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Signed:

Date: September 24 2010

Name of supervisor: Prof. J. George Frynas

Determinants of shareholder activism in emerging markets

By

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ABSTRACT

The present study aims at investigating the determinants of shareholder activism in emerging markets based on Institutional Theory, Resource-Based View and Austrian economics.

This dissertation, which is part of the researcher's doctoral project, reviews the literature on the topic and describes the methodological approach that will be adopted in the PhD research.

This topic was chosen because the literature demonstrates that there is a gap in research on shareholder activism in emerging markets, besides a lack of a systematic analysis of the institutions that influence activism. In addition, no study was found that adopts Resource-Based View or Austrian economics to explain the use of shareholder activism as a source of active entrepreneurial choice.

Drawing on the literature, the researcher developed a set of hypotheses concerning the factors that promote or inhibit shareholder activism. These will be tested through quantitative and qualitative methods. Firstly, statistical analysis will be employed to test the relationship between institutional influences and shareholder activism in the emerging market countries. Secondly, through case study research, a number of institutional investors will be interviewed so as to examine to what extent shareholder activism is motivated by strategic decision making.

This research will have both academic and practical benefits. Academically, this research will develop the literature regarding shareholder activism in emerging markets. It will also benefit institutionalists, RVB academics and Austrian economists as these theories prove to be effective in explaining shareholder activism. Practically, it will help investors to design global shareholder activism strategies by identifying the factors that enhance or curb activism in emerging markets.

Key words: Shareholder Engagement, Shareholder Activism, Active Share Ownership, Corporate Social Responsibility, Institutional Theory, Austrian Economics, Corporate Governance, Resource-Based View.

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Camila Yamahaki

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LIST OF ABBREVIATIONS

AGM – Annual General Meeting

ASrIA - Association for Sustainable & Responsible Investment in Asia

BSR – Business for Social Responsibility

CalPERS – California Public Employees' Retirement System

CAN - Citizens' Action Network

CEO – Chief Executive Officer

CFA – Chartered Financial Analyst

CG – Corporate Governance

CME – Coordinated Market Economy

CSR – Corporate Social Responsibility

DQMP - Diversified Quality Mass Production

EGM – Extraordinary General Meeting

EMDP - Emerging Markets Disclosure Project

ESG – Environmental, Social and Governance

ESO – Executive Stock Option

EU – European Union

FSP - Flexible System of Production

GDP – Gross Domestic Product

GMO - Genetically Modified Organism

ICGN - International Corporate Governance Network

IFC – International Finance Corporation

IMA – Investment Management Association

IMF - International Monetary Fund

ISC – Institutional Shareholders' Committee

LASFF - Latin American Sustainable Finance Forum

LME - Liberal Market Economy

NGO – Non-Governmental Organisation

OECD – Organisation for Economic Co-operation and Development

PRI – Principles for Responsible Investment

PSPD - People's Solidarity for Participatory Democracy

RBV – Resource-Based View

SRI – Sustainable and Responsible Investment

UNCTAD – United Nations Conference on Trade and Development

1. INTRODUCTION

This study aims at analysing the factors that influence shareholder activism in emerging markets. Shareholder activism, also known as shareholder engagement or active share ownership, occurs when “shareholders make use of their rights in order to monitor, and sometimes influence, how the companies they invest in manage ESG issues” (Eurosif 2006, p. 9).

This particular topic area was selected because the researcher found a gap in the literature on shareholder activism in emerging markets (Sjostrom 2008), besides a lack of a systematic analysis of the institutions that influence activism. In addition, no study was found that adopts Resource-Based View or Austrian economics to explain the use of shareholder activism as a source of active entrepreneurial choice. As for the practical reasons, a study from IFC and Mercer (2009) found that activism is not yet a priority in the emerging markets, as less than one third of the surveyed investment managers admitted having a policy or practice of engagement. Therefore, there is need to understand more in-depth the reasons why this is happening.

This research will have both academic and practical benefits. Academically, this research will develop the literature on shareholder activism in emerging markets. Moreover, this study will also be of interest to institutionalists, RVB academics and Austrian economics since, as it will be demonstrated, these theories prove to be effective to analyse shareholder activism. Practically, this research aims at helping investors to design global shareholder activism

strategies by identifying the factors that enhance or curb activism in emerging markets.

1.1. Aims and objectives

This research will explore what promotes or inhibits the development of shareholder activism in emerging markets based on Institutional Theory, Resource-Based View and Austrian economics. It is expected that the results of this study will lead to the development of a framework that systematically analyses the determinants of shareholder activism in emerging markets.

1.2. Research question and hypotheses

Research question: What are the factors that influence the development of shareholder activism in emerging markets?

International institutions:

H1: The higher the level of international capital inflows the higher the level of shareholder activism in the country.

H2: The higher the hiring of international consulting services the higher the level of shareholder activism in the country.

H3: The higher the level of exposure of managers to Anglo-American education the higher the level of shareholder activism in the country.

H4: The higher the number of PRI signatories the higher the level of shareholder activism in the country.

Domestic institutions:

H5a: The higher the legal protection to shareholders the higher the level of shareholder activism in the country.

H5b: The stronger the judicial enforcement the higher the level of shareholder activism adopted in the country.

H5c: The higher the level of non-governmental enforcement the higher the level of shareholder activism adopted in the country.

H6: The level of blockholders in the ownership structure affects the level of shareholder activism by majority shareholders adopted in the country.

H7: National culture affects the level of shareholder activism in the country.

H8: The influence of religion affects the level of shareholder activism in the country.

H9: The higher the level of stock lending the lower the level of shareholder activism in the country.

H10: The higher the stock turnover the lower the level of shareholder activism in the country.

Organisational institutions:

H11a: The characteristics of the investor influence its likelihood to be an active shareholder.

H11b: Larger investors have a stronger incentive to engage due to resource availability.

H12: The level of diversification of the investor portfolio affects the level of shareholder activism of the investor.

Strategic motivations:

H13: Investors adopt shareholder activism to gain strategic advantage and to respond to entrepreneurial foresight.

1.3. Structure of the dissertation

Chapter Two refers to a thorough analysis of the literature in terms of the factors that influence shareholder activism in emerging markets. This chapter will discuss Institutional Theory and shareholder activism. Further, it will explore Institutional Theory in the areas of corporate governance (CG) and corporate social responsibility (CSR), which are proxy concepts to shareholder activism. All the sections above will examine the emerging markets' context. This chapter will also examine Resource-Based View and Austrian economics in explaining strategic CSR. Later, hypotheses will be developed concerning the determinants of shareholder activism.

In Chapter Three, the methodology to be adopted to conduct this research will be discussed. This research will adopt a critical realist philosophical approach. The methods will be mixed and composed of two stages. Firstly, statistical analysis will be employed regarding the relationship between shareholder activism in emerging markets and institutional factors. The second stage will be composed by semi-structured interviews with a number of institutional investors from emerging markets to investigate to what extent they adopt shareholder activism for strategic reasons.

Chapter Four will present the conclusions of this research, limitations and avenues for future research.

2. LITERATURE REVIEW

Introduction: Chapter Two refers to a thorough analysis of the literature related to the factors that influence shareholder (or investor) activism in emerging markets. Firstly, this chapter will discuss institutional theory and shareholder activism. Further, it will explore the links between institutional theory and corporate governance (CG) and corporate social responsibility (CSR), which are proxy concepts to investor activism. All the sections above will examine the emerging markets' context. This chapter will also explore Resource-Based View and Austrian economics as useful theories to analyse CSR. Afterwards, a few hypotheses concerning the determinants of shareholder activism will be developed. The purpose of this chapter is theoretical development through the generation of hypotheses for investigation at a later stage.

2.1. Institutional Theory

This section provides a brief description of Institutional Theory and analyses the state of institutions in emerging countries.

According to North (1990, p. 3), "institutions are the humanly devised constraints that shape human interaction". Such constraints include not only the conditions which prohibit individuals from acting, but also those which allow them to undertake certain activities. Institutions are comprised of formal rules,

informal rules and enforcement. Formal rules are represented by constitutions, laws, policies and formal agreements. Informal rules are composed of norms of behaviour, conventions and self-imposed codes of conduct, and enforcement can be imposed by the rules or by other actors, such as the state or the society. The main aim of the institutions consists of reducing uncertainty and creating order through the establishment of a stable structure to everyday life (North 1990; North 1991).

In Institutional Theory, while institutions are considered to be the “rules of the game”, the organisations are the “players” (North 1991). Organisations are influenced by the institutional environment in which they function (Doh and Guay 2006), enabling them to act, through the provision of more positive incentives and rewards, or not, through rules and negative sanctions or punishments (Campbell 2006).

According to DiMaggio and Powell (1991), institutional isomorphism explains behaviour within firms. Organisations are considered social and cultural systems and, as such, seek legitimacy within the institutional environment. This search for legitimacy converges to create isomorphism, which is generated through coercive, mimetic or normative processes.

Coercive isomorphism is the response to formal and informal pressures that are borne on organizations by other organisations upon which they are dependent and by societal expectations. Such pressures include force, persuasion or invitation to join a collusion. The most common type of coercive isomorphism is legislation by which organisations must abide in order to operate legally. Organisations can also be persuaded to act due to pressures exerted by NGOs

and campaign groups (DiMaggio and Powell 1991). One example is the Shell-Greenpeace case. When Shell decided to sink the Brent Spar oil storage facility in 1994 following the platform's dismantlement, Greenpeace led a large public campaign against the disposal, backed up by substantial public support. Even though the company believed that the sea disposal was the best environmental option, Shell abandoned its plan due to the insurmountable public battle (Diermeier 1996).

The second and third forms of isomorphism are more difficult to differentiate (Matten and Moon 2008). Mimetic isomorphism refers to the tendency of social actors to imitate others that are viewed as successful and legitimate. This form of isomorphism draws on conditions of uncertainty. DiMaggio and Powell (1991) cites the efforts of the Japanese government in the nineteenth century to modernise by sending officers to Europe and the US to study successful structures (e.g. postal, court, navy, army, banking) to later be applied in the country.

The third mechanism is normative isomorphism. Universities, consultancy firms and professional organizations act as disseminators of appropriate organizational practices, which are then adopted by firms (Abernethy and Chua 1996). Usually, large organisations hire the same few consulting firms, helping spread the same management models. The filtering of personnel also leads to uniformisation. Corporate managers are likely to be drawn from the same universities and are filtered on a common set of attributes. As a result, they view problems similarly and approach decisions in the same way (DiMaggio and Powell 1991).

Comparative research has extended DiMaggio and Powell's neoinstitutional theory by observing how institutional contexts differ across countries (Crouch 2005 cited in Jackson and Apostolakou 2009; Whitley 1999). While Whitley (1999) calls these specific institutional frameworks 'national business system, Hollingsworth and Boyer (1997) refer to it as 'social system of production' and Hall and Soskice (2001) name it "varieties of capitalism".

Whitley (1999) provides a framework for comparing the different ways in which countries organise their economic activities. Such organisation can be analysed according to (i) ownership coordination; (ii) non-ownership coordination; and (iii) employment relations and work management. Whitley (1999)'s framework leads to six types of business systems: fragmented, coordinated industrial district, compartimentalised, state organised, collaborative and highly coordinated. A more detailed analysis of the differences between the types of business systems are shown in the table below:

Table 2-1 – Types of business systems (Whitley 1999, p. 42)

Characteristics	Fragmented	Coordinated industrial district	Compartimentalised	State organised	Collaborative	Highly coordinated
Owner control	direct	Direct	Market	Direct	Alliance	Alliance
Ownership integration of production chains	low	Low	High	High	High	Some
Ownership integration of sectors	Low	Low	High	Some to high	Limited	Limited
Alliance coordination of production chains	Low	Limited	Low	Low	Limited	High
Collaboration between competitors	Low	Some	Low	Low	High	High
Alliance coordination of sectors	Low	Low	Low	Low	low	some
Employer-employee interdependence	Low	Some	Low	Low	Some	High
Delegation to employees	Low	some	Low	Low	high	considerable

Hollingsworth and Boyer (1997) focus on which institutions render economic activity effective. According to them, 'social systems of production' are represented by the institutions and structures of a country integrated into a social configuration. Economies can be classified according to volume (mass production or low production), competition by quality (high or low) and speed of adjustment (flexible or standardised). The authors categorise the economies into Flexible Systems of Production (FSP) and Diversified Quality Mass Production (DQMP). While FSP emphasises economy of scope and low-

production of diverse products, DQMP functions better in environments in which technologies change rapidly.

Hall and Soskice's (2001) 'varieties of capitalism' focus on the firm as the main player in the society and are concerned about incentive structures and efficiency goals (Lane 2003). The national political economies are compared based on how the firms solve problems in five dimensions: industrial relations, vocational training and education, corporate governance and employees. These varieties of capitalism range from Liberal Market Economies (LMEs) to Coordinated Market Economies (CMEs). In LMEs, the supply and demand are regulated by market forces and formal contracts. Examples of LMEs are the US, the UK, Australia, Canada, New Zealand and Ireland. In CMEs, firms depend less on market mechanisms and more on the cooperation of the different players in the market. Examples of CMEs are Germany, Japan, the Netherlands and Belgium. Hall and Soskice (2001) claim that both market economies can offer good levels of economic performance in the long run. These economies differ in how employment and income are distributed. LMEs engage more in paid employment and income inequality is higher. In CMEs, working hours are shorter and income more equal.

2.1.1. Institutions in emerging markets

It is noteworthy to mention the differences in the level of formalisation of the institutional arrangements in developed and in emerging markets, particularly in the regulation arena.

In developed countries, there are often effective judicial systems that include well-specified bodies of law, lawyers, arbitrators and mediators. In contrast, in developing countries, enforcement is usually uncertain because of ambiguity of legal doctrines as well as uncertainty with respect to behaviour of the enforcer (North 1990).

This does not mean, though, that businesses cannot succeed in these environments. Wood and Frynas (2005) cite the example of successful companies in East African economies, such as Kenya and Tanzania. Usually, Asian-owned firms are found to be more successful than the Black African firms in this region because Asian entrepreneurs have higher formal education, usually acquired abroad (in the US, Europe or Australia) and they rely on the assistance of foreign business networks.

Companies in emerging markets can also adapt to their institutional environments to do business. For instance, in the e-commerce industry in China, the telecommunications are considered inefficient, the payment mechanisms are inconvenient, the products present poor quality, the delivery is unreliable and there are concerns about the trust in the legal system. Hence,

the Chinese rely greatly on personal trust ('guanxi[1]), depending on their networks of family, friends and colleagues to guarantee the trust that the domestic institutions do not provide. In contrast, in the US, there is a well-developed structure for payment, business processes are highly formalised and the legal enforcement is reliable (Martinsons 2008). Thus, businesses do not need to rely on personal trust because there are legal safeguards in case the relationship fails (Welter et al. 2004).

According to Ginsburg (2005), many countries are committing to international enforcement mechanisms to overcome the lack of formalisation in the domestic institutional environment. The international institutions are acting as substitutes for weak domestic institutions. Santhakumar (2003) mentions that citizens' actions are also partially replacing weak institutional structures. In economies where there is poor enforcement of environmental regulations and long delays in settling matters through the courts, the citizens are being compelled to sue the polluters or take direct actions that are costly to the polluter.

The discussion of the institutional influences on emerging markets is pertinent for this research as there is a possibility that different institutions have different effects on the level of shareholder activism in the comparison of developed and emerging markets.

[1] Relationships between two or more people or organisations that rely on each other for help (Martinsons 2008).

2.2. Shareholder activism

This section will analyse the literature on shareholder activism, particularly its definitions, main strategies, drivers and obstacles and the state of activism in emerging markets.

Shareholder activism or active share ownership occurs when "shareholders make use of their rights in order to monitor, and sometimes influence, how the companies they invest in manage ESG issues" (Eurosif 2006, p. 9). Shareholder activism is also known as shareholder engagement (The Institutional Shareholders' Committee 2007; IFC and Mercer 2009; Van den Bergue and Louche 2005) or active share ownership (PRI 2009a; Eurosif 2006). For the purpose of this study, the term adopted will be activism (as used by Sullivan and Mackenzie 2006 and Sjostrom 2008) so as to differentiate from the concept of dialogue between investors and the companies.

According to Martin et al. (2007), there are five main types of investor activism: indirect or laissez-faire, external, internal, negotiatory and direct. Indirect activism refers to the concession of corporate control to management which is disciplined through exit, threat of exit or capital withdrawal. External activism accounts for interventions by the investors in the capital market and it is disciplined through disciplinary action such as shareholder resolutions. The third type of activism, internal engagement, involves investors influencing the internal governance of the company through the appointment of independent and non-executive directors in the board of directors. Fourthly, the negotiatory activism

refers to investors influencing the strategic and operational matters within management. Finally, direct activism involves blockholders controlling management directly through hiring and firing of directors.

2.2.1. Drivers and obstacles to shareholder activism

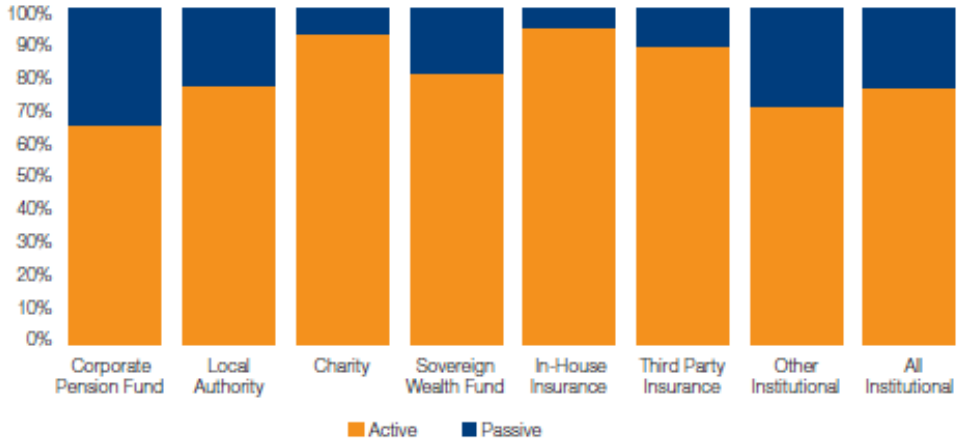
Investors are driven to engage with the companies in which they invest for a number of reasons. First of all, investors engage with companies with the aim of enhancing financial performance (Amalric 2004). Studies by authors such as Bizjak and Marquette (1998), Gompers et al. (2003), Opler and Sokobin (1995), Smith (1996) and Strickland et al. (1996) demonstrate that shareholder activism leads to increases in company value. However, the studies about the financial benefits of shareholder activism reached mixed conclusions. While some studies demonstrate that activism enhances financial performance, others show a negative relationship or a neutral one (e.g. Core et al. 1996; Del Guercio and Hawking 1999; Faccio and Lasfer 2000). A summary of the studies that measure the effects of activism on financial performance are shown in Appendix 1.

A second driver that leads investors to engage concerns ethical motives (Amalric 2004; McLaren 2004; Ryan and Dennis 2003). Ethically-minded investors might be willing to trade higher financial performance for investing in more responsible companies (Amalric 2004). McLaren (2004) argues that shareholders may share with non-shareholders a common interest in collective

social benefits. One example is the pressure that investors put on companies investing in South Africa during Apartheid (Teoh et al. 1999) or in Sudan due to the genocide in Darfur (PRI 2009b).

Investor activism has also been used by passive investors who cannot exit because their investments are indexed (McLaren 2004). This is especially relevant in the UK where there is a clear increase in institutional assets managed passively, mostly in the pension fund environment (IMA 2010), as seen in the figure below.

Figure 2-1 – Use of passive and active management in the UK (IMA 2010)



Another motivation for investors to be more active relates to the pressure of different stakeholders, such as NGOs, trade associations and governmental bodies to encourage better social and environmental performance from corporations (Dresner 2002). In the UK, the Local Authority Pension Fund Forum (2006) and the Institutional Shareholders' Committee (2007) are both

encouraging investors to engage with their portfolio companies through statements of principles. In the US, NGOs such as Amnesty International and Genocide Intervention Network have called investors to boycott companies that are operating in Sudan (IFC and Teri 2009a).

As for the impediments to activism, one of them refers to engagement costs. While only one investor engage with companies to improve performance, all investors rip the benefits, leading to a free rider problem (Clark and Hebb 2004). This is why larger investors or a collective group of investors have stronger motivations to engage as they have more resources to bear the monitoring costs (Gillan and Starks 2000). It is also argued that spending money on activism is contrary to the fiduciary duty that investment managers have towards the beneficiaries. To some, spending money on engagement is seen contrary to the beneficiaries' interests (Clark and Hebb 2004)

Moreover, regulation can act as discouraging active investing. In some emerging markets, the legislation prevents foreign institutions from voting or it restricts foreign share ownership (Gillan and Starks 2003). In China, for instance, the law restricts the amount of share ownership by institutional investors to 10%, curbing further engagement (Kurt et al. 2009).

2.2.2. Shareholder activism in emerging markets

The literature on shareholder activism in emerging markets is very restricted. However, contrary to Sjostrom (2008), who did not find academic literature on

the topic, the researcher found a couple of journal articles and non-academic reports.

Choi and Cho (2003) and Jang and Kim (2002) investigated shareholder activism in South Korea. Choi and Cho (2003) examined the shareholder activism activities of the People's Solidarity for Participatory Democracy (PSPD), an activist group that promotes engagement in South Korea. They found that the initiative did not improve performance in the target firms. The low change of such of activism suggests that managers and controlling shareholders of the chaebols[2] are very resistant. Jang and Kim (2002) also studied the PSPD, focusing on the case study of Korea's Samsung Electronics Corporation. The results demonstrate again that the corporate leaders are unwilling to change and improve corporate governance in the country. It is noteworthy to mention, though, that these studies were conducted prior to the Asian financial crisis. Chang and Shin (2006) found that, after the crisis, the role of foreign institutional investors as outside monitors has increased in the country, affecting the changes in CEO turnover sensitivity to firm performance.

In terms of non-academic studies, in 2009, Mercer, sponsored by the IFC, published "Gaining Ground: Integrating Environmental, Social and Governance (ESG) Factors into Investment Processes", rating the ESG practices of fund managers in China, India, South Korea and Brazil (IFC and Mercer 2009). The survey found that sustainable investing in emerging markets grew to more than US$300 billion and that less than one third of the managers surveyed have a policy or practice of engagement with investee companies.

[2] Korean business groups of companies that have controlling shareholders (Moskalev and Park 2009)

The IFC also funded country reports on Brazil (IFC and Teri 2009b), China (IFC and BSR 2009) and India (IFC and Teri 2009a). In Brazil, shareholder engagement is considered young. The report describes only one engagement activity focused on labour standards in charcoal producers associated with Brazil's iron and steel production. In China, foreign investors find some challenges to engage with Chinese companies, such as the language barrier, the cultural differences and the lack of proxy services (IFC and BSR 2009). In India, only a few foreign investors and NGOs are engaging with multinationals and Indian companies towards ESG issues (IFC and Teri 2009a).

This section demonstrates the definition and strategies of shareholder activism, the different motivations for employing it and the information related to activism in emerging markets. However, there appears to be a gap in the literature in terms of a systematic analysis of the institutional factors that influence shareholder activism, particularly in emerging markets which the academic literature has failed to properly address. This research will aim at filling such gap.

2.3. Institutional Theory and corporate governance

In this section, a literature review of the relationship between Institutional Theory and corporate governance will be provided. Shareholder activism is one of the practices of corporate governance and the latter has been widely examined under the institutional theory lens (cf. Aguilera and Jackson 2003;

Buck and Shahrim 2005). This section will present the definition of corporate governance, the debate surrounding comparative corporate governance and studies that relate institutional theory and corporate governance, including studies in emerging markets.

According to Parkinson (1994 cited in Solomon 2007, p. 13), corporate governance is “the process of supervision and control intended to ensure that the company’s management acts in accordance with the interests of shareholders”. Similarly, The Corporate Governance Handbook (1996 cited in Solomon 2007, p. 13) describes it as “the relationship between shareholders and their companies and the way in which shareholders act to encourage best practice”.

Corporate governance was created to address agency problems, which occurs when the interests of management (agents) are in conflict with the interests of the shareholders (owners). Agency problems exist when agents misappropriate firm’s resources, avoid tasks to meet corporate goals or prioritise personal interests instead of the firms’ needs (Juravle and Lewis 2008; Sapienza et al. 2000). In this context, corporate governance aims to ensure that the firm operates efficiently from the perspective of the shareholders (Fama and Jensen 1983; Aguilera et al. 2008).

2.3.1. Comparative corporate governance

As noted, the definitions of corporate governance above are focused on the relationship between shareholders and companies' management. However, several authors (e.g. Chizema and Buck 2006; Aguilera et al. 2008) contend that such concepts represent a narrow view of corporate governance by not contextualising it.

Similarly to Hall and Soskice (2001)'s classification, Chizema and Buck (2006) categorise the world of corporate governance as 'market-based capitalism' and 'cooperative capitalism'. These groups are also called shareholder and stakeholder-oriented (Lee and Yoo 2008; Aguilera et al. 2006). The market-based capitalism is represented by countries such as the US, the UK, Canada and Australia, while the cooperative capitalism is represented by countries such as Germany, Japan, the Netherlands and Austria. The concept of corporate governance in the first group is restricted to shareholders. The governance system in these countries depends on high levels of disclosure to inform investors while the rights of minority shareholders are protected by law. Managers are rewarded or punished on market-based mechanisms. For the second group, the focus of corporate governance is not only addressed at shareholders, but at all other stakeholders, such as employees, the bank and the state. This model is often characterised by a bank-centred system (Yoshikawa and McGuire 2008). Managers are weakly influenced by stock prices and strongly influenced by the stakeholders (Noteboom 1999).

With the advent of globalisation, the discussion related to the convergence or divergence of corporate governance led to four different positions (Lane 2003): functional conversion, system persistence, hybridisation and complementarity.

In functional conversion, the systems are argued to transform and converge. A few authors (e.g. Hansmann and Kraakman 2001; Coffee 1999; Gilson 2001; Lane 2003) understand that the world is progressing to a corporate governance convergence towards the Anglo-American model in view of the competitive pressures of global capital and product markets. This has been Lane (2003)'s position regarding the effect of globalisation in the German governance system, although she notes that it will take some time until national features are replaced by global ones (Lane 2003 cited in Wood and Frynas 2003).

The second position claims for system persistence and partial adjustment to the existing model. In this model, there is weak convergence and some learning from each other between the different national systems (Bratton and McCahery 1999). A few authors (e.g. Aguilera and Jackson 2003; Lee et al. 2003; O'Sullivan 2003; Nestor and Thompson 2000) contend that the diversity in corporate governance systems will be maintained due to the different institutional contents which help shape the systems. Mayer (2000 cited in Solomon 2010) denies corporate governance convergence overall, suggesting that systems should remain differently to take advantage of comparative advantage.

The third position claims that there will be the emergence of a hybrid model. This is the position defended by Sarra and Nakahigashi (2002), Jackson (2009) and Yoshikawa et al. (2007). Sarra and Nakahigashi (2002, p. 301) assert that

"while there is some convergence, particularly as corporations deal across borders, there are equally strong political, social, and economic influences such that there is unlikely to be complete convergence of corporate governance models". Jackson (2009, p. 624) cites Japan, stating that "the new 'hybrid' pattern of corporate governance involves a mix of elements from the 'old' Japanese model and 'new' more Anglo-American practices". Yoshikawa et al. (2007) found that Japanese firms tend to select features of the Anglo-American model and tailor them to fit their local contexts.

The fourth position suggests that there will be the establishment of a new institutional complementarity between the new and the old system. According to Lane (2003), hybridisation can only be temporary because complementarity does not exist and different parts are dominated by different logics. A few authors (e.g. Hoepner 2001; Hoepner and Jackson 2001; Streeck 2001; Beyer and Hassel 2002 cited in Lane 2003) argue that the logic of the capital market will be combined with the system of codetermination and democratic participation existent in Germany.

2.3.2. Relationship between Institutional Theory and corporate governance

Among the authors that have researched on the relationship between corporate governance practices and institutional factors, some (e.g. Li and Harrisson 2008; La Porta et al. 1998) investigated the contextual factors of corporate governance in general, while others (e.g. Chizema and Buck 2006; Aguilera et

al. 2006; Jackson 2009) assessed corporate governance in specific environments.

For instance, Li and Harrison (2008) found a relationship between national culture and board composition. Companies that are based in risk avoiding cultures tend to present more outside directors on their boards because more diverse groups bring different skills and abilities to solve complex problems and to deal with different types of situations. Firms based in individualistic cultures also present more outside directors so that different people can represent the interests of different stakeholders. The preference for more outside directors is also shared by societies with more cooperative values (femininity) and lower power distance, as a board with fewer management directors conforms to the norm of larger power distance between CEOs and their subordinates.

In terms of legal systems and corporate governance, La Porta et al. (1998) investigated 49 countries and found that the French civil law tradition offers low investor protection, the German and Scandinavian system offer moderate protection and the Anglo-American common law offers the highest investor protection.

Among the studies that look at specific environments, Chizema (2008) researched the suitability of executive compensation disclosure and the executive stock option (ESO) mechanism in Germany. He noted that the disclosure of individual executive compensation is not suitable for the German environment due to the existence of co-determination, where employee voice is supported through politics (Jackson and Moerke 2005). As boards are comprised of representatives of the employees, the disclosure of individual

executive compensation could have a negative outcome by being later used in collective bargaining.

2.3.3. Institutional Theory and corporate governance in emerging markets

A few studies were found about the relationship between Institutional Theory and corporate governance in emerging markets. One of them is from Reed (2002) who found that emerging markets are drawn to adopt Anglo-American models of corporate governance. International organisations such as the World Bank and the IMF have imposed a series of liberalising measures when negotiating loans, which include governance reforms with an Anglo-American perspective.

Siddiqui (2010) also points that the requisites of these international financial agencies as prerequisites for obtaining loans led developing countries to adopt Anglo-American corporate governance practices. The author examines corporate governance in Bangladesh and concludes that the Anglo-American system is not appropriate for the country. The market-based system is considered more adequate where company shares are owned by dispersed shareholders and managers are freer from close scrutiny and control. In contrast, the country is characterised by high ownership concentration, reluctance of firms to raise capital through the stock market and high degree of bank borrowing (Siddiqui 2010). Rwegasira (2000) mentions that the German governance model may be more appropriate for Africa due to its low degree of stock market sophistication and domination of bank financing. The lack of

strong institutions is another argument for the inappropriateness of the Anglo-American model. One important basis for the American model is that the legal system can uphold contracts, investors are sophisticated and there are qualified personnel to supplement the capital markets (Siddiqui 2010). However, as mentioned by Paredes (2005), the emerging economies lack 'second order institutions', such as experienced investment bankers, lawyers, security analysts and effective judicial systems that enable the markets to work effectively.

This section demonstrates that the literature available on the institutional influences on corporate governance is wide, but focused on the contrast between liberal and coordinated markets. Therefore, more research is necessary to tackle the literature gap on emerging markets. The analysis of the determinants of corporate governance systems in different countries will be employed when developing the hypothesis concerning the factors that affect shareholder activism, as shown in Section 2.6.

2.4. Institutional Theory and Corporate Social Responsibility (CSR)

This section will discuss the relationship between Corporate Social Responsibility (CSR) and Institutional Theory. Considering that this study is focusing on shareholder activism that targets ESG issues, Corporate Social Responsibility is a relevant subject due to the ESG issues it encompasses. This

section will define CSR and then proceed to examine studies that deal with the relationship between Institutional Theory and CSR, including studies in the context of emerging markets.

CSR is a contested and dynamic concept (Matten and Moon 2008). Matten and Moon (2008, p. 46) define CSR as "clearly articulated and communicated policies and practices of corporations that reflect business responsibility for some of the wider societal good". Carroll and Buchholtz (2000 cited in Crane and Matten 2006) characterize CSR as encompassing the economic, legal, ethical and philanthropic expectations placed on organisations by society at a given point in time. By economic responsibilities, the authors refer to responsibilities related to issues such as dividends to shareholders, fair wages to employees and fair product prices to customers. The legal responsibility demands that firms abide by the law. The ethical responsibility obliges corporations to do what is fair and just. Finally, the philanthropic responsibility is under the companies' discretion and encompasses activities related to improving the quality of life of employees, of the local communities and of society.

2.4.1. Relationship between Institutional Theory and CSR

The relationship between institutional theory and CSR has been covered in the literature. Some addressed the relationship briefly as part of their research findings (e.g. Chapple and Moon 2005; Maignan and Ralston 2002), others

discussed it in more detail (e.g. Campbell 2007; Katz et al. 2001) and a few focused on the comparison between Europe/UK and the US (e.g. Doh and Guay 2006; Aaronson 2003).

The works of Chapple and Moon (2005) and Maignan and Ralston (2002) found that the CSR differences across countries were attributed to institutional differences. While Chapple and Moon (2005) researched about CSR in seven countries in Asia, Margolis et al. (2002) studied the CSR public commitment of firms in France, the Netherlands, the UK and the US. However, neither Maignan and Ralston (2002) nor Chapple and Moon (2005) explored further the institutional implications of their findings, differently from Campbell (2007) and others, as shown below.

Campbell (2007) argues that CSR behaviour is associated with a variety of institutional factors. Firstly, companies are more likely to behave in a responsible manner when they are experiencing stronger financial performance. On the other hand, in case companies operate in a very competitive environment, firms are less likely to invest in CSR activities due to the narrow profit margins. The same is true in low competitive environments, as investing in CSR does not lead to an increase in sales or profits. Secondly, corporations are more likely to be responsible if there is a well-enforced state and industry regulations to ensure such behaviour. Furthermore, enforcement, not only from state agencies but also from NGOs and the media activism, is conducive to more responsible behaviour. NGOs, for instance, can employ various tactics, such as appealing directly to the corporations, pressuring governments to act and bringing public attention to particular matters (Keck and Sikkink 1998).

Campbell (2007) also considers that normative institutions contribute to responsible behaviour, for example, through the influence of business schools curricula, business publications and business associations. Finally, legal institutions that facilitate the dialogue between companies and their stakeholders influence responsible behaviour. One example of legal institution is the co-determination in Germany which guarantees employee participation in the board of directors.

Jackson and Apostolakou (2010) compared the influence of different institutional environments on CSR policies in Europe. They concluded that firms from more Liberal Economies scored higher on most dimensions of CSR than firms from Coordinated Market Economies as CSR practices act as substitutes for institutionalised forms of stakeholder involvement. Moreover, firms with high environmental impact adopt more extensive CSR practices.

Katz et al. (2001) examined how the institution of national culture impacts the multinationals' host country expectations of CSR. The authors studied five different issues to link to national culture: consumerism, environment, treatment of employees, government involvement in society and the role of business in community affairs. Based on the literature, the authors found that countries that place higher value on environmental protection are likely to be low in power distance (as low power distance countries are usually represented by the industrialised countries), high in uncertainty avoidance (because they are concerned to reducing the risk to environmental harm), low in individualism and low in masculinity (as individualists and masculine societies place more

importance to development than to the environment). This same analysis was conducted to the remaining four issues, as shown in Appendix 2.

Additionally, a few authors concentrated on studying the differences between the US and Europe/UK in different CSR topics. Aaronson (2003), for instance, compared and contrasted the British and the American approaches to CSR policies, concluding that, although both countries share similar cultural and political contexts, the CSR models are different. While, in the UK, CSR is supported by businesses, by the government and by the civil society in the US, the initiatives are contradictory and unconnected.

Matten and Moon (2008) attribute to the differences in business systems the fact that CSR in the US is more explicit, while the approach in Europe is predominantly implicit. By explicit CSR, the authors refer to voluntary programs and strategies that address societal issues. By explicit CSR, they refer to mandatory and customary requirements to address stakeholder issues. Furthermore, the authors note that there is a gradual rise of explicit CSR in Europe which is explained by a series of changes in the European business systems. There have been political changes in the European landscape in terms of the current capacity of the welfare state to deal with social problems. In the labour systems, the labour market is being deregulated and the trade unions and industry associations are losing power. In the financial arena, the European corporations are increasingly more dependent on the stock market to raise capital. Moreover, there is increasing public awareness of the impact of multinationals followed by a rise in public expectations.

Doh and Guay (2006) also compared Europe and the US in relation to the incentives to businesses and interest groups to influence government policies. One of the main differences between both systems is the political structure encouraging businesses to influence government policy. While in the US, the federalist structure hinders the opportunities to influence policy, in Europe, the centralised aspect and the role of the European Union encourage it. Moreover, in the European countries and in the European Union, interest groups have a more formalised role in the public policy process (Wilson 2003 cited in Doh and Guay 2006) and are more likely to employ a collaborative approach to policy making (Marks and McAdam 1996 cited in Doh and Guay 2006).

2.4.2. Institutional Theory and CSR in emerging markets

According to the literature, the institutions in the emerging markets influence the level of CSR sophistication and its priorities (e.g. Jamali et al. 2008; Visser 2008).

Jamali et al. (2008) investigated the perceptions of Lebanese managers towards CSR and found that the managers perceive limited institutional pressures to CSR in the local context. Hence, such limited pressures are translated into the limited sophistication of CSR, which acquires mainly a philanthropic approach.

Visser (2006) reached similar conclusions, positing that the priorities of CSR in emerging markets are different from the priorities of developed markets due to the limited economic development. Visser (2006) adopted Carroll (1991)'s

pyramid model of CSR to propose that, for the African context, the pyramid must be reshuffled. Firstly, the economic responsibility receives the most emphasis given the region's high unemployment, poverty and debt. Secondly, the philanthropic responsibility is praised as a way to improve the communities where the businesses operate. Thirdly, the legal responsibility is emphasized, followed by the ethical responsibility. Considering that the corruption in the continent is rather high, ethics remains the lowest priority.

To conclude this section, a few authors discussed the relationship between Institutional Theory and Corporate Social Responsibility, mostly focused on the comparison between UK/Europe and the US. In the emerging markets context, the limited amount of literature found on the topic demonstrate that domestic institutions affect CSR differently than in developed countries. The institutional factors that contribute to enhanced CSR will be examined so as to build hypothesis, shown in Section 2.6.

2.5. Strategic approach

This section will conceptualise the Resource-Based View (RBV) and the Austrian economics theories and look at how they were applied in the literature to analyse strategic CSR.

As seen from the previous chapter sections, Institutional Theory is an effective theory to analyse the external influences that affect corporate governance and CSR. Hence, such theory will be used to analyse shareholder activism further

below (on Section 2.6). However, Institutional Theory fails to explain shareholder activism when used as an active strategic choice. Frynas (2008) contends that, in the CSR domain, active strategic choice can be explained by the Resource-Based View (RBV) and by rational Austrian economics. He posits that these theories help clarify the use of CSR as source of competitive advantage and as a response to entrepreneurial foresight.

The Resource-Based View (RBV) of the firm proposes that the firms' success is largely defined by the resources they own and control (Litz 1996; Galbreath 2005). Firm resources include all assets, capabilities, processes, attributes, information and knowledge that allow the company to implement strategies that improve its efficiency (Daft 1983 cited in Barney 1991). According to Baron (2001), CSR is strategic if it is a profit-maximisation strategy. CSR can contribute to the companies' differentiation strategies through product or process innovation or through incorporating CSR in their marketing strategies (McWilliams et al. 2006; McWilliams and Siegel 2001). A product with CSR characteristics may be more attractive, such as the case of fuel-efficient hybrid cars, because they are perceived by the consumers to contribute to environmental protection. Some customers may be willing to pay a premium price for a product with CSR characteristics. CSR can also contribute to the corporation's reputation building and maintenance (Baron 2001) when CSR is incorporated in the marketing strategies. In this case, firms will gain competitive advantage due to their CSR characteristics or CSR managerial practices (McWilliams et al. 2006; McWilliams and Siegel 2001), such as when a company invests in corporate philanthropy.

Rational Austrian economics has a different approach. Rational Austrians (e.g. Mises 1969; Rothbard 1962) emphasise that humans are capable of conscious action (conscious rationality) and they believe in predicting the future reactions to the success of most human actions. Rather than relying on resource leverage as suggested by RBV, Austrian economics is more concerned with identifying and seizing opportunities. This concept is particularly important in turbulent and high-velocity environments in which value creation derives from entrepreneurial discovery. According to the Austrian perspective, managers should seek uncertainty because this is where most invaluable opportunities are found. Also, timing is central to the Austrian view as attractive opportunities are considered transient (Roberts and Eisenhardt 2003).

To illustrate the RBV and the Austrian perspective in relation to CSR, Frynas (2008) examines the oil industry. It was found that Shell and BP have invested in environmental pollution prevention and in local community engagement so as to enhance its competitive advantage. This strategic choice is explained by the RBV theory. Moreover, both companies have decided to invest heavily in renewable energy because they envisage a large market for this type of energy in the future. This action is supported by the Austrian theory. On the other hand, in emerging markets, Frynas (2008) found that the oil companies investigated do not conceive CSR strategies as business opportunities and their CSR program is more driven by stakeholder and institutional pressures.

To sum, the RBV and Austrian perspectives were adopted to explain strategic CSR. While RBV have been employed more often to explain strategic CSR (Baron 2001; McWilliams et al. 2006; McWilliams and Siegel 2001), only one

author (Frynas 2008) explored Austrian economics in the context of CSR. This demonstrates a significant gap in the literature. In the next section, these theories will be used to suggest that shareholder activism can be used as a strategic choice to increase firms' competitiveness and to take advantage of future opportunities.

2.6. Influential factors and shareholder activism

This section will be drawn on the reviewed literature to develop hypotheses about the factors that influence shareholder activism which will be later tested in the contexts of emerging markets.

2.6.1. International institutional factors

Drawing on the literature, the international institutions that are likely to influence shareholder activism are represented by (i) the international flow of capital; (ii) the level of international consulting services; (iii) dissemination of Anglo-American curricula; and (iv) international regulation and enforcement, as shown below.

2.6.1.1. International flow of capital

The influence of the flow of capital is part of DiMaggio and Powell's (1983) coercive mechanism. The international flow of capital can take many forms, such as through capital lending from international institutions, selling stocks to foreign investors and listing domestic stocks in international stock exchanges.

Lending is one powerful way to transmit commitment to shareholder value (Martin et al. 2007). As mentioned previously, international organisations such as the World Bank have changed the corporate governance systems of the emerging markets radically by including the adoption of corporate governance practices in the prerequisites for obtaining loans (Siddiqui 2010). For instance, during the Asian crisis, the International Monetary Fund (IMF) and the Work Bank required the Asian economies to adopt the Anglo-American model of corporate governance as part of their economic reforms (Martin et al. 2007).

The requirements of foreign investors to increase corporate governance standards also help disseminate the Anglo-American governance model. France and Japan are examples of countries that have adopted American governance practices as a response to the increase of foreign investors (cf. Seki 2005; Lee and Yoo 2008).

Furthermore, countries that are willing to trade stocks in another country are coerced to adopt the host country's governance practices. Foreign issuers that wish to enter the US and UK stock exchange must incur significant legal and compliance costs (Yoshikawa and Rasheed 2009). Moreover, European

countries that are part of the European Union and wish to trade stocks in another European country must comply with the EU regulations (Coffee 1999; Dore 2005).

Considering that these flow of capital mechanisms (lending, inflows from foreign investors, listing in foreign stock exchanges) lead to the dissemination of shareholder value, it is likely that the practice of shareholder activism will also increase.

H1: *The higher the level of international capital inflows the higher the level of shareholder activism in the country.*

2.6.1.2. International consulting services

According to DiMaggio and Powell (1991), management models may be diffused by consulting firms, especially considering that large organisations choose from a small number of major consulting firms. The same is true for auditing firms. Major corporations in most countries favour one of the four major firms for their audit reports, helping spread the same governance practices (Tricker 2009). In the CSR field, consulting firms help transmit the management trends that become institutionalised and legitimise the corporations as modern companies. The large consulting and accounting firms are transmitting the shareholder concept of corporate governance (Martin et al. 2007) and, most likely, the concept of shareholder activism.

H2: *The higher the hiring of international consulting services the higher the level of shareholder activism in the country.*

2.6.1.3. Academia

Another important organisation that disseminates Anglo-Saxon corporate governance practices is the academia (Martin et al. 2007). Campbell (2007) argues that managers often learn the mental constructs that are learned in business schools and in other professional publications. Publications such as the Harvard Business Review have increasingly been publishing about CSR, and universities in Europe and in the US are including business ethics modules in their curricula.

In terms of shareholder value, students from all over the world are increasingly being exposed to the culture of shareholder value (Dore 2005). Many German managers, for instance, have been attending US and UK business schools and working for American and British corporations. The spread of shareholder thinking is also helped by the growth of corporate finance as an academic discipline (Martin et al. 2007). Hence, it is likely that these students will be influenced by theories related to shareholder value and business ethics and place greater importance to shareholder activism, leading to the next hypothesis.

H3: *The higher the level of exposure of managers to Anglo-American education the higher the level of shareholder activism in the country.*

2.6.1.4. International regulation

Several initiatives are responsible for increasing the level of Social Responsibility and corporate governance among the corporate sector. One of them is the Global Compact, calling companies to comply with principles related to human rights, social and environmental issues (UN Global Compact 2010). Another guideline is the Global Reporting Initiative, which offers a framework for companies to report on CSR issues (GRI 2010). In the corporate governance arena, the International Corporate Governance Network (ICGN) developed an international set of guidelines to improve corporate governance and disclosure (Porter and Kramer 2003).

In terms of responsible investment, The UN Principles for Responsible Investment (PRI 2006) have been the most relevant international institution for disseminating the concept of shareholder engagement. The PRI were launched in 2005 to promote principles related to the incorporation of ESG issues in the investment analysis and decision-making processes of institutional investors and investment managers. The PRI currently account for 805 signatories including asset owners, investment managers and professional service partners[3]. Among the principles to which signatories commit include the request

[3] As of 10th September 2010.

to be active asset owners through adopting practices such as engaging with invested companies, exercising their voting rights and engaging collaboratively (PRI 2009a, PRI 2009b). Hence, it is likely that the growth in the number of PRI signatories will lead to an increase in activism practices.

H4: *The higher the number of PRI signatories the higher the level of shareholder activism in the country.*

2.6.2. Domestic institutional factors

The main domestic institutional factors that are likely to affect the level of shareholder activism in a country comprise (i) domestic regulations and enforcement, (ii) ownership structure, (iii) national culture, (iv) religion, (v) level of stock lending, and (vi) stock turnover, which will be presented below.

2.6.2.1. Domestic regulation and enforcement

As far as the influence of legal institutions is concerned, Kurt et al. (2009) cite the example of the United Kingdom, claiming that the regulatory framework in the United Kingdom incentivises engagement in the country. According to Martin et al. (2007), investor activism is incentivised by The Combined Code on Corporate Governance and by the ISC's Statement of Principles. While The

Combined Code on Corporate Governance expects institutional shareholders to enter into dialogue with investee companies, the ICS's Statement advises institutional investors and their agents to make public policies on engagement, including the procedures for monitoring investee companies and the rules for meetings with senior management (Martin et al. 2007; ISC 2007).

In Japan and Germany, the law also encourages investor activism, establishing that managers must consult more frequently with investors. On the contrary, in the United States, financial regulations limit the degree in which corporate managers ought to discuss with shareholders, leading managers to be less inclined to do so (Campbell 2006).

Furthermore, common law jurisdictions is considered to provide more secure legal protection to shareholders because the judiciary has greater discretion in interpreting precedent in common law systems (LaPorta et al. 1999). Hence, it is expected that the common law system is also more protective of mechanisms for shareholder activism.

H5a: *The higher the legal protection to shareholders the higher the level of shareholder activism in the country.*

Not only the regulatory framework, but also the level of enforcement is conducive to influencing shareholder activism. This is especially true in emerging economies where the level of enforcement is low and the knowledge and specialisation of the judicial system in terms of corporate finance is

deficient. For instance, in Brazil, lawsuits dealing with violations of shareholders' rights are generally handled by the state court judges and not necessarily by judges with specialised knowledge in corporate law. Judges are not obliged to have any particular training in financial and capital markets (Silveira and Saito 2009). Paredes (2005) claims that the emerging markets lack 'second order institutions', such as lawyers, and effective judicial systems that enable the markets to work effectively. Thus, a high level of legal enforcement can act as an additional influence to adopt shareholder activism.

H5b: *The stronger the judicial enforcement the higher the level of shareholder activism adopted in the country.*

Not only state agencies can enforce regulations, but also non-governmental organisations and the media. NGOs can employ various tactics, such as appealing directly to the corporations, pressuring governments to act and bringing public attention to particular matters (Keck and Sikkink 1998). What's more, the media has played an increasingly important role as a watchdog, reporting corporate irresponsible behaviour. As cited by Sullivan and Mackenzie (2006), investors have been using the media to communicate their views of ESG issues to companies' directors, especially because it is impossible for investors to meet all invested companies on a face-to-face basis.

H5c: *The higher the level of non-governmental enforcement the higher the level of shareholder activism adopted in the country.*

2.6.2.2. Ownership structure

The ownership structure is an additional factor that influences how shareholder activism is institutionalised in each country. In countries where there are controlling shareholders represented by majority shareholders, blockholders or family groupings, such as in Japan and Germany, shareholders have been active in directly monitoring companies and making managers highly accountable to them (Gillan and Starks 2003; Campbell 2007). Previous studies demonstrate that family owners may have superior monitoring abilities in comparison to diffused shareholders, especially when family ownership is combined with family control over management (Anderson and Reeb 2004). Moreover, family owners may have higher interest in monitoring because, as they have an interest to preserve the family's assets for the next generation, they have longer time horizons (Aguilera et al. 2008).

On the other hand, German and Japanese banks do not take an active role in effecting investment and divestment policies to increase shareholder value. They intervene only for major financial decisions or when companies are in trouble, although they have the power to micromanage (Aoki 1990 cited in Black 1992; Kallfass 1988 cited in Black 1992; Baums 1998 cited in Bratton and McCahery 1999).

These findings lead to the next hypothesis:

H6: *The level of blockholders in the ownership structure affects the level of shareholder activism by majority shareholders adopted in the country.*

2.6.2.3. Cultural institution

As it was demonstrated in this literature review, previous studies found a relationship between national culture and corporate governance, or national culture and CSR. While Li and Harrison (2008) found a relationship between national culture and board composition, Katz et al. (2001) found that national culture impacts the multinationals' host country expectations of CSR.

Likewise, it is expected that national culture has an effect on shareholder activism. For instance, countries that are more long-term oriented may have more incentive to engage with companies to promote ESG changes, since these are, by nature, long-term issues. Similarly, countries that are lower in power distance may feel more comfortable to engage with companies. Also, feminine countries may be less willing to engage because they value harmony instead of conflicts between parties. These conjectures lead to the next hypothesis:

H7: *National culture affects the level of shareholder activism in the country.*

2.6.2.4. Influence of religion

Religion can have an important influence on how management is conducted in the country. For example, according to Islam, a firm must be conscious of the impact it is promoting on the community (Sulaiman 2000) and investors are bound to inform invested companies' management when a business transaction is not 'halal[4]' (ASrIA 2003).

Likewise, according to Werner (2008), Christianity has an impact on how Christian managers behave. These managers may be constrained by a sense of responsibility to god and by the awareness that other people might judge them in light of Christianity principles. The respondents of this study highlighted the responsibility to be honest in the business dealings, the duty to pay taxes correctly and treating each customer equally well.

The Confucian religion also has an influence on management practices. For instance, Korean investment managers perceive it to be culturally inappropriate to challenge senior business leaders (IFC and Mercer 2009). The influence of Confucianism is an essential characteristic of Korean business as it was Korea's state religion for over 500 years (Solomon et al. 2002). The Confucian social system is hierarchical, which has been reflected in the structure of the chaebols where both ranking and seniority are preferred over meritocracy.

These findings lead to the next hypothesis:

[4] According to the Islamic principles (ASrIA 2003)

H8: *The influence of religion affects the level of shareholder activism in the country.*

2.6.2.5. Practice of stock lending

The increase in the practice of stock lending is another factor that may affect the level of shareholder activism. In stock lending, investors can borrow stocks from brokers and then sell them to the open market to later recover it by buying it back (Valdez 2007).

In stock loans, the acquirers of the stocks are not always aware that, by buying them, they also acquire the voting rights of the shares (Myners 2004). Therefore, the wide use of this mechanism may curb investors' voting behaviour.

H9: *The higher the level of stock lending the lower the level of shareholder activism in the country.*

Clark and Hebb (2004) and Black (1992) propose that the level of portfolio turnover affects shareholder activism. Institutional investors that present more stable portfolios are more encouraged to engage with portfolio companies. On the other hand, investors that keep stocks for a shorter period favour the use of the exit strategy to enhance financial performance.

H10: The higher the stock turnover the lower the level of shareholder activism in the country.

2.6.3. Organisational institutional factors

Jackson (2009) considers that Institutional Theory tends to forget about the diversity within firms in the same environment. Oliver (1991) noted that organisations respond differently to institutional pressures according to its resource dependencies. Hence, it was found that not only international and domestic institutions influence the level of shareholder activism, but also the characteristics of the financial organisations that conduct or has the potential to conduct activism. The organisational institutions identified centre mainly on investor and portfolio characteristics.

2.6.3.1. Investor characteristics

According to the literature, the characteristics of the investor can encourage it to monitor its invested companies. Faccio and Lasfer (2000) argue that occupational pension funds that are managed internally are more likely to monitor their portfolio because they control the investment and the voting decisions. Secondly, public pension funds are also more likely to monitor than

private pension funds. Many private pension funds, sponsored by private companies, neither engage with companies to pressurise for improved performance nor encourage their fund managers to be activists. There is an implicit understanding among private pension funds that “each company’s pension fund will refrain from an activist stance in return for a reciprocal stance from all others” (Monks and Sykes 2006, p. 232). The same is true for fund managers. If they develop an anti-manager reputation, they may find it harder to maintain or gain new projects (Black 1992).

In addition, passive investors are also more likely to engage than active investors. Due to the indexed nature of their investment, exit is not an option (McLaren 2004). While investors that adopt an active investment strategy select the companies that they will invest, investors with a passive strategy rely on the portfolio selection of established financial indices.

Moreover, companies that are universal owners are more likely to engage with their portfolio. Universal owners, by owning a small portion of almost every listed company in different industries, depend on the health of the overall economy to be profitable (Hawley and Williams 2006). Consequently, they are more likely to be concerned about long-term issues, such as sustainability, than the majority of investors, and more likely to engage.

Private equity firms also have a high interest in engaging with the companies they invest, especially the ones that secure high returns through active post-investment involvement in portfolio companies. Private equity firms are rewarded higher levels of return for a more intense and direct involvement with their invested companies. The involvement might include having a

representation on the board of directors, reviewing management accounts and board minutes and contributing in making decisions regarding strategic issues (Martin et al. 2007).

H11a: *The characteristics of the investor influence its likelihood to be an active shareholder.*

In terms of availability of financial resources impacting corporate practices, Aguilera et al. (2008) argue that large firms are more likely to have independent directors because they have the financial resources to comply with the requirements of board independence, while smaller firms have lower capacity to absorb these costs.

Similarly, in the CSR field, larger companies are likely to be the agenda settlers as they have greater financial resources to devote to it (Chapple and Moon 2005; Campbell 2007). This understanding is shared by the slack resources theorists who argue that the availability of financial resources allow companies to invest in philanthropic activities or in more long-term strategic impacts (Waddock and Graves 1997).

The same can be concluded for shareholder activism. It is expected that the more resources investors have the more likely they will engage with their portfolio.

H11b: *Larger investors have a stronger incentive to engage due to resource availability.*

2.6.3.2. Portfolio characteristics

Clark and Hebb (2004) and Black (1992) propose that, when investors present a more diversified portfolio, they are less likely to engage with the invested companies because of the costs associated with it, including free rider costs. The benefits of promoting engagement with different companies are shared by other investors which did not participate in such expenditures. Contrarily, investors which have too large stakes in certain companies to exit are encouraged to engage as exit would result in share price erosion.

H12: *The level of diversification of the investor portfolio affects the level of shareholder activism of the investor.*

2.6.4. Strategic reasons

Not only shareholder activism can be promoted by the influence of institutions, but also by the strategic decisions of the investors' management. This hypothesis draws on two theories: the Resource-Based View and rational Austrian economics. While the Resource-Based View can be applied to explain

that certain strategic actions are adopted with the aim to enhance competitive advantage, the Austrian perspective can explain the strategic actions that aim at benefiting from future opportunities. In the CSR arena, these theories helped explain why companies have an incentive to develop products with CSR characteristics (McWilliams and Siegel 2001; McWilliams et al. 2006; Baron 2001) and why they invest in opportunities related to CSR that are envisaged to be profitable in the future (Frynas 2009). Through the lens of both theories, shareholder activism is not only determined by different institutional contexts, but also by the strategic choice of the investment players. Investors may employ shareholder activism as a strategy to enhance profitability of their invested companies (e.g. pressure companies for improved environmental management systems) and/or as a contingency plan so ensure that the invested companies will continue being profitable in the future (e.g. lobby automotive firms to invest in hybrid cars). This leads to the final hypothesis:

H13: *Investors adopt shareholder activism to gain strategic advantage and to respond to entrepreneurial foresight.*

Summary of the chapter: This chapter offers a literature review surrounding the determinants of shareholder activism. Firstly, this chapter provided a brief description of institutional theory and discussed the structure of institutions in emerging markets. Afterwards, the chapter analysed the literature on shareholder activism, particularly its definitions, main strategies, drivers and

obstacles and the state of activism in emerging markets. Further, the chapter reviewed the literature concerning institutional theory and corporate governance, and institutional theory and CSR. Also, Austrian economics and the resource-based view were examined to analyse active strategic choice. Finally, hypotheses were developed concerning the determinants of shareholder activism.

3. METHODOLOGY

Introduction: This chapter will describe the methodological approach to be adopted in order to test the hypotheses developed in the literature review. It will lay out the ontological and epistemological approaches of this research, followed by the methods to be employed. This study will use mixed methods through the use of quantitative and qualitative methods. This chapter will also describe issues related to the evaluation of the research, ethics and timeframe.

3.1. Ontological and epistemological approaches

Before discussing the ontological and epistemological approaches of this research, it is noteworthy to define what ontology and epistemology are. While ontology is concerned with what exists to be investigated, epistemology refers to what can be regarded as acceptable knowledge in a discipline (Walliman 2006). In other words, ontology refers to “philosophical assumptions about the nature of reality”, while epistemology consists of a “general set of assumptions about the best ways of inquiring into the nature of the world” (Easterby-Smith et al. 2008, p. 60).

The philosophical approach of this research is based on critical realism, which is a relatively new epistemological approach that provides an alternative to positivism and relativism (McEvoy and Richards 2003; Robson 2002). Critical realists believe that the researcher can never fully gain a totally accurate picture

of the social world because of the possibility of distorted perception created by language, culture and experience (Houston 2001). In critical realism, the primary purpose of research is to obtain knowledge about underlying mechanisms or structures that explain how things actually work. Although such mechanisms cannot be directly observed, they can be identified through their effects (McEvoy and Richards 2003; Houston 2001).

The critical realist approach is suitable for this type of research because the researcher is mainly interested in understanding the underlying mechanisms that influence the practice of shareholder activism. A constructionist ontology is considered unsuitable for this study as the researcher recognises that there is an external reality (realist ontology). A positivist epistemology would not be appropriate either as the researcher assumes that that reality cannot be captured in its entirety since the human observation is distorted by factors such as the perceptions of the researcher and participants as well as pre-conceptions to access reality. Therefore, critical realism is the most appropriate philosophical approach for this research.

3.2. Methods employed

Mixed methods will be used in this research, which combine quantitative and qualitative research (Bryman and Bell 2007). While qualitative research "uses an interpretive, naturalistic approach to its subject matter" (Denzin and Lincoln 1994), quantitative research entails "a predilection for a natural science

approach and as having an objectivist conception of social reality" (Bryman and Bell 2007, p. 154).

Creswell et al. (2008) offer five main types of mixed methods: (i) triangulation design, (ii) concurrent embedded design, (iii) explanatory design, (iv) exploratory design and (vi) sequential embedded design. The triangulation design entails the use of quantitative and qualitative methods concomitantly followed by the comparison of data for corroboration. This is the most popular design. In the concurrent embedded design, there is also the use of qualitative and quantitative methods to collect data simultaneously, and the methods may be used to address different research questions. Among the sequential types, the explanatory strategy implies the collection of quantitative data, followed by qualitative data, which helps to interpret the results of the former. The exploratory strategy employs qualitative data collection followed by quantitative collection, which builds on the results of the first phase. Finally, the sequential embedded design involves collecting qualitative data before and after the quantitative phase. The first qualitative data helps to improve the quantitative data collection and the second one helps to explain different outcomes.

The model adopted for this research will be a combination of the concurrent embedded and the explanatory strategy designs. While quantitative methods will be employed prior to the qualitative research (as in the explanatory design), the methods will be used to address different questions (as in the concurrent embedded design). This study will start by analysing secondary data related to shareholder activism and institutions through correlation and regression analyses (quantitative methods). The second phase of the study consists of

investigating a set of case studies (qualitative methods) with the purpose of exploring whether the selected investors adopt activism practices as a source of competitive and differentiation advantage.

Initially, the researcher considered the use of qualitative methods only, employing case studies and interviews with investors from emerging markets. However, she considered that the interviewees would not be able to identify and examine the extent to which institutions were influencing their activist behaviour. For instance, the ability of the investors to indicate that certain cultural characteristics of the country impact on their activist behaviour is limited as investors are embedded in the environment where the cultural features operate. On the other hand, the use of case studies can and will be used to examine the impact of strategy on shareholder activism. This can be examined through the accounts of the interviewees, who will be selected based on their responsibility to design or implement activism strategies. More details on the research phases are provided below.

3.2.1. Quantitative phase

This phase refers to the statistical analysis that associates shareholder activism and institutions. This section will describe the countries selected for the study, the data collected and the data analysis procedures.

3.2.1.1. Sampling

The sampling technique used in this research is the purposive sampling, which chooses participants based on their unique characteristics (Cooper and Schindler 2006). This type of sampling is particularly suitable for studying issues that are too rare to be studied through probability sampling (Gray et al. 2007), which is the case of shareholder activism. The researcher will focus on the emerging markets that present practices of activism as shown at the PRI's database. Such database refers to the results of the survey that the PRI conducts annually with its signatories to assess to what extent they are incorporating the Principles of Responsible Investment. Access to this data is currently being negotiated between the researcher and the organisation.

3.2.1.2. Quantitative data collection

As this phase aims at identifying the institutional influences that affect shareholder activism, the variables to be adopted refer to shareholder activism practices (dependent variables) and institutions (independent variables).

In terms of data related to shareholder activism, this study will make use of the PRI survey results (PRI 2010b). The statistics concerning shareholder activism will be measured through (i) level of votes cast; (ii) total number of filing and co-filing of shareholder resolutions and (iil) level of engagement activities. According to the PRI (2010b), the level of votes cast correspond to the average

percentage of the country in relation to (i) number of ballot items voted, (ii) number of meetings voted and (iii) sum of assets on meeting record dates for which votes were cast. Secondly, the number of filing and co-filing of shareholder resolutions relates to the total number of ESG shareholder resolutions filed as lead filer and as co-filer. Thirdly, the level of engagement activities consists of (i) the total number of extensive engagement conducted in the country in the period analysed, (ii) the number of moderate engagement and (iii) the total number of basic engagement. While extensive engagement has a systematic approach and a clear goal, moderate engagement is less systematic and basic engagement is ad hoc and reactive.

As for the independent variables that measure institutions, these are shown in the table below.

Table 3-1 – Independent variables

Nature of institution	Concept	Indicator	Hypothesis to test
International	Level of international capital inflows	Foreign Direct Investment inflows (UNCTAD 2009)	H1
International	Consulting services	Percentage of the top 10 consulting firms that have offices in the country (data retrieved from websites of consulting firms)	H2
International	Academia	Number of managers sent to study in Anglo-American countries (source to be confirmed)	H3
International	International regulations	Number of PRI signatories (PRI 2010a)	H4
Domestic	Legal framework	• Legal origin of the company law (Reynolds and Flores 1989 cited in La Porta et al. 1998) • Existence of one share-one vote rule (La Porta et al. 1998) • Proxy by mail allowed (La Porta et al. 1998) • Shares not blocked before the meeting (La Porta et al. 1998) • Cumulative voting allowed (La Porta et al. 1998) • Oppressed minority (whether minority shareholders have judicial rights to challenge the decisions of management) (La Porta et al. 1998) • Preemptive right to new issues (La Porta et al. 1998) • Percentage of income companies must distribute among ordinary shareholders (La Porta et al. 1998)	H5a

Nature of institution	Concept	Indicator	Hypothesis to test
Domestic	Judicial enforcement	• Efficiency of the judicial system Index (Business International Corp adapted by La Porta et al. 1998) • Rule of law index; (International Country Risk Guide adapted by La Porta et al. 1998) • Corruption index (International Country Risk Guide adapted by La Porta et al. 1998) • Risk of expropriation index (International Country Risk Guide adapted by La Porta et al. 1998) • Likelihood of contract repudiation by the government index (International Country Risk Guide adapted by La Porta et al. 1998)	H5b
Domestic	Non-governmental enforcement	Civil society index (BTI 2009)	H5c
Domestic	Share concentration	% share ownership in the hands of majority shareholders (National Statistics from the countries investigated)	H6
Domestic	National culture	Cultural dimensions: • Power distance • Uncertainty avoidance • Long-term orientation • Masculinity • Individuality (Hofstede 1980)	H7
Domestic	Religion	% of followers of main religions (National Statistics from the countries investigated)	H8
Domestic	Stock lending	Amount of assets in custody (National Statistics of the countries surveyed)	H9
Domestic	Portfolio turnover	Turnover ratio (World Bank 2008)	H10
Organisational	Investor type	Type of investor (PRI 2010b)	H11a
Organisational	Nature of investment	% of passive and active investment in relation to the total (PRI 2010b)	H11a
Organisational	Size of investor	Total assets under management (PRI 2010b)	H11b
Organisational	Portfolio diversification	% of assets under management (per asset) (PRI 2010b)	H12

A more detailed account of the variables selected is found in Appendix 3.

3.2.1.3. Quantitative data analysis

The data described above will be analysed using SPSS. To analyse which institutional variables are helpful in predicting the level of shareholder activism in the country, international, domestic and organisational institutions indicators will be used as independent or explanatory variables and indicators related to shareholder activism will be used as dependent or response variables.

Before running regression analysis, the variables that present unequally scattered spread will be logistically transformed so as to make the distribution of the variable more symmetric and to make the relationship more linear.

Secondly, the independent variables will be tested to identify the presence of eventual multicollinearity. This refers to the existence of high correlation between independent variables. The existence of multicollinearity makes the interpretation of coefficients difficult because it depresses the significance of the affected variables (Husted and Allen 2007). In case there is multicollinearity, single regression will be performed for each of the predictor variables in relation to activism practices. If there is no multicollinearity, the independent variables will be regressed through multiple linear regression (Jarett 2006).

To sum, in this phase, the researcher will collect data from secondary sources from the emerging countries selected and will conduct regression analysis so as to establish to what extent the institutions analysed have an impact on shareholder activism in the emerging markets.

3.2.2. Case study research

This phase aims at identifying whether shareholder activism is used as a source of competitive advantage and strategic choice in the emerging markets, as posited by the Resource-Based View and the Austrian perspectives. The researcher will adopt case study research, which consists of a detailed investigation of phenomena within their context with the aim to offer an investigation of the context and processes that clarify the theories being researched (Hartley 2004).

Case studies can be used to accomplish several aims: to provide description, to test theory and to generate theory (Einsenhardt 1989). For this study, case study will be used to test theory. A number of investors from emerging markets will be interviewed so as to explore to what extent shareholder activism is determined by strategic choice.

3.2.2.1. Sampling

The sample will be composed by a sample of five investors from the emerging markets. The organisations will not be selected based on random sampling, but as whether they provide examples of polar types (Einsenhardt 1989) or critical cases (Bryman and Bell 2007). Due to the reduced number of cases that can be studied, it makes sense to choose extreme situations in which the process of interest is more transparently observable (Pettigrew 1988). The respondents

selected will be chosen based on (i) recognition of these organisations as leaders in shareholder activities in emerging markets[5]; and (ii) additionally, universal owners will be preferred because, as they depend on the health of the overall economy to be profitable (Hawley and Williams 2006), they are more likely to be concerned about long-term issues. It is expected that leading investors with the characteristics mentioned above will be more driven by competitive motivations than other investors (cf. Frynas 2009).

The participants will be contacted by e-mail, followed by a telephone call, to ask for their participation in the research. The researcher will provide the participants with a cover letter offering detailed information of the research project, including (i) aims and goals of the research; (ii) study's usefulness; (iii) explanation of why the respondent was selected and importance of their response; (iv) guarantee of confidentiality and anonymity; (v) offer to make the results available and (vi) contact details for queries (cf. De Vaus 2004; Neuman 2006; Sarantakos 2005 in Creswell 2009; Gray et al. 2007). By providing this cover letter, the researcher aims at guaranteeing that the participants are fully informed about the research and consent to participate on a voluntary basis.

[5] IFC's reports can serve as references, such as Mercer and IFC (2009), which cite ABN Amro, HSBC and Rio Bravo as the highest ESG rated fund managers in Brazil and Rexiter, RCM and Samsung Investment Trust in South Korea. The PRI representatives will also be contacted to suggest interviewees.

3.2.2.2. Data collection

Data collection will be achieved through semi-structured interviews. The interviewee will be responsible for the engagement activities within the investment firm (e.g. ESG specialist, analyst, portfolio manager). Whenever possible, more than one member of the targeted organisation will be interviewed. Furthermore, preference will be given to personal interviews. This is to ensure that the participant feels more comfortable with the interview and builds rapport with the interviewer (Cooper and Schindler 2006). The researcher will also apply for travel research grants to facilitate personal encounters. Alternatively, interviewees will be contacted by phone or Skype[6] so as not to lose interviewee participation due to geographical constraints (Cooper and Schindler 2006). All interviews will be transcribed and translated for further analysis.

The researcher will strive to interview the participants in their own language. This will be possible in some countries, as the researcher speaks English, Portuguese and French fluently. However, in case this is not feasible, the researcher will employ a translator to facilitate the interviews. Access to the interviewees will be facilitated by the PRI and by the researcher's professional network.

Semi-structure interviews were the chosen method because it allows cross-case comparability, in contrast with unstructured interviews (Bryman and Bell 2007). Besides, the interview guide helps the researcher to investigate a fairly

[6] A software application that allows users to make voice calls over the Internet.

clear focus, but also gives flexibility to accommodate other areas of interest found during the interview (Bryman and Bell 2007). In addition, one-to-one interviews have the advantage of accommodating the investors' busy schedules. Also, the acceptability of participating in interviews is higher than for other methods because of the familiarity with this method and the fact that people generally enjoy speaking about their work (King 2006).

As for the disadvantages of interviews, interviews are resource, time and energy consuming (Robson 2002). What's more, interviews can generate a data overload that might compromise the researcher's ability to analyse it. Furthermore, the researcher relies on the participants' perceptions instead of what effectively happened. In order to deal with these limitations, NVivo will be adopted to analyse data and the data will be triangulated with documentary analysis, as described below.

The investors' annual reports, CSR reports, responsible investment policies and corporate websites will be examined to search for the motivations that drive these companies to practice shareholder activism, with focus on the drivers related to strategic intent. Statements that demonstrate that the investor is interested in using shareholder activism as a source of competitive advantage may mention, for instance, the improved financial performance derived from it (e.g. USS 2010[7]; Cazenove 2008[8]).

[7] "USS endeavours to identify risks and opportunities at an early stage to minimise loss and maximise returns for the fund" (USS 2010).
[8] "We take an active interest in promoting best corporate governance practice among the companies in which we invest as we believe this will be beneficial to their performance and to the long term financial interest of the clients on whose behalf we act" (Cazenove 2008).

3.2.2.3. Data analysis

Thematic analysis will be used as the method for data analysis as it offers a flexible tool to analyse qualitative data in a rich, detailed and complex manner. Another advantage of this analytical approach relates to the fact that it is not wedded to any theoretical framework and can be used within different philosophical approaches (Braun and Clarke 2006). Other types of qualitative data analysis techniques were considered for this study. However, techniques such as Conversational Analysis is not appropriate because the researcher is more interested in the actual content of the interviews in contrast to capturing subtle details from the data collected (Samra-Fredericks 2004). Discourse Analysis is not suitable either as this study does not aim at investigating the underlying aims of the accounts of the participants or the context in which the statement were made (Dick 2004).

3.3. Research evaluation

This research will be evaluated based on four criteria: internal validity, construct validity, reliability and external validity. This is to ensure the quality of the research and to guarantee that steps are employed to enhance the validity and reliability of the research whenever necessary.

3.3.1. Quantitative research evaluation

Construct validity relates to whether a measure of a concept really reflects the concept being studied (Bryman and Bell 2007). For the statistical analysis, all indicators used in this study were analysed to check whether they correspond to the concepts being studied. Such analysis is found in Appendix 3.

In quantitative research, internal validity accounts for the establishment of a causal relationship in which certain conditions lead to other conditions (Bryman and Bell 2007). Internal validity will be achieved by assuring that the regression analyses are performed correctly. This will be accomplished by checking for multicollinearity between independent variables and by checking whether the indicators used are unequally scattered (presence of heteroscedascity), as previously mentioned.

Reliability is concerned with the question of whether the results of a study are repeatable and the study can be replicated (Bryman and Bell 2007). Reliability will be assured by selecting the most appropriate methods for analysing the data and by carefully documenting all the steps of the analysis to guarantee future replicability or auditing. Moreover, the methods employed to construct each of the indicators used in this study were analysed to check whether they are reliable (as in Appendix 3).

External validity or generalisability refers to the degree to which findings can be generalised (Bryman and Bell 2007). External validity will be achieved by the use of an extensive number of countries (from the PRI's database). By

analysing the determinants of shareholder activism in relation to a large number of countries, a higher degree of generalisability is reached.

3.3.2. Qualitative research evaluation

In the case studies, construct validity will be reached by using multiple sources of evidence (or data triangulation), establishing of a chain of evidence and participant validation. Data triangulation will be conducted by using both documentary analysis and the interview accounts to confirm the findings. Moreover, more than one member of each of the targeted organisations will be interviewed, whenever feasible, so as to compare their different perceptions towards the same subject. To establish a chain of evidence, the researcher will make use of the case study protocol and the case study database to document how the research was carried out, providing an evidentiary track. Participant validation will be gathered by submitting the findings of the interviews to the interviewees to cross-check the participants' perceptions with the researcher's tentative findings (Yin 2003; Bryman and Bell 2007; Robson 2002).

In qualitative analysis, internal validity concerns the match between observations and theoretical ideas (Bryman and Bell 2007). To enhance internal validity, the researcher will aim at establishing a good and trust-based relationship with the participant so as to avoid respondent bias. Triangulation, participant validation and audit trail will also contribute to enhanced internal validity. In order to avoid researcher bias, peer debriefing will be used. The

researcher will search for support from her colleagues by meeting regularly some of the PhD students and discussing the progress and findings of the research, along with theirs, in search for possible bias that her background and preconceptions might bring to the research.

Reliability will be reached though the development of case study protocols and a case study database, as suggested by Yin (2003). A case study protocol provides details of each case study, including the overview of the project, field procedures, case study questions and a guide for the case study report. The case study database records all the different types of data that were collected and produced during the research, such as notes, documents, tabular materials and narratives. The case study protocol will be developed in the beginning of this study according to Yin's (2003) content suggestion so as to prepare the researcher for the research process and for possible contingencies. To compile a case study database, the research will use NVivo, which is a helpful tool to catalogue raw data, such as the interview transcriptions, interview notes, recordings of the interviews and eventual documents used.

External validity represents a problem for case study researchers as the sample adopted is usually small (Bryman and Bell 2007). However, since the aim of case study research is to contribute to existing and new theories and capture findings in their uniqueness (Hammersley and Gomm 2000), this research will seek to achieve a degree of theoretical generalisability from the cases studied (Bryman and Bell 2007) by analysing whether the search for competitive advantage is a driver for leading investors to conduct shareholder activism.

3.4. Ethics

Ethical issues represent the concerns and dilemmas that arise over the proper way to conduct research (Neuman 2006). This research will comply with the School Research Committee Ethics Panel's Guidelines on Research Ethics and will assess its impacts on (i) harm to participants, (ii) informed consent; (iii) confidentiality and anonymity issues and (iv) voluntary participation, explained below.

3.4.1. Harm to participants

In general, social research can harm a research participant through physical harm, psychological harm, legal harm, and harm to a person's career or income (Neuman 2006). This research will not involve threats to physical harm as the main data collection methods will consist of document analysis and interviews. However, as mental stress could be a result of the interview process, the researcher will aim at overcoming it by offering the participants guarantee of anonymity and confidentiality in the study, interviewing the participants in a silent and private environment and, whenever feasible, interview the participants in their own environment and in their own language. Legal and career harm are not relevant in this study as informed consent will be asked and confidentiality and anonymity will be guaranteed.

3.4.2. Respondent's informed consent

The researcher will not request written consent, as, according to Cooper and Schindler (2006), oral consent is sufficient in most business research.

To gain respondent's informed consent, all the participants will be provided with a cover letter when receiving the survey so as to offer all necessary information regarding the research. The goal is to offer sufficient information so that the participants can make a conscious decision about their participation in the research.

3.4.3. Confidentiality and anonymity

Creswell (2009) and Neuman (2006) do not agree on the definitions on confidentiality and anonymity. Creswell (2009) states that while confidentiality refers to the non-disclosure of the identity of the participants, anonymity refers to the impossibility of relating the research findings with the respondents. Neuman (2006) defines these concepts differently. He posits that, while anonymity means that people remain nameless, confidentiality is the impossibility to relate the identity of the individuals to the information.

Independently of the definition adopted, anonymity and confidentiality will be maintained by not disclosing the names of the participants at any point and by not publishing single accounts in case there is possibility of identifying the

participant. Moreover, the fact that data collection will not involve group interviews or focus groups will help preserving privacy issues.

3.4.4. Voluntary participation

In terms of voluntary participation, the cover letter will make it explicit that participants will be free to withdraw from the research at any point that they consider adequate and that they will be free to refuse answering certain questions on whatever grounds they feel are justified. This will be reinforced at the beginning of each interview.

3.5. Timeline

The timeline for this research is shown in the table below.

Table 3-2 - Timeline

Tasks	Period for completion
Literature review	Second semester 2010
Methodology	Second semester 2010
Data collection - quantitative	First semester 2011
Data analysis - quantitative	First semester 2011
Interviews with fund managers	Second semester 2011
Analysis of interviews	Second semester 2011 and first semester 2012
Overall analysis	Second semester 2012
Writing-up	2013

Summary of the chapter: This chapter described the methodological approach which will be adopted in this research. A critical realist epistemology is the philosophical approach used. The method employed to test the hypotheses developed in the literature review is mixed and will comprise two phases: one quantitative and another qualitative. The first phase will analyse statistically the institutional determinants of shareholder activism and the second phase will examine, through case studies, the existence of strategic drivers for conducting activism. This research will be evaluated according to internal, construct and external validity and reliability.

4. CONCLUSION

The main purpose of this study is to analyse the factors that influence shareholder activism in emerging markets base on Institutional Theory, Resource-Based View and Austrian economics. It is expected that the results of this study will lead to the development of a framework that systematically analyses the determinants of shareholder activism.

This research will have both academic and practical benefits. Academically, this research will develop the literature on shareholder activism in emerging markets. This study will also be of interest to institutionalists, RVB academics and Austrian economics as these theories prove to be effective to analyse shareholder activism. Practically, this research aims at helping investors to design global shareholder activism strategies by identifying the factors that enhance or curb activism in emerging markets.

This dissertation reviewed the main literature concerning the topic under study, developed a set of hypotheses concerning the influential factors shareholder activism and developed a methodological approach for investigation.

The literature review covered the literature on institutions, shareholder activism, institutional determinants of corporate governance and CSR and studies relating CSR to RBV and Austrian economics. Further, it developed a series of hypotheses concerning the determinants of shareholder activism in emerging markets.

The literature review demonstrated that there is a lack of literature concerning shareholder activism in emerging markets and concerning a more systematic analysis of the institutional factors. Moreover, this literature identified other gaps than the ones that this research will tackle. The analysis of the institutional determinants of corporate governance has focused mostly on the contrast between the Liberal and the Coordinated Economies, with considerable less number of studies centred on other countries. In addition, the institutional literature on CSR is more restricted than the one in corporate governance and studies on the developing countries is practically non-existent. Furthermore, while the use of the Resource-Based View has been adopted when discussing strategic CSR, the Austrian perspective is less employed. All these identified gaps can be tackled as future avenues of research.

The epistemological approach that will be adopted in this study is represented by critical realism and the methods employed are mixed. Firstly, quantitative analysis will be utilised to associate institutional determinants and shareholder activism practices. Secondly, case study research will be used to identify to what extent active strategic choice explain the adoption of shareholder activism.

Some limitations of this research should be highlighted. First of all, although the researcher is in negotiation with the PRI to gain access to its data and that the organisation is positive towards my research, there is a possibility that the PRI will decide to withdraw its support. In case this happens, the researcher will conduct a survey with the PRI signatories from emerging markets.

Secondly, considering that the researcher is interested in interviewing the critical cases, the success of the research depends on the fairly restricted

amount of cases. To deal with this limitation, the researcher will make use of her professional networking, gained during her previous work experience in Brazil and in the UK.

The third limitation refers to the lack of generalisability derived from the case studies. However, as the topic of this research is not well researched, this study will acquire a more exploratory feature. Hence, the aim is to acquire a higher degree of theoretical generalisation instead of one of statistical generalisation.

This dissertation will serve as the building block for my doctoral project which, as stated in the timeframe, is expected to be completed in three years.

APPENDICES

Appendix 1

Studies concerning the relationship between shareholder activism and financial performance

Study	Title	Findings	Relationship shareholder activism-financial performance
Bizjak and Marquette (1998)	Are shareholders all bark and no bite? Evidence from shareholder resolutions to rescind poison pills	Managers are more likely to restructure a pill following a shareholder proposal and restructurings are associated with positive stock price reaction.	POSITIVE
Core, et al. (2006)	Does weak governance cause weak stock returns? An examination of firm operating performance and investors' expectations.	Results do not support hypothesis that weak governance causes poor stock returns	NEUTRAL
Del Guercio and Hawkins ----(1999)	The motivation and impact of pension fund activism	Found no significant effects of shareholder proposals on stock return in the 3 years following initial target and sketchy evidence of positive effects in the short term.	NEUTRAL
Faccio and Lasfer (2000)	Do occupational pension funds monitor companies in which they hold large stakes?	Holding large stakes of listed companies does not lead companies to outperform their industry counterparts	NEUTRAL
Gillan and Starks (2000)	Relationship investing and shareholder activism by institutional investors	Proposals sponsored by institutional investors have a small negative impact on stock prices	NEGATIVE
Gompers et al. (2003)	Corporate governance and equity prices.	Firms with stronger shareholder rights had higher profits	POSITIVE
Karpoff et al. (1996)	Corporate governance and shareholder initiatives: empirical evidence	Governance proposals have little effect on company share value	NEUTRAL
Opler and Sokobin (1995)	Does coordinated institutional activism	Coordinated shareholder activism increases	POSITIVE

Study	Title	Findings	Relationship shareholder activism-financial performance
	work? An analysis of the activities of the Council of Institutional Investors.	shareholder value	
Smith (1996)	Shareholder activism by institutional investors: Evidence from CalPERS.	Successful shareholder activism results in significant increase in shareholder wealth	POSITIVE
Strickland et al. (1996)	A requiem for the USA Is small shareholder monitoring effective?	United Shareholder Association (USA)-sponsored shareholder activism enhanced shareholder value	POSITIVE
Wahal (1996)	Pension fund activism and firm performance	There is no evidence of significant long-term improvement in stock price in the post-targeting period	NEUTRAL

Appendix 2

Relationship between cultural factors and key social issues (Katz et al. 2001, p. 156-7)

Social issue	CFI scores	Power distance	Uncertainty avoidance	Individualism	Masculinity
Consumers	**High**	Opinion of friends and relatives more important	Less tolerance for consumer political activity	More consumer advocacy	More emphasis on money
	Low	More reliance on outside opinion	More acceptance of consumer political activity	Less consumer advocacy	More emphasis on people
Environment	**High**	Less concern for environmental protection	More environmental legislation	A focus on profit-seeking and wealth accumulation tempered by a concern for broad social welfare	Economic growth takes precedence
	Low	More concern for environmental protection	Less environmental legislation	More focus on family and local community welfare	Conservation important
Employees	**High**	More emphasis on rigid hierarchy and unequal standing	Employee complicity stressed	Employee personal time more important	Greater emphasis on salary and public recognition
	Low	More emphasis on equality and rewarding "legitimate power"	More employee conflict allowed	Employee involvement with the company more important	Focus on cooperation
Government involvement in society	**High**	Greater centralisation of power that favours the wealthy and the military	Greater adherence to formal structures and written rules regarding social issues	Tendency for a balance of power between government and the business sector	Less public welfare funding
	Low	More decentralised power and redistribution of wealth	More emphasis on organisation and settlement regarding social issues	Greater relative power of government	More public welfare funding
The role of business in	**High**	Greater protection of	Business tend to obey	More profit-oriented with a	More profit-oriented

Social issue	CFI scores	Power distance	Uncertainty avoidance	Individualism	Masculinity
community affairs		prerogatives of elites	authorities	propensity to inform the public about corporate policies	
	low	More concern for interacting with the public	Business is more concerned with expectations of the public	More collectivism with less emphasis on business informing the public about corporate social policies	More service-oriented with sympathy for the unfortunate

Appendix 3

Analysis of validity and reliability of the indicators employed

Indicator	Analysis of validity	Analysis of reliability
Foreign Direct Investment inflows (UNCTAD 2009)	Proxy measure of the level of international influence, represented by the level of investment that enter the country	FDI inflows refer to capital provided by a foreign direct investor to a FDI enterprise. It includes equity capital, reinvested earnings and intra-company loans. • Equity capital is the foreign direct investor's purchase of shares of an enterprise in a country other than that of its residence. • Reinvested earnings comprise the direct investor's share (in proportion to direct equity participation) of earnings not distributed as dividends by affiliates or earnings not remitted to the direct investor. Such retained profits by affiliates are reinvested. • Intra-company loans or intra-company debt transactions refer to short- or long-term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises.
Percentage of the top 10 consulting firms that have offices in the country	Direct measure of the presence of the top consulting firms in the countries surveyed	This measure will be constructed through calculating the percentage of 10 top consulting firms that are present in the countries under study.
Number of managers sent to study in Anglo-American countries	Source to be confirmed	Source to be confirmed
Number of PRI signatories (PRI 2010a)	Proxy measure of the level of non-governmental regulation promoting shareholder activism, represented by	The indicator is reliable because the PRI, who is responsible for publishing this measure, has a precise account of the number of

Indicator	Analysis of validity	Analysis of reliability
	the level of PRI signatories.	PRI signatories in each country.
Legal origin of the company law (Reynolds and Flores 1989 cited in La Porta et al. 1998)	The indicator is a direct measure of the nature of the legal system.	This classification is from Reynolds and Flores (1989) and considered uncontroversial among legal scholars. There is the civil law legal tradition, which is divided into French, German and Scandinavian, and the common law family.
One share-one vote rule (La Porta et al 1998)	Measures the level of legal investor protection represented by whether ordinary shares carry one vote per share.	Data is reliable as it is directly retrieved from the country's company law or commercial code.
Proxy by mail allowed (La Porta et al 1998)	Measures the level of legal investor protection represented by whether investors are allowed to mail their proxy votes to the firms.	Data is reliable as it is directly retrieved from the country's company law or commercial code.
Shares not blocked before the meeting (La Porta et al 1998)	Measures the level of legal investor protection represented by whether investors are required to deposit their shares prior to AGMs.	Data is reliable as it is directly retrieved from the country's company law or commercial code.
Cumulative voting allowed (La Porta et al 1998)	Measures the level of legal investor protection represented by whether investors are allowed to cast all their votes for one candidate only for the board of directors.	Data is reliable as it is directly retrieved from the country's company law or commercial code.
Oppressed minority (La Porta et al 1998)	Measures the level of legal investor protection represented by a direct measure of whether minority shareholders (own 10% of shares or less) have judicial rights to challenge the decisions of management.	Data is reliable as it is directly retrieved from the country's company law or commercial code.
Preemptive right to new issues (La Porta et al 1998)	Measures the level of legal investor protection represented by whether investors have first opportunity to buy new issues of stock to keep the same proportion of ownership.	Data is reliable as it is directly retrieved from the country's company law or commercial code.
Mandatory dividend (La Porta et al 1998)	Measures the level of legal investor protection represented by the percentage of income companies must distribute among ordinary shareholders.	Data is reliable as it is directly retrieved from the country's company law or commercial code.
Efficiency of the judicial system (Business	Proxy measure of the level of enforcement towards investor protection regulations represented by	La Porta et al. (1998) used and adapted this data from the Business International Corporation,

Indicator	Analysis of validity	Analysis of reliability
International Corporation adapted by La Porta et al 1998)	the level of efficiency of the legal environment affecting foreign firms.	which does not publish the technical aspects of measurement.
Rule of law (International Country Risk Guide adapted by La Porta et al 1998)	Proxy measure of the level of enforcement towards investor protection regulations represented by the level of law and order tradition of the country.	La Porta et al. (1998) used and adapted this data from the International Country Risk Guide, which does not publish the technical aspects of measurement.
Corruption (International Country Risk Guide adapted by La Porta et al 1998)	Proxy measure of the level of enforcement towards investor protection regulations represented by the level of corruption within the political system.	La Porta et al. (1998) used and adapted this data from the International Country Risk Guide, which does not publish the technical aspects of measurement.
Risk of expropriation (International Country Risk Guide adapted by La Porta et al 1998)	Proxy measure of the level of enforcement towards investor protection regulations represented by the risk of confiscation or forced nationalisation.	La Porta et al. (1998) used and adapted this data from the International Country Risk Guide, which does not publish the technical aspects of measurement.
Likelihood of contract repudiation by the government (International Country Risk Guide adapted by La Porta et al 1998)	Proxy measure of the level of enforcement towards investor protection regulations represented by the measure of the risk of change in contract due to budget cutbacks, change in government or other.	La Porta et al. (1998) used and adapted this data from the International Country Risk Guide, which does not publish the technical aspects of measurement.
BTI's Civil society indicator	Proxy indicator that measures the long-term presence of public or civic engagement, numerous and active NGOs, trust in institutions, social trust, and a civic culture of moderate participation (i.e., neither excessive nor nonexistent) in public life	The measure is compiled based on the responses of the country experts in relation to what extent they consider that there are traditions of civil society in the country. Two country experts and the regional coordinators review the indicators so as the calibrate responses.
% share ownership in the hands of majority shareholders	Direct measure of the ratio of majority shareholders in relation to the total assets under management in the country.	Measurement depends on the methodology employed in each country.

Indicator	Analysis of validity	Analysis of reliability
(National Statistics)		
Hofstede (1980) • Power distance • Uncertainty avoidance • Long-term orientation • Masculinity • Individuality	Indicators represent the differences in national culture in each culture.	The measurement was compiled based on a worldwide survey conducted with IBM subsidiaries. The reliability of the indicator is partly compromised because the use of a sample composed by IBM's employees to generalise to the whole country can be biased. However, the indicator is widely used in the academic literature.
% of followers of main religions (National Statistics)	Proxy measure of the level of influence of each religion in the country.	Measurement depends on the methodology employed in each country.
Amount of assets in custody (National Statistics)	Direct measure of the total amount of assets that were lent in a given year.	Measurement depends on the methodology employed in each country.
Turnover ratio of stocks traded (World Bank 2008)	Proxy measure of the level of short-termism of investment in the country.	The measure represents the total value of shares traded during the period divided by the average market capitalization for the period. The data is retrieved from Standard & Poor's, Emerging Stock Markets Factbook and supplemental S&P data.
Type of investor (question 2 of the PRI questionnaire)	Direct measure of percentage of investors per category	The measure is reliable as data is directly retrieved from the PRI signatories. Asset owners are divided into (i) non-corporate pension or superannuation or retirement or provident fund or plan; (ii) corporate pension or superannuation or retirement or provident fund or plan; (iii) insurance company; (iv) foundation or endowment; (v) development bank; (vi) reserve (sovereign or government controlled fund. Investment managers are divided into: (i) primarily invest directly in companies and other asset classes, not via funds; (ii) primarily perform investment research internally and provide list of eligible

Indicator	Analysis of validity	Analysis of reliability
		securities (or ineligible securities) to sub-advisors; (iii) primarily provide manager of managers, fund of funds or sub-advised products or investment strategies.
Size of investor (question 7 of the PRI questionnaire)	Level of total assets under management per signatory	Measured by assets under management of all the consolidated subsidiaries as of 31 December 2009. The measure is reliable as it is directly retrieved from the PRI signatories.
Nature of investment (question 8 of the PRI questionnaire)	Level of investment managed passively and level of investment managed actively, per signatory	The measure is reliable as data is directly retrieved from the PRI signatories. Passive and active investment are divided into internally and externally managed.
Type of investment (question 8 of the PRI questionnaire)	Percentage of each type of invest asset class, per signatory	The measure is reliable as data is directly retrieved from the PRI signatories. Asset classes are divided into: (i) listed equity from developed markets; (ii) listed equity from emerging markets; (iii) fixed income from sovereign, government and other non-corporate issuers; (iv) fixed income from corporate issuers; (v) private equity; (vi) listed real estate or property; (vii) non- listed real estate or property; (viii) hedge funds; (ix) commodities; (x) infrastructure; and (xi) cash.
Level of shareholder activism (question 17 of the PRI questionnaire)	Level of shareholder activism measured by the adoption of active ownership activities performed by the investor, external service provider or external investment manager, per signatory	Different active ownership activities are classified into (i) proxy voting on listed companies; (ii) file or co-file shareholder resolutions on listed companies; (iii) engagements on ESG issues with investees and potential investees; (iv) ownership and engagement activities focused on ESG issues. The measure is reliable as data is directly retrieved from the PRI signatories.
Level of voting (question 28 of the PRI questionnaire)	Level of shareholder activism measured by the level of votes cast directly or via third parties, per signatory	Votes cast are measured by ballot items or resolutions, meetings (AGMs, EGMs, etc) and listed assets under management. The measure is reliable as data is

Indicator	Analysis of validity	Analysis of reliability
		directly retrieved from the PRI signatories.
Level of shareholder resolutions (question 36 of the PRI questionnaire)	Level of shareholder activism measured by the number of filed or co-filed shareholder resolutions related to ESG issues, per signatory	This measure divides the number of shareholder resolutions into resolutions as lead filer and as co-filer, and as voted resolutions and withdrawn resolutions. The measure is reliable as data is directly retrieved from the PRI signatories.
Level of shareholder engagement (question 39 of the PRI questionnaire)	Level of shareholder engagement on ESG issues, per signatory	This measure classified shareholder engagement into extensive, moderate and basic engagement. The measure is reliable as data is directly retrieved from the PRI signatories.

Appendix 4

Project Module Supervisor Contact Sheet

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Meeting	Date	Issue
1	20/05/2010	General discussion about the dissertation approach
2	15/07/2010	Feedback literature review
3	29/07/2010	Feedback literature review Discussion about methodological approach
4	09/08/2010	Feedback literature review Discussion about methodology chapter
5	08/09/2010	Feedback methodology chapter

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