

**Climate Change ‘Resolution:’  
Dynamics of Shareholder Engagement between U.S. Firms and Investors**

**by**

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In memory of my grandparents Mildred and Lyle Weyer  
one of the great couples of the Greatest Generation

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## **ABSTRACT**

### **Climate Change ‘Resolution:’ Dynamics of Shareholder Engagement between U.S. Firms and Investors**

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This dissertation focuses on U.S. institutional investor activism regarding climate change from 1990-2009. During that time period, over 300 climate change shareholder resolutions have been filed at U.S. firms. The dissertation includes three empirical studies that examine the relationship between investors and firms on climate change. The first study looks at how diverse investors reconcile different organizational identities to create a “sustainability logic of investing” and engage in collective action. The second study analyzes how firm and investor organizational identities affect the process of reaching consensus on climate change policy during a shareholder dialogue at Ford Motor Company. The third study tests what shareholder and firm variables influence whether climate resolutions are successfully withdrawn using a dataset of climate change resolutions filed from 2002-2009.

## **Chapter 1**

### **Introduction**

This is a dissertation about climate change and organizational identity. In brief, the dissertation examines the effect of identity on organizational responses to climate change. For a student of economic sociology and public policy, this type of inquiry is especially appropriate and timely. In 2005, the British Chancellor of the Exchequer Gordon Brown commissioned a review of the economic costs of addressing climate change. In the final assessment, referred to as the *Stern Review* (Stern 2006), Sir Nicholas Stern refers to climate change as “the greatest and widest-ranging market failure ever seen.” This market failure provides a fitting setting to apply theories from organizational theory and economic sociology to the problems and solutions connected to climate change in the market. The dissertation begins with the assumption that many of the obstacles to addressing climate change are cultural and organizational as much as scientific and technical. With this assumption in mind, the studies included in the dissertation consider how organizational identity affects climate negotiations among activist investors and large U.S. firms.

The challenge of changing individual and organizational behavior to reduce greenhouse gas (GHG) emissions has remained a “wicked problem” (Rittel and Webber 1973) in the market and policy arena alike. However, the failure of the market and policymakers to

address this environmental and social issue produces a window of opportunity to expand problem-centered organizational research and theory (Davis and Marquis 2005). As Biggart and Lutzenhiser (2007) have noted, “What economic sociology has not done, and which it now seems well poised to do, is to deal with social problems, issues such as poverty, unemployment, crime, addiction, and conflict. These are all issues that have material bases or supports, at least in part, or are embedded in market relations in some way” (1071). There is perhaps no contemporary social problem that is more embedded in market relations and material bases than climate change. Even without accounting for business transportation emissions, the industrial sector in the United States contributes the largest share of annual U.S. GHG emissions (EPA 2009).

Furthermore, large U.S. firms have been active and influential in the policy debates surrounding climate science and proposed climate legislation, and their position has changed over time. The Global Climate Coalition (GCC), founded in 1989, was a forceful spokesperson for business interests against climate science and regulation until its deactivation in 2002. The GCC’s membership included large U.S. firms such as Exxon, General Motors, Ford Motor Company, and Texaco. It is notable, however, that today many of the most prominent members of the GCC are now members of a business and environmental coalition called the United States Climate Action Partnership (USCAP). Member firms of USCAP – including firms like Ford Motor Company, Shell Oil, American Electric Power, Bank of America, and others - have made repeated public calls for federal regulation to reduce greenhouse gas emissions. USCAP strongly influenced the American Clean Energy and Security Act of 2009 (Waxman-Markey bill) climate bill

through their *Blueprint for Legislative Action* (USCAP 2009) and most recently put a full-page ad in *The Washington Post* newspaper calling on federal lawmakers to pass bipartisan energy and climate legislation (USCAP 2010). Even Exxon, arguably the longest hold-out on acknowledging the science of climate change, has halted funding to the Heartland Institute, one of the largest and most high-profile climate skeptic organizations (Revkin 2009b).

Over the past twenty years, many U.S. firms have shifted their stance toward climate change. Notably, though, this shift has occurred in the absence of clearly defined federal policies on GHG emissions or consistent regulatory direction on how to address climate change in their business operations. Rather, direct efforts to persuade companies to address climate change have occurred more frequently in corporate boardrooms than congressional back rooms, making interactions among U.S. firms, shareholders, and stakeholders on climate change an extremely relevant site of inquiry. Baron (2003) terms these interactions “private politics.” Private politics can either play out through formal corporate governance processes – such as the shareholder activism examined in this dissertation – or through more informal processes like consumer boycotts or media campaigns against firms. Regardless of their form, private politics encompass “situations of conflict and their resolution without reliance on law or government” (Baron 2003: 31).

Baron (2003) notes that stakeholders and activists are increasingly working through private politics rather than public governance structures to achieve their goals due to the length of time it takes to change government regulations and the new mobilizing power

activists have access to through technological developments like the Internet and social networking sites. As I discuss below, the partisan divide over climate change and legislative stalemate on the issue has also made private politics particularly attractive to stakeholders and activists who want U.S. firms to reduce their GHG emissions.

The question of whether private politics is an appropriate or effective way to address social and environmental issues is a separate issue not addressed in this dissertation but worth mentioning briefly here. In a recent essay, Robert Reich (2008) – former Labor Secretary under President Bill Clinton and current Professor of Public Policy at the Goldman School of Public Policy at the University of California, Berkeley – has roundly criticized the notion that we can or should rely on corporations to solve social and environmental problems. Reich argues that resolving social and environmental issues through private politics rather than the democratic process will continue to fall short of protecting societal interests. Whether this criticism is valid or not, the scope of issues being raised and addressed through corporate rather than public governance structures continues to expand. As a result, private politics and corporate social action will remain a necessary and important realm of scholarly inquiry among economic sociologists, organizational theorists, and policy scholars for the foreseeable future.

## **EMPIRICAL SETTING**

Under Rule 14-a-8 of the Securities and Exchange Act of 1934, any shareholder owning at least \$2,000 of stock in a company has the right to file an advisory shareholder resolution at publicly-traded U.S. firms. These shareholder resolutions – and the

dialogues that occur between shareholders and managers preceding them – provide the empirical setting for the dissertation. Shareholder resolutions are non-binding advisory proposals regarding corporate governance or social and environmental issues. They are included in a firm’s proxy statement and are voted upon by all shareholders. The proposals must be under five hundred words in length, and each one ends with a “resolved” clause asking the firm to take a given action (e.g. separate C.E.O. and chairman roles, report on GHG emissions). Almost all shareholder proposals that go to a vote are opposed by management, and the company will recommend a “no” vote on proposals in their proxy statement. An example of a climate change shareholder resolution filed by religious investors at Southern Company in 2007 is excerpted from the firm’s proxy statement below:

“RESOLVED: Shareholders request that the Board of Directors report to shareholders actions the company would need to take to reduce total CO2 emissions, including quantitative goals for existing and proposed plants based on current and emerging technologies, by September 20, 2007. Such report shall omit proprietary information and be prepared at reasonable cost.”

Firms can also petition the U.S. Securities and Exchange Commission (SEC) to exclude shareholder resolutions from the proxy ballot. The SEC will permit the company to omit a resolution if it rules the issue to be a personal grievance or part of “ordinary business.”

In order to file the same resolution in subsequent years, shareholders must receive a minimum of a three percent vote in favor of the resolution in the first year, six percent in the second year, and ten percent or higher thereafter. Shareholders generally withdraw resolutions from the ballot if they hold dialogue meetings with firm managers who then agree to take action on the issue outlined in the resolution. Regardless of whether a

resolution is withdrawn through dialogue or not, the shareholder resolution process requires repeated interactions between firm managers and shareholders. Many resolution proponents file the same or multiple resolutions with firms for many years. Therefore, it is a fruitful setting to consider how organizational identity affects the relationship between managers and shareholders, a relationship that economic sociologists argue is too often characterized as being purely economic and arms-length in nature (Uzzi 1996).

The roots of U.S. shareholder activism can be traced back to Quaker religious congregations in the early twentieth century. These groups chose not to invest in alcohol and weapons manufacturing firms. This type of “negative screening” in investment portfolios characterized early socially responsible investing (SRI) in the U.S. (see Talner 1983 for a complete history). Although the shareholder proposal was introduced by the SEC in the 1930’s, modern shareholder activism on social and environmental issues emerged in 1970. Two years prior, the Medical Committee on Human Rights filed a resolution at Dow Chemical requesting that the firm halt napalm production that was being used during the Vietnam War. The SEC omitted the proposal under the ordinary business rule in 1969, but the filers won a lawsuit through the U.S. Court of Appeals and ultimately won the right to file the proxy in 1970. A year later, a group of Methodist ministers reached out to other religious investors and formed the Interfaith Center on Corporate Responsibility (ICCR) to push companies to divest from South Africa in protest of apartheid. Since the 1970’s, shareholder resolutions have been filed at U.S. firms related to issues as wide-ranging as poison pills, golden parachutes, CEO

compensation, board diversity, apartheid, tobacco, nuclear power, human rights, labor standards, product safety, and genocide in Sudan.

Since 1990, activist shareholders have also used proxy resolutions as a tool to influence corporate governance on climate change. This dissertation focuses on U.S. institutional investor activism on climate change from the early part of 2000 to 2009. To date, over 330 climate change shareholder resolutions have been filed with U.S. firms. Ninety-five climate resolutions were filed during the 2010 proxy season compared to a single resolution filed in 1990. The dissertation includes three empirical studies that examine the relationship between investors and firms on climate change. The theoretical aim of each study is to examine how organizational identity affects climate change negotiation in economic settings.

Before discussing the three studies, however, several policy and societal issues must be addressed to establish the appropriateness of using the theoretical lens of organizational identity to better understand investor and firm behavior around climate change. The section below considers how anticipation of climate legislation (Hoffman 2007a) might impact firm responses to climate change demands from stakeholders. Following that, I discuss whether firm responses to climate change can be explained as simply a reaction to changes in American values and/or increased consumer demand for more sustainable products and business practices. In describing the case study on Ford Motor Company's shareholder dialogue with religious investors on climate change, I also consider whether

greenwashing (i.e. decoupling environmental pledges from actual behavior) is a credible alternative explanation for Ford's behavior around climate change.

## **ANTICIPATION OF FUTURE REGULATION**

The legislative future of climate change regulation in the United States remains highly uncertain, making it difficult to point to anticipation of federal regulation as the sole driver of firm responsiveness to stakeholder demands around climate change. While Hurricane Katrina and Al Gore's documentary *An Inconvenient Truth* increased the salience of climate change as a policy issue in 2005 – and state-level climate action in California and the Northeast has become increasingly aggressive – state and regional efforts have not yet translated into broad climate policy mandates at the federal level. Governments generally have two broad policy options at their disposal to reduce GHG emissions within or across sovereign boundaries. The first is a carbon tax, which simply taxes emissions from the entities that emit them. This approach tends to be favored by economists for its simplicity and efficiency. However, given the political unpopularity of taxes and the complications involved in deciding where in the value chain the tax should be applied to a product, cap and trade systems are generally viewed as more politically viable than carbon taxes among policymakers.

Cap and trade systems set a limit to the number of emissions that can be emitted in a given time period. These emissions are tracked through a set of emission trading permits called credits, which are allocated to firms through an auction mechanism that requires companies to purchase permits or are freely distributed by the government to firms. Firms

are allowed to buy and sell permits to one another as needed, but the number of permits remains finite and decreases over time to meet increasingly ambitious emission reduction goals. The purported benefit of the cap and trade system is that it allows firms that can reduce emissions inexpensively to sell their extra permits to firms that cannot reduce emissions as easily.

In 2007, the U.S. Supreme Court eased the way for cap and trade legislation by ruling that the U.S. Environmental Protection Agency (US EPA) could regulate carbon dioxide and other GHG gases as pollutants under the Clean Air Act (*Massachusetts v. EPA* 2007). The 2007 ruling both established a legal precedent for regulating carbon emissions and spurred lawmakers to introduce climate legislation. Numerous climate change bills have been proposed in the U.S. Congress since 2007. During the 110<sup>th</sup> Congress, there were no fewer than nine pieces of climate change legislation introduced. The one that made it farthest in the legislative process was the Lieberman-Warner Climate Security Act of 2007. The bill sought to reduce GHG emissions in the United States by 63 percent below 2005 levels by 2050 and was approved by the Senate Committee on Environment and Public Works. The bill (S.3036) was debated by the full Senate in June 2008 but was narrowly blocked by a procedural vote.

Following the presidential election of Barack Obama in 2008, U.S. Representatives Henry Waxman (D-CA) and Edward Markey (D-MA) introduced another high-profile climate bill called the American Clean Energy and Security Act of 2009 (ACES Act). Both the Waxman-Markey bill and Obama Administration proposals for a cap and trade

system set a long-term goal of 80 percent reductions by 2050. The U.S. House of Representatives passed the bill (H.R. 2454) on June 26, 2009 by a vote of 219 to 212, although testimony during the House hearings showed an undiminished partisan split between the Democratic and Republican parties on both the science and solutions to climate change. Individuals who identify themselves as part of the Republican Party are still more than 30 percent more likely to believe climate change is not occurring than Democrats (Rabe and Borick 2010).

At the time of this writing, the state of U.S. federal climate legislation is more uncertain than ever, although the US EPA has made a final “endangerment finding” for greenhouse gases in December 2009, determining these gases endanger public health and welfare. In the U.S. Senate, a bi-partisan climate bill co-sponsored by John Kerry (D-MA), Joe Lieberman (I-CT), and Lindsey Graham (R-SC) appeared forthcoming in early spring 2010, but it was derailed in May 2010 following the passage of a controversial immigration bill in Arizona and the Deepwater Horizon oil spill off the Gulf Coast. The first event caused Congressional Democrats to call for federal immigration reform. In response, Senator Graham withdrew his support for the climate bill, saying immigration reform debate would ruin the chances of passing a bi-partisan energy and climate change bill. He also stated that the oil spill had diminished the chances of passing the climate bill because the proposed legislation expanded domestic off-shore drilling (Graham 2010). Despite Graham’s pull-out, Kerry and Lieberman introduced the bill – entitled the American Power Act – on May 12, 2010. The bill proposed a 17 percent reduction in

U.S. carbon pollution by 2020 and over 80 percent by 2050. The bill had not gone to a vote before the full Senate at the time of this writing.

The international community has not reached agreement on how to address climate change either. The United Nations Framework Convention on Climate Change held a Conference of the Parties (COP15) in Copenhagen in December 2009 but failed to reach a binding international agreement on climate change following the expiration of the Kyoto Protocol in 2012. At the time of this writing, the pre-cursor meeting to COP16 in Mexico in December 2010 was being held in Bonn, Germany.

As mentioned at the beginning of this chapter, many large U.S. firms are advocating through USCAP for bi-partisan climate legislation, suggesting a portion of U.S. firms are trying to drive climate policy forward rather than the reverse. One reasonable explanation for current private sector advocacy for climate legislation is that organizations do not like to operate under conditions of uncertainty (Thompson 1967). Of course, these firms also have a vested interest in getting a seat at the table when any kind of climate policy is created (Hoffman 2007b). At the same time, however, the U.S. Chamber of Commerce's senior vice president for environment, technology and regulatory affairs – William Kovacs – publicly questioned the science of climate change and called for the equivalent Scopes Monkey Trial on climate science in August 2009. The Chamber's position on climate change quickly became a lightning rod issue among its members. Nike removed itself from the Chamber's Board in protest and PG&E and Exelon resigned their memberships completely to protest the Chamber's climate skeptic views. Despite these

high profile protests, the Chamber remains opposed to all climate bills that have been proposed so far and filed a petition against the EPA's endangerment finding on CO2 in 2010.

The firms that are partnering with NGOs and pushing for cap and trade legislation are not monolithic nor do they fall neatly down industry lines. For example, utility companies like Duke Energy and Constellation Energy belong to USCAP whereas Southern Company and Dynegy do not and have been more resistant to shareholder requests to address climate change. Shell Oil also participates in USCAP whereas Exxon does not. Exxon is a complex case and worthy of its own extensive academic study, but a few comments about the firm's changing stance on climate are worth briefly noting here. After decades of funding climate skeptic organizations, the company publicly stated its support for a carbon tax to regulate GHG emissions on its own in 2009 (Stuewer 2009). However, critics have argued about whether Exxon's advocacy for politically unpalatable carbon taxes is a tactic to stall regulatory progress (Gold and Talley 2009).

Regardless of Exxon's motivations, the above discussion demonstrates that firms react in diverse ways to stakeholder demands to address climate change. I argue this diversity can be explained in part by the organizational identity of the firm and the stakeholders making the request. Before presenting that argument, though, I consider two other explanations for firm responsiveness to climate change: changing citizen beliefs and consumer preferences.

## **CITIZEN BELIEFS AND CONSUMER PRESSURE**

Due to the continued uncertainty about future U.S. climate legislation and a post-Kyoto international climate agreement, it is instructive to examine citizen and consumer pressures as possible drivers of differential firm responsiveness to climate change. Upon quick reflection, one might assume firms are simply reacting to changes in citizen beliefs and values regarding sustainability and/or an increase in consumer demand for “green” or “sustainable” products. Under these scenarios, one expects that some firms are merely betting on sustainability as a strategy to increase their financial performance. Upon closer investigation, however, I find these explanations by themselves do not hold up empirically.

Nationally representative surveys have shown that American’s belief that climate change is occurring has fallen over the last several years (Pew Research Center 2009b; Leiserowitz, Maibach, and Roser-Renouf 2010; Rabe and Borick 2010). The oft-cited Pew survey finds that the number of Americans who believe there is solid evidence that climate change is occurring dropped from 71 percent in April 2008 to 57 percent in October 2009. Both the Pew Survey and the Muhlenberg-Michigan study (Rabe and Borick 2010) found the largest drop in belief among citizens who identify their political affiliation as Independent. The *Six Americas* survey (Leiserowitz et al. 2010) from the Yale Project on Climate Change also found that the biggest shifts occurred among the most alarmed and most skeptical from 2008 to 2010. The percentage of respondents claiming to be alarmed by climate change dropped from 18 to 10 percent and those in the dismissive category increased from 7 to 16 percent. Those who are cautious about the

evidence of climate change also increased, whereas the percentage of respondents who claim to be disengaged decreased from 12 to 6 percent.

Even when belief in climate change was in the range of 71 to 77 percent of Americans between 2006 and 2008, the Pew survey found that only 47 percent of respondents believed climate change is caused by human activity. Given that less than half of Americans believe climate change is caused by human activities, it does not appear that the private sector has faced broad and overwhelming pressure from citizens to reduce the environmental footprint of their operations and products, undermining arguments that a radical shift in American values around sustainability is driving corporate responsiveness to climate change. The Muhlenberg-Michigan survey suggests that one of the challenges of overcoming public inertia and climate doubt is the fact that individuals do not generally experience possible effects of climate change firsthand. Borick and Rabe (2009) find that residents in Mississippi, for example, are more likely to attribute their belief in climate change to increased natural disasters and storm severity than residents in states who do not experience hurricanes.

Further, the public has recently been exposed to several highly publicized climate change controversies that may have heightened climate doubts among the public. The first occurred in November 2009 when a large number of emails and documents from the University of East Anglia's Climatic Research Unit (CRU) were leaked on the Internet. Dubbed "Climategate" by the media, climate skeptics claimed the emails proved that prominent climate scientists – including Michael Mann at Pennsylvania State University

– had manipulated and withheld data that disproved the severity of climate change. Two independent reviews of the email and data in the UK – and an internal investigation at Pennsylvania State University (Foley, Scaroni, and Yekel 2010) – did not find evidence of a climate conspiracy to manipulate or delete data. Despite these findings, the incident gave new momentum to climate skeptics in the media (Revkin 2009a).

The email scandal created such negative press for proponents of climate action that U.S. Representative Edward Markey (D-MA) felt it was necessary to revisit the evidence on climate science in the U.S. Congress. On May 6, 2010, the Energy Independence and Global Warming Panel held a Select Committee hearing on “The Foundation of Climate Science,” featuring top-level American climate scientists and a well-known climate skeptic named Lord Christopher Walter Monckton, 3rd Viscount Monckton of Brenchley. Lord Monckton is a British policy consultant and former advisor to Margaret Thatcher. The testimony and acrimonious questioning during the hearing showed that anger and distrust among climate legislation proponents and climate skeptics had not abated but rather deepened since the previous year’s hearings on the Waxman-Markey climate bill (U.S. House 2010).

Following the climate email scandal, further climate skeptic fodder emerged in January 2010 when the Intergovernmental Panel on Climate Change (IPCC) publicly apologized for inaccurate claims in the Working Group II document of the 2007 IPCC Fourth Assessment Report that the Himalayan glaciers would likely melt by 2035 (IPCC 2010). That same month, the current IPCC chair – Dr. Rajendra K. Pachauri – was also accused

by a British newspaper of having a financial conflict of interest in his role as IPCC chair and personally profiting from climate change science (Mendick 2010). This criticism was quickly picked up by prominent climate skeptics (Pielke 2010).

Despite the consensus view among a large majority of the scientific community that climate change is occurring and has accelerated due to human activities (IPCC 2007), these events – coupled with a severe economic recession – have not promoted an increase in personal actions to combat climate change by the general public. U.S. climate surveys show that citizens are not taking dramatic personal actions to reduce their GHG emissions through consumer pressure. In another Yale Project on Climate Change study conducted in 2008 (Leiserowitz, Maibach, and Roser-Renouf 2008), researchers surveyed a nationally representative sample of 2,164 American adults about their purchasing decisions as they related to climate change. Sixty-eight percent of respondents said they did not know which companies to reward or punish for not taking enough action on climate change, and 76 percent said they had not or did not know if they had punished a firm for not addressing climate change with their purchasing decisions. Additionally, many of the firms that are the most GHG emission-intensive (e.g. coal mining firms) do not sell their products directly to consumers. As a result, pressure to address climate change often originates from interest group pressure rather than direct consumer pressure.

Finally, while almost two-thirds of the survey respondents said they wanted to make “green purchases” like fuel-efficient cars, they stated they could not afford to do so.

Given the current economic crisis, this cost-constraint is not likely to recede in the short-

term future. While it is understandable that sustainability-minded individuals who live in affluent, liberal communities might assume that demand for “green products” and “sustainable production” is growing rapidly, the aggregate numbers do not support this assumption. Nor does it appear that a majority of U.S. citizens are taking political action to encourage elected officials to address climate change. The Yale survey found that 89 percent of respondents have never contacted an elected official to encourage him/her to take action to address climate change (Leiserowitz et al. 2008), although other surveys find support among citizens for more climate legislation at the local, state, and national levels (Pew Research Center 2009a; Rabe and Borick 2010).

This lengthy discussion of American citizens’ beliefs about climate change and consumer preferences is meant to highlight two important points. First, citizen beliefs and consumer preferences are not overwhelmingly driving firm behavior on climate change. If anything, pressure for firms to address anthropogenic climate change is decreasing. Second, and more importantly, this section shows that cognitive beliefs and cultural and political ideologies go a long way toward explaining why some Americans believe climate change is occurring and others do not. The choice to engage in climate mitigation and/or adaptation actions at the individual level is at times as much a cultural and ideological decision as a strategic or economic one. This dissertation turns attention away from individuals to explore how/whether cognitive templates and cultural beliefs – manifest in organizational identity – affect *organizations* operating in markets but engaged in “private politics” (Baron 2003) over climate change. I argue that organizational identity

affects how both investors and firms engage in negotiation over climate change. It is to this argument that I now turn attention.

## **ORGANIZATIONAL IDENTITY**

The remainder of this introductory chapter outlines the three empirical studies in the dissertation. The studies explore how organizational identity impacts the actions investors and firms are willing to take on climate change issues beyond what one would expect based on purely rational/economic or strategic/political grounds. The studies also directly address the call for renewed research on the “noun-like qualities of organizations” (King, Felin, and Whetten 2010: 290) to explain firm behavior. This dissertation takes a “noun-like” approach to organizations by treating them as social actors with their own central, enduring, and distinct attributes (Albert and Whetten 1985; Albert, Ashforth, and Dutton 2000). The central premise of the dissertation is that organizational identity can help us better understand inter-organizational outcomes of climate change conflicts and why organizations choose certain climate change strategies.

I argue that an organization’s identity affects its receptivity to 1) considering long versus short-term implications from climate change 2) its openness to engaging with stakeholders on climate change and 3) the actions it is willing to take to address climate change. In essence, identity affects the interactions and agreements an organization can reach with other actors on climate change in economic settings. I suggest organizational identity is one piece of a comprehensive model of private politics predicting the rise of campaigns, choice of targets, strategies chosen by activists, and negotiation outcomes

(Baron 2003). The empirical studies in the dissertation answer the following questions:

1. How is an institutional logic maintained – and what form does it take – when its adherents possess diverse organizational identities?
2. How does the social identity of shareholders and the identity orientation of a firm interact to facilitate shareholder resolution withdrawals on climate change?
3. How does organizational identity affect the outcome of climate change shareholder resolutions?”

Although each empirical study stands alone, there are two unifying themes running throughout the dissertation. The first is a substantive focus on the issue of climate change. The dissertation strives to understand the processes by which climate change has become defined as a legitimate business risk. The second is a focus on organizational identity and how it aids our understanding of the way particular climate change actions emerge as solutions to the issue rather than others, specifically in regard to shareholder activism tactics and firm engagement with stakeholders on the issue. The dissertation looks at the effect of identity at multiple stages of the private politics process.

Chapter 2 focuses attention on the negotiation among institutional investors promoting firm-level climate change action. The study looks at how organizational identity affects the negotiation and maintenance of a “sustainability logic of investing” and shows that identity can help researchers understand how diverse organizations maintain a challenger logic’s stability to engage in private politics with firms. Theoretically, the aim of the

study is to correct for weaknesses in institutional logic research by emphasizing the *logic work* activities required to create and maintain a logic, including framing activities and the use of organizational identity as a “tool kit” (Swidler 1986) to mitigate conflict.

Chapters 3 and 4 turn attention to contestation between investors and firms on climate change through the shareholder resolution process. Chapter 3 uses a case study on Ford Motor Company to create a theory of how organizational identities “interact” in corporate governance contests to affect the outcomes of firm-shareholder dialogue on climate change. The theoretical aim of this chapter is to bring together disparate streams of organizational research on identity from the management literature (Albert and Whetten 1985; Albert et al. 2000) and organizational ecology (Polos, Hannan, and Carroll 2002; Hsu and Hannan 2005; Hannan, Polos, and Carroll 2007) to show that both internal identity attributes and the evaluation of the other party influences the outcome of private politics. Chapter 4 uses a dataset of all climate change resolutions filed at S&P 500 firms between 2002 and 2009 to test the theory developed in the Ford case study; namely, how the identities of two interacting organizations affects their ability to reach withdrawal agreements on climate resolutions. The following sections provide brief overviews of each empirical study.

## **Chapter 2: Logic Work: Negotiating a Sustainability Logic of Investing**

Baron (2003) argues that a research agenda on private politics “should predict when an activist group acts alone and when it joins in collective action” (51). Drawing on institutional theory and social movement research, Chapter 2 examines how institutional

investors with diverse organizational identities are able to engage in collective action on climate change despite conflicting motivations and organizational missions. Specifically, the chapter examines how a group of religious investors, public pension funds, foundations, and union organizations negotiate and maintain a “sustainability logic of investing” by framing climate change as a financial risk and opportunity and drawing on organizational identity as “tool kit” (Swidler 1986) in situations of disagreement.

Logics are defined as “the belief systems that furnish guide-lines for practical action” (Rao et al. 2003: 795). Research on institutional logics has proliferated in recent years (Thornton and Ocasio 1999; Thornton 2004; Glynn and Lounsbury 2005; Meyer and Hammerschmid 2006), but much of this research has focused on competition between logics or shifts from one logic to another in an organizational field (Scott et al. 2000). Few if any studies have attended to the negotiation and maintenance activities among organizational actors within logics. The study in Chapter 2 shows that considering how organizational identity affects logic formation and maintenance corrects two major weaknesses in this research stream.

First, some scholars have critiqued research on logic diffusion for treating logics exclusively as exogenous forces that act upon organizations and individuals rather than being socially constructed by actors themselves (Lounsbury, Ventresca, and Hirsch 2003). Second, much of the research on institutional logics focuses on competition between challenger and dominant logics in organizational fields (Thornton and Ocasio 1999; Rao et al. 2003; Thornton 2004; Suddaby and Greenwood 2005) but fails to attend

to negotiation and maintenance activities among organizational actors *within* logics (Lounsbury et al. 2003; Lounsbury 2005, 2007). There is a particular neglect of how challenger organizations using the same logic manage divergent motivations for action.

Research on institutional logics has largely assumed that “the identification with the collective is equivalent to the identification with the institutional logic prevailing in the collective” (Thornton and Ocasio 2008: 128). While dominant logics admittedly take on a level of taken-for-grantedness (DiMaggio and Powell 1991), a long tradition of social movement theory informs us that institutional entrepreneurs promoting any radical change – including challenger logics – frequently have to mobilize diverse groups in order to mount a credible challenge to the dominant logic. To correct for this tendency in the logics literature, I follow the lead of organizational scholars who have begun to incorporate social movement theories into their work (Rao, Morrill, and Zald 2000; Rao et al. 2003; Davis, Scott, and Zald 2005; Rao and Giorgi 2006; Weber, Heinze, and DeSoucey 2008). The study draws on social movement theories regarding collective action framing (Benford and Snow 2000; Snow et al. 1986) to understand the negotiation processes required to maintain an institutional logic among diverse organizations.

The chapter calls into question the assumption of previous logics research that organizations have experienced *ex-ante* isomorphism (Mizruchi and Fein 1999) in terms of their motivations and that the process of creating a collective social identity is uncontested or unproblematic for challengers (Creed, Scully, and Austin 2002; Scully and Creed 2005; Weber et al. 2008). Rather than reflecting a “truce following from past

struggles,” (Meyer and Hammerschmid 2006), I argue that organizations must continuously negotiate and maintain an institutional logic through *logic work* when their identities are diverse. Logic work consists of two components: logic framing and logic maintenance (i.e. using identity as tool kit).

Logic framing activities are best understood through the lens of social movement theory. According to Benford and Snow (2000), there are three types of collective action frames social movement organizations typically use: diagnostic, prognostic, and motivational. Diagnostic frames define problems, whereas prognostic frames suggest what is to be done about them and motivational frames tell participants why they should act (Benford and Snow 2000). The sustainability logic uses a common diagnostic framing around climate change that claims investors and firms will enjoy long-term financial performance gains from addressing risks and opportunities from climate change in the short-term. However, this frame does not mitigate the diverse moral, political, and social motivations of the different investors for engaging in shareholder activism.

If logics are in fact more durable templates for action than collective action frames as the organizational literature suggests (Thornton 2004; Thornton and Ocasio 2008), challengers embracing a new logic must also find a way to *embed* rather than *eliminate* motivational and prognostic frame disagreement among organizations. I suggest that investors accomplish this through logic maintenance activities, specifically using organizational identity as a tool kit. Rather than rejecting the validity of allies’ actions when they engage in more radical strategies than a focal organization is willing to take

itself, traditional investors draw on oppositional social identities to explain and justify others' behavior while still conserving their fiduciary identity (Kraatz and Block 2008).

This identity distancing allows them to disassociate themselves from other participants in instances of conflict without having to abandon the sustainability logic. In the case of the investors in this article, I show how more traditional investors (e.g. public pension funds) attribute radical actions on the part of religious and labor investors to their social identities but invoke those same actors' fiduciary identities when they are pursuing similar strategies.

Like traditional investors, religious and social investors also use identity as a tool, albeit in a different way. These investors are *multi-vocal*, meaning they possess "the ability...to participate effectively in multiple kinds of ties with diverse parties" (Owen-Smith and Powell 2008: 608). Their multi-vocality permits them to draw on a broader set of justifications for action from religious or social institutions and thus take more radical steps to persuade firms to act on climate change under the guise of the sustainability logic. The socially-motivated investors continue to take more aggressive actions against firms (i.e. file more stringent resolutions, engage in social investment forums) than more traditional institutional investors who do not view these actions as appropriate for their organizations. The study also shows that when religious investors can successfully justify new, more radical actions within the agreed-upon financial discourse of the logic, the more mainstream investors are likely to support those actions.

According to the conventional view, logics shape individual or organizational decisions by influencing what problems get attended to, what solutions to problems are considered, what is viewed as legitimate action, and the meaning attached to those actions (Thornton 2004). I suggest an alternative process involving logic work around framing and identity distancing. The study demonstrates that incorporating organizational identity considerations into research on institutional logics helps explain how diverse groups form and maintain a logic that challenges U.S. firms on climate change. The study concludes by considering how future research can incorporate measures of logic work to determine whether challenger logics that require high levels of logic work are more or less successful in replacing dominant logics.

### **Chapter 3: Climate, Cars, and Catholic Nuns: Identity Interactions in Manager-Shareholder Relationships**

Having established that identity differences among institutional investors exist and that these differences require logic work to maintain a sustainability logic of investing, the next study shifts attention to contestation between investors and firms on climate change. The case study analyzes how organizations' identities interact to foster a successful shareholder resolution withdrawal on climate change at Ford Motor Company. Specifically, the case examines how a climate resolution that went to a vote the first time it was filed at Ford in 2007 was successfully withdrawn in 2008 after dialogue with the Dominican order of nuns who filed it. The resolution filed in 2007 requested that Ford's Board of Directors publicly set quantitative goals for reducing GHG emissions from their products and operations. In March 2008, Ford publicly agreed to reduce GHG emissions

from its new vehicle fleet by at least thirty percent by 2020 and the resolution was withdrawn.

The case shows that identity shapes economic ties between firms and activist investors. Actors involved in inter-organizational relationships – such as shareholder resolution conflicts – constantly evaluate one another’s behavior (Goffman 1959) and use identity as a measure of whether another organization’s actions are appropriate (March and Olsen 1995). While some definitions of organizational identity emphasize internal identity attributes that are central, enduring, and distinctive (Albert and Whetten 1985), others, particularly those associated with organizational ecology, pay more attention to how audiences evaluate and sanction actors for violating social codes associated with their identity (Polos et al. 2002; Hsu and Hannan 2005; Hannan et al. 2007). Rather than being mutually exclusive, I argue both of these conceptualizations are necessary to understand how identity influences shareholder dialogue outcomes between firms and shareholders.

I introduce the concept of “identity interaction” to reflect the dual ways in which identity evaluation by external audiences and internal identity attributes influence inter-organizational relationships. Identity interactions occur when one organization evaluates the identity of another before deciding whether and how to engage in a relationship with it. This evaluation is contingent, however, on the former’s own cognitive identity orientation (Brickson 2005, 2007) toward stakeholders. Thus, the identity interaction concept is comprised of two components; the stakeholder’s organizational identity and the firm’s identity orientation. Stakeholder organizational identity refers to the “central,

enduring, and distinctive” attributes of an organization (Albert and Whetten 1985). In the studies in Chapters 3 and 4, I pay particular attention to whether stakeholders’ social identities are rooted in religion, finance, or special interest areas like the labor and environmental movement.

The other component of an identity interaction is the identity orientation of firm, which impacts how firms evaluate the legitimacy of stakeholders’ social identities and whether they want to negotiate with them. Identity orientation is defined as the “the nature of assumed relations between an organization and its stakeholders—are relations independent, dyadically interdependent, or derived from a common group membership?” (Brickson 2005: 577). According to Brickson (2007), firms can be placed in three different orientation categories: individualistic, relational, or collectivistic. Organizations that possess each of these orientations approach their relationships with stakeholders differently. Whereas an “individualistic orientation is associated with concern for one’s own welfare,” organizations with relational orientations are “associated with an emphasis on the well-being of particular relationship partners and on maintaining relationships, and a collectivistic orientation is associated with a concern for the welfare of the greater group as a whole” (Brickson 2005, 579). In essence, identity orientation captures how a firm approaches its relationships to different stakeholders. Collectivistic firms approach their relationships with stakeholders in an open and welcoming manner, whereas relational firms reserve a warm reception to certain types of stakeholders (e.g. employees or clients), and individualistic firms take a more hostile manner to stakeholders who approach them. While these are ideal-type categorizations of firms, the identity

orientation concept helps capture heterogeneity among firm evaluations of stakeholders and corrects for a tendency in organizational ecology theory on identity to assume that all audience members (i.e. firms) evaluate the same stakeholders in the same way (Polos et al. 2002).

Using an inductive approach, the case study builds a theory that shows it is the *interaction* between the filer's socially legitimate organizational identity and Ford's collectivistic identity orientation that explains the withdrawal of the resolution. The case finds that structural explanations of how identity impacts inter-organizational relationships, such as those put forth by Padgett and Ansell (1993) and Zuckerman and colleagues (Zuckerman 1999; Zuckerman et al. 2003), are not sufficient to explain the positive reception religious investors received at Ford Motor Company. Padgett and Ansell (1993), for example, suggest that actors are least constrained in their actions when their motivations are obscured from external audiences. Given the salience (Polos et al. 2002; Hsu and Hannan 2005) and authenticity (Peterson 1997) of her identity as a nun, however, Sister Pat (the nun leading the dialogue for investors) does not engage in "robust action" (Padgett and Ansell 1993) in which her motivations are unclear to the firms and NGOs she engages in dialogue. Her religious identity overarches all interpretations of her actions as a shareholder.

However, rather than constraining her ability to succeed in activist shareholder activities, her religious identity actually broadens the degree and type of actions she can legitimately take in the eyes of Ford managers. The firm views her as both a shareholder

and religious figure who cares about the firm's long-term survival. Ford views religious investors as shareholders who cannot be stereotyped into a single category (Zuckerman and Kim 2003). The only way for firms to place religious investors in these multiple categories and still trust them, though, is for them to have a particular orientation toward stakeholders that views them as having a contribution to make to the firm. I argue such a collectivist orientation is present at Ford and it is this match – or *identity interaction* – between the firm and investor's identity that enables the resolution withdrawal to be reached.

If the religious identity of investors alone was the reason Ford engaged with them and was able to reach a withdrawal agreement on the climate resolution, one would expect most other major U.S. firms to engage in dialogue with religious investors in a manner similar to Ford. Since other large firms do not approach their relationship with religious investors as proactively as Ford, we know religious identity only tells part of the story. There is a stark contrast in how religious investors are received at Ford compared to firms like Exxon, for example, where activist investors are approached with greater hostility and/or dismissiveness (Slater 2007).

Also, it is notable that the same climate resolution was filed by the shareholders but not withdrawn from General Motors, creating a useful “shadow case” to eliminate other organizational explanations for Ford's behavior. General Motors, while more willing to engage in dialogue with religious investors than Exxon, also approaches its relationship to them in a more arms-length (Uzzi 1996) manner than Ford. In interviews with

investors who engage with both firms on climate change, informants noted that Ford provides them the opportunity to meet with employees and managers at all levels and in all departments of the company whereas the breadth of interactions at GM is much narrower. It is notable that Ford and General Motors (pre-bankruptcy) have taken such a different approach to shareholders on climate change despite having virtually identical market identities (Zuckerman 1999) and being situated in the same geographic location (Davis and Greve 1997; Marquis 2003; Marquis, Glynn, and Davis 2007; Greenwood et al 2010).

Furthermore, if anticipation of future regulation explains Ford's willingness to engage with shareholders, one would also expect General Motors to respond to shareholders in a similar fashion to Ford. At the time of the resolution, both firms were subject to the same pressures from GHG reduction legislation in California. On July 22, 2002, California adopted AB 1493 (Pavley) that required passenger vehicles to reduce their GHG emissions by 30 percent reduction by 2016. Thirteen other states also supported the Pavley standard, and regulation was slated to go into effect starting with the 2009 model year of vehicles. However, the automotive industry sued the State of California, claiming that Pavley overlapped with the federal government's authority to set corporate average fuel economy (CAFÉ) gas mileage standards.

A federal district court ruled in favor of California in December 2007, but the EPA under the Bush administration declined to grant California a waiver under the Clean Air Act to regulate tougher emission standards than established by federal law (the Obama

administration set a new federal CAFÉ standard in 2009). Despite the lawsuit and conflict over the Pavley standards, Ford continued to engage with investors on climate change resolutions, and unlike General Motors, reached a withdrawal agreement with them in 2008. General Motors continued to receive climate resolutions from investors and was placed on a 2009 “Climate Watch List” of firms receiving shareholder resolutions before the firm declared bankruptcy that summer (Ceres 2009). The comparisons with Exxon and General Motors strongly suggest there is something different about Ford’s orientation toward stakeholders compared to other firms that contributes to the company’s willingness to engage with shareholders on climate change. Ford’s openness to engaging with a variety of external stakeholders is suggestive of what Brickson terms a *collectivistic identity orientation*. A collectivistic orientation means that a firm views itself as part of a common group membership with other stakeholders, whether that is the local community, the nation, or even the global community more broadly. Brickson (2005) says collectivistic organizations are likely to describe themselves as “community-oriented,” “promoting a cause,” “politically active,” or “providing a public service” (588).

The case also addresses the possibility that Ford was merely “greenwashing” by setting a reduction target. Greenwashing refers to actions taken by a firm that seem environmentally-proactive on the surface but do not significantly change the firm’s environmental performance. Firms are especially susceptible to engaging in such decoupling activities under conditions of uncertainty like those that exist around climate change (Meyer and Rowan 1977). A senior policy analyst at Natural Resources Defense

Council (NRDC) was very skeptical when he first heard about the GHG reduction target Ford had agreed to set from religious investors. On December 19, 2007, President George W. Bush had signed the Energy Independence and Security Act into law. This legislation required automakers to increase their fleet-wide CAFÉ to thirty-five miles per gallon by 2020, including light trucks. The analyst immediately thought the firm was greenwashing by setting a target that only met what the law already required.

Although the publicly stated target was almost identical to the one set forth in the new CAFÉ standards, the case finds that a greenwashing explanation of Ford's behavior is not sufficient by itself. When they received the initial target number from Ford, the religious investors requested that the company allow external environmental experts to vet the proposed target and weigh in on whether it was a legitimate move forward before withdrawing the resolution. The company agreed to let the investors contact NRDC and Union of Concerned Scientists (UCS) for their input. Sister Pat took NRDC's greenwashing concerns back to Ford, and the management team said their scenario analyses looked at what reduction targets the firm would need to set in order to reduce the auto sector's contribution to GHG emissions and stabilize CO<sub>2</sub> levels at 450 parts per million (ppm). Ford asked Sister Pat to invite the NGO representatives to review Ford's scenario analyses and have a conversation about the assumptions Ford used to get the target. After reviewing the analysis, the case shows the NGOs were satisfied that Ford's analysis demonstrated "a good-faith effort" to figure out what standards the firm needed to adopt. This review eliminated their initial concerns about greenwashing.

This vignette from the case also supports Baron's (2003) claim that private politics can only work if the process is "...an equilibrium private institution. That is, both the activist and the firm must continue to participate even when incidents occur that suggest the standard might have been violated" (62). In the case study, we see how Ford's trust in religious investors' motives enables them to engage in repeated rounds of negotiation with them and how the company's collectivistic orientation enables the religious investors to keep working with Ford even when concerns over the firm's behavior arise. Religious investors had enough faith in the firm to remain in dialogue on the climate resolution even when it appeared the firm might be greenwashing.

#### **Chapter 4: Identity Interaction? How Organizational Identity Affects Shareholder Resolution Outcomes**

Although suggestive, a single case study like the one outlined above is not sufficient by itself to test whether a firm's individualistic/collectivistic orientation affects outcomes of firm-stakeholder interactions more generally. However, the Ford case strongly suggests that structurally similar firms approach stakeholders with varying cognitive orientations and evaluate the legitimacy of stakeholders' identities differently. This in turn effects whether a firm believes there is merit to fostering a strong relationship with any given stakeholder.

Chapter 4 presents an empirical study that tests the effect of shareholder identity, firm identity orientation, and the interaction between the two on climate resolution outcomes. This study uses a dataset of all climate change shareholder resolutions filed at S&P 500

firms from 2002-2009. In addition to testing whether the identity of the shareholder – operationalized as religious, secular professional, and special interest – affects the likelihood of withdrawal, I also examine whether there is an interaction effect between the filer’s identity and the identity orientation of the firm. Specifically, I test whether firms that are more collectivistic or individualistic in their orientation are more likely to reach withdrawals with specific groups of filers as opposed to firms that are less collectivistic or individualistic.

While acknowledging that collectivistic and individualistic identity orientations are ideal types and recognizing that hybrids also exist, the labels provide a starting point from which to consider why there is variation in the approach firms take in their relationships with stakeholders. Individualistic organizations are primarily concerned about their own welfare, whereas collectivistic organizations prioritize the welfare of a larger group in stakeholder interactions (Brickson 2005). Hence, firms with different identity orientations evaluate stakeholder identities using different lenses and likely have different dialogue outcomes with shareholders on climate change resolutions.

This study makes contributions to both the organizational identity and the business literature on corporate social action and stakeholder engagement. In regard to research on organizational identity, it is the first study that tests the explanatory power of different identity theories, specifically theories from traditional management literature (Albert and Whetten 1985; Brickson 2005, 2007; Whetten 2006) and organizational ecology (Polos et al. 2002; Hsu and Hannan 2005; Hannan et al. 2007; Hsu 2006; Hsu, Hannan, and Kocak

2009). Despite the potential to inform one another, these two research streams and the scholars that pursue them rarely engage with one another theoretically.

The study is also motivated by the lack of attention paid to stakeholder-firm interactions in studies of corporate responses to stakeholder demands, particularly how identity impacts the outcomes of these interactions. The study builds on an earlier longitudinal study by Eesley and Lennox (2006) that examines how stakeholder legitimacy and power interacts with a firm's power to influence the outcomes of environmental conflicts between firms and external stakeholders in the U.S. However, that study focused most of its attention to how financial resources of firms and stakeholders interact. I take their findings a step further by paying attention to how identity influences firm-stakeholder interactions. In this way, the study answers the call by Margolis, Elfenbein, and Walsh (2009) for researchers to attend more to why firms pursue corporate social action rather than whether it enhances their financial performance (or vice versa). As Eesley and Lennox (2006) note, large-scale statistical analyses of "which stakeholder influences matter to managers and to which stakeholders firms are likely to respond" are few and far between in the business literature (766). This study addresses those questions directly.

## **CONCLUSION**

In closing, the studies in this dissertation focus on how identity can improve our understanding of how and why investors and firms decide to address climate change beyond explanations that rely solely on financial, strategic, political, or greenwashing explanations of behavior. The dissertation strives to make both substantive and

theoretical contributions to organizational sociology and public policy research. On the theoretical side, the first study speaks to the need to conceptualize the role of identity differently within the institutional logics literature. Rather than assuming that adopting a logic means adopting a collective identity, Chapter 2 highlights how diverse identities are used as tools to negotiate conflict and maintain a logic's stability.

The studies contained in the dissertation also close the divide between two areas of organizational identity research, namely those in the management literature that define identity as the central, enduring, and distinctive attributes of an organization (Albert and Whetten 1985) and those in organizational ecology who view identity as a way for audiences to evaluate whether an organization is violating the social codes associated with its identity (Polos et al. 2002). By introducing the concept of identity interaction, I suggest that both definitions are required to fully understand when firm-stakeholder interactions will result in successful outcomes. This research also fills a gap in stakeholder research within the business literature that has paid scant attention to the ways in which firm and stakeholder characteristics interact (Eesley and Lenox 2006).

By drawing on and extending upon organizational identity research, the studies also aim to contribute to theories regarding “when and where private politics arise and why some attempts at private politics fail and others succeed” (Baron 2003: 48). The studies represent one of the first efforts to expand models of private politics around climate change to include identity variables. It also meets the challenge to produce more problem-centered organizational research (Davis and Marquis 2005; Biggart and

Lutzenhiser 2007). Without understanding the drivers behind investors and firm behavior around climate change, one cannot identify barriers or catalysts for their engagement on the issue. Much of the social science and policy research on climate change has narrowed the focus to the relative value of different economic and technical fixes to the problem. While this work is valuable, it neglects deeper identity and cultural forces also at play that impact individual and organizational responses to climate change.

Although the surveys discussed earlier in this chapter provide useful snapshots of individual public opinion on climate change (Pew Research Center 2009b; Leiserowitz et al. 2010; Rabe and Borick 2010), we actually have little understanding of what influences their opinions or why they change over time. At the organizational level, we have even less understanding of the elements that influence responses to climate change despite the fact that these responses have real policy implications for how climate change is addressed in the regulatory and legislative arenas. The conclusion chapter ends with a discussion of how organizational responses to climate change may influence policy and why a fuller understanding of drivers that lead organizations to embrace or resist climate action may be illuminating to both policymakers and academics.

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## **Chapter 2**

### **Logic Work: Negotiating a Sustainability Logic of Investing**

#### **INTRODUCTION**

The question of how organizations structure and make sense of their activities is a central concern in organizational research. The frameworks organizations use to accomplish these feats are frequently defined as “logics.” Logics are defined as “the belief systems that furnish guide-lines for practical action” (Rao et al. 2003: 795) or the “organizing principles for institutionalized practices in social systems” (Nigam and Ocasio 2009: 1). Research on institutional logics has proliferated in recent years (Thornton and Ocasio 1999; Thornton 2004; Lounsbury 2007, 2005; Meyer and Hammerschmid 2006), and much of this work has focused on the competition between and diffusion of new logics in organizational fields (Thornton and Ocasio 1999; Scott et al. 2000; Thornton 2004; Kennedy and Fiss 2009; Purdy and Gray 2009).

While this work has moved organizational research in important new directions, I suggest there are two limitations to the current approach to studying logics. The first, initially observed by Lounsbury et al. (2003), suggests that empirical studies of logic diffusion err by treating logics exclusively as exogenous forces that act upon organizations and individuals rather than being socially constructed by actors themselves. This argument reinforces a common critique of neo-institutional theory for championing isomorphism,

cognitive templates, and stability over agency and conflict (Greenwood and Hinings 1996; Emirbayer and Mische 1998; Creed, Scully, and Austin 2002). In many empirical studies of logics, one often conjures images of abstract cognitive templates dueling in space for the hearts and minds of organizational actors rather than actors enacting and contesting logics themselves.

Fortunately, recent and successful efforts by organizational researchers to incorporate social movement theories of mobilization and contestation have taken considerable strides toward remedying these tendencies in the institutional literature (Rao, Morrill, and Zald 2000; Rao et al. 2003; Davis, Scott, and Zald 2005; Rao and Giorgi 2006; Weber, Heinze, and DeSoucey 2008). Following this research direction, I combine organizational theories of logics with social movement theory on framing (Benford and Snow 2000) to understand how a group of U.S. institutional investors negotiate divergent organizational identities to challenge firms to take action on climate change. While the study of investor activism is not new (Davis and Thompson 1994; Proffitt and Spicer 2006; Reid and Toffel 2009), the mechanisms that enable diverse investor organizations to collaborate and challenge firm environmental behavior have yet to be analyzed.

The focus of the study is twofold. First, I examine how identity differences create the potential for conflict among investors who adopt a “sustainability logic of investing” around climate change. The sustainability logic encompasses the belief that there are financial risks and opportunities related to climate change in the market, and both firms and investors have a duty to incorporate these considerations into their investment and

operational strategies. While all of the investors who engage in climate change activism possess professional fiduciary identities, some also possess highly salient social identities associated with religious institutions, the labor movement, and civil society. These identity differences mean that investors have an array of motivations for adopting a “sustainability logic” and view certain shareholder activities as being more or less appropriate to address climate change in the investment field. Ironically, though, I find investors use their organizational identities as a tool to resolve conflicts among themselves rather than escalate them. The second part of the study analyzes this process.

Much of the research on institutional logics focuses on competition between challenger and dominant logics in organizational fields (Thornton and Ocasio 1999; Rao et al. 2003; Thornton 2004; Suddaby and Greenwood 2005) but fails to attend to negotiation and maintenance activities among organizational actors *within* logics (Lounsbury et al. 2003; Lounsbury 2005, 2007). There is a particular neglect of how challenger organizations manage divergent motivations for action. Research on institutional logics has largely assumed that “the identification with the collective is equivalent to the identification with the institutional logic prevailing in the collective” (Thornton and Ocasio 2008: 128). However, it does not necessarily follow that identification with an institutional logic is equivalent to identifying with the collective under that logic, especially within challenger logics.

While dominant logics admittedly take on a level of taken-for-grantedness (DiMaggio and Powell 1991), a long tradition of social movement theory informs us that institutional

entrepreneurs promoting any radical change – including challenger logics – frequently have to mobilize diverse groups in order to mount a credible challenge to the dominant logic. Neo-institutionalists too often assume challengers are monolithic entities that have experienced ex-ante isomorphism (Mizruchi and Fein 1999; Greenwood et al. 2010) or that the process of creating a collective social identity is relatively uncontested or unproblematic for challengers (Creed et al. 2002; Scully and Creed 2005; Weber et al. 2008). That is, challengers who embrace the same logic are assumed to embrace the same identity and strategies for action as well. This study offers a corrective to this view.

The aim of the chapter is to outline a process-oriented conceptualization of institutional logics that captures the actions necessary to create and maintain a challenger logic. The article seeks to answer the question, “How is an institutional logic maintained – and what form does it take – when its adherents are heterogeneous?” According to the conventional view, logics shape individual or organizational decisions by influencing what problems get attended to, what solutions to problems are considered, what is viewed as legitimate action, and the meaning attached to those actions (Thornton 2004). I suggest an alternative process. When proponents of a challenger logic are diverse, I argue they create a common framing of a problem but must continuously negotiate the legitimacy of engaging in diverse actions under the umbrella of the new logic.

I introduce the term *logic work* to capture this process. As the article elaborates, logic work consists of two components: logic framing and logic maintenance (i.e. using identity as tool kit). Rather than focusing exclusively on how a logic influences

organizational actors' behavior, logic work foregrounds how organizations use frames and organizational identity claims to create and maintain a challenger logic. The notions of creation and maintenance emphasize agency on the part of organizations as well as the importance of inter-organizational relationships for logic enactment.

The empirical setting I use to illustrate how logic work operates is institutional investor activism around the issue of climate change. Specifically, I am interested in how a diverse group of investors – public pension funds, religious investors, unions, and foundations – create and enact a challenger sustainability logic of investing. I employ two key concepts – framing and organizational identity – from the social movement and organizational literatures to highlight how logic work holds the logic together despite being enacted by organizations with diverse identities and, at times, conflicting motivations. The first concept is that of *collective action frames* (Snow et al. 1986; Gamson and Meyer 1996; Benford and Snow 2000). One of the primary tasks challenger groups have is to frame an issue in a way that mobilizes new participants in order to mount an effective challenge to the taken-for-granted structures and practices of a dominant logic in the field. The framing element of logic work emphasizes the fact that institutional entrepreneurs must identify political opportunities in a field and create a consensus frame among challengers. In particular, I show how institutional entrepreneurs drew upon existing fiduciary frames about risk and opportunity to recruit greater numbers of investors to the sustainability challenger logic.

However, while frames play an important role in creating a challenger logic, framing alone cannot adjudicate conflicts about what constitutes appropriate action among a broad coalition of challengers under a logic. Different types of frames serve different purposes. Whereas diagnostic frames define problems, prognostic frames suggest what is to be done about them and motivational frames tell participants why they should act (Benford and Snow 2000). If logics are in fact more durable templates for action than collective action frames as the organizational literature suggests (Thornton 2004; Thornton and Ocasio 2008), challengers embracing a new logic must find a way to *embed* rather than *eliminate* motivational and prognostic disagreement among organizations.

I find that organizations accomplish this through *logic maintenance*, which involves using organizational identity as part of their cultural tool kit (Swidler 1986). Rather than rejecting the validity of allies' actions when they engage in more radical strategies than a focal organization is willing to take itself, actors draw on oppositional social identities to explain and justify others' behavior. This allows them to distance themselves from other participants in instances of conflict without having to abandon the challenger logic completely. In the case of the investors in this article, I show how more traditional investors (e.g. public pension funds) attribute radical actions on the part of religious and labor investors to their social identities but invoke those same actors' fiduciary identities when they are pursuing similar strategies. Like traditional investors, religious and social investors also use identity as a tool, albeit in a slightly different way. These investors are *multi-vocal*, meaning they possess "the ability...to participate effectively in multiple kinds of ties with diverse parties" (Owen-Smith and Powell 2008: 608). Their multi-

vocality also permits them to draw on a broader set of justifications for action from religious or social institutions and take more radical steps as shareholder activists to persuade firms to act on climate change than pension funds take.

The concept of logic work enables us to see the constant dialogue and negotiation that occurs within a logic. By attending to the creation and maintenance work required of organizational actors to enact challenger logics, researchers can more carefully consider how the degree of logic work required by challengers impacts their probability of success in a competing logics scenario. If agency is to retain a place alongside cognition and environmental influence in neo-institutional research (Greenwood and Hinings 1996; Fligstein 1997; Seo and Creed 2002; Davis et al. 2005; King, Felin, and Whetten 2010), researchers must account for contradictions in the identities and strategies of actors who enact the same logic.

## **THEORETICAL MOTIVATION**

According to Friedland and Alford (1991), societal-level institutions encompass the market, state, family, democracy and religion. These institutions possess central “logics,” which are defined as “axial principles of organization and action based on cultural discourses and strategic practices prevalent in different institutional or societal sectors” (Thornton 2004: 210). Because institutions inherently contain contradictions, though, multiple logics are available to individuals and organizations as they operate within them (Friedland and Alford 1991). Logics exist at multiple levels of analysis as well. There are societal-level logics for institutions like the market and state. However, the term is most

commonly applied at the industry or organizational field level, such as the publishing industry (Thornton and Ocasio 1999), accounting profession (Suddaby and Greenwood 2005) architecture (Thornton, C. Jones, and Kury 2005), as well as fields like the arts (Meyer and Hammerschmid 2006) and the public sector (Glynn and Lounsbury 2005). These logics are sometimes referred to as “lower-order” logics (Thornton 2004: 50) and draw from one or more higher-order societal logics.

In this article, I critique two aspects of the current stream of logics research. First, in line with Lounsbury (Lounsbury et al. 2003; Lounsbury 2005, 2007), I argue that empirical studies of logics do not sufficiently account for agency among organizational actors and treats logics as exogenous forces acting upon organizations. I suggest that incorporating framing concepts from social movement theory into a process-based understanding of logics is an important corrective to this problem. Second, I argue that although the concept of framing is necessary for a process-based understanding of logics, it is not sufficient by itself to explain how challenger logics are maintained over time. I suggest that “logic work” also involves using organizational identity as a tool kit (Swidler 1986) when challengers are diverse, a point that previous work on institutional logics has neglected.

### ***Logic Limitations***

Diffusion studies in both the organizations and social movement literature have been accused of presenting diffusion processes as “a mindless mechanical transfer of information from one place to another...[with] virtually no work mentioned that

examines what this process might look like” (Hsu and Hannan 2005: 55). Whether a logic draws from a single sector of society like the professions (Thornton 2004), or is a hybrid of two logics (Meyer and Hammerschmid 2006), its principles and associated actions are usually shown to diffuse throughout an organizational field without much negotiation among adopters. The use of “competing logics” imagery to describe this process is common (Scott et al. 2000; Thornton 2004). In competing logics scenarios, there are dominant and challenger logics in a field, as well as dominant actors who embrace the former and challengers who champion the latter (McAdam and Scott 2005). Dominants set the rules of the game in the field, and challengers seek to change those rules by replacing dominant principles and actions with their own logics. There is no explicit mechanism for organizational actors to express voice (Hirschman 1970) within a logic under this view, however. Actors either accept the dominant logic or embrace a challenger logic. This work often falls victim to overemphasizing isomorphism over conflict, particularly isomorphic forces driven by legitimacy concerns (Mizruchi and Fein 1999).

This critique of logics has been most forcefully articulated in Michael Lounsbury’s work on recycling logics and the mutual fund industry in the United States (Lounsbury et al. 2003; Lounsbury 2005). Lounsbury and his colleagues examined how a technocratic logic of recycling, based on for-profit market principles, came to dominate a more holistic, community-based logic of recycling without fully replacing it. Their work stresses the importance of framing activities among institutional entrepreneurs in the emerging recycling industry and emphasizes the process of logic creation and

institutional change rather than treating them as end states. Unlike the conventional use of the logic concept, framing is treated as “endogenous to a field of actors and is subject to challenge and modification” (Lounsbury et al. 2003: 72). Lounsbury argues that institutional scholars need to pay greater attention to fragmentation and contestation within organizational fields. He suggests that institutional diffusion cannot be understood without attending to “processes of practice that spawn and are influenced by the heterogeneity of actors and activities that underlie apparent conformity” (Lounsbury 2007: 289). His follow-up study on competing logics in the mutual fund industry also found that organizations maintained different logics between Boston and New York due to different local business cultures in the two cities.

Many logic studies make sweeping theoretical assumptions about the character and composition of actors who enact logics, suggesting that logics “provide individuals and organizations with a set of rules and conventions that provide meaning and proscribe certain actions” (Thornton and Ocasio 2008: 114). For them, logics also encompass organizational identity and prescribe specific actions based on that identity. For example, Thornton et al (2005) argue that when accounting was viewed as a profession under the fiduciary logic, organizations only engaged in activities related to standardizing and authenticating client financial statements. Under the corporate logic, by contrast, accounting was viewed as an industry and organizations focused on selling services and conducting mergers and acquisitions. There is an implicit assumption in these studies that the identity of actors and their actions under a single logic are tightly coupled, an assumption I challenge.

### *Social Movement Framing*

Differences in the form and membership of challenger logics has received relatively little attention by organizational scholars. These differences may have important effects on the strength of the offense challengers can mount to a dominant institutional logic, though.

What do field actors do when the challenger logic does not fully “constitute the social identity of actors” enacting the logic (Rao et al. 2003: 797), especially given that “identity creates a set of expectations about appropriate behavior” (King et al. 2010: 295)? Organizational and social movement research offer several possible outcomes to this scenario. One possible result is that a hybrid logic will emerge (Meyer and Hammerschmid 2006). Hybrids contain elements of two or more logics but allow actors to see the logic as a both/and proposition rather than forcing them to negotiate over which frame and attached logic will be enacted in the field. Glynn and Lounsbury’s (2005) study of a hybrid market/aesthetic logic among symphony reviewers, for example, showed how symphony reviewers came to incorporate references to both the market (e.g. ticket sales) and aesthetics (e.g. performance quality) in their written reviews. These reviewers did not negotiate with one another about what type of references they would make, nor were their dual references viewed as contradictory to their role as reviewers.

In cases where there is conflict among players in an organizational field, though, logic frames must be negotiated. Benford and Snow (2000) refer to this framing process as the “meaning work” in social movements. If challengers are not able to reconcile ideological differences and maintain a consistent challenger frame – or collective meaning – they

will be unable to mount an effective challenge to the dominant logic. This type of stalemate occurred between radical and mainstream anti-nuclear activist organizations in Austin, TX, for example, resulting in the splintering and collapse of the movement (Benford 1993).

A less drastic possibility is that diverse groups of challengers are able to agree on how to define a problem but cannot reach consensus on what is to be done about it. In the case of Lounsbury's (2005) recycling advocates, those embracing the holistic, community-based logic continuously lamented the evolution of recycling into a "market" under the emerging technocratic logic and worked to undermine technocratic proponents of waste-to-energy (WTE) incineration practices by filing lawsuits against them. In this case, two groups of challengers who initially agreed on a common diagnostic frame that trash was a problem could not agree on a common motivational frame for engaging in the issue (profit opportunity versus community-building) or a prognostic frame regarding the most appropriate actions to address the problem (traditional recycling versus incineration). None of the outcomes listed above consider how diverse organizations might be able to reconcile their identity differences and *maintain* a consistent challenger logic without splintering. Although similarities between the concept of logics in the organizational literature and framing in social movement research have been noted (McAdam and Scott 2005), frames are generally conceptualized as less enduring than logics, more contentious, and subject to greater manipulation "as a direct or indirect result of political action" (Lounsbury et al. 2003: 76). If logics are stickier than frames (Rao and Giorgi 2006; Thornton and Ocasio 2008), then challengers who hope to mount a credible offense

against dominants in a field must find a way to maintain their logic's stability. Rather than reflecting a "truce following from past struggles," (Meyer and Hammerschmid 2006: 1002), I argue challenger logics with diverse supporters must be continuously negotiated through logic work. The study shows it is possible for organizations with different prognostic frames to mitigate their conflicts over strategy by using identity as a tool kit. I now turn attention to this crucial element of logic work.

### ***Identity as Tool Kit***

Logic negotiation and maintenance is made possible for organizational actors when they use identity as a tool kit (Swidler 1986) to manage contradictory motivations for action. According to Swidler, culture is a toolkit of "symbols, stories, rituals and world-views" that actors combine "in varying configurations to solve problems (273). I suggest that identity is an important tool in this box. When an organization views other logic participants' actions as inappropriate or too radical, it can distance itself from them by drawing on oppositional identities of its allies to explain away their behavior to relevant audiences. As the data in this study shows, for example, traditional investors reference the religious identity of faith-based investors instead of their fiduciary identity when disagreeing with their actions. Rather than weakening the logic or splitting the challengers, though, the strategic use of identity claims enables them to maintain the logic's stability. It provides organizations with a way to rationalize problematic behavior by other challengers without having to attack them in an overtly hostile manner or abandon the sustainability logic altogether. As the following sections discuss, potential schisms in the logic are explained away as "identity differences," and the consensus

frame around climate risk remains intact.

While research on the intersection of identity, framing, and logics has made important inroads recently, the majority of this work focuses on individuals and their identities as chefs (Rao et al. 2003), LGBT employees (Creed et al. 2002), and ranchers (Weber et al. 2008) rather than organizations that possess multiple or multi-vocal identities. Also, none of these studies focus on negotiation among actors regarding what frames to use or how identity conflicts are reconciled under such a logic. Whereas the studies cited above focus on “identity movements” in which identity isomorphism among actors occurs prior to the study or is completed by the end of the study’s time period, the focus here is on how challengers use their organizational identities as *resources* to mitigate ongoing internal conflict in their battle with a dominant societal logic (i.e. the market logic).

The work cited above also places emphasis on how collective identity projects are crucial to building and maintaining challenger logics. Both Creed et al (2002) and Weber et al’s (2008) research on LGBT employees and grass-fed beef proponents suggest that the social identities of the actors are in part the product of the frames used by institutional entrepreneurs. When organizational actors are unwilling or unable to shift their identities through framing, however, challengers must engage in logic work to negotiate their differences. As the terminology implies, logic work is not effortless for organizations. Social movement theorists correctly point out that “it is easier to recruit from groups with similar values and ideologies than from groups with conflicting values and ideologies” (Zald 2000: 6). Institutional entrepreneurs are crucial to recruiting new challengers and

convincing the new and old guard to engage in logic work (Rao and Giorgi 2006), but challengers themselves ultimately have to do the work. Whether challenger logics that require a lot of work are stronger contenders against dominant logics than those with homogenous challengers is unclear. By understanding how the logic work process functions, though, researchers can get closer to determining the conditions under which challenger logics will require work and whether they are more or less successful in competing logics scenarios.

## **DATA AND METHODS**

### *Setting*

In the introductory chapter to their edited volume on organizational and social movement research, McAdam and Scott (2005) propose a common analytical framework for researchers working at the intersection of organizations and movements. This framework includes using the organizational field as the unit of analysis, accounting for dominant and challenger actors, the governance units in operation, the wider social environment, and the institutional logics within the field. I follow this guide to describe the empirical setting for my study.

For the study, I focus my attention on the investment field. The field consists of institutional investors, financial services firms, investment research firms, securities analysts, professional associations, and publicly traded U.S. firms. Similar to organizational research that focuses on a specific issue to understand organizational behavior (Dutton and Dukerich 1991; Hoffman and Ventresca 1999; Suddaby and

Greenwood 2005), I am interested in how organizations handle the issue of climate change in an investment context. Contestation over strategies to address climate change – and business sustainability more generally – has been incredibly robust over the last two decades. With the absence of federal government regulation of greenhouse gas (GHG) emissions in the United States, shareholders and NGOs largely turned to “private politics” (Baron 2003) to influence firm behavior on climate change. Private politics is defined as “situations of conflict and their resolution without reliance on law or government” (Baron 2003: 31). In this study, it involves investors working within the corporate governance system to engage firms through shareholder activism and the shareholder dialogue process.

My analysis focuses on the “field segment” (Washington and Ventresca 2004) of institutional investors engaged in climate change shareholder activism. As I discuss below, these challengers embrace a sustainability logic of investing that encompasses a belief that there are business risks and opportunities from climate change. Shareholder activism on climate change typically involves filing proxy resolutions with firms asking them to disclose their risks from climate change through sustainability reports. More recently, shareholders have also requested voluntary GHG reduction targets from firms. Any shareholder holding at least \$2,000 of stock for one year in a publicly traded U.S. company has the legal right to file a shareholder resolution with that firm. Shareholder resolutions are non-binding advisory proposals asking the company to take a given action (e.g. separate C.E.O. and chairman roles, report on GHG emissions). The shareholder activities surrounding climate change and corporate behavior highlight competing logics

about investment and the materiality of environmental issues to corporate performance. In the case of corporate governance, an issue is “material” if knowledge about it would likely impact investment or proxy voting decisions by shareholders. Challengers argue climate change is a material risk for firms, which requires managers to report these risks to shareholders in their annual reports under U.S. Securities and Exchange Commission (SEC) rules

The setting is ideal to study logic work given the diverse organizational identities of investors involved: public pension funds, state treasurers, comptrollers, religious and labor pension funds, socially responsible investment (SRI) firms, and foundations. These organizations all operate as fiduciaries, but despite their role similarity, they draw their missions and motivations for shareholder activism from different societal institutions (e.g. religion, the state, market, democracy). Two umbrella organizations coordinate institutional investor action on climate change, the Interfaith Center on Corporate Responsibility (ICCR) and the non-governmental organization Ceres’ Investor Network on Climate Risk (INCR). These organizations and their institutional investor members interact frequently through meetings, conference calls, and shareholder dialogue with firms. ICCR is a coalition organization of 275 faith-based institutional investors, including denominations, religious communities, pension funds, healthcare corporations, foundations, asset management companies, colleges, and dioceses. ICCR was founded in 1971 by a group of predominately Protestant church denominations to promote divestment from companies who had economic ties to South Africa during apartheid. The organization’s members collectively manage over \$100 billion in assets.

INCR is a network of institutional investors that considers financial risks and opportunities related to climate change. INCR members include public pension funds, state treasurers, foundations, faith investors, unions, and socially responsible investment (SRI) firms. While ICCR is an INCR member, most INCR public pension funds and foundations are not affiliate members of ICCR. Unions and SRI firms tend to be members of both organizations. The public pension fund members of INCR come from states with varying levels of political interest in climate change. Pension funds with long histories of shareholder activism (e.g. the California Employees Retirement System (CalPERS) and New York City pension funds) are INCR members, but so too are fiduciaries in states such as Florida, Illinois, Kentucky, New Jersey, Michigan, North Carolina, Maine, Ohio, Oregon, Pennsylvania, Vermont, and Washington. INCR member organizations currently manage nearly \$10 trillion in assets, which represents over a quarter of all institutional investor assets in the United States (Conference Board 2008).

Given the differences in size and type of challenger investors (discussed below), one may question whether they represent a truly distinct field segment in the investment industry. It is important to note that despite their differences, the actions *all* challenger investors take on climate change fall outside the norm of mainstream investor activity, particularly compared to mainstream mutual funds. Mutual funds almost never vote in favor of climate resolutions (Cogan 2006) despite an increasing number of abstentions on those resolutions in recent years (Baue and Cook 2008).

The institutional investors that belong to ICCR and INCR collaborate with one another on an ongoing basis. Shareholders can only file one resolution at a firm on the same topic each year, so shareholders interested in climate change have to communicate with one another to ensure they are not duplicating resolutions and that the resolution ultimately filed is the one best positioned to withstand scrutiny by the SEC if challenged by the firm. The investors meet frequently at conferences and coordinate resolution filing through regular conference calls. Collaboration also occurs when one investor seeks out other investors who own shares in a company and asks them to write a letter of support or file a resolution at that firm. In other cases, small investors, Ceres, or ICCR will do background research on firms and then ask for support from large pension funds.

### ***Field Logics***

Before proceeding, it is also necessary to sketch out the dominant and challenger logics in the investment field. There are three identifiable logics in the field: the market logic and two challenger logics I label the social responsibility and sustainability logics. The dominant *market logic* has existed since the 1970's, emerging with the rise of agency theory and the shareholder conception of value (Fama and Jensen 1983; Jensen and Meckling 1976). It operates under the assumption that environmental and social governance issues do not have a material impact on firm performance. This logic is also consistent with neo-classical economic theory (Zajac and Westphal 2004; Khurana 2007). The market logic suggests that institutional investors should exercise the "Wall Street Rule" and exit (Hirschman 1970) if they are unhappy with management actions. Under this logic, investor organizations that adhere to the market logic will almost always vote

no with management on social and environmental shareholder resolutions.

Under the market logic, investment decisions are value-neutral and market interventions based on beliefs influenced by the state, religion, or family are said to cause economic distortions. Increasing shareholder value is the exclusive goal of actors under this logic. Lydenberg (2007) labels these investors “rational actors” and notes that they are the norm in the current investment environment. Whether firms view climate change as a material financial concern will likely shift if the United States enacts federal climate legislation, but at the time of my data collection, the market logic remained dominant.

The challenger logic that has historically battled the market logic is the *social responsibility logic*. It emphasizes firms’ social responsibility to external stakeholders over profit maximization. The goal of this logic is to create social change through investing, and it draws heavily in motivation from the institutions of religion and democracy, with a particular emphasis on social justice and morality. The responsibility logic emerged out of the South Africa divestment movement in the early 1970’s. The social responsibility logic is closely associated with socially responsible investing (SRI), which has been historically defined as “the incorporation of the investor’s social or ethical criteria in the investment decision-making process” (Kinder 2005: 4). The types of organizations most closely associated with the responsibility logic include faith-based investors (e.g. church denominations and orders of Catholic nuns) as well as a few high net-wealth individuals and social activists.

Finally, the *sustainability logic* is a relatively new logic of investing. As noted in the introduction, it captures the belief that there are financial risks and opportunities related to climate change in the market, and both firms and investors have a duty to incorporate these considerations into their investment and operational strategies. It emerged in the late 1990's as more mainstream investors began paying attention to financial risks around environmental and social governance (Kinder 2005). The entry of large public pension funds into shareholder engagement on corporate governance issues in the late 1990's – and the founding of the Investor Network on Climate Risk (INCR) in 2003 – increased the number of investor organizations espousing the sustainability logic. This logic largely replaced the social responsibility logic among all investors on climate change issues. By 2005, the World Economic Forum (WEF) went so far as to drop the word “social” from its definition of responsible investing. The new definition stated that “responsible investing is most commonly understood to mean investing in a manner that takes into account the impact of investments on wider society and the natural environment, both today and in the future” (quoted in Kinder 2005: 34).

This new definition highlights some of the ambiguity present in the sustainability logic. The logic encompasses the idea that environmental and social governance issues have financial implications for companies over a long-term time horizon. Under this logic, challengers argue that firms face physical, regulatory, legal, and reputational risks from climate change (Ceres 2007) as well as investment opportunities. These opportunities include investing in clean technology and companies that are forward-thinking on climate change impacts. Moral and social motivations are not used to legitimate the sustainability

logic, and purposely so. However, the sustainability logic has drawn many supporters from the social responsibility logic (e.g. religious investors), which has necessitated negotiation among the “old guard” and “new guard” on responsible investing. This negotiation is the focus of the remainder of the article. Contrary to the idea that “proponents of losing frames can exit, migrate, or convert to the ascendant frame” (Rao 1998: 912), I find that the “old guard’s” multi-vocality enables them to embrace the sustainability logic while still using strategies of action learned under the SRI logic.

### ***Methods***

The study is based on four months of participant-observation at a leading challenger organization in New York City – the Interfaith Center on Corporate Responsibility (ICCR) – and thirty-two semi-structured interviews with professionals representing organizations in the investment field. During the fieldwork period from September to December 2007, I shadowed ICCR’s Program Director on Energy and Environment on all of the organization’s climate-related shareholder activities and was given full access to the organization’s work activities on climate change issues. I was permitted to sit in on conference calls between investor organizations related to climate change strategic planning, shareholder dialogues with firms and investors, conference sessions on climate change and investing, and staff meetings.

My duties also included doing background research on upcoming shareholder resolutions and climate-related issues of interest to ICCR member organizations. This permitted me to interact at regular intervals with religious investor organizations affiliated with ICCR

and ask informal questions about collaboration among investors, ICCR, and Ceres. Finally, I held weekly meetings with the Energy and Environment Program Director. During these interactions, I was able to inquire about collaboration benefits and challenges, upcoming climate issues, progress on shareholder campaigns, and organizational dynamics driving investor strategies. These interactions enabled me to test and clarify my own observations against my informants' understanding of events.

In addition to my participant-observation, I conducted thirty-two semi-structured interviews with investment professionals over a ten-month period from May 2007 to February 2008. Eighteen of the informants interviewed represent institutional investor organizations, including: public pension funds, state treasurers and comptroller offices, faith investors, unions, and foundations. The informants are all experts on their organization's proxy voting policies, and most serve in the roles of corporate governance officers, deputy treasurers, or shareholder engagement directors. All of the organizations except four are participants in climate change investor activity. The minimum level of participation is defined as being an INCR member, which does not require any formal commitment but signals support for greater investor attention to climate risk. I also interviewed four additional corporate governance analysts at public pension and religious funds that do not engage in shareholder activism on climate change.

I used theoretical sampling (Charmaz 2006) to maximize the variation among the organizations I selected based on size, identity, and length of time participating in shareholder engagement. Three organizations managed over \$100 billion in assets, eleven

managed between \$1 and \$100 billion, and four managed less than \$1 billion. Within the faith-based and public pension fund categories, I interviewed a mix of small and large investors. I also interviewed three employees at ICCR and five employees at Ceres who manage climate change shareholder engagement. The interview data was coded using the qualitative software HyperRESEARCH 2.8. Coding categories were developed around the concepts of motivation for getting involved, collaboration with other investors, stance toward firms, and engagement strategies with firms. After identifying identity and framing as key constructs in the data, I moved back and forth between the data and the social movement and organizational literature to piece together how the two concepts enabled investors to maintain the sustainability logic (Glaser and Strauss 1967).

## **FINDINGS**

### ***Political Opportunity***

The catalysts behind new ideas in organizational fields are frequently institutional entrepreneurs (Fligstein 1997; Rao and Giorgi 2006) or elite cultural brokers (Weber et al. 2008) who recognize political opportunities (McCarthy and Zald 1977) to promote alternatives to dominant ideas and practices. If they recruit enough supporters, these alternatives can become challenger logics in organizational fields. Similar to the elite French chefs who were inspired by the social unrest of May 1968 to break with classical cuisine and articulate a nouvelle alternative (Rao et al. 2003), institutional entrepreneurs in the investment field were able to capitalize on several societal punctuating events (Baumgartner and Jones 1993) to create a sustainability logic of investing. Following the Exxon Valdez spill in 1989, a group of investors formed the nonprofit organization Ceres

and began working on business sustainability issues through corporate engagement with U.S. firms. These early efforts involved engaging with companies and encouraging them to adopt environmental principles (Hoffman 1996). Throughout the 1990's, Ceres continued engagement with companies while ICCR members filed shareholder resolutions on climate change. The two organizations have consistently collaborated with one another, and several ICCR members have served on the Ceres Board of Directors. One of ICCR's top environmental staff members left to work at Ceres in 1999 to further support the Ceres' environmental engagement with firms as well.

In early 2001, the Ceres' Board of Directors decided that climate change would become the organization's top priority and agreed that framing climate change as a business risk was likely to attract greater numbers of larger, more traditional institutional investors. Their goal was to move away from the SRI logic of investing that stressed moral and social obligations of firms and toward a sustainability logic that stressed the business risks firms faced by neglecting climate-related issues. As one Ceres staff member put it,

“We realized that a mainstream coalition was needed, not just religious investors and socially responsible investors that you might expect would be concerned about a social issue. And so, yeah, the idea was to take it out of the social box, which was where investors had put climate change, and put it in the economic or financial categories that they thought were mainstream.”

Ceres staff engaged in what social movement theorists call frame transformation, or “changing old understandings and meanings and generating new ones” (Benford and Snow 2000: 625). Ironically, the Enron scandal – and the subsequent loss of confidence in the American corporate governance system – occurred a few months after Ceres decided to adopt a risk and opportunity frame for climate change. Staff members at Ceres

attribute the collapse of Enron as opening up a political opportunity (McAdam 1996) for establishing and attracting more investors to the new sustainability logic. Following Enron, Ceres decided that “the linkage to the corporate governance movement was critical” (Ceres staff member). The organization produced its first climate risk report in 2002, in which they argued that corporate boards that do not force management to assess the firm’s financial risks to climate change are failing in their duty to inform investors of their exposure to material risks.

Ceres continued to articulate this new frame around climate risk. In January 2003, Ceres partnered with the Rockefeller Brothers Fund and invited a number of public pension funds that had previously showed interest in climate change to a consultation meeting on corporate governance and sustainability at the Rockefeller Pocantico Convention Center in New York. During the meeting, Ceres was able to test the frame resonance of climate risk to see whether it was credible and salient to potential participant investors (Snow and Benford 1988). The feedback Ceres received was favorable, and in the fall of 2003, Ceres partnered with the United Nations to host the first annual Investor Summit on Climate Risk at the United Nations. At this meeting, the Investor Network on Climate Risk (INCR) was established by ten institutional investors representing over \$600 billion in assets. Today, INCR’s member investors number over 90 and represent nearly \$10 trillion in assets.

Although not discussed in detail here, a number of other punctuating events also provided opportunities for sustainability logic entrepreneurs. ICCR’s Executive Director pointed to

Swiss Re's analysis of climate change as an insurance risk as a significant turning point in the investment community. Other notable events include the destruction of Hurricane Katrina in New Orleans in 2005, the release of Al Gore's documentary *An Inconvenient Truth*, and the publication of the British Treasury's *Stern Review on the Economics of Climate Change* the same year. As one ICCR staff member noted, these events helped investors see it is better "to act now because it will cost you less in the future."

### ***Logic Framing***

When building INCR, Ceres staff consciously decided to deemphasize social motivations for addressing climate change in investment portfolios. The social and moral frames under the responsibility logic of investing were replaced with a business risk frame on climate change. Reflecting on the social/moral origins of shareholder activism on climate change, a Ceres staff member said:

"We flipped it around, That was the crucial thing...ten years ago, twenty years ago, [institutional investors] would've said my fiduciary duty prevents me from addressing this. So now it's my fiduciary duty requires me to address it" (Ceres staff member).

Traditionally, fiduciary duty implies that trustees must eschew any concerns over broad stakeholder issues. Fiduciaries are bound to a duty of loyalty and cannot address issues without demonstrating the financial implications for their beneficiaries. The diagnostic framing used by institutional entrepreneurs promoting the sustainability logic is a good example of *logic appropriation*, where outsiders exploit a pre-existing logic in the societal system (Rao and Giorgi 2006) to challenge the dominant logic. In this case, challengers appropriated well-established codes of fiduciary duty, risk exposure, and long-term financial performance from the investment field to create a new sustainability

logic of investing. This frame was well-accepted by mobilized public pension funds that had little prior experience with climate change issues or shareholder activism more generally. It was also quickly and easily adopted by SRI mutual funds that were very comfortable with the language of finance.

According to Rao and Giorgi (2006), logic appropriation downplays conflict and controversy in order to make challenger demands appear more mainstream and rational to insiders. Ceres was correct in their belief that mainstream institutional investors prioritize returns and governance issues first and explicitly reject the idea that they are socially motivated or “social investors.” This colorful quote from a long-time public pension fund CEO illustrates these dual principles for deciding whether to get involved in climate change investor activities:

“And back to climate risk, you know, the issue for us...we have to square that with the fiduciary duty, and the notion is, ok we're polluting the atmosphere, what does that mean to our portfolio...we're not statutorily or fiducially charged with saving the earth.”

As Whetten (2006) notes, these types of "identity-based arguments are characterized by an imperative tone, associated with commonly understood categorical standards, and put forth as truth claims, on a par with moral obligations" (224). But although fiduciary duty was initially a barrier to recruiting investors to the sustainability logic, the new framing began attracting new mainstream investors interested in staying ahead of investment trends. While traditional fiduciaries may not be completely sure about the magnitude of climate risk, many desire to stay on top of new investment issues regardless of their

connection to environmental issues. A public fund manager whose organization had only recently considered climate risk put it this way:

“So you always are saying, ok, is this real? Because there is a history of weather that we don't really understand. But you have to pay attention. You...cannot not pay attention because of the risk. The risk associated with it is that you're going to miss something that's right in front of you, and isn't that what trends are anyway? At what point do you pay attention to a trend?”

In order to successfully accomplish the reframing of climate change as a business risk issue, though, new and old participants in investor activism on climate change had to achieve consensus on a diagnostic frame for the sustainability logic. Early and late adopters of organizational practices often have very different motivations for action (Tolbert and Zucker 1983), and this was especially true among investors and entrepreneurs addressing climate change in the investment field. Prior to the establishment of INCR in 2003, almost all shareholder activism on climate change was led by religious investors through ICCR. Although ICCR members are all institutional investors, the organization is motivated by social change in addition to financial goals, as evidenced in its mission statement: “Through the lens of faith, ICCR builds a more just and sustainable world by integrating social values into corporate and investor actions” ([www.iccr.org](http://www.iccr.org)). While ICCR and Ceres were coordinating with one another on climate change issues as early as the late 1990's, ICCR members' standing as investors allowed them to file resolutions at firms, something Ceres could not do as a nonprofit organization.

One public pension fund in the Northeast that was an early mover on climate change referred to ICCR as their “aunts and uncles” in the shareholder activism space, since

ICCR has been filing social and environmental resolutions with companies since the 1970's. A consequence of this institutional history was that ICCR members had to decide whether they were comfortable with a more explicitly financial framing of climate change despite their social motivations. The religious investors I interviewed all emphasized social responsibility as a primary driver for their organization's work. As one shareholder activist nun put it:

“I would say that one of things that probably is extremely important is that this earth has been given to us by our God, and we need to do all that we can to protect it and make sure that it is passed on to future generations so that they have the same blessings that we've enjoyed...the other thing would be our concern for people and the fact that so many of the environmental issues also impact the lives of people as far as health problems are concerned...” (Sister Ruth).

Religious investors have largely moved away from using moral or social justice language in their engagements with firms on climate change, however. In this way, diagnostic frame consensus has been reached between faith investors and more recent entrants to climate change investment issues. Despite their use of financial language, though, the moral and social motivations under-girding religious investors' activism have not disappeared, nor are they invisible to other investors and firms. Although most Catholic nuns no longer wear habits, for example, their faith identity remains salient and resonant (Baron 2004) to companies and other investors by how they are addressed (i.e. as “Sister”) and the denominations they represent.

Sister Patricia Daly, one of the most well-known shareholder activists on climate change, speaks frankly about how balancing moral and financial risk frames works among faith investors. While she acknowledges that her organization has a stake in the financial

performance of companies because part of their retirement money is invested in them, she freely admits, “In any conversation with a company...it’s clear that I’m there because of a faith commitment” (quoted in Slater 2007). Despite using financial language, religious investors’ moral and social foundations remain salient to targeted companies (Baron 2004). Unlike public pension funds or mutual funds, they are always viewed as both investors/fiduciaries *and* faith-based stakeholders in their work.

Religious investors acknowledge that a tension exists between their desire to be taken seriously by companies and their desire to stay true to their moral motivations for getting involved in issues. Sister Pat addressed this tension explicitly during Exxon’s 2007 annual meeting. Having filed climate resolutions at Exxon for decades - with a focus on the financial risks facing the firm if it ignores the issue - Sister Pat was advised to call upon her faith identity more explicitly:

“There was a gentleman, a retired man, who followed me out of the Exxon Mobil meeting last year. He said, ‘You know, Sister, I’ve been listening to you for a long time. We get the science, and we get the investment piece. You should be talking about their moral responsibility...I lost sleep over that comment,’” she continued. “I mean, I’m an investor. I know I get play because I’m this nun, and there’s a lot of intrigue around that, but I’m no more interesting and far less qualified than a lot of other people I work with. And you know, I don’t play the God card. But basically, he was saying, ‘You should play the God card’” (quoted in Slater, August 12, 2007).

Faith investors worry that using moral and social language with companies on climate change is potentially damaging to their legitimacy, though. ICCR’s Executive Director believes that requests for faith investors to “play the God card” are, in her view, “an interesting ploy used by the powerful to manipulate the people whose power they actually

don't respect." She thinks calls for moral argumentation are often disingenuous and meant to weaken faith investors' arguments. To her, it's like saying:

"Gee, if you people were really so religious you would use your faith more often and stop trying to create these materiality arguments. I think that's utter poppy-cock. It's like the interdependence argument, you know, if we can make the materiality argument then let's do it. Let's use everything in our toolbox. Because at the end of the day, I think we're on the side of justice and sustainability for heaven's sake. And so whatever tools we've got, let's use them and let's not be uncomfortable or say that one is a better tool than the other, let's just use the tools in appropriate ways, you know."

For religious investors then, the sustainability logic's frame of climate risk is expedient and sufficient – if not necessary – for their dialogues with firms and other investors. Faith investors know their religious identity can threaten the legitimacy of their actions and that they are able to garner greater support by making a traditional investment case for climate risk. Hence, they accept financial language as the default vocabulary in the sustainability logic because it permits them to engage with companies from a more powerful position as investors.

The perception of religious investors working on climate change has also changed among traditional investors since the sustainability frame emerged. While religious shareholder activists were historically viewed as gadflies among firms and their fiduciary peers (Talner 1983), their actions have been reinterpreted as complementary to traditional notions of fiduciary duty over the past two decades. The framing of climate change as a business risk is palatable to investors new to shareholder activism. Discussing this perception transition, a senior manager at a public pension fund in the Midwest noted

how religious investors gained credibility from their presence on corporate governance issues:

“I remember in 1995, the whole proxy voting issues amounted to crazy nuns showing up at shareholder meetings, raising hell, and everybody pointing at the crazy nuns. And frankly proxy voting was left to the kooks...then the market turns over and a lot of investors, institutional investors, pension fund trustees, all of a sudden realized that that's right. They're losing their shirts here in 2001, 2002 - and you realized that all these concerns about corporate governance, about corporate greed, about out of control boards, about insider trading, about related party transactions, about conflicted auditors, there's a materiality to it.”

One additional advantage to of the sustainability logic over the socially responsible logic is that the sustainability logic draws on the common professional identity of all investors in the field. Rather than drawing on their social identities, the challenger organizations can draw on their professional investor identities to frame climate change as a business risk. The first obstacle any institutional entrepreneurs faces is recruiting enough allies to mount an effective challenge to the dominant logic in a field. Drawing on the common professional identity of investors – and the frames and codes associated with that identity – was how institutional entrepreneurs recruited a critical mass of investors to their challenger sustainability logic.

The sustainability logic frame is not radical in the sense that it does not question the legitimacy of the capitalist system or the right of firms to do business, but tailoring a frame to fit within a dominant institution (e.g. the capitalist market) is a common technique used by institutional entrepreneurs to gain legitimacy (Rao and Giorgi 2006). In Scully and Creed's (2005) research on LGBT employees seeking equal opportunity in the workplace, for example, employees employed a “good for business” frame rather than

focusing solely on a civil rights frame. The authors note that this strategy can be quite effective in making the challenger claims appear more legitimate but acknowledge that such framing techniques also “put limits on how strongly activists can state a social justice agenda and how far they can push for radical change” (Scully and Creed 2005: 321). Drawing on an insider identity and not making explicit social goals beyond financial gains carries the risk of co-optation. The next section turns attention to how religious investors use organizational identity as a tool to avoid this fate and how their more mainstream counterparts used identity distancing techniques when they cannot endorse specific actions taken by religious investors.

### ***Logic Maintenance (Identity as Tool Kit)***

I now examine how traditional and religious investors use their organizational identities as tools (Swidler 1986) to maintain the sustainability logic of investing when conflict over strategies occur. Each uses identity differently. Whereas religious investors take advantage of their multi-vocal identities when they need to justify taking more aggressive actions against firms than traditional investors will take, traditional investors engage in identity distancing discourse when they view religious or labor investors as “going too far” in their shareholder activism tactics.

While a large part of logic work involves finding the sufficient rather than necessary frame for recruiting and retaining participants, actors must also stay vigilant in order to avoid reducing a logic’s frame to a “lowest common denominator” of agreement that does not represent a true challenge to the dominant logic. Challengers like religious and

labor investors – who draw their organizational identities from institutions like religion and democracy as well as the market – are especially attuned to these risks. In a recent study on the institutionalization of sustainability reporting, Etzion and Ferraro (2010) find that advocates of the Global Reporting Initiative (GRI) reporting mechanism moved away from making the analogy between financial reporting and sustainability reporting as the reporting practice matured. Once firms began issuing sustainability reports regularly, activists started emphasizing differences in sustainability and financial reporting to pressure firms to improve the content and accessibility of firm reports to a wider range of stakeholders. They did not want firms to use financial jargon to co-opt the reporting process into a greenwashing ploy.

In the case of the sustainability logic, religious and labor investors guard against firm co-optation by relying on their social rather than investor identities to push companies to take more aggressive sustainability actions. Unlike new investors to the sustainability logic who draw their organizational identity solely from the investment field, these investors are *multi-vocal*, meaning they interact with more diverse groups of organizations and individuals than traditional investors and have more varied templates for action to draw upon when engaging in shareholder activism. Being multi-vocal facilitated religious investors' ability to switch frames more easily from the SRI to sustainability logic, but it also provides them with greater impetus to take more radical actions against firms than traditional investors under the auspices of the sustainability logic.

Drawing on long traditions of social justice protest in the faith community, for example, ICCR's always-present religious identity provides its members with the permission space to file new climate resolutions that challenge the boundaries of acceptability in the eyes of the SEC, proxy research firms, and even other investors. The 2007 proxy resolutions on GHG reduction targets are illustrative of this strategy. Historically, climate resolutions only asked companies to report on their GHG emissions and business risks from climate change. More companies were agreeing to write sustainability reports, but shareholders had not asked firms to set specific GHG reduction targets. In my interviews, many ICCR members recalled that as Ceres and INCR's involvement on climate change deepened over time, ICCR began asking itself, "Do we call it a day on climate risk disclosure?" since so many other investors are working on the issue now (interview with ICCR member). At ICCR's 2006 annual meeting, members reflected on their religious identity and decided ICCR could remain relevant on climate change only by operating as the "prophetic voice" in the investment community. For them, this meant writing new, more demanding resolutions.

In 2007, ICCR members filed new resolutions requesting that companies set voluntary GHG reduction targets. These resolutions were viewed as "an experiment" to see whether ICCR could push the climate change agenda further. ICCR believed that "reduction resolutions would not be filed by big public pension funds" because of their mainstream investor identities (interview with ICCR staff). While ICCR members craft climate change resolutions with a mind to whether public pension funds and proxy research firms will support them, staff members noted that in some cases they disregard anticipated

support if they believe they have an important claim to make. While challengers have reached consensus on the market language they use when invoking the sustainability logic, faith investors are always driven by their religious foundations to challenge the boundaries of logic-appropriate action. ICCR's Executive Director makes explicit these drivers:

“ICCR members are guided by the prophetic voice of faith--and I don't use that expression in italics at all, I sincerely mean that when you look at corporate behavior through eyes that are guided first by notions of justice and sustainability, you see things differently. I'm not saying you see them better or worse, just differently than looking through the lens of mere wealth creation...for example, ICCR investors filed the first resolutions on global warming back in the early 1990s, in the day when major policy wonks still weren't absolutely convinced that climate change was happening.”

By filing more demanding climate resolutions, faith investors aimed to push the sustainability logic's boundary of acceptable action while still using the frame of financial risk. This strategy aimed to expand the repertoire of appropriate action under the sustainability logic, and it worked. A Ceres staff member acknowledged religious investors' efficacy by saying:

“[Faith investors] are often pushing the edges of what will be supported by proxy advisers and what can be, you know, an economic argument. But this past year they didn't push so far that it was out of bounds. So setting targets, asking companies to set targets, went beyond disclosure. It was unclear whether it was going to get three percent or get kicked out by the SEC or what would happen. And I think they hit the sweet spot with it, where they were able to advance their cause and also get major, heavy, big support.”

The support they received included yes votes from other large institutional investors and yes vote recommendations from some of the proxy research firms. Public pension funds with previous experience in shareholder activism also supported the resolutions, as they themselves experiment with new types of resolutions and send representatives to speak at

annual meetings. For some of the more traditional institutional investors, the new resolutions posed a greater challenge, however. At the time, some viewed filing resolutions and speaking at annual meetings as less important than taking more incremental and internal actions, such as updating their funds' proxy voting guidelines on climate risk. Some noted they are voting for more resolutions than in the past, but several used identity distancing discourse to disassociate themselves from seemingly more radical institutional investors even though they vote in favor of many of their resolutions. Despite having new proxy voting guidelines in place on climate change, one pension fund manager emphasized that they "are not a CalPERS or Connecticut" (interview with corporate governance analyst) and do not view themselves as similar to even other public pension funds that have longer histories of shareholder activism.

Kraatz and Block (2008) suggest that "changes may be more readily accepted when they are framed in a way that allows people to conserve their own sense of personal and organizational identity" (42), or what they label "identity conservation." When traditional investors feel threatened by their association with more activist investors, they take pains to draw on their identity to distance themselves from ICCR investors. They are intent to avoid confusing their organizations' fiduciary identities with the moral and social motivations of religious investors. One manager at a foundation active on climate change issues was quick to point out that their organization views itself as a "responsible investor" but not a "socially responsible investor." The following quote from a corporate governance director at a public pension fund in a state in the Southeast is also illustrative of how identity is employed as a distancing tool:

“Our fund is fairly conservative and we are doing very well. We are consistently [top] ranked in the country in funding status. And so what we do is all based on the bottom line, honestly. It's long-term profitability, long-term sustainability, and a conservative approach to make sure our retirees are always well-funded. What we see are people who look at it from the social side and want us to do more, so we kind of have to explain that really we are not social investors. We will never be social investors.”

As a result of these concerns about seeming socially or morally motivated, some of the traditional investors initially withheld their support for the 2007 reduction resolutions. A corporate governance officer at another public pension fund in the Southeast said their organization will not support resolutions that ask companies to “reduce emissions by, you know, exactly fifteen percent in the next two years... [because] we're not in the business of telling companies how to run their business.” Implied in this statement, and confirmed in a follow-up question to the informant, is a desire to distinguish the public pension fund's climate activism as purely financially motivated compared to religious investors who this informant believes have additional social motivations for tackling the issue. Despite their inability to support certain actions taken by one another, though, traditional and religious investors' stance toward one another is not hostile. It more closely resembles the push and pull among autonomous allies, evidenced by this quote from a corporate governance officer at a mid-size public pension fund:

“If it's something where we're they're looking at it from a different angle that we can't support them, then we won't support it and we won't work with them on it. But for the most part, we use the same kind of techniques and the shareholder proposals are still going to be very similar. So yeah, we're able to work together very well.”

Also, challengers who support the sustainability logic but draw their identity from the market rather than religion or democracy do not reject outright increasingly demanding

resolutions drafted by religious investors. Some encourage them to frame climate change in fiduciary terms so they *can* support their actions. During my fieldwork, I saw many instances where mainstream institutional investors offered behind-the-scenes suggestions to religious and social investors about how to adjust resolution language so they could support them. As a newly hired corporate analyst at a traditional fund noted:

“One thing that I found really interesting once I'd taken on this role is how productive it is to talk to other investors about what types of things we can support and what we can't, and sometimes how nuanced it is, and about how much interpretation can come in. For example, we won't support a resolution that we see as overly prescriptive to the Board or management. Sometimes they're very happy to use language that fits more with our approach if it means we're going to support it. It doesn't actually change the drive or the content. But it slightly changes the style of the approach, which can affect how people read it...”

Alternatively, if shareholders are not willing to change the language of the resolutions, traditional investors increasingly abstain on climate resolutions where they agree with the intent of the request but not the language. According to an informant at the largest investor organization I interviewed (almost \$400 billion in assets), their organization uses this tactic frequently to signal to management they need to pay more attention to the issue without overstepping what the organization feels is its responsibility to investors as their fiduciary. Further, the increasing amount of support for voluntary GHG reduction resolutions over time – and decreasing amount of direct investor opposition (evidenced by more abstentions) – suggests that social investors have been able to shift their framing enough to reassure greater numbers of investors that their fiduciary identity will be preserved if they vote for these resolutions (Berridge and Cook 2009). Rather than asking traditional investors to adopt a new identity, religious investors work within the logic's frame of climate risk to test whether they can expand the repertoire of unanimously

accepted strategies of action under the logic.

## **DISCUSSION**

Although empirical research on logics has been mounting since the publication of Friedland and Alford's (1991) seminal work, theorizing efforts regarding the form and membership of logics have been less fruitful. The overwhelming majority of research on logics relies on a conceptualization that fails to account for diverse organizational identities among logic adopters (Thornton and Ocasio 1999, 2008; Thornton 2004; Suddaby and Greenwood 2005). This study represents an initial effort to move away from conceptualizing logics as the end result of ex-ante negotiation. Rather, the idea of *logic work* suggests that organizations must agree upon a diagnostic frame for action and uses their organizational identities as tools to either justify taking more aggressive actions under the guise of the sustainability logic or distance themselves from actors who take more radical action. Following calls to incorporate social movement theory more explicitly into organizational research (Rao, Davis, and Ward 2000; Rao et al. 2003; David, Bloom, and Hillman 2007; Weber et al. 2008), logic work captures the framing and negotiation activities undertaken by challengers to mount their offense against a dominant field logic as well as the maintenance activities they engage in to maintain the logic's stability.

The study analyzes two crucial elements of logic work. The first activity is negotiating a common diagnostic frame (Benford and Snow 2000) to justify why challenger organizations are promoting a new logic and taking action. In the case of institutional

investors who embrace the sustainability logic, the frame chosen is a financial one that all investors can agree upon. Under the “sustainability logic of investing,” investors believe that climate change presents financial risks and opportunities to firms and frame the issues as primarily a financial problem. This framing is adopted by even the most radical of investors who have adopted the “sustainability logic,” namely religious and labor shareholder activists. While this framing does not capture their social and moral motivations for engaging firms on climate change, they find it a sufficient and useful frame to mobilize greater numbers of investors on the issue.

Motivational differences among the investors under the “sustainability logic” must be continuously managed and reconciled to hold the logic together, though. I find that the second and most important element of logic work is the way in which organizations use their own and other investors’ identities as tool kits (Swidler 1986) to either distance themselves or draw nearer to other challenger organizations. Both more radical and traditional investor use identities as tools. In order for identity to be used as a tool, though, at least one set of challenger organizations has to be multi-vocal; that is, possess many ties with diverse parties (Owen-Smith and Powell 2008). Among adherents to the “sustainability logic of investing,” religious investors are the multi-vocal actors who enable the logic to hold together. These investors draw on their social rather than their investor identities to justify taking new, more radical actions under the sustainability logic (i.e. asking firms to set voluntary GHG reduction goals).

When religious and union investors take action that is deemed too radical by more traditional investors, though, the latter also uses identity as a tool to distance themselves from religious investors. This is a tactic used most frequently by public pension funds new to investor activism, in which they emphasize their fiduciary duty to explain why they are not endorsing certain actions by more socially or morally motivated investors. The sustainability logic does not fall apart in these instances, however. Rather, this identity distancing is more of signaling mechanism among the different challenger organizations about whether they are in agreement that a particular action falls within the confines of the sustainability logic. Often, by reframing a new action in financial rather than social terms – as in the case of the new GHG reduction resolutions – religious and union investors are able to expand the actions deemed appropriate under the sustainability logic by all organizations. In cases where agreement is not possible, using identity as tool kit enables the organizations to manage conflict without directly abandoning the logic itself by “explaining away” one another’s behavior as tied to their social or fiduciary identity.

## **CONCLUSION**

As Khurana (2007) has observed, “much less is known about the origins and development of new institutions, institutional logics, forms, and behaviors” (14) than competition between and diffusion of them. This begs the question, “What is the significance of the origins, development and form of new logics for organizational theory?” I suggest that the degree to which challengers are hetero- or homogenous influences the amount of logic work required to create and maintain a challenger logic.

Logics do not appear out of thin air. They are socially constructed cognitive templates for action, and the ways in which they are negotiated and maintained has been previously under-theorized. This study uncovers the framing and identity work necessary to create and maintain a logic when organizations adopting it have diverse motivations and goals. In particular, the study highlights the important role identity plays as a tool to manage conflict among challengers. Managing conflict requires resources and energy on the part of organizations, however, and it is unclear what this work “costs” challengers or how it influences a challenger logic’s probability of replacing a dominant logic in a competing logics scenario.

One fruitful avenue for future research would be to examine whether competing logics outcomes differ when the competition is between a logic embraced by a diverse set of organizations and one with homogenous actors. More specifically, does the effort required by logic work weaken a challenger logic’s ability to overpower dominants in an organizational field? Another interesting direction would be to examine the conditions under which logic work activities like framing and maintenance (i.e. using identity as tool kit) becomes easier or more difficult for challengers over time. Is there a tipping point where framing and/or identity distancing are no longer necessary for organizations under a logic or is negotiation and maintenance necessary until a challenger logic defeats the dominant logic in a field?

Proponents of the institutional logics concept argue that logics are more durable templates for action than collective action frames (Thornton 2004; Thornton and Ocasio

2008), but it does not necessarily follow that negotiation among adopters is absent. While this study challenges the notion that a collective organizational identity is always present within a logic, it still champions the foundational purpose of the logic concept; to conceptually bridge macro and micro processes in organizational theory (Thornton and Ocasio 2008: 105). Parsing out the type and amount of logic work challengers must engage to manage differences among their organizational identities will bring researchers one step closer to understanding how logics remain stable and what features make logics more or less likely to rise to dominance in organizational fields.

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## **Chapter 3**

### **Climate, Cars, and Catholic Nuns: Identity Interactions in Manager-Shareholder Relationships**

#### **INTRODUCTION**

Economic sociologists argue that social ties matter in economic relationships, and a rich literature has examined the effect of patterns of embedded ties on behavior and economic outcomes for both individuals and organizations (Granovetter 1985; Baker 1990; Davis 1991; Mizuchi 1992; Burt 1992; Podolny and Baron 1997; Owen-Smith and Powell 2004). I adopt Zukin and DiMaggio's (1990) broad definition of embeddedness, which they characterize as "the contingent nature of economic action with respect to cognition, culture, social structure, and political institutions" (15). While a wide body of sociological research has explored the ways in which the structure of relations affects economic outcomes, some in the field have voiced a need to move this research agenda in a direction that more fully incorporates cultural and cognitive approaches to embeddedness.

In particular, Krippner (2001) and Krippner and Alvarez (2007) have argued that taking an exclusively structural approach to embeddedness (Granovetter 1985) reinforces rather than weakens the strict separation of the economy and other institutions of social life.

They claim it is important to retain a Polanyian approach to embeddedness that focuses on how the economic and social are mutually constitutive. They criticize harder network approaches for “[stripping] out social content from structural relations, resulting in a conception of the market that is nearly as abstract as the absolutized market of economic theory” (Krippner and Alvarez 2007: 231). While strongly worded, this critique is a good reminder that economic relationships *are* social relationships. It points to opportunities to push the embeddedness concept further with a greater focus on the cultural/cognitive foundations of economic ties.

In a recent review article, Beamish (2007) has also noted the need for greater synthesis of cultural and structural accounts of economic action in economic sociology (although see Zelizer 1994, 2005). Drawing on this observation, I argue that empirical studies of embeddedness must take a closer look at the content of economic ties to understand how the social creates particular outcomes and decisions in economic settings. I propose that examining how organizational identity affects inter-organizational relationships is one way to gain traction in this effort. “Identities situate the organization, group, and person” (Albert, Ashforth, and Dutton 2000: 13), making them a useful vehicle to see how social beliefs about identities and cognitive templates for identity evaluation affect relational ties between actors. Identity is embedded in economic ties, as actors involved in inter-organizational relationships constantly evaluate one another’s behavior (Goffman 1959). Often, they use identity as a measure of whether another organization’s actions are appropriate (March and Olsen 1995). How a focal organization approaches its

relationships to stakeholders is also affected by its own central, enduring, and distinctive identity attributes (Albert and Whetten 1985).

While some definitions of organizational identity emphasize internal identity attributes (Albert and Whetten 1985), others, particularly those associated with organizational ecology, pay more attention to the way in which audiences evaluate and sanction actors for violating social codes associated with their identity (Polos, Hannan, and Carroll 2002; Hsu and Hannan 2005; Hannan, Polos, and Carroll 2007). Rather than being mutually exclusive, I argue both of these conceptualizations are necessary to understand how identity influences relationships between two organizations. I introduce the concept “identity interaction” to reflect the dual ways in which identity evaluation by external audiences and internal identity attributes influence inter-organizational relationships. Identity interactions occur when one organization evaluates the identity of another before deciding whether and how to engage in a relationship with it. This evaluation is contingent, however, on the former’s own cognitive identity orientation (Brickson 2005, 2007) toward stakeholders. As King et al (2010) have argued, an organization is often “driven by a particular identity claim” (296) in interactions with other actors. Thus, the identity interaction concept is comprised of two components that interact with one another in firm-stakeholders negotiations; the stakeholder’s organizational identity and the firm’s identity orientation.

Stakeholder organizational identity refers to the “central, enduring, and distinctive” attributes of an organization (Albert and Whetten 1985). The other component of identity

interactions is the identity orientation of firm, which captures how firms evaluate the legitimacy of stakeholders' social identities and whether they want to negotiate with them. Brickson (2005) defines identity orientation as “the nature of assumed relations between an organization and its stakeholders—are relations independent, dyadically interdependent, or derived from a common group membership?” (577). Under this framework, firms can be placed in three different orientation categories: individualistic, relational, or collectivistic.

Collectivistic firms approach their relationships with all stakeholders in an open and generally welcoming manner, because they view themselves as being part of a larger societal collective. Relational firms, on the other hand, reserve a warm reception to certain types of stakeholders (e.g. employees or clients) to whom they have a deep commitment that goes beyond profit motives alone. Finally, individualistic firms see themselves as set apart from others and are solely focused on the organization's success, so they tend to take a more hostile manner to stakeholders who approach them. While these are ideal-type categorizations of firms, the identity orientation concept helps capture heterogeneity among firm evaluations of stakeholders and corrects for a tendency in organizational ecology theory on identity to assume that all audience members (i.e. firms) evaluate the same stakeholders in the same way (Polos et al. 2002).

The relationship between shareholders and managers in a corporate governance setting provides an ideal site to theorize about how identity interactions influence economic ties. Conflicts over climate change between firms and shareholders are an example of “private

politics,” which encompass “situations of conflict and their resolution without reliance on law or government” (Baron 2003: 31). Since the firm is under no regulatory obligation to mitigate its greenhouse gas (GHG) emissions, these conflicts enable us to see how other influences drive firm responses to climate change requests. Rather than exiting when unsatisfied with management at publicly traded firms, activist investors exercise voice (Hirschman 1970) by filing shareholder resolutions related to corporate governance, social, or environmental issues to signal their disapproval. Under Rule 14-a-8 of the Securities and Exchange Act of 1934, any shareholder owning at least \$2,000 of stock in a company has the right to file an advisory shareholder resolution at publicly-traded U.S. firms. These resolutions typically advise managers on corporate governance issues like CEO pay, social issues like human rights and supplier standards, or environmental issues like sustainability reporting.

By law, a company is required to put resolutions to an advisory vote by all shareholders in its annual proxy statement. However, top managers have discretion regarding whether to also engage in closed-door, behind-the-scenes dialogue with shareholders to try to negotiate a withdrawal agreement. Some firms choose to engage with shareholders, some ignore requests for dialogue completely, and others speak with shareholders but do not agree to negotiate a withdrawal on the issue contained in the resolution. I suggest that identity interactions help us account for heterogeneous evaluation of investors – and differential dialogue outcomes – among U.S. firms.

Regardless of whether a resolution is withdrawn through dialogue or not, the shareholder resolution process requires repeated interactions between firm managers and shareholders. Many resolution proponents file the same or multiple resolutions with firms for many years. This provides a good setting to consider how social identity is embedded in economic relationships between managers and shareholders, a relationship economic sociologists suggest is too often characterized as being instrumental and arms-length in nature (Uzzi 1996). Further, the topics of most shareholder resolutions involve “novel, controversial, consequential strategic choices” (Whetten 2006) for firms, providing a setting where identity-referencing discourse is likely to be observed (Whetten 2006).

The case study focuses on a two-year shareholder dialogue on climate change between Ford Motor Company and a group of small investors. The case seeks to understand how the social identity of the shareholders filing the resolution and the identity orientation of the firm facilitated ongoing dialogue between the two parties despite the lack of a legal mandate to do so. In essence, the case presents a theory of how the identity interaction between the filer’s identity and firm’s orientation enabled a successful shareholder dialogue outcome. Specifically, the case examines how a climate resolution that went to a vote the first time it was filed at Ford in 2007 was successfully withdrawn a year later after ongoing dialogue with the Dominican order of nuns who filed it. The resolution filed in 2007 requested that Ford’s Board of Directors voluntarily set quantitative goals for reducing greenhouse gas (GHG) emissions from their products and operations. In March 2008, Ford agreed to publicly commit to reducing GHG emissions from its new vehicle fleet by at least thirty percent by 2020 and the resolution was withdrawn.

The resolution – also filed at General Motors – was the first time shareholders had asked companies to publicly set voluntary GHG reduction targets rather than just disclosing emissions data. New, more stringent resolutions often take many years of dialogue before a withdrawal is negotiated between firms and shareholders, and some resolutions are never withdrawn. The same religious investors in this case, for example, spent a decade filing resolutions with General Electric regarding PCB contamination of the Hudson River before a withdrawal was reached. Similarly, religious and other activist investors have not had the same success in negotiating climate change resolutions with firms like General Motors and ExxonMobil.

As recent work in organizational ecology has acknowledged, one of the most pressing needs in identity research is to “consider heterogeneity within an audience” (Hsu, Hannan, and Kocak 2009: 167) and understand the drivers behind their differential evaluations of a single actor – shareholders in this case. While other studies of shareholder activism have taken a descriptive (Hoffman 1996; Proffitt and Spicer 2006) or social movement approach (Reid and Toffel 2009), this case represents a first effort at theorizing the influence identity plays in differential evaluations of stakeholders and shareholder activists by U.S. firms. Importantly, the case does not attempt to determine whether Ford would have set GHG reduction targets without engaging with investors. Rather, the primary focus is on how the identities of the two organizations has led the firm to engage in a long-term dialogue process with religious investors and ultimately make a *public* commitment to addressing climate change that the investors requested.

The first half of the case focuses on the social identity of the religious investors who filed the resolution. The case shows how the religious identity of the shareholders impacted the way Ford managers viewed the filer's legitimacy and facilitated the firm's ability to engage in dialogue and reach a withdrawal agreement with them. Managers' social understanding and trust in professional religious figures permitted them to interpret and evaluate the religious investors' actions differently than radical environmental NGOs and other activist investors. The reason Ford evaluates religious investors as legitimate actors – and other firms do not – is taken up in the second half of the case. I argue that Ford's *collectivistic identity orientation*, or the firm's assumptions about how it interacts with its stakeholders (Brickson 2005: 577), influenced its view that shareholder activism on the part of faith investors is legitimate.

As noted above, collectivistic firms view themselves as part of a larger community, and as a result, they are more open to engaging with a large number of diverse stakeholders on a variety of issues. As the case discusses, Ford acts on its collectivistic orientation by allowing managers to engage with a wide variety of stakeholders on climate change, including groups as far-ranging as religious shareholder activists to hostile environmental NGOs. I argue that this openness facilitates a more fine-grained evaluation of stakeholders by the firm. Whereas both religious investors and NGOs want Ford to address climate change, the legitimacy of religious investors' social identity makes the firm more likely to engage with them to find agreement on climate change. The firm's orientation interacts with the shareholder's identity to produce a successful dialogue

outcome. I also use religious investors' lack of dialogue success on climate change at other firms as a comparison to Ford. In line with Brickson (2005, 2007), I suggest that individualistic firms are less likely to meet demands from any stakeholder group, and as a result, the social identity of religious investors does not provide them additional leverage at these firms. I conclude the case with a discussion of how the identity interaction concept opens up fruitful avenues for future research on organizational identity and economic relationships.

The study addresses several theoretical issues in organizational and economic sociology. In regard to embeddedness, analyzing the relationship between top managers and shareholders at a single firm helps improve our understanding of how cognitive templates regarding identity and approach to stakeholders (i.e. identity interactions) impact the relational ties between shareholders and managers and ultimately firm strategies. Although economic sociologists have not wholly neglected the identity concept, their treatment of it typically follows a more structural approach. The most widely-cited example is Padgett and Ansell's (1993) finding that actors are least constrained in their actions when their identity and motivations are obscured from external audiences by keeping their network ties separate. At the organizational level, Rao, Davis, and Ward (2000) also focus on how network ties affect organizational decisions aimed at enhancing identity evaluation by others. The article also considers why these conceptions of identity are not sufficient to explain the outcomes in this case.

Further, the case demonstrates how different strands of identity research, specifically those in the traditional management literature (Albert and Whetten 1985; Brickson 2005, 2007; Whetten 2006) and organizational ecology (Polos et al. 2002; Hsu and Hannan 2005; Hannan et al. 2007; Hsu 2006; Hsu et al. 2009) are complementary rather than competing or mutually exclusive. I argue that ties between firms and stakeholders are influenced by both internal identity attributes and evaluations of other organizations' identities. Finally, the case demonstrates the utility of employing identity concepts to better understand manager-shareholder relationships. I address why alternative explanations for Ford's actions – such as those based on investor size (see Mizuchi 2004 for a review), a firm's geographic location (Davis and Greve 1997; Marquis 2003; Marquis, Glynn, and Davis 2007), anticipation of future regulation (Hoffman 2007) and greenwashing (Meyer and Rowan 1977; Lyon and Kim 2006) – are insufficient to understand why some large firms engage in dialogue with the same small shareholders over time on social and environmental issues. I posit that the mechanism fostering close relationships between managers and shareholders is the “identity interaction” between the shareholders' religious identity and the firm's collectivistic orientation. Ultimately, paying closer attention to how identity affects the content of relationships between managers and shareholders will help researchers more fruitfully synthesize theories of cultural and structural embeddedness, an effort which continues to challenge the discipline (Zukin and DiMaggio 1990; Beamish 2007; Krippner and Alvarez 2007).

## **THEORETICAL MOTIVATION**

The identity interaction concept I introduce in this study aims to solve two problems related to identity and economic ties. First, as the case shows, it overcomes a tendency in the embeddedness literature to conceptualize identity in purely structural terms (Padgett and Ansell 1993; Zuckerman 1999; Zuckerman et al. 2003). Identity interactions capture cultural and cognitive identity influences on the outcomes of economic ties that embeddedness theory typically neglects. Second, I aim to show that definitions of organizational identity that emphasize central, enduring, and distinctive traits (Albert and Whetten 1985) versus those in organizational ecology that emphasize external evaluation of identity (Polos et al. 2002; Hannan et al. 2007) work together to create particular outcomes in firm-shareholder dialogues. Just as network theorists argue that social and economic action cannot be understood without attending to ties between actors, organizational identity is not a very useful concept unless it applies to relationships with other actors (Scott and Lane 2000; Brickson and Lemmon 2009). In the following sections, I turn attention to the two central elements of identity interactions: organizational identity and identity orientations (Brickson 2005, 2007).

### *Conceptualizing Identity*

There is a long tradition of research on organizational identity in the management literature (Albert and Whetten 1985; Dutton and Dukerich 1991; Elsbach and Kramer 1996; Albert et al. 2000; Gioia, Schultz, and Corley 2000; Pratt and Foreman 2000; Scott and Lane 2000; Corley and Gioia 2004), but in recent years, organizational identity has become implicated in a debate over whether it should be defined as a set of an internal attributes (Albert and Whetten 1985; Whetten 2006) or as an evaluation measure used by

audiences to sanction identity violations (Polos et al. 2002; Hsu and Hannan 2005; Hannan et al. 2007). This divide emerged with the new focus on identity by organizational ecologists (Carroll and Swaminathan 2000; Polos et al. 2002; Baron 2004; Hsu and Hannan 2005; Hannan et al. 2007). Whereas the classical definition of identity in the organizational literature defines it as the “central, enduring, and distinctive” elements of an organization (Albert and Whetten 1985; Whetten 2006), ecologists conceptualize identity as "social codes" which are evaluated by audiences (Polos et al. 2002). The former places the locus of identity internally whereas ecologists focus primarily on external audience evaluations of populations of individuals or organizations. Audiences are said to be comprised of “collections of agents with an interest in a domain and control over material and symbolic resources that affect the success and failure of the claimants in the domain” (Hsu and Hannan 2005: 476). In this case, the relevant audience is a large, publicly traded U.S. firm.

Although ecologists argue their definition of identity allows for internal and external audience evaluation of the focal organization (Polos et al. 2002; Hsu and Hannan 2005), most of the empirical studies in this line of research have almost exclusively focused on *external* audience evaluations. At the individual level, these include casting directors’ evaluations of actors (Soule 1997) and social worker assessments of welfare recipients (Mohr 1994). At the organizational level, there are studies of film critics’ reviews of movies (Hsu and Podolny 2005; Hsu 2006; Hsu et al. 2009), buyer ratings of eBay sellers (Hsu et al. 2009), security analysts’ rating of firms (Zuckerman 1999), and eco-tourism agencies’ rating of operators (Hannan et al. 2007). Hsu and Hannan (2005) go so far as to

argue that “empirical research that gauges identity by listing stable features fails to recognize that ownership of an organization’s identity resides within an organization’s audience rather than within the organization itself” (476).

One notable exception to the emphasis on external audiences in this research stream is Baron, Hannan, and Burton’s (2001) study of employee turnover in the high-technology sector. They found that changes in firm employment models led to higher turnover rates among employees (i.e. the internal audience) and resulted in lower firm performance. However, their data sample consists of very young high-tech firms, which precludes those organizations from having many enduring identity traits. Further, they place greater focus on the blueprints or “logics” of the employment relationship rather than organizational identity.

The emphasis on external evaluation of identity makes sense given the research questions and methodological approach of this stream of research. Rather than replacing Albert and Whetten’s (1985) definition of identity, though, I suggest the ecology definition simply extends the usefulness of the identity concept by adding an evaluative component to it. Both internal identity attributes and the way audiences evaluate an organization’s conformity to social codes associated with that identity open up new ways to study how identity affects inter-organizational relationships. It is also an overstatement by ecologists to say that traditional organizational scholars have completely ignored identity evaluation or the implications of identity on decision outcomes within organizations. Dutton and Dukerich’s (1991) seminal article on the Port Authority’s response to homelessness, for

example, demonstrated how an organization's view of itself – and how it believes others view it – affects its decisions when reacting to a contentious issue brought to it by external audiences. However, this view attends more to concerns regarding the organizational image an organization portrays to outsiders rather than how audiences make evaluations of other organizations. The value of the identity interaction concept I introduce in this case is that it includes both internal and external identity forces at work in inter-organizational relationships.

Ecologists acknowledge that we still “have much to learn about the activities and social conditions that allow for particular properties of identity to become recognized and coded by audiences” (Hsu and Hannan 2005: 487) as well as “differences in the way audience members react to and discipline producers” (Hsu 2006: 446). Neither traditional organizational research nor identity research by ecologists has fully addressed these questions, a gap this article begins to fill. For the purposes of embeddedness research in particular, I believe the interaction between both attribute and evaluative dimensions of identity are needed to understand relationships between two organizations. Identity attributes are the central, enduring, and distinctive elements of an organization whereas the evaluative dimensions of identity are the social codes against which an entity is judged by others.

This does raise the question, though, of “whose point of view should be considered when measuring identity” (Hsu and Hannan 2005, 483). I suggest the vantage point we should use to understand identity interactions depends largely on which organization is asking

the other for an audience in a given context. In cases of private politics (Baron 2003) where one organization seeks to change the behavior of another, the identity focus will necessarily be on how the latter evaluates the former (Polos et al. 2002), whereas core identity attributes (including identity orientation) of the evaluating organization will likely affect how it reacts to the initiating organization.

The next logical question is, “What precisely do audiences evaluate?” I suggest that determining whether an entity is violating social codes is tantamount to making a legitimacy evaluation. The importance of legitimacy for organizational success and survival is well-established in the organizational literature (Oliver 1991; Suchman 1995), and legitimacy is defined here as the “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” (Suchman 1995: 574). Certainly the individual or organizational actor being evaluated can take strategic actions to conform more closely to the social codes ascribed to it by external evaluators, but the degree to which the organization will be willing or able to change its strategies and actions to comply with social codes is contingent upon its own internal identity attributes. Thus, invoking language from institutional theory, coercive isomorphism (DiMaggio and Powell 1983) may be blunted by core identity attributes.

### ***Identity Orientations***

The second element of an identity interaction is the firm’s *identity orientation* (Brickson 2005, 2007). I contend that internal identity attributes of the firm influence its evaluation

of other organizations, because these attributes serve as cognitive templates to evaluate whether and how to engage in relationships with stakeholders. To reflect different ways firms conceptualize their relationships with stakeholders, I employ Shelley Brickson's (Brickson 2005, 2007) concept of identity orientation. As noted in the definition provided in the introduction, identity orientation captures how a firm approaches its relationships to different stakeholders. This idea draws on the business stakeholder literature claim that understanding the firm requires understanding its relations with internal and external stakeholders (Freeman 1984). According to Brickson (2007), firms can be placed in three different orientation categories: individualistic, relational, or collectivistic. While acknowledging they are ideal types and recognizing hybrids also exist, the labels provide a starting point to consider variation in the approach firms take in their relationships with stakeholders.

Individualistic organizations are primarily concerned about their own welfare, whereas relational organizations care mostly about dyadic relationships with partners, and collectivistic organizations prioritize the welfare of a larger group in stakeholder interactions. Brickson suggests that identity orientation is visible in identity statements made by organization members. For example, firm characterizations like “‘the top performer in the industry’ (individualistic), ‘accommodating and loyal to partners’ (relational), and ‘promoting the ecological sustainability of the earth’ (collectivistic) [all] reveal a different assumed nature of relations with stakeholders” (Brickson 2007: 577). These ideal types are drawn from the social psychology literature on how “other-

regarding” individuals are (Brewer and Gardner 1996), and the orientations are assumed to impact relational patterns between an actor and others.

In the case of individualistic organizations then, one would predict reticence to engage in relationships with stakeholders unless they serve a purely instrumental purpose (e.g. supplier who gives the best price). Relational firms, on the other hand, view relationships with valued stakeholder groups (e.g. employees or clients) as more than just means-end interactions and expend effort to nurture them beyond what one would expect from a neo-classical economic perspective. Finally, collectivistic organizations are the most likely of the three types to work with large numbers of diverse stakeholder groups toward common goals that may or may not be related to the organization’s bottom line but that benefit society.

### ***Identity Interaction***

Combining internal and evaluative conceptualizations of identity enables us to see how “identity interactions” work. It is a concept that brings the process of how firms relate to stakeholders in differential ways based on identity into the foreground. Figure 3.1 sketches this process. Organizations receiving requests from another organization – as in the case of shareholder dialogue requests – evaluate the social codes of the other party through the filter of their identity orientation, a cognitive template that is shaped by the central identity attributes the organization possesses. A firm’s identity orientation thus influences whether it views an alter as a legitimate actor or not, and this in turn impacts

whether the interaction between the two organizations will lead to a positive or negative outcome.

Organizations that possess different identity orientations (e.g. individualistic versus collectivistic) are likely to evaluate the legitimacy of the same alter differently, a theory supported by the empirical findings in this case. As the case shows, a firm with a collectivistic orientation evaluates the legitimacy of religious investors more positively than those with other social identities (e.g. labor, NGO, political), although the firm will engage in dialogue with *all* stakeholders. The identity interaction concept also accounts for the fact that these interactions are a process rather than a one-shot game. In repeated interactions, such as those between firms and shareholder activists filing resolutions for multiple years, previous interactions provide a feedback loop to the social code evaluation. Baron (2003) argues that private politics must become an “equilibrium private institution” (62) to succeed, meaning “both the activist and the firm must continue to participate even when incidents occur that suggest the standard might have been violated” (Baron 2003: 62). As the case demonstrates, Ford’s identity orientation and the religious investors’ identities helped maintain their shareholder dialogue even when Ford’s proposed climate actions were questioned by external environmental NGOs. Further, Ford’s previous interactions with religious investors helped build additional trust and influenced the firm’s decision to let religious investors verify if Ford’s proposed climate actions represented real change with external experts.

My conceptualization of identity's role in economic relationships differs significantly from the embeddedness literature that relies on a more structural treatment of the concept (Padgett and Ansell 1993; Zuckerman 1999; Rao et al. 2000). Rao, Davis and Ward (2000), for example, claim that an organization's social identity is a function of the formal and informal social groups to which it belongs. In their study of defection of NASDAQ firms to the New York Stock Exchange (NYSE), the authors found that ties to members of the in-group (NASDAQ) discouraged defection to the NYSE (i.e. a new social identity), while ties to the out-group increased defection. Whereas they suggest that identity is shaped through social interactions, I argue that organizational identity also shapes interactions. Further, the relationship between Ford and religious shareholders cannot be fully explained by the structural research on identity in economic sociology, such as the work by Padgett and Ansell (1993) and Zuckerman and colleagues (Zuckerman 1999; Zuckerman and Kim 2003; Zuckerman et al. 2003; Hsu et al. 2009). Unlike Padgett and Ansell's finding that actors who manipulate their social ties to obscure their motivations and identity are best able to engage in "robust action" and achieve their goals, the case shows the filers' religious identity and moral motivations are highly salient and resonant to firm managers.

Additionally, their salient religious identity helps them avoid being grouped with organizations that receive negative evaluations from firms, such as individual shareholder activists and radical NGOs. Since religious investors' actions suggest they are sympathetic to or belong with some of the same identity categories as these groups (i.e. radical investors, environmental activists), one might also expect them to suffer negative

evaluations at Ford either because of their (illegitimate) shareholder activities or because of their multiple identities. Zuckerman and others (Zuckerman 1999; Zuckerman et al. 2003; Hsu et al. 2009) have found that belonging to multiple identity categories can have negative consequences for individuals and organizations. Their findings do not conform to the outcomes in this case, however. Rather, the investors' overarching religious identity enables them avoid the fate of actors who belong to so many categories that audiences cannot associate them with a clear identity. I suggest a process-based alternative to these structural explanations – based on the identity interaction between Ford's collectivistic orientation and shareholders' socially legitimate religious identity – to account for the successful shareholder dialogue at the firm.

## **THE CASE**

On December 6, 2006, a letter arrived on Jerome Zaremba's desk at the General Counsel's Office of Ford World Headquarters in Dearborn, Michigan. It was addressed from Sister Patricia Daly of the Sisters of St. Dominic in Caldwell, New Jersey. The letter opened with a note of congratulations to the company for its leadership on a recent initiative by several automakers to improve supply chain workplace conditions. She noted her feeling "that this initiative would not have happened without the work of Ford."

The letter went on to inform the company that as beneficial owners of 174 shares of Ford stock, the Sisters planned to file a shareholder resolution asking the company to "publicly adopt quantitative goals, based on current and emerging technologies, for reducing total greenhouse gas emissions from the company's products and operations." The resolution

further requested that Ford provide a report to shareholders on how the company planned to achieve this goal. The Sisters were also joined by the State of Connecticut Retirement Plans and Trust Funds, the Congregation of the Passion, Christian Brothers Investment Services, and the Sisters of Saint Joseph as co-filers on the resolution.

Mr. Zaremba was not especially surprised to receive the letter. “Sister Pat,” a well-known shareholder activist and Dominican nun, had been filing climate resolutions with her religious order at Ford Motor Company since 1991 in collaboration with the Interfaith Center on Corporate Responsibility (ICCR). The religious co-filers on the resolution were also ICCR members, and many of them also had a long history of shareholder engagement with Ford on social and environmental governance issues. ICCR is a coalition organization of 275 faith-based institutional investors, including religious denominations, religious communities, pension funds, healthcare corporations, foundations, asset management companies, colleges, and dioceses. Between 1991 and 2009, ICCR members filed fourteen climate change resolutions at Ford. Eight of those resolutions were withdrawn after dialogue between the shareholders and the company. In addition, between 1972 and 2010, ICCR member organizations filed twenty-one additional resolutions at Ford on issues related to human rights, HIV reporting, the MacBride Principles, and the firm’s political contributions.

Before the company’s financial troubles curtailed employee travel, Ford managers held quarterly dialogue meetings with ICCR members on a broad swath of social and environmental issues related to the company and its operations. This multi-issue approach

has been used by ICCR with a few large companies, and through the course of additional fieldwork observing activist investors, I discovered most U.S. firms that frequently receive shareholder resolutions from religious investors generally associate those resolutions with ICCR (as opposed to one religious investor working in isolation). ICCR staff members also frequently participate in individual firm dialogues even if a resolution is filed by only a single ICCR member organization.

Since the 2007 resolution was the first time shareholders had ever asked companies to set voluntary GHG reduction targets for their products, ICCR members were unsure whether it would pass a challenge at the U.S. Securities and Exchange Commission (SEC) and even more uncertain whether large institutional investors (e.g. public pension funds, TIAA-CREF) would support the new resolution. According to Sister Pat, “We thought this was a win even if we got a three percent vote” in favor of the resolution. ICCR members had decided to file new, more stringent resolutions asking companies to go beyond GHG emissions disclosure after a soul-searching ICCR meeting during the summer of 2006. At that annual meeting, members wrestled with whether they still had an effective role to play in climate change investor engagement given the heightened interest in the issue by greater numbers of mainstream investors and the establishment of the Investor Network on Climate Risk (INCR) by the NGO Ceres ([www.incr.com](http://www.incr.com)). Ultimately, they decided that filing these new resolutions was the way for them to remain a “prophetic voice” among shareholders by pressuring firms to take increasingly aggressive actions to address climate change.

The 2007 resolution dialogue took place during a time of upheaval at Ford. Three months before the resolution was filed, Bill Ford Jr. stepped down as CEO of the company and was replaced with Alan Mullaly, the former CEO of Boeing. Shareholders were unsure how the appointment of Mullaly would affect the firm's response to the resolution. During several meetings about the resolution in February 2007, shareholders were told by managers in the Sustainable Business Strategies Division that Ford was still addressing emissions in a serious manner, but not publicly. The company said it would not set public targets for GHG reductions that year. Don Kirshbaum, representing the State of Connecticut in the dialogue, said that in the shareholders' minds, "2007 was a step back compared to 2006." As a result, Sister Pat and the other investors decided they would move forward and present the resolution for a vote at the annual meeting.

At Ford's May 10, 2007 annual meeting in Delaware, Sister Pat presented the shareholders' case to the Board of Directors. The resolution received a fourteen percent vote in favor from other shareholders, making it eligible for re-filing the next year. SEC rules state that a resolution must receive three percent or greater the first year it is filed, six percent the second year, and ten percent or more every year after. Although some researchers argue that shareholder resolutions are a success if they receive 50 percent plus one of the vote (Strickland, Wiles, and Zenner 1996), a vote of ten percent is sometimes high enough to get a company to engage investors in dialogue and negotiation, particularly if the vote is accompanied by negative publicity. Only one climate change resolution has ever received a majority vote (51.2 percent at IDACORP in 2009), but

almost half of companies receiving climate resolutions in 2008 and 2009 negotiated withdrawals with investors to avoid having these resolutions go to a vote.

Despite Ford and the investors' inability to reach a consensus on the resolution, Sister Pat's treatment at Ford's annual meetings provides initial insight into her unique standing with the company and the special nature of the relationship between Ford managers and religious shareholders. Similar to most other publicly traded U.S. firms, Ford only allows shareholders a few minutes at the podium to address the Board of Directors during annual meetings. A buzzer rings to stop speakers at the end of their time. However, Sister Pat and one other long-time shareholder activist named Evelyn Davis are allowed to speak as long as they want. According to the managers I interviewed, the time limit is relaxed for Evelyn as a show of respect for her attendance at every annual meeting since the company became publicly traded. As for Sister Pat, if any shareholder complains about the special treatment for her, managers respond by pointing out the value of her relationship with the company:

“So Evelyn doesn't get the shot clock and Sister Pat doesn't either. And if someone questions us about Sister Pat we'll say we have a very good relationship with Sister Pat that's productive, and if other shareholders have the same productive relationship that we do, and you appeal to values that add like Sister Pat does, then we won't put the shot clock on you. In order to keep the meeting moving in an orderly manner, we feel the need to limit the amount of time people can speak.” (Interview with Ford manager).

Following a description of the data and methods used in the case, the remainder of the chapter considers how the religious identity of the shareholders facilitated a two-year dialogue process that led Ford to agree to publicly announce GHG reduction goals for their products at the request of shareholders. It should also be noted that the investors

filed the same climate resolutions at General Motors in 2007 and 2008. However, a withdrawal agreement was not reached at GM in 2008 after dialogue between shareholders and the company. General Motors was also placed on the 2009 “Climate Watch List” of companies with poor records of addressing climate change before it filed for bankruptcy that summer. Throughout the case, prominent U.S. firms (e.g. GM and ExxonMobil) serve as shadow comparisons to Ford regarding stakeholder engagement on climate change to help flush out the role identity plays in shareholder resolution outcomes.

## **DATA AND ANALYSIS**

During four months of fieldwork at ICCR during the fall of 2007, I observed Sister Pat and ICCR partners drafting the 2008 climate change resolutions for Ford and General Motors. During this time, I spoke informally with the shareholders filing the resolutions about why they were being filed again and collected background material related to the resolutions. I also observed informal interactions between the shareholders and Ford managers at ICCR’s 2007 annual meeting, which brings together religious investors, other institutional investors, and corporate managers.

When the resolution was withdrawn by the Sisters of St. Dominic after dialogue with Ford in March 2008, I obtained permission from the company and shareholders to conduct a formal case study examining how the resolution was successfully negotiated and withdrawn. Explanatory single case study designs are well-suited for expanding and refining theory (Yin 2003; Weick 2007), which is the goal of this case. Further, the study

represents a *critical case* (Yin 2003: 40) that calls into question traditional theories regarding firm-stakeholder relationships (e.g. investor capitalism, greenwashing, etc.) and may reveal alternative explanations for firm behavior not generally considered in the business literature.

Between July and October 2008, I conducted semi-structured interviews with two of the resolution filers, seven mid and upper-level managers at Ford, two former employees in Ford's Sustainable Business Strategies Division, and one environmental NGO representative who participated in the 2008 dialogue. The interviews lasted between thirty minutes and four hours, and the median interview length was about one hour.<sup>1</sup> The interviews are supplemented with archival data provided by the shareholders and the company, including: filing letters written from shareholders to Ford, email communication between shareholders, dialogue meeting agendas, and Ford proxy statements.

The interviews with Ford managers were taped, transcribed, and coded using the qualitative coding software HyperRESEARCH 2.8. I began my coding using an inductive process that permitted codes and categories to emerge from the data (Glaser and Strauss 1967). My initial coding focused on individual *incidents* (Charmaz 2006) where shareholders and Ford managers interacted in discrete meetings or encounters. Following the initial coding, I looked for commonalities across these encounters regarding how

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<sup>1</sup> All interviews with Ford managers were conducted after the U.S. government agreed to provide U.S. automakers with \$25 billion in loan assistance but before the December 2008 Congressional hearings about whether to provide bridge loans to the U.S. auto sector. Ford continued to dialogue with shareholders on climate change during this time, and the author was granted access to a phone dialogue between senior management and the investors on the company's status and strategy on December 10, 2008.

different participants described their actions and perceptions of religious investors in them. From those subcategories, I identified the identity of the shareholders and the firm's openness to stakeholders as key categories in the data. I then moved back and forth between theories of embeddedness and the categories in my data to understand how identity was influencing the relationship between the firm and shareholders. Throughout the coding process, I also drew upon knowledge I gained about shareholder-management relationships through participant-observation fieldwork and interviews I conducted with corporate governance analysts and fiduciary trustees during 2007.

## **IDENTITY AND EMBEDDEDNESS**

### ***Resonance and Robust Action***

On the surface, it may seem like little more than a small curiosity that a major manufacturing firm maintains a particularly close relationship with nuns from New Jersey. I argue, however, that this relationship has important theoretical implications for how we understand the relationship between embeddedness and identity. Common explanations for firm responsiveness to shareholders do not adequately explain the outcome of this case. Notably, the Sisters of St. Dominic owned less than 200 shares of stock in Ford each time they filed their climate change resolution, meaning that the Sisters have a very small investment stake in the firm. And while one of the nuns' co-filers – the State of Connecticut Retirement Fund – owns a larger number of shares, the fund is not one of Ford's largest shareholders. According to investor capitalism explanations of corporate responsiveness to shareholders (Useem 1996), religious investors should not be able to influence managers at all given their small number of

shares. Furthermore, the resolution filers are not influential members of the local Detroit community (Davis and Greve 1997; Marquis 2003; Marquis et al. 2007) or professional experts on emissions and automobiles like environmental scientists or engineers.

I discuss the role the filers' religious identity played in the investor dialogue at Ford in 2007 and 2008 below. First, though, I focus attention on how Sister Pat's religious identity affects the way she is perceived by Ford managers in her roles of shareholder and Catholic nun. A comment on levels of analysis is necessary before proceeding. Although the case focuses primarily on one individual (Sister Pat), she is more broadly representative of the organization ICCR and religious shareholder activists. I include references to both Sister Pat and ICCR throughout the case to highlight how the influence of religious identity on shareholder-management relationships is applicable at multiple levels of analysis. While Sister Pat is the lead filer on climate change resolutions at Ford, she is not the only nun or religious investor in the room during dialogues and conference calls with the company. And as noted earlier, the firm has also engaged with other religious investors from ICCR on a variety of social and environmental issues.

Further, there are many professional religious figures (e.g. nuns, priests, brothers, ministers) aside from Sister Pat who maintain longstanding relationships with other large U.S. firms in a variety of industries, including retail, discount, and energy companies. Another prominent example of a religious professional who engages with U.S. firms is Sister Barbara Aires, who has represented the Sisters of Charity in their long-term dialogue with Wal-Mart on board diversity and discrimination. Capuchin Brother Mike

Crosby also represents a group of Franciscan Friars' investment interests in his long-term dialogues with a variety of firms and is a founding member of ICCR (ICCR 2009).

Sister Pat and other religious activist investors are many things to many people. They maintain relationships with a variety of firms in addition to investor groups like ICCR, the Investor Network on Climate Risk, environmental NGOs, and their own local and religious communities. At first glance then, Sister Pat and ICCR might appear to be perfect examples of multi-vocal actors (Padgett and Ansell 1993; Stark 1996), those with “the ability...to participate effectively in multiple kinds of ties with diverse parties” (Owen-Smith and Powell 2008: 608). Like Cosimo de' Medici, Sister Pat interacts with many alters who do not know one another and/or do not interact frequently. According to Padgett and Ansell (1993), multi-vocal actors have “Rorschach blot identities, with all alters constructing their own distinctive attribution of the identity of the ego” (1263).

Possessing a multi-vocal identity is advantageous because it enables one to engage in robust action, which entails creating conditions where one can force others to reveal their end goals while obscuring one's own agenda. The purpose of robust action is to maintain the ability to engage in “flexible opportunism” when the winds of fortune change and an actor wants to pursue a new strategy to benefit herself (Padgett and Ansell 1993: 1263). This obfuscation of one's true identity and goals were what enabled Cosimo de' Medici to be perceived as an ally by many groups simultaneously without ever revealing his true loyalties or motivations.

Unlike Cosimo de' Medici, though, Sister Pat is not a “sphinx” whose motives and goals are shrouded by compartmentalizing her different identities of investor and nun when interacting with different groups. She is quite open about her religious motivations for getting involved in shareholder activism. While she acknowledges that her organization has an interest in the performance of companies because of their financial stake in them, she admits, “In any conversation with a company...it’s clear that I’m there because of a faith commitment” (quoted in Slater 2007).

Sister Pat possesses a highly resonant (Baron 2004) and authentic identity (Peterson 1997) by the mere fact of being a nun. Becoming a nun requires an individual to internalize a host of religious values (Stryker 1968), and "resonant identities [also] tend to be oppositional, defining a collectivity by virtue of its rival standing vis-à-vis another (mutually exclusive) identity" (Baron 2004: 11). The identity of “nun” versus “laity” is clearly mutually exclusive. Because being a nun is so resonant, Sister Pat’s religious identity defines *all* of the other roles she plays, including investor. Whereas many mental pictures of “investors” are available to most people, only one or two generally come to mind when one refers to a nun. This type of identity is sometimes referred to as a “master identity” (Charmaz 1994). It is also an identity that has a high degree of authenticity (Peterson 1997; Baron 2004) in that becoming a nun requires a serious commitment not likely to be pursued by opportunistic women for non-religious ends (at least not in modern society). It is also highly unlikely that Dominican nuns’ or other professional religious investors’ identities will change over time either, which lends them an additional degree of authenticity. Unlike other types of environmental and social activists

who move frequently between the private, NGO, and government sectors, religious investors remain firmly rooted in the religious sphere regardless of the work they do.

As a comparison, consider the difference between religious investors' identity and the perceived identity of labor union shareholder activists. Despite the fact that both labor and religious identities are highly salient to external audiences, a story told at the 2007 ICCR General Meeting by an ICCR member shows that religious investor activism is viewed as more legitimate than union activism in the eyes of at least some firms. At that meeting, the member relayed a comment from a CEO at a Fortune 100 company (not Ford) who said he appreciated working with ICCR members because he views them as "true social advocates...without an agenda." This CEO said he felt like religious investors truly care about societal welfare unlike other activist groups that solely represent their own interests. Among shareholder activists then, a religious identity, while highly resonant, has potentially less constraint placed upon it than a labor identity. While unions are viewed as self-interested actors by the CEO mentioned above, religious investors are viewed as engaging in activities central to their identity.

### ***Ford's Identity Orientation***

If the religious identity of investors is the sole explanation for why Ford engages with them and agreed to set public GHG reduction goals, then one would also expect most other major U.S. firms to engage in dialogue with religious investors in a similar manner. As the discussion that follows highlights, however, many firms do not maintain the same type of relationship with religious investors as Ford. Thus, religious identity tells only

part of the story. This is where the second element of an identity interaction – identity orientation – reveals itself as a crucial explanatory element in the case. This section shows that Ford’s evaluation of faith investors’ actions as legitimate is largely a function of the firm having a *collectivistic identity orientation* (Brickson 2007) toward stakeholders. A collectivistic orientation means that a firm views itself as part of a common group membership with other stakeholders, whether it is the local community, the nation, or even the global community more broadly. Brickson (2005) suggests collectivistic organizations are likely to describe themselves as “community-oriented,” “promoting a cause,” “politically active,” or “providing a public service” (588). This orientation toward a larger whole makes Ford both more willing to engage with many different types of stakeholders than individualistic firms, and I find it also enables managers to relate to and trust the motivations of religious investors.

To illustrate the difference between Ford and less collectivistic firms, we can observe the reception religious investors receive at Ford compared to companies like ExxonMobil and General Motors. Whereas Ford’s General Counsel threatened to fire an employee who accidentally buzzed Sister Pat to stop while she was speaking at the annual meeting one year, shareholders filing climate resolutions at Exxon view it as progress when some of the board members simply make eye contact and appear to be listening to them (Slater 2007). In years past, Sister Pat and her co-filers have been accused at the Exxon annual meeting of trying to overthrow the free-enterprise system, and Sister Pat says she “always has a headache leaving that meeting” (quoted in Slater 2007). General Motors, while more willing to engage in dialogue with religious investors than Exxon, also approaches

its relationship to them in a more arms-length manner than Ford. In my interviews with investors who have engaged both Ford and GM on climate change, they noted that Ford provides them the opportunity to meet with employees and managers at all levels and in all departments of the company, whereas the breadth of interactions at GM is much narrower. When I ask shareholders and NGOs about the main differences between the two automakers, most cited a difference in organizational culture, which they feel affects how the companies approach their relationships with shareholders and stakeholders.

We can also look at management responses to climate change resolutions to see differences in orientation toward activist shareholders. For example, although Ford recommended that shareholders vote against the 2007 climate resolution, the firm's proxy response acknowledged their desire to continue dialogue with the proponents. The company noted that "[Ford] has sustained its commitment to engage in a proactive relationship with interested parties who have shown a willingness to engage in a constructive dialogue on the issue of greenhouse gas emissions and will continue this engagement as we continue to move beyond dialogue into action" (Ford Motor Company 2007). Among other climate resolutions that have gone to a vote at U.S. companies, few if any firms explicitly commit to continued engagement with a specific group of shareholders in a proxy statement. The company made a similar commitment in its 2003 proxy statement as well, despite a lack of agreement between the company and shareholders.

One can contrast Ford's proxy statements to Exxon's response to shareholders filing climate resolutions, which accuses filers of having a political agenda. In 2003, Exxon argued that filers were "[framing] climate change risks and strategies, such as targets and emissions trading, from the narrow political perspective of those seeking to encourage near-term regulatory controls" (ExxonMobil 2003). While language that criticizes shareholder activists' motives on climate change has diminished in Exxon's proxy responses since the replacement of Lee Raymond with Rex Tillerson as CEO, Exxon has never referenced a desire to engage in dialogue with shareholders on the issue. Rather, all of Exxon's proxy responses highlight the company's scientific and business acumen related to climate change compared to shareholder activists.

Returning to Ford's approach to stakeholder input, it is also noteworthy that the firm engages frequently with a variety of environmental NGOs and has recently put together a *Transformation Advisory Council* (Ford Motor Company 2008), a group comprised of high-profile thought leaders on environment and innovation, including Amory Lovins, Paul Hawken, and Peter Senge. The interest in engaging with stakeholders extends beyond environmental issues as well. In addition to the long-term engagement with ICCR members on human rights issues, Ford is the only U.S. automaker currently participating in the United Nations Global Compact and the only global automaker asked to participate in the UN's Global Compact Working Group on business and human rights. How do we explain these differences in stakeholder approaches among equally high-profile and structurally similar firms? While all of these organizations are in a position of power to evaluate whether activist shareholders are conforming to appropriate social codes and

determine the worthiness of engaging with them, they make differential assessments of faith-based investors. This highlights the acknowledged need for greater understanding of how and why similar audience members evaluate the same actor differently (Hsu 2006).

Brickson (2007) finds that firms have a large degree of autonomy to determine their orientation to stakeholders and that this orientation is not heavily determined by structural characteristics of the firm. It is notable that Ford and General Motors take such a different approach to shareholders on climate change, for instance, despite having virtually identical market identities (Zuckerman 1999) and being situated in the same geographic location (Davis and Greve 1997; Marquis 2003; Marquis et al. 2007).<sup>2</sup> Furthermore, if anticipation of future climate regulation (Hoffman 2007) fully explains companies' willingness to engage with shareholders on climate change, one would expect other auto industry firms to act in a similar fashion to Ford.

At the time of the resolution, all U.S. auto companies were subject to the same pressures from GHG reduction legislation in California. On July 22, 2002, California adopted AB 1493 (Pavley) that required passenger vehicles to reduce their GHG emissions by 30 percent by 2016. The automotive industry sued the State of California, claiming that Pavley overlapped with the federal government's authority to set corporate average fuel economy (CAFE) gas mileage standards. A federal district court ruled in favor of California in December 2007, but the EPA under the Bush administration declined to grant California a waiver under the Clean Air Act to regulate tougher emission standards

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<sup>2</sup> This study was conducted before General Motors and Chrysler filed for bankruptcy in 2009, an event that has differentiated the market identities of Ford and other U.S. automakers.

than established by federal law (the Obama administration set a new federal CAFÉ standard in 2009). Unlike General Motors, Ford continued to engage with investors on climate change resolutions despite the lawsuit and conflict over the Pavley standards.

Before proceeding, it should be noted that Brickson's identity orientation concept does not require us to intuit that collectivistic organizations will not benefit financially from possessing this orientation. Ford might well gain strategic benefits from their openness to stakeholder input in the form of new ideas or advance notice on emerging market trends. Rather, what is more important for the purposes of this case is whether different orientations lead to different relationship outcomes in shareholder-firm interactions. The quotes from Ford managers below reflect "identity-referencing discourse" (Whetten 2006) regarding how managers view the firm's orientation to stakeholders. Regardless of how loosely or tightly coupled they are to action, these types of statements "are characterized by an imperative tone, associated with commonly understood categorical standards" (Whetten 2006: 224) among managers. The following is a representative identity statement among the managers I interviewed regarding their view of the company's values as they relate to sustainability:

"When you talk about Bill Ford, what his passion is, I think a lot of his passion is just driven by the values of the company. And you could go all the way back to, not to get too nostalgic, but to Henry Ford and providing affordable transportation to the masses...and that is a personal passion of Bill's as well as how we continue to provide affordable transportation and do it in a way that doesn't impact the environment. And Bill talked about that back in early 2000. So that has always been really part of our values in terms of producing products that people can afford and not impacting the environment."

In addition to providing insight into how managers see the fit between sustainability and the organization's identity, the statement highlights how managers tie the values of the company as a whole to the values of the Ford family and the firm's history. Top management support for addressing climate change is clearly part of the explanation for why Ford embraces their relationship with religious investors more than some other firms. Bill Ford, Jr. has been an institutional entrepreneur (DiMaggio 1988; Lounsbury and Glynn 2001) on environmental issues at the company, both in his previous role as CEO and in his current position as Chairman of the Board. Under his direction, the firm produced its first corporate citizenship report in 2000 and wrote the first Climate Risk Report among U.S. automakers in 2005. Bill Ford is also publicly known as a lifelong environmentalist (Magee 2005; Vlasic 2008).

Further, the idea that founders influence organizational identity and orientation toward stakeholders fits well with Whetten's (2006) argument that organizations use historical frames of reference to justify their actions and express their organizational integrity. The case does not attempt to explain either the origins or motivations behind Ford's collectivistic orientation. Rather, the interest here is on how identity orientation influences identity interactions to affect shareholder resolution outcomes on climate change. However, the emphasis placed on the Ford family's legacy conform to arguments that organizational identity is historically imprinted (Stinchcombe 1965), sticky (Scott and Lane 2000), and influenced by organizational founders (Carroll 1984; Mackey and Whetten 2009). Even research that attempts to move beyond leadership as an explanation for firms' corporate social responsibility programs acknowledge that founder support for

an issue often leads to more effort being invested into it by the firm. Marquis, Glynn, and Davis (2007), for example, find this to be the case in Columbus, Ohio, where Wendy's founder Dave Thomas devoted a large amount of resources toward children's needs and shaped local corporate giving in the process.

Research conducted on equal opportunity programs in firms has also shown that managerial support is one of the biggest predictors of compliance with the law (Edelman 1992). In every interview I conducted with Ford managers, Bill Ford's support for sustainability and corporate citizenship was cited as a key reason why the firm engages with activist shareholders. At the same time, receptivity to external stakeholders on the part of Ford's Sustainable Business Strategies Division employees was also frequently noted by managers throughout the company. A top-level Ford manager in a different department credited the former and current members of that division for "knowing how to reach out, [knowing] how to work with people on the outside." The first Director of the Division (then called the Corporate Governance Office) coordinated a firm-NGO summit on the environment with Bill Ford's support in 2002, which brought together top leaders of environmental NGOs and senior management in Dearborn for a two day discussion regarding environmental issues facing the firm and auto industry more broadly. When a new Director took over in 2004, employees continued to engage with both more radical, campaigning NGOs and shareholder activist groups like ICCR. When asked about the Division's role in engaging stakeholders, one former Director of the group said:

"I think Bill Ford provided, even if it most of the time it was in the background, that permission space that said yeah, it's OK for this group of [Ford employees] to actually have these conversations. So that created the space. But I think it was the individuals that were in our little shop and the relationships we were able to

build up externally that made a big part of that difference. And then to be able to translate those conversations back inside and talk to other parts of management and say, OK, some of what you're hearing out there may sound completely off the wall but let's be constructive. Let's talk about the significance of that on our business..."

These first and second generation members of the Sustainable Business Strategies team can be viewed as "institutional entrepreneurs" (DiMaggio 1988) on climate change issues as they engaged in dialogue with external and internal stakeholders on the issue.

However, supporting the idea that identity and identity orientation are enduring rather than transitory attributes of an organization, it is worth noting that openness to shareholder input has continued through three shifts in managerial leadership in the Division, the most recent of which saw a transfer of leadership from a Director with a background in communications to the former chief engineer of the Ford Expedition and Navigator programs. The Division has also been placed under new senior management leadership with the creation of a Senior Vice President of Sustainability position in 2007 (also occupied by an engineer) and Alan Mulally's replacement of Bill Ford as CEO of the company. During the first year of dialogue with the new senior management at Ford in 2007, shareholders expressed a lot of uncertainty about whether a process of productive engagement would continue at the firm. However, as the discussion of the 2008 dialogue shows below, these concerns were largely ameliorated after several rounds of engagement with the new managers.

CEOs clearly set the tone for many stakeholder relationships, but there are multiple centers of decision-making power within top management and the Board of Directors. Although Bill Ford is a Ford family member and Chairman of the Board, he does not

have carte blanche to implement radical changes in the products the company makes. Ford has to obtain sustainability commitments from the rest of the Board of Directors, and Sister Pat openly admits that part of her motivation for filing climate resolutions is to help Bill Ford keep going back to the Board to tell them shareholders still want more action from the company on climate change. Thus, openness to stakeholder input from the CEO is certainly a necessary – but not wholly sufficient – condition for a firm’s collectivistic identity orientation. For such an orientation to exist, it must permeate throughout the organization and serve as a cognitive template for managers at multiple levels of the firm.

### ***Identity Interaction***

This section turns attention to the interaction between Sister Pat’s religious identity and Ford’s collectivistic orientation (Brickson 2007). Although Sister Pat is operating in the role of shareholder through the corporate governance process at Ford, the resonance and authenticity of her religious identity places her and the other religious investors in a unique category among shareholders at the company. In my interviews with Ford managers, interviewees consistently referred to Sister Pat and ICCR as “shareholders who are also stakeholders,” and according to managers I interviewed, it is their religious identity that makes them special types of both. This unique identity gives Sister Pat leverage to continuously challenge the company to do more on climate change without being perceived as an enemy to the firm.

First, Sister Pat's religious identity affects her legitimacy compared to non-shareholder external stakeholders like West Coast environmental NGOs in the eyes of Ford managers. Stakeholders are typically divided into the following discrete categories: customers, suppliers, employees, shareholders, and community (McVea and Freeman 2005). NGOs typically fall into the community category, although community is not limited to the local Detroit metropolitan community. Community tends to be a catch-all phrase that includes local citizens, local and national NGOs, civic groups, and social movement organizations. When applied to large, national NGOs, it is a label that can connote outsider status and a hostile approach to firms, such as Rainforest Action Network or Global Exchange (Global Exchange 2008). Campaigning organizations are frequently kept at arm's length from large, publicly traded companies, although as a collectivistic firm, Ford has chosen to engage with these groups as well. However, one former manager pointed out that "a completely different set of conversations" occur between the company and these stakeholders compared to religious investors. The shareholders filing climate resolutions work closely with the company on environmental business initiatives and strategies, whereas campaigners and the company developed more of a "tacit agreement to stay in touch with each other, to give each other a heads up when we were doing things" (interview with former Ford manager).

What makes Sister Pat different from activist NGOs – and shareholder activists perceived as gadflies (discussed below) – is that managers also view her as a contributing member of the Ford Motor Company. One manager even joked that he views Sister Pat as "part of their management team," although he laughed and said she would "probably cringe" if

she heard him say that. Her religious identity makes Sister Pat and religious investors seem like trustworthy and legitimate groups to bring into the firm for dialogue. As Suchman (1995) notes, “Audiences perceive the legitimate organization not only as more worthy, but also as more meaningful, more predictable, and more trustworthy” (575). One manager acknowledged that his general impression of NGOs can be quite negative, but Sister Pat and ICCR are an exception. In his view, “it’s hard not to trust nuns, priests, and ministers.” Sister Pat and the resolution co-filers are clearly distinguished from NGO groups by their investor identity as well. As one manager said,

“They have an interest in our ability to stick around for the long term to address the issue where maybe activists aren’t as concerned about us sticking around for the long term. They just want us to address the problem.”

This comment highlights the fact that shareholders are a special category of stakeholder, particularly those viewed as caring about the company’s long-term survival. However, historical work on shareholder activism shows that companies typically view *all* shareholder activists as nuisances (Talner 1983). This is not the case at Ford, though, where religious investors are viewed much more positively than other types of activist investors. As an example, one member of Ford’s in-house counsel relayed a story about an individual shareholder activist who exasperates their office with multiple resolutions each year. This shareholder circumvents the SEC rule that an investor can only file one resolution each year by buying shares for his family and then submitting multiple resolutions under different names to the company. The lawyer noted that the resolutions are all typed on the same paper with the same formatting and every filer has his family name. However, because these resolutions are technically filed by different individuals, the firm has a legal obligation to include all of the resolutions in their proxy statement.

Given the general disdain of shareholder activists by firms, one might expect religious investors to receive a negative reception at Ford because they are violating the social codes typically associated with an investor identity. The term “investor” in both economics and sociology is primarily associated with a set of social codes related to maximizing returns, exercising exit over voice (Hirschman 1970), and passivity over activism. What we think of as legitimate or illegitimate investor behavior is still dominated by economic rather than sociological categorizations (Schrank 2008), and even organizational researchers who use investor organizations as their level of analysis tend to contrast activist funds as anomalies to default investor labels such as “passive,” “profit-driven,” and “short-term oriented” (Davis 1994; Useem 1996). In this case, Ford could penalize faith-based investors for violating these investor codes.

Alternatively, if we draw on structural theories from economic sociology, one might expect Sister Pat to be penalized for not adhering to a single identity: nun or investor. Her investor identity is inseparable from her religious identity, making evaluation of her actions more complicated. Complicated identities are generally more difficult for audiences to evaluate, though, and Zuckerman (1999) has shown that firms that do not fit clearly into one industry category receive negative evaluations from securities analysts. Zuckerman et al (2003) also find that young actors experience better labor market outcomes by being stereotyped into a single film genre, although veteran actors have more freedom to violate their initial typecasting.

Unlike veteran actors who successfully switch film genres later in their careers (e.g. Jim Carrey or Jamie Foxx), though, faith-based investors do not become uniformly viewed as legitimate investors by all firms regardless of the number of years they engage with them. As mentioned earlier, faith-based investors engage with some firms for decades without reaching successful withdrawal agreements on social and environmental issues.

According to Brickson (2005, 2007), individualistic firms like these do not value interactions with internal or external stakeholders, so they may be more likely to use a blunt evaluation process to evaluate religious investor actions. Individualistic firms may simply sanction shareholder activists for violating the standard social code of passivity associated with a traditional investor identity. They may either regard a faith-based investor like Sister Pat as only a nun and not a real investor or just another shareholder activist, neither of which has the skill or legitimacy to raise issues with management. In either case, faith-based investors would not be viewed as conforming to the accepted social codes of an investor identity by individualistic firms.

More recent work on identity evaluation takes a slightly different view from Zuckerman and colleagues regarding the causal mechanisms at work when actors receive negative identity sanctions. In their study of eBay auctions and U.S. feature film projects, Hsu et al. (2009) argue that “when audience members value category-specific identities, generalists get penalized not because generalization indicates poor skill...but because of who they are; less than full members of the category” (166). But due its collectivistic orientation, Ford does not appear to value category-specific identities as much as other firms. Rather, not being full members of a single category works to faith investors’

advantage when dealing with a firm that possesses a collectivistic orientation. Given their openness to many types of stakeholders, collectivistic firms have exposure to many different organizations, even those typically viewed as hostile actors to most firms (e.g. activist NGOs). By *not* being viewed as fully part of any one of those groups – while still being compared to them – religious investors enjoy what can be thought of as evaluative bonus points. Rather than viewing Sister Pat as a “nun and not an investor” or “a shareholder activist and not a proper investor,” the firm instead views faith investors as “not activist environmental NGOs” and “not illegitimate shareholder activists.”

By possessing an overarching religious identity, Sister Pat is able to distinguish herself from the negative social codes associated with shareholder activists and radical NGO identities despite sharing many of the same end-goals with these actors. It is the interpretation of her actions through a social lens that changes the evaluation. When evaluating Sister Pat’s actions, Ford places as much emphasis on what she is not as on what she is (a nun). Although she is an activist investor, Sister Pat is distinguished by Ford managers from the man who files multiple resolutions through his family members. To illustrate how this distinction influences the interaction between the company and Sister Pat, consider the following statement by a lawyer in Ford’s General Counsel’s Office:

“Now for something like a substantive violation of an [SEC] rule, I don't have to tell [filers] within two weeks. I don't have to tell them at all, actually. I can, and sometimes I do...but I don't have to...it depends on our experience with the shareholders. For someone like Sister Pat I would, because we have a great relationship with her and we want to foster that. It's a beneficial relationship. We feel it is. So I'm just not going to do that to her.”

The discussion above highlights why it is crucial not to overlook the central, enduring and distinctive elements (Albert and Whetten 1985) an organization possesses when evaluating another actor. Both the internal and evaluative components of identity are necessary pieces of the puzzle to explain inter-organizational ties and outcomes resulting from those ties. Without accounting for the fact that Ford possesses a collectivistic identity orientation toward stakeholders, we would not be able to explain why the firm's evaluation of faith investors – and decision to interact with them – differs from other similar U.S. firms. In this case, identity interactions aid theorizing efforts regarding the conditions under which various identities of firms and shareholders will differentially affect shareholder resolution outcomes.

### ***Identity Implications: 2008 Dialogue***

The way in which the identity interaction between Ford and religious shareholders affected the withdrawal of a resolution is nicely illustrated by the 2008 investor dialogue. In December 2007, Sister Pat notified Ford that she was re-filing the GHG reduction resolution for Ford's 2008 annual meeting. At their first dialogue meeting in February 2008, Sister Pat told Ford's Director of Sustainable Business Strategies that "there is a precedent that Ford is the first one out of the gate on these issues," reminding him of Ford's public withdrawal from the Global Climate Coalition (GCC) – a business group denied climate science and opposed action on climate change – ahead of other U.S. automakers in 1999. In early March, Ford agreed to set a public target that they felt met "the intent of the resolution" (interview with Ford manager). The target Ford provided to the investors was a thirty percent reduction in GHG emissions from products by 2020.

The investors wanted external environmental experts to vet the target and weigh in on whether it was a legitimate move forward before withdrawing the resolution, though. They asked the company for permission to share the proposed target with analysts at the Natural Resources Defense Council (NRDC) and the Union of Concerned Scientists (UCS). These prominent environmental NGOs have members on the Ceres Board of Directors and frequently play an external expert role for investors on environmental issues.

Roland Hwang, the senior policy analyst on transportation at NRDC's San Francisco office, was skeptical when he first heard the target that Ford had set. On December 19, 2007, President George W. Bush signed the Energy Independence and Security Act into law. This legislation required automakers to increase their fleet-wide corporate average fuel economy (CAFÉ) to thirty-five miles per gallon by 2020, including light trucks.

Hwang said when he heard the Ford target, he immediately thought of the new legislation:

“We turned around and looked at it and said wait a minute. This looks an awfully lot like the inverse of the 40 percent increase of going from 25 to 35 miles per gallon which was just passed into law. So this looks an awful lot like, gee, maybe Ford is completely innocent on this but we're going to send the warning flag up here that at the very minimum the optics of it are that this looks like greenwashing... We told Sister Pat Daly, this looks like they're basically saying they will comply with the bare minimum of the Energy Independence and Security Act.”

Sister Pat took these concerns back to Ford and their management team responded that the target was based on in-depth, quantitative scenario analyses the company had been

conducting the past two years. The company said the scenario analysis looked at what reduction targets Ford would need to set in order to reduce the auto sector's contribution to GHG emissions and move toward stabilizing CO2 levels at 450 parts per million (ppm).<sup>3</sup> Ford's management team wanted the investors and NGOs to look at their analysis before dismissing the target as greenwashing when it went public. Ford asked Sister Pat to invite NRDC and UCS representatives to review Ford's scenario analyses and have a conversation about the assumptions Ford used to get the target. When I asked a Ford manager whether these NGOs would have been contacted to look at Ford's scenario analysis independently of the religious investor pressure, the response was "probably not." This manager said,

"I really do think that Sister Pat was a broker of all this. But having said that, I don't want to short sell us. I think we've done some pretty incredible stuff without Sister Pat, but I do think she was a catalyst. You know what she did? She provided us credibility [with the NGOs]."

Just as Cosimo de' Medici's sphinx-like identity created brokerage opportunities, Sister Pat's master religious identity gives her legitimacy to engage with multiple actors as a shareholder and a nun. Unlike Cosimo, though, Sister Pat – and ICCR members more generally – do not keep their allies separated from one another. Rather, their strategy is to act as a broker and bring them together (Obstfeld 2005). In essence, Sister Pat behaves as a "tertius lungens" (third who joins) rather than a "tertius gaudens" (third who profits).

The NGOs had been previously unaware of the scenario analysis being conducted at Ford, and after talking to Sister Pat, they agreed to send representatives to meet with the

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<sup>3</sup> 450 parts per million (ppm) of carbon dioxide is the number commonly cited as the concentration needed to stabilize global GHG emissions and is used as the stabilization threshold in the UN's Intergovernmental Panel on Climate Change's (IPCC) 2007 Fourth Assessment Report. However, some environmental groups and scientists now argue 350 ppm is the number needed to stabilize emissions.

company and assess whether the analysis was greenwashing or a good faith effort to reduce product emissions. After reviewing the analysis, the NGOs were satisfied enough to eliminate their initial concerns about greenwashing:

“I think it’s fair to say that our community was convinced that the model they built and the analysis they did was...a good faith effort to answer the question of what level of fuel economy standards do you need for the auto sector in the U.S. to put the U.S. transportation sector on the correct trajectory to achieve...80 percent reduction scenarios.” (Interview with senior analyst at NRDC)

During a March 26th conference call between the company and shareholders, NRDC and UCS told Sister Pat and Connecticut that Ford’s scenario analysis represented a good faith effort. As a result, Sister Pat agreed to withdraw the 2008 resolution if Connecticut would also agree not to renew its own separate 2008 climate resolution. Although Ford had gotten the Connecticut resolution omitted by the SEC for being duplicative of ICCR’s resolution, if their resolution was withdrawn, Connecticut’s would become live again. Connecticut’s separate resolution was part of the reason they were included in the dialogue process. After Ford agreed to expand the climate change reporting section of their 2008 sustainability report (Ford Motor Company 2008), Connecticut agreed to withdraw and Sister Pat sent Ford a letter on March 27, 2008 officially withdrawing the resolution. The letter stated:

“Shareowners are grateful to our colleagues at Ford Motor Company for the seriousness in which this request has been received. We appreciate the challenge to consider such diverse variables as you chart a business plan to compete in a carbon constrained economy, while taking seriously the moral imperative to reduce greenhouse gas emissions. As the first company to respond to this request by shareholders, I believe that Ford is once again making a significant contribution to both the auto industry and other industries in facing the business challenge of global warming.”

For its part, Ford agreed to include a statement in its annual proxy noting the resolution had been filed and successfully withdrawn after dialogue with the shareholders. This is a highly unusual action for a firm to take. Almost all resolutions that are withdrawn remain out of public view due to confidentiality agreements. In my interviews, Ford managers noted the potential risk the company took by including a statement on the withdrawal in the proxy. One manager said that the firm really wanted to acknowledge the success of this one shareholder resolution with this particular group of investors, but “Ford didn't want the message to go out and have people think that you want to get something changed, put a resolution in and the company will change it” (interview with Ford manager). In the end, the firm acknowledged the productive relationship with the shareholders on the issue of climate change but also included language from the shareholders complimenting the company on its actions.

## **DISCUSSION AND CONCLUSION**

### ***Contributions to Identity and Embeddedness Research***

A great deal remains to be unpacked about how identity interactions affect relationships between firms and stakeholders – and ultimately, firm behavior. A single case study is not sufficient to make generalizations about how different identity orientations affect the outcomes of different types of firm/stakeholder interactions. However, the findings here strongly suggest that structurally similar firms approach stakeholders with varying cognitive orientations and evaluate the legitimacy of stakeholders' identities differently. This in turn affects whether a firm believes there is merit to fostering a strong relationship with a given stakeholder. These facts suggest the need for more process-

oriented concepts related to embeddedness – like identity interactions – to account for the role of identity in economic relationships.

The case shows that although religious investors' engagement with firms takes place in an atypical sphere (e.g. the market), and by unconventional methods (e.g. shareholder resolutions), Ford does not see their actions as illegitimate. Although they engage with one another in an economic setting, the resonance of the religious shareholders' social identities to managers brings forth notions of societal distinctions that are "entangled in longstanding divisions and sentiments associated with [social] and cultural understandings" (Hsu and Hannan 2005: 482). This distinction works to religious investors' advantage. Churches and religious figures have long played a prominent role in civil rights, human rights, and social justice movements, so it does not seem contradictory to managers for religious investors to pursue environmental goals in the economic arena. As a result, it is easier for Ford to see "a logic of appropriateness" (March and Olsen 1995) in Sister Pat's actions than other stakeholders – such as activist individual investors and environmental NGOs – who do not possess identities that are as resonant or authentic as a Catholic nun. Further, the firm trusts the motivations of religious investors more than other groups who they believe are acting out of self-interest. As a collectivistic organization, Ford also sees itself as a part of and concerned about about the greater "collective" of society in a manner that parallels religious investors. In this way, there is a "match" between the two organizations self-views.

However, the firm's positive evaluation is also a function of its openness to stakeholder input more generally. Compared to individualistic firms that do not value stakeholder input, I suggest Ford engages in a different evaluation process given its greater variety of interactions with diverse stakeholders. Individualistic firms assert that stakeholders should not tell them what issues to attend to because their managers will always do what is required to make the firm a top performer. In the case of a relationally-oriented firm, by contrast, management only responds to stakeholder requests originating from parties with whom the firm cares about maintaining a strong relationship (e.g. employees or important clients). For example, managers at a relational firm that privileges firm-employee relations would be more likely to respond to employee demands for firm action on climate change than similar requests from shareholders. In contrast, by virtue of their openness to a variety of stakeholders, collectivistic firms are more likely to engage in more fine-grained evaluations of stakeholder legitimacy based on identity and past interactions.

The distinctions managers make among stakeholders at Ford are important ones because they suggest that in areas where the firm has discretion over its interactions with them, different constraints are placed on different stakeholders based on the legitimacy of their identity. While organizational ecologists acknowledge that audiences sometimes enforce different types of constraint on actors with the same identity, they argue that "such identities are fragile and are unlikely to be sustained" (Polos et al. 2002: 96). As demonstrated above, though, religious investors' religious identity compensates for many negative evaluations they could receive given their activist shareholder behavior.

Organizational and economic sociologists with an interest in how identity affects economic ties should be mindful not to throw out the baby with the bathwater when deciding how to conceptualize organizational identity. I argue that new work on the evaluative component of identity (Polos et al. 2002; Hsu and Hannan 2005; Hannan et al. 2007) should not totally discard the idea that identity is comprised of the central, enduring, and distinctive elements of an organization (Albert and Whetten 1985). Rather, this new work should be viewed as an extension on previous identity work among organizational researchers. The term I introduce in this case – identity interaction – is a mechanism that brings this complementarity into relief. On the one hand, an organization approached by an external stakeholder will evaluate whether the other entity is a legitimate player with whom to engage. On the other hand, the organization's own identity orientation influences this evaluation and what groups they place in legitimate versus illegitimate categories. Organizations with strongly collectivistic identity orientations make fine-grained evaluations of stakeholders based on their experiences engaging with many different groups.

Understanding the connections between organizational identity and inter-organizational relations may put organizational researchers in a "considerably stronger position to predict and to understand organizations' policies, practices, and behaviors toward [stakeholders]" (Brickson 2005: 577). Just as importantly, focusing on identity interactions helps researchers bring into relief the social and cognitive underpinnings of economic ties. Drawing on the Polanyian tradition that asserts that the economy "is

embedded and enmeshed in institutions, economic and non-economic” (250), Krippner (2001) has argued that even among economic sociologists, “the market has tended to elude researchers as a sociological object” (478). This case study has employed the concept of identity interaction in an attempt to bridge the gap between purely structural accounts of embeddedness and a more cognitive/cultural analysis of economic ties that accounts for identity influences.

### ***Future Directions***

Moving forward, one fruitful extension to this research would be to test the effect of firm identity orientation on firm strategies while controlling for shareholders’ organizational identities using a large sample of firms (see Chapter 4). This would provide insight into whether a firm’s degree of individualistic/collectivistic orientation affects the likelihood that a climate change (or any shareholder resolution) gets withdrawn before going to a vote among shareholders. Conducting longitudinal analysis on identity orientation requires finding a proxy measure for the concept, however. While Brickson (2005, 2007) surveyed multiple employees in an organization to an aggregate measures of the firm’s identity orientation, this measurement is neither feasible for historical analysis nor practical for large-scale studies that demand as little missing data as possible.

I propose that one promising proxy measure of firm identity orientation available to researchers is Kinder, Lydenberg, and Domini’s (KLD) corporate rating system (Graves and Waddock 1994; Berman et al. 1999; Hillman and Keim 2001; Deckop, Merriman, and Gupta 2006; Kacperczyk 2009). KLD is an independent social investment research

firm that rates firms on their responsiveness to stakeholders on social and environmental issues. The KLD database is considered the gold standard for measuring corporate social performance (CSP) in the organizational literature (Waddock 2003).

Many scholars use the KLD rankings to reflect a firm's social and environmental performance, but others have recently called into question whether the KLD rankings actually measure environmental or social performance (Chatterji, Levine, and Toffel 2009). These researchers suggest that most KLD data simply measures positive and negative attention to stakeholders rather than any direct impact on stakeholder groups (Berman et al. 1999; Hillman and Keim 2001; Kacperczyk 2009). In essence, the KLD data captures general receptivity or hostility to different stakeholders (e.g. community, employees, customers), making it a useful data source to create proxies for identity orientation for large-scale studies on the topic. The KLD ratings are updated annually, so they capture changes in firm identity orientation over time. Most KLD ratings of a single firm do not change dramatically from year to year, supporting the idea that identity orientation is a relatively sticky (Scott and Lane 2000) and enduring construct (Albert and Whetten 1985). However, the benefit of this longitudinal database is that it does reflect orientation changes when they do occur (e.g. after mergers or other punctuating events).

On the other side of the identity interaction, Sister Pat raised the point that there will be fewer professional religious women doing shareholder activism work in the future as the number of Catholic nuns in the United States continues to decline. Indeed, the "graying"

of religious professionals currently engaged in shareholder activism is noticeable at ICCR's annual meetings. In our interview, she said she wonders whether the movement toward more faith-based institutions doing shareholder activism (e.g. healthcare institutions, church board of pensions) will make a difference in how companies view faith-based investors. The representatives from these organizations are typically not professional religious individuals (i.e. nuns, priests, or ministers). Also, given the rise of public pension fund involvement in climate change shareholder activism through Ceres' Investor Network on Climate Risk (INCR), it is also unclear whether firms view the legitimacy of these new players differently than faith-based investors.

Another question left unanswered in the case is whether the religious affiliations and beliefs of mid and top-level managers affects the ways in which they view religious investors and whether their religious beliefs differ from managers at other companies that choose not to engage with faith-based investors. During the course of my interviews, several managers referenced their Catholic backgrounds when discussing their interactions with Sister Pat. One individual quipped, "I was brought up in a good Catholic school, so I'm not going to give Sister Pat a hard time." While not uniformly referenced across the interviews, these comments emerged often enough in the data to raise some interesting questions regarding the effect of religious identification and managerial religiosity on firm behavior.

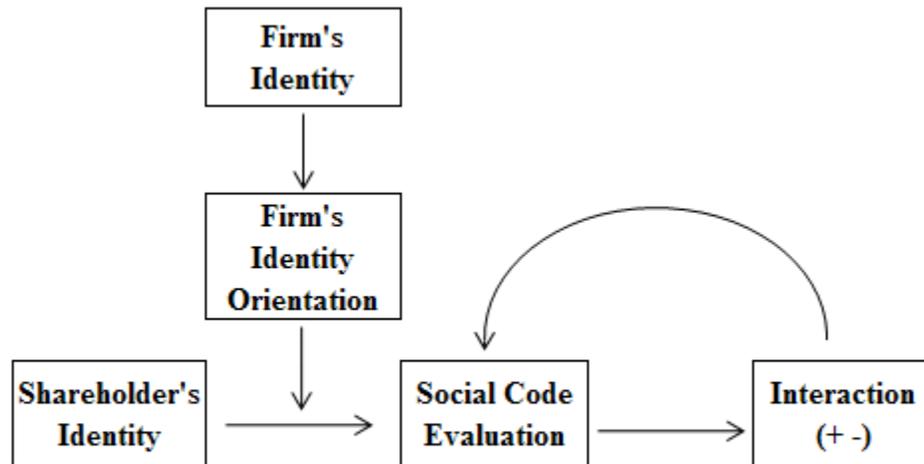
There has been surprisingly little contemporary analysis on how religion manifests itself in economic relationships and markets (Fukuyama 2005; although see Weaver and Agle

2002; Baker and Forbes 2006). The neglect of religion in economic sociology is all the more ironic given that Max Weber's *Protestant Ethic and the Spirit of Capitalism* (Weber 1905) is a canonical citation in organizational research and sociology. There are obvious challenges to collecting rigorous and accurate data on mid and upper-level managerial religiosity, and even more with connecting this data to firm strategies. However, this does suggest a ripe opportunity for collaboration between economic sociologists and scholars working in the sociology of religion area. Sociology of religion researchers are well-versed in data collection and survey instrument techniques to obtain measures of religiosity, and economic sociologists are well-poised to determine what settings and firm strategies are most interesting to examine through a religious lens. There is a lot of potential for fascinating empirical work at the intersection of these two research domains.

Finally, contrary to the common economic and sociological conception of "investors" as passive, purely profit-oriented, and atomistic, the case finds that Sister Pat's economic actions are not divorced from her religious identity at collectivistic firms. This suggests the need for further work around conceptualizing our notions of "the investor," a figure that has been greatly under-theorized in economic sociology (Preda 2005; Schrank 2008). The case also finds that Ford's orientation toward stakeholders differs from other structurally similar firms in terms of size and industry. Future research on audience evaluation of identity can and should include measures that capture differences in identity orientation among firms. More broadly, this case demonstrates that economic sociologists, regardless of their theoretical and methodological stripes, are well-served by

employing identity concepts and variables in their research to gain greater clarity into how the social is fused with the economic in market relationships.

**Figure 3.1 – Identity Interaction**



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## **Chapter 4**

### **Identity Interaction? How Organizational Identity Affects Shareholder Resolution Outcomes**

#### **INTRODUCTION**

Research interest in corporate responses to social and environmental issues has grown dramatically over the past decade, perhaps best evidenced by the recent publication of an academic handbook on the topic (Crane et al. 2008). Explanations for firms' willingness to engage in corporate social action related to environmental issues range from anticipation of future regulation (Hoffman 2007), institutional ownership pressures (Johnson and Greening 1999), industry pressure resulting from environmental disasters (Hoffman 1999), CEO values (Agle, Mitchell, and Sonnenfeld 1999), and greenwashing (Lyon and Kim 2006). Perhaps the most researched topic on corporate social action, however, has been the link between corporate social responsibility and financial performance (Waddock and Graves 1997; McWilliams and Siegel 2000; Hillman and Keim 2001; Margolis and Walsh 2003). In a recent meta-analysis of the link between social and environmental performance, though, Margolis, Elfenbein, and Walsh (2009) argue that research in this arena "should be redirected to better understand why companies pursue [corporate social action]" (2) rather than just the financial outcomes of such action. This study takes an initial step to address this question.

I propose that management and sociological theories about organizational identity can shed some light on why some firms engage in corporate social action. Specifically, this study poses the question, “How does organizational identity affect the likelihood that firms and investors reach withdrawal agreements on climate change shareholder resolutions?” We know from organizational theory that identity affects how firms react to external threats or crises (Dutton and Dukerich 1991; Elsbach and Kramer 1996). We also know that “identities situate the organization, group, and person” (Albert, Ashforth, and Dutton 2000:13), making them a useful vehicle to see how beliefs about the legitimacy and value of certain identities affect relational ties between actors. Actors involved in inter-organizational relationships constantly evaluate one another’s behavior (Goffman 1959), using identity as a measure of whether another organization’s actions are appropriate (March and Olsen 1995).

Whereas the classical definition of identity in the organizational literature defines identity as the “central, enduring, and distinctive” elements of an organization (Albert and Whetten 1985; Whetten 2006), organizational ecologists have begun conceptualizing identity as “social codes” that are evaluated by audiences (Polos, Hannan, and Carroll 2002). The former places the locus of identity internally whereas ecologists focus primarily on external audience evaluations of populations of individuals or organizations. Rather than being mutually exclusive, I argue both of these conceptualizations are necessary to understand how identity influences stakeholder engagement outcomes between firms and shareholders on climate change.

I introduce the concept of “identity interaction” to reflect the dual ways in which identity evaluation by external audiences and internal identity attributes influence inter-organizational relationships. Identity interactions occur when one organization evaluates the identity of another before deciding whether and how to engage in a relationship with it. This evaluation is contingent, however, on the firm’s own orientation toward stakeholders (Brickson 2005, 2007). Thus, the identity interaction concept is comprised of two components that interact with one another in firm-stakeholders negotiations; the stakeholder’s organizational identity and the firm’s identity orientation. Stakeholder organizational identity refers to the “central, enduring, and distinctive” attributes of an organization (Albert and Whetten 1985). In this study, I pay particular attention to whether the social identities of one type of stakeholder – shareholder activists – are rooted in religion, finance, or special interest areas like the labor and environmental movements.

The other component of identity interactions is the identity orientation of firm, which captures how firms evaluate the legitimacy of stakeholders’ social identities and whether they want to negotiate with them. Identity orientation is defined as the “the nature of assumed relations between an organization and its stakeholders—are relations independent, dyadically interdependent, or derived from a common group membership?” (Brickson 2005: 577). According to Brickson (2007), firms can be placed in three different orientation categories: individualistic, relational, or collectivistic. Organizations with each of these orientations approach their relationships with stakeholders differently. Whereas an “individualistic orientation is associated with concern for one’s own

welfare,” organizations with relational orientations are “associated with an emphasis on the well-being of particular relationship partners and on maintaining relationships, and a collectivistic orientation is associated with a concern for the welfare of the greater group as a whole” (Brickson 2005, 579). In essence, identity orientation captures how a firm approaches its relationships to different stakeholders. It also captures heterogeneity among firm evaluation of stakeholders and corrects for a tendency in organizational ecology research on identity to assume that all audience members (i.e. firms) evaluate the same stakeholders in the same way (Polos et al. 2002).

While acknowledging the three identity orientations are ideal types and recognizing that hybrids also exist, the labels provide a starting point from which to consider why there is variation in the approach firms take in their relationships with stakeholders.

Individualistic organizations are primarily concerned about their own welfare, whereas collectivistic organizations prioritize the welfare of a larger group in stakeholder interactions, which they often conceptualize as “community” or “society” (Brickson 2005). Hence, firms with different orientations evaluate different stakeholders using different lenses and likely have different dialogue outcomes with shareholders on climate change shareholder resolutions.

The study builds on the Ford Motor Company case study outlined in the previous chapter, where I found the withdrawal of a climate change resolution was facilitated by the shareholders’ religious social identity and Ford’s collectivistic identity orientation (Brickson 2005, 2007). Ford displayed openness to many different types of stakeholders,

but its view of religious stakeholders as especially trustworthy and rightly motivated created a quicker withdrawal agreement on a contentious climate resolution than one would normally expect. This paper attempts to generalize those findings by analyzing what factors influence the likelihood that climate change shareholders resolutions will be successfully withdrawn using a dataset of U.S. resolutions filed from 2002 to 2009.

There are three organizational identity variables of interest in the study. First, in line with organizational ecologists, I test whether the legitimacy of the resolution filers' identities affect how firms respond to their resolution requests. Second, I turn attention to the firm's identity and test whether Brickson's notion of firm identity orientation impacts the likelihood of withdrawal. Finally, I test whether an "identity interaction" between the filer's identity and firm's identity orientation explains different firm responses to shareholder activism on climate change.

The article makes contributions to both the organizational identity and the business literature on corporate social action and stakeholder engagement. In regard to research on organizational identity, it is the first study that tests the explanatory power of different identity theories, specifically theories from traditional management literature (Albert and Whetten 1985; Brickson 2005, 2007; Whetten 2006) and organizational ecology (Polos et al. 2002; Hsu and Hannan 2005; Hannan, Polos, and Carroll 2007; Hsu 2006; Hsu, Hannan, and Kocak 2009). Despite the potential to inform one another, these two research streams and the scholars that pursue them rarely engage with one another theoretically.

The study is also motivated by the lack of attention paid to stakeholder-firm interactions in studies of corporate responses to stakeholder demands, particularly how identity impacts the outcomes of these interactions. The study builds on an earlier longitudinal study by Eesley and Lennox (2006) that examined how stakeholder legitimacy and power interacted with a firm's power (measured as firm assets) to influence the outcome of 600 environmental conflicts between firms and external stakeholders in the U.S. However, while that study focused attention on how financial resources of firms and stakeholders influence conflict outcomes, I extend their study a step further by attending to how *identity* influences firm-stakeholder interactions. In this way, the study answers the call by Margolis, Elfenbein, and Walsh (2009) for researchers to attend more to why firms pursue corporate social action rather than whether it enhances their financial performance (or vice versa). As Eesley and Lennox (2006) note, large-scale statistical analyses of “which stakeholder influences matter to managers and to which stakeholders firms are likely to respond” are few and far between in the business literature (766). This study addresses those questions directly.

## **EMPIRICAL SETTING**

The shareholder resolution process provides the empirical setting for this article. Under Rule 14-a-8 of the Securities and Exchange Act of 1934, any shareholder owning at least \$2,000 of stock in a company has the right to file an advisory shareholder resolution at publicly-traded U.S. firms. Shareholder resolutions are non-binding advisory proposals regarding corporate governance or social and environmental issues. They are included in

a firm's proxy statement and are voted upon by all shareholders. The proposals must be under five hundred words in length, and each one ends with a "resolved" clause asking the firm to take a given action (e.g. separate C.E.O. and chairman roles, report on greenhouse gas (GHG) emissions).

Firms can respond to shareholder resolutions in four ways. First, a firm can choose to engage in shareholder dialogue with the resolution filer and reach an agreement for withdrawal. Shareholders generally withdraw resolutions from the ballot if they hold closed-door dialogue meetings with firm managers who agree to take action on the issue outlined in the resolution. In the case of climate change resolutions, withdrawal agreements are generally reached when firms agree to disclose their GHG emissions or set voluntary GHG reduction targets. Alternatively, a firm can ignore the resolution and allow all shareholders to vote on its merits. With few exceptions, shareholder proposals that go to a vote are opposed by management, and the company will include a "no" vote recommendation on the proposal in their proxy statement.

Third, firms can petition the U.S. Securities and Exchange Commission (SEC) to exclude shareholder resolutions from the proxy ballot. The SEC will permit the company to omit a resolution if it rules the issue to be a personal grievance or part of "ordinary business." Finally, a firm can decline to enter into dialogue with shareholders but still disclose their GHG emissions or set voluntary targets. Recent studies of corporate responses to climate change have examined what factors affect whether firms disclose their emissions through the Carbon Disclosure Project (CDP), a voluntary reporting structure (Reid and Toffel

2009; H. Buhr and K. Buhr 2010). The relationship between climate change resolutions and firm GHG disclosure is not entirely clear, though. Using 2006-2007 data, Reid and Toffel (2009) found that S&P 500 firms targeted by climate resolutions or in industries where peer firms are targeted are more likely to disclose their GHG emissions, although Buhr and Buhr (2010) did not find a significant effect on firm reporting from shareholder resolutions for S&P 500 firms in 2008.

Regardless of whether a resolution is withdrawn through dialogue, the shareholder resolution process requires repeated interactions between firm managers and shareholders. Many resolution proponents file the same or multiple resolutions with firms for many years, and because a firm is not required by law to engage in closed-door dialogue with shareholders to resolve resolution demands, these resolutions provide an ideal empirical setting to explore the impact of organizational identity on shareholder dialogue outcomes. In essence, shareholder dialogue is a type of “private politics,” which Baron (2003) defines as “situations of conflict and their resolution without reliance on law or government” (31).

## **ORGANIZATIONAL IDENTITY AND CLIMATE CHANGE**

### ***Filer Identity***

Investors who file shareholder resolutions are not homogenous actors, and the population of shareholder activists has shifted significantly since the 1990s. Historically, shareholder activists were comprised of primarily three groups; religious investors, individual investors, and special interest investors. Modern shareholder activism was spearheaded

by individuals and groups with explicit social concerns such as employment discrimination and apartheid in South Africa during the 1960s and 1970s. Among firms and shareholder activists, names like the Gilbert Brothers, Saul Alinsky and Evelyn Davis are viewed with disdain by the former and reverence by the latter (Talner 1983). The Medical Committee on Human Rights' landmark 1968 resolution against Dow Chemical's production of napalm is perhaps the most famous historical example of a special interest group using the proxy ballot to further a social goal. In that case, the Committee said the firm faced significant reputational risks from producing napalm when the human consequences of napalm on humans became publicized by journalists during the Vietnam War.

The types of investors who engage in shareholder activism have expanded over the last several decades, however, and now include the old guard of shareholder activists (i.e. religious investors) as well as more mainstream investors. Following the Enron scandal in 2001 and continuing through the current financial crisis, institutional investors – particularly public pension funds – have been paying greater attention to governance issues at firms whose stock they own (Cogan 2006). There has been a similar rise in investor interest in climate change. For example, the Investor Network on Climate Risk (INCR) – a network of institutional investors that considers financial risks and opportunities related to climate change – has grown from ten public pension funds and state treasurers managing \$600 billion in assets in 2003 to over 90 members managing almost \$10 trillion in 2010. And while the majority of climate resolutions were filed by religious and environmental groups in the 1990s, the 2000s marked the entry of public

pension funds, foundations, SRI mutual funds, and unions into climate change shareholder activism.<sup>4</sup>

Given that institutional investors filing climate resolutions have different organizational identities, it is reasonable to assume that their relevant audience (Polos et al. 2002) – large U.S. firms – do not view them as homogeneous actors. In a large-scale study of shareholder resolutions, for example, David, Bloom, and Hillman (2007) find that firms are more likely to negotiate resolution withdrawals with investors associated with established shareholder organizations like the Council on Institutional Investors (CII) and the Interfaith Center on Corporate Responsibility (ICCR). Other studies on shareholder proposals have come to similar conclusions (Gordon and Pound 1993).

The assumption that different types of shareholders are viewed more/less favorably by firms is also supported by evidence in the Ford Motor Company case study outlined in the previous chapter. Current and previous Ford managers openly acknowledged that they hold different views of different types of shareholder activists. The shorthand Ford managers often use is “East Coast and West Coast” to distinguish among those NGOs they feel are “solutions-based” (East Coast) and those that are more likely to launch negative campaigns against the company (West Coast). One manager went so far as to even note differences in the way these two groups dressed when visiting with top-level managers. The East Coast NGOs tend to wear suits and whereas the West Coast are generally more “California causal.” In this domain as well, the East Coast NGOs were

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<sup>4</sup> As a note of interest, Loyola University of Chicago became the first U.S. university to file a climate change resolution in 2010 with JPMorgan Chase.

better matched with Ford's corporate culture than the West Coast organizations. In the world of shareholder activism, professional investors like public pension funds act and dress like the "East Coast" while special interests investors like individuals and environmental groups are viewed as more "West Coast."

The above suggests that a shareholder's legitimacy matters to firms. Legitimacy, defined as the "assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman 1995: 574) is strongly tied to organizational identity. Thus, how the firm perceives the identity of the filer likely affects whether a resolution withdrawal agreement is reached. Eesley and Lennox (2006) use a rank ordering from public opinion surveys to define stakeholder legitimacy in their study of environmental conflict between firms and stakeholders. Given that it is the firm's perception of the stakeholders' legitimacy and not the general public's that matters in firm-stakeholder conflicts, though, I do not consider this an appropriate measure of stakeholder legitimacy in shareholder resolution conflicts.

Rather, I hypothesize that the social legitimacy of religious figures and financial legitimacy of professional investors as compared to special interest investors will make firms less willing to reach withdrawal agreements with special interest investors like unions or environmental NGOs than other investors. Drawing on the studies outlined in Chapters 2 and 3 of this dissertation, one can infer that religious investors gain legitimate status from firms given their "selfless motives" and long-term engagement with

companies on both social and environmental issues. Secular professional investors, on the other hand, likely gain legitimacy vis-à-vis their identity as profit-driven investors executing their fiduciary duties of responsibility. Both are likely advantaged over special interest investors in shareholder resolution disputes, as firms presume these investor groups are representing the interests of their own members (e.g. labor or environmentalists) rather than looking out for the best interest of society or the company's bottom line.

**Hypothesis 1 (filer identity)** – Resolutions filed by special interest groups are less likely to be withdrawn than those filed by religious or secular professional investors.

### *Identity Orientation*

A limitation of Hypothesis 1 is that it does not account for differences among firms themselves that may influence how they evaluate shareholder activists. As recent work in organizational research has acknowledged (Hsu et al. 2009; King, Felin, and Whetten 2010), one of the most pressing needs in identity research is to “consider heterogeneity within an audience” (Hsu et al. 2009: 167) and understand the drivers behind their differential evaluations of a single actor – shareholders in this case. In their study of firm responses to secondary stakeholders on environmental issues, Eesley and Lenox (2006) also find that “stakeholder power is less a stakeholder attribute than an attribute of a stakeholder–firm pair” (767). As an example, they discuss how the saliency of environmental NGO’s request for a firm to stop emitting pollutants into a river will depend on the stakeholder’s attributes but also “the nature of the request, and the

attributes of the targeted firm” (767). While they focus on whether financial differences between firm and stakeholder affect the outcomes of their conflicts, I focus on whether identity and legitimacy affect firm-shareholder resolution outcomes.

However, evaluation of shareholder legitimacy likely differs among different firms. As King et al (2010) have recently reminded organizational theory scholars, “an actor-focused perspective [on organizations] implies that there are differences between organizations and these differences manifest themselves not just between different types of organizations...but also within seemingly similar organizational populations” (300).

To address identity heterogeneity among S&P 500 firms, I employ Brickson’s (Brickson 2005, 2007) identity orientation constructs. Brickson suggests that her three ideal types of identity orientation – collectivistic, individualistic, and relational – are often visible in identity statements made by organization members. Firm characterizations like “‘the top performer in the industry’ (individualistic), ‘accommodating and loyal to partners’ (relational), and ‘promoting the ecological sustainability of the earth’ (collectivistic) [all] reveal a different assumed nature of relations with stakeholders” (Brickson 2005: 577).

These ideal types are drawn from the social psychology literature on how “other-regarding” individuals are (Brewer and Gardner 1996), and the orientations are assumed to impact relational patterns between an actor and others.

I focus first on firms with collectivistic orientations. Members of collectivistic organizations “view the organization as part of a larger collective and as characterized by traits that connect it to a larger whole...[their] emphasis is on maximizing the welfare of

the larger group” (Brickson 2005, 580). In the case of collectivistic organizations then, one would expect them to be more likely to withdraw climate resolutions with all shareholder activists compared to individualistic firms because of their higher concern for broader society and their belief that they have responsibilities to the collective community. As a result, collectivistic firms are the most likely of the three types to work with diverse stakeholder groups toward a common goal that may or may not be related to the organization’s bottom line. Thus, I hypothesize collectivistic firms are more willing than less collectivistic firms to negotiate climate resolution withdrawals with investor regardless of the identity of the investor filing the resolutions.

**Hypothesis 2 (collectivistic identity orientation)** – Resolutions filed at firms with collectivistic identity orientations are more likely to be withdrawn than firms with less collectivistic identity orientations.

The Ford Motor Company – a firm that scores high on the collectivistic orientation measure used in this study – provides additional evidence to support this hypothesis in Chapter 3. Despite having more positive feelings toward certain stakeholders (i.e. religious investors), Ford differs from other large firms by engaging with all stakeholders, including special interest groups like Rainforest Action Network and other environmental NGOs. The firm has also put together a *Transformation Advisory Council* (Ford Motor Company 2008) to advise management on sustainability issues comprised of high-profile sustainability leaders like Amory Lovins, Paul Hawken, and Peter Senge. These actions suggest that Ford is more open to a range of stakeholder input than less collectivistic

firms.

However, one of the acknowledged limitations of the Ford case study is its single-case design and focus on a firm with a very strong collectivistic identity orientation. From the case, one is unable to determine whether firms that have more neutral or negative orientations toward their communities respond to shareholders filing climate resolutions differently. Organizational researchers (Albert and Whetten 1985; Gioia and Thomas 1996; Glynn and Lounsbury 2005; Foreman and Whetten 2002) often contrast firm behavior among firms holding “utilitarian identities emphasizing economic factors such as profit maximization (individualistic) and normative identities emphasizing ideological factors like advancing broader welfare (collectivistic)” (Brickson 2005: 579). In contrast to collectivistic firms that see themselves as part of a community, Brickson’s typology suggests individualistic firms value traits that set them apart from others, including: autonomy, creativity, innovation, and even greed (Brickson 2005: 599). As a result, I also expect more individualistic firms will be less likely to reach withdrawal agreements with all shareholders than less individualistic firms.

### ***Identity Interaction***

I also take organizational ecologists’ assumptions about audiences and Brickson’s identity orientation concepts one step further and hypothesize there is also an *identity interaction* between a firm’s identity orientation and the filer’s identity. Identity interactions occur when one organization evaluates the identity of another before deciding whether and how to engage in a relationship with it. This evaluation is

contingent, however, on the former's own cognitive identity orientation (Brickson 2005, 2007) toward stakeholders. The purpose of this concept is to bridge the divide between identity definitions used by management theorists (Albert and Whetten 1985) and organizational ecologists (Hannan et al. 2007). Eesley and Lennox (2006) also suggest that a "stakeholder-request-firm triplet" is a better predictor of stakeholder-firm outcomes rather than any one of the variables in isolation.

In this study, I hold the request constant by only examining climate change shareholder resolutions. To build my hypotheses about how collectivistic firms will respond to different types of shareholders filing climate resolutions, I again draw upon the findings in Eesley and Lennox's (2006) study of environmental stakeholder conflicts with U.S. firms as well as the Ford case study and fieldwork with institutional investors outlined in Chapters 2 and 3 to inform my hypotheses. Eesley and Lennox operationalized stakeholder group legitimacy using a ranking from a public opinion poll on environmental actors, and surprisingly, they found that as legitimacy increased, successful resolution of environmental conflicts with firms decreased. Religious investors were rated as relatively illegitimate actors in their measure, however, and the authors acknowledged this operationalization was not ideal since firms may view stakeholder legitimacy differently based on their firsthand experiences with them.

Compared to the general public, I also believe some firms may view religious groups as more legitimate than other shareholder activists in climate resolution conflicts, but I hypothesize there will be evaluation differences among firms with different identity

orientations. Specifically, I expect collectivistic firms are more likely to reach withdrawals with religious investors compared to professional or special interest groups. Since collectivistic firms view themselves as being part of – and responsible to – a larger collective, they are likely to view religious investors as sharing similar goals with the firm (i.e. helping society) and possessing the “purest motivations” for engaging in climate change activism. As a result, they may trust these investors more than institutional investors representing labor, environmental groups, or political interests.

This hypothesis is also supported by the findings from the Ford case study in Chapter 3. In the case, for example, a Ford manager said his general impression of activists can be quite negative, but religious investors are an exception. In his view, “it’s hard not to trust nuns, priests, and ministers.” Firm managers frequently cited this identity-based trust of religious investors as a reason for allowing the investors access to top-level management and confidential information, which facilitated the climate resolution withdrawal at Ford. If we assume that collectivistic firms are more likely to reach withdrawals with investors whose identities “match” or “fit” with their own identity orientations, then it is reasonable to hypothesize religious investors will be more likely to reach withdrawal agreements with these firms.

**Hypothesis 3 (collectivistic interaction)** – Resolutions filed by religious investors are more likely to be withdrawn at collectivistic firms than at non-collectivistic firms relative to resolutions filed by professional or special interest investor groups.

Predicting how individualistic firms will respond to different types of shareholders is more difficult. On the one hand, one could predict reticence on the part of individualistic firms to engage with any stakeholder unless the encounter serves a purely instrumental purpose (e.g. supplier who gives the best price). In the case of institutional investors then, one would expect individualistic firms to be more willing to negotiate withdrawal agreements with investors who make a strong business case for addressing climate change. Whereas the emphasis of a collectivistic organization is on “maximizing the welfare of the larger group (e.g., promoting the well-being of the Madison community),” at an individualistic firm, “the emphasis is on maximizing the organization’s own welfare (e.g., status)” or profits (Brickson 2005: 580).

From Chapter 2 of this dissertation on logic work, we know that professional investors like public pension funds, foundations, and mutual funds frame their decisions to engage in climate change shareholder activism based solely on the financial risks and opportunities presented by the issue. Compared to religious and special interest investors, these groups exclusively employ their fiduciary identity to justify their shareholder activism on climate change with firm managers. As one public pension fund manager in the Midwest colorfully puts it, “OK, we're polluting the atmosphere, what does that mean to our portfolio...we're not statutorily or fiducially charged with saving the earth.” Thus, individualistic firms may be more likely to negotiate withdrawal agreements with secular professional investors, as these investors are the most likely to make a purely economic argument for addressing climate change to the firm. This fits with Brickson’s notion that individualistic firms are most attuned to maximizing their own welfare. Additionally, the

absence of social or moral arguments from these investors make them appear more similar to individualistic firms. These investors may have more successful engagements based on the good identity match or “fit” between their organizational identities.

**Hypothesis 4a (individualistic interaction)** – Resolutions filed by secular professional investors at firms with individualistic identity orientations versus non-individualistic firms are more likely to be withdrawn than those filed by religious and special interest groups.

There is another possibility, however. Other organizational theories suggest individualistic firms might be more willing to negotiate climate change withdrawals with religious and special interest group than secular professional investors. In a theoretical article on stakeholder theory and the firm, Mitchell, Agle and Wood (1997) suggest that firms are responsive to stakeholders based on a combination of stakeholder legitimacy, power, and urgency. Therefore, a firm’s view of shareholder legitimacy could work in the opposite way as hypothesized above. Drawing on institutional theory, one could hypothesize that individualistic firms will be less likely to reach withdrawals with professional investors because the firm is sanctioning them for violating isomorphic norms (DiMaggio and Powell 1983) of investor passivity and pure profit motives in the financial field (Preda 2005; Schrank 2008).

Whereas individualistic firms are well-accustomed to getting pressure on social and environment issues from religious and special interest groups, they may view

professional investors like public pension funds as “rogue” investors. Both Davis and Thompson (1994) and Romano (2001) find that public pension fund fiduciaries are often elected public officials who engage in shareholder activism for political gain. If the individualistic firm perceives a political motive on the part of professional investors, they may be less willing to negotiate with them. Here the mechanism driving the firm’s response is not an “identity match” between the firm but whether the firm’s individualistic orientation causes it to view the most financially legitimate shareholder activist as violating their investor identity codes. Regardless of whether the interaction is positive or negative, I expect a differential response to shareholder requests filed by professional versus religious or special interest investors at individualistic firms.

**Hypothesis 4b (individualistic interaction)** – Resolutions filed by secular professional investors at firms with individualistic identity orientations versus non-individualistic firms are less likely to be withdrawn than those filed by religious and special interest groups.

## **DATA AND METHODS**

I obtained data on all climate change shareholder resolutions filed at S&P 500 firms from 2002-2009 from RiskMetrics Group, a financial risk management and proxy research firm, and publicly available data from the Investor Network on Climate Risk ([www.incr.com](http://www.incr.com)). The data includes 232 resolutions filed at 113 companies from 2002-2009. Forty-seven percent of resolutions (N=109) were withdrawn before going to a vote, and 53 percent (N=123) were not withdrawn. Of the 123 resolutions not withdrawn, 30

were omitted by the Securities and Exchange Commission (SEC) after being challenged by firms and 93 went to a final vote.

### ***Dependent Variable***

The dependent variable of interest is a binary indicator reflecting whether a climate change resolution is withdrawn or not. A withdrawal indicates that the firm and the shareholders were able to reach a negotiated agreement behind closed doors prior to the resolution going to a vote among all shareholders or being challenged at the SEC. From the shareholder perspective, it is viewed as a successful outcome in the shareholder resolution process. Two important notes are necessary to make before proceeding, however. First, not all S&P 500 firms receive climate change resolutions. This raises a serious concern about sample selection bias in the study (Berk 1983). To address the possibility of selection bias, I also run a Heckman two-stage selection model using data collected on all S&P 500 firms (N=4055) from 2002-2009. The rationale for using this model and the results are described in the statistical model section below. Second, some firms receive more than one resolution in a given year so I cluster the observations by firm in my models to get robust standard errors (Mizruchi and Stearns 2001; Eesley and Lenox 2006)

### ***Explanatory Variables***

To test Hypothesis 1 that predicts shareholder identity will affect the likelihood that a climate resolution is successfully withdrawn, I create *shareholder identity* dummy variables for different types of resolution filers. The RiskMetrics database identifies

seven categories of investors: religious investors, public pension funds, individuals, foundations, unions, socially responsible (SRI) funds, and special interest groups (e.g. environmental groups). I combine these filer identifications into three identity categories based on differences in how they perceive their own organizational identities and how their identities are perceived by firms and other stakeholders. The three categories include the following groupings: secular professional investors (pension funds, SRI funds, foundations), religious investors, and a combined category for special interest investors (unions, individuals, and special interest/environmental groups).

The shareholder identity categories were chosen based on the study of institutional investors outlined in Chapter 2 of the dissertation. That study found that the groups of investors above differ in the way they talk about climate change (e.g. as a moral issue or fiduciary duty), the shareholder activism tactics they believe are appropriate for their organization (e.g. creating climate change proxy guidelines versus filing large numbers of resolutions), and how firms view them (e.g. as adversaries or good-faith partners).

Through my fieldwork, I also found that these different groups of investors differ in their manner of dress, language style, and demeanor toward firm managers. The follow-up case study on Ford Motor Company's engagement with shareholders revealed that these identity differences are also salient to the companies who receive shareholder resolutions. One Ford manager quipped that Sister Pat is a "part of their management team," and a member of General Counsel noted that unlike other shareholders, religious investors are viewed as productive contributors to the firm.

Hypotheses 2a and 2b test whether a firm's identity orientation toward stakeholders also affects whether a resolution withdrawal will be reached. The variable *firm identity orientation* captures a firm's openness to stakeholders (Brickson 2005, 2007). While Brickson (2005, 2007) uses survey responses from multiple organizational members to measure identity orientation, this type of measure is not feasible to collect for a longitudinal study. Further, methodological questions also arise about who has the authority to represent the organization's identity orientation and whether all levels of the organization are represented in these measures. Finally, collecting this data requires participation from all firms in the relevant sample (i.e. to administer the survey) and low response rates make this measure difficult to use for even large-scale cross-sectional tests of the identity orientation construct.

As an alternative, I use measures of firm attention to stakeholders in the Kinder, Lydenberg, and Domini (KLD) Socrates database as a proxy measure of identity orientation. KLD is an independent investment research firm that specializes in measuring U.S. firms' environmental and social performance. KLD uses publicly available information to evaluate firm strengths and weaknesses on the following issues: community, diversity, human rights, environment, employees, products, corporate governance, and controversial business issues (e.g. gambling, tobacco, weapons).<sup>5</sup> The KLD database is considered the gold standard for measuring corporate social performance in the organizational literature (Waddock 2003).

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<sup>5</sup> Firms receive points for receiving shareholder resolutions under the corporate governance weakness category.

However, while KLD refers to their evaluations as “social rankings” and some scholars use the rankings to measure corporate social and environmental performance, others have called into question whether KLD rankings actually measure social and environmental performance. Aside from finding the KLD environmental weaknesses category does a relatively good job at capturing past environmental performance (Chatterji, Levine, and Toffel 2009), there is little evidence that other KLD indicators are a good measure of social performance. The Chatterji et al (2009) study, for example, found that the KLD environmental strength measures do not correlate with pollution levels or compliance violations. The caution raised by this study is familiar ground for economic sociologists who have long acknowledged firms’ ability to decouple their actions from impacts (Meyer and Rowan 1977).

Recognizing this limitation of the KLD data, organizational researchers have begun suggesting that KLD’s social rankings are best interpreted as a measure of attention to stakeholders (Berman et al. 1999; Hillman and Keim 2001; Mattingly and Berman 2006; Kacperczyk 2009) rather than social performance. Mitnick (2000) puts it best, saying that one must make a “critical distinction” between social performance and social action. He argues that “outcomes (impacts) are not at all the same thing as outputs (activities)” (426). Further, using KLD data as a measure of corporate social performance (CSP), David, Bloom and Hillman (2007) find that firms who reach withdrawal agreements with shareholders on social and environmental shareholder resolutions do not see improvement in their subsequent KLD scores. Although that study’s use of the KLD data is methodologically flawed (discussed below), it does suggest the KLD measures are

more appropriately employed as measures of attention – or identity orientation – to different types of stakeholders than as performance indicators.

To measure a firm's collectivistic identity orientation, I create a composite score for *collectivistic orientation* using the KLD total community strength score for each firm.

Unlike some of the other categories in the KLD data that have merged or changed over time, the sub-categories under the community category have been consistently collected during the 2002-2009 time period of my study. Firms have scores ranging from zero to four in the community strength data, with zero representing a firm that has no strengths in its approach toward its community and a four showing a highly proactive and positive approach to its community. Firms get strength points in community sub-categories such as generous and innovative charitable giving, volunteer programs, support for housing and education, etc.

I also construct a variable for *individualistic identity orientation* using the KLD total community weaknesses variable. This variable ranges from zero (no weaknesses) to a score of two (more negative toward the community). Firms get points for community weaknesses based on activities like having a negative economic impact on the community, tax disputes, and investment controversies. In essence, this variable measures how hostile a firm is toward the local community or communities where it does business. Since over 60 percent of firms receive a score of zero on the community weaknesses variable, I treat it as a binary indicator. For robustness, I also run models treating the variable as ordinal and get the same results. Each of the KLD variables is lagged one

year. Before proceeding, it is also worth noting the KLD variables are relatively conservative estimates of identity orientation. KLD analysts who assign the scores have to reach a relatively high bar to assign a strength or weakness point to firms on a given issue. For this reason, the negative community scores in particular are a robust indicator of an individualistic orientation in that only firms that are most visibly hostile in their approach to external stakeholders receive points in this category.

Given that KLD has strength and weakness scores for each stakeholder category, at first glance it might seem attractive to simply subtract community weaknesses from strengths to get a continuum measure of a firm's orientation toward community stakeholders. Indeed, it is common practice by some researchers to aggregate "strengths" and "concerns" in the KLD data to get a single measure (Graves and Waddock 1994; Griffin and Mahon 1997; Waddock and Graves 1997; Johnson and Greening 1999; Ruf et al. 2001; David et al. 2007). However, Mattingly and Berman (2006) have shown that subtracting KLD community weaknesses from strengths is problematic. Using an exploratory factor analysis, they find that the two categories "are both empirically and conceptually distinct constructs and should not be combined in future research" (20). Furthermore, "aggregation might cloak important differences: a firm with five KLD strengths and five KLD concerns is surely different from a firm with only one of each, a distinction lost in the summing of strengths and concerns." (Chatterji et al. 2009: 134). As a result, I include the community strength and weakness variables separately in the models.

Before proceeding, it is worth mentioning that Brickson (Brickson 2005, 2007) includes a third ideal-type identity orientation in her theoretical framework. She refers to “relational firms” as those that champion their relationships with valued internal stakeholder groups (e.g. employees and clients) above everything else. These relationships are more than just means-end interactions for relational firms, and they expend effort to nurture them beyond what one would expect from a neo-classical economic perspective. Shareholders, as owners of the firm, are by definition internal stakeholders. However, shareholder activists violate the norms of passivity and anonymity among shareholders (Preda 2005; Schrank 2008), making it difficult to hypothesize how a firm’s relational orientation will impact its response to climate change resolutions. Hence, my hypotheses focus on individualistic and collectivistic orientations. However, I included a KLD measure for firms’ positive and negative orientation toward employees and diversity as measures of relational orientation in early exploratory models for the study. Neither variable was significant nor improved model fit, so I exclude them from the models reported here.

### ***Control Variables***

To capture the impact of public, highly salient punctuating events (Baumgartner and Jones 1993) on climate resolution withdrawals, I include dummy variables for resolutions filed pre-2006, between 2006 and 2007, and 2008 to 2009. These divisions mark the time before Hurricane Katrina and the release of Al Gore’s climate change documentary *An Inconvenient Truth* in 2005, as well as the shareholder resolution period following the 2008 U.S. Presidential primary elections when both the Republican and Democratic

candidates – John McCain and Barack Obama – publicly stated support for some kind of federal climate legislation.

There is also some evidence that institutional investor pressure may affect firm behavior on environmental and social governance issues (David et al. 2007; Kacperczyk 2009; Reid and Toffel 2009). To control for this influence, I calculate the percentage of firm shares owned by U.S. and Canadian investors who are signatories to the Carbon Disclosure Project (CDP). The CDP sends out an annual letter to large U.S. and international firms on behalf of over 534 institutional investors holding \$64 trillion in assets, requesting that firms disclose all of their GHG emissions. Ownership data for U.S. and Canadian investors was collected from Thomson Financial and then divided by the total number of common shares outstanding listed in Compustat. The variable is lagged one year, and following Reid and Toffel (2009), I top-code the variable at the 95<sup>th</sup> percentile of the distribution (31.9 percent ownership stake) to reduce the effect of outliers on the results.

I also control for firm size, firm performance, industry emissions intensity, firm environmental performance, and stringency of the resolution. *Firm size* is measured as the natural logarithm of sales. Firm size has been shown to predict whether a company receives a shareholder resolution (Rehbein, Waddock, and Graves 2004), and Margolis et al.'s (2009) meta-analysis finds that financial performance is a better predictor of corporate social action than vice versa. *Performance* captures the amount of organizational slack (Cyert and March 1963; Thompson 1967) a company has to address

issues that management views as peripheral to core operations. Following Kacperczyk (2009), it is measured here by return on assets (measured as the ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) to total assets). Both of these measures are drawn from Compustat and lagged one year to establish temporal priority.

To measure industry effects on climate resolution withdrawals, I use Reid and Toffel's (2009) binary classification for emissions-intensive (EI) industries. Following Cho and Patten (2007), they code firms as 1 if they are in Auto and Transport, Integrated Oils, Utilities, and other Energy sectors. Firms in Consumer Discretionary, Consumer Staples, Financial Services, Health Care, Materials and Processing, Producer Durables, Technology and other sectors are coded as 0. *Firm environmental performance* is measured by a count measure using the KLD total environmental weaknesses score, which Chatterji et al (2009) find accurately captures past environmental performance.

Finally, the *stringency of the climate resolution* is a binary variable reflecting whether the resolution asks the firm for a report on how it will respond to climate change or whether it requests the firm take more aggressive action (e.g. invest in renewable energy R&D, set voluntary emission reduction targets). Tkac (2006) argues that the stringency of a shareholder request impacts a firm's response to the resolution, and while this is a seemingly obvious and important control variable, its absence is noticeable in prior research on shareholder resolutions. Although some studies account for resolutions targeting different issues like equal opportunity for employees versus human rights (Strickland, Wiles, and Zenner 1996; Graves and Waddock 1994; David et al. 2007),

almost none of these studies have accounted for variations in the stringency of the actions requested in the resolution (although see Gordon and Pound 1993 for an exception). This is a particularly serious omission, as the greenwashing literature has shown that firms are more willing to take symbolic environmental actions (Lyon and Kim 2006) compared to more serious commitments like setting voluntary GHG reduction targets.

### *Statistical Model*

The dependent variable of interest is whether a climate resolution gets withdrawn, but there is a potential problem with selection bias given that not all S&P 500 firms receive shareholder resolutions on climate change (Rehbein et al. 2004). The firms that receive the resolutions may differ in significant ways from those that do not (Heckman 1979; Berk 1983), so if selection bias exists in the data, the estimators will be biased. Previous studies on shareholder resolutions have either neglected the issue of selection bias completely (Gordon and Pound 1993; Wahal 1996; David et al. 2007), simply compared variables from firms receiving shareholder resolutions to industry means (Strickland et al. 1996), or matched targeted and non-targeted firms based only on market capitalization (Karpoff, Malatesta, and Walkling 1996).

A more rigorous approach is taken here. To assess potential selection bias, I collected financial and climate change resolution data on all S&P 500 firms from 2002-2009.

Using this data, I ran a two-stage Heckman selection model to determine whether there was selection bias in my models. The variables I chose for the selection model included all relevant firm characteristics that might make it a target to investors, including: firm

size, financial performance, environmental performance, and whether the firm is in an emissions-intensive industry. I also included a variable reflecting the percentage of shares owned by CDP signatories to capture any possible investor strategies to target firms with high levels of CDP signatory ownership.

Because the results from Heckman models are highly sensitive to model specification, I ran a variety of models including different combinations of the variables listed above in the selection model. In every combination I used, the correlation value between the first and second stages of the Heckman model (rho-value) was close to zero, indicating selection bias is not an issue in the data. Therefore, for ease of interpretation and presentation, I report the results from bivariate logistic regression models here using only data from firms who receive resolutions. These models and the second-stage of the Heckman model produce the same overall results.<sup>6</sup> As a further robustness check, I also ran a bivariate probit model and got the same results. The logistic regression model is as follows:

$$\Pr(y_{it} = 1) = F(\beta_1 S_{it} + \beta_2 C_{it} + \beta_3 I_{it} + \beta_4 U_{it} + \beta_5 X_{it} + \epsilon_i)$$

where  $i$  indexes firms,  $t$  indexes the year, and  $y_{it}$  is the dependent variable *climate resolution withdrawal* equal to 1 if a resolution is withdrawn and 0 otherwise. The explanatory variables that measure the effects of organizational identity are *shareholder filer identity* ( $S_{it}$ ), the company's *collectivistic identity orientation* ( $C_{it}$ ), and the firm's individualistic identity orientation ( $I_{it}$ ). The vector of control variables,  $X_{it}$ , includes *firm*

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<sup>6</sup> The Heckman model results are available upon request from the author.

*environmental performance, firm financial performance, log net sales, percent of shares held by CDP investors, industry emission intensity, and stringency of the climate resolution request.* Because some firms receive more than one resolution per year, the observations are not statistically independent. To correct for this problem, I compute robust standard errors by clustering the observations by firm (Mizruchi and Stearns 2001; Eesley and Lenox 2006).<sup>7</sup>

Table 1 presents descriptive statistics and bivariate correlations for all of the variables in models. Given the possible multicollinearity problems among the environmental performance, emissions intensive (EI) industry, and firm size variables, I regress the variables on withdrawal status and get a mean variance inflation factor (VIF) of 2.04. This is below the commonly accepted threshold of ten. However, the VIF for environmental performance is 4.12 and 2.90 and 2.46 for firm size and EI industry, causing some concern about multicollinearity between the negative environmental performance and the other two variables. When I remove the firm size and EI industry variables individually and together from the models, however, the results do not change. Thus, to be conservative, I leave the firm size and EI industry variables in the models.

## **RESULTS**

Tables 2, 3, and 4 show the results from logistic regression models and Wald chi-square goodness of fit tests. Table 2 presents results for Hypotheses 2 and 3 that suggest firm collectivistic identity orientation affects the probability of climate resolution withdrawals.

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<sup>7</sup> In addition to clustering by firm, I also ran a random effects logistic regression model and got similar results.

Surprisingly, I do not find support for Hypothesis 2 that strongly collectivistic firms are more likely to reach resolution withdrawals or that there is an interaction between collectivistic firms and the identity of the filers (Hypothesis 3). Neither the main effect of collectivistic identity orientation nor the interaction effect is significant in any of the models. These findings conflict with Brickson's (2005, 2007) identity orientation theory and my findings from the Ford Motor Company case study, which I discuss in detail in the discussion section below.

Thus, I turn attention to the results in Tables 3 and 4 that examine whether filer identity affects resolution withdrawal and whether there is an interaction between a firm's individualistic identity orientation and filer identity. Table 3 uses professional investors as the reference category to test Hypotheses 3, 4a, and 4b. However, to test Hypothesis 1 about filer identity, I need to use special interest investors as the reference category. I show this model in Table 4. From Table 4, we can see that climate resolutions filed by special interest investors are less likely to be withdrawn than those filed by professional or religious investors, supporting Hypothesis 1. When I convert the logistic coefficients for the dummy variables "religious" and "professional" to odds ratios in Model 1 of Table 4, I find that resolutions filed by religious or professional investors both have about 5.6 times the odds of being withdrawn compared to special interest groups.

Support for Hypothesis 1 provides evidence that the audience evaluating investors – U.S. firms – view religious and secular professional investors (e.g. public pension funds, mutual funds) as more legitimate actors in shareholder negotiations. This seems to

provide support for organizational ecologists' conceptualization of identity as an "evaluation of social codes" (Polos et al 2002; Hannan et al 2007). Interestingly, however, religious and professional identities seem to be viewed as equally legitimate among firms. This provides support for the idea that religious investors' seemingly "selfless motivations" and public pension funds' emphasis on "fiduciary duty" and "financial risk" make firms more willing to negotiate with them than special interest investors who appear to companies to be out for themselves. As a robustness check, I also ran the models with a variable for the number of times an investor had filed a climate resolution at the firm previously to capture the length of relationship between managers and particular shareholders. The variable was not significant and did not change the filer identity effect.

Returning to Table 3, I find that a firm's individualistic orientation negatively affects the probability of resolution withdrawal in Model 1, but once I control for firm characteristics in Model 2, the effect is no longer significant. Thus, just as collectivistic orientations do not appear to positively influence the probability of withdrawals, I do not find evidence that an individualistic orientation negatively influences the probability of withdrawal agreements.

Among the two competing hypotheses that individualistic firms will be more/less willing to reach withdrawals with professional investors (Hypotheses 4a and 4b), I find support for 4b that individualistic firms are *less* likely to reach withdrawals with professional investors compared to religious investors in Model 4 of Table 3. Given the complexity of

interpreting interaction effects, I provide the predicted probabilities of withdrawal for the different types of filers in a bar chart in Figure 4.1.

From this bar chart, one can see that the predicted probability of withdrawal among professional and religious investors is the same among firms that do not have strong individualistic identity orientations, but firms with individualistic orientations are much less likely to reach withdrawals with professional investors. Although not quite significant at the .10 level ( $p = .102$ ), the interaction effect for special interest investors shows that the predicted probability of withdrawal between professional and special interest investors at individualistic firms is almost the same. The implications of these findings are discussed below. The Wald test for the full model with the interaction versus the model without the interaction approaches significance at the .05 level ( $p = .067$ ). Given the small sample size in the study and smaller number of special interest filers compared to religious and professional investors, I attribute this marginal significance to lack of statistical power rather than a non-significant effect.

Finally, Model 4 in Table 3 also shows that as environmental performance worsens, the odds of getting a withdrawal decrease. When I convert the logistic coefficient for ‘Negative Environmental Performance’ in Model 4 to an odds ratio, I find that for every one unit increase in poor environmental performance, the odds of a withdrawal decrease by 35 percent. Not surprisingly, resolutions that ask for more than disclosure or reporting also have a significant negative effect on the probability of resolution withdrawal. When converted to an odds ratio, the ‘More than Disclosure’ variable in Model 4 of Table 3

shows that a resolution asking a firm to do more than simply report their GHG emissions or how they will deal with pressure to address climate change has only 38 percent the odds of withdrawal as a resolution that asks for reporting only. This finding is especially significant given that few prior studies of shareholder resolution withdrawals have included this variable. It suggests that most shareholder resolution research suffers from serious omitted variable bias, and the results of these studies must be interpreted with caution.

Also, although it is only statistically significant at the .10 level, the number of shares held by CDP signatories has a negative effect on probability of resolution withdrawal rather than an expected positive effect. Thus, it does not appear that institutional investor pressure – in line with theories of investor capitalism (Useem 1996) – are driving firm decisions to reach withdrawal agreements on shareholder resolutions. The time period following the 2008 U.S. presidential primaries is also a significant predictor of withdrawal at the .01 level in Model 4, showing that the odds of a resolution withdrawal increased by a factor of 2.82 following the 2008 U.S. presidential primaries compared to 2002-2005. This provides support for including dummies for societal punctuating events rather than just year dummies. In early models (not reported here), I also ran the models with year dummies to control for unobserved heterogeneity. None of the year dummies were significant and did not change the overall model results.

## **DISCUSSION**

Given that neither collectivistic nor individualistic identity orientations had a significant effect on the probability of climate resolution withdrawal (Hypotheses 2), one may question whether Brickson's (2005, 2007) identity orientation theory holds up empirically. As a main effect, Brickson's theory that the identity orientation of a firm affects dialogue outcomes with stakeholders is not borne out in this study. This finding should be interpreted with some caution, however, given the limited dataset and substantive focus on a very specific conflict (i.e. climate change). It is possible that there is something about climate change as a stakeholder issue that makes identity orientation less influential in firm-stakeholder interactions, although comparison studies using other types of shareholder resolutions would have to be conducted to confirm or reject this idea. It is also possible that the KLD measures of identity orientation used in the study are simply not refined enough to capture the effect of identity orientation on firm-stakeholder negotiation outcomes. Rather than rejecting Brickson's theory outright, I suggest additional research with more precise measures is needed to definitively reject or support the identity orientation theory. Some ideas about identity orientation measures that future research might use are discussed below.

The finding that collectivistic identity orientation does not have a main effect or interaction effect with filer identity also calls into question the previous chapter's findings regarding Ford Motor Company's successful climate negotiation with religious investors. In the case study, I found that the shareholders' religious identity and the firm's collectivistic identity orientation facilitated dialogue and the successful withdrawal of a climate resolution at the firm. Interviews with Ford managers revealed that the

shareholders' religious identity gave them legitimacy with managers that other organizations and investors campaigning for climate action did not possess. As one might expect from a collectivist firm that views itself as part of a larger collective, the firm's managers engage with a wide range of stakeholders on contentious issues, including hostile groups. However, Ford managers were quick to point out that the firm has "a completely different set of conversations" with religious investors than more hostile investors or NGO groups (interview with Ford manager).

These in-depth dialogues with religious investors lead to more collaborative interactions between the two groups and even led the firm to allow a less trusted group of environmental NGOs to vet the firm's GHG reduction targets at the request of investors. In essence, the investors' religious identity provided them legitimacy at the firm and facilitated the climate resolution withdrawal agreement. For Ford and religious investors then, the shareholder dialogue process was an "equilibrium private institution" of repeated rounds where "both the activist and the firm must continue to participate even when incidents occur that suggest the standard might have been violated" (Baron 2003: 62).

Despite the results of this study, the Ford case study findings on identity interactions are still compelling and deserve further inquiry. It is important to note that Ford is an outlier firm in regard to its collectivistic identity orientation compared to other firms. In the time period during which the Ford case study was conducted, the firm had the highest KLD community strength score of all firms in the dataset (and no community weaknesses). It

may be the case that identity interactions for collectivistic firms are only influential in climate change dialogues at firms with extremely collectivistic orientations. Miles (1987), for example, has found that insurance firms' social action is heavily influenced by "top managers' philosophies" using a grounded theory approach, similar to the findings regarding the Ford family's strong influence on the firm's collectivistic orientation in my case study. Bill Ford, Jr. has been an institutional entrepreneur (DiMaggio 1988; Lounsbury and Glynn 2001) on social and environmental issues at the company, and under his direction, the firm produced its first corporate citizenship report in 2000 and wrote the first Climate Risk Report among U.S. automakers in 2005. This suggests that future work using larger datasets than available for this study should look at whether firms with extremely high scores for collectivistic orientations react to shareholder resolutions differently than those with marginally collectivistic or neutral orientations.

I now turn attention to the significant findings in the study, namely, Hypothesis 1 and Hypothesis 4b. I return to Mitchell, Agle and Wood's (1997) theory that firm responsiveness to stakeholders is based on a combination of stakeholder legitimacy, power, and urgency. This study holds urgency constant by examining the same tactic across all shareholders (e.g. climate resolutions), which has confounded interpretation in previous studies (Eesley and Lenox 2006). Support for Hypothesis 1 confirms Mitchell et al's theory that stakeholder legitimacy affects their interactions with firms. In this case, the illegitimacy of special interest investors in the eyes of the audience evaluating them (i.e. firms) decreases the odds that such investors will successfully negotiate climate resolutions with firms compared to religious and professional investors.

Hypothesis 1 also partially confirms organizational ecology theory that audiences sanction organizations for violating social codes associated with their identity. In comparison to professional secular investors who frame their shareholder activism as being profit-motivated and part of their fiduciary duty to pension benefit members, special interest investors are likely viewed as pursuing social or political ends, and thus violate the social codes of an investor identity (Polos et al. 2002; Hannan et al. 2007) in the eyes of firms. However, organizational ecologists might have a harder time explaining why religious investors do not suffer the same negative evaluation as special interest investors despite sharing similar social and moral motivations.

One explanation might be that while religious investors also violate investor codes of passivity and pure profit motive (Preda 2005; Schrank 2008), they might benefit from having an especially socially legitimate religious identity that is both highly salient (Baron 2004) and authentic (Peterson 1997). In this case, firms may prioritize their religious identity over their investor identity, and view religious investors as “good-faith” actors (no pun intended!) in the shareholder dialogue process. Among shareholder activists then, religious investors appear to have less constraint placed upon them than special interest investors who possess similar social goals to religious investors but possess a less legitimate identity in the eyes of firms.

The most interesting finding in the chapter, however, is that individualistic firms are significantly more likely to negotiate climate resolution withdrawals with religious

investors than secular professional investors and almost equally likely to reach withdrawals with professional and special interest investors. These results support Hypothesis 4b that there is a negative identity interaction between firms with individualistic orientations and professional filers. Interpreting the causal mechanism behind the identity interaction is more challenging, however. On the one hand, one can interpret the finding based on theories of legitimacy and identity sanctioning mentioned at the beginning of the paper. From this perspective, one would argue that the results show individualistic firms are sanctioning professional investors for violating investor social codes (Polos et al. 2002; Hsu and Hannan 2005; Hannan et al. 2007) of passivity and profit maximization by engaging in shareholder activism for political gain or ideological reasons (Davis and Thompson 1994; Romano 2001).

Whereas individualistic firms expect morally and ideologically motivated shareholder activism from religious and special interest investors, they do not view such activism by professional investors as acceptable. And in the case of religious investors, individualistic firms appear to find less fault with their identity and motivations, hence their greater likelihood of reaching withdrawal agreements with them than either professional or special interest investors. This interpretation supports the quote in Chapter 2 from a CEO at a highly individualistic Fortune 100 company. He said he appreciates working with religious investors because he views them as “true social advocates...without an agenda.”

However, one cannot ignore the fact that power is also a part of Mitchell et al’s stakeholder framework. Using the lens of resource dependency (Pfeffer and Salancik

1978), an alternative explanation for Hypothesis 4b is that individualistic firms respond more favorably to resolutions filed by religious and special interest investors due to power dynamics rather than identity sanctioning. First, one could interpret individualistic firms' responsiveness to religious investors as an effort at co-optation (Selznick 1949). Religious investors from ICCR engage with firms over long periods of time and frequently engage firms on multiple social and environmental issues, not just climate change. ICCR member investors who champion different issues at the same firm (e.g. climate change and human rights) meet with some firms as a group to discuss all of the issues at one time.

One reading of individualistic firms' greater responsiveness to religious investors on climate is that they make a tacit exchange on climate change for temporary relief from shareholder pressure on issues like human rights. This might be a particularly attractive option if the company is already considering doing GHG reporting in anticipation of future federal cap and trade legislation so they can get early credit for their efforts to reduce emissions. On the flip side, any firm that has dealt with religious investors on social and environmental issues knows they are not easily dissuaded from pursuing resolution to all the issues they put in front of a firm. It would not be an overstatement to say ICCR member investors wear their dogged persistence and indefatigability as a badge of honor. As the ICCR Executive Director Laura Berry recently quipped in a New York Times story on religious investors, "We may be annoying. We may be trivialized. But we do our homework, and we don't go away" (Haberman 2010). Teasing the causal mechanism at work in dialogues between individualistic firms and shareholders will

require more ethnographic and case study work on individualistic firms, where access may be more difficult – although not impossible – for social science researchers to attain (see Hoffman 1996 as an example).

In regard to special interest investors, the mechanism at work might be slightly different. Individualistic firms may view special interest groups as more of a threat to their public reputation than professional investors. Whereas it is highly unlikely the State Treasurer of Connecticut is going to hang banners from office buildings of large U.S. banks for their lending practices to coal companies, Rainforest Action Network (RAN) has no qualms taking such action (Rainforest Action Network 2010). This type of negative publicity provides a reputational threat to individualistic firms and may make them more willing to negotiate with special interest investors who engage in actions like RAN or partner with organizations that do even if the firm dislikes them. In both the cases, special interest and religious investors have resources at their disposal that professional investors do not (McCarthy and Zald 1977). Unlike Eesley and Lenox's (2006) suggestion, though, the resources that matter the most would appear to be political rather than financial.

Whether legitimacy or power is the primary driver of individualistic firms' actions cannot be definitively determined by this study, and furthermore, Mitchell, Agle and Wood (1997) argue it is always a combination of both. More case study and large-N research is needed to more definitively establish the relative influence of causal mechanisms explored here. What both the legitimacy and power interpretations suggest, though, is that any study of the outcomes of firm-stakeholder relationships should account for how

identity attributes of audience members (i.e. firms) and the actors they evaluate (e.g. shareholders) interact to produce different outcomes.

### ***Future Research***

As noted above, there are some limitations to the KLD data that suggest the need for additional research to confirm and/or refine the findings from this study and the Ford Motor company case study. While KLD is arguably the most comprehensive measure of corporate social attention available – and certainly the most widely employed by organizational researchers (Waddock 2003) – it has also been critiqued on various fronts. One of the greatest limitations of the KLD data is that its measures of corporate social action sacrifice depth for breadth of coverage. The sub-categories for positive and negative action in the KLD data are broad and assignment of positive/negative points is done in a relatively conservative fashion.

Another KLD weakness is that the data does not enable researchers to create a scale measure of most individualistic to most collectivistic firms by subtracting community strengths from weaknesses (Mattingly and Berman 2006), although researchers continue to use this faulty measurement (David et al. 2007). The KLD strength and weakness measures capture different constructs, and the correlation between the positive and negative KLD community measures is actually positive. This means that some firms possess both indicators of collectivistic and individualistic orientations. Brickson (2005, 2007) finds that many firms possess hybrid versions of collectivistic, individualistic, and

relational identity orientations, so this positive correlation may simply reflect hybrid orientations at organizations.

However, we cannot rule out the possibility that KLD's negative community measures are simply a better indicator of individualistic identity orientations than positive community measures are of collectivistic orientations. It may be the case that firms have more incentives to "fake" a collectivistic than an individualistic orientation because the former is viewed more positively by external stakeholders than the latter (Meyer and Rowan 1977). Without delving deep inside an organization – like the Ford case study in Chapter 3, it might be easier to capture individualistic orientations at large U.S. firms using standardized measures like the KLD indicators than collectivistic ones.

Additionally, the KLD data ranks all community strength and weakness subcategories equally, so it is not possible to determine which subcategories have a larger influence on firms. The best one can do with the KLD data is control for the countervailing effects of collectivism at individualistic firms and vice versa.

Indeed, organizational researchers who study environmental and social governance will benefit greatly from more fine-grained measures of firm identity orientation than are currently available through KLD and measures that are more amenable to large-scale studies than Brickson's self-reported survey measures. In regard to the KLD data, new social and environmental governance databases like the Innovest iRatings from RiskMetrics Group may be promising. Innovest is a relatively new social scoring system for large, publicly traded firms, and its construct validity has not yet been vetted by

academic researchers. Although it cannot be used to do historical analysis of identity orientation, it may prove useful for cross-sectional studies now and longitudinal studies moving forward. It is also a helpful comparison data source to benchmark the construct validity of KLD's measurements.

And since survey measures – like those used by Brickson (2005, 2007) – are unlikely to yield high enough response rates from S&P 500 firms to do the type of analysis conducted in this study, future researchers in the identity stream might task themselves with developing rigorous, standardized measures for identity orientation based on firms' public statements and disclosures that solve some of the scale weaknesses in the KLD data. This type of measure would also avoid the problem of having to determine who in the organization best reflects firm identity orientation given that perceptions of organizational identity have been shown to vary widely among employees at different levels of the organization (King et al. 2010). Regardless of how future work on identity and identity interactions proceeds, though, it is clear that researchers interested in corporate social action have only scratched the surface in considering how identity affects the outcomes of firm-stakeholder conflicts. There are many promising theoretical and empirical directions for future research in this area.

## **CONCLUSION**

This study has aimed to contribute to organizational identity and stakeholder theory in the business management literature. The study finds evidence that the audience evaluating investors – U.S. firms – view religious and secular professional investors as conforming

appropriately to their identities in shareholder negotiations (Polos et al 2002; Hannan et al 2007). The findings also suggest that heterogeneous audience members (i.e. firms) reward and sanction stakeholders differently based on their identity orientation.

Individualistic firms are more likely to reach climate withdrawal agreements with religious investors than professional or special interest investors. These results highlight the need for organizational researchers – and particularly organizational ecologists (Hannan et al. 2007; Hsu et al 2009) – to pay greater attention to how identity heterogeneity among firms may affect their evaluations of whether other organizations are violating or conforming to the social codes associated with their identity.

The study also provides some interesting insights for stakeholder theory in the business literature. Rather than attending to the over-studied question of whether corporate social action creates better financial performance (Margolis and Walsh 2003), the study is one of the first to focus explicit attention on possible motivations behind firm responses to stakeholder requests on climate change. With her identity orientation constructs, Brickson (2007) provides us with a set of motivational assumptions that she argues will create a more balanced view of the firm. She suggests the identity orientation framework is “perfectly positioned to inform how businesses relate to stakeholders and why they relate to them as they do” (Brickson 2007: 865). King et al (2010) endorse this perspective as well, arguing that motivational differences are such “that decision-making criteria [will] vary greatly across organizations” (300). Within the stakeholder and corporate responsibility literature, Eesley and Lennox (2006) have also made similar calls for more large-scale studies on how firm and stakeholder characteristics interact in corporate

governance conflicts like the ones on climate change examined here. While a main effect for identity orientation on the likelihood of a climate resolution withdrawal was not found in the study, the results suggest firm identity orientation interacts with stakeholder identity, warranting further investigation of both identity orientation and identity interactions.

Understanding firm motivations also has implications for those in the camp who believe the sole responsibility of business is to increase its profits (Friedman 1970) and those in the stakeholder theory camp who do not (Freeman 1984). For those who believe corporate social responsibility is inappropriate, understanding firms' motivations will provide a better gauge of whether managers are acting as responsible agents to their principals (i.e. shareholders). For those who believe firms have responsibility to society, the study suggests that if shareholders are dealing with an individualistic firm, it is potentially more effective to send in actors who can play "good cop" and "bad cop" simultaneously (i.e. religious investors).

This raises larger questions about the role of the corporation in society as well. In a recent essay, Reich (2008) has roundly criticized the notion that we can or should rely on corporations to solve social and environmental problems. In his view, resolving social and environmental issues through "private politics" (Baron 2003) rather than through the democratic process will continue to fall short of protecting societal interests. Whether this criticism is valid or not, the scope of issues being raised and addressed through corporate

rather than public governance structures continues to expand. As a result, research into corporate social action will remain a valuable realm of inquiry for the foreseeable future.

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**Table 1** - Descriptive Statistics and Bivariate Correlations

Variables	Mean	S.D.	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) Individualistic	0.392	0.489	0.00	1.00	1.00							
(2) Collectivistic	0.784	1.187	0.00	4.00	0.31	1.00						
(3) Neg Environ Perform	2.022	1.836	0.00	5.00	0.49	0.31	1.00					
(4) Firm Perform	0.136	0.101	-0.32	0.36	0.32	0.08	0.36	1.00				
(5) Firm Size	10.045	1.608	6.81	12.96	0.48	0.56	0.67	0.29	1.00			
(6) EI Industry	0.642	0.480	0.00	1.00	0.25	0.06	0.71	0.36	0.28	1.00		
(7) Owned by CDP Signatories (%)	1.601	0.836	0.50	3.19	-0.24	-0.26	-0.20	-0.16	-0.08	-0.19	1.00	
(8) More than Disclosure	0.254	0.436	0.00	1.00	0.14	0.11	0.12	-0.06	0.16	0.00	0.17	1.00

**Table 2** - Estimated Effects of Collectivistic Identity Orientation on Climate Change Resolution Withdrawal at U.S. Companies (Logistic Regression Models)

<b>Variable</b>	<b>M1</b>	<b>M2</b>	<b>M3</b>	<b>M4</b>
	<b>coef.</b>	<b>coef.</b>	<b>coef.</b>	<b>coef.</b>
	<b>(s.e.)</b>	<b>(s.e.)</b>	<b>(s.e.)</b>	<b>(s.e.)</b>
Post-Katrina	0.116 (0.411)	0.116 (0.485)	0.642 (0.565)	0.644 (0.553)
Post-Presidential Primary	-0.316 (0.346)	-0.081 (0.365)	0.971 + (0.580)	0.964 + (0.572)
Filertype: Religious†	-0.225 (0.322)	0.177 (0.325)	0.398 (0.347)	0.564 (0.413)
Filertype: Special Interest†	-1.533 ** (0.507)	-1.324 * (0.544)	-1.191 * (0.563)	-1.247 + (0.676)
Collectivistic	-0.131 (0.113)	0.096 (0.135)	0.081 (0.131)	0.233 (0.205)
Individualistic	-0.682 * (0.289)	-0.329 (0.348)	-0.315 (0.348)	-0.313 (0.349)
Neg Environ Perform		-0.36 * (0.146)	-0.403 ** (0.148)	-0.394 ** (0.151)
Firm Perform		2.562 + (1.528)	1.711 (1.480)	1.887 (1.558)
Firm Size		-0.193 (0.148)	-0.151 (0.144)	-0.161 (0.143)
Emission Intensive Industry		0.53 (0.502)	0.585 (0.517)	0.603 (0.516)
Owned by CDP Signatories (%)			-0.469 + (0.252)	-0.462 + (0.251)
More than Disclosure			-0.923 * (0.464)	-0.884 * (0.446)
Religious*Collectivistic				-0.263 (0.289)
Special Interest*Collectivistic				-0.054 (0.425)
Constant	0.595 * (0.295)	1.982 (1.319)	2.093 + (1.227)	2.057 + (1.216)
N	232	232	232	232
Wald chi-squared	34.000 ***	17.740 **	6.390 *	0.830
LL (pseudo)	-148.791	-140.735	-136.626	-136.200

Clustered robust standard errors in parentheses + p<.1, \* p<.05, \*\* p<.01, \*\*\* p<.001  
(two-tailed tests)

† Reference category = Filer Type: Professional

**Table 3** - Estimated Effects of Individualistic Identity Orientation on Climate Change Resolution Withdrawal at U.S. Companies (Logistic Regression Models)

Variable	M1	M2	M3	M4
	coef. (s.e.)	coef. (s.e.)	coef. (s.e.)	coef. (s.e.)
Post-Katrina	0.116 (0.411)	0.116 (0.485)	0.642 (0.565)	0.739 (0.554)
Post-Presidential Primary	-0.316 (0.346)	-0.081 (0.365)	0.971 + (0.580)	1.035 + (0.584)
Filertype: Religious†	-0.225 (0.322)	0.177 (0.325)	0.398 (0.347)	0.000 (0.472)
Filertype: Special Interest†	-1.533 ** (0.507)	-1.324 * (0.544)	-1.191 * (0.563)	-1.725 * (0.772)
Individualistic	-0.682 * (0.289)	-0.329 (0.348)	-0.315 (0.348)	-1.049 * (0.494)
Collectivistic	-0.131 (0.113)	0.096 (0.135)	0.081 (0.131)	0.046 (0.146)
Neg Environ Perform		-0.360 * (0.146)	-0.403 ** (0.148)	-0.393 * (0.156)
Firm Performance		2.562 + (1.528)	1.711 (1.480)	1.464 (1.433)
Firm Size		-0.193 (0.148)	-0.151 (0.144)	-0.179 (0.155)
Emission Intensive Industry		0.530 (0.502)	0.585 (0.517)	0.545 (0.538)
Owned by CDP Signatories (%)			-0.469 + (0.252)	-0.470 + (0.271)
More than Disclosure			-0.923 * (0.464)	-0.976 * (0.441)
Religious*Individualistic				1.314 * (0.642)
Special Interest*Individualistic				1.620 (0.990)
Constant	0.595 * (0.295)	1.982 (1.319)	2.093 + (1.227)	2.531 + (1.339)
N	232	232	232	232
Wald chi-squared	34.000 ***	17.740 **	6.390 *	5.420
LL (pseudo)	-148.791	-140.735	-136.626	-134.475

Clustered robust standard errors in parentheses + p<.1, \* p<.05, \*\* p<.01, \*\*\* p<.001 (two-tailed tests)

† Reference category = Filer Type: Professional

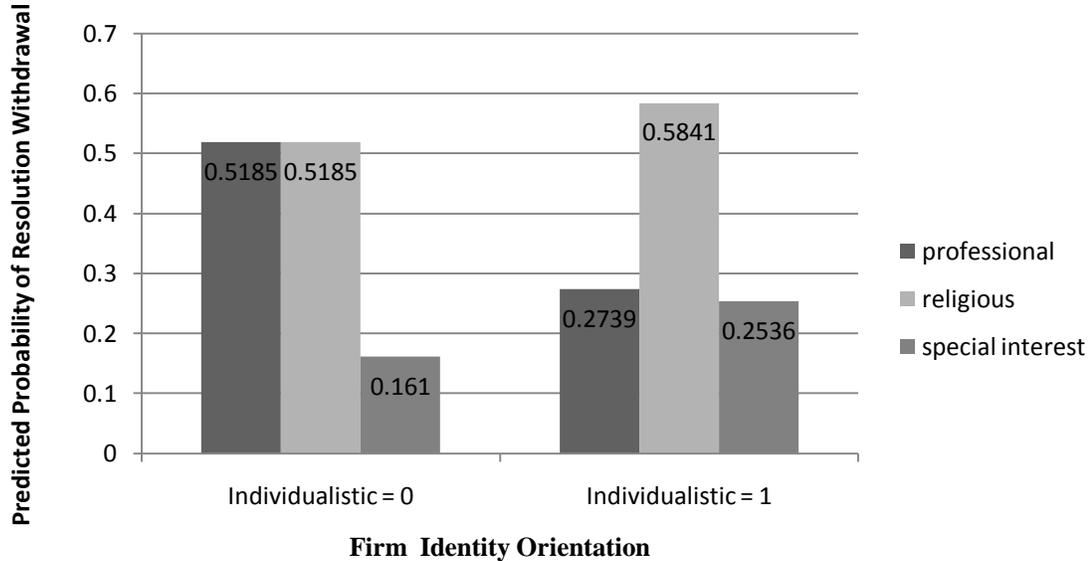
**Table 4** - Estimated Effects of Individualistic Identity Orientation on Climate Change Resolution Withdrawal at U.S. Companies (Logistic Regression Models)  
(Special Interest Investors as Reference Category)

Variable	M4
	<b>coef.</b>
	<b>(s.e.)</b>
Post-Katrina	0.739 (0.554)
Post-Presidential Primary	1.035 + (0.584)
Filertype: Religious†	1.724 * (0.811)
Filertype: Professional†	1.725 * (0.772)
Individualistic	0.571 (0.844)
Collectivistic	-0.306 (1.017)
Neg Environ Perform	-1.62 (0.990)
Firm Performance	0.046 (0.146)
Firm Size	-0.393 * (0.156)
Emission Intensive Industry	1.464 (1.433)
Owned by CDP Signatories (%)	-0.179 (0.155)
More than Disclosure	0.545 (0.538)
Religious*Individualistic	-0.47 + (0.271)
Professional*Individualistic	-0.976 * (0.441)
Constant	0.806 (1.449)
N	232
LL (pseudo)	-134.475

Clustered robust standard errors in parentheses + p<.1, \* p<.05, \*\* p<.01, \*\*\* p<.001  
(two-tailed tests)

† Reference category = Filer Type: Special Interest

**Figure 4.1 - Predicted Probability of Climate Resolution Withdrawal  
(Individualistic Identity Interaction)**



## **Chapter 5**

### **Conclusion**

The primary finding of this dissertation is that organizational identity matters in private politics over climate change, albeit in complex and sometimes surprising ways. No single research project can by itself create a fully comprehensive model of private politics predicting the rise of campaigns, choice of targets, strategies chosen by activists, and negotiation outcomes. However, the findings from this dissertation suggest that organizational identity – and the way identities interact in inter-organizational conflicts – is an important variable for researchers of all methodological stripes to incorporate into future work on corporate social action around climate change and private politics more generally.

Because the study in Chapter 2 speaks more to research on institutional logics, whereas the Ford case and S&P 500 studies address organizational identity theories and the embeddedness literature, I discuss the theoretical contributions the dissertation makes to each of these bodies of research in turn below. Within each section, I also explore potentially fruitful avenues for future research that have emerged from the studies' findings. Finally, I conclude the dissertation with a discussion of the policy implications of private politics related to climate change and their impact on U.S. regulatory and legislative governance processes.

## **THEORETICAL CONTRIBUTIONS AND FUTURE RESEARCH**

### ***Institutional Logics***

Although empirical research on logics has been mounting since the publication of Friedland and Alford's (1991) seminal work, theorizing efforts regarding the form and membership of logics have been less fruitful. The overwhelming majority of research on logics relies on a conceptualization that fails to account for diverse organizational identities among logic adopters (Thornton and Ocasio 1999, 2008; Thornton 2004; Suddaby and Greenwood 2005). Rather, the idea of *logic work* suggests that organizations must agree upon a diagnostic frame for action and uses their organizational identities as tools to either justify taking more aggressive actions under the guise of the sustainability logic or distance themselves from actors who take more radical action. Following calls to incorporate social movement theory more explicitly into organizational research (Rao, Morrill, and Zald 2000; Rao et al. 2003; Davis, Scott, and Zald 2005), the study presents the concept of "logic work" to capture the framing and negotiation activities undertaken by challengers to mount their offense against a dominant field logic.

The study shows that logic work encompasses two primary activities. The first activity is negotiating a common diagnostic frame (Benford and Snow 2000) to justify why challenger organizations are promoting a new logic and taking action. In the case of the institutional investors in Chapter 2, the frame chosen is a financial one that all investors can agree upon. Under the "sustainability logic of investing," investors believe that climate change presents financial risks and opportunities to firms. This framing is adopted by even the most radical of investors who have adopted the "sustainability

logic,” namely religious and labor shareholder activists. While this framing does not capture their social and moral motivations for engaging firms on climate change, they find it a sufficient and useful frame to mobilize greater numbers of investors on the issue.

Motivational differences among the investors under the “sustainability logic” must be continuously managed and reconciled to hold the logic together, though. I find that the second and most important element of logic work is the ways in which organizations use their own and other investors’ identities as tools (Swidler 1986) to either distance themselves or draw nearer to other challenger organizations. Both more radical and traditional investor use identities as tools. In order for identity to be used as a tool, though, at least one set of challenger organizations has to be multi-vocal; that is, possess many ties with diverse parties (Owen-Smith and Powell 2008). By being multi-vocal, these organizations can draw upon alternate identities to justify taking actions under the logic that other challengers may oppose. Among adherents to the “sustainability logic of investing,” religious investors are the multi-vocal actors that enable the logic to hold together. These investors draw on their social identities as religious figures or labor activists rather than their investor identities to justify taking new, more radical actions under the sustainability logic (i.e. asking firms to set voluntary GHG reduction goals).

When the religious and union investors take action that is deemed too radical by more traditional investors, though, the latter also use the former’s social identity as a tool to distance themselves from more radical investors. This is a tactic used most frequently among public pension funds new to investor activism, in which they emphasize their

fiduciary duty to explain why they are not endorsing certain actions by more socially or morally motivated investors. The sustainability logic does not fall apart in these instances, however. Rather, this identity distancing is more of signaling mechanism among the different challenger organizations about whether they are in agreement that a particular action falls within the confines of the sustainability logic. Often, by reframing a new action in financial rather than social terms – as in the case of the new GHG reduction resolutions – religious and union investors are able to expand the actions deemed appropriate under the sustainability logic by all organizations. In cases where agreement is not possible, using identity as tool kit enables the organizations to manage conflict without directly abandoning the logic itself by rationalizing one another's behavior as tied to their social or fiduciary identity.

Logics do not appear out of thin air. They are socially constructed cognitive templates for action, and the ways in which they are negotiated and maintained has been previously under-theorized. Chapter 2 uncovers the framing and identity work necessary to create and maintain a logic when organizations adopting it have diverse motivations and goals. In particular, the study highlights the important role identity plays as a tool to manage conflict among challengers. This is the centerpiece of logic work, a concept that following Lounsbury et al's (2003) notion of field frame, captures the endogeneity of framing and logic maintenance within an organizational field.

### ***Future Research***

In the realm of private politics (Baron 2003), there several directions for future research that emerge from the studies in this dissertation. Chapter 2 informs us that logics adopted by diverse organizations with conflicting identities and missions require logic work to maintain themselves. One fruitful avenue for future research would be to examine the conditions under which logic work activities like framing and maintenance (i.e. using identity as tool kit) becomes easier or more difficult for challengers over time. Is there a tipping point where framing and/or identity distancing is no longer necessary for organizations to feel comfortable supporting the logic or is negotiation and maintenance necessary until a challenger logic defeats the dominant logic in a field? Also, do dominant logics require logic work? Proponents of the institutional logics concept argue that logics are more durable templates for action than collective action frames (Thornton 2004; Thornton and Ocasio 2008), but it does not necessarily follow that negotiation among adopters is absent.

For scholars working at the intersection of social movement and organizational research, it would also be useful for future research to flesh out the theoretical and empirical divides between frames and logics as well as the signals that indicate when the former turns into the latter. In regard to challenger and dominant logic contests, it is also worth investigating whether competing logics outcomes differ when the competition is between a logic embraced by a diverse set of organizations versus one with homogenous actors. More specifically, does the effort required by logic work weaken a challenger logic's ability to overpower dominants in an organizational field?

Organizational researchers who are proponents of combining institutional logics and social movement research recently co-hosted an academic workshop entitled “Social Movements, Civil Societies, and the Corporation” in southern France in May 2010. One of the stated purposes of the workshop was to promote more research on the ways identities, networks and audiences affect how movements work with one another and their relationships with other organizational audiences. This dissertation ties directly into these research questions, and research interest into this area continues to grow. Following the conference, the organizers have decided to host a special issue on social movements, civil societies, and corporations in the journal *Organization Studies*. Hopefully some of the questions posed in this section will be addressed by the papers in that issue.

### ***Organizational Identity and Identity Interactions***

Chapter 1 provided a lengthy discussion of why anticipation of future regulation (Hoffman 2007) and greenwashing were not adequate explanations for Ford’s successful withdrawal of the climate change resolution filed by religious shareholders. This section turns attention to the findings from the Ford case and S&P 500 studies in Chapters 3 and 4 and the theoretical contributions they make to the organizational identity literature. The findings from these two chapters support the need for researchers to pay greater attention to the ways in which central, enduring, and distinctive elements of organizational identity (Albert and Whetten 1985) affect evaluations of an organization’s actions by relevant audiences (Polos, Hannan, and Carroll 2002; Hsu and Hannan 2005; Hannan, Polos, and Carroll 2007).

The Ford case study introduces the concept of “identity interaction” to clarify the process by which these evaluations occur. The case shows how shareholders’ religious identity and the firm’s collectivistic identity orientation facilitated dialogue between the two parties on climate change. In brief, the shareholders’ religious identity gave them legitimacy with managers, and the firm’s openness to stakeholder input affected its evaluation of the worthiness of shareholders’ claims.

The case shows that although religious investors’ engagement with firms takes place in an atypical sphere (e.g. the market), and by unconventional methods (e.g. shareholder resolutions), Ford does not see their actions as illegitimate. Although they engage with one another in an economic setting, the resonance of the religious shareholders’ social identities to managers brings forth notions of societal distinctions that are “entangled in longstanding divisions and sentiments associated with [social] and cultural understandings” (Hsu and Hannan 2005: 482). This distinction works to religious investors’ advantage. Churches and religious figures have long played a prominent role in civil rights, human rights, and social justice movements, so it does not seem contradictory to managers for religious investors to pursue environmental goals in the economic arena. As a result, it is easier for Ford to see “a logic of appropriateness” (March and Olsen 1995) in Sister Pat’s actions than other stakeholders – such as activist individual investors and environmental NGOs – who do not possess identities that are as resonant (Baron 2004), authentic (Peterson 1997), or legitimate (Oliver 1991) as a Catholic nun. However, the firm’s positive evaluation is also a function of its openness to stakeholder input more generally. To capture differences among firms’ approaches to stakeholders, I

draw up Brickson's (2005, 2007) identity orientation constructs. According to Brickson (2007), firms can be placed in three different orientation categories: individualistic, relational, or collectivistic. Individualistic organizations are primarily concerned about their own welfare, whereas relational organizations care most about dyadic relationships with partners, and collectivistic organizations prioritize the welfare of a larger group in stakeholder interactions.

Compared to individualistic firms that are indifferent or hostile to engaging with any stakeholders, I suggest Ford engages in a different evaluation process given its collectivistic identity orientation. As the case shows, Ford allows managers to engage with a wide variety of stakeholders on climate change, including groups as far-ranging as religious shareholder activists to hostile environmental NGOs. From these interactions, Ford differentiates among the various stakeholders' motivations and tactics for pressuring the firm. By virtue of their openness to a variety of stakeholders, collectivistic firms are more likely to engage in more fine-grained evaluations of stakeholder legitimacy based on identity and past interactions than individualistic firms. Brickson's (2005) work suggests that individualistic firms, on the other hand, will assert that stakeholders should not tell the firm what issues to attend to because management will always do what is required to make the firm a top performer.

The distinctions managers make among stakeholders at Ford are important ones because they suggest that in areas where the firm has discretion over its interactions with stakeholders, different constraints are placed on different stakeholders based on the

legitimacy of their identity. While organizational ecologists acknowledge that audiences sometimes enforce different types of constraint on actors with the same identity, they argue that “such identities are fragile and are unlikely to be sustained” (Polos et al. 2002: 96). As the case demonstrates, though, Sister Pat’s religious identity compensates for many negative evaluations she could receive given her activist shareholder behavior.

I argue that new work on the evaluative component of identity in organizational ecology (Polos et al. 2002; Hsu and Hannan 2005; Hannan et al. 2007) should not totally discard the idea that identity is comprised of the central, enduring, and distinctive elements of an organization (Albert and Whetten 1985). Rather, this new work should be viewed as an extension on previous identity work among organizational researchers. The term I introduce in this case – identity interaction – is a mechanism that brings this complementarity into relief. On the one hand, an organization approached by an external stakeholder will evaluate whether the other entity is a legitimate player with whom to engage. On the other hand, the organization’s own internal identity attributes influence this evaluation and what groups they place in legitimate versus illegitimate categories. Organizations with more collectivistic identity orientations are likely to make different evaluations of stakeholders than individualistic ones given their willingness to engage with more diverse groups of stakeholders.

Because firms approach stakeholders with varying cognitive orientations, they also evaluate the legitimacy of stakeholders’ identities differently. This in turn affects whether a firm believes there is merit to fostering a strong relationship with a given stakeholder. These facts suggest the need for more process-oriented concepts related to embeddedness

– like identity interactions – to account for the role of identity in private politics contests. The purpose of doing the Ford case study was to help uncover the connections between organizational identity and inter-organizational relations in order to better "predict and understand organizations' policies, practices, and behaviors toward [stakeholders]" (Brickson 2005: 577).

The findings from the S&P 500 study in Chapter 4 complicates the findings from the Ford case study, however. Unlike the Ford case, Chapter 4 did not find an identity interaction between collectivistic firms and shareholders with different identities. The study also failed to find a main effect of firm identity orientation on climate change resolution withdrawal outcomes, although two issues must be discussed to place the S&P findings in their proper context. The first is the issue that the case study was written about a U.S. firm that has an exceptionally collectivistic identity orientation. During the time period of the Ford case, the firm received the highest community strength score in the KLD data and had no community weaknesses. Indeed, the firm is an outlier in terms of its openness to stakeholders. Given the small sample available for the S&P 500 study in Chapter 4, it was not possible to determine whether firms with extreme outlier scores on collectivism – like Ford – have significant identity interactions with shareholder activists on climate change.

Even with these data limitations, though, the study finds evidence that the audience evaluating investors – U.S. firms – view religious and secular professional investors as more legitimate actors in shareholder negotiations. The findings also reveal that

heterogeneous audience members (i.e. firms) reward and sanction stakeholders differently based on their identity orientation. Individualistic firms are more willing to reach climate withdrawal agreements with religious investors than professional or special interest investors. The results suggest the need for organizational researchers – and particularly organizational ecologists (Hannan et al. 2007) – to pay greater attention to how identity heterogeneity among firms may affect their evaluations of whether other organizations are violating or conforming to the social codes associated with their identity. With the exception of one study by Eesley and Lennox (2006), few empirical studies have tested the effect of stakeholder attributes on outcomes of private politic conflicts with firms.

### ***Future Research***

In regard to making choices about what shareholders should file resolutions at different types of firms, the S&P study suggests shareholders will be most effective at individualistic firms when they send in investors that can simultaneously play “good cop” and “bad cop” (e.g. religious investors). Whether individualistic firms are more willing to negotiate with religious investors because their actions conform to their social identity (one focused on social justice and morality) or because they are trying to relieve pressure from these investors on human rights or other social issues is not entirely clear.

One way to improve on the findings in Chapter 4 is to expand the sample size of studies on climate change shareholder resolutions. However, this strategy is limited by the number of resolutions filed each year (although this number continues to rise). During the

2010 proxy season, 95 climate resolutions were filed by shareholders, a 40 percent increase over 2009. Another way to extend and further test the findings from this dissertation would be to expand the S&P 500 study to include resolutions covering all social and environmental issues. These issues range run the range of human rights issues, supply-chain standards, labor issues, pollution, and diversity. While the focus on climate change in this dissertation precluded using all of these resolutions, it is an interesting avenue for future research on corporate social action and would provide a larger sample size for researchers.

More broadly, these two studies provide a unique insight into investors as not just fiduciary automatons, but social and political actors. Contrary to the common economic and sociological conception of “investors” as passive, purely profit-oriented, and atomistic, the case finds that religious investors’ economic actions are not divorced from their religious identity at collectivistic firms. Further, just as Davis and Thompson (1994) and Romano (2001) find political motivations drive public pension fund activism, the dissertation suggests there is more than just financial motivations driving institutional investor action on climate change. Climate change is a particularly helpful issue to uncover the ways in which investors (both individual and organizational) socially construct an issue as a “financial issue,” and they also suggest the need for further work around conceptualizing our notions of “the investor,” a figure that has been greatly under-theorized in economic sociology (Preda 2005; Schrank 2008).

## **POLICY IMPLICATIONS**

In some ways, it is curious that the U.S. Congress remains bitterly divided over climate change when many of the largest firms in the U.S. – traditionally opposed to more environmental legislation – support federal cap and trade climate legislation. Almost all U.S. firms (even the longstanding hold-out Exxon) have expressed support for the idea that climate change is occurring and is at least in part attributable to human behavior. Of course, the firms at the policy table have an interest in promoting provisions in the legislation that are most favorable to them. In the case of cap and trade legislation, decisions over allocation of credits and the permissibility of using offsets are already spurring large lobbying efforts on the parts of different industries and firms. But at the end of the day, the fact remains that many U.S. firms still want legislation even if it imposes some costs on them. Firms in highly capital-intensive industries – like U.S. energy firms – have expressed particular anxiousness to get climate legislation passed so they can determine what investments they will need to make in the medium and long-term future (Gupta 2010).

There is still a need to for research on segments of the private sector and larger society that continue to oppose climate legislation, however. There are few (if any) studies on the climate skeptic movement, for example, although a few sociologists have begun examining the U.S. conservative movement's success in promoting doubts about climate science (McCright and Dunlap 2003, 2010). High-profile skeptics retain a seat at the Congressional table (U.S. House 2010), and even though the majority of scientists, academics, and many policymakers may reject the skeptic movement's viewpoint, it is impossible to evaluate their effect on climate policy without understanding the

underlying motivations and cultural foundations of their arguments.

In the course of an ongoing research project on climate skeptics outside of this dissertation, I recently attended a climate skeptic conference to collect qualitative data on how skeptics frame their arguments. Many of the presenters at the Heartland Institute conference – both scientists and individuals from conservative policy think tanks – make up the small group of high-profile skeptics repeatedly asked to testify in front of Congress by representatives of the U.S. House and Senate. Notably, identity claims were the most explicit themes to emerge from the data.

For example, one of the primary frames invoked by the skeptic movement is that climate science and climate policy is a covert way for liberal environmentalists and the government to interfere in the market and diminish citizens' personal freedom. In the words of one skeptic presenter, skeptics believe “the issue isn't the issue” and “the environmental agenda seeks to use the state to create scarcity as a means to exert their will, and the state's authority, over your lives.” Many of the presenters invoked the idea that “climate change is just another attempt to diminish our freedom” and climate policies will decrease personal liberty. One went so far as to suggest that a binding international agreement on climate change would end with individuals being required to carry “carbon ration cards” on their person. What these short quotes suggest is that there are strong individual and organizational identity forces at work not only among firms and investors grappling with the question of how to address the issue, but also among those who object

to addressing the issue at all.

Another intriguing theme that emerged from the skeptic conference is a strong distrust of the scientific peer review process. Skeptics argue that public funding of science in the post-WWII era through organizations like the National Science Foundation (NSF) corrupted the scientific process. In their view, “peer review” turned into “pal review,” and establishment scientist editors only published work by colleagues they liked and whose scientific research findings agreed with their own (Lehr and Gemmell 2010). Many of the conference presentations focused on how scientists have violated their own professional identity codes that champion neutrality, skepticism, and experimentation to become ideological motivated manipulators of statistical models for political and financial gain. The possibilities for research on these skeptic themes among sociologists in the science and technology studies and performativity subfields are extensive, and they also have important policy implications for understanding how these identity attacks influence legislators and the broader public’s faith in climate science.

There are also fruitful, untapped research topics awaiting those more interested in climate change dynamics specifically in the private sector. There has been almost no scholarly inquiry into the complexities of the U.S. Chamber of Commerce’s position(s) on climate change, for example. With over three million members, the Chamber is the largest business association in the world and a powerful lobbying organization at the municipal, state, and federal levels. The Chamber’s resistance to proposed federal climate legislation – despite support for the same legislation by many of its members discussed in the

introduction – raises some interesting questions about levels of governance and the intersection of corporate and public politics.

In a conversation with a business member of the Chicago U.S. Chamber of Commerce at a sustainability networking event recently, I ask the member what the Chicago chapter thought about the U.S. Chamber national staff's stance on climate change. She responded that the issue had not been discussed much at the local level, and the Chicago Chamber continued to partner with the City on its Climate Action Plan (CCAP) goals to reduce GHG emissions by participating in the City's Green Office Challenge and Earth Hour. The Chicago Chamber's website ([www.chicagolandchamber.org](http://www.chicagolandchamber.org)) also notes that the Chamber hosted a talk by the IPCC Chair Dr. Rajendra Pachauri on the importance of private sector engagement in climate change and gave a leadership/visionary award to Chicago-based Exelon CEO John W. Rowe in 2008 for his corporate social responsibility efforts. It would be illuminating to study whether the Chamber's national position on climate change influences climate initiatives taken by local Chamber's in their communities and whether it affects partnerships between local Chambers and municipal governments.

In particular, has the Chamber's public disapproval of the Waxman-Markey ACES bill (U.S. Chamber of Commerce 2009) and resistance to the EPA's endangerment finding (U.S. Chamber of Commerce 2010) been undermined by prominent members who protested the Chamber's position? What is the effect of the fissure over climate among member organizations on the Chamber's lobbying influence and how does this fracturing

manifest itself at the national level versus the local level? Under what conditions does a local Chamber reject or embrace the National Chamber's climate change position? According to the Chamber's website ([www.uschamber.com](http://www.uschamber.com)), almost 96 percent of the Chamber's members are small businesses with less than 100 employees. How do these small businesses view climate change compared to large U.S. firms? Does business support for federal climate legislation vary across firm size, geographic location, type of business?

Answering these questions would create a much more nuanced picture of private sector support for federal climate policy. We know from the introduction chapter that belief in climate change and support for climate action has decreased among individuals in the U.S., but little is known about the organizational positions of the population of business owners in the United States and how that influences climate policy at different levels of governance. In particular, we know little about how the personal and organizational *identities* of business leaders and their firms impact their beliefs and actions on climate change. Their climate beliefs and actions also influence the debate on climate policy, although with less publicity and visibility than climate skeptics and public opinion. Uncovering the conditions under which business policy preferences influence legislators – and how they influence them – is a promising research stream to understand barriers and catalysts for municipal, state, regional, and federal climate policy.

## **CONCLUSION**

Given their unsuccessful efforts to change public policy at the federal level around climate change, investors and activists sought ways to “expand the conflict” (Schattschneider 1960) through private politics (Baron 2003) in the early 2000’s. This dissertation has focused on one type of private politics – shareholder resolutions – to capture the ways in which organizational identity influences private politics processes. Given its necessarily limited scope, the dissertation does not delve into whether these private politics efforts have changed the public regulatory or legislative debate on climate change. I provide a few concluding thoughts about that issue here, however.

Institutional investors have placed consistent and growing pressure on firms and the U.S. Securities and Exchange Commission (SEC) to address climate change over the past two decades, and they may be seeing some signs of success. Pressure on firms to disclose GHG emissions through voluntary reporting structures such as the Carbon Disclosure Project (CDP), Climate Registry, and Global Reporting Initiative (GRI), for example, has come largely from institutional investors and is increasing. Over the last decade, the number of organizations reporting emissions through the CDP has increased from 235 in 2003 to 2,500 in 2010. The number and size of institutional investor CDP signatories making the disclosure requests is also growing. There are currently 534 CDP signatories representing over \$64 trillion in assets compared to 95 investors representing \$10 trillion in assets in 2003 ([www.cdproject.net](http://www.cdproject.net)). The most recent UN-sponsored Investor Summit on Climate Risk in January 2010 was also attended by over 520 finance, corporate, and investment representatives with more than \$22 trillion in combined assets.

The prolonged engagement with the private sector on GHG risk disclosure and voluntary reductions may be yielding some progress in the regulatory sphere as well. In February 2010, the U.S. Securities and Exchange Commission provided written guidance regarding climate change disclosure for the first time (SEC 2010). The SEC cited ongoing investor petitions for interpretative guidance on climate change (CalPERS et al. 2007) and quotes from business leaders about the necessity of addressing climate change as evidence that the financial and business community is seeking more information on the materiality of climate risk.

The 30 page document discusses the Commission's "views with respect to our existing disclosure requirements as they apply to climate change matters," (SEC 2010: 3) and it analyzes how future legislation and international agreements might affect the materiality of climate risk for U.S. firms. The document also addresses situations in which disclosure of climate risk might be currently required in the Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of the firm's SEC filings. The document is far from definitive on how firms should consider the materiality of climate change, but it has put climate change on the agency's public agenda.

Although some institutional investors and activists view increased voluntary reporting by firms and the new interpretative guidance from the SEC as successes, critics like Reich (2008) would argue these are token changes at best and not the not the type of wide-sweeping climate change decisions needed through public governance structures (i.e. legislation and regulation). Others have also suggested that environmental NGOs and

investor activists have been co-opted by large corporations on climate change by partnering with them through coalition organizations like the United States Climate Action Partnership (USCAP) and the Investor Network on Climate Risk (INCR). In 2008, a former staff member at Conservation International wrote a scathing book criticizing environmental NGOs for working with corporations and imitating their strategies and tactics (MacDonald 2008). The book, *Green, Inc.*, lambasts environmental NGOs for providing positive PR for greenwashing firms and accepting money from them.

Others have taken a more mixed view of the relationship between stakeholders and corporations. Epstein and Kramer (2007), for example, suggest that radical stakeholders who refuse to engage with corporations and more moderate ones like the investors analyzed in this dissertation may complement rather than undermine one another. They argue the radical stakeholders create a “radical flank effect” that makes the demands made by moderate stakeholders appear more reasonable to firms than they would otherwise and provides an incentive for firms to engage with moderate stakeholders. I classify the investor activists in this dissertation as moderate stakeholders since they seek a seat in the boardroom rather than on the picket line. I chose to focus on stakeholder working “within the system” rather than without because I also thought firms would be more willing to engage with them, and among other things, I was interested to see whether and how the investors’ multiple identities (e.g. fiduciaries, nuns, state treasurers) affected firm responses to them.

At the beginning of this research endeavor, however, I did not expect organizational identity would be the dominant theoretical lens I would rely on to explain firm and

stakeholder reactions to climate change. Typical of inductive research endeavors, the theoretical framework for the dissertation emerged directly from the data, and the identity themes captured in my fieldwork and interviews were simply too powerful to ignore. I also believe that now, more than ever, identity is an apt lens to study climate change conflicts. Many in the environmental, business, and policy arenas have experienced something akin to “climate whiplash” between the time I conducted fieldwork for this dissertation and wrote up my results. In the past year, climate skeptics have received increased attention in the wake of the East Anglia email scandal, public belief that humans are affecting the climate has decreased, federal cap and trade legislation has not been passed by the U.S. Congress, and no binding international agreement on GHG emission reductions was reached at the Copenhagen COP 15 climate meeting. As the quotes from the climate skeptic conference above suggest, identity influences how individuals and organizations are framing the climate debate. However, we still know little about which skeptic identity frames resonate with the public and influential organizations, and under what conditions these frames shift climate change opinion and policy.

In light of the recent increase in climate skepticism, examining the role identity plays in shaping organizational responses to climate change is more crucial than ever. It is my sincere hope that organizational theorists and social science researchers will ramp up research efforts to understand the role culture and identity is playing in climate policy outcomes. Many powerful organizations have chosen sides on the climate debate, including influential groups like the Chamber of Commerce and the National Academies

of Science (albeit on different sides). However, most governments remain divided on the issue, most notably the U.S. Congress and member countries of the United Nations debating a post-Kyoto agreement. Ultimately, these organizations will determine the trajectory of climate policy and behavior changes within society and the global economy. Like King et al (2010), I subscribe to belief that “organizations influence their environments in unique ways, and understanding an organization’s actions requires us to more carefully consider the attributes that make this action possible” (292). In closing then, I make a call for sociology and organizational scholars to use their professional tools of the trade to build a better understanding of how organizational identity shapes climate beliefs and how organizations shape society (Perrow 1986) through their climate change strategies.

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