Investors pushing for sustainability: How firms assess the urgency of stakeholder requests

Determining who and what really counts is one of the key problems in stakeholder theory (Driscoll and Starik 2004; Jones, Felps, and Bigley 2007; Neville, Bell, and Whitwell 2011; Neville and Menguc 2006; Parent and Deephouse 2007). According to the seminal paper by Mitchell, Agle, and Wood (1997), the central concept in this problem is stakeholder salience, which is in turn determined by power, legitimacy, and urgency. While power and legitimacy have been studied extensively in prior and subsequent work, urgency remains the least understood of the three underlying attributes (Neville et al. 2011; Parent and Deephouse 2007). This is a problem, because determining which issues have the greatest urgency, and how to respond to them, is a continuous challenge in stakeholder management. In fact, urgency looms large for an entire literature stream that investigates when and how firms respond to different stakeholder requests (Bundy, Shropshire, and Buchholtz 2013; Crilly, Zollo, and Hansen 2012; Durand, Hawn, and Ioannou 2019; Oliver 1991).

Scholars often define urgency based on its dictionary definition as "calling for immediate attention" or "pressing" (Magness 2008; Myllykangas, Kujala, and Lehtimäki 2011). Yet according to the original definition, urgency has two attributes: "(1) time sensitivity – the degree to which managerial delay in attention to the claim or relationship is unacceptable to the stakeholder, and (2) criticality – the importance of the claim or the relationship to the stakeholder" (Mitchell, Agle, and Wood 1997:867). Thus, for a stakeholder request to have urgency, it must not only be urgent in the temporal sense, but the request also needs to be important to the stakeholder. Knowing whether a request is indeed important to a stakeholder seems essential, since a stakeholder will only leverage its resources to reward or sanction a firm's response when the issue at stake has high criticality for the stakeholder itself. This begs the question: how do firms evaluate urgency?

In this paper, we study how firms assess the urgency of stakeholder requests and how their assessment affects their responses. We choose an empirical context where power and legitimacy are given, but variations in urgency are expected: Sustainable investing. Sustainable investing refers to a rapidly growing investment approach where investors integrate firms' environmental, social, and governance (ESG) performance in their decision-making. Currently, investors representing over 110 trillion USD have signed up to the United Nation's Principles for Responsible Investing (PRI 2021). ESG investors are powerful and legitimate stakeholders (Berman et al. 1999) that have a large variety and number of requests to firms regarding their ESG performance. Yet the urgency of these requests is uncertain. For example, in their 2020 annual report, DWS says that more than half of its assets under management - €459 billion, equivalent to $540 billion - are invested according to an ESG consideration process (DWS 2020). Yet an internal assessment and whistleblowing activities revealed that actually only a fraction of DWS' assets under management are subject to such a process (Kowsmann and Brown 2021; Miller et al. 2021; Walker and Miller 2022). While the asset manager claims that they "have placed [ESG] at the heart of everything [they] do", their former sustainability chief says "the firm [has] no clear ambition or strategy [and] lack[s] policies" (Kowsmann and Brown 2021). A police raid in DWS' Frankfurt office in response to the greenwashing claims and the resignment of the CEO substantiated the allegations (Steinberg and Frankl 2022; Walker and Miller 2022). In consequence, DWS' investees

have reason to question the urgency of DWS' ESG requests, both in terms of time sensitivity and criticality.

The paper performs an analysis of interviews with publicly listed firms to understand how firms assess the urgency of investors' ESG requests and how variations in urgency affect firms' responses to investor requests. Our analysis leads to three important insights. First, we show that firms perceive and respond differently to different levels of urgency. This supports the theoretical relevance of urgency. Second, we demonstrate that criticality is a necessary condition for urgency to arise. Time sensitivity increases the level of urgency but there is no urgency without criticality. Third, we find that urgency, and especially criticality, has an important influence on whether firms respond symbolically or substantially.

Our findings contribute to the literature in two ways. First, we contribute to the literature on stakeholder salience by unpacking the concept of urgency and how it affects firms' responses. Urgency has two dimensions, time sensitivity and criticality. Our findings suggest that these two dimensions are not equally important but that there is a hierarchical relationship between the two. While scholars refer to time sensitivity more frequently, our findings suggest that the criticality of the request is the primary determinant of urgency. Criticality means that the stakeholder has a genuine interest in their request being adopted. Requests that are not critical to the stakeholder do not have future implications for the firm as the request is not supported by the stakeholder's internal processes. Stakeholders will not sanction or reward responses to requests that never mattered to them. The firm's response to a non-critical request is irrelevant to the stakeholder. This implies that requests that are not critical cannot be urgent. Criticality is thus a necessary condition for urgency. Only after there is certainty about the criticality of the request, firms consider the timeline by when a response is expected. Simply said, firms do not worry about deadlines for requests that they do not consider critical enough to respond to. Yet once a request is considered critical, a deadline by when a response is expected can increase the urgency. This indicates that time sensitivity depends on criticality.

Second, we contribute to the literature on the impact of sustainable investing on firms. There are different impact mechanisms, but the level of evidence for their effectiveness varies (Kölbel et al. 2020). Shareholder engagement is relatively well understood (Ferraro and Beunza 2018). Corporate responses to ESG ratings are ambivalent (Chatterji and Toffel 2010; Slager and Gond 2022), in part because there are multiple and inconsistent ESG ratings. The effect of index inclusion/deletion and divestment is so far not detectable (Durand, Paugam, and Stolowy 2019; Hawn, Chatterji, and Mitchell 2018). Meanwhile, theory in financial economics predicts that a large fraction of investors with preferences for sustainability should create incentives for firms to improve their sustainability performance (Pástor, Stambaugh, and Taylor 2021). We offer an analysis of the effects of sustainable investing from the firm's perspective, explaining how firms deal with the direct and indirect requests they receive through various mechanisms ranging from ESG integration to formalized engagement. We suggest that shareholder engagement is effective because it is resource intensive and thereby demonstrates criticality. Divestment is perhaps more effective than previously thought because even without an immediate price effect, it demonstrates to firms that ESG requests are so critical that investors escalate for ESG reasons. Approaches such as ESG integration could be much more effective if investors would communicate to firms which metrics count for them and follow through with their buying and selling decisions. In a nutshell, we suggest that investors need to put their money where their mouth is, to convince firms to do the same.

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