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Why do investment managers sign the Principles for Responsible Investment? A re-examination of stakeholder salience theory.

Abstract

Using qualitative data collected directly from Principles for Responsible Investment (PRI) signatories and quantitative data, we examine the attributes of the stakeholder relationship between investment managers and the PRI. We test and build upon Mitchell's et al. (1997) theory of stakeholder salience and its further developments by Gifford (2010).

Working paper in progress: feedback appreciated.

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Acknowledgements:

We are very grateful to xxx for comments. We are greatly indebted to James Gifford, Hitender Gurjal, Lorenzo Saa, Titia Sjenitzer (...) for data provision. This project is funded by 3CI (grant name). The views expressed in this paper are not necessarily shared by the PRI. All remaining errors are the sole responsibility of the authors. The authors are listed alphabetically.

1. Introduction

Responsible investment has been gaining momentum in the face of the recent instability of the financial markets. Among the more important milestones in the history of its development is the inception of the Principles for Responsible Investment initiative, backed by the United Nations, at the New York Stock Exchange in 2005. By the end of 2006 it had just above 100 signatories with no more than x USD in assets under management (AUM). Since, over 1,000 investment organisations have signed the principles and therefore committed to the process of including environmental, social and governance (ESG) factors in their investment process. Together they represent now over 35 trillion US dollars, that is around one third of global AUM[1].

This paper reports on an empirical analysis of the driving forces behind asset managers signing up to the PRI. It begins with an exploration of theories in the field that offer potential explanations, and continues to empirically test a range of them with relevant data on signatories and non-signatories.

We build principally on Mitchell's et al. (1997) theory of stakeholder salience as modified by Gifford (2010). The theory identifies several factors that contribute to stakeholder salience. We test their relevance to the PRI-signatory relationship with the use of a confidential database containing 5 years of annual reporting mandatory for PRI membership. That analysis is then validated with the use of quantitative data on signatories and non-signatories.

We find that the analysis of the relationship between the PRI and its signatories using Mitchell et al.'s framework as modified by Gifford (2010) indicates a significant degree of salience of the PRI as a stakeholder. The main sources of the PRI's salience are (...). We close the discussion by identifying areas for future research in the field.

2. Review of the Literature

Freeman (1984) proposed a broader model of the relationships surrounding corporations in the form of stakeholder theory. Stakeholder theory argues that the tension or alignment between the interests of managers and shareholder is not the only one that is relevant to a corporation (Donaldson & Preston, 1995). A corporation has not only shareholders, but stakeholders, and shareholders are only one group among many. A stakeholder is defined as any group or individual who can affect or is affected by the achievement of the organization's objectives (Freeman, 1984:46). It is in this sense that this paper refers to the PRI as a stakeholder of asset managers.

Before we look into the factors that Mitchell and his co-authors and Gifford propose as catalysts for signing the PRI, let us present an overview of other academic theories that offer explanations for the embracement of the responsible investment logic by the asset management industry.

Stewardship theory as defined by Davies, Schoorman & Donaldson (1997) proposes that managers are not motivated by their individual goals and argues that managers are stewards whose interests are aligned with those of their principals. According to stewardship theory, asset managers would be signing the PRI in the belief that it serves the interests of their clients.

The universal ownership hypothesis developed by Hawley & Williams (2000) proposes the idea of investors with portfolios big enough and diversified enough to be affected more by the performance of the global economy as a whole than by the performance of any individual holding. This means that

[1] Incl. Alternative assets. Source: Fund Management 2012 report by thecity.uk

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it is in their interest to maintain a healthy macro economy, because that is what ultimately benefits them (Kiernan, 2007). The holders of such portfolios are mostly institutional investors, many of whom are signatories to the PRI. This suggests that investors recognize that adopting the approach advocated by the PRI fosters a stable and sustainable global economy.

Diane-Laure Arjalies (2010) develops a social movement perspective on finance on the example of the rise of socially responsible investment. It provides a model of how social movements influence economic systems. In the 2010 paper Arjalies proposes that ‘compromise movements’ such as the socially responsible investing movement can reform existing financial systems by introducing common logics. In this context the new logic advocated by the social movement is merged with the existing institutional logics of the economic system and a new mainstream hybrid emerges. Therefore, the social movement as such is discontinued and replaced by the mainstreaming of a new logic and integrating it into processes and structures already in place.

This theory can be helpful in explaining the influence of the PRI insofar as the goal of the PRI is precisely to bring responsible investment into the mainstream, and to integrate ESG consideration into existing investment processes. By signing the principles, organizations subscribe to this goal.

Brickson (2007) develops a theory of organizational identity orientation, categorizing the assumed relations between an organization and its stakeholders. Brickson identifies three types of organizations: individualistic, relational and collectivistic. Each type of organizational identity opens pathways for the creation of different forms of social value.

Of the three types it is collectivistic organizations that are likely to be motivated to pursue a sense of meaning and join collective efforts with the objective of advancing social causes and bringing about social change. Relational organizations largely focus on catering to the needs and demands of their clients. They excel at personalization and organizational capacity building in non-profit partnerships (Brickson, 2007). Individualistic organizations are the most innovative, brave and wealth-generation-oriented. They can subsequently contribute their financial resources to social value creation undertakings. The framework is seen as an advancement on stakeholder theory.

Barnett (2007) adds what he calls the missing link to the search for the connection between ESG related activities and corporate financial performance (CFP). He concludes that the effect of ESG related activity on CFP depends on if the activity is carried out in response to demand in the market. The more receptive and responsive an organization is to the signals coming from the market, the better it will be able to reconcile ESG objectives with its financial objectives and fuel financial performance with ESG activities. This theory transferred into the context of the PRI and asset managers suggests that investment organizations sign the PRI as a result of their responsiveness to market trends favouring ESG.

Aguilera et al (2007) offer a multilevel theoretical model of the motivations of organizations to pursue CSR activities and exert positive social change. They distinguish between instrumental, relational and moral motives. These are applied at the levels of an individual, an organization, national institutions and transnational governmental and non-governmental institutions.

Marquis, Glynn and Davies (2007) put forward an interesting theory that community isomorphism in metropolitan areas where corporations are headquartered can push them to engage in the direction of more ESG oriented activity..

Mackey, Mackey and Barney (2007) suggest that within the responsible investment (RI) market, the relationship between supply and demand for RI determines the influence of those activities on the market value of organizations. Therefore, publicly listed companies may engage in ESG activities that do not increase their cash flows but still have a positive effect on their market value. Conversely, if

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the supply and demand conditions are unfavourable, the same activity will reduce the market value of the performer.

Campbell (2007) offers a further theory to explain the ESG oriented behaviour of corporations. He specifies a number of economic conditions under which corporation are likely to behave in socially responsible ways. Those conditions are then mediated by several institutional conditions.

The basic economic conditions are the health of the economy in general, the financial health of the corporation and its prospects of future returns, and the current levels of competition in the market. While the higher performance of the economy and individual organizations is directly related to more likelihood of socially responsible behaviour, the relationship between competition and such behaviour is curvilinear. That is, both very low and very high degrees of competition in the market are correlated with little socially responsible behaviour, and moderate degrees with the most.

These economic conditions are then moderated by institutional factors. These include, governmental regulation and industry self-regulation, monitoring by NGOs and other organizations, a normative institutional environment, membership of industry or employee associations and institutional dialogue with stakeholders.

David Baron (2009) distinguishes between three motivations for corporate socially responsible behaviour: moral duty, self-interest and social pressure. He argues that only actions driven by moral duty – the voluntary fulfilment of a moral duty to provide public good[2] or redistribute profits – can be counted as corporate social responsibility, whereas both self-interested actions in pursuit of differentiation, publicity etc. and actions driven by a response to or the anticipation of social pressure (public politics/regulation or private politics) are 'business as usual' (Baron, 2009).

All of the above theories have been tested on the qualitative part of the dataset next to the main theoretical framework and the results can be found in Appendix 1.

3. Theory and hypotheses

The main theoretical framework for the analysis of the datasets is the previously mentioned stakeholder salience theory as developed by Mitchell et al. (1997) and Gifford (2010).

Mitchell et al. propose a descriptive model of the factors that influence stakeholder salience.[3] Mitchell et al. define stakeholder salience as the priority given by company managers to stakeholder claims. Factors contributing to it are: power, legitimacy and urgency.

Power concerns the coercive, utilitarian or normative means that a stakeholder has at their disposal to exert influence on management[4].

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[2] By public good is understood mitigation of externalities associated with the firm's operations that goes beyond what is required by regulation or law. It may incur costs that can be set off if higher corporate social performance attracts customers and investors, or if consumers are prepared to pay a premium price. The supply of CSP depends on the expectations of citizens. The pressure is exercised in three domains. The product market – where firms compete and some customers expect CSP as a form of product differentiation; the capital market – where citizens are free to invest in CSP oriented firms; and the market for social pressure where citizens are actors and donors. (Baron, 2009)

[3] Mitchell's et al. model involves some parallels with Scott's (2001) institutional theory.

[4] The coercive, utilitarian and normative categories were taken from Etzioni's (1964) organizational theory.

Coercive power relates to formal shareholder governance mechanisms e.g. formal shareholder rights via resolutions or legal proceedings, replacement of management, or change of regulation as a result of shareholder lobbying.

Shareholders exercise utilitarian power by means of financial reward or punishment i.e. investment or divestment.

Using normative power is linked to reputation risks. It involves private and public statements, the filing of shareholder resolutions and any activity that may draw attention to the issue at hand and affect the reputation of the company overall or of individual managers (Gifford, 2009). Mitchell et al. propose that a successful engagement involves the implicit or explicit threat of the use of such mechanisms of power (propositions 1-3).

Legitimacy and urgency apply to how the claim itself is viewed by the management. Legitimacy is 'a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions' (Mitchell et al, 1997). Mitchell et al. divide it into individual, organizational and societal legitimacy[5].

The level of individual legitimacy in the context of shareholder engagement depends on the perceived professionalism, status and level of experience of the individual carrying out the engagement. Their ability to build trust and develop a good relationship with management are further factors.

Organizational legitimacy is the level of credibility of the organization in the market. It can be determined by the claim the organization has on the target company, e.g. by virtue of the size of its holdings, or a high-risk stake. The coherence and consistency of communication from different parts of the organization are also important. The shared interests of the company and the shareholder increase organizational legitimacy. The last factor is often connected to the degree to which a shareholder is known as 'mainstream'[6] in the investment community.

Societal legitimacy is the level of support the community expresses for the subject of the engagement. In this case means of expression are codes of conduct, supportive policies and political environment, or simply broad acceptance of the position in society, reflected e.g. in consumer movements or NGO activities.

The fourth type, pragmatic legitimacy, refers to the business case perspective on the engager's argument[7]. It is determined by the strength of the arguments presented by the engager, and the amount of new information the engager presents to the management (Gifford, 2009).

The final factor presented by Mitchell et al. is urgency. It refers to the degree to which the issue tackled is perceived by management as calling for immediate attention. According to Agle, Mitchell

[5] following Wood's (1991) framework

[6] a mainstream investor makes decisions primarily based on financial/material arguments, and only secondarily on ESG or ethical matters

[7] Pragmatic legitimacy as it appears in Mitchell's et al. model is based on Suchmann's (1995) 'pragmatic legitimacy' concept

and Sonnefeld (1999) urgency can be a crucial factor in achieving maximum salience. Urgency has two sources: time-sensitivity and the criticality of the issue to the shareholder. Time-sensitivity will manifest itself through impending AGMs, benchmarks with response deadlines, and any other deadlines that create time pressure (Gifford, 2009). Engagers signal criticality by being persistent, assertive and by dedicating a lot of resources to the engagement.

Mitchell et al. argue that stakeholder salience depends on the degree to which they possess these three attributes, in the management's perception. Agle et al. (1999) confirmed this proposition in a survey of 80 American CEOs. Ryan and Schneider (2003) apply Mitchell's et al. theory to the context of active ownership executed by institutional investors. They find that by virtue of power and legitimacy, public pension funds have the most salience to a listed company. In terms of urgency, active fund managers have more salience than passive shareholders because their ongoing trading activities add urgency to their claims.

Gifford (2010) expands Mitchell's et al. model. He adds to it the moderating factors of the relative economic size of the stakeholder, coalition building and management's values. Gifford also adds a temporal dimension to the relative importance of these factors.

The size of the shareholder relative to the company contributes to salience through the increased power and legitimacy that stem from it. A larger shareholder is likely to hold a more significant stake in a smaller company, and have more access to governance power as a result. Likewise, they are likely to be a more legitimate and important actor on the market.

Coalition-building results in the pooling of resources by shareholders. A shareholder coalition has the combined size, resources, legitimacy etc. of its participants (not only shareholders but also policy makers or NGOs). It is therefore a moderating factor of power, legitimacy and urgency alike.

The final moderating factor – management's values – was also confirmed by Agle et al. (1999). The degree of overlap between the values the engagers refer to and the values of the managers can be crucial to the interaction. It can moderate the salience of an engager independently of the attributes proposed by Mitchell et al.

Figure 1 illustrates how we modify the attributes to apply them to the PRI-investor relationship.

Factor	Definition	Application to PRI-investor relationship
Mitchell et al. (1997)		
Power – utilitarian	A relationship among social actors in which one social actor, A, can get another social actor, B, to do something that B would not have otherwise done – via material incentive.	Asset Managers see a potential material benefit in signing the PRI.
Power – normative	A relationship among social actors in which one social actor, A, can get another social actor, B, to do something that B would not have otherwise done – through symbolic influence.	Asset Managers are put under symbolic (non-material) pressure to sign the PRI.
Power - coercive	A relationship among social actors in which one social actor, A, can get another social actor, B, to do something that B would not have otherwise done – by threat or coercion.	As a voluntary, aspirational framework, PRI does not excercise coercive power.
Urgency	The degree to which stakeholder claims call for immediate attention – determined by time	Increased visibility of the PRI and calls for signing the

	sensitivity and criticality.	principles in the media.
Legitimacy - individual	a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995) – relating to the individual	The legitimacy of an individual serves as a catalyst for signing the principles.
Legitimacy - organizational	a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995) – relating to the organization	The perception of the PRI as a highly legitimate initiative.
Legitimacy - societal	a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995) – as based on social support, policy and code of conduct backed best practice.	The perception of the PRI as having high societal legitimacy, being supported by national and international organizations.
Gifford (2010)		
Relative economic size of stakeholder	high degree of relative economic and governance power of one stakeholder over another	The size of the PRI creates an incentive to sign.
Coalition building	The shareholder builds coalitions with other shareholders and stakeholders	Investor signs the PRI in order to be part of an industry coalition working towards a common goal.
Management values	managers' values are broadly aligned with the stakeholder's values	Investors represent values aligned with the values of the PRI and are willing to express that by signing the Principles.
Pragmatic legitimacy	The stakeholder makes a strong case for why it is beneficial to the organization, including providing the organization with new information.	Investors see a pragmatic reason to sign the principles.

Based on Mitchell's et al. (1997) and Gifford's (2010) framework applied to the PRI-investor relationship, we develop a set of hypotheses to test with the use of the data available to the researchers.

Power is divided into three sub-attributes in Mitchell et al. (1997). Utilitarian power, where a social actor can make another social actor do something they would not otherwise have done via financial incentive; normative power – through symbolic influence; and coercive power – through threat or coercion. Since the PRI is a voluntary and aspirational framework, it does not use the means of threat or coercion to influence signatories. Therefore this sub-attribute does not apply to the PRI-investor relationship. Financial incentive can be related to an investment manager's clients being signatories to the PRI and the pressure to sign associated with this. The reputational benefits that signing the PRI offers can also be a manifestation of normative power.

Hypothesis 1a: The salience of the PRI as a stakeholder is positively correlated with the attribute of utilitarian power.

Hypothesis 1b: The salience of the PRI as a stakeholder is positively correlated with the attribute of normative power.

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Urgency, as the degree to which a stakeholder's claim calls for immediate attention, becomes the increasing visibility of the PRI in the asset management space and the pressure on investors to join. It is observable to a relatively small degree in PRI-investor interactions.

Hypothesis 2: The salience of the PRI as a stakeholder is positively correlated with the attribute of urgency.

Legitimacy in Mitchell's framework was sub-divided into organizational, individual and societal legitimacy. Mitchell uses Suchman's definition of legitimacy as a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995).

This legitimacy in an investor-PRI interaction can either stem from the legitimacy of the PRI as an organization (organizational legitimacy), of an individual acting as a catalyst for signing the principles (individual legitimacy) or from the perceived endorsement of the principles by society as expressed through industry regulations and government policy (societal legitimacy).

Hypothesis 3a: The salience of the PRI as a stakeholder is positively correlated with the attribute of organizational legitimacy

Hypothesis 3b: The salience of the PRI as a stakeholder is positively correlated with the attribute of individual legitimacy.

Hypothesis 3c: The salience of the PRI as a stakeholder is positively correlated with the attribute of societal legitimacy.

Gifford adds to the above the relative economic size of the stakeholder, which in this context becomes the size of the PRI and the growing weight of the AUM of the investors already signed up; coalition building which is among the services the PRI offers to signatories through the Clearinghouse and thematic and regional working groups; management values which may already be aligned with those represented by the Principles before signing; and pragmatic legitimacy which can correspond to investors having asset owner clients who have already signed therefore making it logically beneficial to the managers to sign also, or to the long term performance benefits of ESG integration.

Hypothesis 4: The salience of the PRI as a stakeholder is positively correlated with the attribute of relative economic size.

Hypothesis 5: The salience of the PRI as a stakeholder is positively correlated with the attribute of coalition building.

Hypothesis 6: The salience of the PRI as a stakeholder is positively correlated with the attribute of management values.

Hypothesis 7: The salience of the PRI as a stakeholder is positively correlated with the attribute of pragmatic legitimacy.

4. Hypotheses tested on the PRI survey data

Before we turn to the quantitative testing of the framework, we analyze the signatories' own responses to the question why they signed the Principles, which we take from the PRI survey data. Although this analysis cannot be relied upon alone to answer the question reliably, it would be hard to justify omitting a source of such a direct answer to the research question when it is available to the researcher. The following section describes the dataset, the method used to analyze it, and the results of the analysis.

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The PRI data is sourced from the annual questionnaire on the implementation of the principles. In the relevant period the questionnaire has been obligatory to a proportion of signatories. A mixture of mandatory and voluntary responses grew from around 150 in the years 2007-2009 to just under 400 in 2010 and over 400 in 2011. In this paper we analyze all responses of asset owners and asset managers. The number of questions in each year gradually decreased from 140 to 88 as the survey structure evolved. The areas addressed in the survey remain similar and largely comparable. A comparison of questions year on year can be found in Appendix 2.

Signatories for whom the survey is obligatory have to respond to the survey each year. This means that depending on the organization, the same answers will be coded repeatedly over several years, or the organization will modify them year by year.

The appendix contains the questionnaire for each of the years in the sample and examples of responses by investment managers. The questions coded for the purpose of this paper were questions no. 78: Why did your organization join the PRI? and 79: What has your organisation changed as a direct result of becoming a PRI signatory? (based on the 2011 questionnaire).

The choice to combine qualitative and quantitative analysis in this paper was motivated by a range of factors. Although quantitative research is dominant within finance, it has been argued that to gain a multi-dimensional perspective of finance, we ought to supplement it with some qualitative analysis (Bettner et al., 1994; Burton, 2007). In a broader context, there have even been propositions to merge quantitative and qualitative research into one multi-dimensional process (Fry, Chantavanich and Chantavanich. 1991). A slight shift in the balance within finance is exemplified by the special issue of the Journal of Studies in Economics and Finance devoted exclusively to qualitative research in finance (Studies in Economics and Finance, Vol. 24 (1), 2007).

The method used in this paper is content analysis. It is defined as a research technique used to objectively and systematically make inferences about the intentions, attitudes, and values of individuals by identifying specified characteristics in textual messages (Morris, 1994). It allows for the systematic, quantitative analysis of a large amount of text in a manner customized to the research that is being conducted. Lacity and Janson (1994) class content analysis as a positivist approach to text analysis. The research method is the identification of non-random variation. The role of the researcher is that of an unbiased outsider. The nature of the text is assumed to be objective. And finally, the validity checks are quantitative – the most formalized validity check in Lacity and Janson's framework.

Content analysis was first used in 18th century Sweden to blame a collection of 90 hymns entitled *Hyms of Zion* for undermining orthodox clergy (Insch, Moore & Murphy, 1997). It was popularized during the II World War when the British intelligence used it to analyse German newspapers in order to estimate casualties and the state of the German economy. The success of this approach was recognized and soon also Japanese newspapers were monitored (Lacity & Janson, 1994).

Since, it has become a widely used method of dealing with qualitative data in much of academic research. It is used in fields related to finance. Content analysis has featured regularly in management literature[8], accounting (Fischer, 2010), marketing (Kolbe & Burnett, 1991; Rust & Cooil,

[8] (Davy, J. A., R. E. White, et al. , 1992; Bergh, D. D. , 1993; Morris, 1994; Butterfield, 1996; Buttner, E. H. , 2001; Harris, H. , 2001; Druskat, V. U. and J. V. Wheeler, 2003; Arce M, D. G. , 2004; Chun, R. , 2005; Lee, K. H., G. Yang, et al., 2006; Hassink, H., M. De Vries, et al., 2007; Hung, K. H., S. Y. Li, et al. , 2007; Hamann, R., P. Sinha, et al. , 2009; Beck, Arevalo, J. A. , 2010; Campbell & Shrives, 2010; Castaldo, S., K. Premazzi, et al. , 2010; Ho, C. and K. A. Redfern , 2010; Arce, D. G. and S. X. Li, 2011; Grafström, M. and K. Windell, 2011; Habisch, A., L. Patelli, et al., 2011; Molloy, J. C., R. E. Ployhart, et al., 2011)

1994; Hite, R. E., J. A. Bellizzi, et al., 1998) and business ethics where it has been often applied to analyze large volumes of company produced publications relating to their ESG policies and activites[9]. It is also the dominant research method for collecting empirical evidence in the field of social environmental accounting [10](Parker, 2005).

Some of the following studies in particular are relevant to finance and investment. In 1990, Jarvenpaa and Ives used it to analyse 649 letters to shareholders in annual reports to find out about the importance of IT to corporate strategy. They found a positive correlation between the occurrences of IT-related phrases in letters to stockholders with the firm's yearly net profits (Jarvenpaa and Ives, 1990). Bravo, R., J. Matute, et al. (2012) in a somewhat related study, analyze self-declared CSR activities of Spanish banking institutions. Further, Meyer, R. E. and M. A. Höllerer (2010) analyze the impact of framing contested issues in public discourse has on shareholder value in Austria.

The motivation for using content analysis in this particular paper was to provide a further dimension to the impact of the UNPRI on investors. Moreover, as a methodology, content analysis is neither an unambiguously qualitative or quantitative method (Kolbe & Burnett, 1991; Insch, Moore & Murphy, 1997; Harwood and Garry, 2003). It can be described as qualitative in the first stage where the text is analysed and the content divided into categories; and quantitative when applied to quantifying the occurrence and relative importance of the categories or phenomena. This combination of qualitative and quantitative characteristics in content analysis allows us to present the data in a structured, clear manner, and to increase the reliability of the results.

Based on the analysis of the survey data using this method, organizational legitimacy was the factor that found the strongest support in the data. The support grew rapidly between 2008 and 2010: from 1% of respondents to the survey in 2008 to 18% in 2009 and 13% in 2011. Other supported factors were societal legitimacy and power, which grew steadily in absolute numbers but not percentage wise. There was very weak support found in the data for the importance of the urgency factor.

The strong support for the organizational legitimacy factor suggests that investors widely believe that membership of the PRI influences their organization's legitimacy in the market, either as a statement of adopting a certain approach to investment, or as a result of membership of a global association of investors endorsed by the United Nations alone. This perception grew steadily over the years both proportionately and in absolute numbers, as the PRI gained recognition in the investment environment and secured its position as an industry standard.

Relatively low but steady amount of support for the importance of the societal legitimacy factor suggests that it is present in the relationship between signatories and the PRI, but is not among the most salient factors. The same applies to power.

[9] Lefebvre, M. and J. B. Singh , 1992; Polonsky, M. J., J. Bailey, et al. , 1998; Leong, S. M., H. H. Tan, et al. , 2004; Payne, D. and B. E. Joyner , 2006; Singh, J. B. , 2006; Vuontisjärvi, T. , 2006; Jose, A. and S. M. Lee, 2007; Stray, S. , 2008; Zamoon, S. and S. P. Curley , 2008; Holder-Webb, L., J. R. Cohen, et al., 2009; Levy, S. E. and D. E. Hawkins , 2009; Lugli, E., U. Kocollari, et al. , 2009; McClelland, P. L., X. Liang, et al., 2010; Sheth, H. and K. M. Babiak, 2010; , S. Y. and C. E. Carroll, 2011; Manetti, G. and S. Toccafondi, 2012; Martin, K. and B. Parmar, 2012; Yakovleva, N. and D. Vazquez-Brust, 2012

[10] Content analysis accounts for 19% of empirical studies in the field between 1988-2003.

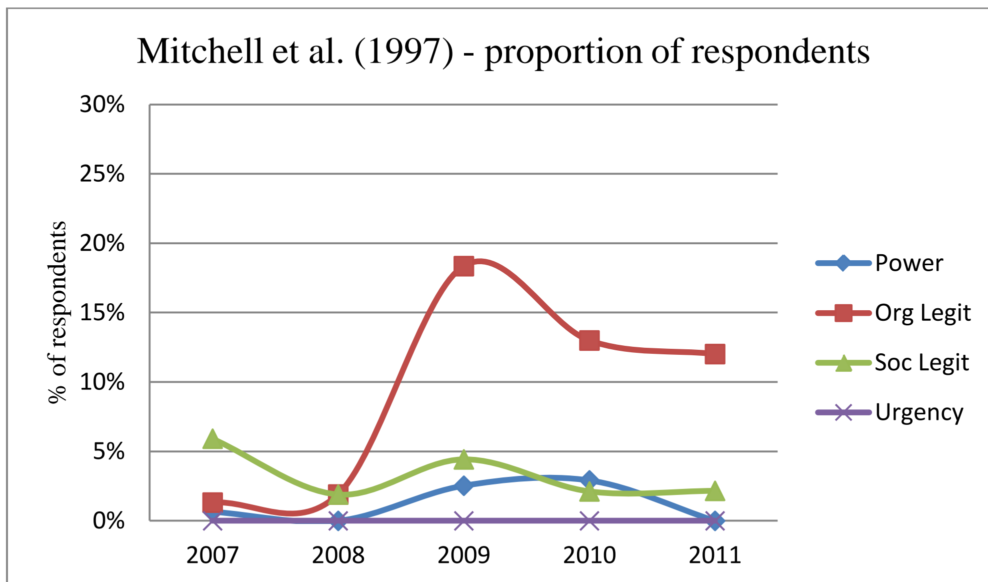

Figure 2: moderate to very strong support for factors in the Mitchell et al. framework – percentage of responses

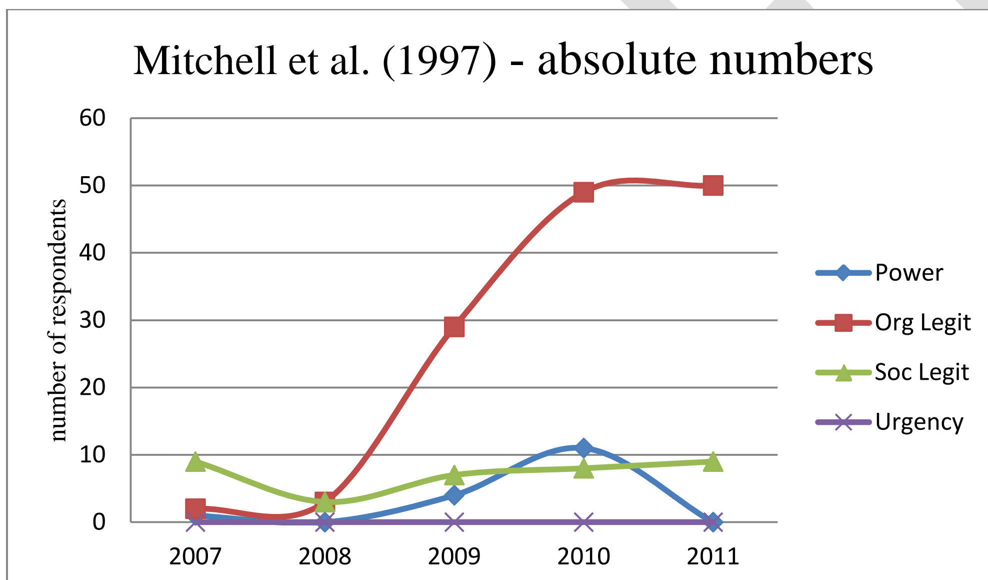

Figure 3: moderate to very strong support for factors in the Mitchell et al. framework – absolute numbers

The factors in the Gifford model were overall more strongly supported by the data, with pragmatic legitimacy and management values reaching 60% and 64% support in 2008 and 2009 respectively.

Coalition building was increasingly seen as important by signatories: 10% of them in 2007 and 30% by 2011 (17 and 127 in absolute numbers respectively) as the activity and success of the Clearinghouse grew. The factor that signatories referred to the least frequently was relative economic size, although it was mentioned increasingly over the years. (Fig 4&5.)

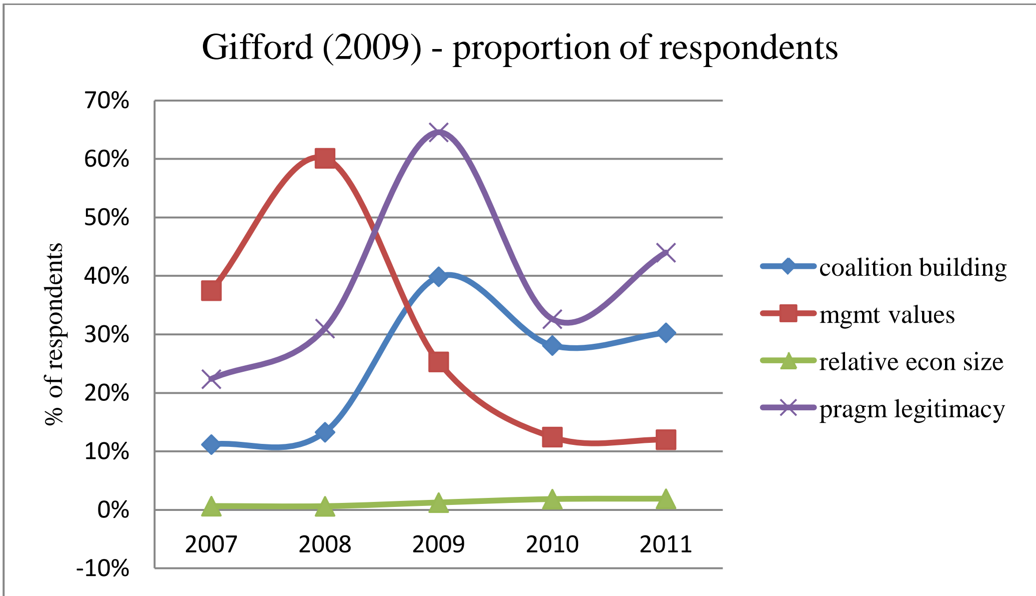

Figure 4: moderate to very strong support for factors from the Gifford (2010) framework – percentage of respondents

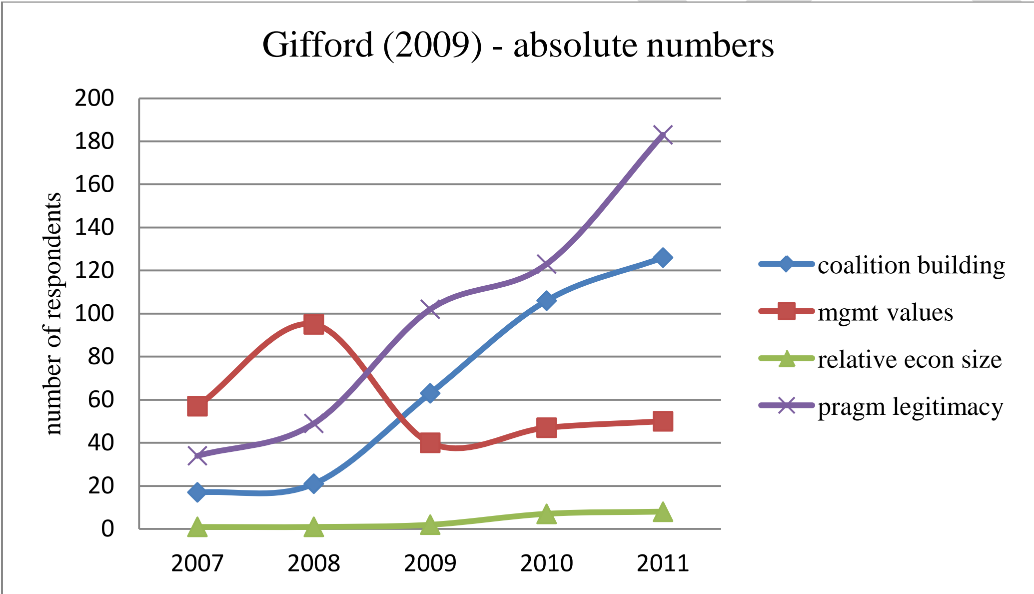

Figure 5: moderate to very strong support for factors from the Gifford (2010) framework – absolute numbers

The full results of the analysis can be found in Appendix 1.

Based on the qualitative analysis there was no need to exclude any of Mitchell's et al. (1997) or Gifford's (2010) factors from the quantitative analysis on the basis of irrelevance. Quantifying the signatories' direct responses to the question why they signed the Principles and what they see as the PRI's main influence on their organization since signing provides us with interesting insights into the PRI-signatory relationship.

As the focus of this paper is on the asset management industry, it is important to triangulate these results with quantitative data that can be analyzed both for signatories and non-signatories. It is only in the event when a factor is present in the signatory-PRI relationship and absent in the non-

signatory-PRI relationship that it can be assumed that it is a source of the PRI's salience and therefore a reason why some asset managers sign the Principles and others do not.

5. Method

5.1 Data selection

In order to choose the type of quantitative data best suited to serve as a proxy for the stakeholder attributes that contribute to the salience of the PRI, we turn to academic literature where it is available. In under-researched areas such as the asset owner – asset manager power relationship, we rely on a thorough examination of the stakeholder relationships surrounding the PRI and asset managers within the finance industry. A description of how we arrive at each decision regarding choice of data follows.

For the purpose of this paper, the quantitative proxy of utilitarian power in the investor-PRI relationship is the number of signatory asset owner clients who have mandates with the asset managers. If an asset manager has institutional clients who are signatories to the PRI, they will be more likely to sign in an effort to secure their clients. Asset owners will be more likely to employ or keep signatory asset managers because if a significant portion of their assets is managed externally, it is one of the main ways in which they can improve their rating in the PRI reporting and assessment framework. Especially post-2008, asset owners have found themselves in a position of power as the owners of capital which is scarce and which asset managers need to survive.

Normative power, that is symbolic, non-material influence, is measured by the existence and activity of country networks. Country networks that are headed by country managers from the PRI are active among industry players in the relevant country, present at industry events, and can put non-material pressure on asset managers to sign via presentations, interaction and visibility in the investor space.

Individual legitimacy in the case of the PRI is best represented by the media attention paid to the CEO James Gifford. The direct relationship between media attention and legitimacy is well documented in academic literature (McQuail, 1985; Suchamn, 1995; Pollock & Rindova, 2003; Deeds, Mang and Frandsen, 2004). It is also the measure for organizational legitimacy, except this attribute is measured by the media coverage of the PRI in general, in a specific country.

The measures of societal legitimacy we use is the level of national legislation and policy on responsible investment, and the endorsement of the PRI by government-affiliated organizations (Campbell 2007; Marquis, Glynn and Davies, 2007; Baron, 2009; Usunier, Furrer and Furrer-Perrinjacquet, 2011).

A proxy for urgency is also media-based. It is the amount of calls for signing the PRI in the media. The visibility of the PRI in the media in a normative context will mean that signing the PRI may be more noticeable than it would be otherwise and therefore linked to more potential benefits. It therefore introduces an element of time-sensitivity.

Relative economic size of the stakeholder from the Gifford (2010) framework will be examined with the use of the annual growth in AUM of the PRI and the signatory AUM at point of signing (Mackey, Mackey and Barney, 2007; Diane-Laure Arjalies, 2010).

Coalition building as an attribute will be tested by comparing the number of other collaboration based industry associations that signatories and non-signatories are part of (Brickson, 2007; Aguilera, 2007).

The proxy for the alignment of management values with PRI values as a factor contributing to the PRI's salience is FTSE4GOOD membership, UNEP FI membership, and the presence of minorities among management. This choice is based on the findings in academic literature that relate values in management to minority status and gender (Aguilera, 2007; Adams and Funk, 2012; Boulouta, 2013; Hafsi and Turgut, 2013).

Finally, Gifford's (2010) pragmatic legitimacy is related to the average holding period as compared between signatories and non-signatories, as one of the principal sources of pragmatic legitimacy of the Principles is the long-termism argument (Barnett, 2007; Cremer, Sautner and Pareek, 2013)

Fig. 6 summarizes the data selection:

Theory/factor	Quantitative indicator	Literature
Mitchell et al.		
Power – utilitarian	How many PRI signatory pension funds have mandates with them?	(...)
Power – normative	Country network manager – active, events.	
Power - coercive	n/a	n/a
Urgency	(Persuasive media coverage –) calls for signing PRI in media.	Suchman, M. C. (1995.) Managing legitimacy: Strategic and institutional approaches. Academy of Management Review, 20: 571–610 McQuail, D. (1985) 'Sociology of Mass Communication', *Annual Review of Sociology* 11:93–111. Deeds, D.L., Mang, P., & Frandsen, M. (2004). The influence of firms' and industries' legitimacy on the flow of capital into high-technology ventures. *Strategic Organization,* 2(1), 9–34. Pollock T G, Rindova V P (2003). Media legitimation effects in the market for Initial Public Offerings. *Academy of Management Journal*, 46 (5),631-642
Legitimacy - individual	Media coverage of CEO.	
Legitimacy - organizational	Media coverage of the PRI being related to the organizational legitimacy of the PRI.	
Legitimacy – societal	- How many national organizations are endorsing the PRI? - National legislation - the more you have the more likely you are to join (Eccles).	Marquis, Glyyn and Davies (2007) – community isomorphism Campbell (2007) 'Why Would Corporations Behave in Socially Responsible Ways? An Institutional Theory of Corporate Social Responsibility .' *Academy of Management Review* , 32(3), 946-967.– overall health of the economy is a favourable environment in which organizations are likely pursue CSR; normative institutional environment; government regulation and industry self-regulation David Baron (2009) 'A Positive Theory of Moral Management, Social Pressure and Corporate Social Performance.' *Journal of Economics & Management Strategy*, 18(1), 7-43. – anticipation of social pressure (public or social politics) Usunier, Furrer and Furrer-Perrinjacquet (2011) 'The perceived trade-off between CSR and economic

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		responsibility: A cross-national study'. *International Journal of Cross-Cultural Management*.
Gifford		
Relative economic size of stakeholder	- Growth of the UNPRI. - AUM at point of signing	Community isomorphism? Mackey, Mackey & Barney (2007) – favourable supply & demand balance? Diane-Laure Arjalies (2010) – 'compromise movement' reforms an existing financial system and is absorbed by it.
Coalition building	How many organizations previously joined collaborative initiatives?	Brickson (2007) 'Organizational Identity Orientation: the Genesis of the Role of the Firm and Distinct Forms of Social Value.' *Academy of Management Review*, 32(3), 864-888. – identity: collectivistic Aguilera (2007) – relational motives
Management values	- Minorities among management - UNEP FI membership - FTSE4GOOD constituent status	Boulouta, I. (2013) 'Hidden Connections: the Link Between Board Gender Diversity and CSP Performance'. *JBE* 113(2), 185-197. Hafsi and Turgut (2013). 'Boardroom Diversity and its Effect on Social Performance: Conceptualization and Empirical Evidence'. *JBE* 112(3): 463-479. Adams and Funk (2012) 'Beyond the Glass Ceiling: Does Gender Matter?' *Management Science*. Aguilera (2007) – moral motives
Pragmatic legitimacy	Average stock holding period.	Cremer, Pareek and Sautner (2013) 'Stock Duration and Valuation' Barnett (2007) 'Stakeholder Influence Capacity and the Variability Of Financial Returns To Corporate Social Responsibility .' *Academy of Management Review* , 32(3), 794-816.

5.2 Data collection method

The sample comprises of signatory investment managers listed in the FTSE All World Index.

Institutional investor advisor data is taken from the Wilmington Global Pension Funds and Their Advisers directory (2006-2011).

Information on the activity of the country networks is taken from the PRI website and extranet.

Media coverage data is collected by the researcher with the use of Factiva software. A keyword search is performed for 'James Gifford' and 'PRI', 'UN PRI', 'Principles for Responsible Investment'. The results are then coded into 'normative call for signing' and 'general' categories.

National legislation data is collated from different sources. Sources include the European Commission report 'Socially Responsible Investment in EU Member States: Overview of government initiatives and experts' expectations towards governments (2008), G-20 report 'Promoting Standards for Responsible Investment in Value Chains' by the Inter-Agency Working Group (IAWG) formed to support the G20 High-level Development Working Group, (...).

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The annual growth of AUM of PRI signatories and signatory AUM at point of signing is provided by the PRI Signatory Relations and Outreach who record all the data.

Membership of industry associations is collected manually by the researcher. (...)
Minorities among management data is taken from Bloomberg.
Holding period data is provided by (...).

6. Data Analysis

Work in progress.

7. Discussion

Work in progress.

8. Contribution to Theory and Practice

This research makes a contribution to both theory and practice in the field in several ways. It tests the stakeholder salience model on an up to date, original dataset. It tests the versatility of a theoretical framework that was developed in a slightly different context.

Further, it advances the knowledge on the relationship between organizations and voluntary market associations in the financial sector, and examines their effectiveness as sources of influence on ESG practices. It provides insight into the motivations of organizations for pursuing ESG.

In terms of practice, the analysis of this data can provide input for the discussion on the direction in which the PRI should go and the strengths it should leverage.

(...)

Work in progress.

9. Conclusion and Areas for Future Research

Work in progress.

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