

Unintended Consequences of Shareholder Activism: A Socio-Cognitive Stakeholder Theory

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Discussion

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The Paper

▶ The question

- How do firms respond to shareholder activism re: G v. E&S?
- Why so?

▶ The line: activism activates, everything

- In S&P 500 firms
 - ▶ SHA(G) → G↑, E&S↑
 - ▶ SHA(E&S) → E&S↑, G↑(ns)

▶ The story

- A socio-cognitive theory to enhance Stakeholder Theory
 - ▶ Bounded rationality of board members – “emphasize everything”
 - ▶ Seeking social approval, legitimacy

Findings

- ▶ 2 words: well done, absolutely fascinating
 - A simple, yet rich, setting
 - A crisp, clear presentation
 - A surprising, yet plausible, overall finding
- ▶ Perfect match for this conference
 - How boards might think about stakeholders
- ▶ Some quibbles, still
 - Technical – add lags: 2yr, 3yr, 3yr-avg
 - Substantive – is it *shareholder* activism?
 - ▶ Tiny, pestering sh's – vy low approval rate
 - ▶ Possibly/likely: stakeholder activism in disguise
 - ▶ Would affect the interpretation of findings
 - ▶ Can you check?

Theory

▶ How directors think

- A key question for *any model* of boards – hence the contribution

▶ Socio-cognitive theory

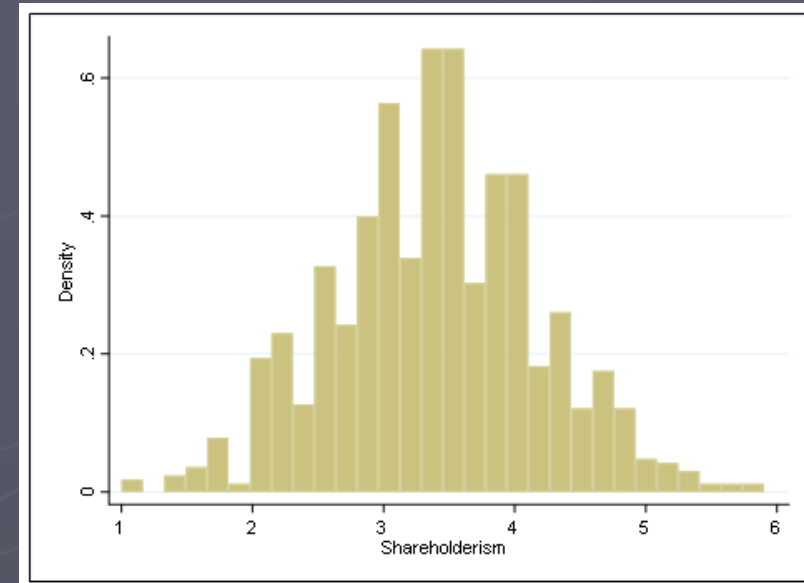
- “socio” – societal level – shared meanings and norms
 - ▶ Plausible, yet under-structured – not borne out in this setting
- “cognitive” – individual level – bounded rationality
 - ▶ Rindova et al. (2012, ...): managers’ attention; the bounded rationality of their cognitions, intuitions, and emotions; the use of biases and heuristics – in strategy formation

▶ *Hmmm...*

- Sounds like Kahneman, Gigerenzer, Simon (satisficing), Stanovich (System1/System2)
 - ▶ Autonomous process – quick, intuitive, effortless, non-reasoned
- Somewhat unlikely in board decision-making re: stakeholders
 - ▶ Esp. in S&P 500 firms – some deliberation, informed decisions – also legally: BJR requires
 - ▶ Substantively – are the documented responses only half-rational?

Theory – Cont.

- ▶ Expand/enrich the theoretical framework
 - Possibly in future/companion work
- ▶ The individual level
 - Consider motivational factors – “what makes them tick?”
 - ▶ Cognitive style – e.g., cognitive closure (Kruglanski) [Licht]
 - Facing a complex decision, do something, *anything*, to get it over with – plausible?
 - ▶ Values – Agle et al., Adams & Licht [& Sagiv] [🙏]
 - Conceptions of the desirable – in general, and re: strategy, stakeholders
 - Consider/acknowledge board member heterogeneity
- ▶ The societal level
 - Norms are powerful re: boards, strategy, stakeholders
 - ▶ E.g., norms of justice (Gartenberg & Zenger)
 - Cultural norms moderate – int’l settings (Adams & Licht)
 - ▶ Regional norms?



Conclusion

▶ Thumbs up!

- A valuable contribution on a key question
 - ▶ Pointing to ind-level psychology and social norms
- Not just *what* boards decide – also *how* they do it
 - ▶ How board members might think about stakeholders