Proxy Voting as a Shareholder Engagement Strategy:
Does Responsible Investment Really Promote Corporate Sustainability?

Purpose: This study focuses on proxy voting as a shareholder engagement strategy. Proxy voting is defined as the act of casting a ballot at a shareholder (annual and extraordinary) meeting (Solomon & Solomon, 2004). Proxy voting can be used as a shareholder engagement by various institutional investors. This paper explores how organizations integrate environmental, social and governance (ESG) criteria and promote sustainability through shareholder engagement and/or 'box-ticking'. Box-ticking refers to the practice of voting for the sake of voting and not reflecting on the possible impact of its votes (Solomon & Solomon, 2004; Stapledon, 1995), whether the organization has a proxy voting guidelines (PVG) or not. Hence, this study explores how proxy voting can be (or not) a mechanism for the integration of and for the support of (shareholder) resolution regarding environmental, social, and governance issues and hence promote corporate sustainability.

Design/methodology/approach: The role as well as the impact of the dominant financial logic of the market on the practice of proxy voting in a responsible investment (RI) context will be examined through a qualitative research design. Semi-structured interviews were conducted with 36 practitioners –such as analysts, managers, and consultants involved in responsible investment and working for institutional investors –working in the field of responsible investment. Participants were recruited in three ways: professional network, professional websites, and snowball method.

Prior to this study, the main researcher had worked for over three years in the RI industry either as an analyst service provider or as a consultant for RI organizations; both were linked to proxy voting. This work experience allowed the researcher to have a contextual knowledge of the environment under study and facilitated access to participants. Social situatedness "endows the subject with a privileged access to truth" (Stoetzler & Yuval-Davies, 2002, p. 315). Although this can also be considered as a limitation to the study, this prior knowledge of RI—such as processes, norms, technical language, actors involved— offered the researchers a better understanding of the participants' experiences. Hence, this social situatedness (Stoetzler & Yuval-Davies, 2002) gave an overview of the inside of the subject under study and it acted as a strength in relation to possible comparisons from a supposedly objective external point of view. Some of the analysis could have been sometimes difficult to draw without a good understanding of the context.

The interviews were transcribed verbatim and analyzed using a computer assisted qualitative data analysis software (CAQDAS), QDA Miner 4.1.21. Some themes and categories were of particular interest and needed further exploring in order to have a better understanding. After a four-step coding process— word-base, focus, and axial coding followed by redundancy reduction— a pattern seemed to be surrounding the various participants that were (in)directly responsible for transgressions such as the non-compliance with PVG. Key to this analysis is the investigation of the elements in place that made it possible for participants to do such transgression and the rationalization behind it.

Originality/value: This study contributes to the debate on the extent to which ESG integration is taken into consideration in shareholder engagement strategies by addressing three literature gaps. First, most studies related to shareholder engagement tend to focus on dialogue or divestment (e.g., Beunza & Ferraro, 2018; Logsdon & Van Buren, 2008). Furthermore, the academic literature addressing RI appears data-driven and financially angled (Porter, 1995; Revelli & Viviani, 2015). Only a few studies draw attention to extra-financial issues, such as ESG integration and/or shareholder engagement (e.g., Beunza & Ferraro, 2018; Capelle-Blancard & Monjon, 2012; Slager & Chapple, 2015). Hence, this study attempts to highlight proxy voting as a shareholder engagement strategy and how it takes into consideration ESG issues into the decision-making process.

Second, the lack of compliance and ineffective implementation of PVG observed in this study elucidate the justifications for failing to address ESG issues in proxy voting in a RI context. Furthermore, this responds to the need for empirical studies on how actors navigate conflicting demands (e.g., Greenwood et al., 2011; Pache & Santos, 2013) ; in this case, between the integration of sustainability and the need to have good return on investment (ROI). Such conflicting demands could possibly lead to transgressions of guidelines, which can appear illegitimate and contradictory to the very nature of RI.

Third, the three elements—opportunity, pressure, and rationalization— that make up the Fraud Triangle are used as descriptors and put back into a sociological approach as they were originally intended by Cressey (1953). This study places the focus on the current responsible investment context responding to various critics (e.g. Morales *et al*., 2014) of the Fraud Triangle leading to an excessive individualization of fraud or wrongdoings. Furthermore, this depicts the point of view of the wrongdoers rather than the finders of such wrongdoing (e.g., forensic accountants or fraud examiners) and puts an emphasis on the context rather than strictly on the individual.

Findings: The paper aims at a better understanding of the different challenges faced daily by actors by the integration of environmental, social, and governance factors in the decision process when it comes to voting proxies. The lack of compliance with the proxy voting guidelines and the motivation for shareholder engagement impede the integration of sustainability—and the inclusion of environmental, social, and governance factors— into proxy voting. The data analysis shows the ineffective implementation and multiple wrongdoings of proxy voting guidelines mentioned by the majority of the participants as well as the justifications for failing to substantially integrate sustainability in proxy voting. The results were further analyzed in order to understand the possible causes of these wrongdoings by using elements—opportunity, pressure, and rationalization— that were originally developed in Cressey's Fraud Triangle and that have now been used in multiple research related to accounting and non-accounting fraud as well as illegal and/or illegitimate wrongdoings.

Limitations of the research: The results are specific to proxy voting and therefore cannot be generalized to other shareholder engagement strategies. Data on proxy voting (e.g., justification of casted votes by an organization) and the votes that were cast as well are rarely publicly disclosed because of the current regulation; hence, it was merely impossible to double-check the proxy voting guidelines transgressions by various actors. Furthermore, various biases such as organizational silence (Milliken & Morrison, 2000; Sonenshein, 2007) and social desirability (Chung & Monroe, 2003) could have influenced the answers given by the participants. Nevertheless, they were recruited for their ability as social actors to be reflexive (Kouakou et al., 2013) on their day-to-day job, particularly in terms of RI and shareholder engagement.

Keywords – Sustainability, Responsible Investment, Extra-financial Issues, Proxy Voting, Shareholder Engagement, Wrongdoings.

Paper Type: Research Paper.