

Shareholder Engagement in the Extractive Sector
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Abstract:

The extractive sector is seen as one of the most eligible and prominent areas for shareholder engagement. Given its environmental footprint, social impact, and global nature, this sector is particularly prone to risk in its operation. Large scale investors and forward thinking financial analysts concerned with reputational risk as a consequence of lagging or sub-par environmental, social and governance (ESG) standards in companies are increasingly turning to shareholder engagement as the preferred and most direct method of implementing, monitoring and advising companies. This paper argues that shareholders have some impact on ESG issues with companies in the extractive sector. Their salience stems from the legitimacy they bring to the engagement, with a high degree of knowledge in the sector and a pragmatic approach that recognizes the incremental nature of change in extractive companies.

In this paper we build on the work of both Mitchell et al., and Gifford on stakeholder saliency, in order to interrogate the results of engagement at the level of the firm, with particular reference to the extractive sector. Previous work has focused on saliency of such engagement at the stakeholder level, with the investor as the unit of analysis. This essay investigates the impacts and perceptions of shareholder engagement in the extractive sector examining NEI Investments (NEI) engagements with mining giant Barrick Gold from 2005 to 2009. We further quantify the results of the engagement using data from a third party rating agency.

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