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Sources of Stakeholder Salience in the Responsible Investment Movement: Why Do Investors Sign the Principles for Responsible Investment?

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Abstract

Using five years of internal proprietary data collected directly from United Nations supported Principles for Responsible Investment (PRI) signatories, we examine the attributes of the stakeholder relationship between investment organizations and the PRI. The analysis is carried out in the framework of Mitchell's et al. (1997) theory of stakeholder salience and its further developments by Gifford (2010).The findings highlight pragmatic legitimacy, organizational legitimacy, power attributes and management values as the factors having the most impact on the salience of the claim to sign the PRI in the eyes of investors.

Keywords

Stakeholder salience theory, Principles for Responsible Investment, PRI, UNPRI, responsible investment, socially responsible investment, stakeholder theory

JEL Classifications

A01, G00, G1, G02

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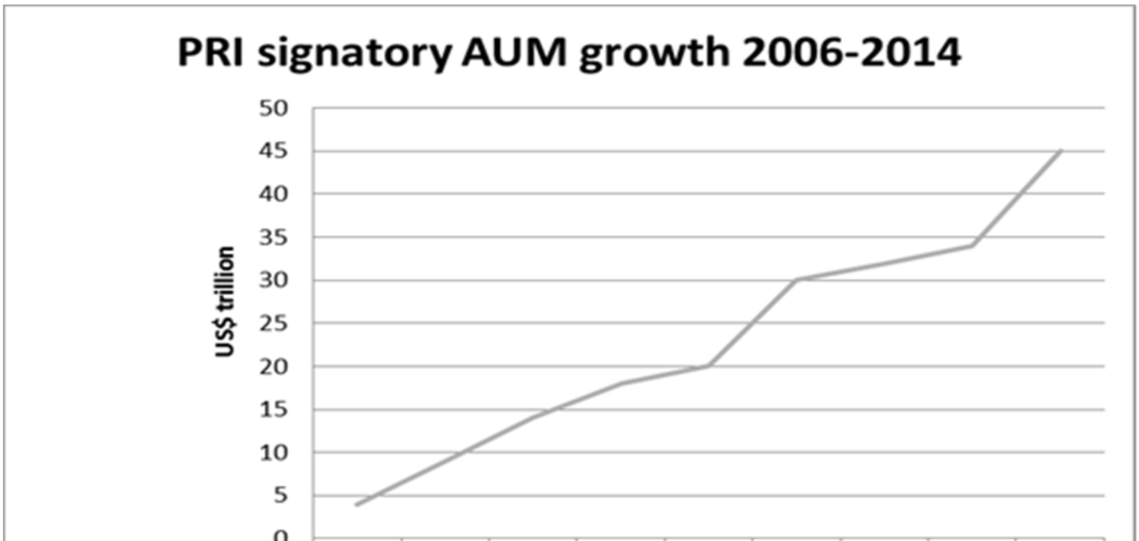
Introduction

In the past decade responsible investment (RI) has been gaining momentum in the face of the instability that has affected financial markets. Among the most important milestones in the history of its development, coinciding with a sharp rise in asset growth, is the inception of the Principles for Responsible Investment (PRI) initiative backed by the United Nations at the New York Stock Exchange in 2005. By the end of 2006 the PRI had just above 100 signatories with no more than 5 trillion USD in assets under management (AUM). Since, over 1,000 investment organisations have signed the principles and therefore committed to the process of including environmental, social and governance (ESG) factors in their investment process. Together they represent now over 45 trillion US dollars, which is over one third of global AUM.[1]

Figure 1. Growth of the number and collective AUM of PRI signatories.



	2006	2007	2008	2009	2010	2011	2012	2013	2014
AUM in $ trillion	4	9	14	18	20	30	32	34	45

Growth of the collective AUM of PRI signatories. Source: http://www.unpri.org Accessed 23/06/2014. Last Updated: 23/06/2014.

Because of its size, prominence, and first-mover status, the PRI is likely the most important global responsible investment initiative in existence today (Sandberg, 2009; Woods & Urwin, 2010). So far there has been much speculation but no empirical studies on why investors sign the principles. It is the motivation of this paper to shed some light on that question, using an

[1] Incl. Alternative assets. Source: Fund Management 2013 report by thecity.uk www.thecityuk.com/research/our-work/reports-list/fund-management-2013/ accessed 23/06/2014.

important set of predominantly confidential data obtained directly from the PRI. This dataset is revealed to the researchers exclusively for the purpose of this study.

The PRI's voluntary and aspirational nature means that there is a large heterogeneity of ESG advancement among its one thousand-odd signatories. Therefore being a signatory to the principles is not necessarily synonymous with being a responsible investor. However, the mere act of signing the principles remains worthy of scrutiny, as, in the words of PRI founder James Gifford: "The important thing is to get people in the tent, for whatever reason. Then once they are in, you can start to inspire change". (Gifford, 2014, pers. comm., 15 June) Signing the principles is at a minimum an expression of commitment to the process of becoming a responsible investor, and at the origin of this paper is the question what pushes investors to make that commitment.

The paper will first introduce the context of the study, outlining the purpose and characteristics of the PRI. This part will be followed by the conceptual background, exploring previous studies on stakeholder relationships and salience in the context of responsible investment. Next, the theoretical framework and its application will be detailed. In the following parts, we describe the dataset and methodology. The final parts of the paper present and discuss the findings. The paper closes with research limitations and conclusions.

Context of the study

The PRI is a global investor association founded by the United Nations in 2005 with the objective of helping investors implement the six Principles for Responsible Investment. Devised by the investment community itself, the principles form a framework for incorporating environmental, social and governance issues into investment decision making. They are based on the conviction that ESG factors have an impact on the performance of investments.

The six principles are as follows:[2]

1) We will incorporate ESG issues into investment analysis and decision-making processes.
2) We will be active owners and incorporate ESG issues into our ownership policies and practices.
3) We will seek appropriate disclosure on ESG issues by the entities in which we invest.

[2] Obtained from http://www.unpri.org/about-pri/the-six-principles/ accessed on 06/08/2014.

4) We will promote acceptance and implementation of the Principles within the investment industry.

5) We will work together to enhance our effectiveness in implementing the Principles.

6) We will each report on our activities and progress towards implementing the Principles.

The PRI supports signatories in implementing the principles by tracking their progress with the help of an annual reporting and assessment tool, assisting with particular aspects of the implementation via the implementation support department, building regional networks and running a collaborative engagement facilitation office. The Research and Policy and Academic Network departments support the development of policy frameworks conducive to RI and ensure that signatories are in touch with the latest RI research. The PRI also organizes two annual conferences. The combined impact of this activity has firmly put responsible investment on the map. As Sophia Grene wrote in the Financial Times in 2009: "That sustainability is no longer a niche concept, sitting in the corner with the church groups and green evangelists, can be demonstrated by figures from the UN Principles for Responsible Investment".

Until 2011 the financial and legal aspects of the PRI were governed by the Foundation for the Global Compact in New York but as a result of the PRI's increased presence and operations in the UK the PRI is now run by two newly established UK non-profit organisations, chaired by directors appointed by the PRI Advisory Council (previously named the PRI Board). The first is the PRI Association responsible for most of PRI's operation. The second in the PRI Foundation that is anticipated to be granted charity status in the UK.

The PRI Advisory Council has 13 members. They include the executive directors of UN Global Compact and UN Environment Programme and 11 elected asset owner signatory representatives, among them chairman, currently Mr Martin Skancke.

The PRI is an aspirational framework. There is no minimum requirement to signing. Similarly, poor ESG performance does not result in delisting. An organization will be delisted in two events: if it fails to complete the annual reporting and assessment tool and if it fails to pay the annual signatory fee calculated on the basis of the organization's assets under management (introduced in 2011, following five years of financing via voluntary donations).[3]

[3] Source: http://www.unpri.org/about-pri/faqs/ accessed 06/08/2014

Conceptual background

Although the question of why investors sign the PRI has not been tackled directly in extant academic literature, there have been foundations laid for the exploration of the topic, for instance in the development of stakeholder theory itself, to compete with the shareholder view of the firm, according to which the only relevant stakeholder of the firm is the shareholder.

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

The definition of stakeholders is however so broad that virtually anyone or anything could be considered a stakeholder. A very restrictive view of financially determined stakeholder status was replaced by one so inclusive it was hard to navigate. So how do organizations identify stakeholders? How do they prioritize their claims?

Stakeholder salience theory rises to the challenge of these questions by seeking to systematize what makes the claims of one group of stakeholders take precedence before those of others. It is within this area of research that the theoretical framework we use – Mitchell, Agle and Wood (1997) is placed. Within the Mitchel et al. framework, the status and importance of a stakeholder is transient and is determined by the degree to which the stakeholder possesses the attributes of power, urgency and legitimacy (Mitchell et al., 1997), as laid out in more detail in the next section of the paper.

Other areas of scholarship also offer potential frameworks for addressing the question of why investors perceive the PRI’s claim to sign as salient.

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

The universal ownership hypothesis developed by Hawley and Williams (2000) delves deeper into that interdependency. It proposes the idea of investors with portfolios big enough and diversified enough to be affected more by the performance of the global economy as a whole than by the performance of any individual holding. This means that it is in their interest to maintain a healthy macro economy, because that is what ultimately benefits them (Kiernan, 2007). In 2011 the PRI released its own Universal Ownership report, which addresses the topic of externalities and their potential to affect the performance of large institutional portfolios (PRI, 2011). A widespread adoption of the PRI principles among large institutional investors suggests that they recognize that adopting the approach advocated by the PRI fosters a stable and sustainable global economy and therefore stable and sustainable returns for them.

Not so much explaining the driver behind the adoption of RI, as theorizing the process, Diane-Laure Arjalies (2010) develops a social movement perspective on finance. It provides a model of how social movements influence economic systems. In the 2010 paper Arjalies proposes that 'compromise movements' such as the RI movement can reform existing financial systems by introducing common logics. In this context the new logic advocated by the social movement is merged with the existing institutional logics of the economic system and a new mainstream hybrid emerges. Therefore, the social movement as such is discontinued and replaced by the mainstreaming of a new logic and integrating it into processes and structures already in place. From the social movement perspective, the PRI with its ambition of making RI mainstream is at the centre of that process.

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

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

Aguilera et al. (2007) and David Baron (2009) put forward another two motivation based theories: Aguilera et al. offer a multilevel theoretical model of their motivations to pursue CSR activities and exert positive social change. They distinguish between instrumental, relational and moral motives. Baron proposes similar categories: moral duty, self-interest and social pressure. Each of Aguilera et al.'s as well as Baron's motivation types can be found within the Mitchell and Gifford framework: instrumental, or self-interested investors may sign the PRI in pursuit of reputation, differentiation or returns (utilitarian and normative power); relational or social pressure motives correspond to societal legitimacy or utilitarian power as manifested by client demand; moral motives correspond to management values (Gifford, 2010; Mitchell et al., 1997).

A number of researchers have also explained CSR oriented behaviour of organizations from an explicitly market-based view. Mackey, Mackey and Barney (2007) suggest that within the RI market, the relationship between supply and demand for RI determines the influence of those activities on the market value of organizations. Therefore, publicly listed companies may engage in ESG activities that do not increase their cash flows but still have a positive effect on their market value. Applied to the scenario of investors signing the PRI, investors would prioritize the claim to sign in the event where the level of demand for ESG investing relative to the available supply justifies the move economically, even despite uncertainty as to its immediate impact on returns.

A similar outcome is achieved by applying Barnett's (2007) theory to the problem. Barnett adds what he calls the missing link to the search for the connection between ESG related activities and corporate financial performance (CFP). He concludes that the effect of ESG related activity on CFP depends on if the activity is carried out in response to demand in the market. The more receptive and responsive an organization is to the signals coming from the market, the better it will be able to reconcile ESG objectives with its financial objectives and fuel financial performance with ESG activities. This theory transferred into the context of the PRI and investors suggests that the motivation of the returns-focused investment organization to sign the PRI would be seeking to respond to market trends favouring ESG.

All of the theories summarized above inform the way we consider the relationship between investors and the PRI at the point of signing. In this paper, however, we choose to apply Mitchell et al.'s (1997) stakeholder salience theory, following Gifford (2010), as one of the most influential frameworks in the area of stakeholder salience (it has been cited 1,275 times since its publication, of this 192 times in the Journal of Business Ethics[4]). This framework has also been

[4] According to Thomson Reuters Web of Science as of 12/05/2014

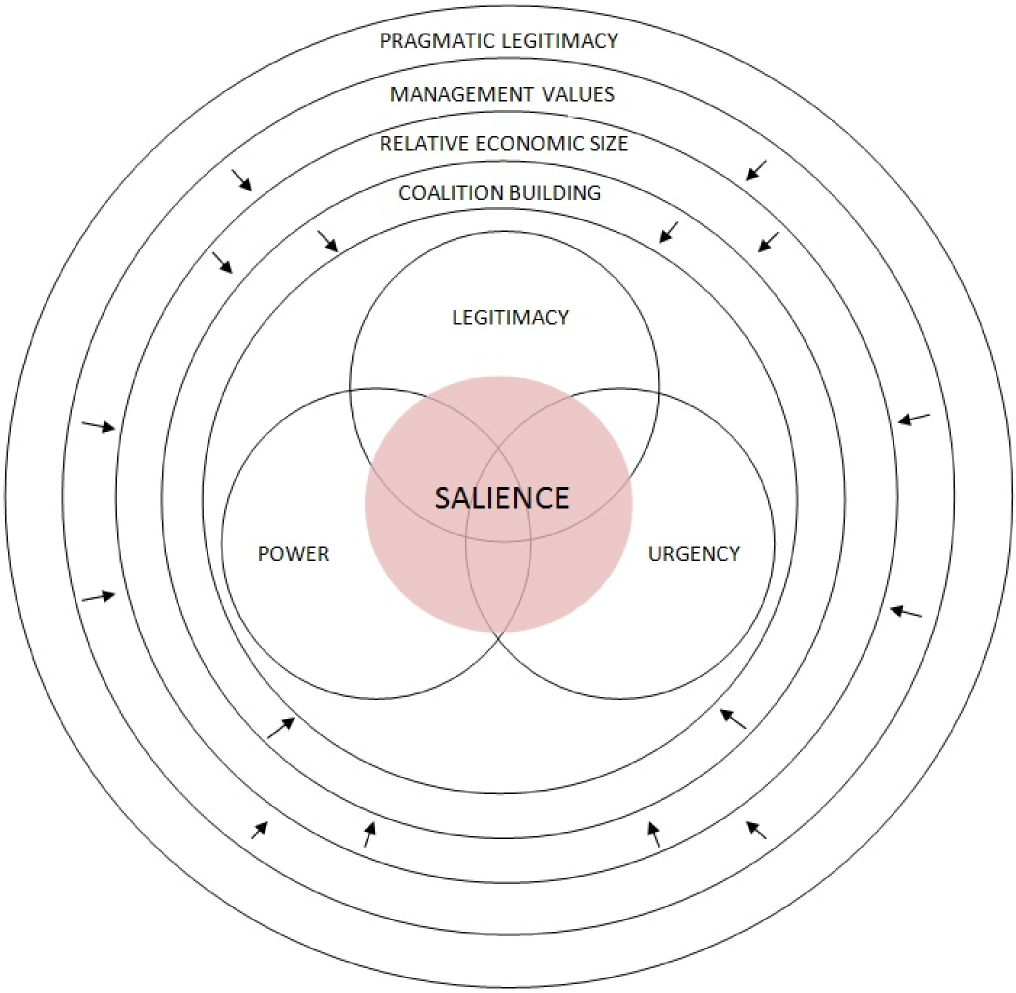
further developed by Gifford (2010) specifically in the context of responsible investment, making the extended version a highly adequate tool for addressing the research question. Mitchell's et al. stakeholder salience model and Gifford's additions to it are described in more detail in the next section of the paper.

Theoretical framework

Mitchell et al. propose a descriptive model of the factors that influence stakeholder salience.[5] Mitchell et al. define stakeholder salience as the priority given by company managers to stakeholder claims. Mitchell et al.'s stakeholder salience theory is a tool both for the identification and the prioritization of stakeholders (Neville et al., 2011). In this paper the underlying assumption is that the PRI is a stakeholder to investors,[6] with the goal to 'understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision making and ownership practices'.[7] The theoretical framework is applied to identify to what degree it possesses the salience-producing stakeholder attributes. These attributes are: power, legitimacy and urgency.

[5] Mitchell's et al. model involves some parallels with Scott's (2001) institutional theory.
[6] Intuitively classified as a discretionary stakeholder – one that has a high level of legitimacy but no power or urgent claim. (Mitchell et al., 1997)
[7] Source: http://www.unpri.org/about-pri/about-pri/ accessed 08/08/2014

Figure 2. This graphic illustrates the Mitchell et al. (1997) and Gifford (2010) frameworks combined. Power, urgency and legitimacy all contribute to salience and the outcome is moderated by the factors introduced by Gifford (2010).



Mitchell and his co-authors adopt Etzioni's (1964) typology of power. Power concerns the coercive, utilitarian or normative means that a stakeholder has at their disposal to exert influence on management.[8] Coercive power relates to the use of force, restraint or violence to achieve the actor's desired outcome. Utilitarian power is based on material resources e.g. shareholders exercise utilitarian power by means of financial reward or punishment i.e. investment or divestment. Using normative power is linked to symbolic resources, such as media attention or reputation.

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

Legitimacy and urgency apply to how the claim itself is viewed by the management. Legitimacy is 'a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions' (Mitchell et al, 1997). Mitchell et al. divide it into individual, organizational and societal legitimacy[9] where the degree of legitimacy is tied to the perception of an individual, the whole organization, or society's expressed endorsement of the claim as legitimate.

Gifford (2010) introduces a fourth type to this typology: pragmatic legitimacy. It refers to the business case perspective on the stakeholder's claim.[10] It is determined by the strength of the arguments presented by the stakeholder, and the amount of new information they present to the management (Gifford, 2010).

The final factor presented by Mitchell et al. is urgency. It refers to the degree to which the claim is perceived by management as calling for immediate attention. According to Agle, Mitchell and Sonnefeld (1999) urgency can be a crucial factor in achieving maximum salience. Urgency has two sources: time-sensitivity and criticality, time-sensitivity coming from time pressure and criticality the importance attached to the claim by the stakeholder. For example in Gifford (2010) stakeholders signal criticality by being persistent, assertive and by dedicating a lot of resources to advancing their claim.

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

Gifford (2010) expands Mitchell's et al. model, based on its application to a shareholder-company relationship in an engagement context. Besides the additions already mentioned, he expands the framework with three moderating factors of the relative economic size of the stakeholder, coalition building and management's values. Gifford also adds a temporal dimension to the relative importance of these factors, in that different sources of salience are added to the equation during the interaction with the stakeholder, rendering the model even less static.

[9] following Wood's (1991) framework

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

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

Coalition-building results in the pooling of resources by stakeholders. A stakeholder coalition has the combined size, resources, legitimacy etc. of its participants (e.g. coalitions of shareholders, policy makers or NGOs). It is therefore a moderating factor of power, legitimacy and urgency.

The final moderating factor – management's values – was also confirmed by Agle et al. (1999). The degree of overlap between the values expressed through the stakeholder claim and the values of managers can moderate salience independently of the attributes proposed by Mitchell et al (1997).

Applied framework

The application of stakeholder salience theory to the research question 'Why do investors sign the PRI?' is complicated by the fact that for the purpose of this research, there is no single stakeholder whose claim's salience has specific attributes from the Mitchell and Gifford frameworks. Instead, it is the claim and the salience of the claim that the research question and the analysis is centered around. The claim to sign the PRI presented to the investor can, and is advanced by the PRI itself, but in many cases it is advanced by other stakeholders e.g. the trustees, an NGO, a senior manager, and it is in that context that it possesses some of the attributes that contribute to its salience.

Freeman (1984) specified that perceived salience can result from the attributes of both a claim and a stakeholder group. In the case discussed in this paper therefore the subject is the claim to sign the PRI but its salience may be attached to different stakeholders. Eesley and Lennox (2006) test the legitimacy and urgency attributes as applied to stakeholder claims in a data driven paper and obtain positive results. However, academic literature has generally taken the stakeholder-driven approach. One of the contributions of this paper is to explore the alternative claim-driven approach in empirical research.

Below based on Mitchell et al.'s (1997) and Gifford's (2010) framework applied to the PRI-investor relationship, we develop a set of questions to ask of the data available to the researchers.

Are coercive, utilitarian and normative power sources of salience in the process of joining the PRI?

Since the PRI is a voluntary and aspirational framework, it does not use the means of threat or coercion to influence signatories. However, an explicit shareholder or trustee wish that an investor sign the PRI carries the weight of formal means of coercion and can therefore be evidence of coercive power adding salience to the claim. A utilitarian, financial incentive can be related to an investment manager's clients being signatories to the PRI and the pressure to sign associated with this. The reputational benefits that signing the PRI offers can also be a manifestation of normative power, as a non-material, symbolic incentive.

Is urgency, as related to time-sensitivity or criticality a source of salience in the process of signing the PRI?

Urgency, as the degree to which a stakeholder's claim calls for immediate attention (time-sensitivity), has its source in the increasing visibility of the PRI in the investment space and the pressure on investors to join the growing trend of ESG investing. The criticality aspect of urgency can be found in the persistence of stakeholders asking investors to sign the PRI, and the amount of resources they dedicate to advancing their claim.

Are organizational, individual and societal legitimacy a source of salience in the process of signing the PRI?

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

Gifford adds to the above the relative economic size of the stakeholder, which in this context becomes the size of the PRI and the growing weight of the AUM of the investors already signed up; coalition building which is among the services the PRI offers to signatories through the PRI Investor Engagement Service[11] and thematic and regional working groups; management values which may already be aligned with those represented by the Principles before signing; and pragmatic legitimacy which can correspond to the performance benefits of ESG integration.

Is relative economic size of the PRI a source of salience in the process of signing the PRI?

Is coalition building a source of salience in the process of signing the PRI?

[11] The PRI Investor Engagement Service was known as the PRI Clearinghouse until 2013. The service is a unique collaborative shareholder engagement platform that PRI signatories have exclusive access to.

Are management values a source of salience in the process of signing the PRI?

Is pragmatic legitimacy a source of salience in the process of signing the PRI?

Data and method

The data is sourced from the annual questionnaire on the implementation of the PRI principles. This paper presents an analysis of responses from asset owners, asset managers and insurers. In the relevant period the questionnaire has been obligatory to all signatories past a one year grace period since signing, that is all institutions signed between 2006 and 2010.[12] All responses from signatories signed in 2011 are therefore voluntary.

The question coded for the purpose of this paper was question no. 78 (based on the 2011 survey structure). This question was optional and open ended. The table below compares the number of responses given to question no. 78 compared to the obligatory questions.

Figure 3. Number of responses to question no. 78 in relation to obligatory responses and total signatory numbers.

	Question 78	Obligatory questions	Proportion of obligatory responses	Proportion of all signatories[13]
2007	97	105	92%	63%
2008	154	174	89%	59%
2009	245	286	86%	59%
2010	375	433	87%	60%
2011	464	540	86%	57%

The number of responses to question 78 remains at around or slightly below 90% of the total responses to obligatory questions and at around 60% of the total signatory number throughout the sample years.

The evolution of the wording and position within the questionnaire over the 5 year data collection period is illustrated in the table below:

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

[13] as of the month the survey was due in the given year

Figure 4. Evolution of the wording and position of the question analysed within the PRI reporting framework over the 5 year data collection period.

2007	Q132/135	Why did your organization join the PRI?
2008	Q112	Why did your organization join the PRI?
2009	Q90	Please describe the benefits you have enjoyed as a result of signing the PRI.
2010	Q78	Please describe the benefits you have enjoyed as a result of signing the PRI.
2011	Q78	Please describe the benefits you have enjoyed as a result of signing the PRI.

The question only corresponds directly to the research question in the years 2008 and 2009. The questions from years 2009-2011 are only related, and they approach the decision to sign the principles from a backward looking perspective, evaluating the positive results of the decision.

The geographical distribution of the sample is still overweight in developed regions. In 2011 European signatories accounted for 50% of responses (compared to 48% of all signatories), Oceania for 18% (15% of all signatories) and North America 17% (19% of all signatories). Asia, Africa and Latin America account for an aggregate 15% (17% of all signatories). This compares to 47% of respondents from Europe, 15% from Oceania, 16% from North America and an aggregate 22% from Asia, Africa and Latin America[14] in 2007 with very similar numbers in the general signatory body.[15]

The proportion of asset managers vs. asset owners among the respondents gradually shifted over the years, in the sample analyzed as well as the rest of the signatory body:

Figure 5. Proportion of asset managers and asset owners among signatories reporting within the PRI reporting framework in the years 2007-2011.

	% of Asset Managers	% of Asset Owners
2007	43	57
2008	46	54
2009	55	45
2010	62	38
2011	63	37

[14] Latin America accounting for the majority of those responses: 15 out of a total 23. There was only 1 response from Africa and 7 from Asia.

[15] Among all signatories in 2007, Europe accounted for 41%, North America for 20%. Oceania 17%, and Asia, Africa and Latin America for the remaining 21%.

Among asset owners, 60% of assets were managed internally in 2011. Around half of asset owners are non-corporate pension funds, followed by the second largest group of corporate pension funds accounting for 25% of respondents in 2011. Among asset managers mainstream investment managers are responsible for 77% of the responses. They are followed by dedicated SRI managers – 12%, and themed fund managers – 9%.[16]

Listed equity and fixed income are the two dominant asset classes accounting for 36% and 49% of respondents' assets in 2011 respectively. The third largest category (13%) is cash, commodities and other assets

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

Content analysis has featured regularly in management literature (Bergh, 1993; Butterfield, 1996; Buttner, 2001; Chun, 2005; Davy et al., 1992; Molloy et al., 2011), accounting (Beck et al., 2010; Fischer, 2010), marketing (Hite et al., 1998; Kolbe and Burnett, 1991; Rust and Cooil, 1994) and business ethics where it has been often applied to analyze large volumes of company produced publications relating to their ESG policies and activites (Holder-Webb et al., 2009; Jose and Lee, 2007; Lefebvre and Singh, 1992; Sheth and Babiak, 2010; Stray, 2008). It is also the dominant research method for collecting empirical evidence in the field of social environmental accounting (Parker, 2005).[17]

Some of the following studies in particular establish a precedent for the choice of content analysis for coding self-reported textual data. In 1990, Jarvenpaa and Ives used it to analyse 649 letters to shareholders in annual reports to find out about the importance of IT to corporate strategy (Jarvenpaa and Ives, 1990). Bravo et al. (2012) analyze self-declared CSR activities of Spanish banking institutions. Further, Meyer and Höllerer (2010) analyze the impact of framing contested issues in public discourse on shareholder value in Austria.

[16] Themed funds select investments based on a theme, not necessarily an SRI theme. SRI funds can be themed funds if their investment selection is based on a particular ESG theme, but they can also be passive funds or screened funds or any other type that is not a themed fund.

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

The motivation for using content analysis in this particular paper is explained most accurately by the researcher's objective of using the method most effective in extracting maximum structured information from unstructured textual data.

Among the most prominent advantages of manual coding for content analysis is that the human coders brings in their experience and expertise into the coding process. Each of the authors of this paper has had experience of working in the PRI space and interacting with signatories, which helps interpret data correctly. Humans generally excel at analysing unstructured text. It is for that reason that Deffner (1985) argues that computerized coding lacks validity by comparison, although it is effective as a method to maximize reliability.[18] Following an experiment comparing automated and manual content analysis, Morris (1993) concludes that both methods can be equally effective. The fact that responsible investment still operates with an emergent vocabulary (Sandberg et al. 2009) makes the choice of manual content analysis a particularly suitable one since as it has been observed in previous academic literature, computerized content analysis takes away the complexity and context from language (Pennebaker and Lay, 2002, Bligh et al., 2004b) preventing higher level insights into the material (Bligh et al., 2004a).

Moreover, as a methodology, content analysis is neither an unambiguously qualitative or quantitative method (Harwood and Garry, 2003; Insch, Moore and Murphy, 1997; Kolbe and Burnett, 1991). It can be described as qualitative in the first stage where the text is analysed and the content divided into categories; and quantitative when applied to quantifying the occurrence and relative importance of the categories or phenomena. This combination of qualitative and quantitative characteristics in content analysis allows us to present the data in a structured manner, and therefore communicate the findings more clearly.

The limitations are as follows. Manual coding is not very transparent, as opposed to automated coding following simple phrase or keyword identification processes; nor is it as consistent, because of fatigue, varying focus and attention during the process and possible personal bias (Boritz, Hayes and Lim, 2012; Morris 1993). A limitation that applies to management and finance research is that there is so far no specialized coding system (such as the Gottschalk-Gleser (1969) method in psychology). This limits the cross-comparability between different studies (Morris, 1993).

There are two important reasons why we choose manual coding over automated coding that are specifically related to this PRI dataset. Firstly, the data was collected from organizations from over 30 countries. The differences in wording between even a handful of countries can be hard

[18] Deffner (1085) defines rating validity as the rating being a valid representation of the content.

to manage in computerized coding, so we decided it would not be effective in a study with such broad geographical scope to correctly identify the entire variety of phrases for automated coding. And secondly, responsible investment is an emergent field and does not have an established vocabulary (Sandberg et al., 2009), which makes discrepancies even more likely to obscure results when using automated coding. Based on this, the authors agreed that to obtain the most accurate results, we should use manual coding where the categories answers fall into are decided on a case by case basis. As observed by George and Louise Spindler (1997), 'only the human observer can be alert to divergences and subtleties that may prove to be more important than the data produced by any predetermined categories of observation or any instrument' (p.66-67).

We use magnitude coding for each observation, following Wolfe, Gephart and Johnson's[19] (1993) finding that counting each occurrence of an item in content analysis equally is a simplification and may produce misleading results. Following Gray et al.'s (1995) recommendation, the unit of analysis used is predominantly sentences, however in cases where responses are poorly structured or unnecessarily long, multiple sentences or responses as a whole are an alternative. Morris (1993) also observed that coding based on entire units of text results in higher agreement between coders and human and computer analyses, which provides justification to depart from sentences as units of analysis if they are not singularly significant enough.

To ensure a high degree of reliability of the coding, the coded data has been reviewed and approved by James Gifford, founder and executive director of PRI until 2013, and author of extended theoretical framework used in this paper, as well as PRI staff members with extensive experience from the department responsible for collecting the dataset.

All the answers from the sample years are transferred into rows in a matrix with each attribute occupying a column that contains the particular extract from the answer that supports the attribute in the corresponding row. A table in Appendix 1 explains what criteria we use to code support for each attribute. The data analysis section also contains example quotes from coded answers that come from publicly disclosed reports.

[19] They also mention that materials produced for the public can not equal full disclosure as they will have some PR use and should be balanced with materials that are non-public or internal communications. The data analyzed in this paper also fulfils this condition to an extent as only a proportion of it is publicly available, and organizations who wish to keep their responses confidential are allowed to do so.

Data analysis and discussion

We use descriptive statistics to demonstrate the importance of each factor and how it changed over time. Each attribute that found support in the data is illustrated with two graphs: the first with aggregate numbers and the second split between asset owner and asset manager results for some additional insights. The results are presented as the total number of answers to the relevant questions in that year that support a given attribute as contributing to the salience of the claim to sign the PRI in the manager's eyes in proportion to the total answers in a given year.

Power

Among the power attributes the strongest evidence emerged for normative power with 217 respondents in 2011 submitting answers that the researchers coded as support for the attribute of normative power being a source of salience in the process of signing the PRI. This number grew from 3% in the first year of the sample, to 6% in 2008, 16% in 2009 and 18% in 2010 before reaching 47%, almost half of the sample, in 2011.

The proportion of responses referring to utilitarian power display a similar growth, although slightly smaller, starting at 1% in 2007 and slowly growing to 9% in 2009, then eventually reaching 32% in 2011.

Figure 6. Proportion of respondents whose responses indicated utilitarian and normative power as sources of salience in the process of signing the PRI

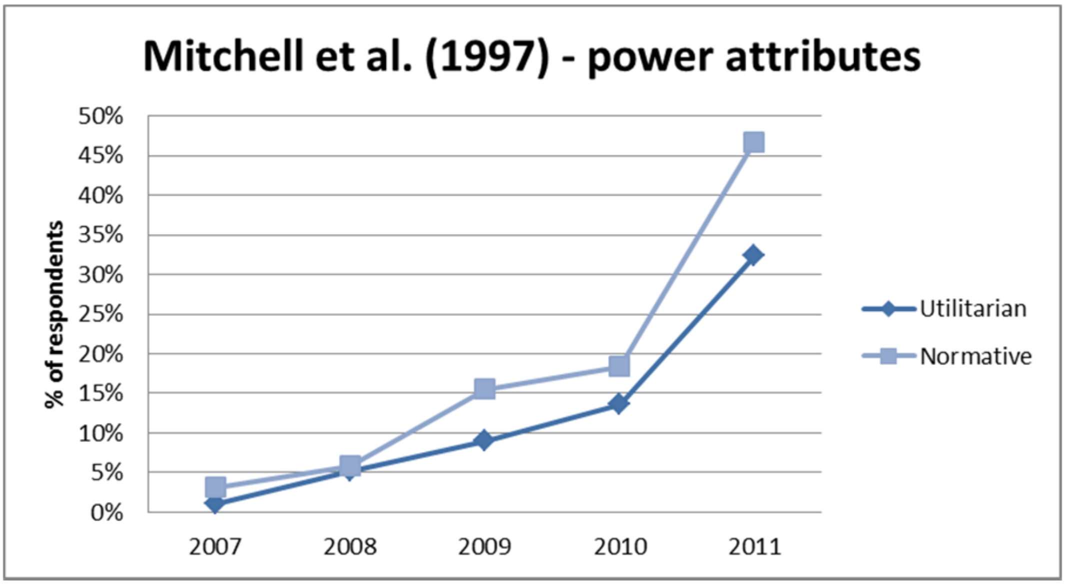
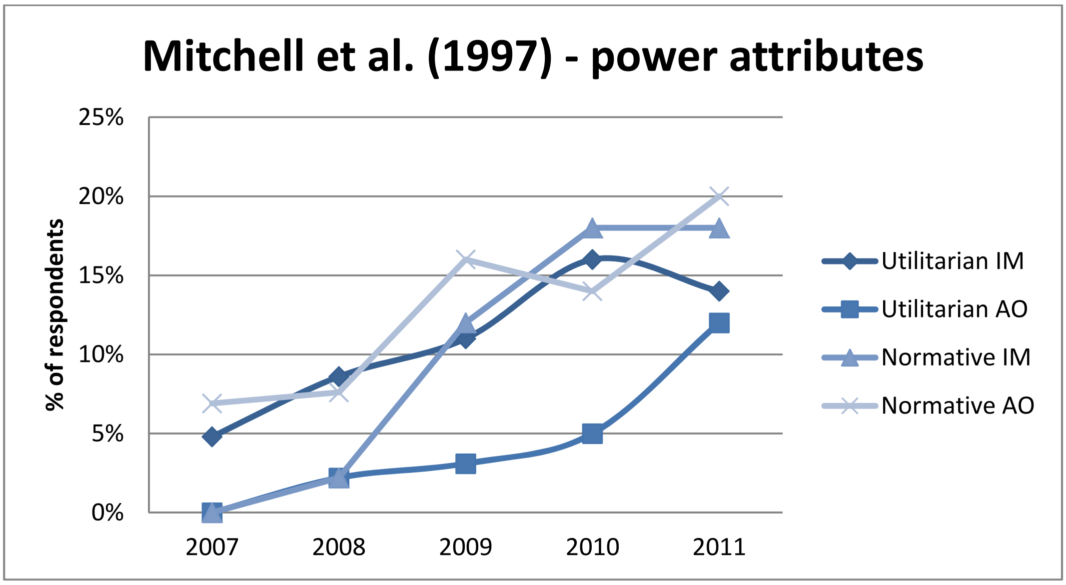


Figure 7 shows the differences between the answers of asset owners and asset managers. Utilitarian power found more support among asset manager signatories, due to the power relationship between asset owners and investment managers where an ESG capacity is becoming a consideration in hiring managers.

Figure 7. Proportion of asset owner vs. investment manager responses that indicated utilitarian and normative power as sources of salience in the process of signing the PRI



The higher proportion of investment managers quoting material incentives as a reason to commit to the principles can be explained by the increased interest of asset owners in managers with an ESG capability. A mainstream Australian investment manager says 'We have been queried and reviewed by asset consultants and clients on our ESG activities' (PRI survey responses, 2010). A mainstream UK fund explains: 'Becoming a PRI signatory has also enabled us to respond positively to asset owner's RFIs and RFPs that increasingly ask about status regarding the PRI' (PRI survey responses, 2010). Therefore investment managers signing the PRI are responding to the material incentive of gaining new clients or satisfying the clients they already work for.

Asset owners quote the support and interest of their members as incentives, e.g. 'Supports the interests/needs of our membership' as worded by a Canadian public pension fund (PRI survey responses, 2010). If we were looking at the data through the prism of stewardship theory, these answers would offer strong support for its relevance to the situation of signing the PRI (Davies et al., 1997).

For added perspective it is useful to look at the distinction between the proportion of mainstream vs. SRI investment manager responses and public vs. private pension fund responses coded in support of utilitarian power: 15% of all mainstream investment manager responses to the questions were coded in support of utilitarian power in 2011, compared to 11% of SRI managers. The proportion of mainstream investment manager responses remained higher throughout the sample, suggesting that this group is more financially driven than SRI managers.

A similar pattern is distinguishable among asset owners in 2011 where 20% of corporate fund responses were coded in support of utilitarian power, compared to 12% of public funds. These proportions are less consistent throughout the sample years, likely on account of the small absolute number of responses coded among corporate funds. Normative power started out more prominent in the asset owner sample and continued to grow steadily, whereas in the investment manager sample it started out weaker and almost caught up with the asset owners by 2010. Mainstream investment managers and corporate pension funds were more influenced by normative power than their SRI and public counterparts. In 2011 40% of corporate pension funds and 21% of mainstream investment managers mentioned normative power in their responses, compared to 18% of public pension funds and 11% of SRI managers. Beyond 2010, these numbers are not entirely consistent throughout the years, making it hard to identify a trend.

It is also interesting to see that the growth of support for the power attributes are not as sharp among signatories who signed the PRI in the first two years as it is among the later years. This suggests that these two groups are most driven by different attributes. This will be reinforced by the difference in their support for management values and pragmatic legitimacy.

Figure 8. Number of respondents by signature year whose responses supported the attribute of utilitarian power

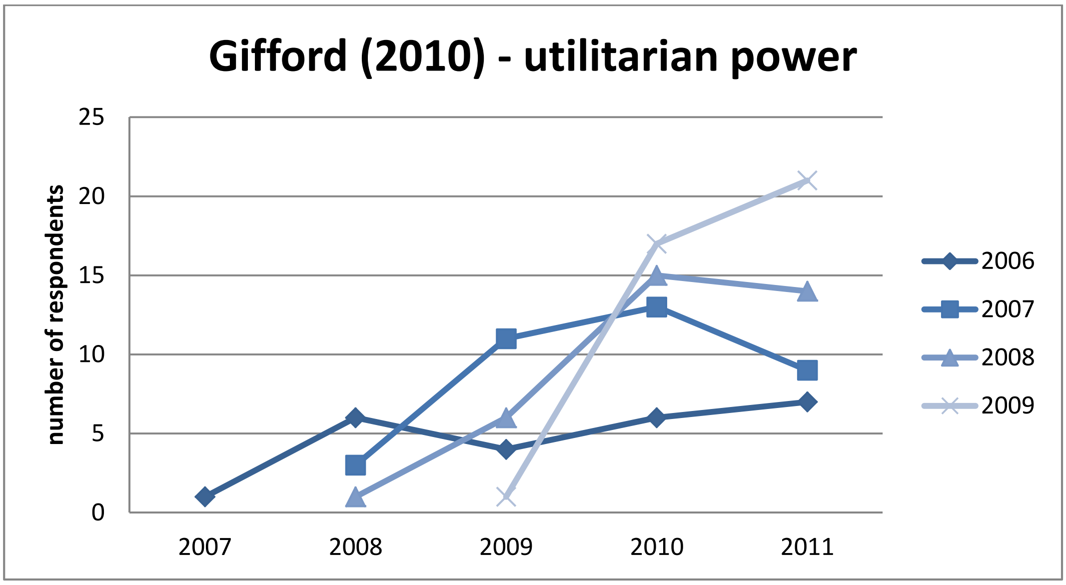
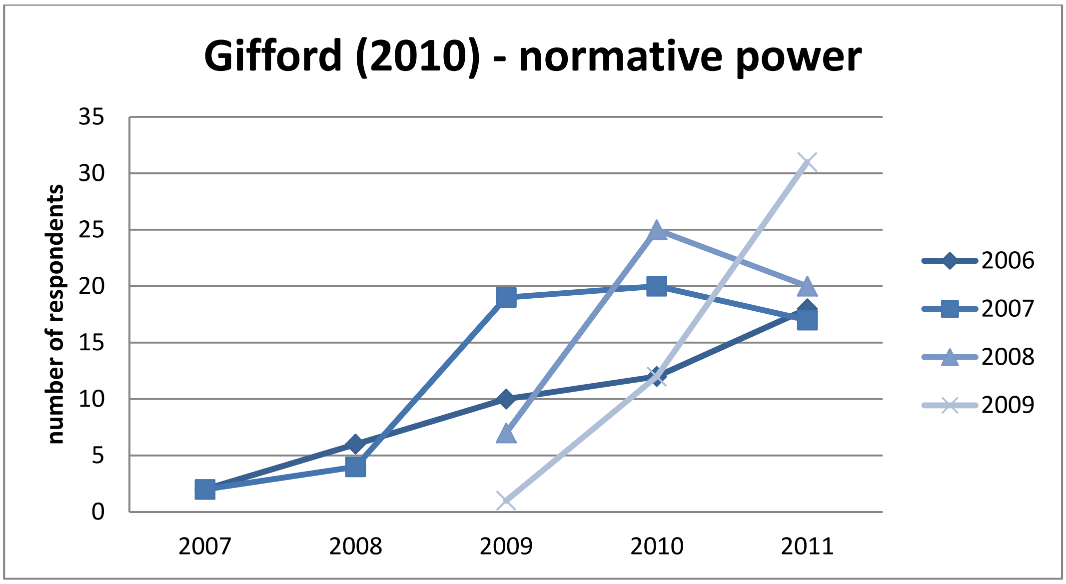


Figure 9. Number of respondents by signature year whose responses supported the attribute of normative power



Symbolic incentives in the context of this study are strongly linked to the reputational advantage to investors of signing the PRI. This advantage was mentioned increasingly by high proportions of both asset owners and investment managers over the sample period, reaching almost half of all respondents in 2011. Listing the benefits of signing the PRI to the fund, a Swiss investment manager says the move has 'reinforced its reputation and grants credibility to its commitment to sustainability and corporate governance principles' (PRI survey responses, 2010). Investors frequently quote reputational, marketing and branding benefits.

Another important aspect of the symbolic incentive is signalling. Investors repeatedly state that signing the PRI sends a signal to their stakeholders that they are committed to ESG, and that their efforts in that space are legitimate. A Japanese asset manager says they signed the PRI 'to express our commitment toward the engagement upon ESG issues as an institutional investor' (PRI survey responses, 2008).

Coercive power as a source of salience of the claim to sign the PRI is not documented in the data. This was in line with the researchers' expectations based on the voluntary and aspirational nature of the PRI framework, and the lack of formal mechanisms of power active in the PRI-investor relationship such as legislation.

Urgency

We find no support in the data for urgency as a source of salience. Signatories make no explicit reference to the timing aspect of the claim to sign the PRI, or pressure resulting from the intensity of resources used by stakeholders in advancing it.

Legitimacy

Of the legitimacy attributes, individual legitimacy is not documented in the data, as signatories do not make reference to individuals having a role in advancing the claim to sign the PRI. The importance of organizational legitimacy of the PRI to investors has grown over the sample period, as illustrated in Figure 6. Figure 7 shows that the growth in support among the investment manager answers for organizational legitimacy has been even more explosive than that among the answers of asset owners. Support for societal legitimacy has been steady and relatively low across the years and investor types.

Figure 10. Proportion of respondents whose responses indicated organizational and societal legitimacy as sources of salience in the process of signing the PRI

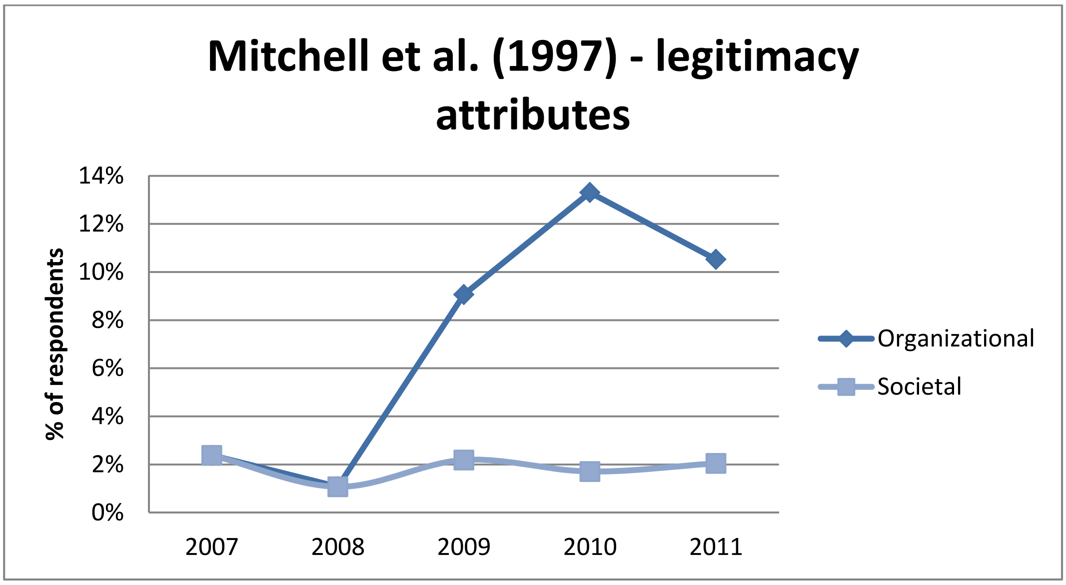
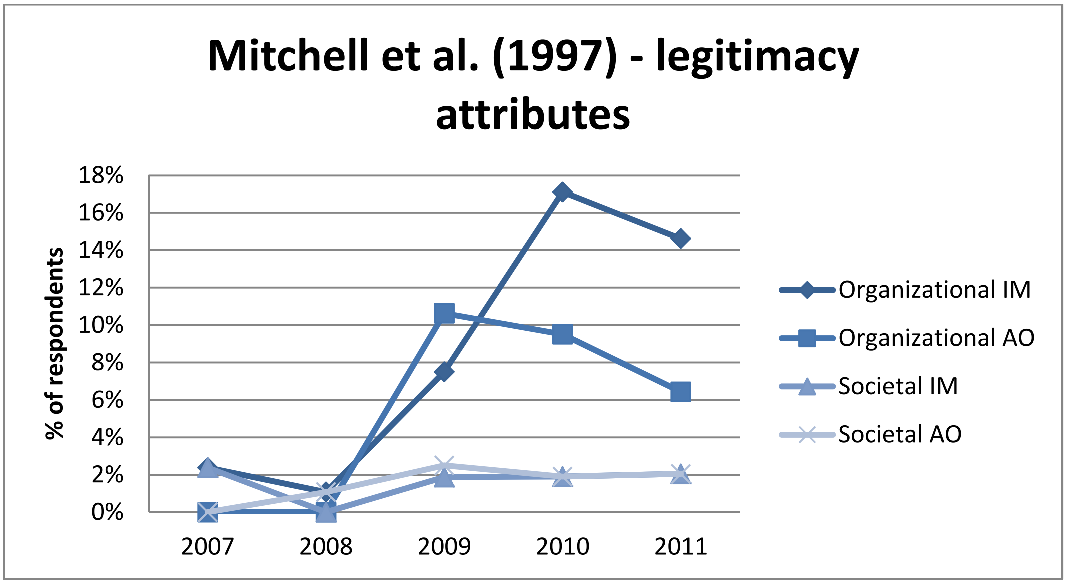


Figure 11. Proportion of asset owner vs. investment manager responses that indicated organizational and societal legitimacy as sources of salience in the process of signing the PRI



Organizational legitimacy is present in the survey responses in two ways. Investors refer to the legitimacy of the PRI's claim as an organization as an incentive, and also to the legitimizing effect on their own organization of joining a highly legitimate initiative in the ESG space.

Organizational legitimacy has a strong presence in investor responses, slightly more pronounced among investment managers than asset owners. Investors say that signing the PRI provides a legitimization of their ESG efforts, e.g. a mainstream European fund says signing the PRI 'grants credibility to its commitment to sustainability and corporate governance principles' (PRI survey responses, 2011). A Canadian public pension fund quotes to be 'benefiting from the credibility of the PRI in the investment community as well as with companies we engage with' (PRI survey responses, 2011).

The proportion of investment manager responses coded as supportive of the organizational legitimacy attribute was similar between mainstream and dedicated SRI managers, at around 15% to 25% throughout the sample years. Public pension funds were much more vocal about organizational legitimacy than corporate pension funds, which reached 5% support only in 2009, compared to 15-20% among public funds.

Societal legitimacy defined as the perception of social support for a claim has had a small but constant presence in signatory responses. Investors see signing the PRI as a step towards aligning their goals with the goals of society, or being better attuned to society. Support for societal legitimacy was slightly more pronounced among public pension funds and SRI managers than mainstream investment managers and corporate pensions – at an around 5% and 1% mean respectively.

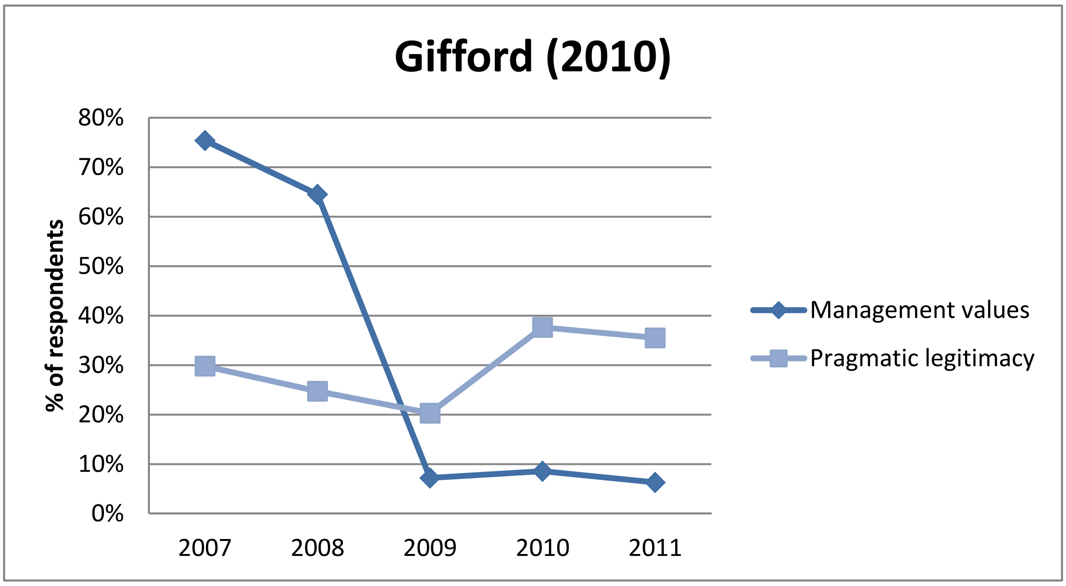
There is no mention of individuals having an effect on the salience of the claim to sign the PRI throughout the sample, except in one instance.

Extended theoretical framework

Of the Gifford additions to the stakeholder salience attributes, the attributes not supported significantly by the data in the population are relative economic size and coalition building. The relative size of assets only becomes a significant factor in the context of coalition building opportunities for signatories amongst themselves via the Clearinghouse. That is also the context in which coalition building is mentioned overwhelmingly by signatories. Neither coalition building nor relative economic size play a role in adding salience to the claim of signing the PRI itself.

The support for both management values and pragmatic legitimacy is strong and develops in an interesting way.

Figure 12. Proportion of respondents whose responses indicated management values and pragmatic legitimacy as sources of salience in the process of signing the PRI

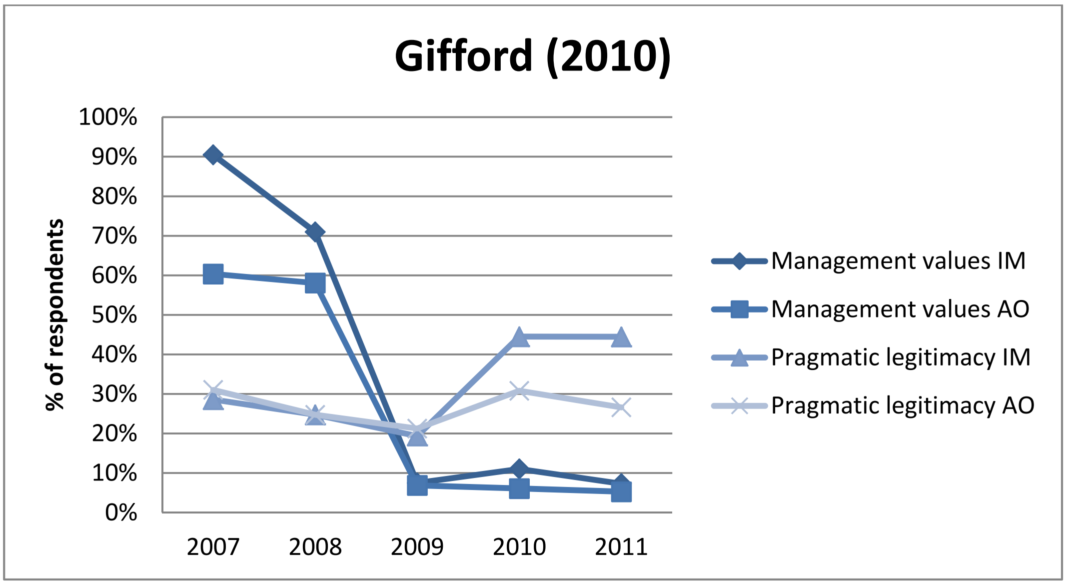


While support for pragmatic legitimacy has been strong and slightly growing over the sample period, management values were mentioned by an overwhelming number of signatories in the first years of the sample period but that number was reduced greatly in the subsequent years, barely reaching 10%.

This also holds for both investor types considered separately, as illustrated in Figure 13. There was steadier, slightly lower support for pragmatic legitimacy among asset owner answers and more growth among investment manager answers. The proportion of investment managers mentioning it in their responses to the survey rose sharply between 2009 and 2010, while that of asset owners stayed between 20% and 30%. Signatories signed in later years quickly catch up to and overtake signatories signed in 2006 and 2007 as the support among earlier signers slopes slightly downwards while the later years display strong growth.

Pragmatic legitimacy was highlighted in both public and private pension funds' responses throughout the sample years (with a 41% mean among corporate funds vs. a 49% mean among public funds). Dedicated SRI investment managers mentioned it in a larger proportion of responses than mainstream managers in the earlier years but they were overtaken in 2010 when 56% of mainstream investment manager responses were coded in support of this attribute, compared to 34% of dedicated SRI managers.

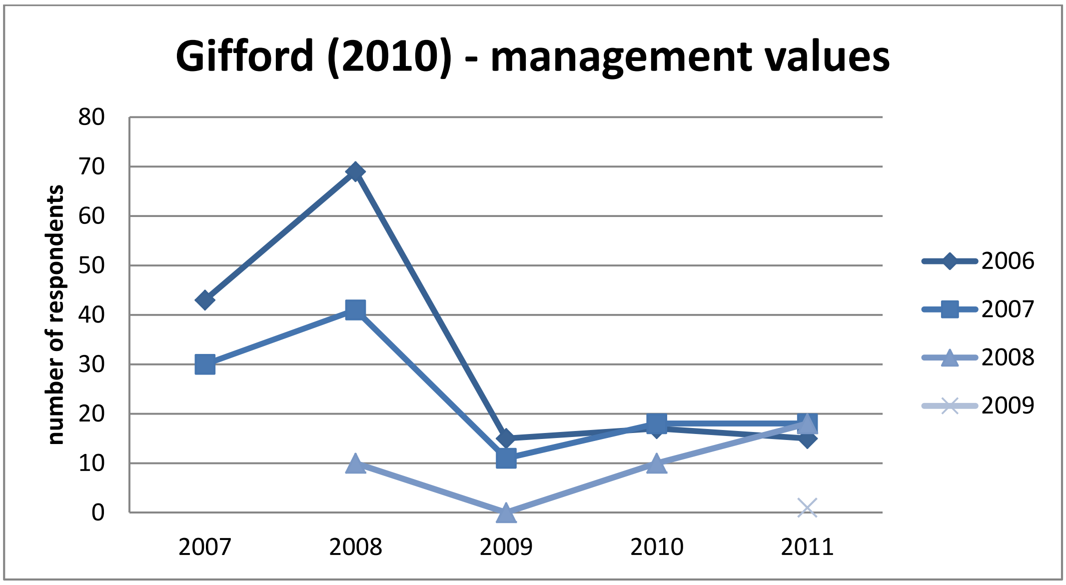
Figure 13. Proportion of asset owner vs. investment manager responses that indicated management values and pragmatic legitimacy as sources of salience in the process of signing the PRI



Management values

Management values were strongly supported in the first two years of the PRI surveys, but support dropped dramatically in the subsequent years. In the years 2007, 90% of asset owners and 60% of asset managers explain their decision to sign the PRI by stating that the values of the PRI reflect the values of their organization, therefore it is a natural step. In 2008 the asset owner number drops to 70% while the asset manager number stays the same, but by 2009 evidence in both investors groups is only found in 10% of responses. This number does not grow in the rest of the sample period. The groups of signatories that signed after year 2008 do not report on management values at all. It is the first signatories from 2006 and 2007 that drive the support for this attribute.

Figure 14. Number of respondents by signature year whose responses supported the attribute of management values.



Value-based motivations for organizational behaviour have been previously theorized in the context of CSR by Aguilera et al. (2007) and David Baron (2009), named 'moral motives' and 'moral duty' respectively. There are good foundations to assume that values play a role in at least a proportion of investors' decision to join the PRI.

A possible explanation of the great prominence of management values in the first years of PRI's existence and why it was followed by its relative unimportance in the subsequent years is that the first wave of signatories would have been those investors who were already ESG minded. They made up most of the signatory body in the years 2007-2008, but by 2009 other factors such as the legitimacy of the PRI, utilitarian incentives, or pragmatic legitimacy attracted large numbers of mainstream investors who placed less emphasis on the alignment of values in their thinking about the benefits of signing the PRI.

It is possible that management values were present to a high enough degree in Gifford's (2010) case studies to justify them being included in the extended framework because of Gifford's sample itself: the three case studies examined are all pre-2009.[20]

Pragmatic legitimacy

Pragmatic legitimacy in the sense of a business case, and supplying management with new and relevant information, is found in a growing number of responses over the sample period. This is consistent with the finding that the alignment of values was important in the first two

[20] The case studies were conducted in the mid-2000s (Gifford, 2010).

generations of signatories, and was superseded with other considerations in subsequent years, such as the growing importance of utilitarian power as another business case attribute.

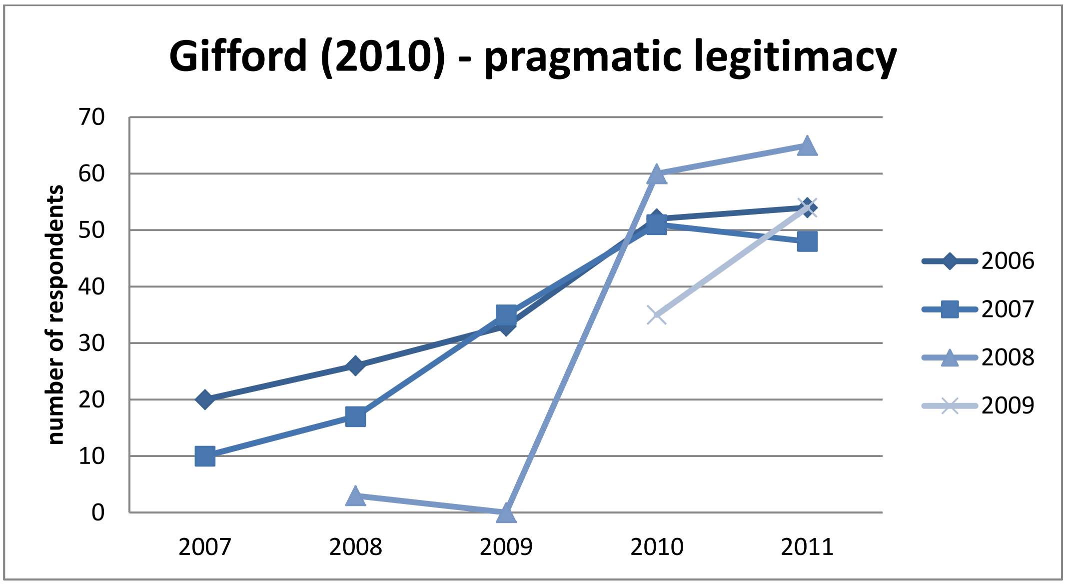
At the end of the sample period almost 50% of investment manager signatories referred to the PRI as supplying relevant ESG integration methods and information, up by 20 percentage points from 2007. The proportion of asset owners grew in absolute numbers over the years but remained at around 30% of responses proportionately. This is consistent with the fact that investment managers should be more responsive to the business case argument given that they are the most performance oriented and are in charge of investing the assets whereas asset owners manage a minority of their assets internally.

The sharp growth trend in the importance of pragmatic legitimacy is consistent throughout the signature years, as illustrated in figure 15.

Signatories see the value of the PRI in access to know-how, best practice, research and trends in the ESG space. They see the PRI as a learning tool for their organizations in the transition towards an ESG integrated investor, via webinars, discussions with other investors, implementation support, Clearinghouse engagements and the association's research outputs.

Signatory responses confirm this. For instance, a French asset manager says: 'The PRI provides an ambitious roadmap for continuous improvement with clear signposts and long term objectives. Our organisation has managed, through its involvement in the past year, to move towards greater ESG integration more broadly (additional asset classes) and more deeply (from SRI to mainstream)' (PRI survey responses, 2011). A Brazilian investment manager describes the PRI as follows: 'We have found a framework that accommodated our pre-signing beliefs related to ESG issues and value creation, and helped us organize or re-shape our internal analysis processes around the principles' (PRI survey responses, 2011).

Figure 15. Number of respondents by signature year whose responses supported the attribute of pragmatic legitimacy.



Research limitations

It is important to acknowledge the limitations of this research stemming both from the characteristics of the data and the method.

The data is self-reported, which has a potential distorting effect on the type of answers submitted. Moreover, the answers analyzed in the sample were not mandatory, meaning that the sample was likely to represent the more involved among the PRI signatory base, who dedicated resources above the minimum that is required to avoid delisting. If that is the case, the results might be only a biased reflection of the motivations of the entire signatory body. It is however reassuring that the geographical distribution and investor type break down is not too dissimilar between the signatories who answered question no.78 and those who did not, which limits the risk of response bias. Detailed descriptive statistics comparing the two groups year on year can be found in Appendix 2.

The discretionary coding method is also a research limitation. It is hard to maintain consistency and lack of bias throughout the coding process for a human coder. The results are ultimately only one possible outcome of the analysis based on the interpretation of textual data by only one group of researchers.

The above research limitations are routinely found in survey based research (Agle et al., 1999; Harris, 2001; Hrashy, 2011; Shin, 2012; Valentine and Fleischman, 2008). They are an obstacle to this type of study being precise and exactly representative of reality. Therefore the numbers quoted in the paper should be treated as a rough estimate of general trends among a sample of PRI signatories as reported by themselves, and as analysed by a small team of researchers and by no means necessarily an accurate quantitative illustration of investor motivations.

Conclusions

The examination of five years of signatory survey responses to questions on why investors sign the PRI and what the perceived benefits of signing are has provided us with many valuable insights.

The attributes from Mitchell et al.'s (1997) framework that found the strongest support in the data are utilitarian and normative power and organizational legitimacy. Of Gifford's (2010) additions to the framework the most prominently represented in the data were management values and pragmatic legitimacy.

The societal legitimacy of the PRI principles is acknowledged by investors, but not represented in the responses to a high enough degree to be concluded to be an important source of salience. Attributes in the Mitchell and Gifford frameworks that are not significantly supported in the data are coercive power, urgency, individual legitimacy and relative economic size.

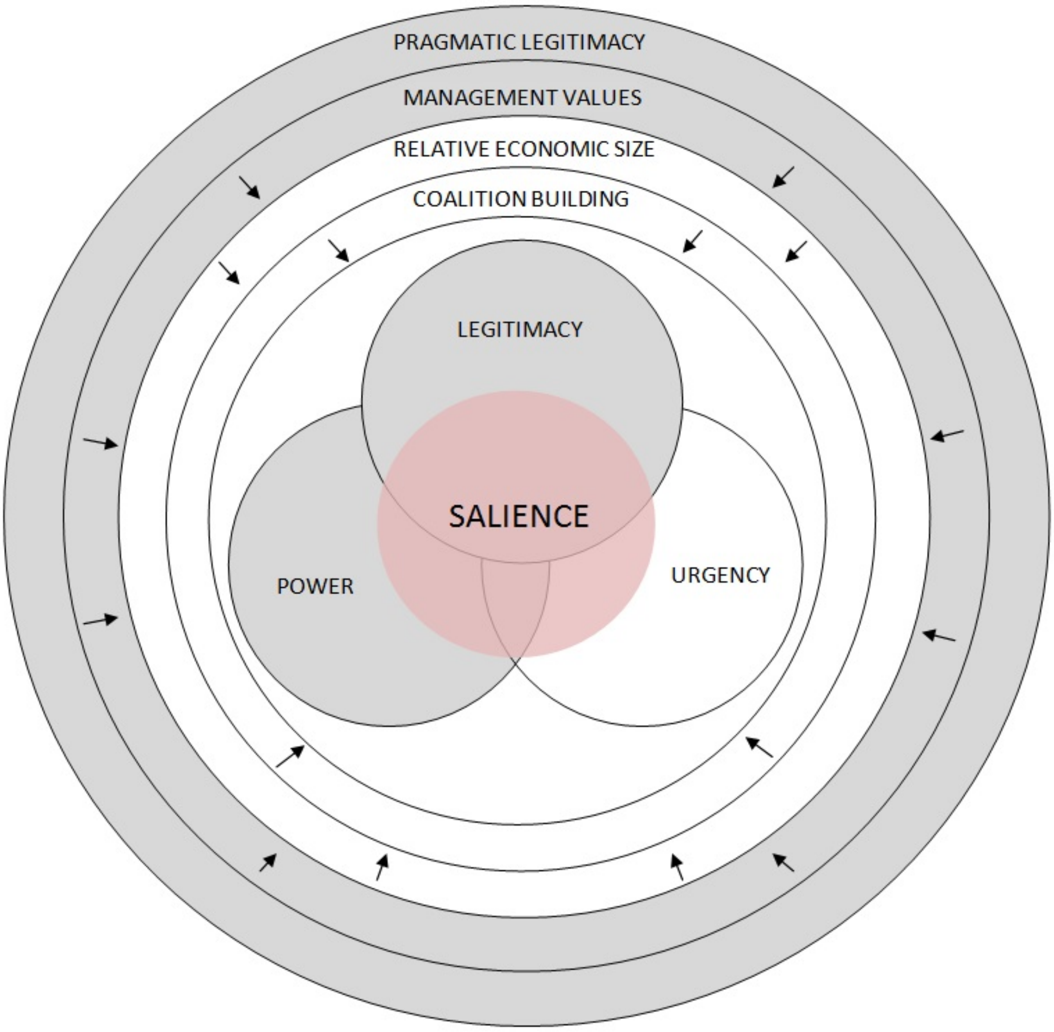
The variable distribution of the sources of salience throughout the sample years confirms the importance of the temporal aspect contributed by Gifford (2010).

The strong presence of both utilitarian power and pragmatic legitimacy attributes in the responses indicates that an important source of salience for the claim to sign the PRI is the materiality of ESG and its mainstreaming. The pragmatic legitimacy related to the business case for ESG integration both in terms of its material impact on returns and the demand on the market (Barnett, 2007; Mackey et al. 2007) has been important to both asset owners and investment managers. The utilitarian power present in the relationship between funds and their clients and members, such as is summarized in the relational organizational identity in Brickson (2007) and Aguilera (2007) is among the attributes most often mentioned in the responses.

Organizational legitimacy and normative power are also among the main sources of salience of the claim to sign the PRI. Investors recognize the reputational benefit of signing the PRI, as well as the legitimizing effect it has on both their organization in general and on their ESG capacity, resulting from the high degree of legitimacy of the PRI itself on the market. This type of motivation links in with individualistic organisational identity as theorized by Brickson (2007) and self-interest (Baron, 2009) where an organization seeks to differentiate itself from its competitors. ESG conscious investment organizations are still a minority but simultaneously the PRI badge has won enough legitimacy for it to reflect positively on signatories and provide an edge.

Management values are a unique attribute in that they appear to have been of major importance as a source of salience in the first two years in the sample, when the first wave of ethically and ESG oriented investors signed up to the PRI. They have been completely superseded by other factors in the later years when the values motivated signatory recruitment pool was largely exhausted and mainstream investors were drawn to the PRI in large numbers by its growing legitimacy and material benefits. The motivations playing a role in this shift are the three distinguished by David Baron's (2009): moral duty is overtaken by self-interest (differentiation, financial performance) and social pressure (client demand, reputation, license to operate).

Figure 16. The factors in the theoretical framework that have been found to influence the salience of the claim to sign the PRI have been coloured in.



This shift in the PRI data also fits well into Diane Laure Arjalies' (2010) social movement perspective on finance where RI is a 'compromise movement' that gradually shifts from a social movement, potentially more values-driven, that gradually merges with the extant logic to create a hybrid logic, in this case a materiality-justified integrated ESG investing model that has all it takes to become mainstream. A change like that can be seen in the replacement of the dominance of management values with the rise of factors such as utilitarian and normative power, organizational legitimacy, and pragmatic legitimacy.

These findings offer an interesting insight into how both the investment industry and the PRI's place in it have changed between 2007 and 2011. It draws attention to how important branding and image are at an organizational level in the financial industry, and how signing the PRI has been increasingly motivated by such benefits. It gives reason to conclude that the PRI is succeeding in convincing the financial markets of the validity of ESG integration as an investment approach and its potential to become mainstream (Diane-Laure Arjalies, 2010). And finally, it highlights that ESG investing is a continually developing space where investors are keen to join forces in action, sharing knowledge and exploring ESG themes and strategies. The high degree of salience coming from a variety of sources confirms the PRI's role as central in this emerging logic.

Appendix 1

Strength of support	weak	moderate	strong	very strong
	Answer indirectly refers to or suggests particular benefits or motivations. The support depends on the interpretation of the text.	Answer refers to or suggests particular benefits or motivations. There is little doubt as to the interpretation of the text.	Answer explicitly refers to particular benefits or motivations, however does so in passing/among many other factors without emphasis on rated factor.	Answer explicitly refers to particular benefits or motivations as the only factor, underlines its importance, or explains it at length.
Power – normative	Refers to benefit or motivation related to the perception of signing the PRI, reputational, branding or marketing benefits, joining the PRI as a licence to operate. Refers to the value of signing the PRI as a way of sending a signal to clients and members that the organization takes its ESG capacity seriously.			
Power – utilitarian	Refers to fulfilling the expectations of or gaining approval of existing or future clients, answering the rising demand on the market for RI.			
Power – coercive	Refers to legislation or formal coercive means by which stakeholders force organization to sign PRI.			
Urgency – time sensitivity	Refers to the temporal aspect of the benefit or motivation to sign the PRI, such as first mover status, impeding event or deadline that is relevant.			
Urgency - criticality	Refers to the intensity with which stakeholders demand that the organization sign the PRI.			
Legitimacy – organizational	Refers to the legitimacy of the PRI as an organization and/or therefore its ability to grant legitimacy to the signatory. Refers to signing the PRI as a licence to operate.			
Legitimacy – individual	Refers to the legitimacy of an individual that played a role In the decision to sign the PRI or has contributed to the benefits thereof.			
Legitimacy – societal	Refers to signing the PRI as an effort to be closer aligned with the interests and/or goals of society, or to better understand them.			
Relative economic size	Refers to the size of the PRI as a motivating factor in signing – the PRI as a trend, a snowball effect.			
Coalition building	Refers to the opportunity of collaborating and networking with other investors interested in ESG as a motivation to or benefit of signing the PRI.			
Management values	Refers to the values of the organization being aligned with the values of the PRI.			
Pragmatic legitimacy	Refers to the PRI being a useful framework for and source of information on and support in integrating ESG into investment, and the opportunities that ESG creates.			

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