Why do asset managers sign the PRI? A re-examination of stakeholder salience theory.

Arleta A. A. Majoch

Analysing the PRI reporting and assessment database and quantitative data within the Mitchell et al. (1997) and Gifford (2010) theoretical framework.
Agenda

- Research Question
- Literature
- Theory and hypotheses
- Qualitative analysis
- Method
- The way forward
Research Question

Why do asset managers sign the PRI?


Academic literature exploring the driving force behind adoption of CSR/ESG.

Quantitative data: translating stakeholder salience attributes into quantitative data that can be rigorously analyzed

Qualitative data: What do organizations say about why they sign the PRI?

Research Question

Literature

Theory and hypotheses

Qualitative analysis

Method

The way forward
The PRI as a **stakeholder** of asset managers ‘any group or individual who can affect or is affected by the achievement of the organization's objectives’ – Freeman (1984)

**Stewardship theory** (Davies, Schoorman & Donaldson, 1997) - asset managers signing the PRI in the belief that it serves the interests of their clients.

**Universal ownership theory** (Hawley & Williams, 2000) – asset managers signing because the size and diversification of their holdings benefits from an ESG-secured, stable economy
Diane-Laure Arjalies (2010) – social movement perspective – asset managers sign because the finance industry is being reformed by and internalizes the RI social movement.


Barnett (2007) – ESG activity is positively correlated with good CFP when it responds to demand for ESG – asset managers signing in response to an ESG market trend.

Mackey et al (2007) – *positive impact of ethical activities on firm value when demand for responsible investment exceeds supply: PRI drives demand for RI*. 

Marquis, Glynn and Davies (2007) – community isomorphism in metropolitan areas motivates organizations to pursue ESG.

Mackey, Mackey and Barney (2007) – pursuit of ESG is beneficial to an organization in response to demand for ESG from the market.

Campbell (2007) – a range of economic conditions moderated by institutional conditions that favour ESG.

Baron (2009) - moral duty, self-interest and social pressure are potential organizational motivations for pursuing ESG.
Theoretical framework

Theory of stakeholder salience
*Identify factors influencing the salience of stakeholder claims to company managers*

- **Power**
  - coercive
  - utilitarian
  - normative
- **Urgency**
  - time-sensitivity
  - Criticality

- **Legitimacy**
  - individual
  - organizational
  - societal

Expanded by

Expanded theory of stakeholder salience
*Adds moderating factors to Mitchell’s model*

- Relative economic size
- Coalition building
- Pragmatic legitimacy
- Management values

**Mitchell et al 1997, AMR**

**Gifford 2010, JBE**

Research Question | Literature | Theory and hypotheses | Qualitative analysis | Method | The way forward
## Theoretical framework

<table>
<thead>
<tr>
<th>Factor</th>
<th>Definition</th>
<th>Application to PRI-investor relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitchell et al. (1997)</td>
<td></td>
<td>Asset Managers see a potential material benefit in signing the PRI.</td>
</tr>
<tr>
<td><strong>Power – utilitarian</strong></td>
<td>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.</td>
<td>Asset Managers are put under symbolic (non-material) pressure to sign the PRI.</td>
</tr>
<tr>
<td><strong>Power – normative</strong></td>
<td>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.</td>
<td>As a voluntary, aspirational framework, PRI does not exercise coercive power.</td>
</tr>
<tr>
<td><strong>Power – coercive</strong></td>
<td>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.</td>
<td>Increased visibility of the PRI and calls for signing the principles in the media.</td>
</tr>
<tr>
<td>Urgency</td>
<td>The degree to which stakeholder claims call for immediate attention – determined by time sensitivity and criticality.</td>
<td>The legitimacy of an individual serves as a catalyst for signing the principles.</td>
</tr>
<tr>
<td><strong>Legitimacy - individual</strong></td>
<td>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</td>
<td></td>
</tr>
</tbody>
</table>
## Theoretical framework

<table>
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<tr>
<th>Legitimacy - organizational</th>
<th>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</th>
<th>The perception of the PRI as a highly legitimate initiative.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legitimacy - societal</td>
<td>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.</td>
<td>The perception of the PRI as having high societal legitimacy, being supported by national and international organizations.</td>
</tr>
<tr>
<td>Gifford (2010)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relative economic size of</td>
<td>high degree of relative economic and governance power of one stakeholder over another</td>
<td>The size of the PRI creates an incentive to sign.</td>
</tr>
<tr>
<td>stakeholder</td>
<td></td>
<td></td>
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<tr>
<td>Coalition building</td>
<td>The shareholder builds coalitions with other shareholders and stakeholders</td>
<td>Investor signs the PRI in order to be part of an industry coalition working towards a common goal.</td>
</tr>
<tr>
<td>Management values</td>
<td>managers’ values are broadly aligned with the stakeholder’s values</td>
<td>Investors represent values aligned with the values of the PRI and are willing to express that by signing the Principles.</td>
</tr>
<tr>
<td>Pragmatic legitimacy</td>
<td>The stakeholder makes a strong case for why it is beneficial to the organization, including providing the organization with new information.</td>
<td>Investors see a pragmatic reason to sign the principles.</td>
</tr>
</tbody>
</table>

### Research Question

<table>
<thead>
<tr>
<th>Literature</th>
<th>Theory and hypotheses</th>
<th>Qualitative analysis</th>
<th>Method</th>
<th>The way forward</th>
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<tr>
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</table>
Hypotheses

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.

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

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.
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.
2006-2011 UNPRI survey data

voluntary and obligatory self-assessment by PRI signatories: asset owners and asset managers

No. of responses grew from around 150 in the years 2007-2009 to just under 400 in 2010 and over 400 in 2011

88-140 questions from every year

Combination of quantitative & qualitative data

Q7: Why did your organization join the PRI?
and 79: What has your organisation changed as a direct result of becoming a PRI signatory?
## Qualitative analysis - Method

### Answers rated for support for *theories*...
- Mitchell et al. (1997) – stakeholder salience theory
- Gifford (2010)
- David Baron (2009) – theory of firm behaviour
- Laurel et al. (2012) – Institutional logics theory
- Campbell (2007) – institutional theory of CSR
- Brickson (2007) – organizational identity theory
- Marquis et al. (2007) – community isomorphism
- Mackey et al. (2007) – demand & supply for RI
- Aguilera et al. (2007) – social change in organizations
- Universal Ownership
- Stewardship Theory
- Agency Theory
- Stakeholder Theory

### ...and most frequently occurring *factors*
- Clearinghouse
- Reporting Framework
- Network building
- Academic Network
- Publicly confirming ESG commitment
- Additional motivation to implement ESG
- Promoting ESG in the industry
- Implementation support
- Relationship & communication with stakeholders
- Increase in AO activities
- Remuneration & broker reward practices
- Increase of/improvement in engagement

### Research Question
- Literature
- Theory and hypotheses
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- Method
- The way forward
Qualitative analysis - Method

- Research Question
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= 13 theories and 47 individual factors included in the analysis of the qualitative dataset
Qualitative analysis - Method

total number of signatories providing relevant qualitative responses year by year

2007: 152
2008: 158
2009: 158
2010: 377
2011: 416

Research Question
Literature
Theory and hypotheses
Qualitative analysis
Method
The way forward
### TOP 10 theories & factors illustrating the impact of the UNPRI based on analysis of qualitative data

<table>
<thead>
<tr>
<th>THEORY/FACTOR</th>
<th>NO. OF SIGNATORIES</th>
<th>Literature</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>institutional logics theory</td>
<td>647</td>
<td>Laurel et al. (2012)</td>
<td>Qualitative analysis</td>
</tr>
<tr>
<td>pragmatic legitimacy</td>
<td>491</td>
<td>Gifford (2010)</td>
<td></td>
</tr>
<tr>
<td>framework/implementation support</td>
<td>469</td>
<td>Individual factors</td>
<td></td>
</tr>
<tr>
<td>coalition building</td>
<td>333</td>
<td>Gifford (2010)</td>
<td></td>
</tr>
<tr>
<td>Stewardship theory</td>
<td>325</td>
<td>Stewardship Theory</td>
<td></td>
</tr>
<tr>
<td>promoting ESG in the industry</td>
<td>324</td>
<td>Individual factors</td>
<td></td>
</tr>
<tr>
<td>management values</td>
<td>289</td>
<td>Gifford (2010)</td>
<td></td>
</tr>
<tr>
<td>Public confirmation of ESG</td>
<td>282</td>
<td>Individual factors</td>
<td></td>
</tr>
<tr>
<td>Reporting &amp; Assessment</td>
<td>218</td>
<td>Individual factors</td>
<td></td>
</tr>
<tr>
<td>motivation to implement ESG</td>
<td>190</td>
<td>Individual factors</td>
<td></td>
</tr>
</tbody>
</table>
Initial Findings – main theoretical framework

Organizational Legitimacy (Mitchell)

Research Question | Literature | Theory and hypotheses | Qualitative analysis | Method | The way forward
Initial Findings – main theoretical framework

Coalition building (Gifford)

2007

2008

2009

2010

2011

Research Question

Literature

Theory and hypotheses

Qualitative analysis

Method

The way forward
Initial Findings – main theoretical framework

Management values (Gifford)

2007: 18% WEAK, 8% MODERATE, 8% STRONG, 9% V.STRONG, 1% RESPONDENTS

2008: 61% WEAK, 27% MODERATE, 2% STRONG, 1% V.STRONG, 1% RESPONDENTS

2009: 73% WEAK, 15% MODERATE, 2% STRONG, 1% V.STRONG, 1% RESPONDENTS

2010: 4% WEAK, 7% MODERATE, 4% STRONG, 3% V.STRONG, 2% RESPONDENTS

2011: 86% WEAK, 3% MODERATE, 3% STRONG, 2% V.STRONG, 2% RESPONDENTS

Research Question
Literature
Theory and hypotheses
Qualitative analysis
Method
The way forward
Initial Findings – summary

Mitchell et al. (1997) - proportion of respondents

Mitchell et al. (1997) - absolute numbers
Initial Findings – summary

Gifford (2009) - proportion of respondents

Gifford (2009) - absolute numbers

Research Question  Literature  Theory and hypotheses  Qualitative analysis  Method  The way forward
## Method

<table>
<thead>
<tr>
<th>Theory/factor</th>
<th>Quantitative indicator</th>
<th>Literature</th>
</tr>
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<tbody>
<tr>
<td>Mitchell et al.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power – utilitarian</td>
<td>How many PRI signatory pension funds have mandates with them?</td>
<td>Under-researched power relationship between asset managers and asset owners – literature suggestions welcome.</td>
</tr>
<tr>
<td>Power – normative</td>
<td>Country network manager – active, events.</td>
<td></td>
</tr>
<tr>
<td>Power - coercive</td>
<td>n/a</td>
<td>n/a</td>
</tr>
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<tbody>
<tr>
<td>societal</td>
<td>more you have the more likely you are to join (Eccles).</td>
<td>David Baron (2009) ‘A Positive Theory of Moral Management, Social Pressure and Corporate Social Performance.’ Journal of Economics &amp; Management Strategy, 18(1), 7-43. – anticipation of social pressure (public or social politics)</td>
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<tr>
<td>Gifford</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>AUM at point of signing</td>
<td>Diane-Laure Arjalies (2010) – ‘compromise movement’ reforms an existing financial system and is absorbed by it.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Aguilera (2007) – relational motives</td>
</tr>
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<td>Theory/factor</td>
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<td>Literature</td>
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<td>Gifford</td>
<td></td>
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<td></td>
<td></td>
<td>Aguilera (2007) – moral motives</td>
</tr>
</tbody>
</table>
### Method – data collection

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<th>Theory/factor</th>
<th>Quantitative indicator</th>
<th>Data collection</th>
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<tbody>
<tr>
<td>Mitchell et al.</td>
<td>How many PRI signatory pension funds have mandates with them?</td>
<td>Wilmington Global Pension Funds and Their Advisers directory (2006-2011)</td>
</tr>
<tr>
<td>Power – utilitarian</td>
<td>Country network manager – active, events.</td>
<td>directly from PRI and PRI extranet</td>
</tr>
<tr>
<td>Power - coercive</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>
| Urgency | (Persuasive media coverage –) calls for signing PRI in media. | Factivia: 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. |
<p>| Legitimacy - individual | Media coverage of CEO. | |
| Legitimacy - organizational | Media coverage of the PRI overall | |</p>
<table>
<thead>
<tr>
<th>Theory/factor</th>
<th>Quantitative indicator</th>
<th>Data collection</th>
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<tbody>
<tr>
<td>Mitchell</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legitimacy – societal</td>
<td>- How many national organizations are endorsing the PRI?</td>
<td>European Commission report ‘Socially Responsible Investment in EU Member States:(2008), G-20 report ‘Promoting Standards for Responsible Investment in Value Chains’ (IAWG); academic literature – details to follow</td>
</tr>
<tr>
<td></td>
<td>- National legislation on RI</td>
<td></td>
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<td></td>
<td>- Left wing votes</td>
<td></td>
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<tr>
<td>Gifford</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relative economic size of stakeholder</td>
<td>- Growth of the UNPRI.</td>
<td>PRI dataset and PRI Signatory Relations and Outreach</td>
</tr>
<tr>
<td></td>
<td>- AUM at point of signing</td>
<td></td>
</tr>
<tr>
<td>Coalition building</td>
<td>How many organizations previously joined collaborative initiatives?</td>
<td>Data collected manually from public sources</td>
</tr>
<tr>
<td>Theory/factor</td>
<td>Quantitative indicator</td>
<td>Data collection</td>
</tr>
<tr>
<td>---------------------------</td>
<td>-------------------------------------------------------</td>
<td>----------------------------------------</td>
</tr>
<tr>
<td>Management values</td>
<td>- Minorities among management</td>
<td>Bloomberg UNEP FI FTSE4GOOD</td>
</tr>
<tr>
<td></td>
<td>- UNEP FI membership</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- FTSE4GOOD constituent status</td>
<td></td>
</tr>
<tr>
<td>Pragmatic legitimacy</td>
<td>Average stock holding period.</td>
<td></td>
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</tbody>
</table>
Why do asset managers sign the PRI?

Research question

Mitchell et al 1997, AMR
Gifford 2010, JBE

Literature & Theoretical framework

Data
2006-2011 UNPRI survey data
voluntary and obligatory self-assessment by PRI signatories
88-140 questions from every year
Combination of quantitative & qualitative data

Qualitative analysis

Method
Testing salience attributes on relevant quantitative data

to be followed by

Quantitative analysis
Discussion
Conclusions

The way forward


Thank you for your attention.