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Socially oriented shareholder activism targets: Explaining activists' corporate target selection using corporate opportunity structures

Abhijith G. Acharya
Singapore Management University, agacharya@smu.edu.sg

David GRAS
University of Tennessee, Knoxville

Ryan KRAUSE
Texas Christian University

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Socially Oriented Shareholder Activism Targets: Explaining Activists' Corporate Target Selection Using Corporate Opportunity Structures

Abhijith G. Acharya[1] · David Gras[2] · Ryan Krause[3]

Abstract
We examine whether and when socially oriented shareholder activists use firms' corporate social performance (CSP) to identify them as attractive targets for their activism. We build on the research in social movements theory and stakeholder theory to theorize how firms' engagement with primary and secondary stakeholders reflected in their technical and institutional CSP respectively allows socially oriented shareholder activists to identify targets. We develop a theoretical model by identifying corporate targets' degree of (1) receptivity to and (2) need to comply with activist demands as two key dimensions of their corporate opportunity structure that explains the variance in firms' attractiveness as targets for activist demands. We show that a firm's technical and institutional CSP independently affect the likelihood of activists targeting the firm. We also show that our model has greater explanatory power at firms with high resource slack and from activists not identifying as socially responsible investment funds. Analysis of CSP and shareholder proposals data of 992 U.S. public firms over an 8-year window of observation largely supports our theory.

Keywords Corporate opportunity structure · Corporate social performance · Stakeholder theory · Shareholder activism

Introduction

Organizations are embedded in a network of stakeholders. Organizational survival and performance are often aligned with how well they engage with and respond to stakeholders' varying demands (Godfrey et al., 2009; Cheng et al., 2014). Increasingly, scholars have been drawn to studying organizations' interactions with a particular class of stakeholders—activists. While activists range from employees and labor unions to social movement organizations and shareholders, and employ varied tactics including boycotts, public protests, lawsuits and proxy votes, they all share a common objective of exerting pressure on organizations to extract concessions to their demands on financial, social and environmental issues (Eesley et al., 2016; Briscoe & Gupta, 2016). Research has not only studied the different issues activists campaign for (Sine & Lee, 2009; Surroca et al., 2013) but also the effects of targets' responses on different financial and reputational outcomes (King & Soule, 2007; McDonnell & King, 2013).

Yet, research on a key aspect of firm-activist interaction—*how activists select the target organization*—remains limited. As launching an activism campaign tends to be an expensive endeavor with potential financial, social and reputational backlash, activists often evaluate the myriad factors that can make an organization a potent target. With its overwhelming focus on shareholder activism as a form of market discipline for poor financial performance (Karpoff et al., 1996; Ertimur et al., 2011), prior research has shown firm size and firm performance to be two key markers that often guide shareholder activists' choice of target (Goranova & Ryan, 2014). However, management scholars have recently

✉ Abhijith G. Acharya
agacharya@smu.edu.sg

✉ David Gras
dgras@utk.edu

Ryan Krause
r.krause@tcu.edu

1 Strategy and Organization Group, Lee Kong Chian School of Business, Singapore Management University, 50 Stamford Road, Stamford 178899, Singapore

2 Department of Management, Haslam College of Business, University of Tennessee, Knoxville, Knoxville, Tennessee 37996, USA

3 Management and Leadership Department, Neeley School of Business, Texas Christian University, Fort Worth, Texas 76109, USA

begun to draw on social movements theory to argue that social activists target firms that would be most receptive to their influence by invoking the concept of corporate opportunity structure – "the features of individual firms that make them more (or less) attractive to activists" (Briscoe et al., 2014, p. 1787).

As selecting an attractive target is important for the success of activist campaigns, we posit that corporate opportunity structure can benefit from a theoretical elaboration that encapsulates the dimensions of firms' instrumental and normative motivations to concede to activist demands. In this study, we integrate insights from stakeholder theory on firms' engagement with different types of stakeholders (e.g. Godfrey et al., 2009) with recent advances in social movements theory on social activism to present an elaborated model of corporate opportunity structure, which offers a better understanding of how activists select their target organizations. We contend that socially oriented shareholder activists are likely to identify their targets by examining (1) firms' self-interested or other-regarding orientation from their investments in engaging primary stakeholders (i.e. technical CSP), which captures firms' degree of receptivity, and (2) firms' normative and sociopolitical legitimacy from their investments in engaging secondary stakeholders (i.e. institutional CSP), which captures firms' need to comply with activist demands. Specifically, we predict that socially oriented shareholder activists are more likely to target firms with technical CSP and less likely to target firms with institutional CSP. Furthermore, we extend our model by identifying firms' slack resources and activist identity as two key boundary conditions that affect a target organization's attractiveness to activists.

We test our arguments in the context of interactions between firms that engage in corporate social performance (CSP)—defined broadly as the principles, processes, and outcomes that positively relate to an organization's societal relationships (Wood, 1991; Byron & Post, 2016)—and socially oriented shareholder activists. Specifically, we examine *whether and when socially oriented shareholder activists target firms based on their CSP*. As stakeholders vary in terms of power, legitimacy and urgency (Mitchell et al., 1997), firms often choose to engage with certain classes of stakeholders over others. Thus, firms' CSP due to their engagement with primary and secondary stakeholders reveals firms' underlying motivations, and in turn, variance in their receptivity and their need to comply with socially oriented shareholder activist demands. Thus, this is a fertile context to test our model. Using shareholder resolution data from S&P 1500 firms for the years 2002–2009, we find empirical support for most of our model.

This research makes several contributions to theory and practice. First, we address a significant limitation in extant research on firm-activist interaction by theoretically clarifying why socially oriented shareholder activists view certain firms as more attractive targets than others (Briscoe et al., 2014). We refine the construct of corporate opportunity structure by offering a theoretically grounded model that explains how socially oriented shareholder activists infer not only firms' receptivity to their demands but also firms' felt need to comply with their demands, which aids in their target selection process. Furthermore, by identifying key firm- and activist-level factors that act as boundary conditions, we highlight the limits of corporate opportunity structures. Second, we also contribute to research on the consequences of firms' investments in CSP. While the bulk of prior research has largely focused on either examining the relationship between CSP and corporate financial performance (CFP) (Waddock & Graves, 1997; Barnett & Salomon, 2006), or on the evaluations of other stakeholders such as the exchange partners, security analysts, or potential employees (Rupp et al., 2006; Cheng et al., 2014; Koh et al., 2014; Ioannou & Serafeim, 2015; Luo et al., 2015), we know little about how firms' CSP is perceived by shareholder activists. Notably, recent research shows that activist hedge funds view firms' CSR as a signal of wasteful use of resources to be minimized (e.g. DesJardine et al., In Press). By showing how and when CSP signals a potent corporate opportunity structure to activists, we highlight a hitherto underexplored consequence of firms' CSP and challenge this conventional thinking in prior research. Finally, by illuminating firm and activist attributes that make socially oriented shareholder activism more likely, we provide executives and boards with greater understanding of a phenomenon of great importance. Recent research shows that executives go so far as to engage in corporate political activity to prevent socially oriented shareholder activist resolutions from reaching a vote (Hadani et al. 2018). The insights revealed in the present research should help managers more effectively anticipate and respond to this growing concern.

We begin our theorizing by discussing the core tenets of socially oriented shareholder activism and corporate social performance. We then present a thorough discussion of the concept of corporate opportunity structure and highlight the limitations of extant research. In the subsequent sections, we offer our hypotheses by theorizing about the two dimensions of corporate opportunity structure based on technical and institutional CSP and the two boundary conditions that shape our arguments. We then provide the details of our methods of analysis. Finally, we conclude with the discussion of our results and their implications and contributions.

Theory and Hypotheses

Socially Oriented Shareholder Activism

Activism refers to shareholders' and/or stakeholders' efforts to influence firms' actions typically with the intent of pressuring firms to alter their existing practices. Scholars have focused on either shareholder activism or social activism, conceptualizing the former as financially motivated and the latter as socially motivated.

Shareholder activism research draws primarily from agency theory (Goranova & Ryan 2014), which posits that the separation of ownership and control enables agents to engage in actions that do not maximize the interests of the principals (Fama and Jensen 1983). As such, shareholder activism has been highlighted as one of the control mechanisms, which, through proposing and voting on resolutions, ensure managers steward organizational resources in shareholders' interests (Dalton et al., 2007). As early resolutions focused largely on "governance-based financial activism, seeking to improve governance structures and render managers more accountable to firm shareholders" (Goranova & Ryan, 2014, p. 1233), shareholder activism acted primarily as a monitoring mechanism for disciplining inefficient or poorly performing firms that were failing to adequately steward shareholder value. Thus, firm performance and firm size became the key markers for shareholder activists to target firms (Karpoff et al., 1996; Ertimur et al., 2011)

Social activism research is grounded in the key tenets of social movements theory and stakeholder theory (Briscoe & Gupta 2016). Unlike shareholder activists, social activists agitate for broader social change beyond just the target firms. As such, scholars have sought to understand how activists, "not just content with merely hoping that firms will address their needs, nor with simply threatening (explicitly or implicitly) to withdraw from their exchange relationships with firms" (Briscoe et al., 2014, p. 1786), bring about positive social change through pressure on management (Davis et al., 2005). Such studies have examined how stakeholder groups use varied tactics ranging from public campaigns and boycotts to lobbying, and shareholder resolutions (Sine & Lee, 2009; McDonnell & King, 2013; Eesley et al., 2016; Luo et al., 2015). As influencing corporate policies via activist campaigns tends to be a highly risky endeavor in terms of time, money and the potential backlash (King & Pearce, 2010), activists have been shown to examine the contextual conditions surrounding the target firm and mount an activism campaign when those conditions are likely to be more favorable to activists' causes (Soule, 2009). Yet, unlike with shareholder activism, the factors shown to affect social activists' target selection remain fragmented, lacking a coherent theoretical framework.

While research on shareholder and social activism has progressed along parallel paths, it is important to note here that these distinctions are not as clear cut as theory would suggest. Socially oriented shareholder activism offers an excellent context of activism transcending the distinctions in extant research. Socially oriented shareholder activism represents instances of shareholders, who scholars often describe as motivated purely by financial gain, using their ownership rights to advance social causes. Recent research shows that corporate leaders go to great lengths to avoid even having a shareholder vote on social issues (Hadani et al., 2018). However, as socially oriented shareholder activists seek to usher in broader social change, not only are the issues inherently diverse but they are also contingent on myriad factors that are likely to make such issues varyingly important to firms. In this study, we argue that a firm's CSP shapes socially oriented shareholder activism campaigns' target selection as it provides a very informative marker for the degree to which firms are likely to accommodate activists' demands.

Background on Corporate Social Performance (CSP)

Scholars have extensively studied how CSP affects various firm outcomes (David et al., 2007; Godfrey et al., 2009). While the bulk of early studies examined the relationship between CSP and CFP (Waddock & Graves, 1997; Barnett & Salomon, 2006), recent studies have shown that CSP not only leads to higher CFP but also yields improved firm reputation or brand image and insurance against future litigation (e.g., Koh et al., 2014; Luo et al., 2015). In this study, we examine whether firms' CSP makes them an attractive target for social activism by signaling firms' motivations to yield to activists' demands.

Research on stakeholder theory has acknowledged the inherent variance among the many stakeholders in terms of their urgency, legitimacy and power vis-à-vis the focal firm (Mitchell et al., 1997), as reflected in the theoretical classification of stakeholders as primary and secondary based on their urgency and power over the firm (Freeman et al., 2007). Recent research has labeled CSP pertaining to primary stakeholders as technical corporate social performance and CSP pertaining to secondary stakeholders as institutional corporate social performance (Mattingly & Berman, 2006; Godfrey et al., 2009). In the following sections, we discuss in detail this classification of technical CSP and institutional CSP and present our model of the corporate opportunity structure concept to predict how socially oriented shareholder activists differentially perceive firms' technical and institutional CSP as potent signals about the extent to which firms are likely to accommodate their demands.

Corporate Opportunity Structure

Scholars explain social activists' evaluation and selection process by drawing on the concept of political opportunity structure from the social movement literature, labeling it "corporate opportunity structure" in the context of advocating for corporate rather than political change (e.g., Briscoe et al., 2014). Defined as "consistent—but not necessarily formal or permanent—dimensions of the political environment that provide incentives for people to undertake collective action by affecting their expectations for success or failure" (Tarrow, 1994: 85), the concept of an opportunity structure was originally invoked to understand when and where social movements arise and eventually gain traction (e.g., Tilly, 1978). Thus, opportunity structures encapsulated any conditions that either facilitate or constrain the likelihood of movement success, including the industry, regulatory policies, and national context (Campbell, 1988; Meyer & Minkoff, 2004).

In the context of firms, scholars have argued that firm-level attributes act as important indicators suggestive of a corporate opportunity structure, which affects the degree to which social activists target the firm. For example, Briscoe et al. (2014) recently showed that employee activists are more likely to agitate to form lesbian, gay, bisexual and transgender employee groups in firms led by liberal CEOs than in firms led by conservative CEOs as the employees perceive liberal CEOs as more receptive to their efforts. The authors theorized that CEOs' political ideology acts as a corporate opportunity structure that signals firms' receptivity to employee activists' demands and thus, aid in their target selection.

While this work is a landmark study that shows the utility of the corporate opportunity structure concept to employee activists' target selection process, it stops short of offering a robust theoretical framework that can be utilized by social activists across contexts in selecting target firms. In the following sections, we theorize how socially oriented shareholder activists identify the target firms by examining firms' technical and institutional CSP (Godfrey et al., 2009), which highlights two dimensions of corporate opportunity structure.

Dimensions of Corporate Opportunity Structure

Research on social activism has invoked the concept of corporate opportunity structure primarily to convey the receptivity of target firms to activist demands, which informs social activists' target selection (King & Soule, 2007; Briscoe et al., 2014). However, as social activists' objective is often to seek a broader social impact beyond the directly targeted firm (Briscoe & Gupta, 2016), we posit that the receptivity dimension alone might not fully explain activists' target evaluation process.

We build on research on firms' engagement with different types of stakeholders to expand the dimensions of corporate opportunity structure. An organization's decision to engage with stakeholders is often a reflection of both the organization's—"beliefs, values, and practices that have evolved for solving stakeholder-related problems and otherwise managing relationships with stakeholders" (Jones et al., 2007, p. 142)—that captures their self-interested versus other-regarding orientation, and the organization's legitimacy—external perceptions of organizations' actions as "desirable, proper, or appropriate within some socially constructed system" (Suchman, 1995, p. 574). As such, we focus on how firms engage with their primary and secondary stakeholders that is reflected in firms' technical and institutional CSP to theorize that social activists' success is likely to be contingent on selecting target firms that meet two criteria. First, they are likely to target those firms that signal their receptivity to activist demands (as noted in prior research on corporate opportunity structure). Second, they are likely to target those firms that are seen as deserving of being targeted given their reputation for engagement with stakeholders such that not only do the target firms experience a need to comply with activist demands but also voluntarily leads even non-target firms acquiescing to activist demands (to the target firms). Below, we develop hypotheses about how socially oriented shareholder activists select their target firms by focusing on these two dimensions of corporate opportunity structure reflected in firms' technical and institutional CSP.

Technical CSP

Socially oriented shareholder activists are concerned primarily with advancing social change (David et al., 2007; Hadani et al., 2018). Accordingly, they are more likely to prefer targeting those firms that they believe are not likely to engage merely in symbolic actions but rather in substantive changes, which facilitates change beyond the targeted firm. We theorize that socially oriented shareholder activists are likely to discern firms' preferences for substantive versus symbolic actions and in turn, firms' receptivity to their demands by evaluating how firms manage their relationship with stakeholders.

Research notes that firms differ in the extent to which they embrace self-serving and other-regarding orientations, which affect their interactions with stakeholders. Specifically, firms face conflicting pressures of "traditional morality (obligation and duty, honesty and respect, fairness and equity, care and assistance) and market morality (self-interest)" in managing firms' relationships with stakeholders (Jones et al., 2007, p. 141). Reflecting these fundamental differences in firms' preferences, Jones and colleagues (2007) broadly categorize firms as self-interested economic actors, and other-regarding social actors (144–150). We posit that such a distinction manifests in firms' preferences to engage with different types of stakeholders and in turn, affect social activists' selection of target firms.

Firms with a self-interested orientation "emphasize short-term wealth maximization over the methods for doing so" (Waldron et al., 2013, p. 402), and "regard the interests of stakeholders as important only to the extent that these stakeholders can contribute to the firm's short-term success" (Jones et al., 2007, p. 147) because they "perceive social responsibility as an unavoidable cost of the societal legitimacy underpinning their firms' viability in markets" (Waldron et al., 2013, p. 402). In contrast, firms that embrace an other-regarding orientation "try to take stakeholder interests into account, even when doing so does not appear to be in their self-interest—short or long term" and thus display "concern for all stakeholders and adherence to principles regardless of economic temptations to discard them" (Jones et al., 2007, p. 149). These suggest that as social welfare forms a central aspect of other-regarding firms, they are more likely to respond to activism with substantive changes to their operations than self-interested firms (Jones et al., 2007; Waldron et al., 2013). However, self-interested firms are likely to respond with nominal changes; the least response necessary to prevent damage to the firm's standing without disrupting the firm's core business practices (Westphal & Graebner, 2010).

Given these, we predict that socially oriented shareholder activists will look to firms' treatment of primary stakeholders when evaluating potential targets firms. Primary stakeholders are a subset of firm stakeholders "who are central to the operation of the business," typically including customers, employees, suppliers, and shareholders (Hillman & Keim, 2001). In contrast, secondary stakeholders are those less central to business operations, such as communities, the media, the government, and those acting on behalf of the natural environment. A firm's dealings with primary stakeholders comprise the firm's day-to-day operations, and as such are likely to be key for firms' self-interested or other-regarding orientations (Waldron et al., 2013). Recent research has labeled CSP pertaining to primary stakeholders as technical corporate social performance and CSP pertaining to secondary stakeholders as institutional corporate social performance (Mattingly & Berman, 2006; Godfrey et al., 2009).

We argue that high technical CSP indicates firms' decisions to incorporate social priorities into their core functioning. High technical CSP tends to be costly, because unlike more philanthropic forms of CSP (e.g., charitable giving), technical CSP is a commitment to spend more on every employee hired or every product delivered. Therefore, a firm with high technical CSP likely to have an other-regarding orientation than a firm with low technical CSP. We argue that activist shareholders are likely to view high technical CSP as a signal of firms willing to engage in substantive action in response to their demands, and hence, a strong corporate opportunity structure for socially oriented shareholder activism. Thus, we predict that incidents of socially oriented shareholder activism will be higher at firms with high technical CSP than at firms with low technical CSP.

H1 Technical CSP is positively associated with subsequent socially oriented shareholder activism.

Institutional CSP

Socially oriented shareholder activists seek to gain a wider impact of their activism by aligning with changing practices across industries or economies than with correcting individual firm behavior (David et al., 2007; Briscoe et al, 2014). We argue that they can better achieve that goal by targeting those firms that are seen as deserving given their engagement with secondary stakeholders that is reflected in firms' institutional CSP. Such targeting is likely to result in social activists being seen as legitimate (Godfrey et al., 2009). Furthermore, to motivate non-target firms to voluntarily acquiesce to activist demands (to the targeted firm), we argue that activists must convince external observers "that the firm belongs to some morally disfavored taxonomic category" (Den Hond & De Bakker, 2007, p. 910), making non-target firms view the socially oriented shareholder activism as a potential threat to their legitimacy.

Defined as a generalized view that "the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574), legitimacy is pivotal to the growth and survival of organizations. In the current context, we posit that the degree to which external observers perceive firms as conforming to norms of social responsibility, which derives from both normative and sociopolitical legitimacy (Suchman, 1995; Bitektine, 2011; Waldron et al. 2013), affects firms' response to social activists' demands. We argue that to the extent firms' pre-existing normative and sociopolitical legitimacy is tenuous, they are likely to perceive activism as a threat to their legitimacy, and in turn, are more likely to respond to activists regardless of their self-interested or other-regarding orientation (Koh et al. 2014; Waldron et al. 2013). While a reputation for social performance is arguably more important to an other-regarding firm, social approval is still important for self-interested firms, whose purpose of responding to activism is to "signal managers' desire to *maintain* their firms' societal legitimacy" (Waldron et al., 2013, p. 404; emphasis added) given that stakeholders are likely to withdraw their engagement with firms they perceive as having low levels of normative and/or sociopolitical legitimacy (Suchman, 1995; Godfrey et al. 2009). Thus, we expect that firms with low levels of legitimacy attract more socially oriented shareholder activism than firms with high levels of legitimacy, as the former are more likely both to acquiesce and to prompt additional acquiescence from non-target firms.

We argue that firms with high levels of institutional CSP enjoy high levels of normative and sociopolitical legitimacy than their lower level peers. In contrast to firms' treatment of their primary stakeholders (i.e., technical CSP) that results in substantive actions by targeted firms, we contend that firms' treatment of their secondary stakeholders (i.e., institutional CSP) results in non-targeted firms voluntarily conceding to demands made to the target firms (Mattingly & Berman, 2006; Godfrey et al. 2009). Unlike technical CSP, institutional CSP has little bearing on how firms interact with their exchange partners and thus has little bearing on firms' other-regarding orientation. Instead, institutional CSP provides a visible and finite commitment to promoting social welfare outside firms' formal boundaries, which builds firms' moral capital (Godfrey et al., 2009). Examples of institutional CSP include environmental cleanup or human rights initiatives (Jayachandran et al., 2013).

Technical CSP represents a more-or-less open resource commitment to fostering relational rather than transactional exchange with primary stakeholders, because primary stakeholders are "infinitely greedy" (Campbell & Alexander, 1997, p. 44; Hillman & Keim, 2001). In contrast, institutional CSP represents a more fixed resource commitment not only because secondary stakeholders have specific, finite demands, but also because the purpose of building moral capital is to simply achieve a threshold level of legitimacy that will protect firms against possible threats (Koh et al., 2014). Indeed, while technical CSP increases the exchange value of primary stakeholder relationships, only institutional CSP protects a firm's legitimacy in the wake of a negative event (Godfrey et al., 2009). Thus, high institutional CSP predominantly reflects firms' normative and sociopolitical legitimacy, irrespective of their other-regarding or self-interested orientations. As firms with high institutional CSP are less likely to feel the need to improve their legitimacy by complying with activist demands, and the non-target firms are less likely to find socially oriented shareholder activism against such firms credible, we predict that socially oriented shareholder activists are less likely to target firms with high institutional CSP than firms with low institutional CSP. Thus, we hypothesize:

H2 Institutional CSP is negatively associated with subsequent socially oriented shareholder activism.

Boundary Conditions

Thus far, we have presented arguments to highlight the two key dimensions of the corporate opportunity structure concept that encapsulates firms' instrumental and normative motivations to acquiesce to activist demands, which in turn makes such firms an ideal target firm for socially oriented shareholder activists. In the following sections, we identify resource slack and activist identity as two key factors that can affect the explanatory power of the corporate opportunity structure framework and develop hypotheses about their effects on the likelihood of socially oriented shareholder activism.

Resource Slack

Though firms with differing technical and institutional CSP may be motivated to entertain socially oriented shareholder activist demands, not all firms are equally equipped to act on that motivation. Firms often operate under significant resource constraints (Hillman et al., 2009), which can limit their ability to accommodate varied demands on resource allocation. As such, we argue that in evaluating the attractiveness of target firms, socially oriented shareholder activists should not only consider the potential target firms' motivations to acquiesce to their demands but also consider the ability to respond as captured by the availability of slack resources.

Complying with social activists' demands typically requires significant resource allocation. The availability of fungible resources affects the likelihood of managers' compliance. The term "resource slack" refers to "resources held by the firm that can provide a buffer against economic turbulence, provide funds for adaptation or finance strategic investments" (Martin et al., 2016, p. 10). Scholars have regularly argued that the buffer created by resource slack enables managers to allocate resources to projects that deviate from or otherwise fall outside the scope of normal day-to-day business (e.g. March & Simon, 1958). Slack resources allow firms to experiment with new technologies or new product markets (Voss et al., 2008), focus on longer-term objectives (Mishina et al., 2004) and engage in more socially responsible activities (Waddock & Graves, 1997). As such, slack resources facilitate deviation and expansion from a firm's day-to-day operations.

Thus, while socially oriented shareholder activists may assess firms as ideal targets that not only engages in substantive actions but also aids in the compliance of non-target firms due to their technical and institutional CSP respectively, the extent to which those dimensions actually create an opportunity structure for socially oriented shareholder activism depends on the firm's slack resources. For firms with high resource slack, shareholder activists can expect a firm with high technical CSP and low institutional CSP to respond substantively to socially oriented shareholder activism, allocating some of its slack resources to redressing the shareholders' grievances. Similarly, a firm with high resource slack, but with low technical CSP and high institutional CSP has the capacity to respond, but not the motivation. In contrast, for firms with low resource slack, the opportunity structure created by high technical CSP and low institutional CSP is reduced, because managers lack the capacity to substantively respond even though they have the motivation. Thus, when resource slack is low, activists are not likely to perceive much difference in opportunity structure based on either technical or institutional CSP. Accordingly, the effect of technical CSP and institutional CSP on socially oriented shareholder activism should manifest most strongly at firms with high resource slack.

H3 Resource slack strengthens the positive relationship between technical CSP and subsequent socially oriented shareholder activism.

H4 Resource slack strengthens the negative relationship between institutional CSP and subsequent socially oriented shareholder activism.

Activist Identity

Thus far, we have theorized that socially oriented shareholder activists are guided by similar motivations in launching their campaigns against companies (Briscoe & Gupta, 2016). In this section, we acknowledge the inherent variance among socially oriented shareholder activists' motivations to target companies as different types of shareholders including religious organizations, unions, individual investors, pension funds, and socially responsible investment funds engage in socially oriented shareholder activism (Goranova & Ryan, 2014; Tkac, 2006), and therefore, explore factors other than the likelihood of success as driving their decision to target firms with their demands.

Drawing on organizational identity research, which posits that organizations' actions reflect how they conceive of themselves (Ashforth & Mael, 1989), we contend that shareholders for whom social issue activism forms the core of their identity, specifically the socially responsible investment funds, base the decision to target a firm with socially oriented shareholder activism less on the likelihood of success at an individual firm, and more on the need to reinforce their identity. Based on attributes that are "central, distinctive, and enduring" (Albert & Whetten, 1985, p. 265), organizational identity guides organizations' motivations and the actions they take (Livengood & Reger 2010, p. 49). March & Olsen, (2004, p. 3) note that action guided by a logic of identity reflects a "relatively complicated cognitive process involving thoughtful, reasoning behavior; but the processes of reasoning are not primarily connected to the anticipation of future consequences as they are in most contemporary conceptions of rationality."

Socially responsible investment funds differ from the other types of shareholder activists in that social activism is their *modus operandi*, and is intimately linked to their organizational identity as an investment fund. The most frequent source of socially oriented shareholder activism proposals, religious organizations, identify far more broadly (Tkac, 2006). Presumably, even the fund managers responsible for engaging in socially oriented shareholder activism on behalf of the Catholic Church would not list corporate activism as the Church's primary objective. Religious groups' socially oriented shareholder activism objective is to enact real change at specific organizations. Similarly, unions largely focus on improving conditions for their own members, meaning the likelihood of success is an important condition for engaging in socially oriented shareholder activism.

Socially responsible investment funds engage in "in shareholder activism as a business, and this motivation distinguishes this group from the others" (Tkac, 2006, p. 6). While the ability to effect material change likely feeds into their identity and their value proposition to fund investors, socially responsible investment funds face an imperative to engage in socially oriented shareholder activism as an end in itself. Socially oriented shareholder activism proposals rarely achieve majority shareholder support, so corporate policy changes usually occur indirectly as a result of the pressure placed on managers. Socially responsible investment funds certainly welcome such changes, but the indirect linkage between socially oriented shareholder activism and policy change makes it difficult for socially responsible investment funds to present corporate policy changes as successes to their investors. In contrast, they can easily point to frequent use of socially oriented shareholder activism as justification for their investment. Ethically minded investors flock to socially responsible investment funds in part because of the funds' socially oriented shareholder activism activity; "shareholder activism is part of the service being sold by these funds" (Tkac, 2006, p. 6). Thus, socially responsible investment funds can reinforce their identities through socially oriented shareholder activism, itself, regardless of the activism's likelihood of success.

We argue that shareholder activists whose core identities revolve around socially oriented shareholder activism are less likely to target firms based on corporate opportunity structure. Because social activism is central to socially responsible investment funds' identity in a way that it may not be for the other major shareholder activist groups, socially responsible investment funds will be more likely than the other groups to engage in socially oriented shareholder activism even if the prospects for policy change are weak. The very act of engaging in socially oriented shareholder activism serves a core purpose for socially responsible investment funds in a way that it does not for religious organizations or other types of activists. Thus, we propose the following hypotheses.

H5: Socially responsible investment funds driven activism weakens the positive relationship between technical CSP and subsequent socially oriented shareholder activism

H6: Socially responsible investment funds driven activism weakens the negative relationship between technical CSP and subsequent socially oriented shareholder activism

Methods

The data for this study were drawn from the Kinder, Lydenberg, Domini, and Company (KLD), ISS (formerly RiskMetrics) Shareholder Proposals, Corporate Library, Execucomp, and Compustat databases. KLD is the most widely used data on corporate social performance (David et al., 2007). KLD data are drawn from multiple sources including annual reports, annual surveys, proxy statements, news articles, reports by third parties and academic articles. Firms are rated on several categories including employee relations, products, community relations, environmental performance, diversity issues, and human rights issues. Within each category, KLD identifies "strengths" and "concerns", for which every firm is given a score of "1" or "0" based on the presence or absence of the strength or concern, respectively. The ISS Shareholder Proposals database details resolutions proposed by shareholders. Financial data were drawn from the COMPUSTAT database, and governance data were drawn from the Corporate Library and Execucomp databases. We matched available data on 992 firms and 6,540 firm-year observations across these databases between the years 2002 and 2009. We selected this window of observation for two primary reasons. First, KLD's coverage of firms and measures employed changed substantially in 2002 and even more so in 2010, while remaining relatively stable in between (Hart & Sharfman, 2015). Specifically, in 2002 KLD expanded coverage to roughly three times the number of firms previously covered. In 2010, ownership and management of KLD had changed hands, along with a considerable alteration to KLD's inventory of variables (e.g., Chin et al., 2013). Second, this window of observation (or very proximal ones) is pervasive in the literature, even among recent works (e.g., Gras & Krause, 2020). As such, employing a similar time frame allows us to make direct comparisons and extensions to extant work on the subject.

Dependent Variables

The first dependent variable in this study is firm-level *socially oriented shareholder activism*, used in Hypotheses 1–4. Examples of socially oriented proposals in the dataset include calls for the adoption of anti-discrimination policies, the production of a report on the firm's human rights record, and implementation of International Labor Organization standards. In order to capture socially oriented shareholder activism, we created a count variable for the number of socially oriented proposals in each firm-year observation. We then adjusted this count by the industry average. Industry-adjusting the count offers two benefits. First, it accounts for any industry-specific variance in the dependent variable (Sharp et al., 2013). Second, it makes the dependent variable continuous and normally distributed, enabling the use of more straightforward types of analysis (Greene, 2008). We industry-adjusted the socially oriented shareholder activism count by subtracting the mean number of socially oriented shareholder activism proposals across all firms in the same 2-digit SIC category and year.

The second and third dependent variables in this study are socially oriented shareholder activism initiated by socially responsible investment funds and socially oriented shareholder activism initiated by non-socially responsible investment funds. For each proposal, ISS identifies the sponsor by a type. The most common types include socially responsible investment funds, unions, traditional investment funds, individuals, and religious organizations. Socially oriented shareholder activism by socially responsible investment funds is operationalized through a count of the number of socially oriented shareholder activism proposals initiated by socially responsible investment funds, and socially oriented shareholder activism by non-socially responsible investment funds is the count of the remaining socially oriented shareholder activism proposals in each firm-year. Both counts were industry-adjusted within 2-digit SIC category and year. To establish causal priority, all dependent variables were measured one year subsequent to predictor variables. We also Winsorized all dependent variables at the highest and lowest one percent of values to mitigate the potential influence of outliers.

Independent Variables

CSP is commonly measured by subtracting concerns from strengths in the KLD categories of community, diversity, employee relations, environment, corporate governance, human rights, and product (e.g. David et al., 2007). Strengths capture firm actions perceived to increase social welfare (e.g. philanthropic donations), whereas concerns capture firm actions perceived to decrease social welfare (e.g., safety violations). Our first independent variable, used in Hypotheses 1, 3, and 5 is *technical CSP*. Consistent with prior research (Godfrey et al., 2009), we operationalize technical CSP through an additive measure of firm strengths minus concerns in the KLD categories of Employee Relations and Product, given the continual economic exchanges with employees and customers. The second independent variable, used in Hypotheses 2, 4, and 6, is *institutional CSP*. We operationalize institutional CSP through an additive measure of firm strengths minus concerns in the KLD categories of Community, Diversity, Environment, and Human Rights, which fit the conceptual definition of institutional CSP, given that the focal stakeholders in these categories are not engaged in regular exchange with the organization (Godfrey et al., 2009; see also Jayachandran et al., 2013).

Our moderator variable, used in testing Hypotheses 3 and 4, is *Resource Slack*. Resource slack consists of resources that are liquid and available for making strategic investments (Greenley & Oktemgil, 1998). We operationalized resource slack as the total of firm's cash and short-term securities (Martin et al., 2016). This variable is logged due to its magnitude, and mean-centered prior to analysis to reduce collinearity.

Control Variables

Following prior research (Russo & Fouts, 1997; McWilliams & Siegel, 2000), we control for several factors linked to both CSP and activism including R&D intensive operationalized as expenditures on R&D divided by revenue, advertising intensity operationalized as advertising expenditures divided by revenue (e.g., McWilliams & Siegel, 2000), capital intensity measured as the ratio of assets to sales (Russo & Fouts, 1997), and firm's debt ratio operationalized as the book value of long-term debt to total book value of stockholders' equity in order to capture a firm's financial risk (Graves & Waddock, 1994). We control for firm size captured by firm assets (logged), firm performance captured as the return on assets (ROA) (Goranova & Ryan, 2014), *Total Shareholder Returns* calculated as the market value of the firm (share price multiplied by shares outstanding) plus dividends, divided by the previous year's market value.

We further control for the strength of the firm's corporate governance mechanisms, as firms with lax governance are potentially more likely to garner attention from shareholder activism. We identify if the board is chaired by (a) a CEO/chair (omitted category in models), (b) a *former CEO chair*, or (c) an *independent chair* (Krause & Semadeni, 2013). *Board independence* is calculated as the ratio of independent outside directors to total board members (Dalton et al., 1998). *CEO incentive pay* is the percentage of total CEO compensation that is incentive-based. *CEO ownership* is the percentage of shares outstanding that are owned by the CEO. As our data are a panel of multiple firms across multiple years, we also include year dummies to account for macroeconomic conditions (Certo & Semadeni, 2006).

Estimation Methods

We used the generalized estimating equations (GEE) method developed by Liang & Zeger (1986) to test Hypotheses 1–4. This modeling procedure effectively accounts for both unobserved differences among firms and intertemporal non-independence (Henderson et al., 2006). GEE requires the specification of a link function, a distribution family, and an error correlation structure (Ballinger, 2004). As our dependent variable is normally distributed and continuous, we specified a Gaussian distribution family and identity link function. With our relatively limited observation window and the absence of auto-correlation, we chose an interchangeable error correlation structure.

Testing Hypotheses 5 and 6 required a method capable of empirically testing the differences in coefficients across two models predicting two different dependent variables. Specifically, we require the capability of testing whether the coefficient for technical CSP (institutional CSP) predicting socially oriented shareholder activism by socially responsible investment funds is statistically stronger or weaker than the coefficient for technical CSP (institutional CSP) predicting socially oriented shareholder activism initiated by non-socially responsible investment funds. Seemingly unrelated regression (SUR) offers the ability to simultaneously model two equations and to run post-hoc Wald tests to compare the coefficients (Zellner, 1962). Thus, we use SUR to test Hypotheses 5 and 6.

Results

Table 1 presents the means, standard deviations, and correlations for the variables of interest. Table 2 includes a controls-only model (Model 1), separate models including each of technical CSP and institutional CSP (Models 2 and 3), a model with technical CSP and institutional CSP together (Model 4), separate models for interactions between technical CSP and slack (Model 5) and institutional CSP and slack (Model 6), and a full model that includes all of the above (Model 7). Table 3 includes the results from our SUR models. The control equations for our two dependent variables (socially oriented shareholder activism by non-socially responsible investment funds and socially oriented shareholder activism by socially responsible investment funds) were simultaneously calculated and are presented in Model 8. The full models were simultaneously calculated and are presented in Model 9.

Hypothesis 1 predicts that technical CSP is positively associated with subsequent socially oriented shareholder activism. As presented in Model 2, the coefficient for technical CSP is positive and significant ($\beta = 0.01$, $p < 0.05$). The coefficient for technical CSP in Model 4 (which also includes institutional CSP) corroborates this result ($\beta = 0.02$, $p < 0.05$). Thus, we find we find support for the positive relationship between technical CSP and socially oriented shareholder activism. Hypothesis 2 predicts that institutional CSP is negatively associated with subsequent socially

Table 1 Descriptive statistics and correlations among variables of interest

		Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
(1)	SOSA[c]	0.05	0.80	–																
(2)	SRIF[b] SOSA[c]	0.02	0.40	0.75	–															
(3)	Non-SRIF[b] SOSA[c]	0.02	0.56	0.89	0.38	–														
(4)	Technical CSP	0.32	2.03	0.12	0.15	0.07	–													
(5)	Institutional CSP	−0.20	1.43	−0.08	−0.03	−0.10	0.26	–												
(6)	Slack[a]	5.62	1.82	0.37	0.27	0.33	0.28	0.05	–											
(7)	Size[a]	8.57	1.55	0.34	0.26	0.30	0.11	0.11	0.34	–										
(8)	Performance	0.05	0.08	0.05	0.08	0.02	0.09	0.03	0.00	−0.07	–									
(9)	TSR	0.11	0.42	− 0.02	− 0.01	− 0.02	− 0.04	− 0.06	− 0.04	− 0.03	0.16	–								
(10)	R&D Int.	0.03	0.08	0.00	0.01	0.00	0.17	0.14	0.23	− 0.05	− 0.15	0.01	–							
(11)	Adv. Int.	0.01	0.02	0.07	0.08	0.05	0.16	0.16	0.13	0.01	0.08	− 0.01	0.05	–						
(12)	Capital Int.	2.77	8.09	0.01	0.01	0.00	0.03	0.05	0.06	0.19	− 0.14	− 0.05	− 0.04	−0.02	–					
(13)	Debt ratio	0.48	12.21	− 0.02	0.00	− 0.03	0.00	0.00	− 0.01	0.01	0.03	− 0.01	− 0.01	−0.02	0.01	–				
(14)	Former CEO	0.21	0.41	− 0.04	− 0.03	− 0.03	0.01	0.07	− 0.01	− 0.04	0.03	− 0.03	0.02	0.00	− 0.04	− 0.01	–			
(15)	Independent	0.13	0.34	− 0.06	− 0.06	− 0.04	− 0.03	0.01	− 0.06	− 0.01	− 0.10	− 0.05	0.06	0.02	0.05	0.02	− 0.21	–		
(16)	Board ind.	0.73	0.14	0.05	0.03	0.04	0.08	− 0.04	0.10	0.04	− 0.01	− 0.08	0.01	− 0.03	0.00	0.03	− 0.24	0.09	–	
(17)	Incent. pay	0.78	0.19	0.13	0.11	0.11	0.09	0.01	0.26	0.13	0.11	0.07	0.03	0.02	− 0.02	0.03	− 0.05	− 0.05	0.14	–
(18)	Ownership	0.01	0.03	− 0.06	− 0.06	− 0.05	− 0.06	0.02	− 0.04	− 0.04	− 0.01	− 0.08	− 0.02	0.04	− 0.01	0.00	− 0.04	− 0.03	− 0.10	− 0.10

Correlations above absolute value of 0.03 significant at the $p < 0.05$ level

n = 3751; Year variables omitted for the sake of parsimony

[a]Mean and SD are logged values

[b]*SRIF* socially responsible investment fund

[c]*SOSA* socially oriented stakeholder activism

Table 2 GEE models predicting socially oriented shareholder activism

	Model 1 β (SE)	Model 2 β (SE)	Model 3 β (SE)	Model 4 β (SE)	Model 5 β (SE)	Model 6 β (SE)	Model 7 β (SE)
Size	0.12***	0.12***	0.13***	0.13***	0.13***	0.13***	0.13***
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Performance	0.19	0.17	0.21	0.19	0.19	0.19	0.19
	(0.13)	(0.13)	(0.13)	(0.13)	(0.13)	(0.13)	(0.13)
TSR	−0.05*	−0.05*	−0.06*	−0.05*	−0.05*	−0.05*	−0.05*
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
R&D Intensity	−0.36+	−0.39*	−0.32+	−0.36+	−0.38*	−0.34+	−0.36+
	(0.19)	(0.19)	(0.19)	(0.19)	(0.19)	(0.19)	(0.19)
Adv. Intensity	−0.38	−0.50	−0.14	−0.25	−0.26	−0.19	−0.19
	(0.84)	(0.84)	(0.83)	(0.83)	(0.83)	(0.83)	(0.82)
Capital Intensity	−0.00	−0.00	−0.00	−0.00	−0.00	−0.00	−0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Debt Ratio	−0.00**	−0.00**	−0.00**	−0.00**	−0.00**	−0.00**	−0.00**
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Former CEO	−0.06*	−0.06*	−0.05+	−0.05+	−0.05+	−0.05+	−0.05
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Independent	−0.06	−0.06	−0.05	−0.05	−0.05	−0.05	−0.04
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Board Indep.	−0.02	−0.02	−0.02	−0.03	−0.02	−0.02	−0.02
	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)
Incentive Pay	0.07	0.07	0.07	0.07	0.07	0.07	0.07
	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
Ownership	−0.53	−0.52	−0.52	−0.50	−0.49	−0.52	−0.52
	(0.35)	(0.35)	(0.35)	(0.35)	(0.35)	(0.35)	(0.35)
Slack	0.08***	0.08***	0.08***	0.08***	0.07***	0.07***	0.07***
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Technical CSP		0.01*		0.02*	0.01	0.02*	0.01
		(0.01)		(0.01)	(0.01)	(0.01)	(0.01)
Institutional CSP			−0.03**	−0.03**	−0.04**	−0.02	−0.02
			(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Technical CSP X slack					0.01**		0.01**
					(0.00)		(0.00)
Institutional CSP X slack						−0.02**	−0.02**
						(0.00)	(0.01)
Wald χ^2	196.99***	201.66***	209.59***	217.10***	230.66***	228.96***	249.84***
Δ Wald χ^2		4.67*	12.60***	20.11***	13.56***	11.86***	32.74***

+ p < 0.10

*p < 0.05

**p < 0.01

***p < .001

n=3751

Significance tests are two-tailed

Year dummies omitted for parsimony

oriented shareholder activism. As presented in Model 3, the coefficient for institutional CSP is negative and significant ($\beta = -0.03$, $p < 0.01$). The coefficient for institutional CSP in Model 4 corroborates this result ($\beta = -0.04$, $p < 0.01$). Thus, we find support for the negative relationship between institutional CSP and socially oriented shareholder activism.

Support for Hypothesis 1 and Hypothesis 2 suggests that strongest socially oriented shareholder activism target is the

Table 3 SUR models predicting socially oriented shareholder activism by socially responsible investment fund and non-socially responsible investment fund

	Model 8		Model 9	
	DV: Non-SRIF	DV: SRIF	DV: Non-SRIF	DV: SRIF
	β (SE)	β (SE)	β (SE)	β (SE)
Size	0.10***	0.07***	0.11***	0.07***
	(0.01)	(0.01)	(0.01)	(0.01)
Performance	0.14	0.37**	0.19+	0.35**
	(0.11)	(0.08)	(0.11)	(0.08)
TSR	−0.04+	−0.02	−0.05*	−0.02
	(0.02)	(0.02)	(0.02)	(0.02)
R&D intensity	−0.35**	−0.09	−0.20+	−0.08
	(0.11)	(0.08)	(0.11)	(0.08)
Adv. intensity	0.35	0.81**	0.85*	0.86**
	(0.40)	(0.29)	(0.40)	(0.29)
Capital intensity	−0.00**	−0.00*	−0.00**	−0.00*
	(0.00)	(0.00)	(0.00)	(0.00)
Debt ratio	−0.00*	0.00	−0.00*	0.00
	(0.00)	(0.00)	(0.00)	(0.00)
Former CEO	−0.04+	−0.03+	−0.02	−0.02
	(0.02)	(0.02)	(0.02)	(0.02)
Independent	−0.03	−0.05*	−0.03	−0.04*
	(0.03)	(0.02)	(0.03)	(0.02)
Board indep.	0.01	−0.01	−0.01	−0.03
	(0.06)	(0.05)	(0.06)	(0.05)
Incentive pay	0.04	0.03	0.04	0.03
	(0.05)	(0.04)	(0.05)	(0.03)
Ownership	−0.47	−0.62**	−0.41	−0.56**
	(0.29)	(0.21)	(0.29)	(0.21)
Slack	0.08***	0.04***	0.08***	0.04***
	(0.01)	(0.00)	(0.01)	(0.00)
Technical CSP			0.00	0.02**
			(0.00)	(0.00)
Institutional CSP			−0.06**	−0.02**
			(0.01)	(0.00)
Wald χ^2	693.66**	516.96**	789.90**	564.80**
Δ Wald χ^2			96.24**	47.84**

* p < 0.05

**p < 0.01

***p < .001

+ p < 0.10

n=3751

Significance tests are two-tailed

Year dummies omitted for parsimony

firm with high technical CSP and low institutional CSP and the weakest socially oriented shareholder activism target is the firm with low technical CSP and high institutional CSP, with the remaining combinations in the middle. Our results support this expectation. The predicted value for industry-adjusted socially oriented shareholder activism for a firm with technical CSP one standard deviation above the mean and institutional CSP one standard deviation below the mean is 0.12. Conversely, the predicted value for a firm with technical CSP one standard deviation below the mean and institutional CSP one standard deviation above the mean is −0.05. Firms that are high on both dimensions have a predicted value of 0.02, and firms that are low on both dimensions have a predicted value of 0.04. These predicted values provide further support to our underlying theory.

Hypothesis 3 predicts that resource slack strengthens the positive relationship between technical CSP and subsequent socially oriented shareholder activism. Model 5 shows that the coefficient for the interaction term between technical CSP and slack is positive and significant (β = 0.01, $p < 0.01$), supporting Hypothesis 3. The full model, Model 7, also shows a positive and significant effect for the interaction term (β = 0.01, $p < 0.01$). Hypothesis 4 predicts that resource slack strengthens the negative relationship between institutional CSP and subsequent socially oriented shareholder activism. Model 6 shows that the coefficient for the interaction term between institutional CSP and slack is negative and significant (β = −0.02, $p < 0.01$), supporting Hypothesis 4. The full model, Model 7, shows the same (β = −0.02, $p < 0.01$).

Hypothesis 5 predicts that the positive relationship between technical CSP and subsequent socially oriented shareholder activism is weaker for socially oriented shareholder activism initiated by socially responsible investment funds than by other types of activist shareholder. We employ seemingly unrelated regression to compare the coefficients of technical CSP and institutional CSP across equations with different dependent variables (socially oriented shareholder activism by socially responsible investment funds versus socially oriented shareholder activism by non-socially responsible investment funds). As shown in Model 9, and contrary to our prediction, the coefficient for technical CSP predicting Non-socially responsible investment fund socially oriented shareholder activism (β = 0.00) is lower than that predicting socially responsible investment fund socially oriented shareholder activism (β = 0.02). The Wald test confirms that the coefficients are significantly different (χ^2 =8.48, $p < 0.01$). Thus, Hypothesis 5 is not supported, and in fact, the opposite relationship is supported.

Hypothesis 6 predicts the negative relationship between institutional CSP and subsequent socially oriented shareholder activism is weaker for socially oriented shareholder activism initiated by socially responsible investment funds than by other types of activist shareholder. As shown in Model 9, the coefficient for institutional CSP predicting socially oriented shareholder activism from socially responsible investment fund ($\beta = -0.02$, $p < 0.01$) is lower than for the coefficient predicting socially oriented shareholder activism from non-socially responsible investment fund (−0.06; $p < 0.01$). The Wald test confirms that the coefficients differ significantly ($\chi^2 = 23.21$, $p < 0.01$). Thus, we find support for Hypothesis 6.

Addressing Possible Endogeneity

We acknowledge concern about endogeneity, possibly due to reverse-causality or omitted variables bias. Thus, we conducted the Durbin-Wu-Hausman test (Baum, 2006). The instruments for such a test should be (1) strong (i.e. predictive of the instrumented variable) and (2) exogenous (i.e. only indirectly related to the dependent variable through the instrumented variable) (Semadeni et al., 2014). We instrumented technical CSP and institutional CSP with the mean level of overall CSP in an industry (determined by two-digit SIC codes) and the firm's R&D intensity. As the industry mean is naturally exogenous (e.g. Germann et al., 2015), it is a commonly accepted instrumentation method, and prior research has indicated that firms with higher R&D intensity also tend to exhibit higher CSP (e.g. Padgett & Galan, 2010). Therefore, we consider these two instruments theoretically justified.

Each instrument positively and significantly predicts both technical CSP ($F = 29.61$, $p < 0.001$) and institutional CSP ($F = 53.40$, $p < 0.001$), exhibiting F scores well above acceptable thresholds for instrument strength (Semadeni et al., 2014). The Sargan test revealed that the instruments are exogenous in instrumenting both technical CSP ($\chi^2 = 1.42$, $p = 0.23$) and institutional CSP ($\chi^2 = 1.65$, $p = 0.20$). The results of the Durbin-Wu-Hausman tests suggest that the null hypothesis of exogeneity could not be rejected for either technical CSP ($F = 0.27$, $p = 0.60$) or institutional CSP ($F = 0.05$, $p = 0.82$). Thus, we found no evidence that endogeneity was a concern in our models. Notably, even though endogeneity is not biasing our models, the effects of the independent variables on socially oriented shareholder activism retained their direction, magnitude, and significance in the instrumented models.

Post-Hoc Tests

We conducted additional tests to explore the robustness and validity of our findings. First, we checked our models for the presence of multicollinearity. The mean VIFs were all below 1.5, and the highest VIF was below 2.6, suggesting that multicollinearity is not a concern. Second, whereas in our original models we lagged our predictors one year behind our dependent variables, we were concerned that a year might be too much temporal distance between hypothesized cause and effect. As such, we ran our models with concurrent independent and dependent variables, and obtained nearly identical results. Third, we substituted number of employees to measure firm size and ROE to measure firm performance. The coefficients and significance levels remained equivalent. Lastly, we explored the possibility of curvilinear effects by including squared terms of our independent variables in the models; they produced insignificant results, suggesting that the relationships we found were not curvilinear.

Discussion

Scholars have long sought to understand the relationships firms have with their stakeholders. Increasingly, research has focused on studying how various stakeholders including employees, shareholders, and social activists engage in activism to bring about changes in the firms they target, and the heterogeneity in firms' responses to such activism (Waldron et al., 2013; Briscoe & Gupta, 2016). Yet, our understanding of how social activists select their target organizations remains limited. In this study, we sought to address this issue by invoking the concept of corporate opportunity structure from the social movements theory and offering a more nuanced theoretical grounding of the construct.

We began developing our arguments around a key tenet of social movement theory, which is that activists are more likely to target those companies that signal their receptivity to activist demands, thereby increasing the corporate opportunity structure for activism (Briscoe et al., 2014). As socially oriented shareholder activists are more likely to be motivated to bring about social changes beyond merely the targeted firm than to improve financial performance, we posited that they are likely to target those firms where they perceive the greatest likelihood of success. Yet, as firms' actions are often a function of both internal preferences of managers and their responses to external pressures (Livengood & Reger, 2010; Chin et al., 2013), we argued that mere receptivity of firms to activist demands fails to capture their proclivities in response to external pressures.

As such, we drew on recent conceptual discussions (Jones et al., 2007; Waldron et al., 2013) to develop two salient dimensions of corporate opportunity structure by theorizing about the role of firms' technical CSP (i.e. their interactions with primary stakeholders), which reflects their receptivity to activist demands and institutional CSP (i.e. their interactions with secondary stakeholders), which reflects firms' normative and sociopolitical legitimacy shaping their need to comply (e.g., Godfrey et al., 2009). Specifically, we argued that social activists are likely to discern firms' self-interested or other-regarding orientation from their investments in engaging primary stakeholders (i.e. technical CSP), and to discern firms' normative and sociopolitical legitimacy from their investments in engaging secondary stakeholders (i.e. institutional CSP). We predicted technical CSP to be associated with higher socially oriented shareholder activism and institutional CSP with lower socially oriented shareholder activism, and our results supported these predictions.

These results have significant implications for future research on social activism. By showing the differential effects firms' receptivity and need-to-comply have on the likelihood of being targeted with socially oriented shareholder activism, we offer theoretical clarity to the concept of corporate opportunity structure. Furthermore, the two dimension we offered suggest that when socially oriented shareholder activists target firms, they need not be passive actors at the receiving end of activism, but rather, can be proactive in managing their engagements with different stakeholders by being cognizant of the signals such engagements convey. Finally, these results temper the emerging narrative about the many different favorable outcomes of engaging in socially responsible behavior by featuring a unique context where such engagements may engender subsequent activism.

We also identified firms' slack resources as an important boundary condition that shapes the relationship between our proposed opportunity structure and subsequent socially oriented shareholder activism. Arguing that the availability of slack resources allows firms to invest in social issues, and as such, aids them to act on their receptivity to and need to comply with activist demands, we predicted that the greater the slack resources firms have, the stronger the effect of technical CSP and institutional CSP on socially oriented shareholder activism. Our results support Hypotheses 3 and 4, and show how firms' slack resources affects activists' proclivity to launch socially oriented shareholder activism campaigns.

Finally, we examined how activist identity as a key motivating factor that guides socially oriented shareholder activists' activism efforts. We argued that those activists whose identities are tightly coupled with the causes they espouse, such as socially responsible investment funds, are less likely than others to engage in activism guided solely by the likelihood of success, because activism reinforces their identity regardless of the corporate opportunity structure (e.g., Ashforth & Mael, 1989). Thus, Hypotheses 5–6 predicted that socially oriented shareholder activism initiated by socially responsible investment funds is less dependent on firms' social identity and social legitimacy, respectively, than is socially oriented shareholder activism initiated by other activist types.

As the coefficient is significant in the opposite direction, Hypothesis 5 is not supported, which highlights a key theoretical implication. This finding suggests that given the significant costs involved in mounting an activism campaign (Briscoe et al., 2014; Eesley et al., 2016), the receptivity of firms to activist demands reflected in firms' technical CSP not only remains a key consideration for socially responsible investment funds, but actually is a more salient concern than it is for non-socially responsible investment fund activists. In contrast, we did find empirical support for Hypothesis 6. This suggests that the socially responsible investment fund identity weakens the relevance of firms' normative and sociopolitical legitimacy in predicting socially oriented shareholder activism.

On the one hand, these results support our focus on activist identity as a contingency factor moderating the importance of firms' orientation and legitimacy as dimensions of the corporate opportunity structure. The divergence in effects, which we did not predict, also reinforces the importance of separating firms' self-interested versus other-focused orientation from the levels of firms' normative and sociopolitical legitimacy when specifying the corporate opportunity structure for socially oriented shareholder activism. On the other hand, our theorizing on the specific way in which the socially responsible investment fund activist identity alters the corporate opportunity structure proved only partially accurate. One possible explanation for the surprising positive moderating effect of socially responsible investment fund identity on the technical CSP—socially oriented shareholder activism relationship is that socially responsible investment funds tend to invest primarily in firms with strong social identities, whereas other types of potential activists, like pension funds, are not so particular. As a result, socially oriented shareholder activism initiated by socially responsible investment funds may be more likely than socially oriented shareholder activism initiated by non-socially responsible investment funds at firms with high technical CSP because socially responsible investment funds are more likely to own stock in high-technical CSP firms. While a mere speculation, we hope that future research will explore this further. Tests of Hypotheses 5–6 thus show the importance of considering the heterogeneity in activists' characteristics, including, identity when theorizing on activists' motivations and target selection processes.

Limitations and Future Research Directions

As with any study, ours has limitations that creates opportunities for future research. First, while we studied firms' stakeholder orientation and social legitimacy as key antecedents of socially oriented shareholder activism, we acknowledge other potentially interesting factors that affect socially oriented shareholder activism. For example, firms that were a target of a prior customer boycott or a public activism campaign might be more or less receptive to subsequent socially oriented shareholder activism. This offers an interesting avenue for future research. As noted before, the presence of a corporate opportunity structure is likely to be viewed positively by activists in targeting a firm. However, if firms have been targets of prior activism, how does that affect such firms' need to comply with subsequent activist campaigns? That is, what are some of the other key factors that can affect firms' social legitimacy? Moreover, given the varied tactics activists use to pursue their agenda, does the use of any one type of tactic help predict not merely the likelihood of a repeat activist campaign against the firm but also the type of tactic to be used? We look forward to seeing future research utilizing the corporate opportunity structure framework in addressing these questions.

Second, given our focus on unpacking the factors that affect socially oriented shareholder activists' selection of target firms, we focused on firm level factors that are likely to be more salient to activists' screening process. As such, our theorizing did not consider the effect of leaders' characteristics also acting as potent markers of firms' corporate opportunity structures (e.g. Briscoe et al, 2014). However, we see fruitful opportunities for future studies that can specify various CEO and board level characteristics that can affect how firm level factors are assessed by activists. Specifically, the signals from characteristics of firms' CEO or directors can potentially substitute or complement the signals activists infer from firms' technical and institutional CSP.

Finally, our sample is comprised of US-listed firms. Research has suggested that firms' engagement with stakeholders and shareholder responses to socially oriented initiatives differ across countries (Maignan & Ralston, 2002). As such, the generalizability of our findings may be limited to US-listed firms. We see promise in future research examining the applicability of our framework in the context of other cultural and institutional contexts that not only differ in their emphasis on social issues but also vary in their evaluation of firms' responses to such concerns.

Conclusion

Despite decades of research on the firm-activist relationship, social activists' selection of target firms against whom to launch a campaign remains under examined. In this study, we sought to answer this question by developing salient dimensions for the concept of corporate opportunity structure, and demonstrated their empirical validity in the context of firms' CSP attracting subsequent socially oriented shareholder activism. We hope our findings will spur interest among scholars to further explore this important domain.

Compliance with Ethical Standards

Conflict of interest The authors declare that they have no conflict of interest.

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