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RESEARCH NOTES AND COMMENTARIES

INVESTOR ACTIVISM, MANAGERIAL RESPONSIVENESS, AND CORPORATE SOCIAL PERFORMANCE

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We study relationships between shareholder proposal activism, managerial response, and corporate social performance (CSP). We find that shareholder proposal activism reduces CSP. We infer that rather than pressuring firms to improve CSP, activism may engender diversion of resources away from CSP into political activities used by managers to resist external pressures and retain discretion. We also find that managers are more likely to settle proposals filed by 'salient' shareholders (i.e., those with power, legitimacy, and urgency). Settlement with salient shareholders, however, also reduces CSP, suggesting that managers' responses are symbolic; i.e., they settle with salient shareholders to demonstrate conformance but continue to resist making the substantive changes to core policies that may compromise their discretion.

In public corporations, shareholders are permitted to submit proposals on subjects with social policy implications at annual meetings (Mathiasen, 1994). Shareholder proposals are often used by activist investors such as social groups, individuals, churches, and large pension funds to direct attention, raise awareness, and challenge corporations to improve their 'corporate social performance' (CSP) (Wood, 1991). Over 2944 such proposals were tracked by the Investor Responsibility Research Center (IRRC) (Rehbein, Waddock, and Graves, 2004) from 1988 to 1998 alone, with many firms subject to multiple proposals in any given year.

Despite their widespread usage, the effect of activist shareholder proposals on CSP remains unclear and we explore three related questions in this study. First, does activism discipline managers to improve CSP (as implied by Johnson and Greening, 1999) or does it merely signal the inability or unwillingness of managers to improve CSP (Prevost and Rao, 2000)? Second, are managers more responsive to salient stakeholders, i.e., those with power, legitimacy, and urgency (Mitchell, Agle and Wood, 1997)? Third, are managers' responses to activism substantive, leading to actual improvements in CSP, or symbolic, in which case real improvements in CSP are unlikely (Westphal and Zajac, 1994)?

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EFFECTS OF ACTIVISM ON CSP: DISCIPLINING OR SIGNALING?

As managers make the decisions that affect CSP, shareholders who desire changes in CSP must be able to influence managerial decisions. Activism through shareholder proposals is one such mechanism, yet the effects of shareholder proposals on CSP remain unexplored and theory points to two competing relationships: disciplining and signaling.

Disciplining

Shareholder proposals formally and visibly signal discontent over CSP issues. Regulations require shareholder proposals to be disseminated through proxies at company expense, thus providing activists with a mechanism to communicate with and seek the support of other shareholders. Other shareholders alerted to the issue can vote to communicate their support for or against the proposal. Proposals can reach beyond shareholders to other stakeholders. Current and potential employees may respond negatively if they become aware of inadequacies in a firm's CSP through proposals (Turban and Greening, 1997). Regulatory agencies may also be alerted by activist investors' proposals and consider them when designing regulation. Customers may become aware of issues: their willingness to buy goods from the company may be affected, or they may even mount their own pressure campaigns via boycotts (Hoyer and MacInnis, 1997). Although managers are not legally obligated to implement shareholder proposals, they have a fiduciary responsibility to their shareholders. Shareholder proposals are therefore expected to alert managers both to the underlying problems and the need for change, and to spur them to evaluate the possibility of corrective action and to make changes to improve CSP. Thus, activism may serve a 'disciplining' role wherein managers are pressured by investor dissatisfaction to improve CSP.

Hypothesis 1a: Shareholder proposal activism has a positive association with subsequent CSP.

Signaling

The 'signaling' perspective suggests the opposite effect. According to Prevost and Rao (2000: 181), 'proposals signal to the market reluctance by management to address the area of concern' and they provide 'a way of effectively signaling the (heretofore unknown) flexibility of a management that has been unwilling to take the necessary steps to avert the submission of the proposal.' As managers are expected to proactively preempt activism by adopting appropriate social policies, the filing of a shareholder proposal can publicly indicate resistance to likely initial private overtures from investors calling for changes (Carleton, Nelson, and Weisback, 1998; Wahal, 1996). Firms that have inadequate CSP are more likely to be targeted for activism (Rehbein *et al*., 2004), suggesting that activism—far from being a harbinger of future CSP improvements—merely signals managerial incapability or unwillingness to address activist investors' demands for CSP improvements.

Managers are not always receptive to external challenges to their authority or discretion over corporate policy. Managers seek to maintain discretion over strategic resource allocations, according to reactance theory (Brehm and Brehm, 1981). As acquiescence to activists may reduce discretion, managers tend to react to neutralize these challenges (Westphal, 1998). Impression management scholars (e.g., Ashforth and Gibbs, 1990) discuss the use of explanations as a means to counter external pressure (e.g., denying real problems exist, justifying prevailing policies, and questioning the motives and the content of activist claims). According to Ashforth and Gibbs (1990: 184), 'management's reflex is often to defend the status quo through denial, accounts, or counterclaims rather than to engage in dispassionate problem-solving and substantive change.' Thus, instead of utilizing resources towards enhancing CSP to conform to activists' pressures for change, managers may divert resources away from CSP-related issues and use them to resist external pressures and toward retaining their discretion. For example, managers often respond to government regulations on environmental issues by spending 'too many of their environmental dollars on fighting regulation and not enough on finding real solutions' (Porter and Linde, 1995: 128). Similarly, managers respond to pressures for accountability from independent directors with persuasion and ingratiation tactics that nullify board vigilance and permit managers to retain their discretion (Westphal, 1998). Thus, activism can trigger managers to

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engage in political activities to safeguard their discretion, potentially diverting resources and reducing CSP.

Hypothesis 1b: Shareholder proposal activism has a negative association with subsequent CSP.

EFFECTS OF ACTIVISM ON RESPONSIVENESS: STAKEHOLDER SALIENCE

When faced with an activist shareholder proposal, firms have an option to *challenge* it and exclude it from the proxy, include it on the proxy for shareholder vote but *oppose* it, or *settle* prior to proxy inclusion. Despite evidence that 72 percent of public pension fund proposals (Johnson and Greening, 1999) are settled, most studies of activism only examine proposals included on the proxy (Karpoff, 2001), leaving the other two options unexplored. Each option varies in terms of its responsiveness to activist shareholders. Managers are least responsive when they *challenge* the legality of a proposal by petitioning the SEC to omit the proposal from the proxy. If successful, this action prevents dissemination to other shareholders. Proposals can be challenged on grounds that it relates to a matter of 'ordinary business,' 'affects less than 5% of the business,' or is 'substantially the same' as an earlier resolution that failed to receive support (Mathiasen, 1994). An intermediate response is for managers to allow inclusion in the proxy, but to *oppose* the proposal with a strong statement advising shareholders to vote against because it adversely affects firm operations and may harm shareholder interests. Nevertheless, shareholders have the opportunity to review and decide whether to vote for such a proposal. The most responsive option is to *settle* with activist shareholders by (a) demonstrating firm compliance, (b) agreeing to give the request serious consideration, and/or (c) implementing the proposal. Shareholders do not always expect the entire proposal to be implemented and are often willing to settle based on 'a company's willingness to provide a thoughtful response to shareholder concerns and a commitment to continue to work on an issue' (IRRC, 1993: 1).

While managers have considerable discretion over CSP policies and have no obligation to comply with investor demands, they cannot entirely dismiss all investor demands. To determine the optimal level of CSP (McWilliams and Siegel, 2001) they must decide which shareholder proposals warrant responsiveness. Stakeholder salience theory suggests that managers will pay the most attention and be most responsive to 'salient' stakeholders (Mitchell *et al*., 1997). Stakeholder saliency is determined by the stakeholder's *power* to influence the firm, the *legitimacy* of the stakeholder's relationship with the firm, and the *urgency* of the stakeholder's claim on the firm (Agle, Mitchell, and Sonnenfeld, 1999; Mitchell *et al*., 1997). These three attributes influence managers' perceptions of stakeholder salience and whether stakeholder groups can 'impose their wills' on managers (Mitchell *et al*., 1997: 880). Shareholder groups often have conflicting interests (David, Kochhar, and Levitas, 1998; Hoskisson *et al*., 2002; Kochhar and David, 1995) and likely differ in their salience to managers. For example, Johnson and Greening (1999) discuss the differing preferences for CSP of investment management funds, public pension funds, and management teams. Managers are more likely to be most responsive to (i.e., settle with) proposals from more salient shareholder groups.

Hypothesis 2: Shareholder salience is positively associated with managerial responsiveness to shareholder proposal activism.

EFFECT OF RESPONSIVENESS ON CSP: SUBSTANCE OR SYMBOL?

Although stakeholder salience theory suggests that managers are more responsive to salient proposals, the question remains whether managerial responsiveness yields actual improvements in CSP. Theory suggests two competing answers to this question. Responses can result in a substantive, or 'real, material change in organizational goals, structures, and processes,' or a symbolic change which just *appears* to be 'consistent with social values and expectations' (Ashforth and Gibbs, 1990: 178).

Substance

Managers have a fiduciary obligation to work in the shareholders' best interests (Davis and Thompson, 1994). Managerial responsiveness to salient proposals should meaningfully impact CSP:

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when managers settle with shareholders, they are expressing a willingness to work towards satisfying shareholder concerns and enhancing CSP. Conversely, when managers challenge a proposal and succeed in excluding it from the proxy, they indicate a disinclination to address the focal concerns, and, as such, are unlikely to make the CSP-enhancing changes favored by the activists. Thus, managerial responses to settle proposals of salient shareholders are substantive changes which should culminate in real improvements in the firm's subsequent CSP (Johnson and Greening, 1999).

Hypothesis 3a: Settling a shareholder proposal is positively associated with subsequent CSP.

Symbolism

Institutional theory suggests an explanation for symbolic managerial responses (Meyer and Rowan, 1977). Managers seek to conform to socially sanctioned norms to gain legitimacy, but also face pressures to maintain internal efficiency. Decoupling external conformance from core policies through symbolic responses allows managers to obtain external legitimacy while also maintaining internal flexibility. Prior research shows several instances where managers used symbolic responses to external pressures. Westphal and Zajac find evidence of decoupling with respect to long-term incentives in executive pay (1994) and stock repurchases (2001) wherein managers adopt, but do not implement, these plans to appear responsive to external demands. David, Hitt, and Gimeno (2001) find that firms increase investment in R&D following activism, but real improvements in R&D outputs (e.g., new products) are often not forthcoming. CSP research also shows that managers respond to external pressures by adopting policies that are easily decoupled from core processes (Greening and Gray, 1994; Weaver, Trevino, and Cochran, 1999). In all these cases, managerial responsiveness is symbolic; they appear to conform to gain legitimacy, but no substantive changes to core policies are made. Symbolic responses are unlikely to lead to real changes and the negative effects of activism on CSP should remain.

Hypothesis 3b: Settling a shareholder proposal is negatively associated with subsequent CSP.

METHODS

Sample

Our sample was created by matching investor activism data from the IRRC, CSP data from KLD, financial data from COMPUSTAT/CRSP, and governance variables from Compact Disclosure, Spectrum 13f filings, and proxy statements. KLD ratings are available for over 650 publicly traded firms from 1991. Investor activism data were collected from the IRRC for 1992 to 1998 with a total of 1,906 shareholder proposals identified. After dropping proposals for which firm KLD data are not available and eliminating proposals without outcome notation by the IRRC, our final sample consisted of 1,307 shareholder proposals in 218 firms. Firms in our sample may receive one or more proposals in multiple years but do not always receive a proposal in each year.

Dependent variables

Details of shareholder proposals are tracked in IRRC publication *News for Investors* including: (a) proponent(s) name, (b) proposal description, and (c) outcome, i.e., whether it was excluded on the basis of challenges filed by the company with the SEC, voted on in the next annual meeting, or withdrawn. We classified instances of omissions as challenges, and voting as opposition. We examined various issues of *News for Investors* to determine the reason for proposal withdrawal and classified those withdrawn because proponents believed it would be successfully challenged at the SEC as challenges. The remaining instances were classified as settling. For Hypothesis 2, *responsiveness* was coded as an ordered categorical variable taking the values 1 (challenge), 2 (oppose), and 3 (settle).

The KLD data have been extensively used in the management literature as a measure of CSP (Graves and Waddock, 1994; Johnson and Greening, 1999). Analysts from KLD rate each company on multiple attributes related to CSP using an objective set of screening criteria applied consistently to all companies (see Hillman and Keim, 2001; Waddock and Graves, 1997; for more details). Following prior research, we used KLD's community, diversity, employee relations, environment, and product quality ratings, adding the strengths and subtracting the weaknesses for a composite measure (Hillman and Keim, 2001).

Independent variables

Mitchell *et al.*'s (1997) interrelated criteria of power, legitimacy, and urgency define a group's salience (Agle *et al.*, 1999). With regard to power and legitimacy, *ownership stakes* held by the filing shareholders are likely to have an effect. Proponents with higher ownership stakes have higher voting power; also, large block owners are perceived as more legitimate than smaller block owners. Ideally, we would have liked to code the percentage of an advocates' ownership, but proxy rules do not require such disclosure and these data are not available for proposals settled before proxy inclusion. However, we are able to classify most of the activist investors in our sample into small-block owners (fewer than 1,000 shares) and larger-block owners (more than 1,000 shares). Owners were classified as larger block in all firms if they owned larger blocks in at least one firm. Owners were classified as smaller block if their ownership stake could not be determined in any of the firms. A dummy variable was coded with a value of 1 for larger-block shareholders, 0 otherwise. Although less accurate than using actual ownership stake, this approach does distinguish between relatively small and larger investors, reflecting differences in power and legitimacy.

The power and legitimacy of the filing shareholder group are also likely to be a function of their *affiliation* or *links* with other visible shareholder groups (Oliver, 1991; Rowley, 1997). Comprehensive information on investor activism provided by IRRC reports suggests two shareholder organizations: the Interfaith Center of Corporate Responsibility (ICCR) and the Council of Institutional Investors (CII), are particularly visible and active supporters of investor activism. Thus, proponents affiliated with either the CII or the ICCR should be more influential in eliciting managerial responsiveness. A dummy variable was coded 1 for proposals coordinated with the ICCR or affiliated with the CII, and 0 otherwise. This determination was made from the IRRC's *News for Investors* and from organizational websites.

Finally, with regard to the urgency attribute, we use Hillman and Keim's (2001) distinction between issues affecting: (a) primary stakeholders including customers, suppliers, employees, community residents, or employees; and (b) social issues, such as engaging in military industries, nuclear energy, and 'sin' industries, or doing business with countries with human rights violations. Issues regarding primary stakeholders are more urgent and tied to firm survival and financial performance (Clarkson, 1995; Hillman and Keim, 2001) than are those regarding social issues beyond an immediate impact on primary stakeholders. We coded proposals according to this dichotomy with 0 if it concerned a social issue and 1 otherwise.

Shareholder proposals were coded at the firm level of analysis as follows: *proposals total* was a cumulative count of the number of shareholder proposals initiated; *proposals opposed, proposals challenged*, and *proposals settled* were comparable cumulative counts.

Control variables

To isolate the effect of shareholder proposals on CSP, we controlled for size (log of sales from Compustat), performance (ROA, Jensen's alpha, and Tobin's *Q* from Compustat and CRSP), industry (mean KLD score for all firms in same 2-digit SIC), and governance characteristics (proportion of outside directors from proxy statements, ownership by institutional investors from Spectrum SEC 13f filings and blockholders holding blocks of more than 5 percent from proxy statements). We also controlled for lagged values of CSP. Finally, we identified from IRRC publications whether sample firms were targeted by other stakeholder groups and set a dummy variable to 1 if targeted and 0 otherwise.

RESULTS

A total of 1,306 proposals were initiated by shareholders in 218 firms over the 7 years from 1992 to 1998. Of these, 281 were challenged, 589 opposed, and 436 settled. Proponents owning more than 1,000 shares filed 920 proposals, investors affiliated to shareholder groups filed 935, and 606 proposals were related to stakeholder issues. Means, standard deviations, and correlations are reported in Table 1, while regression analyses are reported in Table 2. Hypotheses 1 and 3 test the association between activism and CSP. Fixed effects regression was used to account for firm-specific heterogeneity and reduces problems of autocorrelation and heteroscedasticity (Greene, 2003). A negative association between activism and CSP rejects the disciplining perspective (Hypothesis 1a)

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Table 1. Means, standard deviations, and correlations

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1 Responsiveness	2.12	0.73																	
2 Activism—other stakeholders	0.59	0.49	−0.12***																
3 Proponent ownership	0.70	0.46	0.29***	−0.09**															
4 Shareholder group affiliation	0.72	0.45	0.30***	−0.10***	0.82***														
5 Stakeholder issue	0.46	0.50	0.17***	0.03	0.06*	0.04													
6 CSP	0.53	2.64	0.01	−0.05	−0.05	−0.08**	−0.02												
7 Industry CSP	0.62	1.78	0.05	−0.09***	0.03	−0.02	−0.02	0.56***											
8 Sales	9.12	1.16	−0.10***	0.33***	−0.16***	−0.14***	−0.06*	0.10**	0.03										
9 ROA	0.11	0.10	−0.01	0.10***	−0.06*	−0.08**	−0.06*	0.04	0.03	−0.21***									
10 Jensen's alpha	0.01	0.09	0.00	−0.02	0.02	0.00	0.01	−0.04	−0.04	−0.01	−0.09								
11 Tobin's Q	1.51	1.17	−0.01	0.09***	−0.08**	−0.10***	−0.03	0.06	0.03	−0.24***	0.87***	−0.10							
12 Institutional ownership	0.58	0.14	0.05	−0.17***	0.16***	0.16***	−0.05	−0.01	0.01	−0.15***	−0.04	−0.13	−0.07						
13 Blockholder ownership	0.12	0.14	0.07**	−0.14***	0.13***	0.10***	−0.02	−0.07	−0.01	−0.29***	−0.09*	0.01	−0.05	0.09**					
14 Outside directors	0.76	0.13	−0.05	0.07*	−0.03	−0.03	0.01	−0.04	−0.03	0.05	−0.16***	0.00	−0.20***	0.17***	−0.07				
15 Proposals total	1.79	1.38	−0.15***	0.44***	−0.16***	−0.16***	−0.11***	−0.02	−0.07	0.47***	0.00	0.02	0.01	−0.15***	−0.21***	0.05			
16 Proposals opposed	0.81	0.95	−0.14***	0.36***	−0.10***	−0.10***	−0.14***	−0.08*	−0.11**	0.26***	−0.04	0.03	−0.03	−0.10**	−0.13***	0.05	0.65***		
17 Proposals challenged	0.38	0.76	−0.43***	0.26***	−0.23***	−0.23***	−0.05	0.02	−0.03	0.30***	0.04	0.00	0.03	−0.10**	−0.15***	0.05	0.59***	0.07	
18 Proposals settled	0.60	0.73	0.41**	0.19***	0.05	0.05	0.02	0.05	0.04	0.24***	0.02	−0.01	0.02	−0.05	−0.08*	−0.03	0.42***	−0.14***	−0.02

Variables 1–5 are measured at the level of shareholder proposal ($N = 1,306$ observations); all other variables are measured at the level of firm-year ($N = 730$ observations). * $p < 0.050$; ** $p < 0.010$; *** $p < 0.001$

Table 2. Results of regression analysis of shareholder proposals on responsiveness and CSP

	Model 1 Responsiveness	Model 2 CSP	Model 3 CSP
Sales	−0.01	0.50	0.58*
ROA	0.08	−0.44	−0.11
Jensen's alpha	−0.04	0.20	0.21
Tobin's Q	0.01	0.14	0.14
Institutional ownership	−0.10	0.64	0.74
Blockholder ownership	0.13	−0.25	−0.26
Outside directors	−0.21	0.48	0.51
CSP—lagged	0.01	0.19***	0.18***
Industry CSP	0.00	−0.10	−0.10
Activism—other stakeholders	−0.15*	−0.51	−0.54
Proponent ownership	0.15***		
Shareholder group affiliation	0.34**		
Stakeholder issue	0.22***		
Proposals total $(t-1)$		−0.16*	
Proposals opposed $(t-1)$			−0.04
Proposals challenged $(t-1)$			−0.23**
Proposals settled $(t-1)$			−0.19*
F-test: Settled = Challenged + Opposed			0.42
χ^2	31.55***		
F-test		3.10***	2.92***
R^2	0.21	0.25	0.20
N	1306	730	730

* $p < 0.050$; ** $p < 0.010$; *** $p < 0.001$

and supports the signaling perspective (Hypothesis 1b). Hypothesis 3 was tested by examining the coefficient of proposals settled. A negative and statistically significant coefficient for proposals settled provides support for a symbolic perspective (Hypothesis 3b) and rejects the substance perspective (Hypothesis 3a).

Hypothesis 2 spans multiple levels of analysis because firms can receive multiple shareholder proposals in a single year; the effect of shareholder salience (proposal-level) on responsiveness (proposal-level) utilizing control variables (firm-level) was therefore assessed using hierarchical linear models (HLM) (Hofman, 1997). Responsiveness was positively associated with salience, i.e., with proposals filed by proponents (a) with larger ownership stakes, (b) affiliated to the shareholder groups CII and ICCR, and (c) on stakeholder issues, thus supporting Hypothesis 2. Additional analyses support the robustness of our results. First, results similar to the HLM analysis reported in Table 2 were obtained with OLS regression and ordered logistic regression analysis of responsiveness. Second, as activism is driven by prior CSP (Rehbein *et al.*, 2004) it is potentially endogenous; similar results were obtained with instrumental regression analysis that accounts for endogeneity. Third, while our reported analyses are based on a 1-year lag we considered the possibility that the effect of activism and responsiveness on CSP may take a longer time and found similar results using 1-, 2-, and 3-year cumulative proposals.

DISCUSSION

Our motivation for undertaking this study was to investigate the relationship between investor activism, managers' responses, and CSP. We find a negative relationship between shareholder proposals and subsequent CSP, suggesting support for signaling rather than disciplining effect of activism. That is, rather than pressuring firms to improve CSP, activism may merely engender diversion of resources away from CSP into political activities used by managers to resist external pressures and retain discretion. We also find, consistent with Mitchell *et al.*'s (1997) stakeholder salience theory, that managers are more likely to settle proposals filed by salient shareholders. Settling with salient shareholders does not, however, result in improvements to CSP. In fact, CSP

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declines even when firms settle with salient shareholders. We infer that managers' responses are symbolic rather than substantive, and so no real changes to core policies are made. These results are consistent with other research which indicates managers may opt for symbolic, rather than substantive, responses to external pressures (e.g., Greening and Gray, 1994; Weaver *et al.*, 1999; Westphal and Zajac, 1994).

Our research may have implications for the large body of work on the effects of investor activism on issues related to corporate governance and financial—as opposed to social—performance (for reviews see Black, 1998; Gillan and Starks, 1998; Karpoff, 2001). Most studies find that activism does lead to the governance changes sought by activists (Karpoff, 2001), but few studies find significant improvements in firm performance (Black, 1998). These results also suggest that governance changes adopted are not substantive but may simply be 'window dressing' to appease activist shareholders.

As with any research taking an initial empirical step into an area with contradictory theories, our research may raise more questions than answers about investor activism. Our study's limitations suggest several questions for future research. First, what are the effects of other less confrontational attempts by shareholders to influence CSP? Our study is confined to shareholder proposals and cannot speak to the success or failure of other modes of influence, such as the informal approaches used by institutional investors (e.g., TIAA-CREF, CALPERs). Second, why do activist shareholders continue to use proposals despite evidence of CSP reduction? One explanation is that activist investors may press for inappropriate CSP goals. Alternatively, activists may use the visibility provided by activism to pursue hidden agendas. Romano (2001) suggests that leaders of activist public pension funds may use the publicity surrounding activism to their political advantage by garnering votes and improving their future career prospects. Likewise, social organizations may exaggerate their influence in order to attract membership. In cases like these, managerial resistance may well be justified. Third, why do activists permit firms to get away with symbolic responses? One possibility is that activists target individual firms to raise overall societal awareness to foster CSP changes in a larger population of firms. TIAA-CREF's CEO noted that: 'the significance is not the three or four laggards you catch—it's that you get the herd to run. We need to scare all the animals' (Scism, 1993: C1). Our study does not capture the possible spillover effects of activism on a larger population of firms.

Limitations in the KLD measures and our aggregation of these data into an overall CSP measure could be obfuscating behavioral responses to activism. For example, KLD's scores for each category are on a five-point scale from significant concern to significant strength (-2 to $+2$). Perhaps a managerial response does occur but it is too small to have an effect on the score or its effect is dwarfed by behavior along other dimensions within the same category or other category scores overall. While our confidence in the data source is extremely high, we would encourage future research that provides for richer, in-depth analyses of particular activism proposals and resultant managerial actions.

Our study also raises important questions for managers. Our results provide support for the theory that managers' reactions to activism are a way to neutralize activists and retain discretion. The motivation for such reactance can range, however, from justifiable (if activist investors seek inappropriate goals) to ethically questionable (if protecting discretion at the cost of desirable improvements in CSP). We cannot disentangle these two possibilities. Similarly, the decoupling of substantive changes to CSP from symbolic appeasement of salient stakeholders is also consistent with a variety of motivations. At the extreme, it may imply managers deliberately mislead activist investors by settling without intending to change. Alternatively, it is possible that managers settle with good intentions, but resource constraints and other pressures stand in the way of making improvements. Given the ambiguity about possible managerial motivations, we are hesitant to draw inferences here, but encourage future research in this direction.

Our study also has the potential to add to the growing body of research that is investigating whether organizational outcomes reflect substance or symbolic conformance (Westphal and Zajac, 1994). We believe this is a promising area of enquiry—one that raises questions about a variety of organizational phenomena and the likely performance consequences. Additional empirical work using different model specifications, various performance measures, and finer-grained industry

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classifications in a variety of organizational settings would be helpful in further advancing this research.

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