to its legitimacy and thus reputation (Deephouse and Carter 2005). In this respect, the financial institution will be less inclined to respond to the stakeholder requests and will rather opt for inertia or avoidance responses or try to alter the society's values (O'Donovan 2002; Suchman 1995). Summarized, the financial institution's management will attribute low stakeholder salience to these requests (Mitchell, Agle, and Wood 1997).

4. Practical implications of the findings

What are the implications of these findings? In the literature, it is acknowledged that financial institutions are an interesting target for stakeholder action given their intermediary role in the economy (Bouma and Jeucken 2001; Louche 2004). Within this role, financial institutions channel funds from surplus units (savers, e.g. households) to deficit units (borrowers, e.g. firms) thereby transforming money by size, place, duration and risk. This feature of financial institutions, often not present within other industries (Bouma and Jeucken 2001), makes financial institutions of particular interest for stakeholders. By targeting financial institutions and next aiming to change their policy with respect to portfolio or credit allocation decisions, stakeholders hold leverage on change in the broader economy. For instance, if a financial institution can be convinced to implement some, other or more non-financial criteria in the credit allocation

decision, this decision will reflect immediately on a multiple of companies trading with this financial institution. Similarly, also the use of such non-financial criteria in portfolio management influences a multiple of companies worldwide. Hence, a policy change with a single financial institution tends to affect a larger number of firms (Waygood and Wehrmeyer 2003). Nevertheless, secondary stakeholders often lack sufficient financial means to target financial institutions (Hendry 2005). This theoretical framework suggests that stakeholders can improve the campaign's targeting by selecting financial institutions with high SRI-activeness as these were theorized to be more likely to respond to stakeholder requests. Alternatively, this analysis also suggests that stakeholders' campaign's targeting is lowered by focusing on financial institutions with low SRI-activeness.

Second, it is acknowledged in the literature that the likelihood that a firm is targeted by secondary stakeholders depends on firms', industry independent characteristics such as visibility (Lenox and Eesley 2009; Rehbein, Waddock, and Graves 2004), size (Hendry 2006; Lenox and Eesley 2009) or the influential position in the field (Hendry 2006) (Christmann and Taylor 2002; Hendry 2006; Lenox and Eesley 2009; Rehbein, Waddock, and Graves 2004). In this respect, Hendry (2006) theorizes that (1) the better known the firm's brands are; (2) the closer the firm is to the consumers in the supply chain; (3) the larger the firm and (4) the more influential in its organizational field, the higher the likelihood that the firm will be targeted by secondary stakeholders. Also Rehbein, Waddock, and Graves (2004, 239) assert that 'activists are selective in their targeting of companies, choosing the most visible (largest) companies and those whose practices raise specific issues of interest to society'. Similarly, Lenox and Eesley (2009) argue that the likelihood that a given firm is targeted by activists is positively related to the firm's size (proxied by the firm's total asset) and visibility (proxied by firm's advertising expenditures to firm assets) but negatively related to the firm's capital reserve (proxied by the firm's cash flow and cash). Our analysis complements this view by arguing that besides firms' industry independent characteristics (e.g. visibility, size and influential position in the field) also firms' industry-specific characteristics (e.g. SRI-activeness in the financial industry) come into play. This, however, has repercussions on stakeholders' decision on which organization to (not) target. For instance, in the food industry, stakeholders should not only take into account the firm's size or visibility (industry independent features), but also – by way of example – its involvement in genetically modified organisms or in endangered fish, two features commonly not of relevance in other industries.

Third, the analysis suggests that financial institutions active in SRI tend to be subject to more and other requests than financial institutions which are completely absent in or exclusively restricted to SRI (0% and 100% SRI-activeness, respectively). More specifically, it is suggested that financial institutions absent in the field of SRI (0% SRI-activeness) are not exposed to both SRI inconsistency and SRI concept requests, whereas financial institutions exclusively restricted to SRI (100% SRI-activeness; e.g. Triodos Bank) only tend to be subject to SRI concept requests. In addition, all other financial institutions (with an SRI-activeness of more than 0% but less than 100%) tend to be subject to both types of request. To put it differently, SRI inconsistency requests are only possible in the time frame between entering the SRI market and reaching 100% SRI-activeness. From the financial institution's perspective, this, however, implies an SRI-paradox: when SRI is seen as a commitment of a financial institution to take societal needs into consideration, contradictory, those financial institutions willing to take responsibility are more likely to be subject to stakeholder action.

5. Conclusion

In order to gain influence over firms, secondary stakeholders – those that lack a formal contractual bond with or direct legal authority over the organization – can opt for SRI. In this article, we argue

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that SRI, besides a tactic to gain influence over firms, can also be seen as a financial institution's characteristic on the basis of which secondary stakeholders can decide to (not) target a financial institution. It was asserted that the SRI influence and SRI characteristic technique differ in terms of (1) the focal organization; (2) the underlying process of how corporate change is aimed to be achieved and (3) the subsequent relationship between the secondary stakeholder and the financial institution. It was argued that in the SRI influence technique, companies are targeted using the mechanisms inhibited in SRI leading to a rather cooperative relationship between secondary stakeholders and financial institutions. In contrast, in the SRI characteristic technique, the financial institutions itself become targeted resulting in a less cooperative (and potentially) more adversarial relationship with the secondary stakeholder.

Next, it was theorized – based on organizational legitimacy theory – that a financial institution's supply of SRFPs (proxied by the number of products and/or assets/deposits managed) signals a financial institution's likelihood of response to SRI-related stakeholder requests. This relationship was found to be positive: the more important SRI is to a financial institution, the higher the likelihood of response to these requests. In addition, it was concluded that this assertion holds for both SRI inconsistency requests (the stakeholder highlights an internal discrepancy within the financial institution) and SRI concept requests (the stakeholder questions the financial institution's notion/definition of SRI). Based on this analysis, it was argued that secondary stakeholders can benefit from integrating, besides industry independent characteristics such as a firm's visibility and size, also industry-specific characteristics in the decision on which firm to (not) target. In this respect, it was concluded that a stakeholder can increase its campaign's targeting by focusing on those financial institutions to which SRI is a significant activity. From the financial institution's perspective, this, however, implies an SRI-paradox: those financial institutions willing to take responsibility by offering SRFPs are more likely to be subject to stakeholder action.

With respect to future research, this study suggests that the SRI characteristic technique should be researched more thoroughly. In particular, two areas should be addressed. First, further analysis is required on whether our theoretical assertions also hold in reality. In this regard, we suggest starting with an exploratory study in one country in order to control for extraneous variance. Generated insights can be subsequently used for a large-scale study covering both various countries worldwide and different types of financial institutions (e.g. retail banks, corporate banks and investment banks) (Howells and Bain 2005). Second, further analysis is required on whether and how the proxy to measure a financial institution's SRI-activeness, influences the outcome of the analysis. Investigating these issues would be particularly fruitful, given that SRI is expected to become more important in the next decades.

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