Title: Institutional Investor Activism on Climate Risk Disclosure: Frame Negotiation in an Organizational Field

Research Questions

For my qualitative research project, I plan to employ corporate control theory on *institutional investor activism* (Useem 1996, Davis and Thompson 1994), the idea of *framing* from social movement theory (McAdam et al 1996, McAdam and Scott 2005), and Hoffman's (1999, 2006) notion of *organizational fields* to study emerging shareholder activism among institutional investors on climate risk disclosure. Recent shareholder activism has come to more closely resemble collective action employed by social movements and political interest groups. The types of activism institutional shareholders use include: coordinated proxy voting at firm board of director meetings, negotiating as a bloc with management on issues of investor concern, lobbying the U.S. Securities and Exchange Commission (SEC) to change their corporate disclosure rules, and lobbying other institutional investors to screen companies from their portfolios who refuse to disclose their climate risks. However, the reasons investors give to justify their involvement in these activities vary widely depending on the organization, and the ways in which the organizations frame their participation can be contradictory as well.

This study seeks to understand how investors in the climate risk disclosure organizational field negotiate potentially conflicting frames to work toward a common goal. There are two primary research questions I will address in this project. The first question asks how activist investors frame (i.e. justify) their demands for greater firm disclosure on climate change risk and how they account for their personal and organizational motivation for getting involved with shareholder activism. This question also explores how investors reconcile their justification for action with those of other activist organizations. The study further explores the enabling mechanisms that facilitate participants' activism on this issue. Enabling mechanisms can be cognitive or structural, and I am most interested in organizational governance structures that hinder or encourage participation in the broader organizational field.

The answers to these research questions also have a number of practical applications, one of which is to create an oral history of the movement and a preliminary census of its scope. During the research process, I plan to collect descriptive data on the emergence of this investor social movement to lay the foundation for my research project. There is virtually no historical or empirical data on how the movement emerged and the dynamics of its membership base, so I will first need to understand how this issue emerged as an investor movement and how it has changed over the past ten years in terms of membership, strategy, and actions. I also want to determine what organizations and/or individuals are active in the counter-movement against climate risk disclosure to more fully understand the determinants of participation. I eventually plan to interview non-participants, such as state public pension funds, and counter-movement groups, such as the U.S. Chamber of Commerce and the Business Roundtable, as control groups for my study.

Research Focus: Theoretical Justification

My project on institutional investor activism seeks to understand why some (but not all) institutional investors are organizing as an identifiable social movement to force firms to disclose information on climate risk to their operations and how these investor activists frame their participation. Climate risk disclosure occurs when a firm explicitly discusses how climate change or regulation/litigation related to climate change will affect its operations and profitability in its annual report. Reporting on climate risk signals an acknowledgement by the firm that climate issues are material (i.e. relevant) to the firm's operations. The United States Securities and Exchange Commission (SEC) does not currently classify climate risk as a material risk for firm reporting, so firms voluntarily choose to report/not to report on it in their annual reports. Shareholder activism on climate risk disclosure by institutional investors seeks to encourage firms to voluntarily disclose climate risk in their reports and pressure the SEC to change its classification system to include climate risk as a material risk. Shareholder activism on this environmental issue falls under the broad umbrella of corporate social responsibility (CSR), but contrary to some CSR issues, the proponents of climate risk disclosure argue that climate change has financial as well as social implications for the firm.

On the face of it, institutional investors may seem like a strange group of organizations to consider as a social movement. Unlike social movement research that focuses on disenfranchised groups, institutional investors seem to be a relatively powerful group with large amounts of money under their control who would not presumably have a difficult time organizing or flexing their financial power to get the firms with whom they invest to do what they desire. Certainly the proportion of equity owned by institutional investors in the United States has grown dramatically since the 1980s. By 2003, institutional investors controlled $19.634 trillion in assets, including 19% of total equity assets (Institutional Investment Report 2005). Overall, pension funds control 40.7% of total equity assets and public pension fund comprise 28.4% of all pension fund assets, or $2.27 trillion in assets.

However, one of the consequences of this increased stake in firm equity is that institutional investors have to use a new calculus to determine whether to exercise exit, voice, or loyalty (Hirschman 1970) with firms whose actions they do not like. As institutional investors have bought an increasing number of shares in firms, they are unable to simply exit by selling all of the stock in the firm when they are unhappy with the firm's behavior. Massive selling depresses the stocks' price and there are few alternative places for institutional investors to reinvest such large sums of money. As a result, many are finding it makes more sense to use shareholder resolutions and negotiations with management to exercise voice and alter the firm's behavior. Institutional investors activism has been visible in the area of CEO compensation (Davis and Thompson 1994), and over one third of public pension funds expressed concern over CEO salaries using proxy voting in 2001 (NAST).

Some have termed this shift in ownership from individuals to institutions "investor capitalism" (Useem 1996). This school of thought argues that decision-making power within the firm is now directly shared to a greater or lesser degree by management, institutional investors, and the board of directors in contrast to the traditional assumption that shareholders entrusted the board of directors to monitor management in their best interest. The rise of the institutional investor may also signal that shareholders have conquered their collective action problem (Olson 1970) of organizing investors to act in tandem (Berle and Means 1937). On the other hand, the case of climate risk disclosure highlights the fact that all institutional investors do not share the same governance structures, norms and values, or stakeholder concerns. How widely divergent types of institutional investors frame their participation and reconcile contrary frames employed by other participants in their movement is the question this research study seeks to answer.

Research Question 1: How do institutional investors involved in shareholder activism on climate risk disclosure frame their decision to participate?

The first research question I will address is how institutional investors frame their decision to participate in shareholder activism on climate risk disclosure. This research question is rooted in two different but complementary schools of thought: organizational theory on fields (Hoffman 1999) and framing processes from social movement theory (McAdam et al 1996, McAdam and Scott 2005, Vogus and Davis 2005). McAdam and Scott (2005) argue that the synthesis of organization theory and social movement theory has the potential to shed new light on issues of collective action but the two are too infrequently combined. This research project takes an important step toward redressing this problem.

The research question draws on the ideas of fields and frames to guide its inquiry. Unlike definitions of organizational fields that treat a field as an identifiable group of organizations working in a similar industry or sector, Hoffman (1999) argues that organizational fields can form around a central issue rather than just a technology or market. With this definition of a field also comes the recognition that “fields become centers of debate in which competing interests negotiate over issue interpretation” (Hoffman 1999, 351). To understand how interests negotiate over issue interpretation, I will focus on the frames climate risk disclosure participants use to explain their participation and reconcile conflicting goals with other participants. Frames are defined as "metaphors, symbols, and cognitive cues that cast issues in a particular light and suggest possible ways to respond to these issues" (Campbell 2005, 48).

McAdam et al (1996) have argued that frames mediate between political opportunities and mobilizing structures. Without framing, opportunity and structure alone are insufficient to create collective action. Given the political nature of climate risk disclosure activism and the diversity of players in the organizational field, frames become especially important sites of inquiry. The organizations in the field face different pressures from their own stakeholders. The members of the field include a diverse array of organizations, including: public pension funds, state treasurers and comptrollers, religious and labor pension funds, and foundations among others.

The frames participants employ are outlined below. The focus of the frames are quite different, and although they are not always mutually exclusive, some are not completely compatible with others. The key question is how participants reconcile different justifications for their actions to work together toward a common goal. As Davis and Thompson (1994) note, "a political approach to the corporation…requires an explicit framework for analyzing the process by which those who run organizations – in particular, corporations and institutional investors – recognize or construct common interests, form coalitions, and press their views on the state or each other" (142).

My preliminary research on climate risk disclosure has uncovered at least four distinct framings institutional investors can invoke to justify their participation. One frame employed is that of financial risk. Investors using this frame contend that it is part of their responsibility as fiduciaries to understand what types of risks firms who make up part of their equity portfolio are facing from climate change so they can adjust their investments accordingly. They argue that climate change is a material risk to firms, thus requiring firms to disclose these risks in the SEC's required Management Discussion and Analysis (MD&A) form. The Financial Accounting Standards Board (FASB) states that "the omission or misstatement of an item in a [firm's] financial report is material if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item" (FASB 1980).

According to the non-governmental organization Ceres, there are four main material risks companies face from climate change that could influence investors: physical, regulation, litigation, and reputation. The first risk is a physical one, which suggests that natural disasters or changes in climate will affect the ability for firms to do business. For example, the risk of increased wildfires or flooding has the potential to affect real estate investment and development (Fleming 2005). Second, firms are at risk of regulation related to climate change, which may affect future returns for shareholders. Taxes, carbon markets, and carbon caps all point toward an increasingly carbon constrained global economy. Third, firms are at risk from litigation related to climate change. In 2004, a group of state attorney generals filed a public nuisance lawsuit against five electric utility companies for their carbon dioxide emissions. Finally, Ceres suggests that climate change issues may pose reputational risks for firms. The ways in which institutional investors invoke these risks to justify their participation has not been studied and will potentially vary among investors who face different pressures from their constituents (i.e. public employees versus investors picking funds for religious reasons).

The second frame used to justify participation in the climate risk disclosure movement focuses on the *opportunities* presented by climate change. Opportunities for institutional investors include investing in clean technologies and environmentally-progressive companies. This is the frame invoked by INCR members such as the Pennsylvania State Treasurer's office, which has recently introduced the Keystone Green Investment Strategy to take advantage of early mover economic opportunities on sustainable energy.

A third possible frame institutional investors employ to justify their actions is a moral/social frame. Some previous pension fund activism has been associated with social issues, such as funds banning investments in South African during apartheid and divesting in Sudan because of genocide more recently. Historically, socially activist investment behavior has been most widely employed among religious and labor institutional investors. The Interfaith Center on Corporate Responsibility, a coalition of faith-based investors, states that, "As responsible stewards, [its members] merge social values with investment decisions, believing they must achieve more than an acceptable financial return" (www.iccr.org). Understanding why some players are choosing to join the movement and others are not is one of my key research questions.

Finally, institutional investors may frame their participation as a mechanism to change the way in which the U.S. economy operates in the long-term. For some investors, this concern might arise out of ethics considerations after the Enron and WorldCom scandals. For others, activism may be related to the employment opportunities of the pension funds' members. Several large unions, including the Service Employees International Union (SEIU) and the American Federation of State, County and Municipal

Employees (AFSCME), have openly supported INCR's efforts on climate risk disclosure. It is unclear what frame they employ to justify their action on this issue, however.

Sample questions related to framing include:

- Why did your organization choose to participate in institutional investor action on climate risk disclosure?
- What benefits does participation in INCR offer your organization?
- What benefits does participation in INCR offer your members (or relevant constituents)?
- Are there any costs or disadvantages to your organization and/or members to participating in INCR?
- When pension fund members (or other relevant constituents) ask you why your organization is taking action on climate risk disclosure, what do you (or your staff) tell them?
- The institutional investors involved in climate risk disclosure activities and active in INCR include a diverse group of organizations, such as public pension funds, state treasurers and comptrollers, religious and labor pension funds. How do you respond to opponents of climate risk disclosure if/when they criticize you for participating on this issue with organizations they view negatively?

Research Question 2: What are the enabling mechanisms that facilitate participants' activism on this issue?|

As evidenced by the discussion above, the emerging social movement among institutional investors includes a diverse set of organizations. The second question I plan to address in my research project is what types of enabling mechanisms do participating organizations have at their disposal to facilitate participation in the organizational field. Enabling mechanisms can be cognitive or structural, and I am most interested in organizational governance structures that hinder or encourage participation. Adapting Scott et al's (2000) definition of governance structures at the organizational field level, for the purposes of this project I define governance as "all those arrangements by which…power and authority are exercised involving, variously, formal and informal systems, public and private auspices, regulative and normative mechanisms" (Scott et al 2000, 172-173).

To guide the formation of my questions, I am relying on Scott's (2001) definitions of regulative, normative, and cognitive institutional pillars that constrain and enable individual and organizational action. The regulative pillar includes rules, laws, and sanctions that an organization faces. It also includes organizational structures. For example, public pension funds are ruled by boards of trustees, and evidence suggests that the composition of the board affects its performance and activities (Hess 2005). Example questions I will ask participants about the relationship between their organizational structure and participation in the INCR include:

- Who makes the decision about participating in climate risk disclosure shareholder activities in your organization? Is it a board or an individual?
- If it is a board of trustees, are they accountable to another committee, a larger organization, a public agency, legislature, or elected official?
- If members of the board are appointed by an elected official, has that elected official taken a public stance on climate risk disclosure or other relevant environmental issues?
- Is the board or sole trustee of the funds subject to a prudent person rule?
- What rules are in place in your organization regarding shareholder action on any issue?
- What rules govern your organization's shareholder actions on environmental issues specifically?
- Are there any rules or organizational structures in place in your organization that you believe facilitated your ability to participate in the INCR?

I will also ask participants questions designed to tap into normative and cognitive-cultural institutional forces that have hindered or facilitated participation in the climate risk disclosure movement. The normative pillar of institutions is concerned with norms and values the organization or individual holds (Scott 2001, 54), while the cultural-cognitive pillar focuses on "shared conceptions that constitute the nature of social reality and the frames through which meaning is made" (Scott 2001, 57). Questions related to the normative pillar in my study will seek to understand what organizational norms and values facilitate institutional investor participation while questions related to cultural-cognitive forces will focus more on what actions members of the organization consider possible. A few examples of these two types of questions include:

- Has your organization taken shareholder action on social or environmental issues other than climate risk disclosure?
- Does your organization have proxy voting guidelines on environmental issues? If so, what individual or board enacted these policies?
- When did you first become aware of shareholder activism on climate risk disclosure being undertaken by other organizations?
- Have any of your members (or relevant constituents) brought up the issue of climate risk disclosure to you (or relevant board) and expressed positive feelings on the issue?
- Have any of your members (or relevant constituents) brought up the issue of climate risk disclosure to you (or relevant board) and expressed negative feelings on the issue?
- Did you approach others about participating in climate risk disclosure activities or were you approached by another organization first?

It is important to note that whether climate risk should be considered a financial risk is still being contested. One of the most notably absent groups in the movement to increase climate risk disclosure is mutual funds. In 2004, twenty-five of the twenty-eight investment firms managing the largest 100 mutual funds "always voted against or abstained on global warming proposals" (Cogan 2004). Critics of public pension fund activism, such as the Business Roundtable and the U.S. Chamber of Commerce, accuse institutional investors of pursuing a policy agenda with their proxy-voting on climate risk. Some critics also contend that interest in climate risk disclosure is motivated by the political aspirations of public pension fund trustees. If I can identify several key organizations in the countermovement against climate risk disclosure early in the summer, I plan to try to get interviews with at least a few of them and ask the same governance questions to compare to the participants' responses.

Research Site

To begin investigating these questions, I plan to collect data from the Investor Network on Climate Risk (INCR) in Boston during summer 2007. The INCR is a network of institutional investors interested in climate issues that affect their investments. The INCR was created by Ceres, the overarching non-governmental organization that coordinates the efforts of institutional investors interested in climate risk disclosure and corporate environmental behavior more generally. Ceres' work during the seventeen years since its founding includes launching the Global Reporting Initiative (GRI), working with individual companies to improve their sustainability, founding INCR, bringing institutional investors together at a UN Climate Summit in 2005, and publishing reports on climate risk and its potential effect on business success.

The INCR and Ceres maintain regular contact with those involved in shareholder activism on this issue, and I plan to use my time at INCR to put the institutional investor movement in a broader context, collect historical data, conduct interviews with key informants, and make interview contacts for my research project. There are fifty-six organizations that belong to INCR as members. My goal for this project is to conduct face to face interviews with individuals from twenty INCR membership organizations. I plan to use a theoretical sampling frame to select organizations that maximize the diversity of organizational frames I encounter. If face to face interviews cannot be arranged due to geographic distance, interviews may be conducted over the phone with individuals from INCR membership organizations whom I have met previously at conferences or through my participant observation at INCR. Among this group, I expect to interview thirteen men and seven women, five of whom I expect to be non-white.

A list of the participating organizations in the climate risk disclosure movement upon whom I will focus my interviews is listed in Appendix A. I will first contact the representative of the organization who signed the INCR membership form. These individuals are all publicly elected officials, pension fund managers/executives, and professionals from investment community. If the person who signed the membership form is unavailable, I will ask that person to refer me to the staff member in their organization who possesses the most expertise on climate risk disclosure investor activism. I will then contact that individual and ask for his/her voluntary consent to be interviewed for my project.

I am focusing my interviews on high-level officials, expert staff members, and staff members in charge of communicating publicly about an organization’s participation in climate risk disclosure activities. These individuals are the most visible in publicly framing their organizations’ participation in the climate risk disclosure movement. All individuals’ identities will be kept confidential. To qualify for inclusion in my study sample, the individual must be the representative signatory to the INCR or be referred to me by that signatory as an expert on climate risk disclosure in the member organization. Because of the diversity of the organizations belonging to the INCR (e.g. public pension funds vs. money management firms), the position titles these individuals hold may be different. However, all of the individuals I interview will be white-collar professional workers with at least a college bachelor’s degree.

I also plan to interview twenty-three staff members of INCR and Ceres who have been involved in the movement since its inception to see how they have shaped the framing of the movement. There are twelve women and eleven men on staff. With the exception of one staff member who is Southeast Asian, all of the staff members are white. All of the staff members at Ceres and INCR are above the age of twenty-one and have at least a college bachelor's degree. Assuming I gain permission from INCR to spend time with their organization, I will have the opportunity to interview staff members of Ceres and INCR multiple times. Interviews will take place in the staff member's office at Ceres/INCR or over a meal at a restaurant of the informant's choice depending on what is most convenient for the informant. Interviews will only be conducted with individuals who voluntarily agree to the interview and the informant will have the right to refuse to answer any of the interview questions I ask or to stop the interview at any time. I am currently in the process of gaining permission from INCR to spend time with the organization (see Appendix B).

I also plan to interview ten institutional investor organizations that are not participating in climate risk disclosure activities to see how they frame their non-participation. The organizations I will contact for these interviews include public pension funds (e.g. the Missouri Employees State Retirement Fund), State Treasury offices (e.g. the Arizona State Treasurer's Office), and mutual funds (e.g. Fidelity). I will choose the non-participant organizations to contact based on their similarity in size, composition, and organizational structure to the participating organizations I interview. The procedure for selecting what individual in the organization to interview will be the same as for participating organizations. I will contact the official who would be responsible for signing a membership agreement with INCR first (e.g. a State Treasurer or pension fund CEO). If they unavailable for an interview, I will ask for a referral to an expert staff member on climate risk disclosure or shareholder activism issues in their organization. I will contact that individual and ask for his/her voluntary consent to be interviewed for my project. All of the individuals I interview at these organizations will also be white-collar professional workers with at least a college bachelor's degree. I expect to interview eight men and five women, nine of whom are white.

I would also like to interview at least two individuals who represent organizations that are critical of climate risk disclosure. The two organizations I will attempt to interview are the Business Roundtable, an association of CEO's from large U.S. companies, and the U.S. Chamber of Commerce. Both organizations are located in Washington D.C. Since I am interested in how these organizations frame their critique of climate risk disclosure, I will attempt to obtain face to face interviews with the Director or Deputy Director of Communications at these two organizations. The total overall number of interviews I aim to collect during this research process is fifty-five.

The type of archival data I plan to collect includes internal and external reports published by Ceres on the formation on the INCR, minutes of meetings about the formation of INCR, press releases related to INCR's creation and membership, and internal memoranda between INCR and organizations interested in joining the network. All memoranda and correspondence I collect from the organizations' archives will also be de-identified to protect individuals' privacy. At the beginning of my research process, I am primarily interested in documents that give a timeline and historical account of how a social movement around the issue of climate risk arose. I am secondarily interested in how the documents frame the movement. The amount of access I have to these documents and the ability to use them in my research paper will be at the discretion of Ceres and INCR.

Conclusion

Social movement theorists caution against conceptualizing social movements as arising strictly based on incentives while ignoring the role of institutions (Davis and Thompson 1994) and framing processes (McAdam et al 1996). This research project avoids this pitfall by focusing on movement framing and organizational field formation. There are two theoretical reasons to ask institutional investors about the frames they employ when talking about their participation in the movement. First, the different frames are not mutually exclusive and understanding how the frames are invoked together or separately will shed light on how the movement as a whole is emerging. Second, the frames are not all compatible with one another. One of the questions about an organizational field emerging around an issue rather than a sector is how the different organizations reconcile different justifications for their actions to work together toward a common goal.

The second part of my research project examines the types of enabling mechanisms available to participating organizations to facilitate their participation in this organizational field. The purpose of this part of the research project is to shed light on how governance structures and norms and values enable or hinder movement participation. This section of the research project will also benefit significantly from information I collect and interviews I conduct with non-participants and members of the counter-movement against climate risk disclosure.

The reasons for increased shareholder activism on climate-related issues since 2003 have not been explained from either a social movement or institutional perspective, but it is clear these resolutions are having an effect on some firms' disclosure behavior. American Electric Power, Cinergy, TXU, and Southern have all recently agreed to prepare climate risk evaluation reports after facing shareholder resolutions or the threat of such resolutions. Although it is to early in the research process to know the effect of institutional investor activism on firm behavior, I hope that understanding the mobilization and framing of climate risk disclosure by movement participants is a first step in this direction.

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