ACTIVISTS AS MORAL ENTREPRENEURS: HOW SHAREHOLDER ACTIVISTS BROUGHT ACTIVE OWNERSHIP TO SWITZERLAND

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ABSTRACT:

Action from activists is at the origin of many initiatives that end up injecting moral concerns into the way companies operate. In such instances, activists function as moral entrepreneurs that lastingly change the definition of what constitutes morally acceptable corporate behavior. Yet, in order to have such a lasting effect on companies, activist efforts need to pass through multiple stages that deal with both the effective mobilization of their own constituents and the triggering of corporate responses that can induce broader change in the economy. In the present article, we study how local shareholder activists initiated and helped sustain the process that led to the establishment of active ownership in Switzerland between 1997 and 2011. Active ownership refers to the active engagement of shareholders with firms to push them towards considering environmental, social, and corporate governance (ESG) criteria in their decision-making. The case illustrates the processual nature of moralizing dynamics initiated by activists and emphasizes the long-term and cumulative nature of many moralization projects.

KEYWORDS:

1. Activists
2. Moral Entrepreneurs
3. Shareholder Activism
4. Active Ownership
5. ESG

Accepted for publication in* Research in the Sociology of Organizations*:

Waeger, D. & Mena, S. 2019. Activists as moral entrepreneurs: How shareholder activists brought active ownership to Switzerland. In: Schiller-Merkens, S. & Balsiger, P. The Contested Morality of Markets. ***Research in the Sociology of Organizations***, forthcoming.

INTRODUCTION

Over the past decades, economic actors have become increasingly exposed to demands from civil society to incorporate moral considerations into their actions (Balsiger, 2016; Mena & Palazzo, 2012). Traditionally grounded in a financial logic of profit making, firms today are asked to also explicitly take into account the general public good, for instance by helping vulnerable portions of society (Muller, Pfarrer, & Little, 2014), protecting the environment (Gond, Barin Cruz, Raufflet, & Charron, 2016), screening investments for corruption-related risks (Shymko & Roulet, 2017) or generally engaging in socially responsible activities (Hafenbrädl & Waeger, 2017).

This evolution has led academics to research the conditions under which companies are more likely to become moralized. Scholars of social movements have been particularly prolific in this task (Arjaliès, 2010; Daudigeos, Roulet, & Valiorgue, 2018; Georgallis, 2017). Traditionally specialized in investigating the nation state as the target of activists, movement scholars have become increasingly interested in what some have called the "private politics" of firm-activist interactions (Soule, 2012). Here, the focus is on the analysis of how movement challengers act as 'moral entrepreneurs' who infuse the incumbent economic system with more explicit or different moral content (Hitlin & Vaisey, 2013). This social movement scholarship on private politics can be broadly divided into two sub-categories.

In the first sub-category, researchers focus squarely on the moral entrepreneurs and study questions related to how activists are able to mobilize adequate resources and support from allies. For effective mobilization to occur, scholars have emphasized the importance of free spaces – spaces shielded from the power of incumbents (Kellogg, 2009; Massa, 2017), the existence of a critical mass of committed core supporters (Kaplan, 2008; Massa, Helms, Voronov, & Wang, 2017) and the reaching out to more distant friends and allies in order to attain scale and power (Zajak, 2017).

In the second sub-category, the focus is not on the moral entrepreneurs themselves, but on the firms that these entrepreneurs are mobilizing against (Weber & Waeger, 2017). Scholars active in this sub-category have investigated which types of companies are particularly likely to get targeted by activists (King & Carberry, 2017), how companies react to being targeted (Briscoe, Chin, & Hambrick, 2014) and how the reaction of targeted companies triggers related reactions at non-targeted companies and the wider economy (Mena & Waeger, 2014).

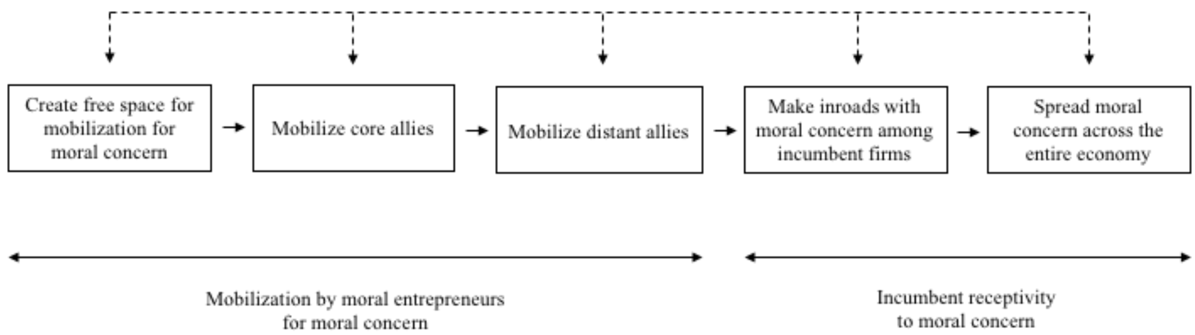
In the present article, we draw on these advancements in the field and integrate them theoretically. Much of the existing literature singles out individual factors – such as mobilizing supporters or targeting certain types of companies – that play a role in how activists spur the ultimate moralization of companies. We adopt a unifying perspective that investigates how such individual factors can be seen as pieces contributing to a larger process. To do so, we draw on the literature of the sociology of morality. Rather than conceiving of moral behavior as a universal standard, we see markets as the site of ongoing struggles around definitions of what constitutes right or wrong (i.e. moral) corporate behavior (Fourcade & Healy, 2007; Hitlin & Vaisey, 2013). What the present study illustrates is that individual factors in a moralizing process are not independent from each other. Rather, they occur sequentially, build on each other and can jointly create a dynamic that leads to the moralization of the economy.

This integrative perspective is inspired by a historical case study of how *active ownership on environmental, social and governance (ESG) issues (thereafter 'active ownership')* has become institutionalized in Switzerland. Active ownership refers to the active engagement of universal owners with the management of firms to push these firms towards taking into account ESG-criteria in their decision-making (Dimson, Karakaş, & Li, 2015). Universal owners – such as many pension funds – are major institutional investors who have very diversified and long-term holdings. As they co-own the entire market through these holdings, their portfolios are exposed to risks related to negative corporate externalities, and universal investors thus have an interest to minimize these negative externalities. Consequently, many pension funds and other universal owners have tried to establish themselves as interlocutors of firms and to influence their management with respect to ESG-issues. In Switzerland, however, the boards of directors have historically been keen on keeping control over high-level strategic decisions[1], such as the ones related to ESG-issues, and they have attempted at resisting pension funds' push towards more voice on these issues. We study the historical emergence and ultimate institutionalization of active ownership in the Swiss context.

The theoretical notion that emerges from the examination of this case is not that a single factor related to activist mobilization or to the characteristics of corporate targets can explain how companies become moralized. Rather, moralization through activists is both a political and a long-term process with different stages that cumulatively build on each other and that contain both elements of mobilization and direct and indirect reactions from corporate targets to such mobilization (see Figure 1 below). It is more, while the case illustrates that a variety of factors are important to explain how companies – and ultimately the wider economy – are moralized, none of these factors emerges as more important than others. Rather, the case indicates the processual nature of moralization and thus implies that each individual factor is insufficient to explain moralization on its own.

FIGURE 1

Political process model for moralization of economy



We draw on written documents from shareholder activists as well as newspaper coverage regarding the emergence of active ownership in Switzerland. We follow the path of Ethos, an investment foundation for Swiss pension funds set up in Geneva in 1997, which ultimately succeeded in establishing active ownership in Switzerland. We analyzed 684 pages of publicly accessible documents Ethos published between 1997 (its creation) and the end of 2011 (when it had firmly established active ownership in Switzerland). In addition, we consulted all 302 newspaper

[1] Contrary to other European countries, in which the role of the board is restricted to monitoring, the board of directors in Switzerland is also the ultimate decision-making body regarding the general strategic orientation of firms (Hoppmann, Naegele, & Girod, 2018)

articles in the *Neue Zürcher Zeitung* (the newspaper of record in the German-speaking part of Switzerland) and in *Le Temps*[2] (the newspaper of record in the French-speaking part of Switzerland) that covered Ethos or Dominique Biedermann (Ethos' director) during this time period. These sources allowed us to establish a clear timeline of critical events and stages. We then consulted press articles from additional newspapers or weekly magazines regarding the coverage of what emerged as particularly critical events in Ethos' history.

We now turn to an in-depth account of each one of the stages through which active ownership in Switzerland evolved.

CASE FINDINGS

Stage 1: Creating a free space for mobilization

Until the 1980s, the shareholder structure of Swiss companies was almost exclusively composed of individual investors. From the mid-1980s onwards, this shareholder structure started to change as institutional investors – Swiss pension funds at first – became progressively more important. Traditionally mostly invested in real estate and Swiss government bonds, the bursting of a real estate bubble at the beginning of the 1990s, together with an already ageing population put pressure on Swiss pension funds to seek greater returns in thus far underinvested asset classes. As a consequence, most pension funds started investing in the stock market with its potential for greater returns.

A no-brainer from a financial point of view – the Swiss Market Index, the Swiss blue chips index, grew fivefold between 1988 (when it was created) and 2000 –, investing in the stock market nevertheless elicited resistance due to moral concerns at some pension funds. At Swiss pension funds, the representatives of the employer and the representatives of the employees each detain 50% of the voting rights when it comes to deciding how to invest the money of the pension fund (Amman & Zingg, 2010). This led to considerable difficulty in moving the *Caisse de prévoyance du personnel enseignant de l'instruction publique et des fonctionnaires de l'administration du canton de Genève* (CIA)[3], the largest of the public pension funds of the canton[4] of Geneva and one of the largest in Switzerland, to invest part of their assets in the stock market. Indeed, the CIA was at the beginning of the 1990s among the pension funds with the highest proportion of unionized employee representatives. Swiss trade unions are traditionally skeptical of capitalism and its financial instruments. Hence, the CIA's employee representatives were not going to support the decision to buy shares of listed companies, since they saw these companies as powerful entities uninterested in the wellbeing of society in general and of workers in particular.

The fact that the CIA nevertheless ended up investing in the stock market is to a great extent attributed to Dominique Biedermann. Biedermann had completed a PhD in economics at the University of Geneva in 1989 and joined the CIA in 1991 as the deputy director responsible of the CIA's financial division and in 1994, he became director of the CIA. As an economist, he saw the turn towards investing in the stock market as inevitable if the CIA did not want to reduce the benefits it could provide to its retired members. But Biedermann was also uniquely positioned to understand and appreciate the social concerns of the employee representatives in the pension fund. A practicing

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[2] *Le Temps* was called *Journal de Genève* until March 1, 1998.

[3] The CIA merged with another public pension fund to create a new pension fund called *Caisse de prévoyance de l'Etat de Genève* (CPEG) in 2013

[4] Switzerland is a federal republic composed of 26 cantons. Cantons are the equivalent to the states in the US.

Catholic, Biedermann often refers to Christian values as being at the basis of his actions and is outspoken in his defense of a conception of the economy that serves mankind, rather than the other way around.

Biedermann looked for ways to alleviate some of the fears of the employee representatives within the CIA and the solution came in the form of a modified investment plan: First, the CIA would not invest in just any company in the stock market. Rather, it would create a portfolio of stocks from socially responsible firms. Second, the CIA planned to become an active investor and aimed for engaging in discussions with the management of Swiss firms on how these firms could improve their performance regarding environmental, social and corporate governance (ESG) issues. With this plan of a socially responsible and active investment approach, Biedermann won over the employee representatives within the CIA, allowing him to send a call for tenders for the construction of an ESG investment portfolio to the asset management departments of all major Swiss banks in 1995. Only few of them responded, as there was at the time virtually no expertise within Swiss banks regarding the analysis of companies' ESG-performance. In the end, a consortium of three players won the tender. The consortium consisted of Lombard Odier, a private bank that would provide the financial analysis, Sarasin, another private bank that would provide the environmental analysis and Centre Info, a think tank that would provide the social analysis for the stock selection.

However, the involvement of three organizations and the inclusion of social and environmental selection criteria (on top of the traditional financial criteria) meant that the construction of the investment portfolio was going to be considerably more expensive than a conventional mandate. Already in financial difficulties, Biedermann at the CIA thus decided that it would be beneficial to create an entity for socially responsible investments (SRIs) not only for the CIA alone, but also for other pension funds interested in SRIs. This would allow for the management fees paid to the consortium to be spread across multiple pension funds. Rather than just creating a portfolio exclusively for the CIA, Biedermann thus contacted another Geneva-based pension fund, the *Caisse paritaire de prévoyance du bâtiment* (CPP), to together set up an investment foundation[5] with the name Ethos in March 1997. Biedermann became the first president of Ethos, while retaining his position at the head of the CIA for another 18 months. According to its charter, the explicit goals of Ethos are to "[p]romote sustainable development principles and corporate governance best practices in investment activities" as well as to "[p]romote a stable and prosperous socio-economic environment that works for the benefit of civil society as a whole and safeguards the interests of future generations".

These goals translate into three pillars of activity. The first pillar involves its asset management services and Ethos offers investment funds for which it selects companies not only on the basis of financial, but also environmental, social and corporate governance (ESG) criteria. The second pillar of Ethos is the exercise of shareholder rights, and in particular voting rights, in the companies its members invest in. While exercising their voting rights at companies' general assemblies has been quasi compulsory for pension funds in the United States for a long time (Davis & Thompson, 1994) pension funds in Switzerland had no obligation to do so until 2013 and thus remained largely passive (Corpataux, Crevoisier, & Theurillat, 2009). This inhibited the development of an infrastructure that would support pension funds in taking decisions regarding the way they could cast their vote – an obstacle Ethos was going to remove by creating a voting recommendation service for its pension funds. And the third pillar of Ethos is to engage in shareholder activist activities around ESG-issues

[5] In Swiss law, investment foundations are investment vehicles conceived for the management of collective investments by Swiss pension funds Membership is restricted to Swiss pension funds.

and thus to actively encourage – and in case encouragement is not enough, to pressure – companies to improve their ESG-performance over time.

The second and third pillars of Ethos' activities were truly revolutionary at the time of Ethos' creation and continue to be so today. No other Swiss financial organization was close to thinking about offering such activities at the time and no Swiss financial organization has been able to truly emulate Ethos ever since. The pension funds themselves were too small to provide voting recommendations or shareholder activist activities themselves. They were also too easily influenced and intimidated by firms to take the role of a critical shareholder. Ethos constitutes a separate entity – a free space – that shields pension funds from firms' direct influence and intimidation tactics. And it is in this quality as a free space that lay Ethos' potential to bundle the dispersed and latent power of Swiss pension funds. Hence, if it were to succeed in bundling pension funds' latent power companies would find it more difficult to put pressure on individual funds because it would be the new entity – Ethos –, rather than individual funds, that would take a critical stance towards companies.

Stage 2: Mobilize Core Allies

The creation of Ethos was essential to set up a space insulated from corporate influence. However, Ethos was also very small and started with only two pension funds. In order to realize the potential that lay in this unique space, Ethos had to grow and attract additional pension funds to join the foundation. Only if Ethos could convince pension funds to join the foundation – and to pay for its services – would it be able to gain the scale and critical mass to become an actor with the ability to influence decisions at Swiss companies. While Ethos was from the very beginning active on all its three pillars, its limited size forced it at the outset to prioritize the development of the first two pillars (the establishment of SRI funds and the production of voting recommendations for the general assemblies of Swiss firms) over the third pillar (shareholder activism).

In 1997, Ethos started with the establishment of an SRI fund of Swiss shares, which it quickly complemented with additional funds for shares from foreign firms and for corporate and government bonds. In September 1998, Dominique Biedermann left the CIA and became full-time director at Ethos. Being the former director of one of the largest pension funds in Switzerland, Biedermann had excellent contacts to other pension fund directors and used these to market Ethos' new products. Biedermann's efforts quickly bore fruits: created in March 1997 by only two pension funds, 6 months later already 20 pension funds had adhered to Ethos, which translated into 200 million Swiss Francs under management; at the end of 1999 they were 74 members and 744 million Swiss Francs and at the end of 2000 86 members and 878 million Swiss Francs.

In parallel to the establishment of these first funds, Ethos also elaborated guidelines for the exercise of the voting rights at the general assemblies of the firms its funds invested in. On the basis of these guidelines, Ethos then provided voting recommendations to the pension funds that had invested in its funds. Swiss pension funds were traditionally very reluctant to actively use their voting rights. A combination of an anti-conflictual Swiss culture, the lack of pension fund resources to make informed decisions, a series of conflicts of interest and the absence of legal or normative constraints to vote led to a situation, in which pension funds either abstained or quasi-automatically voted in line with the propositions of the board of directors of the companies they held shares in. With the issuing of voting recommendations, Ethos aimed to change this situation and to remedy the lack of information pension funds had with respect to the items on the agenda at the general assemblies of Swiss firms. Ethos thus provided its pension fund members with extremely detailed recommendations regarding each item on the agenda of the general assemblies of Swiss companies.

Having successfully established the first two pillars mentioned in its charter, Ethos managed to generate a sustainable revenue stream from its asset management and voting recommendation services. It also managed to establish close ties with its pension fund members. For instance, while at the beginning Ethos retroceded the voting rights for the general assemblies at Swiss firms to its pension fund members, from 1999 onwards the pension funds had enough confidence in Ethos' position and abilities that they would allow the foundation to exercise these voting rights on their behalf. This marked a first step in Ethos becoming the nexus where the power of Swiss pension funds would bundle. This central position of Ethos is exemplified by the difference between the assets Ethos manages directly itself and the weight it represents at the general assemblies of Swiss firms. Hence, the assets that Ethos has directly under management only amount to approximately 0.1% of the total market capitalization of the Swiss stock market. But because pension funds that are members of Ethos also possess stocks in Swiss companies outside of Ethos' funds and because also non-members can cede their voting rights to Ethos, Ethos can quickly represent 20-30 times more votes than it directly manages in its funds. And this weight is further increased by the fact that the participation of shareholders at the general assemblies of Swiss companies lingers mostly around 50%. In other words, if Ethos represents 2.5% of the capital at a general assembly with a participation rate of 50%, it represents already 5% of the votes at that general assembly.

Both the revenues generated from its asset management and voting recommendation services and the ever-closer relationships between the Ethos leadership and its pension fund members were crucial for Ethos to further bolster its position and to become progressively more ambitious with respect to the third pillar mentioned in its charter – shareholder activism. For one, with the revenues Ethos generated it could invest in personnel that was able to follow the Swiss firms more closely and thus to get a better understanding of the ESG-issues these firms could improve on. And maybe more importantly, the close relationships Ethos had built with its pension fund members enabled Biedermann to motivate these pension funds to engage in more onerous shareholder activist activities. Since its creation, Ethos had engaged with Swiss companies regarding ESG-issues, but it did so in a reactive fashion: when ESG-issues surfaced at Swiss companies, Ethos would contact the management of these companies to address these issues. But increasingly, Ethos wanted to put forward its own agenda and to proactively push for the ESG-issues it deemed relevant. To gain this agenda-setting capacity, Ethos needed to actively mobilize its pension fund members. And the success Ethos would ultimately have in mobilizing this group of core allies for more assertive shareholder activist activities would mark a crucial step towards establishing the foundation as an independent and critical interlocutor of the Swiss corporate elite with respect to ESG-issues.

Ethos developed two instruments to bundle the power of pension funds for its shareholder activist activities: The Ethos Engagement Pool (EEP) and shareholder resolutions. The EEP was founded in 2004. The EEP is a mandate by pension funds for Ethos to have a dialogue with Swiss companies around ESG-issues. During the annual meeting of the EEP, Ethos and the pension fund members determine which ESG-issues Ethos should push with the management of Swiss companies during the following year. The EEP is thus an instrument for Ethos to proactively set the agenda regarding the ESG-issues it wants to address. Started with only two members, it grew to more than 50 members by 2011 and at the end of 2017 it had 133 members. What is interesting about the EEP is that it is one single contract between all the pension fund members and Ethos and thus channels the entire weight of these pension funds into the EEP. And while it is formally the pension fund members of the EEP that determine the issues Ethos should address with the companies, on a practical level Ethos has much more knowledge about both the ESG-issues that have the most traction and that are most likely to resonate at the companies. Ethos thus exerts an important steering function with respect to the agenda-setting of the issues to be discussed with companies within the framework of the EEP.

The second instrument are shareholder resolutions. Shareholder resolutions are proposals submitted by shareholders and to be voted on at a company's general assembly. They are a very common instrument in the United States but much rarer in Switzerland. One reason is that submitting a shareholder resolution at a Swiss company is much more difficult and requires shareholders to detain a much higher percentage of a Swiss company's total market capitalization resolution. For instance, to submit a shareholder resolution at Nestlé in 2005, it was necessary to detain Nestlé shares worth 265 million US dollars whereas to submit a resolution at a US company a shareholder only needs to detain shares worth 2000 US dollars. In other words, gaining the capacity to submit shareholder resolutions at Swiss firms was a very tall order for Ethos: Ethos does not own the shares invested in its funds. And even if it did, these funds would not be enough to clear the threshold to submit a resolution at most large Swiss firms[6]. The way Ethos managed to nevertheless submit shareholder resolutions is by convincing some of the pension fund members to bundle their shares they own at a targeted Swiss company (i.e. not only the shares at the Swiss companies that these pension funds had invested via Ethos, but also the shares that these pension funds had invested via other investment vehicles) and to submit shareholder resolutions together. In other words, in order to sponsor shareholder resolutions Ethos drew on the close relationships it had previously built with its pension fund members. On the basis of these relationships, Ethos managed to convince pension funds to put their weight behind the shareholder resolutions it formulated. And when Ethos has submitted resolutions, they have often proven important in changing discussions around specific ESG-issues in Switzerland.

Overall, these developments indicate that Ethos was successful in mobilizing a critical mass of Swiss pension funds as core allies for its initiatives. Ethos thus managed to leverage its potential as a free space to effectively become the central nexus for Swiss pension funds' shareholder activist endeavors.

Stage 3: Mobilize Distant Allies

Ethos succeeded where others had failed before it: mobilizing the weight of Swiss pension funds and channel this weight to engage Swiss companies in a moralizing discussion around their ESG-performance. At the same time, Ethos remains a relatively small structure. Not all Swiss pension funds have adhered to it – some pension funds are less motivated to further goals related to sustainable development and remain uniquely interested in the financial performance of their investments. And while representing more or less 5% of the votes at the general assemblies of Swiss companies is certainly a respectful number, if the influence of Ethos had remained limited to these 5%, the foundation is unlikely to have had the impact it ended up having on the Swiss economy. An important factor to explain Ethos' success thus was the foundation's ability to reach beyond its core

[6] Contrary to the United States, where the threshold of 2000 US dollars to submit a shareholder resolution applies to all companies, the threshold at Swiss companies is determined by the stipulations in the corporate bylaws (within some minimal requirements mandated by Swiss law). Thresholds to submit shareholder resolutions at Swiss firms thus differ from firm to firm.

constituency of ESG-sensitive Swiss pension funds and to mobilize also more distant allies on select issues.

Key to Ethos' ability to do so is the continuous trend towards a more internationalized shareholder structure at Swiss firms since the end of the 1980s (Mach, Schnyder, David, & Lupold, 2007). Until the end of the 1980s, the majority of Swiss firms had explicit provisions in their bylaws to forbid foreigners the acquisition of shares with voting rights. This changed with Nestlé's 1988 general assembly, at which the company decided to open its shareholder structure to foreign investors. Soon, all major firms in Switzerland emulated Nestlé's move and the percentage of foreign – mostly American – shareholders in Swiss firms rapidly increased, such that by the beginning of the 2000s in many of the largest Swiss firms the majority of the shareholders were non-Swiss. Seeing the reluctance of most Swiss shareholders to engage more actively with corporate management, Ethos focused on these foreign investors to gain additional allies. As Biedermann said in an interview with the *Neue Zürcher Zeitung* in 2010:

> To put it bluntly, the majority of Swiss companies is owned by foreign shareholders. […] [W]e have more and more contacts with foreign pension funds, not only in Europe, but also in North America or Australia. There are very strong links in this world of institutional investors, which are in their majority investors with a long-term horizon.

Ethos' attempts at gaining the support from international allies was greatly facilitated by the fact that a transnational investor infrastructure has developed over the past two decades that allows for bundling and coordinating activities of investors across borders with respect to voting at general assemblies. It is true that these transnational linkages are limited to relatively less time-consuming activities, such as voting at general assemblies. Activist activities that are more costly and/or time-consuming – such as the type of dialogue Ethos conducts with companies in the EEP – are usually more difficult to coordinate across borders and most minority shareholders only actively engage in discussions with corporate management in their home markets (Jacoby, 2007). Yet, the fact that such transnational linkages exist for voting at general assemblies is enough to bring in the weight of foreign investors when Ethos sponsors shareholder resolutions at Swiss companies. There are three ways in which Ethos campaigns for support from international investors when it sponsors shareholder resolutions.

First, it courts the large international proxy advisory firms. For simple risk management purposes, most institutional investors have a diversified investment portfolio investing in hundreds, if not thousands of firms around the world. Analyzing and determining how to vote at the general assembly of each one of these firms would be very costly. To determine how to vote at general assemblies, investors thus rely heavily on the recommendations of the large proxy advisory firms. Institutional Shareholder Services (ISS) and Glass Lewis, both of which cover since the beginning of the 2000s most important financial markets, dominate this proxy advisory market (Sauerwald, van Oosterhout, Van Essen, & Peng, 2016). Since the beginning of the 2000s it is estimated that these proxy advisory firms can bundle between 20-40% of the votes at the general assemblies of the largest Swiss firms. They thus wield enormous influence over the outcomes of the votes cast at these general assemblies and are therefore an important potential ally for minority shareholders submitting shareholder resolutions. When Ethos sponsors a shareholder resolution, it tries actively to get the backing of these proxy advisory firms by getting in direct contact with them, explaining their resolution and the rationale for why the proxy advisors ought to issue a supportive recommendation for it.

Second, Ethos enters in direct contact with other institutional investors. Traditionally, it was very difficult to find out who other shareholders of a company are. But the United Nations-supported Principles for Responsible Investment (PRI), an international network of investors, has set up the Collaboration Platform (formerly called Clearinghouse Platform) in 2006 and Ethos became a signatory of PRI that same year. Investors can post their proposals on this platform and thereby reach out to other investors that are members of PRI. Each time Ethos sponsored a shareholder resolution after 2006, it campaigned for support via this platform and found this to be a very important and successful tool to gain traction for its proposals.

Finally, Ethos has also invited international investors to announce publicly their support to Ethos' shareholder resolutions. This element has two effects. On the one hand, it has the potential to galvanize other investors that have not decided whether they want to support Ethos' resolution. On the other hand, it is a strong signal to the targeted companies that there will be considerable support for Ethos' resolution at their upcoming general assembly. In some instances, this signal was enough for companies to give in to Ethos' demand, which then resulted in Ethos' withdrawal of the shareholder resolution.

The international support Ethos has been able to attract for its shareholder resolutions have allowed the foundation to punch way above its weight vis-à-vis corporate management. As mentioned earlier, Ethos directly holds about 0.1% of the total market capitalization of Swiss companies. With the backing of its core constituency – essentially composed of Swiss pension funds –, it may come to represent up to 5% of the votes at the general assembly of a Swiss firm. However, with the backing of international allies, it has repeatedly reached between 30% and 40% of the votes in support of the shareholder resolutions it has sponsored. From an American point of view 30% - 40% of votes in favor of a shareholder resolution are a very respectable, but not an unusual result – every year there are a multitude of shareholder resolutions in the United States that reach that level and there are even some that get majority votes (Flammer & Bansal, 2017). But in the Swiss context, such a percentage of votes against corporate management is extremely rare, not only because of the non-conflictual local culture, but also because the management of companies traditionally coopted a large part of the shareholders and even had explicit provisions that limited the total amount of shares with voting rights that a single investor could exercise. All of these factors strongly limit the possibility of getting a high percentage of support for a shareholder resolution and all the stronger is the signal that such a high percentage of support sends to corporate management when it occurs.

Stage 4 – Make inroads among individual firms

Until the mid-2000s, Biedermann and Ethos enjoyed remarkable successes. Biedermann established Ethos as the central Swiss shareholder activist organization that managed to bundle the formerly dispersed power of Swiss pension funds. And it mobilized support beyond Swiss borders to reach impressive voting scores for its shareholder resolutions at several Swiss firms. However, these successes did not translate into a broader change in the behavior of corporate management, which largely continued to disregard minority shareholders' concerns over ESG-issues. Based in French-speaking Geneva, the German-speaking media were skeptical of the new actor and many Swiss companies found Ethos to be too aggressive and critical – in short, they engaged in discussions with Ethos only reluctantly and otherwise did not recognize the foundation as a natural and legitimate interlocutor around ESG-issues.

The watershed moment that would lastingly change that came at the general assembly of Nestlé on April 14, 2005. Rainer E. Gut, Nestlé's chairman had announced his retirement and the general assembly had to elect a new chairman. The board of directors proposed then-CEO Peter Brabeck to succeed Gut. If approved, Brabeck would thus occupy both the position of the chairman and the position of the CEO – an accumulation of roles investors and corporate governance experts around the world view very critically because of the obvious conflict of interest the chairman has in controlling him-/ or herself. Ethos sought to dissuade Nestlé from proposing Brabeck before the general assembly but did not succeed. With the support of several Swiss pension funds, Ethos thus filed a series of shareholder resolutions, the most important of which demanded the separation of the roles of CEO and chairman at Nestlé. Ethos' resolution received 35.9% of the votes and an additional 13.5% of the shareholders abstained, such that only 50.6% of shareholders were against Ethos' resolution. For a variety of reasons, this result fundamentally changed the debate in Switzerland around the place of minority shareholders in debates around ESG-issues in Swiss companies.

Hence, the fact that only 50.6% of shareholders actively supported the Nestlé management was unheard of in Switzerland. But Ethos had received strong support for its shareholder resolutions at other Swiss firms prior to the 2005 general assembly of Nestlé without the same profound consequences. Other factors that were specific to the situation at Nestlé in 2005 thus also played an important role. For instance, in terms of its business operations, Nestlé was doing very well in 2004-2005. The support for Ethos by the shareholders could thus not be attributed to a general discontent of the investors with Nestlé's financial performance, as might have been the case with some of Ethos' earlier shareholder resolutions at other firms. In addition, Nestlé occupies an outstanding role in the corporate landscape of Switzerland. It has been the largest Swiss company by market capitalization for a long time and represents close to 20% of the total market capitalization of all firms listed on the Swiss stock exchange. Whatever happens at Nestlé thus has a big influence on other Swiss firms. Additionally, Nestlé 'sheavy-handed management of the looming confrontation with Ethos both before the general assembly and in its immediate aftermath generated a lot of publicity and negative scrutiny. For instance, Brabeck announced that the entire board of directors of Nestlé would step down if a majority of shareholders would support Ethos' resolution. Not only had he not coordinated with the other members of the board – and several board members said in public that they were not planning to step down – but also was this announcement widely seen as an attempt at blackmailing the shareholders and at forcing them into voting in line with the board of directors. The *Neue Zürcher Zeitung (April 15, 2005)*, the newspaper of record for the German-speaking part of Switzerland wrote:

> Instead of finding an arrangement in time with its shareholders, [Nestlé] got wound up in an unworthy attitude of defiance despite an opposition that was unexpected both in its magnitude and in its intensity. The embarrassing behavior further escalated in the past days with rumours of threats of resignation in case Ethos' resolution would be accepted. The fact that this blackmailing affront against shareholders […] was subsequently denied, cannot [conceal] the mentality [behind this action].

The commentary by the Neue Zürcher Zeitung is remarkable because the newspaper had previously often been skeptical of Ethos' activities and traditionally enjoys excellent relations with corporate elites in Switzerland. The scrutiny around Nestlé's general assembly also surfaced several problematic aspects of corporate governance in Switzerland that exemplified the extent of protection many boards of directors enjoyed vis-à-vis their shareholders. Hence, a few weeks before Nestlé's general assembly, the *Neue Zürcher Zeitung (March 5, 2005)* had written :

> A problem for groups like Ethos are the giant hurdles shareholders have to overcome to exercise their rights. Abroad, things are different: since last year, shareholders in the United States have the right to submit a shareholder resolution when they own shares that are worth 2000$, in Scandinavia the possession of a single

share is already enough [...]. At Nestlé, however, [shareholders need] shares worth 320 million Swiss francs [approximately 265 million $ in April 2005].

Brabeck himself was weakened after the general assembly and he saw the need to engage with Ethos around his double role as chairman and CEO and, more generally, around issues of corporate governance at Nestlé. The following year, Nestlé's general assembly approved a management-sponsored resolution to change the corporate bylaws on several of the points Ethos had previously criticized. The new bylaws were accepted by the 2008 general assembly and contained several elements that substantially improved corporate governance at Nestlé. Also in 2008, Brabeck stepped down as the CEO of Nestlé and only kept his role as the chairman of the board.

Stage 5 – Spread moral concern across the entire economy

But more important than these specific corporate governance concessions was for Ethos the signal that Nestlé's 2005 general assembly came to be for the general relationship between universal owners and the management of Swiss firms. Hence, in the immediate aftermath of the clash between Ethos and Nestlé the Swiss media commented on how the strong support for Ethos' resolution marked a milestone in how Swiss companies are run. Serious newspapers both in the French and the German part of Switzerland wrote headlines, such as "Insurrection against the bosses" and "Shareholders, stand up!". The image of all-powerful and untouchable corporate managers was shattered. It became clear that even the executives of Switzerland's most powerful company were accountable to their shareholders and that the era of autocratic leadership was over. And although the situation was specific to Nestlé, it was clear for observers that the vote at Nestlé's general assembly would have more far-reaching consequences for the Swiss economy at large. A commentator in the weekly magazine *BILANZ (May 5, 2005)* wrote:

> Rainer E. Gut and Peter Brabeck were taught a lesson that will reverberate through the Swiss economic landscape. From now on, shareholders are aware that they can defend themselves against inappropriate propositions from corporate leadership.

And the effect of Nestlé's general assembly was not going to remain restricted to the immediate aftermath of the vote. Ethos itself gained in stature and became much more publicly visible, especially also in the German speaking part of Switzerland. It also managed to gain endorsements from additional pension funds, which would in subsequent years delegate their voting rights to the foundation. Biedermann himself started to be referred to as a "protector of shareholders" in the media.

Moreover, beyond the gained status with the media and additional pension funds, Ethos significantly improved its reputation among Switzerland's corporate elites. Hence, Nestlé started consulting with Ethos on how to improve corporate governance at the world's largest Food & Beverages company. At a personal level, Brabeck and Biedermann managed to establish a relationship of mutual trust. This allowed Biedermann and Ethos to spread their message among the corporate establishment of Switzerland and to point out that they were not revolutionaries trying to work *against* the Swiss economy, but rather that they were interested in the long-term success of the companies. And for Ethos, such a long-term focus does not only involve a healthy financial bottom line, but also a healthy corporate governance and socially and environmentally healthy communities within which companies operate. Brabeck and with him the Swiss corporate establishment started recognizing that Ethos as a long-term oriented shareholder is different from the short-term position many hedge funds and other institutional investors routinely take at large

Swiss firms. They also recognized that this long-term engagement justifies and legitimizes Ethos' position as a more active – and critical – investor and interlocutor of the management of Swiss companies. More than a year after the infamous Nestlé general assembly, the newspaper *Der Bund (August 26, 2006)* wrote:

> The beginning was very difficult for Ethos. Companies lost their cool when Ethos knocked on their door with its questions. 'In the first years the firms did not understand what we wanted' says the director of Ethos. But when corporate leaders understand that the foundation is interested in their long-term wellbeing, they soften up. [...]. Today, the access to companies is much easier and there are often meetings with the highest echelons, with members of the board or the president.

Ethos did not abandon its critical stance towards Swiss companies with respect to ESG-issues after Nestlé's 2005 general assembly. But its relationship with the management of Swiss companies had fundamentally changed: it had become a legitimate interlocutor for managers in environmental, social and corporate governance matters and had established itself as the foremost representative of active ownership in Switzerland. Today, many of the ESG-issues Ethos has pushed for at Swiss firms have become common practice: the accumulation of the CEO and chairman functions has completely disappeared among Swiss blue chips, Say-on-Pay has become institutionalized, most Swiss firms now publish the extent of their carbon emissions (Ethos was the Swiss representative of the international shareholder coalition 'Carbon Disclosure Project') and the adoption of corporate codes of conduct have become widespread (Waeger & Mena, 2013).

DISCUSSION

Bringing about change and new ideas of morality to corporations and the economy is difficult. Novel ideas of what constitutes morally appropriate corporate conduct are often first pushed by moral entrepreneurs situated at the periphery of an existing moral order, such as activists or other secondary stakeholders (Baron, Neale, & Rao, 2016; Schifeling & Hoffman, 2017). These peripheral actors are less bound to the status quo and thus more likely to question it. But due to their peripheral position they generally lack the power and influence to lastingly anchor new conceptions of morality without support.

Based on a historical case study about the establishment of active ownership in Switzerland, we have developed a model for a political moralization process that accounts for how originally peripheral actors can end up changing prevalent conceptions of appropriate corporate behavior in an economy (see Figure 1). The model underlines that moral entrepreneurs' successful mobilization is crucial to engage in struggles around what constitutes morally acceptable conduct with incumbent firms. But it also illustrates that moral entrepreneurs need to able to make inroads with their ideas among incumbent firms in order to lastingly change the underlying conceptions of morality in economic and corporate life (Hitlin & Vaisey, 2013). The ultimate success of a moralization process thus not only hinges on the endeavors of moral entrepreneurs, but also on the receptivity of incumbents to the challenges mounted by these entrepreneurs.

The case of how Ethos started from a minimal structure composed of two pension funds interested in pushing Swiss firms towards a better performance on environmental, social and corporate governance indicators has served us as an illustration of such a moralization process. In a first stage, dispersed Swiss pension funds needed to create a free space for mobilization, which they could fill in the second stage by mobilizing core allies. In a third stage, they had to reach out to more distant, powerful allies, which allowed them in stage four to foray into formerly resistant corporate targets. These corporate targets, in turn, started to accept the pension funds as legitimate interlocutors on ESG-issues. The reaction of these targets then spilled over to other Swiss companies and led to the widespread institutionalization of active ownership.

Overall, the model that emerges from this case draws on various factors existing scholarship has singled out as playing a role in how social movements and activists can act as moral entrepreneurs in an economy. We took inspiration from that literature and integrated several factors into our model. The implication from this integration is that no one single factor can account for how activists have a moralizing effect on economic life. Rather, the model emphasizes the interdependence and sequentiality of multiple factors that jointly contribute to a moralization dynamic in the economy.

This process model being inspired by a single (and successful) case of how the economy has become moralized, there are naturally some specificities related to our context that may not universally apply. For instance, while the importance of free spaces for mobilizing challengers is a cornerstone of social movement research (Rao & Dutta, 2012), whether such free spaces are – as in our case – actively created and thus part of the mobilization process (Massa, 2017) or whether their existence predates mobilization (Heinze & Weber, 2016; Kellogg, 2009; Waeger & Weber, 2017) likely varies across settings. In general terms, while the process model points to an interdependence of multiple factors, there is likely variance regarding the importance of any individual factor across settings and some factors may be altogether unnecessary for change to happen under certain circumstances. For instance, it is imaginable that moral entrepreneurs are able to garner sufficient influence and power by mobilizing core allies and thus do not need to reach out as much to more distant ones as was necessary in the case under study here.

Another question regards the exact sequence of the different stages in the process. As illustrated by the dotted lines in Figure 1, there is likely also a circular, rather than purely a linear dynamic among the different stages of the process with multiple feedback loops occurring across time. Hence, in our case, Ethos' ability to make inroads among individual firms in stage 4 of the model allowed it to mobilize additional core allies (stage 2 in the model). At the same time, stage 4 of the process would not have been reached had Ethos not attained a critical mass of core allies previously. More generally, it is at least theoretically conceivable that there is first a mobilization of distant allies and only afterwards a creation of a free space in the local environment, but we would argue that the modal sequence of the political process to moralize the economy looks more similar to the one we found in our case.

It is also interesting to emphasize that at a lower level of abstraction than in Figure 1, several factors about the case discussed in the present article are likely quite different from other moralization processes set off by activists. For instance, public pressure transmitted via media outlets played a relatively minor role in the present context, whereas it is a crucial element of many other moralization processes, in which activists are involved (Schifeling & Hoffman, 2017; Vergne, Wernicke, & Brenner, 2018). And the centralization of activist efforts at Ethos was facilitated by the fact that Ethos was mobilizing pension funds, rather than individuals. In other cases, where successful mobilization depends on mass participation from individuals across locations, more decentralized activist organizations are likely to emerge, which may, in turn, interfere with coordinated decision making and campaigning (Morris & Staggenborg, 2004).

Finally, the process model conveys the impression of an inevitable advancement towards the final stage of moralization. While this scenario has played out in the case under study in the present article, it is clear both logically and from the case we have described that there are important challenges to be overcome at each stage of the process. Future research could look into the circumstances under which these obstacles are more difficult to overcome and where, therefore, the process may stall and never be completed (Schneiberg, 2013). For instance, incumbents are oftentimes opposed to changes in the status quo and it would be interesting to investigate what precise actions they undertake to halt the advancement of the process at each stage (Mena, Rintamäki, Fleming, & Spicer, 2016). Such future investigations would help refine the presented model and ultimately contribute to further improving our understanding of the ways through which activists can act as moral entrepreneurs that influence the conceptions of morally appropriate behavior of economic agents.

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