



ECGI BLOG REVIEW

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The Board Foundation (BF) is a Swiss-based non-profit organization committed to the pursuit of excellence in corporate governance. It aims to create value for individuals, organizations, and society by providing a global platform for development, networking, and innovation to board directors, governance professionals, and academics in the field of corporate governance.

The BF has three operating units: the Swiss Board School (SBS), the Swiss Institute of Directors (SIoD), and the International Center for Corporate Governance (ICCG).

Founded in 2013, the BF is committed to promoting good governance practices. It provides guidance on corporate governance principles, promotes transparency and accountability, and advocates for maintaining high standards of board professionalism. It firmly believes that combining practical and academic, national, and international, and legal and economic perspectives leads to the best governance solutions. Our approach is grounded in academic interest and enriched by the experience of a diverse team of people.

Over the past four decades, we've grown in size, expanded across Europe and delved into new sectors. We've followed our passion for working together with experts in government, regulation, courts and business to find answers to global challenges.

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About the Blog

Launched in February 2022, the ECGI Blog has become a key global platform for sharing insights and fostering dialogue on corporate governance, stewardship, and corporate responsibility. The blog showcases commentaries and analyses contributed by members of the ECGI network and experts from around the world, with the goal of broadening the understanding of research and igniting informed discussions that influence global perspectives.

Throughout the year, the ECGI Blog highlights emerging themes, current debates, and challenges in corporate governance, while also revisiting well-established topics of widespread interest. The articles, written by experts in their field, showcase diverse global perspectives from academics, practitioners, and policymakers on the topics, aimed at general readership. The blog strives to inspire fresh ideas, prompt new research, and stimulate conversations that contribute to the advancement of corporate governance practices worldwide.

For further reading and to access all hyperlinks and article references, please visit the Blog section of the ECGI website: www.ecgi.global/blog

Past issues of the ECGI Blog Review

Available at: <https://www.ecgi.global/publications/blog/ecgi-blog-review>



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February 2026



'Blog Review'
December 2024



'Special Editions'
August 2024



'Governance & Climate Change'
January 2024



'Technology & Governance'
January 2023



'Responsible Capitalism'
September 2022

ECGI Blog Review - Issue N° 7

Some of the most insightful conversations in corporate governance happen at a number of prestigious conferences. There, carefully selected research is presented, tested and refined, and much of it goes on to shape the discipline for years to come. Few people can attend them all. The ECGI Blog brings those rooms to its readers. Our contributors, many of them the presenters themselves, turn their papers, panel remarks and afterthoughts into short, accessible pieces. Reading Issue N° 7 is the closest thing to a front-row seat at a year of ECGI events.

This issue covers seven events. It opens with the Weinberg Center symposium at the University of Delaware and moves on to the IESE-ECGI conference on shareholders in a disrupted world. It continues with the SFS and Drexel governance conference, the Baltic Family Firm Institute's family firm conference, and the Università Bocconi forum on shareholders and corporate law. It closes with the law and finance conference co-hosted by Frankfurt, LSE, Oxford and Penn, and GCGC 2025 at Imperial College London. Alongside the events, a series of pieces reads the mood of the 2025 AGM season.

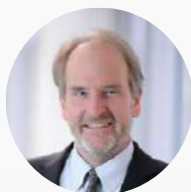
One question runs through almost every section: **who really holds power in the corporation?** Several pieces question the idea that shareholders are equal. **Active funds' votes** count for more than passive ones. Public opinion, state politics and **public pension funds** acting as "public principals" all shape how votes are cast. Two authors go further. One compares shareholder meetings to the assembly of ancient Athens, and another calls corporate democracy a comforting fiction.

A second thread follows **the changing mood on sustainability**. Asset managers are quietly retreating from climate pledges, and the tone at AGMs has shifted from grand statements to something more measured. There are calls to replace ESG with "true and fair" accounting, and a sober look at what sustainable investing can realistically achieve. Other contributors look past the listed company altogether. They study **family firms** that adapt from the inside, the knock-on effects of private equity buyouts and venture capital, and the **arrival of geoeconomics in the boardroom**. Along the way they find **CEOs** who steer their own succession, rivals who sabotage one another, and regulators whose performance pay led them to quit.

The open submissions carry these debates past the conference and into public view. A conference piece declaring **ESG dead**, and proposing "true and fair" accounting in its place, drew a direct rebuttal, and the original author replied. The exchange is printed here in full. Further submissions look at sustainable bonds as a push towards better governance and at the Jane Street episode in India.

Issue N° 7 of the ECGI Blog Review shows a field rethinking some of its oldest assumptions: that one share means one vote, that sustainability can be reduced to a score, and that governance stops at the edge of public markets. The answers are not settled. They are still being argued over, which is what makes this collection worth reading.

So take your seat, the sessions are about to begin. We hope you enjoy the conversations as much as we enjoyed gathering them!



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The views



Sehoon Kim, Bernadette A. Minton & Rohan Williamson



Directors who had experienced salient climatic disasters in the past are significantly more likely to be affiliated with nonprofit organizations, consistent with heightened prosocial preferences.



Marion Plouhinec

The Annual General Meeting season is a useful indicator of the state of play between corporates and investors. 2025 will mark the shift from Covid-era sustainability-related grand statements closer to rationality.



Meghana Ayyagari, Janet Gao & Pengfei Ma



Partisanship of CEOs plays a significant role in shaping corporations' trade decisions in response to geopolitical tensions, with sizable consequences for firm value.



Catherine Howarth

The approach of asset owners to stewardship in 2025 will set the tone for how the wider capital markets community acts in the remainder of this climate-critical decade.



Melissa Crumling & Tanja Kirmse



Public firms increase their number, quality, and novelty of patents when they learn from the disclosed innovation of private firms – especially young firms.



Stephan Stegmüller

Investors believe that the lack of an in-person option can be restrictive to their shareholder rights and that in-person attendance forms one of the foundations of good corporate governance.



Felipe Cabezon

Even when minority executives make it to the upper echelons of corporate leadership, they continue to face unequal and less lucrative pay structures.



Frederick Alexander

Shifting to a portfolio-centric analysis of individual company practices would enable investors to align investment practices with the broader conditions necessary for long-term wealth creation.



Jaewon Choi, Mathias Kronlund & Ji Yeol Jimmy Oh



Silent swing pricing reflects the challenges of managing flows and associated trading costs, but also highlights the need for transparency to maintain investor trust.



Jordi Canals

Investors should use their decision-making power to make companies more resilient and competitive, and engines of economic prosperity.

The views



Colin Mayer

Shareholders have many rights, but they have one overriding responsibility – to ensure they profit without harm.



Mireia Giné

Institutional investors are not just shareholders. They are governors — with the data, the votes, and increasingly, the last word.



Jill Fisch & Jeff Schwartz



Public pension funds should be understood not as intermediaries whose managers are fiduciary-bound to serve passive beneficiaries, but as public principals imbued with public values and run in accordance with those values.



Marco Becht

Major asset management firms have rapidly retreated from climate commitments through multiple channels.



Marco Becht

Fossil fuel divestment announcements are "statements of disapproval that align actions with words for effectiveness".



Matthew J. Bloomfield, Thomas Bourveau, Xuanpu Lin, Guoman She & Haoran Zhu



I don't need to improve my performance; I can just lower yours.



Luc Renneboog

While discrimination litigation triggers some reactions—particularly among certain consumers, skilled employees, and in internal governance structures—its aggregate effect on firm value and stakeholder relationships remains limited.



Reena Aggarwal, Hoa Briscoe-Tran, Isil Erel & Laura Starks



Ignoring public sentiment can lead to increased shareholder activism and leadership turnover.



Xavier Vives

Strong commitments by firms to decarbonize reduce the burden on public policy to incentivize the transition.



Thomas Geelen & Jakub Hajda



Incumbent CEOs wield significant influence over succession processes, often in ways that conflict with shareholder interests.

The views



Davidson Heath, Da Huang & Chong Shu



Active funds hold more sway, despite their smaller levels of share ownership, because their votes imply a willingness to back up their dissent with real action.



Ettore Croci, Federica Cupelli & Andrea Viola



There is a markedly lower likelihood of control changes in firms owned by families or the State.



Todd Gormley, Manish Jha & Meng Wang



Supporting ESG proposals in states hostile to “woke capitalism” can invite backlash that affects both the firm and the investor.



Mario Daniele Amore

When hit with penalties, family firms make fewer changes to their financing and investment strategies but significant adjustments to their top management positions.



Jason Chen, Jakub Hajda & Joseph Kalmenovitz



The reform was meant to retain and motivate top regulators. But in practice, it motivated them to quit.



Jinzhao Du, Peter Pham, Jason Zein & Ronald Masulis



Senior executives aren't just hired—they're reallocated, redeployed, and rotated across firms within the group to meet the group's changing needs.



Morten Bennedsen, Yi-Chun Lu & Vikas Mehrotra



The spatial and temporal embeddedness of the family in the business is a central theme that not only identifies common features within the class of firms called family businesses, but also distinguishes this class of firms from non-family firms.



Christina Sautter

When corporations dominate our economy and politics, excluding ordinary citizens from corporate decision-making undermines democracy itself.



David Cabrelli

The prevailing shareholder-centric DNA of UK corporate law is a major obstacle to the introduction of any measures that might enable it to forge the tools needed to intervene in post-takeover labour markets in favour of employees.

The views



Sergio Alberto Gramitto Ricci

Most individual shareholders, even when they own shares directly, are driven away from voting by a system designed for institutional efficiency, not individual engagement.



Curtis J. Milhaupt

Geoeconomics requires leveraging, curtailing or blocking the actions of profit-oriented commercial enterprises to increase governmental power vis-a-vis geopolitical rivals.



Cédric Huylebroek & Olivier De Jonghe



PE ownership typically benefits upstream suppliers through increased input demand, but PE firms exert greater cost-savings pressure on suppliers during periods of economic distress.



Alex Edmans, Tom Gosling & Dirk Jenter



Until doing good becomes consistently profitable, fiduciary duty and incentives within the investment chain will limit the impact of sustainable investing.



Bo Bian, Yingxiang Li & Casimiro Nigro



Shaping fiduciary loyalty in a manner that overlooks the unique role of constituency directors and, more broadly speaking, the specific characteristics of VC-backed firms can prove problematic.



Zohar Goshen, Assaf Hamdani & Dorothy S. Lund



If shareholders are given full information about the financial terms of the transaction, their approval should be respected by the court.



Gad Weiss

Pay-to-play clauses can help by requiring all investors in advance to pony up in that situation or face economic penalties, which encourages, when appropriate, the investors' long-term commitment.



Charles C.Y. Wang

Contrary to popular belief, legalizing share repurchases increased public companies' investment, by 8-10% on average.



Isabelle Zhang

GVCs may be reshaping market behavior in unintended ways—crowding out entrepreneurs in non-favored sectors and creating a more concentrated, less dynamic startup ecosystem.



Luca Enriques, Casimiro A Nigro & Tobias H. Troeger



Rigid German and Italian corporate laws lead to a significant decrease in contract functionality, which can deter VC investments at the margin.



The views



Nickolay Gantchev, Mariassunta Giannetti & Marcus Hober



ESG metrics in pay seem to function more as reputation management tools than as mechanisms for change.



Zhou Chun, Zhang Wei & Dan W. Puchniak



China's shareholder market may be more rules-based than you think.



Jitendra Aswani

Sustainable investment encourages firms to implement sustainable governance practices.



Constantijn van Aartsen

Conflicting values make it wishful thinking to suggest, as Mayer does, that shareholders could be effective in a role to ensure that companies do not profit from harm.



Colin Mayer

This is not about determining prices to remedy market failures but the way in which the ownership, governance, culture, and organization of companies assist companies in determining strategies and processes to achieve this.



Vishrut Kansal

The Jane Street matter blurs the line between aggressive arbitrage and manipulative conduct. For market participants and regulators alike, it raises a pressing question: should algorithmic strategies that rely on concentrated expiry-day trades be subject to the same governance expectations as traditional market conduct rules?



Event | 14 March 2025 | Organised by:

the John L. Weinberg Center for Corporate Governance – The Department of Finance at the Lerner College of Business and Economics at the University of Delaware – ECGI

The symposium and competition date back decades and have evolved in various forms, with the past five years focusing on empirical academic finance research in corporate governance. Since its inception, the competition has received more than 1,000 papers, with an average of around 100 submissions annually in recent years. Many submissions and winning papers have become highly influential. Since 2015, the top five papers alone have accumulated over 1,500 citations, with nearly a third exceeding 100 citations.

At the Weinberg Center, we view Delaware not just as a leading state of incorporation, but as a premier forum for advancing corporate governance scholarship. This year's symposium featured papers covering timely and complex governance topics, including the evolving role of proxy advisors and customisation in shareholder voting; tensions between shareholder democracy and political responses in public goods provision; the influence of climate disasters on investor activism; potential trade-offs between diversity and operational flexibility; and a reassessment of index funds' role in corporate oversight.

How Directors' Past Experiences Shape Corporate Climate Policies

Sehoon Kim, University of Florida

Bernadette A. Minton, The Ohio State University

Rohan Williamson, Georgetown University, NBER, and ECGI

The interplay between individual experiences and corporate decision-making has long been a subject of academic inquiry. Our paper, "Climate Boards: Do Natural Disaster Experiences Make Directors More Prosocial?", delves into this relationship within the critical context of corporate climate policy.

We investigate whether the past experiences of corporate directors with abnormally devastating natural disasters influence firms' environmental

stewardship, specifically their greenhouse gas emissions and the adoption of formal climate policies. Our findings suggest that directors who had experienced salient climatic disasters in the past are significantly more likely to be affiliated with nonprofit organizations, consistent with heightened prosocial preferences. Moreover, firms with more of these types directors exhibit lower greenhouse gas (GHG) emission intensities and are more likely to implement robust climate policies.

This research contributes significantly to our understanding of the drivers behind corporate sustainability initiatives, highlighting the role of personal, formative experiences in shaping prosocial preferences that permeate the boardroom.

Our study's central premise is that salient and adverse past experiences, such as witnessing the destruction and suffering caused by major natural disasters, can mold individuals' prosocial preferences. Corporate directors who have such "Abnormal Disaster Experiences" (DADEs) may develop a stronger desire to mitigate the likelihood of future catastrophic events, including those exacerbated by climate change. Consequently, these directors might leverage their influence to push the firms they govern towards more environmentally responsible practices, primarily for societal benefit. We contrast this "prosocial preference" hypothesis with an alternative "climate risk belief" hypothesis, which posits that disaster experiences might lead directors to update their beliefs about financially material climate risks.

To test these hypotheses, we construct a comprehensive dataset linking directors' past employment locations with county-level natural disaster data from the Spatial Hazard Events and Loss Database for the United States (SHELDUS). We identify abnormal disasters as climate-related events causing property and crop damage exceeding \$1 billion in 2022 dollars. This historical disaster exposure was then matched with the current board composition of publicly listed U.S. firms. Our analysis examines the relationship between the number and roles of DADEs on a board and various measures of corporate climate policy, including scope 1 and 2 GHG emission intensities and explicit climate policies (disclosed in the Climate Disclosure Project (CDP)) such as board oversight of climate issues, emission reduction targets, and managerial climate incentives.

The core findings reveal a statistically and economically significant negative association between the presence of DADEs on a board and the firm's scope 1 and 2 GHG emission intensities.

For instance, an increase of one DADE per ten directors is associated with a 3% reduction in GHG emission intensity. Furthermore, firms with more DADEs are significantly more likely to assign climate policy responsibilities to the board, set explicit emission targets, and provide climate-related incentives to management.

Crucially, our study investigates the mechanisms through which DADEs exert their influence. We find that the impact on GHG emissions is primarily driven by DADEs who serve on governance, audit, or ESG/sustainability committees. In contrast, DADEs on compensation, finance, or risk committees do not exhibit such a strong effect on firm emissions. This distinction provides compelling evidence for the prosocial preference channel, suggesting that directors are more likely to channel their disaster-informed values through committees with broader stakeholder-oriented objectives rather than those focused solely on financial risk and performance. Moreover, the results indicate that male DADEs are the primary drivers of these effects, a finding that contrasts with other research suggesting female directors are quicker to update climate beliefs. Our study also highlights that independent directors with disaster experience are more influential in reducing emissions than non-independent directors, mitigating concerns about managerial influence.

Further bolstering the prosocial preference interpretation, our research demonstrates that the accumulation of disaster experiences over directors' careers is far more impactful than recent experiences. Directors with a longer history of exposure to abnormal disasters have a significantly greater effect on reducing firm emissions. Additionally, the effects are concentrated among emission-intensive and larger firms, suggesting that DADEs are targeting their influence where it can have the most significant societal benefit. Our study also finds that the results are driven by abnormally devastating disasters exceeding \$1 billion in damages, and not by smaller, less salient events. Importantly, the impact of DADEs on corporate emissions does not appear to be merely a response to increasing societal attention to climate change, as the effects did not significantly strengthen after the 2015 Paris Agreement and the formation of the TCFD.

Finally, and perhaps most reassuringly for shareholders, we find no evidence that having more DADEs on the board improves or hurts firm financial performance. This suggests that directors with past disaster experiences are not pursuing emissions reductions at the expense of shareholder value, but rather seeking to balance financial and prosocial objectives.

In conclusion, our research provides robust evidence that the lived experiences of corporate directors, specifically exposure to abnormally devastating natural disasters, shape their prosocial preferences and subsequently influence corporate climate policy. Our findings underscore the enduring impact of formative experiences on individual values and their translation into corporate governance, offering valuable insights for understanding the motivations behind corporate sustainability initiatives and the composition of effective boards in an era of increasing climate concern.

By Sehoon Kim (University of Florida),
Bernadette A. Minton (The Ohio State
University), Rohan Williamson (Georgetown
University, NBER, and ECGI)



When Politics Shape Trade

Meghana Ayyagari, George Washington University

Janet Gao, Georgetown University

Pengfei Ma, Singapore Management University

Foreword: Navigating the New Trade Landscape

As this piece goes to publication in April 2025, we find ourselves in a period of significant upheaval in global trade relations. The return of the Trump administration marks a new era of America's trade policy landscape, with renewed tariff threats, challenges to multilateral trade frameworks, and an emphasis on bilateral deal-making. While our study analyzes data from an earlier period, the core insights about CEO partisanship influencing trade decisions remain highly relevant today. The intensified political polarization around trade issues and the administration's assertive stance on economic nationalism could amplify the partisan dimension of corporate supply chain decisions. At the same time, the definition of "friendly" nations may itself be shifting, creating a more complex calculus for corporate leaders navigating these waters. Our findings about the role of politically diverse boards in tempering partisan decision-making take on renewed significance in this context. As we look ahead to a time when more stable trade relations might reemerge, understanding these dynamics will be crucial for both corporate governance and policy development. The research presented here offers a foundation for that understanding, even as the trade landscape continues to evolve in unprecedented ways.

Recent years have witnessed escalating geopolitical tensions and rapidly shifting global alliances, which pose significant challenges to global supply chain operations. Against this backdrop, policymakers have pushed for "friendshoring": shifting trade relationships toward politically aligned countries and away from adversarial ones. Advocates include Janet Yellen, who argues that this approach promotes supply-chain stability and protects national interests.

In Ayyagari, Gao, and Ma (2025), titled *Partisan Friendshoring*, we investigate to what extent firms follow the friendshoring strategy in response to geopolitical tensions, and how such responses depend on corporate leaders' own political leanings. The findings reveal that the ...

"... partisanship of CEOs plays a significant role in shaping corporations' trade decisions in response to geopolitical tensions, with sizable consequences for firm value."

The Political CEO and the Global Supply Chain

We utilize a novel combination of data: firm-level maritime import records, the ideological distance between the U.S. and its trading partners based on United Nations General Assembly voting, and CEO political affiliations derived from voting records in the national primaries. We classify CEOs as politically aligned if they are registered with the same party as the sitting U.S. President (e.g., Democrats under President Biden, or Republicans under President Trump) and misaligned otherwise. These datasets allow us to examine how firms adjust their imports in response to changes in geopolitical alignment—particularly in the aftermath of foreign elections that move a country closer to or further from the United States.

Our findings are striking: First, U.S. firms significantly alter their sourcing decisions in response to geopolitical tensions, reducing imports from countries that have become more ideologically distant from the U.S., while

increasing imports from countries that have become friendlier. Such responses are consistent with the “friendshoring” strategy.

Second, firms’ responses differ widely depending on their CEOs’ partisanship. The friendshoring effect is more pronounced for firms led by politically aligned CEOs, while weaker among misaligned ones. This is not a marginal phenomenon. A standard increase in ideological distance between a foreign country and the U.S. is associated with a 9% greater decline in the import volume from that country by firms with aligned CEOs than by firms with misaligned CEOs. Aligned CEOs are also 2 percentage points more likely to stop importing from the country compared to misaligned CEOs. In response to foreign elections that shift a country’s alignment away from the United States, aligned CEOs cut imports by up to 40–50% more than misaligned CEOs.

Notably, this behavior does not appear to be driven by party identity per se—whether the CEO is a Democrat or Republican is largely irrelevant. What matters is whether the CEO is aligned with the current administration. The partisan dimension of friendshoring, then, is not about ideology in the abstract, but likely about alignment with U.S. views and foreign policies.

Shareholders Notice—and Penalize

The market does not view partisanship-driven friendshoring as value-neutral. On the contrary, firms with aligned CEOs experience significant equity losses—up to 2.6 percentage points—following elections that increase the ideological distance between their source countries and the U.S. These losses are concentrated among firms with meaningful exposure (i.e., those sourcing at least 5% of imports from the election country). Misaligned firms with similar exposure do not experience comparable losses. These results suggest that shareholders seem to interpret politically motivated supply chain adjustments not as prudent de-risking, but as economically suboptimal behavior.

The Role of the Board

Does the board of directors play a role in disciplining and moderating CEOs’ political-driven import decisions? We indeed find a significant effect: CEO partisanship no longer drives friendshoring decisions when the vast majority of board members are affiliated with the opposite political party. In these cases, aligned firms do not lose more valuation than misaligned firms following distance-increasing elections in their source countries either. This finding highlights the role of internal governance in constraining politically motivated corporate behavior and suggests that greater ideological diversity in the boardroom may help mitigate the risk of partisan-driven decision-making.

Why Does CEO Partisanship Influence Global Sourcing Strategies?

We analyze several explanations.

Risk Perception: Aligned CEOs may perceive greater geopolitical risk when a country moves out of ideological alignment with the U.S. Consistent with this argument, we find that aligned CEOs express more concerns about geopolitical tensions in earnings calls following adverse foreign election outcomes, relative to their misaligned peers.

Political Signaling and Nationalism: Some CEOs may be engaging in political signaling—a form of corporate patriotism or partisan loyalty. Evidence for this hypothesis emerges from analyses showing that the effect of political alignment on trade decisions is significantly stronger among CEOs who contribute to veteran-related causes, a plausible proxy for nationalistic orientation.

Economic Self-Interest: Aligned firms may engage in friendshoring to protect political rents such as government contracts. However, firms with procurement contracts do not appear to engage in more friendshoring than those without, casting doubt on the economic-interest explanation.

Corporate Influence on Geopolitics: Finally, it is possible that certain large firms may be able to influence geopolitics, and in turn receive preferential or antagonistic treatment from their foreign suppliers. We do not find this to be the main driver of our results, as our effect is present among small firms as much as large firms.

Implications for Governance and Policy

Partisan Friendshoring provides compelling evidence that in today's corporate landscape, corporate leaders' political views profoundly influence value-relevant operational decisions. The findings raise important questions about the intersection of political identity and corporate strategy. From a governance perspective, the evidence underscores the need for politically diverse boards and oversight structures that can discipline CEO discretion, particularly in areas where geopolitical risk is high. From a policy standpoint, the research invites a reevaluation of friendshoring as a normative recommendation. If firms are already responding to geopolitical tensions through a partisan lens, then formalizing or encouraging friendshoring strategies may unintentionally entrench political bias in corporate decision-making.

By Meghana Ayyagari (George Washington University), Janet Gao (Georgetown University) and Pengfei Ma (Singapore Management University)



How Private Firms Impact Public Firm Innovations

Melissa Crumling, Drexel University
Tanja Kirmse, Miami University

Public firms account for most of the patent production in the U.S., but young, private firms play a critical role in supplying novel and high-impact innovation. Moreover, the impact of R&D extends beyond individual firms, as investment decisions often generate spillovers that benefit others operating in similar technology spaces. To date, most of the literature has focused on spillovers either between public firms or private firms, but in practice, spillovers occur across all firms regardless of their public or private status.

In a new paper, "Learning from the Little Guy: Innovation Spillovers from Private to Public Firms", we examine how technology spillovers from young, private firms influence innovation in public firms. While spillovers between public firms have been widely studied, we examine private firms for two reasons. First, private markets are often assumed to provide little for public firms to learn from. Unlike public companies, private firms are not subject to mandatory disclosure requirements, nor do they offer benefits that come with price informativeness, analyst coverage and market scrutiny. However, private firms patent their innovations, and patenting itself is a form of technological disclosure. These patents contribute to the broader information environment, even in the absence of traditional public reporting.

Second, young private firms tend to produce more novel and breakthrough innovations than their public counterparts. Unburdened by short-term market pressures or dispersed shareholder oversight, they are better positioned to pursue high-risk, long-term ideas.

Many also choose to remain private longer, especially those with significant intangible capital. Neglecting such innovative firms understates the extent of spillovers.

How public firms are impacted by young, private firms is ex ante unclear. On one hand, public firms may benefit from private firms' novel innovation by reducing their own cost of innovation ("Value Hypothesis"). On the other hand, such innovation may negatively affect public firms by rendering older industries or companies obsolete ("Schumpeterian Hypothesis"). The smartphone revolution illustrates how startups can lower innovation costs for some public firms while disrupting others. Android, developed by a startup in 2003, introduced a flexible, open-source mobile operating system. It significantly reduced the cost and complexity for hardware makers like Samsung, LG, and Motorola to compete in smartphones without building their own OS. As Android matured, it enabled rapid innovation and customization. Meanwhile, Blackberry and Nokia, once dominant, clung to proprietary systems and failed to adapt to touch interfaces and app ecosystems. By the time they responded, Android had become the global standard, and both lost relevance - demonstrating how startup-led innovation can fuel growth for adaptable firms while displacing those slow to evolve.

To test which effect dominates on average, we construct a novel measure of technology spillover from private firms to public firms. Following the literature on technology spillovers, we measure the overlap of patenting activity across similar technology fields for both public and private firms.

We then weight technological overlap by the number of inventors at each private firm and aggregate this at the public firm-year level. We construct this measure separately for two distinct types of young, private firms: entrepreneurial firms, defined as those three years old or younger, and venture-backed firms prior to exit. We validate this measure by showing that it is associated with increased patent citations, patent similarity, and active information acquisition by public firms about private firms.

We find that an increase in spillover from young firms increases public firms' innovation output, proxied by patents produced and the number of citations received. However, unlike spillovers from other public firms, spillovers from private firms are associated with a shift toward more novel and breakthrough technologies. This distinction highlights a unique contribution of young, private firms: not only do they lower the cost of innovation, but they also shift the innovation toward more disruptive and high-impact technologies.

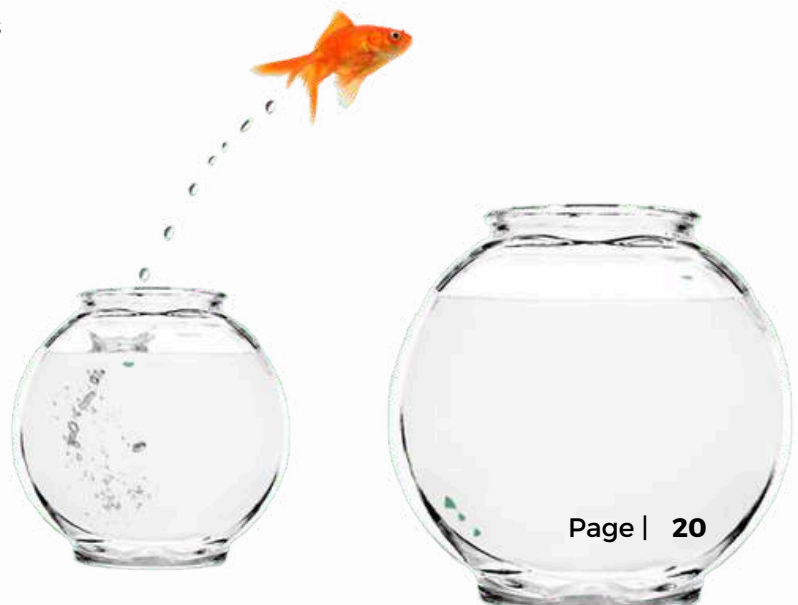
Omitted variables, particularly transitory shocks, may confound our analysis by simultaneously affecting spillovers and innovation output. Non-compete laws, which are governed at the state level, have shown to negatively impact labor mobility, entrepreneurial innovation and entrepreneurial entry. Young firms, depending on where they are headquartered, are differentially exposed to these laws. For example, those located in states with strong non-compete enforcement will have fewer inventors available to them, limiting their innovation - and, in turn, reducing the disclosures from which public firms can learn. Therefore, for a given public firm, we measure its private firm peers' exposure to non-compete laws based on their headquarters' locations and establish a causal link between private firm spillovers and public firm innovation output. We are careful to exclude public and private firm-pairs located in the same state to mitigate the concern that the public firm will be subject to the same non-compete law.

If private firms' innovation affects public firm innovation, how do these knowledge transfers occur? A well-established literature identifies labor mobility as a key channel for knowledge transfer. Consistent with this, we find that greater spillovers with young firms are associated with an increase in both the number and proportion of newly hired inventors from young firms by public firms. Similarly, we find that larger young-firm spillovers are associated with more acquisitions of VC-backed firms, indicating public firms not only directly hire young firm inventors, but "acquire" them as well.

In contrast to acquisitions, corporate venture capital (CVC) investments usually occur when public firms have no overlap in knowledge base with young firms, aiming to learn more about new technologies to enhance their innovation efforts. Consequently, we find no significant relationship between private firm spillovers and CVC investments.

Together, these findings shed new light on an understudied externality shaping public firm innovation: technology spillovers from young, private firms. While private firms are often assumed to offer limited learning opportunities to public companies, we find that their innovations meaningfully reduce the cost of innovation for public firms and shift their output towards more novel and high-impact technologies. These benefits are primarily realized through inventor hiring and acquisitions.

By Melissa Crumling (Drexel University) and
Tanja Kirmse (Miami University)



Why Diversity in the C-Suite Isn't Enough Without Equity

Felipe Cabezon, Virginia Tech - Pamplin College of Business

Corporate America is at a crossroads when it comes to Diversity, Equity, and Inclusion (DEI). Over the past decade, DEI initiatives have flourished, but recent political and economic shifts have sparked new scrutiny and pushback. Some companies are scaling back their commitments, questioning the effectiveness of diversity programs, and debating the role of DEI efforts in corporate success. While much of the debate centers around diversity in hiring and representation, there's less focus on equity. Do minorities have the same opportunities to succeed as their majority peers? Are all executives compensated fairly and given equal opportunities to advance, regardless of their background? What are the consequences of cultivating a corporate culture that guarantees fairness across executive teams?

A new study by Felipe Cabezón, Eliezer Fich, and Lubomir Litov sheds light on the issue of equity in executive compensation, revealing significant disparities in how ethnic minority executives are compensated compared to their White counterparts. The study, titled "Racial Diversity and Inclusion Without Equity? Evidence from Executive Compensation," provides compelling evidence that ...

"... even when minority executives make it to the upper echelons of corporate leadership, they continue to face unequal and less lucrative pay structures."

The Pay Disparity That DEI Forgot

The study analyzes a large dataset of executive compensation spanning from 2006 to 2020 and uncovers a puzzling pattern: Black, Hispanic, and Asian executives consistently receive less equity-based compensation (such as stock options and performance-based stock) than their White peers. Instead, their pay tends to be more heavily weighted toward fixed salaries and cash bonuses—structures that provide fewer opportunities for wealth accumulation.

Why does this matter? Equity-based compensation is where the real wealth lies in the corporate world. When companies perform well, the value of stock-based compensation can skyrocket, creating significant wealth for executives. However, if racial minorities receive proportionally less of this wealth-building incentive, they are effectively being excluded from the full financial rewards of executive leadership.

Why Does This Happen? Two Theories

The study explores two potential explanations for this disparity. The first, the Preference Hypothesis, suggests that minority executives may choose to receive less equity-based pay due to risk aversion or concerns about shorter tenure in their roles—factors such as corporate politics or visa-related uncertainties may contribute. Alternatively, the compensation differences may reflect underlying workplace dynamics, where minority executives have weaker networks, limited access to mentorship, and reduced negotiation power compared to their White counterparts. Circumventing these issues to allow minority executives to learn about alternative (and potentially more lucrative) compensation structures might take time.

This is the rationale underlying the Ethnic Affinity Hypothesis.

Changing Corporate Culture, Societal Pressures, and Mentorship

A key finding of the study is that these compensation disparities are not simply a result of personal preferences. The study reveals that changes in corporate leadership and social conditions can significantly alter compensation structures. For instance, when a minority executive becomes the CEO of a company, the pay gap for minority executives tends to narrow. Similarly, when minority executives move from a company with a White CEO to one led by a minority CEO, their compensation package becomes 32% more similar to that of their White colleagues, using our metric of pay structure similarities between Whites and minorities. The same effect occurs when a minority director is appointed to the compensation committee. These changes suggest that corporate culture and ethnic affinity, especially at the highest levels, play a significant role in shaping executive compensation.

The study also shows that societal factors, such as the location of a company near Black Lives Matter (BLM) protest events or in areas with lower racial animus and inequality, can influence these compensation disparities. These findings indicate that external societal pressures, rather than executives' preferences, are driving changes in compensation structures.

Does Equity in Pay Structure Matter for Firm Performance?

The study offers a hopeful perspective: as minority executives remain with a firm over time, the ethnic pay structure disparity tends to narrow. As these executives grow with the company, they learn about the benefits of alternative pay schemes, communication improves, and the corporate culture evolves, leading to more equitable compensation structures. This raises an important question: If racial pay disparities are rooted in a corporate culture that requires time to foster inclusivity, does this culture have an impact on other aspects of firm performance?

The answer is yes. Companies that promote equitable pay structures for executives tend to perform better across several metrics. They exhibit fairer compensation practices not just for executives but for their broader workforce as well. Higher racial pay structure similarity is associated with better employee salaries relative to the CEO. These firms also show stronger financial performance, including higher market valuations, better returns on assets, and greater returns per employee. Additionally, they have lower instances of financial fraud, suggesting that an equitable corporate culture is linked to stronger ethical standards and operational efficiency.

Diversity and Inclusion Aren't Enough

Corporate America may still be debating the relevance of diversity and inclusion, but this research underscores a critical gap: without equity, these efforts are incomplete. True progress requires more than diverse representation; it demands a corporate culture where executives from all backgrounds have equal access to opportunities, rewards, and long-term wealth creation. Companies that cultivate such an environment not only uphold fairness but also unlock greater collaboration and employee efficiency, which result in improved stock market valuations. Ultimately, a truly inclusive corporate culture is not just about hiring talent—it's about ensuring that talent thrives.

By Felipe Cabezon (Virginia Tech - Pamplin College of Business)



A Look at Hidden Fund Valuation Adjustments

Jaewon Choi, Seoul National University - Department of Economics
Mathias Kronlund, University of Illinois at Urbana-Champaign and ECGI
Ji Yeol Jimmy Oh, Sungkyunkwan University

When investors buy or sell shares in mutual funds, the funds must trade their underlying holdings. This trading can incur significant costs that dilute the fund's value for its long-term shareholders. The risk of dilution can also create a first-mover advantage where investors can benefit from selling a fund before others do, potentially triggering run-like behavior.

To address this, the SEC in 2018 adopted a rule that permitted funds the option to adopt "swing pricing." This mechanism would allow funds to adjust their Net Asset Value (NAV) upward or downward (by a specific percent called the "swing factor") in response to net in- or outflows that exceed a pre-set threshold. By effectively allocating the fund's trading costs more directly to the investors who buy or sell the fund (on the days with particularly large flows), swing pricing aims to protect the remaining shareholders. However, despite this tool now being available, this prescribed option to implement swing pricing has seen no uptake among U.S. funds. This reluctance may stem from a perceived inflexibility of the regulatory framework and challenges in obtaining precise, real-time flow information that is necessary for its implementation.

In a new paper, "Silent Swing: Do Open-End Funds Tilt Holdings Valuations in Response to Flows?", we provide evidence that bond mutual funds engage in an alternative practice, which we term "silent swing pricing." An underlying premise behind this idea is that funds have considerable discretion in adjusting valuations of their holdings, particularly for illiquid securities like corporate bonds. We hypothesize that funds may utilize this discretion to systematically tilt bond valuations –

downwards during outflows and upwards during inflows. If funds engage in such a practice, this could achieve end outcomes similar to formal swing pricing, albeit through a different mechanism that is less transparent.

To examine this hypothesis, we analyze month-end holdings, valuations, and daily flows for U.S. active bond mutual funds from 2008 to 2022. This sample encompasses 33,774 unique corporate bonds held by 753 U.S. active domestic bond funds. For each bond that a fund holds, we measure 'price deviation' as the difference in how the fund values the bond compared to the valuations by peer funds. Using regression analysis, we then test the relationship between this price deviation and the fund's net flow on the same day, controlling for lagged flows, returns, and extensive bond-by-time and style-by-time fixed effects. A positive relationship in this regression would indicate that funds tilt bond valuations in the same direction as their daily flow, consistent with silent swing pricing.

Our analysis finds significant evidence that bond funds engage in this type of silent swing pricing. On average, a 1% net flow is associated with a valuation tilt of approximately 4 basis points in the same direction as the flow, with a larger effect (around 6 basis points) observed for high-yield bonds. Suppose two funds (A and B) hold the same bonds: if fund A experiences outflows and fund B inflows, fund A tends to mark bond valuations lower relative to fund B.

This valuation tilt is stronger for bonds where funds have more discretion and for bonds with higher trading costs.

Specifically, the sensitivity of valuations to flows increases with measures of bond illiquidity (like the Amihud measure) and for bonds that lack recent traded prices in TRACE. This suggests funds strategically employ silent swing where the 'need' (higher trading costs) and 'opportunity' (less price transparency) are the greatest. The practice is weaker among younger funds or those with poor recent performance. Further, we find that silent swing pricing practices have continued even after the 2018 rule that permitted funds to formally adopt swing pricing.

A particularly notable feature of silent swing pricing that we identify is a clear asymmetry, as this practice of tilting valuations in the same directions as flows is overwhelmingly concentrated in times of outflows. In other words, funds mark down valuations when investors are selling the fund but do not mark up when they experience inflows. This asymmetry aligns with the greater risks associated with outflows from a fund, as outflows have the potential to cause run-like scenarios. It nevertheless contrasts with the SEC's swing pricing rule, which prescribes symmetrical adjustments to inflows and outflows alike.

As a placebo-type test, we compare these effects among bond mutual funds to the same behavior among bond ETFs. We find that ETFs do not display similar evidence of silent swing pricing, consistent with their lower vulnerability to flow-driven trading costs due to the structural differences between how ETFs and mutual funds handle redemptions.

Why might funds prefer this silent swing approach over formal swing pricing? While our empirical findings cannot easily determine underlying motives, silent swing offers potential advantages. For example, it does not require precise, real-time net flow data – a commonly cited limitation of the formal rules. Instead, funds merely need to know the direction of daily flows along with a rougher sense of the magnitude. Furthermore, it allows for more flexible asymmetric responses to outflows versus inflows, which funds also appear to take advantage of.

Our findings provide important insights for academic research and policy debates surrounding mutual fund stability. The analysis suggests bond funds are already practicing a form of swing pricing implicitly through valuation adjustments rather than through explicit pre-determined NAV changes when they are faced with abnormally large flows. However, the opaque nature of silent swing pricing raises transparency concerns, as investors may not be fully aware that such valuation adjustments are occurring.

This discretion in adjusting valuations also touches upon broader governance issues within asset management. Silent swing pricing raises important questions about fiduciary responsibility, transparency, and fairness. Investors are generally unaware when valuations are internally adjusted, potentially impacting share values without clear disclosure.

"Silent swing pricing reflects the challenges of managing flows and associated trading costs, but also highlights the need for transparency to maintain investor trust. "

As the swing pricing debate continues, our research provides an important look under the hood at how some funds are currently managing these inherent risks.

By Jaewon Choi (Seoul National University - Department of Economics), Mathias Kronlund (University of Illinois at Urbana-Champaign and ECGI), and Ji Yeol Jimmy Oh (Sungkyunkwan University)



As the 2025 AGM season unfolds, a noticeable recalibration is taking place in boardrooms and investor circles alike. Gone are the days of sweeping ESG commitments and highly symbolic shareholder resolutions, in their place is a more measured, sometimes skeptical, approach to sustainability, governance, and shareholder engagement. This shift—shaped by geopolitical tensions, regulatory recalibrations, and a maturing understanding of material risks—has given rise to a proxy season defined as much by what is absent as by what remains.

Shareholder Meetings: A Necessary Change of Tone

Marion Plouhinec, Carmignac

The Annual General Meeting season is a useful indicator of the state of play between corporates and investors. 2025 will mark the shift from Covid-era sustainability-related grand statements closer to rationality.

In 2024, an AGM resolution was filed asking a consumer goods retailer to report on the potential risks and costs related to abortion-access restrictions in the US. For many investors this presented a challenge. Is it something to support in the name of 'ESG' or not?

This is just one example of how, in recent years, the role of the AGM broadened from a traditional corporate governance 'health check' to a forum where boards can be held accountable on broad, sometimes indirect, sustainability issues. This evolution reflected the enthusiasm from both corporates and investors on the integration of sustainability and stakeholder considerations heightened during the Covid period.

'Say on climate' resolutions, the introduction of ESG metrics in executive pay packages and Diversity, Equity & Inclusion targets became common place.

And investors – with different interpretations of ESG and various agendas - also exerted pressure, influencing the behaviour of corporates. The result was an unprecedented, and sometimes unreasonable, number of shareholder-led resolutions filed in the US, with some tentative filings in Europe and Asia.

Now, a shift is occurring. The number of mentions of sustainability in Q1 S&P500 earnings transcripts is telling (76% less mentions compared to three years ago, according to Bloomberg Green). And we expect the 2025 AGM season to confirm that the time of grand statements regarding sustainability considerations is behind us.

But does this mean the ESG-era is over? Far from it. This is actually an opportunity to refocus corporates' and investors' approach to sustainability and governance considerations.

Altering attitudes

The general change of tone that will characterise the 2025 AGM season reflects the current evolution of European and US government policy and regulation regarding sustainability.

In Europe, the Draghi report served as a wake-up call concerning competitiveness. While the EU maintains its ambitious objectives on decarbonisation, medium-term targets have already been flexed with strict reporting somewhat relaxed.

In the US, the politicisation of ESG and its simplistic association with 'wokeism', including at AGMs, is leading to a rejection of anything deemed to fall under this umbrella. This extreme stance was unfortunately reflected in the Securities and Exchange Commission's decision to introduce limitations on shareholder resolution filing at AGMs. While we had grown increasingly concerned about the misuse of shareholder resolutions by some investors, this change has a direct impact on shareholders' ability to hold boards to account.

Although the new SEC rules have made headlines, the reality is that European companies have essentially been shielded from such filings for many years because of share ownership rules or the discretion allowed to boards in some countries to decide on the inclusion of these resolutions at the AGM. This has not prevented investors from holding companies to account in different ways, with engagement being very prominent on this side of the Atlantic.

A new AGM era

With sustainability and social topics likely to be more muted this AGM season and investors focused on volatile markets and tariff wars, we expect investors and companies to adopt a more rational approach, centred on risk management and financial materiality.

This shift is also an opportunity to bring back some well-deserved attention to corporate governance. However, as with the other ESG 'areas', investors ought to take a considered approach. We caution against the blanket application of grand governance principles. The specific circumstances of each company and broader economic considerations need to be taken into account.

This is especially important given current tensions surrounding competitiveness, including regarding issuers' appetite for public listing versus private markets, changing listing venues, or the relaxation of the one-share one-vote principle.

The integration of ESG metrics in executive pay is a good illustration of a governance theme where a much-needed dose of rationality needs to come into play. We find that the hasty integration of ESG into pay too often results in meaningless metrics, or worse, guaranteed pay. Does this actually serve shareholder or stakeholder interests? A relevant example is that of Credit Suisse whose executive board achieved a 84% payout on the non-financial metrics of risk and control, values and culture and sustainability in 2022. We all know what happened next...

As investors, we ought to say louder that corporates cannot reasonably be asked to have an answer to every single societal issue. The evolution of the policy landscape as well as the decisions of some corporates to soften their sustainability targets serve as a reminder that showing ambition cannot be the end goal. But it does not mean it no longer matters. Shareholder meetings, alongside ongoing engagement, remain important tools in holding companies to account, but considering the underlying economics, including competitive advantage considerations, are fundamental in supporting a solid sustainability strategy. This in turn requires a solid governance and a more rational approach from investors.

By Marion Plouhinec (Carmignac)



This AGM season it's time for asset owners to step up

Catherine Howarth, ShareAction

At ShareAction, AGM season is always a hive of frenetic activity. As usual this year we're busy marshalling investors for shareholder resolutions and will be proactively raising issues and posing questions at AGMs. But we're also aware that 2025 could well be rather different. The ESG backlash that first emerged in the US is biting hard and with significant risk of contagion.

The 2024 iteration of our annual analysis of asset manager voting patterns showed that support amongst US managers for our sample of environmental and social resolutions fell to an average of 19% - half of the 2022 figure – even as European asset managers heroically supported 82% of the same resolutions on average. Blackrock backed just 4% of these resolutions, down from 40% in 2022; Vanguard voted in support of just one of 279 resolutions in the sample. These dismal numbers are likely to be maintained this year, not least given the appointment of Paul Atkins as Chair at the SEC.

There's a silver lining to all this: after years of picking through greenwash, we can at least now tell who was paying lip service to the value of sustainability and who is genuinely committed. This clarity on asset manager positioning offers an opportunity (and a challenge) for asset owners.

Asset owners have always been a critical influence in shaping how asset managers steward investee companies. But the moment we are in, with certain large asset managers actively rolling back their climate pledges and engagement, throws the role - and responsibility - of asset owners into far sharper relief.

What are we observing so far?

Positively, there are several high profile examples of asset owners stepping up: the UK-based People's Pension moved £28 billion (about USD \$37 billion) away from State Street, partly on grounds of voting misalignment, while the New York City Comptroller has publicly threatened to move funds from managers not aligned with its climate goals. However, for now it remains the case that many asset owners continue to devolve voting and engagement to asset managers without clear direction, scrutiny, accountability or sanction.

This matters greatly.

"The approach of asset owners to stewardship in 2025 will set the tone for how the wider capital markets community acts in the remainder of this climate-critical decade."

If asset owners make clear that they view climate risk as financially material for their beneficiaries – and demand stewardship that responds to that risk – asset managers are far more likely to face down attempts to limit shareholder rights.

In this moment, gestures from asset owners won't cut it. Take Pass Through Voting (PTV) as an interesting example. The PTV offer is growing, and we welcome the trend of asset owners taking greater control of how their votes are cast. But PTV is a first step: it can't be an excuse to sustain mandates for years with asset managers who 'cancel out' clients' voting decisions with their own.

A risk is that PTV sees asset owner votes disconnect from dialogue with investee firms. Instead, voting should be a key tool within a coherent engagement and escalation strategy with investee companies (as we propose in our guidance on escalation).

So here's what we're calling asset owners to do to rise to the challenge of 2025's AGM season.

Firstly, asset owners can recognise their power and responsibility as fiduciary owners, and develop voting policies that reflect the importance of environmental, social and governance risks to beneficiaries' long-term interests.

Secondly, asset owners can acknowledge that voting has greatest value when deployed as part of a bigger stewardship toolkit. To secure the best results, it will sometimes be necessary for investors to escalate the pressure they apply to companies, using a greater range of the tools available to them. For example, investors should not shy from voting against directors where companies are behaving egregiously or placing capital at undue risk. For the first time this year, ShareAction has called for votes against directors as part of our annual Resolutions to Watch list. Other bodies such as the Association of Member-Nominated Trustees (AMNT) have set out clear 'red line' voting policies.

And if asset managers say they can't (or won't) align to what asset owners are looking for to protect the interests of beneficiaries, then it makes sense to use client power by moving funds to an asset manager who will. Ultimately, only the movement of assets will impose the discipline in the market needed to drive stewardship standards higher.

Such actions require real determination and effort. No free lunches; no easy short cuts to acting in ways that protect assets for the long-term and sustain the natural and social systems that underpin our economies. The millions of people whose funds are invested by institutional asset owners deserve nothing less.

So, for any asset owners reading this: this is your moment. Use it well.

By Catherine Howarth (ShareAction)

“Balancing Technology and Tradition”: Virtual Only vs. Hybrid AGMs

Stephan Stegmueller, ISS-Corporate

In the digital age, the shift from traditional in-person annual general meetings (AGMs) to virtual meetings has become a hallmark of efficiency, convenience and cost effectiveness. During the COVID era, virtual only meetings provided companies the best method of ensuring their AGMs were conducted in the safest possible manner. Germany was no exception as companies embraced the virtual only meetings, touting not only the safety they provided but also the environmental benefits and cost savings realized from reduced travel.

Despite these benefits, shareholders have raised concerns about virtual-only meetings, primarily focused on the lack of personal interaction and opportunities for engagement. Technological glitches in the 2023 AGM season were also a common occurrence and cited by many investors. Considering these concerns, shareholders have been increasingly calling for companies to provide an in-person option and the associated benefits that direct communication provides.

In 2025, many leading German companies still utilize this cost-savings rationale to avoid having in-person or hybrid annual general meetings. During the 2025 AGM season, eight DAX40 companies will hold or are scheduled to hold the virtual only AGM, and the numbers are even higher in the MDAX 40 with 22 companies opting for the virtual-only arrangement. Unfortunately, from many investors' perspectives, German companies have been too slow to revert to the traditional in-person or a hybrid AGM format.

Many German companies didn't hold in-person AGMs physically since the pandemic and there is currently no commitment from their boards to provide that option in the foreseeable future. If anything, commitments made by companies for a hybrid or in-person meeting have tended to be ambiguous and vague at best. One MDAX company even went back on its 2024 commitment to host its 2025 AGM in-person.

Market Context

In July 2022, the German government passed a new law allowing virtual only general meetings to be held permanently. Specifically, the bill introduced a new paragraph into the German Stock Corporation Act (§118a) stating that the articles of association may authorize the management board to provide for general meetings to be held without the physical presence of shareholders or their proxies. Such authorizations are limited to five years.

Many companies have used this opportunity to make the switch to virtual only meetings. To their credit, some companies have sought shareholder approval for two-year authorizations or have made the commitment to hold in-person or hybrid annual meetings at least once every three years. This can be seen as a response to the pressure being exerted by shareholder rights organizations and institutional investors. However, many institutional investors still view them as falling short of providing an optimal venue for all stakeholders to air grievances and engage with management and the board in a meaningful way.

Companies are allowed to revert to a virtual only format when a contentious resolution item(s) comes up for a vote. Expect this pressure to rise as shareholders continue to feel dissatisfied by the slow pace of reversion back to an in-person meeting option.

Benefits of the Hybrid Approach

While it is true that the virtual meetings do allow for greater participation across a company's shareholder registry as a greater number of international investors are able to participate, many investors believe that nothing can truly replicate the face-to-face interaction of an in-person AGM. These forums can offer invaluable opportunities for relationship building and direct engagement with shareholders. Investors also believe that the lack of an in-person option can be restrictive to their shareholder rights and that in-person attendance forms one of the foundations of good corporate governance.

A 2024 study by German retail shareholder association Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW) found that many virtual AGMs were plagued by technical issues, with 16 percent of the virtual participants saying they had problems during the technology test, asking questions and/or the transmission of the speech. This study also questioned the higher attendance rates touted by many companies as justification for continuing to hold virtual-only meetings.

Companies should continue to utilize the benefits of video-conferencing technology, especially as shareholder registries across Germany continue to become less concentrated and more geographically diverse. However, this should not come at the price of losing the benefits that only face-to-face meetings can provide. The adoption of a hybrid model as the standard for all AGMs would allow companies to maintain high levels of attendance while ensuring that shareholders have the appropriate venue to engage management and the board effectively.

By Stephan Stegmüller (ISS-Corporate)



Shareholder Voting Must Account for Systemic Risk

Frederick Alexander, The Shareholder Commons

Recent developments in the United States include a determined resistance to the role of shareholders in addressing environmental, social, and systemic concerns through proxy voting and engagement. In several jurisdictions, political actors have questioned whether such matters belong in the corporate governance arena at all. This reactionary posture has implications far beyond U.S. borders and deserves close attention from scholars and practitioners of corporate governance.

The backlash is often framed as a critique of environmental, social, and governance (ESG) investing. Its most aggressive forms deny even the possibility that ESG issues may be material to the financial performance of individual firms, rejecting the reality that irresponsible practices—such as unchecked greenhouse gas emissions and human rights abuses—can impose direct costs on companies themselves.

These errors can be refuted, but arguing over the relationship between a company's sustainability and its own financial performance misses a critical point: the external impact that a company's actions have on the systems that are critical to investors' overall portfolio returns.

The bulk of the financial performance of most portfolios is driven by overall market returns rather than the relative performance of individual companies. This means that investors are highly exposed to the costs companies impose on each other and on the broader economy. For most investors—and in particular, asset owners such as pension funds—individual company practices that contribute to systemic costs (such as global warming, social instability, or erosion of democratic norms) threaten overall portfolio

returns, even if the portfolio companies engaging in such practices appear to be optimizing their own performance.

From this vantage point, shareholders have a legitimate reason—arguably an imperative—to use their governance rights and other tools to mitigate these systemic harms, and even to prioritize the systemic impact of their stewardship over its effects on individual companies. This is not engaging in values-based or political investing, but rather responding to risks that could undermine the critical systems on which long-term portfolio returns depend. This perspective complements—but does not rely upon—the claim that ESG risks are material at the individual firm level. It acknowledges that even when materiality is ambiguous at the micro level, the macroeconomic stakes may be clear.

Moreover, without a system-level lens, corporate sustainability efforts risk being trapped in the dead end of a Nash equilibrium: even when firms recognize the long-term importance of preserving environmental and social systems, prevailing market incentives often reward companies that increase profits through practices that generate negative externalities or shift costs onto the broader economy. Crucially, this is not merely a matter of first-mover disadvantage. The margin expansion achievable by forgoing sustainable practices may well maximize a company's enterprise value regardless of its peers' conduct. This dynamic reflects a classic prisoner's dilemma: each actor's rational strategy leads to a collectively harmful outcome.

Indeed, many of today's most pressing systemic risks arise precisely because financial success is measured primarily at the individual company level.

When investors measure success at the firm level without accounting for impacts on critical systems, they incentivize massive externalization of social and environmental costs—driving companies to graze the commons even when the result is value destruction across diversified portfolios.

"Shifting to a portfolio-centric analysis of individual company practices would enable investors to align investment practices with the broader conditions necessary for long-term wealth creation."

This perspective is increasingly reflected in debates around systemic stewardship, a concept that broadens the traditional fiduciary lens. Rather than focusing narrowly on firm-specific performance, systemic stewardship invites investors to require each company to account for the health of the economic, environmental, and social systems in which all companies—and thus all portfolios—are embedded.

As discourse around investors' role in addressing social and environmental threats continues—particularly in light of political pressures to narrow its scope—it is critical that governance scholars remain attuned to the practical realities of diversified investing. In many cases, stewardship that accounts for systemic risk is not only justified—it may be required to fulfill fiduciary duties in a complex, interdependent global economy where corporate externalities threaten social and planetary boundaries, and where the utility of capital markets for price discovery and resource allocation is increasingly at risk.

By Frederick Alexander (The Shareholder Commons)



Event | 31 March 2025 | Organised by:

IESE Business School - ECGI

This conference addressed a range of topics regarding the role and impact of shareholders on governance and strategic decision making, including decarbonization, divestments, technology and IT adoption, among others. Most companies today are facing major disruptions in products, markets and business models and will need to adopt strategic decisions and allocate additional resources to speed up their transformation. In this context, a critical question is how effective different types of shareholders are in supporting companies in their necessary evolution, not just by providing financial resources through equity, but also contributing in other ways.

Shareholders' Role in Times of Corporate Disruptions

Jordi Canals, IESE Business School

An effective corporate governance model rests on the delegation of power from shareholders to boards and executives. In strong delegation cases, the governance debate is mostly focused on board structure, composition, and practices of the board of directors. The board is the fulcrum of a good model of corporate governance, but shareholders also play a very relevant role in supporting it.

Technology, economic and geopolitical disruptions raise new challenges to governance effectiveness. In this context, most companies need to adopt strategic decisions and allocate additional resources to speed up their transformation. A critical question is how effective different types of shareholders are to support companies in their necessary evolution, not only as providers of capital. In many cases, this goal requires large volume, long-term investment in areas such as decarbonization, developing more resilient global supply chains for a more

fragmented world, and adopting artificial intelligence. Boards need to gain shareholders' support for these policies.

The changing role of key shareholders (family offices, large asset managers, foundations, private equity firms and, more recently, governments) over the past two decades has become a relevant development for capital markets and the funding of innovation and investment. Many of those shareholders are considering how they can develop new competencies and become more responsible owners.

In addition, there is political disruption. Polarized views have emerged about environmental, social, and governance (ESG) issues. The "Friedman doctrine" that it is the social responsibility of boards to maximize shareholder value relies on governments to regulate, supervise, and enforce the law.

In the view of many economists, it is not the task of companies to internalize externalities. This task is to be left to regulators. In the last months, important government agencies have been defunded or cut down, accentuating differences in opinion about fundamental questions, like energy security and climate policies.

The 2025 IESE ECGI Corporate Governance Conference addressed some issues on the role and impact of shareholders on governance and on some corporate strategic decisions.

Some key reflections mostly based on empirical evidence emerged during the Conference's sessions. The first is on the role of shareholders in endorsing a corporate purpose. As Colin Mayer argued in his presentation, corporate purpose can play a role in this process and help firms restore and improve their reputation. In family business, corporate purpose grows out of some ideas of the founder. In more mature companies, purpose may emerge from the ideas that CEOs have about how to make their firm unique.

A good purpose highlights how the firm plans to serve customers differently, and the type of social needs related to the products and services that it offers. A functional purpose should connect with the firm's strategy, business model and policies. To do so effectively, purpose needs to have the support of the firm's shareholders.

A second reflection emerged from Mireia Giné's papers examining the evidence of institutional investors' impact on corporate governance and how this impact is conditioned by the growing presence of common ownership. Asset managers have a fiduciary duty to their final investors, not to the companies that they invest in. The institutional investors' underinvestment in corporate governance is a salient feature of this model and presents some challenges for shareholders themselves and the companies. In her presentation, Mireia Giné highlighted two pathways that institutional shareholders can use to influence the firm's governance: internal mechanisms such as board composition, compensation and voting; and an external mechanism through M&A.

Mireia Giné also discussed how sustainable this model of governance may be when companies face critical challenges or the board needs to support dramatic changes, such as M&A decisions.

Jill Fisch's paper and presentation on the role of public pension funds highlighted some qualities of this type of owner. They are very relevant investors and their role as shareholders is evolving. Jill's thesis is that public pension funds are principals, not agents, and can pursue goals beyond the fund economic value. Nevertheless, she also pointed out the risks of some investment policies that may exacerbate pension funds' underfunding or make pension funds more political.

Marco Becht's paper and presentation on voice through divestment assesses fossil fuel divestment decisions. In this context, divestment is a statement of disapproval that aligns actions with words for effectiveness. Becht and his co-authors discuss the effects of the Go Fossil Free divestment campaigns and how viral divestment pledges reduce share prices of all carbon emitters, including those that do not announce divestments. The authors argue that divestment announcements that "resonate" increase regulatory and other forms of transition risk. Thus "viral" divestment announcements reposition divestment decisions from a moral statement to strategic risk management.

The evolving landscape on firms' social policies - in particular, on diversity - and shareholders support for them is a relevant question. Luc Renneboog presented a paper that explores in a comprehensive way how much support policies promoting diversity get from shareholders, employees, consumers and boards of directors, among others. The overall support of these policies from different stakeholders is rather limited. At a time of changing political and social perspectives on this issue, the evidence provided by Luc's paper is very timely.

Xavier Vives examined in his paper the challenge that alliances on decarbonization or commitment to net-zero emissions by groups of investors face from anti-trust authorities. The growing number of anti-trust cases in US courts and the political backlash against some large investors and members of those alliances are changing investors' expectations about those alliances.

Xavier Vives presented a model that assesses the case for antitrust concerns. He also discussed the conditions under which firm cooperation and common ownership can speed up green investment under certain conditions.

The final CEOs panel offered many insights on what shareholders can do to improve the quality of governance and support companies in disruptive times. Shareholders have many tools to make sure that the board is performing well and takes care of the firm. Boards' proposals to shareholders, in particular, those regarding board composition and nomination of board members, and CEO and senior executives' compensation are critical. Shareholders should have a point of view about them and should make sure that the board fulfills professionally their governance functions. Moreover, ordinary shareholders - in particular, institutional shareholders - should not wait for the arrival of an activist hedge fund to engage with the board on relevant issues.

A clear insight is that shareholders' time horizons should be compatible with the company's time horizons, in particular, with the company's investment plans. By definition, each shareholder and each company - even in the same industry - have different time horizons. Responsible investors should make sure that their plans and horizons are compatible with what the company needs to achieve. The potential misalignment along this dimension will distort expectations and can have terrible effects on companies and investors alike.

As the competitive landscape for companies around the world gets more complex, a more effective governance model supported by shareholders is required.

"Investors should use their decision-making power to make companies more resilient and competitive, and engines of economic prosperity."

By Jordi Canals (IESE Business School)

ESG is Dead, Be True and Fair Instead

Colin Mayer, Oxford University and ECGI

ESG is dead. It failed because it didn't serve a purpose. It was both insignificant and unworkable. In its extrinsic, single materiality form, as promoted by IFRS, it was no more than another investment risk factor. In its intrinsic, double materiality form, as advocated by the EU, it was another cost centre and form of regulation. It was neither designed to save the world nor promote growth, investment and prosperity. It should not therefore be missed.

But do not take this as a sign that all is well without it. All is not well and will not be. It is manifestly getting worse. "Crises are increasing in frequency and growing in intensity. Their frequency and intensity will continue to increase until we solve the problem" (Colin Mayer (2024)). The problem is that there has been too much emphasis on risk, regulation and costs, and not enough on value creation and profit, and the commercial opportunity that comes from solving problems.

Profit is the fuel that lies at the heart of capitalism and the incentive that drives business. Profit comes from the Latin *proficere* and *profectus*, to advance and progress. That is precisely from where a profit should come, from advancement and progress. But too often it is also associated with disadvantage and regress.

As currently measured, a profit is simply the difference between the revenue of a business and its input costs – its labour, material and capital costs. However, that does not account for the costs of paying its employees below a living wage, suppliers below a fair-trade price, or the pollution, biodiversity loss and global warming a company causes. In other words, it does not account for avoiding or cleaning up the mess that a company creates.

A company's measured costs are not therefore its true costs, and its measured profits are not its fair profits. Indeed, whenever the directors of a company sign off their accounts as being "true and fair", they are doing no such thing. They are neither true nor fair. They are not true because they do not reflect their true costs, and they are not fair because they are therefore not reporting a fair profit.

They must do both and there is one party that has a particular duty to ensure they do – their owners, their shareholders.

"Shareholders have many rights, but they have one overriding responsibility – to ensure they profit without harm."

We are justifiably outraged when companies profit at the expense of others, as they did in the financial crisis. Profit without harm is a fundamental requirement of every business in the world and a basic right of all citizens and parts of the world.

This is not just a moral precept but a necessary requirement for the functioning of economies. As Adam Smith noted in the *Wealth of Nations*, without it, markets and competition fail because good firms that incur their true costs and earn a fair profit cannot compete against those that do not. Far from encouraging runs to the top, competition creates runs to the bottom – a Gresham Law of bad firms driving out the good.

Profit without harm is both a necessary and sufficient condition for markets to function and competition to promote social wellbeing.

It is the duty of directors of corporations to ensure that they report their true costs and fair profits without harm. It is the role of shareholders to ensure that they earn nothing else.

Corporate law should determine that corporate success derives from profit without harm. Banking and securities laws should ensure investors and investment institutions do not profit unfairly at the expense of others. Corporate auditing, reporting and governance standards should establish that companies accounts and reports are true and fair, and stewardship codes that investors' profits are earned without harm. Together they will provide a uniform standard of performance for all businesses everywhere.

But much more significant than just avoidance of the negative is the contribution this makes to the positive - value creation. It is the source of the innovation, imagination and inspiration that allow profits to be earned without harm. Instead of risk-taking coming at the expense of other stakeholders as at present, it is solely borne by those who should bear it, namely the shareholders. Shareholders become the true residual claimants of a firm.

This is not a stakeholder proposition. Directors' duties of loyalty remain solely to their shareholders but in the context of a recognition that the "success" and "interests" of the corporation derive from profiting without harm, in other words from value creation not value diversion or transfer from others. It is this that associates innovation and investment with advancement and progress, not disadvantage or regress.

By aligning shareholders with other stakeholders' interests, all parties, including governments, are encouraged to innovate and invest. Trust is created where mistrust prevails, and stakeholders are confident about investing in companies where at present they fear being exploited and expropriated. In particular, the interests of government in social wellbeing are aligned with those of business in profits without harm.

As a result, firms are assisted by their stakeholders and governments in internalizing and capitalizing benefits conferred on others that currently remain external and unrewarded. Mutually reinforcing interests promote partnerships between businesses, investors, governments, customers, employees, suppliers and communities in committing to a common purpose of shared prosperity.

There are two reasons why this shift from costly regulation and reporting to financial value creation from problem solving appeals to both businesses and investors. Firstly, it is about the core of what a business does, its strategy, namely problem solving, and, secondly, it is the core of financial investment, namely financial value creation.

For companies that recognize their purpose to be profitable problem solving, not creation, new problems and crises are new opportunities. They find innovative ways of solving problems profitably. In the process, they create new problems, which in turn they solve profitably, which then create further problems, and so businesses and the world progress and advance.

This changes the focus of companies from wading in the weeds of exploitation, expropriation and unjust enrichment at the expense of others, to surfing the waves of innovation, imagination and inspiration of earning fair profits from shared prosperity.

By Colin Mayer (Oxford University and ECGI)



The Singular Role of Public Pension Funds in Corporate Governance

Jill Fisch, University of Pennsylvania and ECGI

Jeff Schwartz, University of Utah and ECGI

Among institutional investors, public pension funds hold a uniquely public and potent position. With over \$5 trillion in assets under management, these funds influence corporate governance, ESG initiatives, and economic development far beyond their nominal mandate of managing the retirement money of public employees. Yet, the prevailing legal and policy framework is anchored in the doctrine of "beneficiary primacy," which posits that fund managers must act solely in the economic interest of pension beneficiaries. In this article, we argue that beneficiary primacy fails to capture the singular structure and role of public pension funds and subjects them unduly to litigation risk. Instead, our article proposes a fundamental reconceptualization:

"public pension funds should be understood not as intermediaries whose managers are fiduciary-bound to serve passive beneficiaries, but as public principals imbued with public values and run in accordance with those values."

We start with an overview of the structure, investment policies, and governance initiatives of four major public pension funds. We recount the paradigm-shifting role that public pension funds have played – from pioneering socially responsible investing to serving as catalysts for

governance changes that have increased management accountability through greater shareholder empowerment. We also identify developments in public pension fund engagement on ESG issues.

As we explain, although these efforts have been longstanding and extensive, they have also been controversial. Public pension funds have faced legal challenges to actions ranging from their 1975 bailout of New York City to their 2024 divestment from fossil fuels. Although courts have generally rejected these challenges, in doing so, they have reaffirmed the foundational principle of beneficiary primacy -- that fund managers have a fiduciary duty to focus exclusively on fund economic value for the benefit of the funds' beneficiaries.

Beneficiary primacy, as we explain, is rooted in the obligations imposed on mutual funds by the Investment Advisors Act and on private pension funds by ERISA. While public pension plans are governed instead by a patchwork of state and local laws, ERISA's exclusive benefit rule is the de facto legal standard. We argue this approach is misguided: it is unfaithful to public pension funds' historical investing and engagement practices, and it fails to reflect critical differences between public pension funds and private funds.

The core conceptual error behind beneficiary primacy is that, unlike typical mutual fund investors, beneficiaries of public pensions are not residual claimants. Fund managers owe fiduciary duties to residual claimants because their returns are based on fund performance. But public pension beneficiaries receive fixed payments after retirement regardless of returns. Because beneficiaries are contractual claimants, fiduciary duties are inapt.

The focus on beneficiaries also ignores the institutional design of public pension funds, which positions them as embodiments of public values, not vehicles to maximize beneficiary wealth.

To cure this misalignment, we argue that public pension funds should be conceptualized as principals—entities with autonomous interests shaped by legislation, democratic processes, and institutional design. Fund managers are then agents of the fund, and their duty is to represent the fund, not just its beneficiaries. This reframing aligns with how public pensions actually operate: they are governed by boards representing diverse constituencies, constrained by legislation, and politically accountable through elected officials.

This model legitimizes investing decisions that reflect public values—whether in climate-conscious portfolios, worker protection, or local economic development. It also offers doctrinal coherence by aligning fiduciary duties with institutional purpose rather than forcing conformity to a private law template.

The implications of our theory are significant. First, our approach would de-weaponize fiduciary law in ESG debates. Anti-ESG laws—like Florida's prohibition of non-pecuniary investing, or New Hampshire's criminalization of ESG considerations—rely on the narrow conception of fiduciary duty enshrined in beneficiary primacy to restrict public pension funds. Our model repositions decisions to constrain public pensions as political, not legal, judgments. States that want to limit or promote ESG investing should do so transparently through legislation, not via contorted interpretations of fiduciary law.

Second, our re-theorization would transform fund manager discretion. Currently, managers must justify values-aligned actions in economic terms, leading to disingenuous arguments about long-term returns. Yet it is nearly impossible to parse the pecuniary and non-pecuniary motivations underlying managers' decisions as well as the potential economic consequences of values-based investment decisions. Under our model, fund managers need no longer defend their decisions purely in economic terms, freeing them to openly pursue public-oriented goals, while remaining accountable through the political process and legal safeguards against self-dealing and mismanagement.

Third, our model invites better alignment between public values and capital markets. Public pension funds can and should serve as democratic conduits for societal preferences in corporate governance. Their activism in shareholder voting, ESG proposals, and securities litigation has already shaped practices and norms around board accountability and corporate sustainability and transparency. Viewing them as principals solidifies their role as stewards of the public interest in the financial sector.

By Jill Fisch (University of Pennsylvania and ECGI) & Jeff Schwartz (University of Utah and ECGI)



Divestment: More Than Just Selling Shares

Marco Becht, Université libre de Bruxelles and ECGI

The traditional view in finance is that divestment – selling off assets, particularly shares in companies – is ineffective as a tool for activism. The argument is that selling only works if the sale is large and there are no buyers on the other side, otherwise someone else just buys the shares, and the company isn't truly impacted. Thus, finance often recommends engagement instead.

However, this perspective is challenged by the growing divestment movement and the significant opposition from industry and politicians to divestment efforts. If divestment truly didn't matter, why would there be such resistance?

This suggests that divestment can have an impact, and it introduces the idea that the choice isn't simply between "voice" (engagement) and "exit" (divestment). Instead, the more accurate framing is "voice and conditional exit".

Voice Through Divestment: Making a Statement

In our paper we define ...

"... fossil fuel divestment announcements as "statements of disapproval that align actions with words for effectiveness"

It's fundamentally about making a statement.

This form of "voice through divestment" starts with a narrative. For fossil fuels, the narrative is based on climate science: the simple insight is that known fossil fuel reserves must be kept in the ground to meet climate targets. These reserves are largely controlled by about 200 listed companies.

The assertive part of the narrative is that divesting from these companies makes a statement that can stop the carbon from being brought up and burned. This approach is asserted to have worked in the past, such as with South Africa.

How Divestment Campaigns Work (and Resonate)

A campaign begins with this narrative and targets notable investors. When these key investors make a divestment announcement, it ideally resonates in society. This societal resonance is crucial because it increases long-term risk for all high-carbon emitters, not just the companies divested from, but also industries like cement and airlines. This increased carbon risk can even affect non-listed companies with outstanding bonds. Other investors who care about risk management then follow suit and divest, creating the traditional price channel effect. As a bonus, the campaign itself can pressure companies to change their behavior during the process.

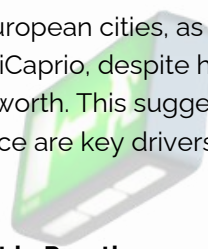
To measure this societal resonance empirically, we analysed Twitter data, specifically focusing on retweets as a measure of amplification. Using LLMs, we classified the large volume of tweets and identified divestment announcements. The movement has seen over 1,700 divestment announcements, but only some truly resonated or "went viral".

Measurable Impact on Share Prices

Our study found a negative and significant impact on the share prices of the targeted companies (the Carbon Underground 200) around the time of viral divestment announcements. This contradicts the standard finance view that divestment should have no impact.

Even more compellingly, there was also a negative impact on other high-carbon companies (like cement and airlines), consistent with the idea that the divestment narrative increased perceived long-term transition risk across the sector.

Interestingly, the size of the divesting entity doesn't always correlate with the biggest impact. While Ireland had the most viral announcement (related to a significant policy shift), the largest price impacts were seen from announcements by the Vatican and 12 major European cities, as well as surprisingly, Leonardo DiCaprio, despite his comparatively smaller net worth. This suggests the statement and resonance are key drivers of impact.



Voice AND Conditional Exit in Practice

The "voice and conditional exit" model is exemplified by institutions like the Church of England. They first engage with fossil fuel companies, and if engagement fails, they then publicly divest. This public divestment is covered in the news and explicitly states that the company has been divested from due to lack of change, but could be re-included if they transition. Companies reportedly dislike being publicly divested by asset owners.

In contrast, some asset managers, while they might have escalation strategies (engagement followed by potential divestment), may do so less publicly. This means there is no "voice through divestment," making it much less effective. Some asset managers like Aviva, as recently reported in the Financial Times, have even announced they are abandoning this escalation strategy.



The fact that there are anti-ESG laws imposing penalties on institutions attempting to divest from fossil fuels also supports the idea that divestment is perceived as having an impact; otherwise, why legislate against it?

Our study suggests that divestment activism, particularly when executed as public "voice through divestment," can be a powerful tool that goes beyond a simple transaction, capable of impacting share prices by increasing carbon risk and its perception across the market.

By Marco Becht (Université libre de Bruxelles and ECGI)

Shareholders' Role and Responsibilities in Times of Corporate Disruptions

2025 IESE - ECGI CORPORATE GOVERNANCE CONFERENCE



Event | 31 March 2025 | Organised by:

IESE Business School - ECGI

This edition delves deeper into the evolving mechanisms of shareholder influence—ranging from diversity responses and climate coalitions to the quiet power of institutional investors. As the global corporate landscape becomes more complex and contested, the question is no longer whether shareholders matter, but how—and to what end.

Who cares about Diversity?

Luc Renneboog, Tilburg University and ECGI

The recent study by Gider, Renneboog, and Zhang (2025) examines who actually cares about corporate diversity, equity, and inclusion (DEI) by analyzing stakeholder responses to discrimination litigation. The research investigates whether discrimination lawsuits—related to gender, race, disability, age, and appearance—significantly impact various corporate stakeholders, from financial markets to employees, consumers, and government entities.

The authors analyze 5,586 discrimination lawsuits affecting U.S. public companies between 2001 and 2021. Their methodology uses these litigation events as "shocks" to corporate DEI quality, enabling them to assess how different stakeholders respond to these incidents. They first validate that these events represent genuine DEI shocks by demonstrating that both news coverage and ESG ratings significantly change following litigation filings.

Surprisingly, the study finds no significant stock or bond price reactions to discrimination litigation announcements, despite their visibility in media and among rating agencies.

While some institutional investors, particularly mutual funds, temporarily reduce their ownership stakes in sued firms, this selling pressure is quickly absorbed by other shareholders, leaving stock prices largely unchanged.

The research reveals interesting patterns in non-financial stakeholder responses. General employees show little reaction to DEI incidents at their employers, as measured by employee ratings on platforms like Indeed. However, highly skilled employees involved in innovation and R&D demonstrate a different pattern—they are more likely to leave following discrimination litigation. This effect is particularly pronounced for female researchers after gender-related discrimination cases, who show a 24% increase in departure rate in the three months following such filings.

Regarding business relationships, the study finds that supply chain partners (corporate customers and suppliers) show no significant changes in their dealings with firms facing discrimination lawsuits. Similarly, government entities at federal, state, and local levels maintain consistent levels of subsidies, tax benefits, and favorable loan terms to sued companies.

Consumer behavior, analyzed through household-level scanner data for retail products, reveals a modest short-term decline in sales for brands owned by litigated firms—approximately 1% of average monthly household consumption in the three months following litigation. However, this effect dissipates after three months, suggesting consumers have short memories regarding corporate DEI incidents. Interestingly, specific demographic groups show stronger reactions: older consumers, urban households, white households, and those living in counties with predominantly Democratic voters or Catholic populations reduce their consumption more significantly.

While external stakeholders show limited sustained reactions, the study finds evidence of internal corporate governance adjustments. Firms increase board diversity by appointing more female and minority directors following discrimination incidents, suggesting that companies may be taking preventive measures against future litigation.

The authors acknowledge that their study may underestimate the full impact of DEI issues since many discrimination cases are settled confidentially before reaching litigation. Nevertheless, the breadth of their sample allows for robust conclusions about stakeholder reactions to public DEI controversies.

Overall, this comprehensive analysis suggests that ...

"... While discrimination litigation triggers some reactions—particularly among certain consumers, skilled employees, and in internal governance structures—its aggregate effect on firm value and stakeholder relationships remains limited."

The findings contribute to our understanding of how DEI concerns translate into concrete stakeholder behaviors and highlight the differential responses across stakeholder groups.

Luc Renneboog is a Professor of Corporate Finance at Tilburg University and an ECGI Research Member.



Shareholders' coalition for climate solutions: Is there a case for competition policy?

Xavier Vives, IESE Business School and ECGI

The investment required for the energy transition is very large. The market may provide too little investment (a market failure) because of two externalities: the environmental or climate externality and the technological spillover externality in abatement efforts in adopting green technology. Those externalities could be addressed in principle in competitive markets with carbon pricing and green subsidies. However, many markets are oligopolistic, and governments are constrained in the use of taxes and subsidies. Firm cooperation may come to rescue, and the question arises of what levels of cooperation should be allowed, and what role common ownership (with common investors in different firms in the same or different industries) can play. In the United States, congressional committees have questioned firm collaborations and coalitions to deal with climate change from an antitrust perspective. A comparative look at regulatory approaches reveals that the European Union, the United Kingdom, and other jurisdictions have adopted a more benign view of sustainability collaborations and climate coalitions in contrast to the US. These divergent approaches highlight the potential tension between promoting environmental objectives and preserving competitive market structures.

The paper reviews recent developments in competition policy in relation to environmental agreements in the US and Europe and examines its role drawing from the received knowledge from the Industrial Organization (IO) literature. An adaptation of the received IO innovation framework demonstrates that cooperative agreements and overlapping ownership can help incentivize a higher level of green innovation and net-zero commitments, mainly through the internalization of technological spillovers.

Both firm size and common ownership are potentially key determinants of net-zero commitments and abatement efforts to reduce emissions.

We know that the (first-best) welfare-optimal solution can be achieved in competitive markets equipped with optimal carbon pricing (equal to the social cost of carbon) and R&D subsidies that incentivize innovation without the need for firm cooperation or commitments. However, in practice, the reality of oligopolistic competition complicates this outcome. The incentives for firms to commit to green innovation and the welfare implications of those commitments depend on the degree of technological spillovers in R&D and the strategic nature of competition. R&D cooperation raises welfare when firms do not act strategically in their R&D choices (that is, when they do not try to influence market outcomes with their R&D investments) and there are positive spillovers. In those circumstances there is no need for an R&D subsidy in the presence of carbon pricing. R&D cooperation raises welfare when firms act strategically and there are high spillovers (lowering the green subsidy needed).

When cooperation in R&D spills over into partial coordination in output, and spillovers are large, cooperative cost-reducing investments in R&D may increase (under reasonable demand specifications), but full product-market collusion remains socially undesirable, as the losses from reduced output and higher prices outweigh the gains from innovation. When spillovers are high, common ownership increases output, abatement effort, and welfare levels.

The optimal welfare level of common ownership is positive for large enough spillovers. Moreover, it increases alongside the intensity of spillovers, the number of firms, the elasticity of demand, and of the innovation function. In certain conditions, even full cartelization may be optimal.

Larger firms and coalitions are more likely to commit to decarbonization targets in the presence of carbon pricing. In an oligopoly where spillovers are high, firms' R&D commitments lead to underinvestment incentives and the need for larger levels of common ownership to improve welfare. In an oligopoly with a competitive fringe, commitments (to "overinvest" in green innovation) by large or a coalition of firms may be suitable substitutes for innovation subsidies. These commitments will incentivize smaller rivals to increase production and green investment, enhancing overall welfare. Therefore, there is substitutability between firm commitments and government carbon pricing:

"strong commitments by firms to decarbonize reduce the burden on public policy to incentivize the transition. "

Many questions remain to be answered. What is the optimal policy for regulating jointly carbon prices, green subsidies and the extent of common ownership? What role do green preferences play in the determination of optimal policy when environmental damages cannot be priced properly and/or green subsidies are limited?

Xavier Vives is a Professor of Economics and Finance at IESE Business School and an ECGI Research Member.

The New Governors: How Institutional Investors have changed governance mechanisms around the world

Mireia Giné, IESE Business School and ECGI

Over the past two decades, the ownership structure of global corporations has undergone a marked transformation. Institutional investors — once background players in corporate governance — now exert growing influence over both the composition of boards and the strategic direction of firms. Their ascent has been steady and global.

The shift is most evident in the United States, where the “Big Three” asset managers — BlackRock, Vanguard, and State Street — now rank among the top five shareholders in 90% of S&P 500 firms. Globally, ownership concentration among the top five investors per firm has risen steadily, creating more homogeneous shareholder bases, particularly among large firms.

Global Patterns, Local Variations

The nature of ownership concentration varies by region. In the U.S., institutional ownership dominates, with universal investors—those holding diversified stakes across entire markets—playing an especially prominent role. In Europe, families are increasingly delegating wealth to institutional vehicles. The trend is toward diversification: from industrial to financial portfolios. In Asia, families and state actors still control large swaths of equity. Yet even there, ETF-driven penetration is on the rise.

The growth of passive investment, largely through exchange-traded funds (ETFs), has been instrumental.

These funds, which track indices rather than select stocks, now account for a significant share of capital flow. Their rise has contributed to ownership overlapping across economic sectors and geographies, centralizing influence and vote among a handful of large institutional investors.

Passive Funds Impact on Governance Mechanisms

The growing presence of Passive Funds poses an interesting dilemma in the governance of firms where they invest. On the one hand, they are long-term holders without a clear exit option, and therefore, should be incentivized to do governance research. On the other hand, these funds are not rewarded for “beating the index”, they put pressure on fees and that might provide weak incentives for deep monitoring.

Interestingly, there is ample academic evidence that passive investors do have governance impact as they enter large publicly traded firms: 1) boards have a higher appointments of independent directors, 2) there is greater opposition to anti-takeover provisions and dual-class structures, 3) disclosure becomes more forward-looking with earnings guidance and earlier filings, 4) more analysts cover the firm and that reduces some asymmetry of information, and 5) from a capital allocation perspective, payouts to shareholder increase while capex decrease.

Mergers and Acquisitions

Consolidation over Discipline: One of the more consequential channels of influence is in M&A activity. Our research shows that institutional investors — particularly universal owners — are supportive of consolidation. This stems from their incentive alignment across firms: while discipline might improve individual performance, consolidation can lift sector-wide margins.

This trend has broader implications. M&A is increasingly a tool for market power rather than corporate reform. Institutional support for such deals reflects a shift in governance logic — away from disciplining managers to optimizing portfolio performance when those portfolios have strong positions in natural rivals.

Delegation and Decentralization

As their influence grows, some asset managers are experimenting with decentralized voting models. Vanguard, for instance, is piloting delegated voting at the fund level. The rationale: decentralization may increase legitimacy on contentious issues, especially in ESG votes. Early evidence suggests that decentralized voters are more supportive of environmental and social proposals, while remaining aligned on traditional management resolutions.

Still, delegation raises new questions: Will retail investors or fund managers have the bandwidth and expertise to vote responsibly? Will proxy advisors gain more sway in a fragmented voting model?



Voting and Monitoring: How Influence is Exerted

Institutional investors engage primarily through voting — at both routine annual shareholder meetings and high-stakes contests. Their governance teams examine regulatory filings, proxy statements, and proposals... and this research discipline reduces inefficient investment and increases distributions to shareholders. However, this engagement is not uniform. Large-cap firms receive disproportionate scrutiny, raising concerns about a two-tier governance regime.

In high-profile proxy battles, institutional votes often tip the balance. When activists win the support of passive giants, boards frequently settle. Conversely, lack of support from passive funds significantly weakens dissident campaigns. Their role is not merely procedural — it is pivotal.

A Glass Half Full

In aggregate, institutional investors have improved internal governance mechanisms. Boards are more independent. Transparency has increased. Voting has become more informed and consequential. Anti-takeover measures have declined. Shareholder payouts have risen.

Yet there are persistent gaps. Executive compensation remains largely unchallenged. Oversight of smaller firms is thin. The influence of institutional ownership appears more effective when outcomes are observable, standardized, and scalable — less so when issues require judgment or sustained engagement.

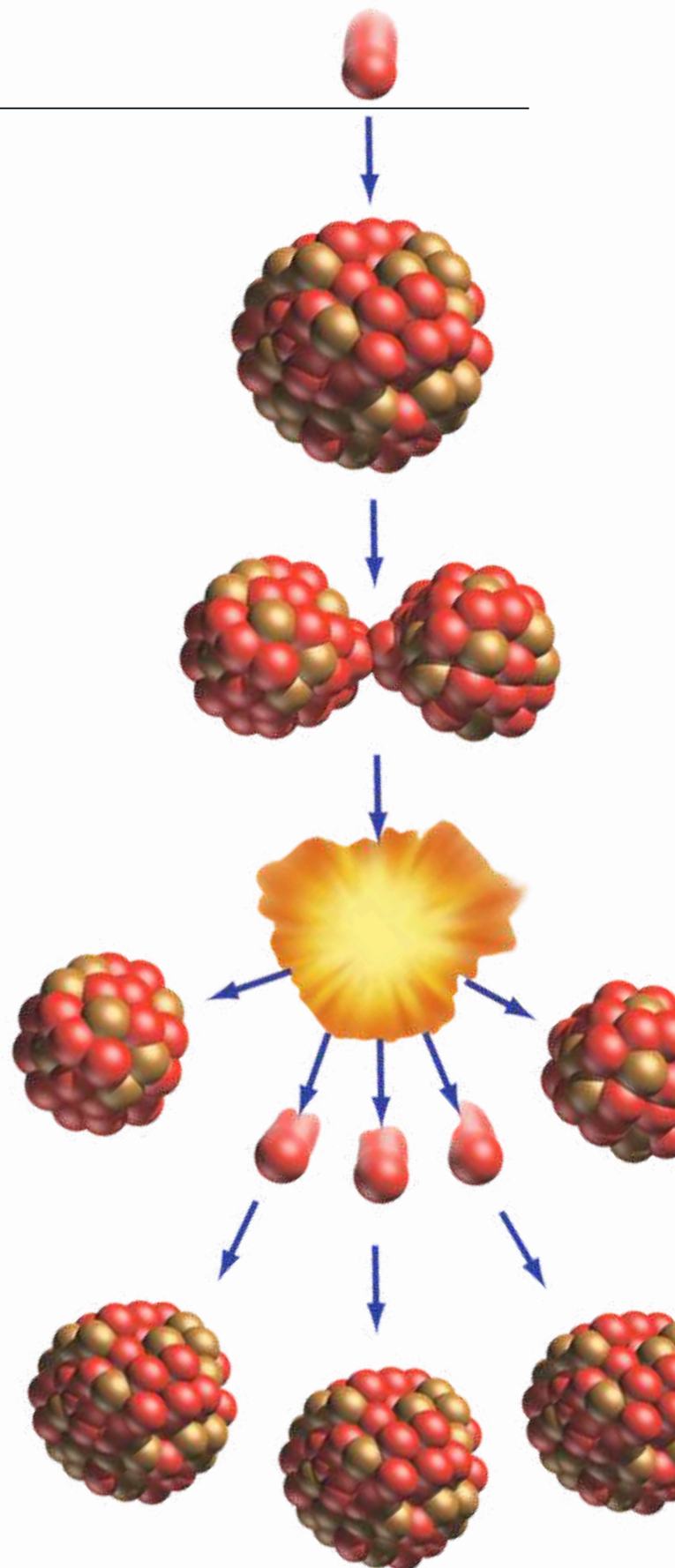
What's Next?

Looking forward, several challenges loom. First, geographical limits remain: evidence of governance influence is strongest in U.S. firms with U.S. shareholders. The applicability in other jurisdictions might be weaker as US-based passive investors might lack the focus and the incentives to monitor firms far away in Europe or Asia.

Second, and most importantly, the concentration and overlap of ownership across a few large institutional owners poses a fundamental question: What do these investors ultimately want? Thus far, the evidence points to a bias toward shareholders payout, transparency, and industry consolidation. Whether that aligns with long-term economic dynamism remains an open question.

"For now, institutional investors are not just shareholders. They are governors — with the data, the votes, and increasingly, the last word."

Mireia Giné is a Professor of Financial Management at IESE Business School and an ECGI Research Member.



Shareholders in a Disrupted World: Final Reflections and Insights from the 2025 ECGI IESE Conference

Marco Becht, Université libre de Bruxelles and ECGI

The Shifting Landscape of Responsible Investment

The 2025 ECGI IESE conference on "Shareholders' Role and Responsibilities in Times of Corporate Disruptions" held in Madrid on 31 March 2025, highlighted the dramatic shift in ESG investing following the November 2024 US election. What was once a growing consensus around responsible investment has been significantly disrupted in just a few months, creating new challenges and opportunities for shareholders.

Despite 2024 being the warmest year on record with devastating climate disasters affecting the United States and beyond, the new administration swiftly withdrew from the Paris Agreement and reversed policies on phasing out coal. These actions came as atmospheric CO₂ concentrations reached new all-time highs above a concerning 431 ppm, with global temperature records being repeatedly broken.



Source: [Visual Capitalist](#) (Data via fDi Intelligence)

The Great Divergence: Asset Managers vs. Asset Owners

Perhaps the most striking development has been the divergence between asset managers and asset owners in their response to the new political landscape.

"Major asset management firms have rapidly retreated from climate commitments through multiple channels:"

1. Withdrawing from climate initiatives including the Net Zero Asset Managers initiative, which subsequently suspended operations;
2. Explicitly disavowing the use of stewardship to achieve decarbonization goals;
3. Rebranding climate-focused funds and weakening ESG criteria;
4. Dramatically reducing or eliminating support for environmental shareholder proposals.

In stark contrast, pension funds and other asset owners have largely maintained their climate commitments. As universal long-term investors, they recognize that climate risk threatens their portfolio values more than ever. The conference highlighted that the fiduciary duty of public pension funds should compel them to consider systemic risks like climate change.

Systematic Pressure on Asset Managers

The retreat by asset managers must be understood in the context of systematic pressure from multiple directions:

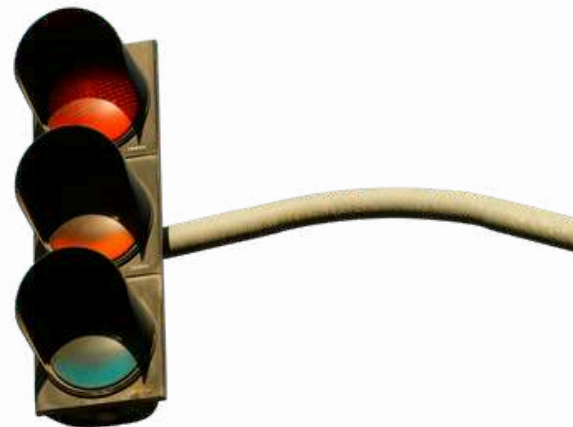
1. The SEC reintroduced guidance requiring ESG-related shareholder proposals to demonstrate company-specific financial materiality, making it easier for firms to exclude climate and social resolutions;
2. The Department of Labor finalized rules prohibiting ESG considerations in retirement plans unless tied to strict financial returns;
3. The SEC's reclassification of routine shareholder engagement as "activist behavior" triggered additional reporting burdens, leading some major firms to pause climate dialogues indefinitely;
4. Over 25 states enacted laws penalizing financial institutions for "boycotting" fossil fuels;
5. Legal intimidation campaigns coerced major law firms into providing USD 600m in pro-bono work that might be deployed against non-compliant asset managers.

Asset Owners Under Pressure: The Weaponization of Pension Funds

State pension funds in Republican-led states are increasingly being weaponized to advance political agendas at the expense of prudent risk management. Some state laws now mandate that pension funds divest from companies deemed to "boycott" fossil fuels, forcing fiduciaries to prioritize politically favored industries over financial stability. Similarly, other legislation compels pensions to invest in high-carbon emitters, even as studies show such mandates could result in significant divestment losses for retirement systems. Anti-ESG shareholder proposals amplify this pressure.

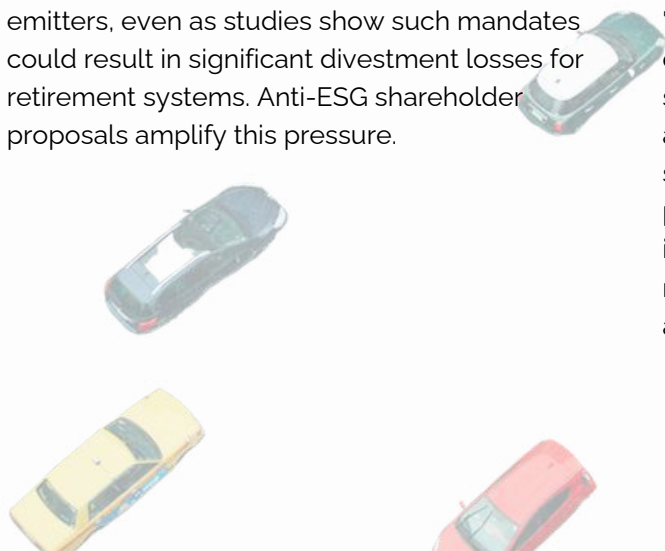
The politicization extends to broader regulatory and international contexts. While the U.S. government cannot (yet) directly mandate investment decisions of state pension funds, there have been legislative proposals aimed at discouraging ESG considerations through regulatory measures. Globally, funds could potentially face indirect pressures stemming from geopolitical tensions or trade-related factors, further complicating their ESG strategies.

This paradigm shift forces a reevaluation of asset owners' independence. Once seen as stewards of long-term value, pension funds from politically vulnerable countries might start to resemble sovereign wealth funds from countries where political objectives override fiduciary duty. As regulatory and geopolitical pressures mount, the line between principled stewardship and state-directed capital allocation grows increasingly blurred.



Rethinking Shareholder Power in a Polarized Environment

The conference raised important questions about the very nature of share ownership. The term "common ownership" does not accurately describe a situation where asset managers hold shares across industrial sectors but do not actually own them. Their recent actions are supposed to align with asset owners' preferences, suggesting "common stewardship" is more appropriate terminology. In light of the new reality, one might also opt for "common absence".



This disconnect creates a crucial decision point for asset owners: Will they accept diminished stewardship from their asset managers, or will they take more direct action? Options include switching asset managers, taking over investment and stewardship functions themselves, or forming alliances with like-minded asset owners.

The Path Forward: Courage in a Time of Challenge

The conference proceedings suggest that shareholders play an even more important role in this disrupted landscape. While many asset managers face commercial and political pressures that may prevent them from fulfilling their responsibilities, this creates both a moral and commercial opportunity for truly committed shareholders to demonstrate leadership.

This evolving situation represents a "natural experiment" that scholars will study for years to come. What is clear is that despite increased difficulty, those who truly care about the future of their companies, beneficiaries, and our planet will need to step up with greater courage and commitment.

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Academic Perspectives on Governance

Insights from Drexel's 18th Annual Conference

Event | 10 - 11 April 2025 | Organised by:

Society for Financial Studies (SFS) - Raj & Kamla Gupta Governance Institute at Drexel University
- ECGI

This edition offers a window into the competitive dynamics and performance pressures shaping today's corporate leadership. From relative performance metrics to CEO succession and shareholder sentiment, the contributions here move beyond conventional governance debates to examine how strategy, incentives, and behavior intersect in complex and often unexpected ways.

Together, these studies raise important questions for governance practitioners: How do we balance competition and cooperation among firms? What does responsible leadership look like in an era of constant scrutiny? And how can boards ensure that pay-for-performance structures support value creation—rather than destruction?

Costly Sabotage: The Dark Side of Improved Risk-Sharing

Matthew J. Bloomfield, Wharton School of the University of Pennsylvania
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Xuanpu Lin, HKU Business School
Guoman She, National University of Singapore
Haoran Zhu, Southern University of Science and Technology

Sabotage as a Means of Success

It's a tale as old as time: outperforming the competition is often less about being at your best—and more about making sure your competitors aren't at their best. Want to take home the Gold medal in figure skating at the Olympics? Tonya Harding has a strategy for that. Want to win an election? Might be a good time to air your opponent's dirty laundry on live television. Want to dominate your soccer league? Just ask Bayern Munich for tips on draining your rivals' talent pool year after year.

As far back as *The Odyssey*, we have Penelope's many suitors, all vying for her hand and, with it, the kingship of Ithaca. So, of course they all try their best to win Penelope's affection through demonstrations of personal virtue and valor, right? Wrong. They conspire, stall, and sabotage one another. They drink each other under the table. They whisper gossip. They maneuver to discredit rivals rather than distinguish themselves. The objective isn't to showcase their best—it's to be the last one standing. In this ancient, zero-sum game of relative status, advancement comes more readily from peer degradation than from self-improvement.

At the heart of all these examples is a simple structural feature: the primacy of relative performance. It's not just how well you skate; did you skate better or worse than the competition? It's not just how many votes you get; did you earn more or fewer votes than your opponent? When the metric that determines success is comparative rather than absolute, sabotage becomes rationally self-serving. After all, it's often easier to trip others than sprint faster.

That logic may seem confined to athletic competitions, electoral politics and Greek tragedy. But it plays out every day at the highest levels of corporate America—quietly driven by an increasingly-dominant feature of executive pay packages: relative performance evaluation (“RPE”).

Executive Pay Based on Relative Performance Evaluation

Over the past two decades, usage of RPE in CEO pay plans has nearly tripled, and is now used by the majority of large publicly-traded American companies. It's one of those ideas that, at first blush, just makes sense. Why not tie executive pay to how a CEO's company does relative to its peers? After all, this should filter out luck (whether good or bad), reward real skill and productive hard work and generally push executives to strive for their firm's best possible performance—right?

Well, sort of. To be sure, RPE does help with risk-sharing. You probably don't want to reward your CEO for a booming macro economy, and you don't want to punish them for a recession either. Evaluating firm performance on a relative basis, comparing against “peers” that are similarly exposed to these economic swings, can be a highly effective way to cut through the noise and avoid “pay for luck.”

But there's a catch. Working smart/hard to boost your firm's performance is one way to improve your relative standing. But taking steps to undermine your peers and harm their performance works too. And here's the kicker:

sabotaging a peer can pay off even if it harms your own firm—so long as the harmed peer suffers more than your own firm does, you still win (and receive higher compensation).

But how does this play out in a world of strategic alliances, robust governance structures, litigious counterparties and powerful common-owning blockholders? Enter strategic talent poaching.

Corporate Sabotage Gets Personnel

Suppose you're a CEO with a lot of incentive compensation tied to relative performance metrics. If you can drag down your peers' performance—even marginally—this can be just as valuable as lifting your own performance. And what better way to slow down a rival than by siphoning off its “most crucial asset” by poaching away their most skilled and hardest-to-replace workers?

This is exactly the sabotage strategy documented in a new paper by Bloomfield, Bourveau, Lin, She, and Zhu. Firms poach significantly more employees—especially highly skilled, long-tenured ones—from the peer companies against whom their relative performance is benchmarked. Notably, this isn't a general industry trend; it's a targeted strategy that ramps up immediately after a rival is added to an RPE peer group. And it's not reciprocal: the rival doesn't poach back, suggesting this is a one-sided, incentive-driven strategy—not a reflection of economic similarity or shared talent needs, but a peer-harming sabotage tactic.

In turn, the targeted peers find that labor talent becomes a more expensive input into their production process, as this external poaching pressure effectively means the RPE peers are engaged in more intense competition for their own employees.

What This Means for Corporate Governance

The findings raise thorny questions for corporate boards. If RPE incentivizes executives to undermine rivals' performance—even potentially at the expense of their own—should we still treat it as a best practice in pay design? More fundamentally, how do we best align pay-for-performance incentives with value creation rather than value destruction?

Traditional views of competition assume that firms will innovate, cut costs, and improve quality to outperform their peers. But this new branch of research points to a darker possibility: firms might instead engage in quiet acts of sabotage—aggressive talent raids, predatory pricing, or even negative disclosures—if doing so moves the needle on their pay.

For governance practitioners, the message is clear: RPE's risk-sharing benefits don't come for free. Using rivals as RPE peers imposes costs on them—and strategic temptations for you. As companies rethink executive pay in an era of heightened scrutiny and stakeholder accountability, this paper reminds us that incentives work. Sometimes a little too well. And like the suitors in Odysseus's halls, today's CEOs may find that getting ahead doesn't always require rising above. Sometimes, you just need your rivals to fall.

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Can Public Opinion Influence Shareholder Engagement?

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Hoa Briscoe-Tran, University of Alberta

Isil Erel, Fisher College of Business of the Ohio State University and ECGI

Laura Starks, University of Texas at Austin and ECGI

Public sentiment regarding corporate practices has become increasingly pronounced, particularly with the rise of social media and the democratization of information. This heightened public engagement encompasses a variety of issues including, for example, a company's financial performance, products, environmental policies, and treatment of employees. Traditional media coverage and social media interactions serve as platforms for capturing public sentiment. Public sentiment can not only influence a corporation's management and its board of directors, but it can also affect shareholders, including large institutional investors such as mutual funds, pension funds, and asset managers. Institutional investors often monitor public sentiment alongside conducting other research to inform their investment decisions.

Shareholders can voice their dissent by submitting shareholder proposals that get voted on at a firm's annual shareholder meeting. In our analysis of the relationship between public sentiment and shareholder actions, we provide two innovative contributions. First, we use unique measures of public sentiment to capture the public's views regarding not only a firm's traditional financial and governance attributes but also newer issues of interest such as climate risk and social concerns. We obtain our proxy for sentiment from LSEG's MarketPsych Analytics, which generates sentiment data by employing state-of-the-art textual analysis and machine learning on a large collection of news and social media content to measure public sentiment in a highly granular fashion. The data captures public sentiment for individual firms on specific topics, down to a given date or even minute.

Second, our paper introduces a novel approach to assess shareholder dissatisfaction with firm management. Rather than relying on voting outcomes for shareholder proposals, we use the number of shareholder proposals submitted as the primary indicator of shareholder dissent. Although most shareholder proposals fail to receive majority support, they can still influence awareness and outcomes (He, Kahraman and Lowry (2023)). Thus, focusing on voting outcomes can diminish the importance of these proposals. Further in any given year, the majority of firms do not have a shareholder proposal on the ballot – either because shareholders have no significant concerns or because they express their dissatisfaction through other means, such as voting against management-nominated directors. To account for this alternative form of dissent, we include an additional measure for robustness: shareholder support for directors.

The number of shareholder proposals reflects both general shareholder dissent and the range of issues for shareholder concerns. For example, the number of shareholder proposals on the Amazon proxy statement varied across years with 15 proposals in 2022, 18 in 2023 and 14 in 2024. These proposals addressed diverse topics such as executive compensation policies, climate goals, racial and gender pay gaps, warehouse conditions, and tax transparency, among others. The relatively large number of proposals compared to other firms represents the shareholder dissatisfaction with Amazon's leadership. The approach of using the count of shareholder proposals offers a more comprehensive representation of shareholder concerns in a given year. In particular, this

approach allows us to examine the association between public sentiment and shareholder dissent across all firms, including those without shareholder proposals – where the absence of shareholder proposals itself reflects important information.

We show that the number of shareholder proposals effectively captures investor dissatisfaction with a firm, particularly since it includes firms without shareholder proposals. We find that negative sentiment about financial, governance, environmental, and social issues is significantly associated with more shareholder proposals, and we establish causality through a creative instrumental variable approach. Further, shareholder actions have real consequences. We find that the larger the number of shareholder proposals, the higher the likelihood of forced CEO turnover and director turnover. Additionally, lower public sentiment leads to less support for management-sponsored director nominees. Further, we find that each of the measures of public sentiment, from ESG to financial sentiments, is associated with the director support rate.

In order to examine whether the effect of public sentiment on shareholder proposals is causal, we ideally need variation in public sentiment independent of firm fundamentals that may directly influence shareholder actions. We propose that such variation arises in the context of 'scandal movies' – films that expose a firm's historical misconduct. Given that the scandals depicted occurred in the distant past, the release of these movies is unlikely to reflect the firm's current fundamentals but may negatively impact public sentiment toward the firm. Analyzing a sample of firms featured in scandal movies, we observe a decline in public sentiment relative to control firms. Using the presence of a scandal movie as an instrument for public sentiment allows us to assess its causal effect on shareholder proposals. In this setting, we again find that more negative (instrumented) public sentiment leads to an increase in the number of shareholder proposals.

Our insights have significant implications for corporate leaders and investors alike. For management, the warning is:

"... ignoring public sentiment can lead to increased shareholder activism and leadership turnover."



For investors, our findings highlight the effectiveness of acting with public's voice in leading to corporate change. In today's democratized information environment, companies can no longer operate behind closed doors, shielded from public scrutiny. Shareholders, armed with public sentiment data, are increasingly willing to hold management accountable. This new reality underscores the importance of transparency and responsiveness in maintaining investor trust and long-term value creation.

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CEO Succession as a Strategic Option

Thomas Geelen, Pennsylvania State University
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The ability to smoothly transition from one CEO to the next is widely recognized as one of the board's most critical responsibilities. Yet despite this importance, many firms still seem to lack adequate succession plans. This apparent contradiction—where succession is simultaneously described as vital yet often seems neglected—has puzzled governance scholars and practitioners alike. In our paper, we develop a dynamic model of CEO succession that provides new insights into succession practices.

Internal versus External Successions

A striking empirical pattern in CEO successions among public firms is the strong preference for internal candidates—approximately 80% of new CEOs are promoted from within. Our model provides a novel explanation for this phenomenon. By monitoring an internal candidate's performance over time, the board gains valuable information about the candidate's capabilities before making promotion decisions. This superior information about internal candidates drives internal succession in our setting.

Counterintuitively, our model demonstrates that more efficient executive labor markets lead to increased—rather than decreased—internal successions. While conventional wisdom suggests that reduced labor market frictions should facilitate external hiring, our analysis reveals a dominant secondary effect: when labor market frictions decrease, firms can more readily replace underperforming internal candidates, thereby elevating the average quality of their internal talent pool. This enhanced internal candidate quality increases the likelihood of internal successions when CEO positions become vacant.

This finding challenges the assumption that high rates of internal succession indicate inefficient executive labor markets; instead, they may reflect optimally functioning markets where firms leverage their ability to develop, evaluate, and selectively retain internal talent.

Why Boards Delay Succession Decisions

Our research reveals that apparent delays in CEO successions may in fact represent an optimal strategy for boards. By conceptualizing the succession process as a real option, we find that boards derive value from gathering information about potential successors over time, particularly given the significant costs associated with CEO turnover. Therefore, boards might optimally delay appointing a new CEO to learn more about potential successors to make more informed decisions and avoid appointing subpar candidates who might necessitate another costly transition. This suggests that waiting for the right candidate can be advantageous for organizations.

The CEOs' Role in Successions

"Incumbent CEOs wield significant influence over succession processes, often in ways that conflict with shareholder interests."

Our research identifies a previously unexplored mechanism of managerial entrenchment: strategic sabotage of potential successors to extend CEO tenure.

This sabotage manifests through tactics such as withholding critical mentorship, restricting board exposure, and failing to delegate leadership-building responsibilities. Our analysis demonstrates that compensation structure fundamentally shapes these behaviors—equity-based compensation discourages sabotage because undermining future leadership capabilities directly diminishes equity value and, consequently, the CEO's own wealth. Conversely, fixed wage structures create perverse incentives that encourage sabotaging talented successors to extend tenure and maximize personal earnings. Paradoxically, these entrenchment attempts can backfire, as boards anticipating such behavior may accelerate succession timelines, promoting successors earlier to minimize the organizational damage from extended sabotage campaigns.

Rethinking Succession Best Practices

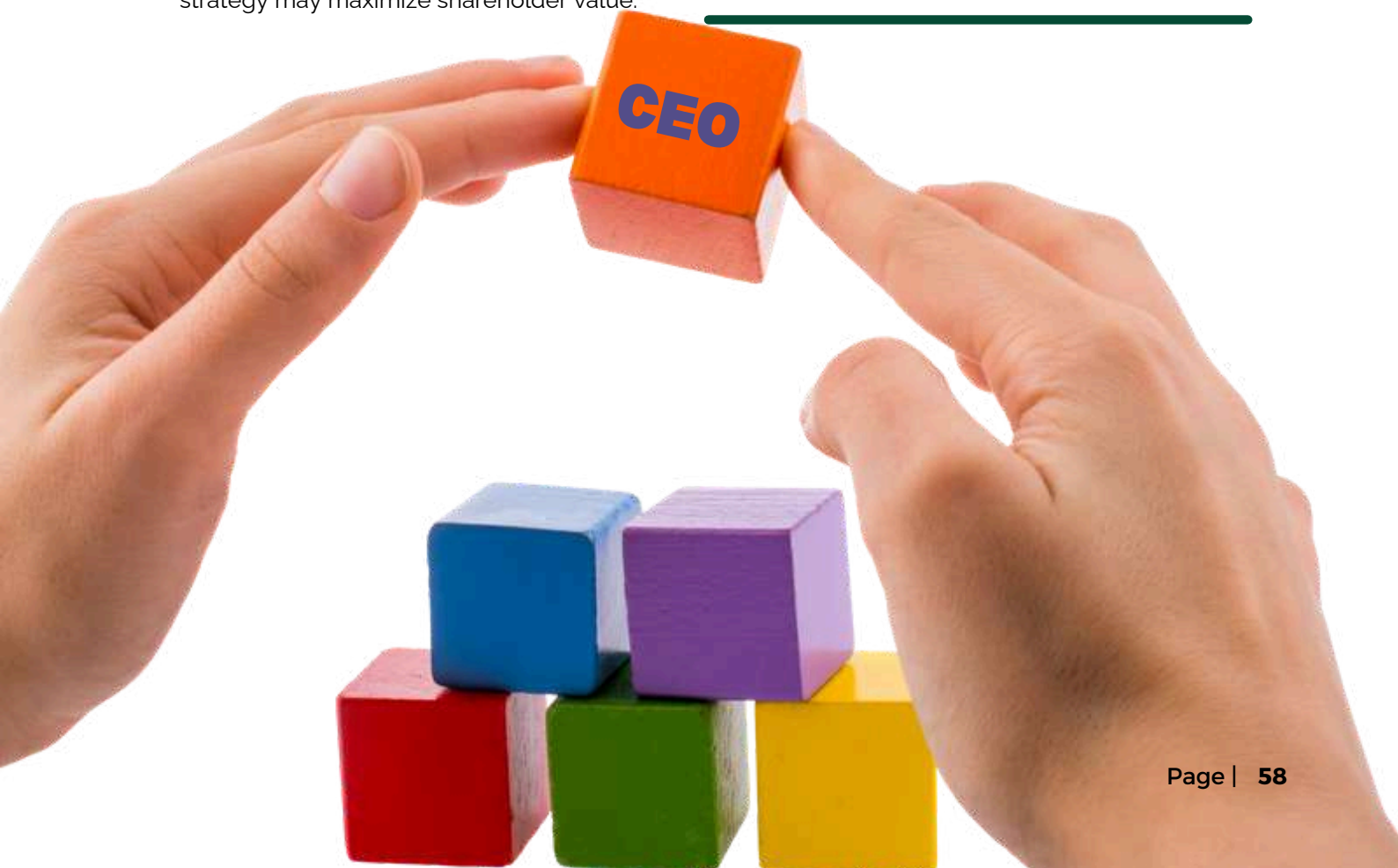
Our research suggests several implications for corporate governance practitioners:

- Delay can be optimal: The absence of a formal succession plan doesn't necessarily indicate poor governance. A deliberate delay strategy may maximize shareholder value.

- View potential successors as real options: Boards learn over time about candidates and their abilities. Effective boards treat succession planning as a dynamic process of continuous evaluation.
- Design compensation to align succession incentives: Equity-based compensation can mitigate CEOs' incentives to sabotage succession planning.

Our research shifts the succession conversation from static checklists to dynamic decision processes that unfold over time. The seemingly contradictory patterns observed in practice—high rates of internal promotion, apparent lack of succession planning, and delays in appointments—emerge as rational responses. By viewing succession through this dynamic lens, boards can develop more nuanced approaches that recognize the tradeoffs involved.

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Event | 10 - 11 April 2025 | Organised by:

*Society for Financial Studies (SFS) - Raj & Kamla Gupta Governance Institute at Drexel University
- ECGI*

This edition shifts the spotlight from firm-level behavior to the broader forces shaping how shareholder power is exercised—and contested—in today's complex governance ecosystem. These studies challenge us to think differently about how shareholder power is structured, signaled, and resisted—and what governance should strive for in an era defined as much by polarization as performance.

All Shareholder Votes Are Not Created Equal: Why Some Investors' Votes Matter More Than Others

Davidson Heath, University of Utah
Da Huang, Northeastern University
Chong Shu, University of Utah

The hallmark of democracy is that a poor man's vote carries the same weight as a rich man's vote. But when it comes to shareholder voting, the reality is more complex - and less democratic. Our new paper, "All Shareholder Votes Are Not Created Equal," shows that votes by different shareholders have different levels of impact on corporate governance.

Why Do Some Shareholders Matter More?

In corporate elections, such as voting each year to confirm the board of directors, all votes count equally toward the final tally. Thus, it's natural to think that each shareholder vote is equally impactful.

Academic studies and real-world policy proposals often make this seemingly innocuous assumption. But it's not true. Our paper documents that when a no-vote comes from an active mutual fund - a fund that actively picks stocks - the same director is more than twice as likely to exit the board, compared to a no-vote from a passive index fund.

Why does this difference exist? We find that the answer lies in the perceived threat posed by different types of investors. Active funds inherently have a stronger threat point - they can buy or sell stocks based on their evaluation of a company's governance and performance.

This discretion creates a disciplinary pressure: if a director is not performing, an active fund can divest, signaling to the market that the company's governance is flawed; for example, market participants closely monitor the quarterly 13F filings of prominent stock pickers. These funds can also launch proxy battles to replace the board altogether. Passive funds, on the other hand, are locked into holding the stock as long as it remains part of their index. While passive funds can support a proxy battle, they do not start them. As a result, corporate boards listen more attentively to the votes of active investors.

The Myth of Passive Investor Power

The power of the "Big Three" passive asset managers - BlackRock, Vanguard, and State Street - has been hotly debated. These giants collectively own over 20% of the equity of most U.S. public firms. Many commentators and regulators, including eleven states, the Department of Justice, and the Federal Trade Commission, are concerned that the Big Three have outsized influence over corporate governance. However, our study shows that votes from the Big Three's passive funds carry no more weight than votes from other active investors with smaller holdings. This finding suggests, surprisingly, that shareholder influence is less about sheer ownership but more about the shareholder's identity.

Our analysis further shows that even within the Big Three, it's only their active funds that sway board retention, not their passive ones. In short, the narrative that giant passive funds wield overwhelming influence is overstated.

Better Information or Stronger Threat?

One might think that active funds are more influential because they have better information about the firm's performance or management quality. Yet, our study finds no evidence supporting this explanation. Even when passive funds do more research, like viewing the firm's proxy statements, their votes still count for less.

The same is true in situations when firm-specific information gathering should matter more: the gap in shareholder influence remains about the same in size.

By contrast, the difference between passive and active funds shrinks when the board is more entrenched and has less to fear from future shareholder actions. This finding suggests that the threat of future divestment or hostility is more important than the quality of information when it comes to director retention. They also underline a broader point about shareholder democracy: votes are not just about tallying opinions. They also serve as signals of potential future actions.

Rethinking Shareholder Democracy

Regulators have debated whether passive funds should be allowed to vote at all, given their perceived lack of monitoring. Yet, our study shows that even when they do vote, their influence is limited. The more pertinent question is whether it is fair for votes to be weighted differently depending on the shareholder's ability to divest.

There are also implications for pass-through voting, where individual investors in passive funds are given a direct say. If the fundamental problem lies in the lack of perceived threat from passive shareholders, then merely increasing their ability to vote doesn't change much. Instead, the structure of the investment itself determines the weight of the vote.



A New Paradigm for Shareholder Voting

The key takeaway from our study is that shareholder voting power is not just about ownership.

"Active funds hold more sway, despite their smaller levels of share ownership, because their votes imply a willingness to back up their dissent with real action."

This reality challenges the ideal of equal voting power in shareholder democracy. Perhaps it's time to rethink how we understand corporate governance and the influence of investors. If it is the ability to make credible threats - and not information - that truly matters for governance, should regulators look to level the playing field, or accept this disparity as a natural consequence of how corporate governance is run?

In either case, simply having a vote - advisory in most cases anyway - is not enough. It is the shareholder standing behind the vote that truly counts.

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When the State Shapes the Vote

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Red State Backlash Against ESG

Let's talk about a financial giant, a Southern state, and the clash that says a lot more about American politics than you might expect. On March 27, 2024, Mississippi's Secretary of State made headlines by accusing BlackRock—the world's largest asset manager—of using “fraudulent and deceptive means” to push a political agenda through its ESG (Environmental, Social, and Governance) investment strategy. That's a bold accusation against a firm that manages trillions in assets. But this wasn't just about BlackRock. It was a shot across the bow in a larger war brewing between conservative state governments and institutional investors over the role of social responsibility in corporate America.

States like Florida, Texas, and West Virginia have already taken steps to pull public funds from BlackRock and other asset managers that promote ESG. Behind these efforts lies a deep concern: that socially responsible investing is threatening industries such as oil and gas, which form the economic backbone of many red states. But at a deeper level, this backlash signals something even more consequential—the rising influence of political polarization on how institutional investors operate.

What Our Research Shows

Our research, titled “The Politicization of Social Responsibility,” dives into this messy, politically charged terrain. We looked at how institutional investors vote on shareholder proposals related to social and environmental issues—everything from climate disclosures to human rights protections to gender equity policies. What we found is eye-opening: institutional investors are significantly less likely to support these proposals when the companies are headquartered in states with Republican leadership.

On average, SRI (socially responsible investing) proposals receive 4.1 percentage points less support at firms based in red states—a 13% drop from the baseline. That gap grows even wider for bigger firms and more visible investors—the ones more likely to get called out by the media or politicians.

This shift is not just a coincidence. In the U.S., state governments wield real influence over corporate outcomes through tax policies, subsidies, and regulations. That influence makes political alignment a material risk factor. Institutional investors appear to be adjusting their votes to account for these local political dynamics. When a company's home state is likely to punish ESG-friendly initiatives, investors pull back.

The pattern holds even within states over time. When a state switches from a Democratic to a Republican governor, institutional support for SRI proposals at firms in that state falls by nearly 10 percentage points. Proposal passage rates also decline—especially in close-call votes, where the governor's party affiliation often makes the difference.

Why Investors Hold Back

There are two main reasons why institutional investors might shy away from supporting socially responsible investing (SRI) proposals in politically conservative states—and both are rooted in self-interest.

The first is self-preservation. Investors understand Republican officials, particularly those overseeing massive state pension funds, have real power—both financially and rhetorically.

By steering clear of controversial ESG initiatives, institutional investors may be trying to avoid becoming political targets. The logic is simple: staying under the radar protects reputations and helps preserve relationships in markets where ESG is often framed as a left-leaning agenda.

The second explanation is fiduciary duty. In red states, ESG proposals may carry real financial risk. Political leaders can—and often do—use their influence to penalize companies they believe are overstepping ideologically. That could mean revoking subsidies, tightening regulations, or otherwise making life difficult for firms perceived to be out of step with local values. For example, after Delta Airlines opposed Georgia's Election Integrity Act in 2021, the state House retaliated by ending a jet fuel tax break. A similar backlash occurred in 2018 when Delta cut an NRA discount after the Parkland shooting. In states where companies rely heavily on government support, these risks are amplified—and investors take notice.

Untangling whether investors are more motivated by fear of political backlash or by concerns for the bottom line isn't easy. It is likely that both factors matter. But our deeper analysis points to fiduciary concerns playing a particularly strong role. We tested this by examining data from the Subsidy Tracker, which details state-level business subsidies. In states led by Republican governors—especially those handing out generous corporate subsidies—we found a consistent pattern: institutional investors were significantly less likely to support SRI proposals. In other words, the more a firm depends on state support, the less likely investors are to risk rocking the boat with ESG votes.

Why This Matters

Our research adds a new layer to the growing body of work on how politics shapes markets. While past studies have shown that individuals and companies behave differently based on their political leanings, our findings show that even institutional shareholders—who are typically thought to act with financial objectivity—aren't immune from political forces.

In fact, state-level dynamics can meaningfully shift how they vote.

Navigating ESG today requires more than evaluating environmental or social risks—it demands political savvy. For investors, ...

"... supporting ESG proposals in states hostile to “woke capitalism” can invite backlash that affects both the firm and the investor."

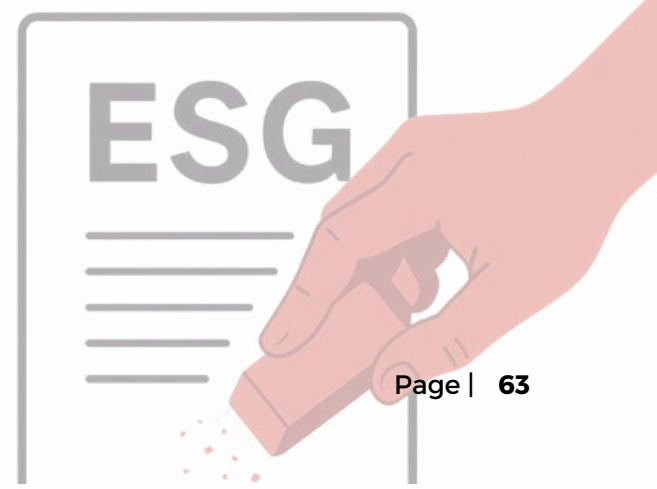
For companies, the message is clear: state politics matter. A sustainability initiative praised in California might spark political pushback in Texas, especially for firms reliant on public subsidies or tied to powerful local stakeholders.

ESG has become a political fault line, not just a matter of ethics or climate risk. As polarization intensifies, institutional investors must balance financial responsibility with rising political pressures—there's no longer a neutral path.

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When Paying Regulators for Performance Backfires

Jason Chen, Harbert College of Business, Auburn University

Jakub Hajda, HEC Montréal

Joseph Kalmenovitz, Simon Business School, University of Rochester

We have all heard the argument: if you want better results, tie pay to performance. It's practically gospel in the private sector. But what happens when you try that logic on government regulators – the people tasked with overseeing Wall Street, protecting the environment, and enforcing aviation safety? In our new study, we offer a sobering answer: they leave.

In our paper, *Escaping Pay-for-Performance*, we examine the black box of government compensation reform. We study what happened when the U.S. federal government tried to mimic corporate America by linking executive pay to job performance. The idea was simple: reward the best performers and, hopefully, boost the efficiency of federal regulation. Instead, we found that it triggered a wave of resignations, especially among the most capable regulators.

Our analysis centers on a sweeping 2004 reform that changed how federal executives – those high-ranking career officials just below political appointees – were paid. Until then, most of them received steady pay raises tied to tenure, not performance. The reform aimed to fix that by doubling the potential maximum pay but making future raises contingent on performance.

Sounds good in theory. But when we dug into a dataset of 24,000 federal regulators, we found a clear and unintended effect: the best people left. Specifically, voluntary resignations jumped by over 4 percentage points. Among high-ability executives, the exit rate nearly doubled. These weren't retirements. Most joined the private sector and walked away with a 66% pay bump on average.

Think about that.

"The reform was meant to retain and motivate top regulators. But in practice, it motivated them to quit."

To make sure this wasn't a fluke, we looked at two other settings. One was a staggered rollout of performance pay across ten financial regulatory agencies between 1981 and 2006. The other was a 2004 agreement at the FAA that expanded performance-linked pay for air traffic controllers. The result? Same story: performance pay led to more exits.

So why does this keep happening?

We built a structural model – a kind of economic simulation – to understand what's going on under the hood. In our framework, regulators are mission-driven, but they also have outside options. They value public service, but not infinitely. If you make their job more stressful or uncertain – say, by introducing performance metrics they view as arbitrary or opaque – you reduce the appeal of public service.

Performance pay doesn't just increase effort. It increases effort and raises the opportunity cost of staying. More effort in government makes regulators more attractive to private employers. And unlike government jobs, private sector pay has no ceiling. Meanwhile, the government still imposes a cap on maximum earnings, even if you're a superstar. So once a regulator gets close to that cap, extra effort doesn't pay off.

The result is a perverse incentive: the harder you work, the more it makes sense to leave.

This is more than a quirky policy failure. It's a cautionary tale about importing private sector solutions into public service jobs. Regulation isn't just another business line; it's a public good. And those who choose a regulatory career often do so for reasons other than maximizing income. That doesn't mean they should be underpaid or immune from accountability. But it does mean we should think carefully before throwing market-based solutions at complex public systems.

What makes the study even more compelling is that we quantify the changes. After the reform, we estimate that executives put in about 4.5% more effort, and 24% of their pay was tied to performance. But that modest bump in effort came at a steep cost: a dramatic reshuffling of talent. The people who left weren't slackers, they were the high-performers with the strongest private-sector prospects.

The policy implications are clear, if uncomfortable. If you want to pay regulators for performance without bleeding talent, you need to raise the government pay cap. Otherwise, you're just training people to leave. Alternatively, you could find non-monetary ways to motivate effort - like improving job autonomy, clarifying expectations, or investing in performance metrics that employees trust. But the idea that you can turbocharge public sector performance with corporate-style bonuses is, at best, wishful thinking.

Let's be honest: regulators already work in politically fraught environments. Their decisions affect billions in market value, public safety, and environmental protection. The last thing we want is to create systems that push the best ones out the door.

In the end, Escaping Pay-for-Performance isn't an argument against accountability. It's a warning against lazy policymaking. Not all performance incentives are created equal. In the public sector, especially at the top of the regulatory pyramid, compensation structures have ripple effects—on morale, talent retention, and ultimately the quality of governance. Reform, if it's going to work, has to respect the unique dynamics of public service. Otherwise, we're just paying regulators to train for their next private sector job.

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Event | 9 - 10 June 2025 | Organised by:

Baltic Family Firm Institute - ECGI

This edition sheds light on the evolving role of family firms—longstanding pillars of national economies that are now grappling with a new generation of challenges. From internal governance and executive mobility to public accountability and antitrust enforcement, these contributions explore how family-controlled companies adapt, innovate, and safeguard their legacy under pressure.

These studies portray a sector that is far from monolithic. Family firms may be built on tradition, but the mechanisms they use to evolve—quietly, strategically, and often behind closed doors—offer fresh insights into corporate adaptability and resilience.

What Is a Family Firm and Why Does It Matter?

Morten Bennedsen, University of Copenhagen and ECGI
Yi-Chun Lu, National Sun Yat-sen University
Vikas Mehrotra, University of Alberta

To illustrate why defining a family firm matters, consider two iconic companies: Hermès and Suzuki. Hermès is a luxury brand with deep family ownership and succession across generations. Suzuki has long been controlled by the founding family for despite minimal ownership. Both are family firms by some definitions—but not by others. In contrast, Microsoft under Bill Gates had strong founder control but no succession intent or any evidence of family involvement. Should Microsoft be classified a family firm?

These cases highlight the definitional ambiguity that plagues family firm research. Our goal is to clarify this landscape and offer a workable definition. We take inspiration from Donnelley (1964), who defined a family firm as one where at least two generations are closely involved and

influence both the company's direction and family goals. This intergenerational embeddedness is central to identifying what makes a firm truly "family."

"Clearly the spatial and temporal embeddedness of the family in the business is a central theme that not only identifies common features within the class of firms called family businesses, but also distinguishes this class of firms from non-family firms."

For e.g., the temporal embeddedness is a common feature of succession practices in family firms, but clearly not in non-family firms. Spatial embeddedness can be thought of as the involvement of multiple family members in the business. In the parlance of Williamson (1979, 1983), the family and the business represent a bilateral monopoly, with each side making specialized investments in the other, wherein the value of each is diminished in the absence of the other.

Why Definitions Matter

Definitions shape empirical outcomes. Depending on the criteria used, the number of family firms in a dataset can vary dramatically. For example, in the U.S., using a 5% ownership threshold, 37% of Fortune 500 firms qualify as family firms. Add succession and spatial embeddedness, and the number drops to 7%.

This variance affects:

1. **Prevalence:** Counting founder-managed firms like Microsoft inflates the family firm economic footprint.
2. **Performance:** Villalonga and Amit (2006) shows that family firms outperform only under the broadest definition, but that this result flips when succession and embeddedness are added.
3. **Innovation:** Mixed findings on R&D investment and efficiency also track with definitional differences.

In short, definitional choices affect everything from policy recommendations to theoretical conclusions.

The Five Conceptual Dimensions

We identify five key dimensions that define family firms, which often interact in complex ways:

- **Ownership:** Most common criterion, with thresholds from 5% to 50%. Some distinguish between cash flow and voting rights.

- **Control:** Often proxied by board presence or voting rights; for example, the Suzuki family exerts control despite minimal equity.
- **Management:** Is a family member the CEO or in top management? This dimension distinguishes active family involvement from passive ownership.
- **Embeddedness:** Shared values and multi-member involvement; a proxy for long-term commitment and human capital investment.
- **Succession:** Key for dynastic firms; distinguishes from founder-led startups without generational intent.

Our Survey: 122 Papers, 29 Definitions

We reviewed 122 empirical papers from 1964 to 2022 and identified 149 unique definitions. Results show:

- Ownership used in over 80% of definitions, often as a sole criterion.
- Management appears in ~20%.
- Embeddedness and succession appear in only 14% and 8%, respectively.

About 44% of definitions rely on a single criterion. This oversimplifies the complexity of family firms and complicates cross-study comparisons.

What can we learn?

Early research on family firms offered a remarkably clear and conceptually rich definition of what constitutes a family business. In his seminal 1964 article, Donnelley proposed the idea of embeddedness as a key identification feature of a family business. He notes that the embeddedness feature bestows a mutual reciprocal reliance of the family and the business in setting firm policy and family objectives.

This definition emphasized two foundational dimensions—succession and spatial embeddedness—that distinguish family firms from other organizational forms. Yet, despite the clarity and depth of this early work, the field has since struggled to converge on a consistent definition. Over the decades, empirical studies have increasingly relied on narrow, data-driven criteria—most commonly ownership thresholds—while often neglecting the intergenerational and relational aspects that Donnelley considered essential.

As a result, the definitional landscape remains fragmented, with significant implications for how we count, compare, and understand family firms.

Our findings suggest:

- Broad definitions may misclassify firms like Microsoft, skewing data.
- Narrow definitions may exclude dynastic firms like Suzuki.
- A multi-dimensional approach, particularly one that incorporates succession and embeddedness, captures the essence of what defines a truly 'family' firm.
- Researchers should test alternative definitions to check the stability of their findings.

The field must move beyond convenience-based definitions toward conceptually grounded, empirically feasible frameworks. While we do not prescribe a single definition, we strongly advocate for incorporating Donnelley's (1964) twin pillars of succession and embeddedness. These dimensions best capture what makes a family firm distinct.

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Tracing Ownership Changes in Europe's Private Firms

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How frequently do privately owned companies change hands? At first glance, this appears to be a straightforward question. Yet, surprisingly, we lack a clear answer to it. This absence of clarity is striking, especially as privately held firms play an increasingly important role in the economy, while the number of publicly listed companies continues to decline.

Although public companies are routinely scrutinized in academic research, benefiting from greater data transparency and regulatory disclosure, private firms remain comparatively overlooked. In our new paper, *Mapping Corporate Ownership and Control Changes for Public and Private Companies*, we provide novel evidence to help close this critical gap.

Rather than relying solely on merger and acquisition databases to track ownership changes, we adopt a novel methodology that leverages historical firm-level ownership data. This approach enables us to trace changes in the identity of ultimate owners over time, offering a more comprehensive view of control dynamics.

A necessary first step in identifying changes in control is to determine who the owners are. Pinpointing controlling shareholders—especially across hundreds of thousands of companies—is a complex task. Ownership structures can be opaque, multi-layered, and highly variable across jurisdictions. Moreover, data inconsistencies and limited disclosure further complicate efforts to identify and classify controlling owners systematically.

While ownership structure data for private firms remain scarce at the global level, the European Union offers a valuable exception.

Private firms in EU member states are required to report both shareholding and financial information to local business registers. This regulatory requirement enables us to access detailed data on listed and unlisted non-financial firms across Europe, drawing from historical databases available through Moody's DataHub. Consistent with established literature, we define ultimate ownership as the control of at least 25% of a firm's voting rights.

The scale of our dataset is considerable, comprising 375,634 European non-financial firms, both listed and unlisted, observed over the period from 2015 to 2022. This results in more than two million firm-year observations. Within this population, we identify 166,343 changes in ultimate control, corresponding to approximately 8.2% of the sample. We obtain these figures after a rigorous data-cleaning process aimed at reducing inconsistencies in reported ownership names and excluding short-term fluctuations or intra-group transactions that could otherwise distort the true incidence of control changes.

Our findings reveal an active and persistent market for corporate control. On average, approximately 9.5% of listed firms change ownership annually. Unlisted firms—comprising the vast majority of the sample—experience ownership transitions at a rate similar to the overall sample (8.2%). When we narrow the analysis to exclude unlisted subsidiaries of corporate groups, the frequency of control changes declines to 5.4%.

Ownership type emerges as a key determinant of control stability. We classify ultimate owners into four broad categories: families, financial

institutions, industrial companies, and the State. Each ownership type exhibits distinct patterns in the frequency of control changes. Family-owned firms—accounting for 43% of the sample—are notably stable, with only 5.7% experiencing a change in control every year, reflecting a strong tendency among family owners to retain control. State-owned enterprises are even more stable, with an annual turnover rate of just 3.5%. In sharp contrast, firms controlled by financial institutions—including private equity funds and banks—display the highest rate of control turnover, at 14% per year.

"Our regression analysis confirms the markedly lower likelihood of control changes in firms owned by families or the State."

Notably, we also find that changes in control often involve a shift in ownership type. While family owners do not appear to have a systematic preference for selling to other families, a substantial share of firms owned by financial institutions are transferred to other financial entities—possibly reflecting the prevalence of secondary buyouts in this segment of the market.

Firm-level characteristics significantly influence control dynamics. Ownership changes are more common among larger and listed firms, as well as those with lower liquidity or higher leverage, indicating that financial distress is a key driver. Younger and more profitable firms also appear to attract more acquisition interest.

The COVID-19 pandemic disrupted control activity in 2020 but did not alter owner-type behavior overall. However, family owners became even less likely to sell under financial pressure, consistent with their long-term commitment. Notably, listing increases the likelihood of a sale for family firms, especially among larger ones.

Cross-border transactions play a notable role in Europe's corporate control landscape, with around 3.5% of ownership changes involving a foreign acquirer. Families and state owners are particularly reluctant to sell to foreign buyers, suggesting that national or strategic considerations continue to influence international transfers of control.

This study makes several important contributions. First, it offers one of the most comprehensive empirical mappings of corporate control changes across Europe, encompassing both public and private firms. Second, it advances the methodology for accurately identifying meaningful ownership transitions. Third, it sheds light on how ownership types—mainly family and state control—influence the frequency and nature of these changes.

The broader takeaway is clear: the market for corporate control extends well beyond the spotlight of stock exchanges and headline mergers. Private firms, often overlooked, play an active role in this market. Understanding their ownership dynamics is therefore vital—not only for advancing academic knowledge but also for informing policymakers, investors, and all stakeholders concerned with economic governance and resilience in today's complex corporate landscape.

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Family Firms Rebuild from the Inside Not the Outside

Mario Daniele Amore, Bocconi University and ECGI

Firms often engage in illicit actions to inflate financial figures, boost profits, or gain an unfair advantage over competitors. Examples of such actions include accounting fraud, environmental violations, bid rigging, bribery, and violations of competition laws. Simultaneously, firms face constant external scrutiny from regulators, the media, and other parties who expose corporate wrongdoing and pressure companies to improve their conduct.

Academic research has studied several determinants of corporate misconduct, including managerial incentives, performance aspirations and deficient organizational cultures. Moreover, existing research has parsed the actions that firms undertake following the revelation of wrongdoing to restore their reputation, such as the dismissal of executives and directors, corporate donations, and social responsibility expenditures. These actions have been studied in isolation, so we don't know much about why different firms prefer certain approaches over others. We also know that companies react very differently to reputation problems, but we know little about the drivers of these differences.

In a recent work with Riccardo Marzano and Danny Miller, we focused on family ownership—one of the most common ownership structures worldwide—as a factor that might influence how companies respond to sanctions for antitrust violations. While family firms have a different tendency toward misconduct, it is unclear what corrective actions these firms would take once wrongdoing is discovered.

Antitrust enforcement actions impose two types of costs for firms. The first are purely economic and come from the fines that an antitrust

authority will impose and from the increased competition that firms will face once the anticompetitive practice is dismantled. The second is reputational costs, which can damage not only the business but also the owners' status and identity in the local community and alienate customers and other stakeholders.

We argue that antitrust enforcement actions will cause family firms to respond differently from non-family firms. To start, we expect family firms to be less likely than non-family firms to leverage financial tools in dealing with reputational crises. Whereas firms, in general, cope with the increased competition arising from antitrust enforcement by increasing investment and external financing, we expect family owners to be reluctant to raise new equity because this will dilute their shareholdings and threaten family control. Also, family owners will resist incurring debt that could compromise the solvency of the business and is, in any case, a less suitable funding source in facing heightened competition. As a result, family firms will have less capital to invest in new operations or physical infrastructure to cope with the new competitive scenario following an antitrust enforcement action. However, we expect family firms to react on the managerial front to recover from reputational and organizational identity damages engendered by the antitrust enforcement. Specifically, these firms are expected to move family members to the top executive team, leveraging their personal stake in the firm to signal to stakeholders a commitment to restoring ethical standards. Indeed, firm and family's reputation and market performance are unlikely to be salvaged unless those family members have the status and capacity to do so effectively – a strong incentive for selection based on these merits.

A higher representation of family members in top executive positions will benefit the family business as a result of symbolic and substantive effects.

These conjectures were largely borne out by our empirical analysis of a sample of seven thousand family and non-family firms in Italy, of which almost 300 were involved in investigations by the national antitrust authority concerning violations of competition law (primarily cartels, and abuses of dominant position in fewer cases).

In summary, our research reveals important differences in how family-owned companies handle antitrust sanctions compared to other businesses.

"When hit with penalties, family firms make fewer changes to their financing and investment strategies but significant adjustments to their top management positions."

This strategy is particularly pronounced for family businesses that are well-known in their local communities, where reputation arguably matters most. For these companies, the family name and reputation become valuable competitive advantages that help them recover from setbacks—something that non-family businesses can't replicate. This approach appears to work: family businesses that put more family members in leadership roles after sanctions tend to gain market share.

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More Than Capital: How Family Business Groups Mobilize Executive Talent

Jinzhao Du, University of New South Wales

Peter Pham, University of Sydney Business School

Jason Zein, University of New South Wales

Ronald Masulis, University of New South Wales and ECGI

Family controlled business groups have long been viewed as powerful—but potentially problematic—players in global capital market. These groups, which consist of a set of publicly listed firms under the control of a single family, are often criticized for entrenching dynasties, hoarding resources, and crowding out competition. However, having stood the test of time, including multiple rounds of government led reform, their persistence suggests that in addition to such perceived costs, they also have some important benefits associated with their existence.

Business groups may thrive not just because they can control the flow of large amounts of capital, but also because they generally know how to match people and corporate positions efficiently. Specifically, the ability to deploy talented employees across their affiliated firms quickly and effectively. In our new paper, we find that family business groups strategically operate internal labor markets (ILMs) for its executives just as they manage their capital.

"Senior executives aren't just hired—they're reallocated, redeployed, and rotated across firms within the group to meet the group's changing needs."

It's less about control for its own sake and more about coordinated adaptability. And it could be one of the key reasons why family business groups remain dominant across so many economies.

Executive Talent: The Real Resource

Capital may be the most visible resource in business groups, but executive talent is often the most consequential. These individuals shape strategy, steer companies through crises, and set the tone for innovation and risk-taking. In standalone firms, executives are typically hired from the open market. In family groups, something quite different happens. They rotate. They redeploy. They are trained.

Imagine a high-growth affiliate struggling to scale fast enough relative to its competitors. Instead of hiring an outsider, the group sends in a seasoned executive from one of its top-performing firms. That kind of trusted redeployment of human capital is a luxury most standalone firms simply don't have.

Do ILMs Really Make a Difference?

A core contribution of our study is to quantify just how much ILMs influence executive mobility within a group. We asked two key questions:

- Is there more overall executive movement when ILMs exist—that is, within business groups?

-
- And what share of these movements comes from inside versus outside the group?

To answer these important questions, we compared three types of firms:

- Family business group (BG) firms, which can tap into ILMs
- Standalone firms, which rely exclusively on ELMs
- And “pseudo-group firms”: matched standalone firms that resemble actual business groups but lack centralized coordination

The findings are clear:

- Family BG firms hire 17% more executives overall than comparable standalone firms
- But they hire 10–14% fewer from the outside, meaning a greater share of hires come from within the group, which is strong evidence of ILM activity
- These internal movements spike when group firms underperform.
- What's more telling is the comparison to pseudo-groups. These synthetic groups are similar in size, industry, and country, but don't have ILMs. And yet, actual BGs show nearly twice the internal executive movement. That's not about structure. That's about strategy.

ILMs, in short, don't just increase executive mobility — they reshape how talent flows through the corporate ecosystem.

ILMs in Action: Strategy Over Status Quo

These internal moves aren't just about loyalty or convenience. They're targeted responses to past performance and future potential.

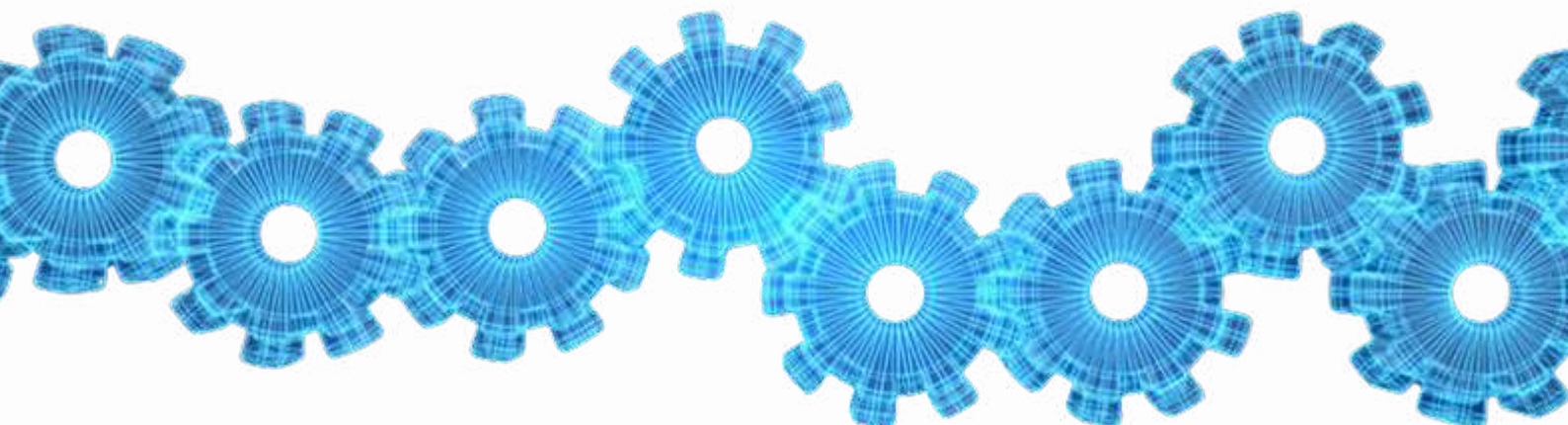
We find that internal executive transfers are directed toward affiliates that are younger, underperforming, and located at the bottom of the ownership pyramid. These same firms often receive internal capital investments, suggesting a coordinated strategy to support and grow critically important young firms, and weaker parts of the group.

And it works. After internal executive transfers, we observe increases in capital expenditures and sales, even in the face of short-term profitability dips. This suggests family groups are willing to trade short-term returns for longer-term gains—aligning leadership and capital to drive sustainable growth.

Not All Groups Are Created Equal

It's worth noting: this pattern is largely absent in non-family business groups. Without the shared ownership and strategic incentives and vision of a controlling family, these other business groups show little evidence of internal executive mobility. Affiliates act more like neighbors than siblings.

That distinction matters. It suggests that family control enables a rare kind of labor agility—and it may be one reason why family groups outperform in emerging markets where talent pipelines are thinner and external hiring is riskier.



Rethinking Business Group Power

Much of the policy and academic debate around business groups paints them in broad strokes: either entrenched dinosaurs or institutional stopgaps in emerging markets.

Our findings suggest a more dynamic picture. Yes, family groups control resources. But they also act like carefully calibrated systems, moving talent in ways that improve adaptability, absorb shocks, and support growth where it's most needed.

This isn't just about who owns what. It's about how control is exercised—and whether it's used to entrench or to evolve and innovate.

Final Thought

If you want to understand why family business groups endure, don't just follow the money. Follow the people. Because behind every capital transfer, every group expansion, and every turnaround success, there's often strategic executive moves, and a controlling family playing a long game that most outsiders never see.

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Different types of shareholders and corporate decision-making

Insights from Bocconi University - ECGI Conference

Event | 17 June 2025 | Organised by:

Università Bocconi - ECGI

As capital markets evolve, so too does the composition of the shareholder base. From index funds and sovereign wealth funds to activist investors and retail shareholders, the variety of actors influencing corporate strategy has never been greater.

The event opened with a transatlantic roundtable discussion featuring distinguished voices from academia, the judiciary, and industry. Together, they explored the changing role of shareholders in corporate governance systems across jurisdictions, with particular attention to recent legal developments and emerging tensions between accountability, efficiency, and long-term value creation. The second part of the programme featured a series of academic presentations that probed foundational and forward-looking questions in corporate law. Topics included institutional theory, informal governance mechanisms, the limits of shareholder democracy, and the legal implications of market power in labour and capital markets.

This forum offered an opportunity to take stock of the shifting dynamics between shareholders and corporations—and to consider how legal frameworks might adapt to better reflect the realities of modern corporate ownership.

When Democracy Fails: From Ancient Athens to Modern Shareholder Meetings

Christina Sautter, SMU Dedman School of Law

Picture this: It's 500 BC in Athens. Citizens gather at the Pnyx hill for the ekklesia—among the world's first experiments in democratic decision-making. Every free male citizen has the right to speak (isegoria), yet only the wealthy, skilled orators control the conversation. Sound familiar?

Fast-forward 2,500 years to corporate America's annual shareholder meetings. Theoretically, every shareholder who holds shares with voting rights can vote and can participate. In reality?

A handful of institutional investors and activist hedge funds dominate the discourse while everyday retail investors are left with what I call "a proxy card in a vacuum."

The Athenian Parallel That Changes Everything

The parallels between ancient Athenian democracy and modern corporate governance are striking—and troubling.

In Athens, while 40,000-60,000 men were eligible to participate in the *ekklesia*, only about 6,000 typically showed up. Of those, maybe a few dozen skilled rhetoricians actually spoke and shaped decisions. The rest? Passive listeners in a supposed democracy.

Corporate shareholder meetings follow the same playbook. Only shareholders with sufficient resources, knowledge, and time can meaningfully participate. The everyday shareholder—whose retirement savings might be invested in these companies—remains effectively voiceless. But it gets worse: at least Athens operated on one-person-one-vote. Corporate America embraces one-share-one-vote, creating a system that is closer to plutocracy than democracy.

The Proxy System: Democracy's Façade

The U.S. federal proxy system, created in the 1930s to combat management manipulation, now perpetuates shareholder disenfranchisement. In 1939, Lewis Gilbert asked Bethlehem Steel to include shareholder proposals on its shareholder meeting agenda—it resisted. This resistance prompted the adoption of Rule 14a-8 in 1942, allowing qualified shareholders to submit proposals. Today? You need \$2,000-\$25,000 in holdings with extended periods—effectively pricing out smaller investors.

Meanwhile, states like Texas are making it even worse. The newly passed Texas Senate Bill 1057 requires shareholders to hold the lesser of \$1 million or 3% of voting shares, maintain continuous ownership for six months, and solicit 67% of voting power so as not to rely on the corporation's proxy materials. This is not democracy; it is aristocracy with a corporate veneer.

The Virtual Meeting Mirage

Post-COVID, virtual shareholder meetings promised to democratize corporate governance. Finally, shareholders could participate from their living rooms! Instead, we got the opposite.

Miriam Schwartz-Ziv's research found that virtual meetings were 18% shorter than in-person meetings, with 40% less time for business updates and 14% less time for Q&A.

Management controls who can speak through digital platforms. They cherry-pick questions, eliminate follow-ups, and silence dissent—all while other shareholders cannot even see what questions were asked. It is digital authoritarianism disguised as technological progress.

Remember Wilma Soss, the legendary corporate gadfly who dressed as a cleaning lady at CBS meetings to demand the company "clean up the mess"? Her theatrical confrontations led to governance improvements we now take for granted. Today's virtual format would have silenced her completely.

The Big Three's Quiet Revolution

Perhaps most concerning is the concentration of voting power in the hands of the "Big Three"—BlackRock, Vanguard, and State Street. These asset managers now control about 25% of votes at S&P 500 companies. They vote shares using other people's money yet face no meaningful accountability to the actual human investors whose funds they manage.

These institutions increasingly outsource voting decisions to proxy advisory firms like ISS and Glass Lewis—entities that have no skin in the game and no shares at stake yet wield enormous influence over corporate decisions. It is governance by committee of the unaccountable.

Technology: False Promise or Real Solution?

While corporate management has used technology to further exclude shareholders, the same tools could revolutionize democratic participation. Commission-free trading apps have already diversified the investor base—with more Black/African American, Hispanic/Latino, and Asian/Pacific Islander investors, as well as more women investors.

Social media platforms enable coordination among retail investors in ways previously impossible. For example, when AMC Entertainment retail shareholders organized on Reddit to oppose additional share authorization, the company twice withdrew its proposal. The technology exists to create truly democratic corporate governance. Real-time voting, transparent Q&A systems, educational platforms—all could empower everyday shareholders. The question is not about technological capability; it is about political and corporate will.

Reclaiming the Shareholder Voice

Corporate disenfranchisement is not just a governance problem—it is a democratic crisis.

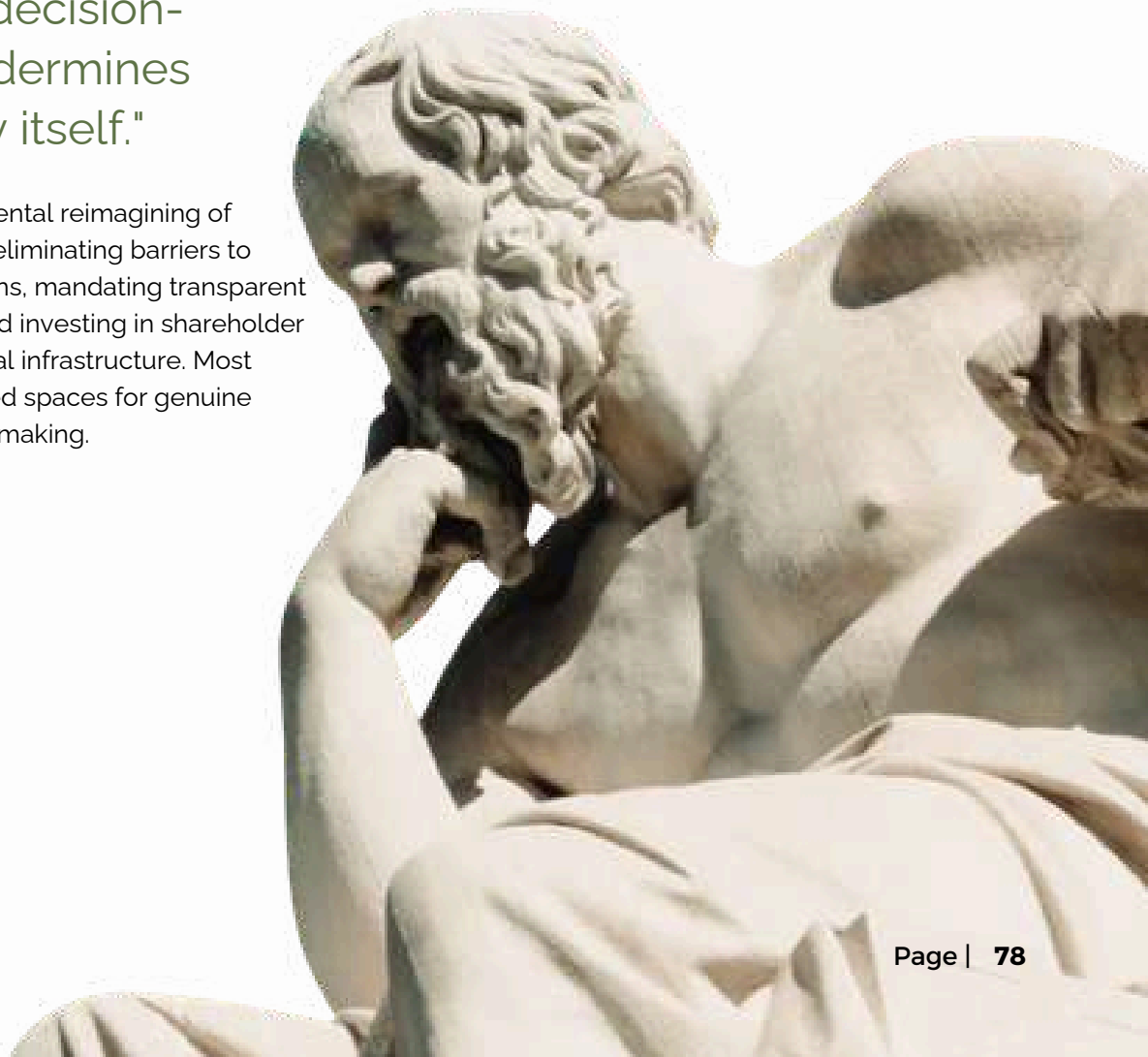
"When corporations dominate our economy and politics, excluding ordinary citizens from corporate decision-making undermines democracy itself."

We need a fundamental reimagining of shareholder rights: eliminating barriers to proposal submissions, mandating transparent virtual meetings, and investing in shareholder education and digital infrastructure. Most importantly, we need spaces for genuine collective decision-making.

Ancient Athenians believed democracy required active citizen participation. They were right. Corporate America's shareholders deserve better than proxy cards in a vacuum—they deserve a seat at the table.

The choice is ours: continue toward corporate oligarchy, or harness technology's democratic potential for genuine shareholder participation. Like skilled orators controlling ancient Athens despite formal equality, today's institutional investors and proxy advisors control corporate decisions while everyday shareholders watch from sidelines. We have the tools to fix this—if we have the will. The stakes could not be higher.

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Monopsony in Labour Markets: The Corporate Law Contribution

David Cabrelli, University of Edinburgh

To what extent should corporate lawyers be concerned about monopsony or oligopsony in labour markets? Monopsony and oligopsony are terms describing a market where a single buyer, or a few buyers, of a type or kind of material have the capacity to set the level of demand for the supply and fix the wage rate. In the case of the labour market, that material, obviously, is labour. Labour market monopsony and oligopsony are currently matters of widespread public concern in the UK (see the CMA Report on Competition and market power in UK labour markets). This is attributable to the fact that, over time, they lead to stagnant wages, heightened inequality and overinflated prices charged to consumers. Given the topic's patently close relationship to labour and markets, corporate lawyers would be forgiven for thinking that this is simply an area for labour law or anti-trust/competition law to worry about. Why should corporate lawyers take any notice?

My recent article, co-authored with Dr. Ewa Kruszewska, argues that corporate law bears as much relevance as labour and anti-trust/competition law to the generation and exacerbation of labour market monopsony or oligopsony. This results from the UK's legal rules governing horizontal (and possibly also, vertical) corporate takeovers and mergers which serve to constrict labour markets. UK corporate law facilitates ownership and control structures that allow firms to acquire and exercise labour market power without triggering regulatory concern. This occurs especially in mergers where labour markets are affected, but product markets are not.

Labour economists in recent years have attributed wage stagnation to employers' monopsony or oligopsony powers, partially as a consequence of horizontal (and possibly also, vertical) corporate mergers. Traditional competition law cannot see the problem because it does not focus on post-merger impacts on input markets (labour), but instead concentrates more narrowly on the competitive or anti-competitive effects of the merger on output markets (goods/services) and whether consumer welfare will be/is adversely affected.

Our study drew a parallel with UK corporate law (particularly takeover regulations in Part 28 of the Companies Act 2006) and the UK Takeover Code, which, we argue, are oblivious to the negative and consequential labour market effects of takeovers and mergers because they narrowly concentrate on capital (shareholders) rather than labour (workers). Under Part 28 of the Companies Act 2006, directors are not required to consider the effects of a merger on employees post-acquisition, enabling consolidations that diminish labour competition without scrutiny. These blind spots mean that horizontal mergers that lead to concentrated labour markets but not concentrated product markets remain unregulated, exacerbating the wage stagnation.

We examined possible changes to takeover regulations and UK corporate laws that might inject a livelier sense of responsibility into director's statutory and takeover-specific obligations to address this problem.

"However, after analysis, we concluded that the prevailing shareholder-centric DNA of UK corporate law is a major obstacle to the introduction of any measures that might enable it to forge the tools it needs to intervene in post-takeover labour markets in favour of employees."

One of the structural problems lies in the legal separation between regimes regulating capital (corporate law) and labour (employment/competition law), which obscures the impact that firm structure and control has on employment outcomes. As long as corporate law remains fixated on one input (capital) rather than another (labour), the only viable primary line of assault on monopsonistic/oligopsonistic labour markets, it seems, is a reorientation of anti-trust/competition law. For example, an expansion of what counts as the 'public interest' in a merger review process that empowers the UK competition authorities to intervene and challenge a takeover or merger on the basis of its adverse labour market effects is the most obvious solution, albeit that this would represent a major turn away from existing regulatory orthodoxy. In short, in the absence of a holistic 'enterprise' law which conducts a post-merger analysis of the respective market inputs and outputs, the political-economic backgrounding of corporate law presents a formidable impediment to change, since corporate law is incapable of putting its own house in order.

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The Shareholder Democracy Lie: Why We Need to Stop Pretending Corporate America Is Democratic

Sergio Alberto Gramitto Ricci, Maurice A. Deane School of Law, Hofstra University

Let me be blunt: “shareholder democracy” is corporate America’s sneakiest propaganda campaign. For nearly a century, Wall Street has sold us this fairy tale that shareholders control corporations democratically, complete with voting rights, representation, and minority protections. It is time we admit what the data has been screaming for decades: this is fantasy.

The Rhetorical Cheat Code

When Exxon CEO Darren Woods declares his company is a “forceful advocate for shareholder democracy,” when Tesla frames executive compensation battles as democratic mandates, and when BlackRock’s Larry Fink heralds “a new era of shareholder democracy” through pass-through voting—they’re all playing the same game. They’re using a rhetorical cheat code, a term so vague and emotionally appealing that it can justify virtually any position.

But here is the uncomfortable truth: there is nothing democratic about a system where institutional investors, which are only thousands of entities, hold 70% of all US equity, and retail investors, who are millions of individuals, hold about 30% of all US equity. A small minority of shareholders—institutional investors—control the vast majority of votes. Moreover, proxy advisory services, effectively with no skin in the game, influence how a consequential portion of shares are voted. What is democratic about this?

Institutional Bureaucracy, Not Democracy

Since the 1980s, we’ve witnessed massive “de-retailization” of share ownership. Individual investors have been systematically pushed out in favor of institutional behemoths. There has been a recent resurgence of retail investing led by “wireless investors”—retail investors who invest via commission-free trading apps and source the bulk of their investing information online.

Although American household direct investment rose from 15% in 2019 to 21% in 2022, wireless investors remain largely disenfranchised when it comes to actual corporate governance.

The proxy system compounds this democratic deficit.

"Most individual shareholders, even when they own shares directly, are driven away from voting by a system designed for institutional efficiency, not individual engagement."

Meanwhile, proxy advisory services like ISS and Glass Lewis wield enormous influence over corporate elections, creating another layer of intermediation that distances actual people from corporate decision-making.

The Historical Con Job

The term “shareholder democracy” did not emerge organically from some grassroots movement of empowered investors. It was crafted in the 1920s by Wall Street investment firms and the New York Stock Exchange as a marketing tool to attract everyday investors. Even more cynically, corporate managers and their political allies weaponized this rhetoric to fight government regulation, arguing that mass share ownership could achieve social goals more efficiently than democratic governance through elected officials.

Julia Ott's historical research reveals the true agenda: proponents promised that mass investment would provide “class harmony” without disrupting the status quo of “economic wealth and power.” In other words, shareholder democracy was sold as revolution that changed nothing fundamental about who actually holds power.

Why This Matters Beyond Wall Street

Some might ask: why obsess over corporate governance terminology? Because words shape reality, and the stakes could not be higher. Corporate power permeates every aspect of our lives—from our income and healthcare to environmental policy and political funding. When we accept the fiction that this power is democratically accountable through “shareholder democracy,” we legitimize a system that concentrates enormous influence in the hands of a small institutional elite.

The modern American republic depends on the corporate sector for critical aspects of existence and citizen welfare. Undemocratic control over corporations does not stay contained in boardrooms—it trickles down into every corner of our society and politics. As I explored in my essay “The Vitruvian Shareholder,” human shareholders have dual natures: as investors and as human beings who inhabit a shared planet. But current corporate governance structures, by disenfranchising individuals, systematically marginalize human dimension of the demos.

The Path Forward

Our forthcoming article in the Florida Law Review does not just diagnose the problem—it lays the foundation for informed policymaking about corporate power. We are not arguing that shareholders should have more or less power; we are insisting that we stop pretending the current system is democratic when it manifestly is not.

Real reform requires acknowledging the mechanics that make shareholder participation tick. Only then can we have serious discussions about whether we want to democratize corporate power—by expanding shareholder participation and power—or openly embrace alternative models that do not hide behind deceptive democratic rhetoric.

The rise of “wireless investors,” particularly those who gather online to discuss companies, offers a glimpse of what bottom-up democratic participation might look like. But channeling this energy requires infrastructural changes that prioritize accessibility and engagement over efficiency and institutional convenience.

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Event | 11 - 12 June 2025 | Organised by:

The DFG LawFin Center at Goethe University in Frankfurt - The LSE Law School - The Faculty of Law of the University of Oxford - The Institute for Law & Economics at the University of Pennsylvania - ECGI

As private capital markets continue to grow in scale and significance, the legal and financial structures that underpin them are under increasing scrutiny. This edition showcases new research at the frontier of law and finance, offering insights into how private equity and venture capital shape firm behaviour, governance choices, and broader economic outcomes.

From boardrooms to policy circles, these four essays challenge us to reconsider how law and finance intertwine to shape the rules of the game in venture capital and private equity.

The Production Network Spillovers of Private Equity Buyouts: Evidence from Firm-To-Firm Sales Data

Cédric Huylebroek, KU Leuven
Olivier De Jonghe, Tilburg University

The private equity (PE) industry has grown substantially over the last two decades, from roughly \$1 trillion in assets under management in 2010 to over \$4 trillion by 2023. While a large body of research has documented positive effects of PE ownership on target firms' productivity, governance, and innovation (e.g., Davis et al. 2014; Bloom et al. 2015; Lerner et al. 2011), firms are part of complex production networks. Yet, little is known about the role of supply chains in PE investors' ability to create or extract economic value. This question is of first-order importance for at least two reasons:

(i) critics often argue that PE investors' short-term value creation strategies may conflict with the long-term nature of supply chain relationships, and (ii) examining the supply chain spillovers of buyouts may improve our understanding of the real economic implications of PE investments.

Theoretically, the supply chain spillovers of PE buyouts are ambiguous. On the one hand, if PE buyouts enable targets to pursue new growth opportunities or improve operational efficiency, suppliers may benefit from increased demand for inputs (Holmström 1988) or knowledge spillovers (Grossman and Helpman 1991).

On the other hand, PE firms' high leverage and short investment horizons may lead them to exert pressure on suppliers for cost reductions—e.g., by renegotiating contracts or switching suppliers (Shleifer and Summers 1988; Kaplan and Strömberg 2009).

To investigate these hypotheses, our study leverages unique production network data from Belgium—a representative country in terms of PE activity. These data record the buyer-supplier relationships of virtually all firms active in Belgium, and can be linked to detailed firm balance sheet data for the period 2002–2022. Using this unique dataset, we employ a difference-in-differences framework to compare the economic trajectories of suppliers with versus without PE-backed customers, after versus before PE buyouts.

We document several key findings. On average, suppliers to PE-backed firms experience approximately 5 percent higher growth in sales, employment, and profitability compared to observably similar suppliers to non-PE-backed firms. These effects appear to be driven by increased input demand from (faster-growing) PE-backed customers, rather than technology or knowledge spillovers. However, these positive effects diminish during economic downturns. In such periods, suppliers to PE-backed firms no longer outperform their peers and reduce markups by approximately 8 percent. These results can be explained by the fact that, in times of economic distress, PE firms exert greater pressure on suppliers and more actively reconfigure their supply chains to deliver short-term cost savings for their portfolio companies.

In addition to these first-order effects, we uncover significant second-order "crowding-out" effects for rival firms sharing the same suppliers. Specifically, rivals of PE-backed firms that share suppliers suffer declines in performance, particularly when those common suppliers are capacity constrained. These "crowding-out" effects suggest that suppliers reallocate limited resources toward their faster-growing PE-backed customers at the expense of other customers.

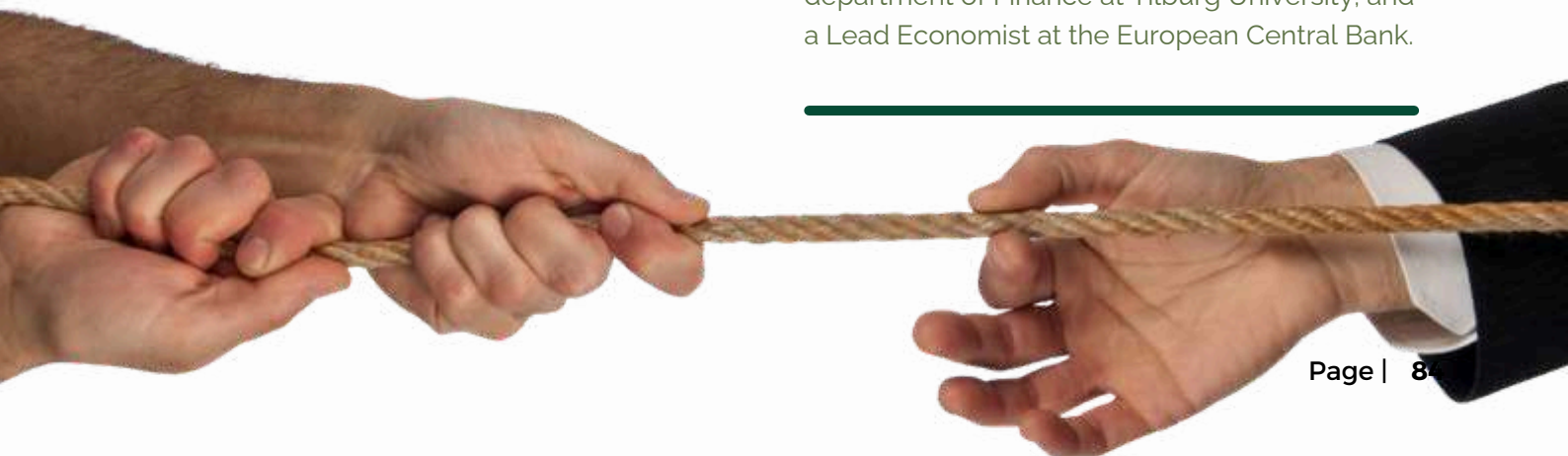
Taken together, our findings underscore the central role of supply chains in understanding how PE investors create and extract value.

"On average, PE ownership benefits upstream suppliers, but PE firms exert greater pressure on suppliers during periods of economic distress."

These results suggest that policymakers and practitioners should consider not only the direct effects of PE investments but also the broader spillover effects on supply chains and the implications for market competition.

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Private Capital, Constituency Directors, and Fiduciary Loyalty: Evidence from VC

Bo Bian, UBC Sauder School of Business
Yingxiang Li, City University of Hong Kong
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The Rise of Private Capital

Private markets have grown significantly in recent years, with private equity, venture capital, and hedge funds supporting startups and mature private companies that tend to stay private longer (Ewens & Mensa, 2022). The increased importance of private markets has prompted legal scholars to investigate the underlying drivers, including regulation (e.g., Gözlügöl et al., 2023; Roe & Wang, 2023). One channel through which legal regimes affect capital inflows is by constraining investors' ability to write and enforce complex contracts (Lerner & Schoar, 2005; Enriques et al., 2025a and 2025b).

Constituency Directors

Private capital investors typically secure board representation through the right to appoint a number of so-called "constituency directors", whose presence is tied to a specific constituency or sponsor (Gelter & Helleringer, 2015). Constituency directors enable sponsors to oversee and steer board decision-making in a favorable direction (Sepe, 2013, Bartlett, 2015).

Their role is therefore just symmetric to the role of more "traditional" directors, who must contribute to decision-making to advance the interest of a predetermined beneficiary (Gelter & Helleringer, 2015)— depending on the applicable corporate law regime, the corporation as a whole, shareholders as a class, or a given class of shareholders (e.g., common shareholders).

Despite their function, constituency directors are subject to the same corporate fiduciary law regime as traditional directors (Gelter & Helleringer, 2015). This implies that, while appointed to advance the interest of their sponsors, they are legally required of serving the interest of another beneficiary. These "dual fiduciaries" (Alon-Beck, 2023), therefore, sit in an inherently conflicted position.

The ability of constituency directors to opt out of the standard fiduciary regime can significantly affect private capital investors' ability to attract investments. Legal scholars have highlighted inefficiencies in a regime subjecting all directors to homogeneous fiduciary loyalty (Sepe, 2013; Bartlett, 2015; Gelter & Helleringer, 2015). Relevant empirical research has thus far been lacking.

Constituency Directors in the VC World

Our paper provides evidence on how the 2013 Trados ruling changed the behavior of constituency directors, particularly those appointed by venture capitalists. VC (venture capital) funds, with a limited lifespan of up to 12 years, face pressure to liquidate as the deadline approaches, often leading to fire sales of startups at discounts. As VCs hold preferred shares, they are less affected by disappointing outcomes than the entrepreneurial team holding common shares.

As an oft-cited piece of research explains, VC-backed firms' directors have long operated under

the "contingent control approach" to fiduciary duties. A VC-controlled board could make decisions that favor preferred shareholders at the expense of common shareholders as long as the board can plausibly defend these decisions as being in the best interest of the corporation (Fried & Ganor, 2006). This approach effectively allowed the board to exercise some discretion in pursuing strategies that may favor preferred shareholders. Trados concluded, instead, that VC-backed firms' directors are under the duty to maximize common shareholder value, ultimately restricting boards' discretion in advancing the interests of preferred shareholders. (See *In re Trados Inc. Shareholder Litigation*, 2009 WL 2225958 (Del. Ch. 2009); *In re Trados Incorporated Shareholder Litigation*, 73 A.3d 17 (Del. Ch. 2013).)

Trados significantly affected how constituency directors in VC-backed startups, and their sponsors, behave. By comparing the probability of trade sales by VCs nearing maturity versus VCs further away from maturity, both before and after Trados, we find that, consistent with the increase in common shareholder protection stemming from that landmark decision, VC funds now act more cautiously in exit decisions. Maturing VC funds, especially those under liquidity pressure, are, post-Trados, less likely to execute fire sales. The ruling mitigates much of the effect of liquidity pressure on exit probabilities in acquisition scenarios, where fire sales are most extreme. However, Trados still has a smaller mitigating effect when sales are less costly to common shareholders.

The impact of Trados on VC-appointed or affiliated directors has also had an indirect effect on VC intermediaries' ability to raise capital. Moving from a preferred- to a common-favoring regime limits VCs' ability to implement their business strategies, which may lead fund investors to reduce their allocations to VC funds. This effect is particularly significant for foreign limited partnerships (LPs). One of the primary reasons foreign LPs invest in the US is to take advantage of a legal environment that allows them to craft and enforce complex financial contracts.

With Trados introducing new fiduciary standards that hinder the implementation of these contracts, we document a decrease in the size of US VC funds compared to non-US funds, suggesting a reduction in the availability of VC for US startups. Our analysis also shows a decline in capital raised by US-based startups in global VC deals.

Lessons for Private Capital Contracts?

While we cannot conduct a full welfare analysis, our findings suggest that Trados reduced VC's fire sale propensity but also limited US-based startups' access to VC and reduced overall VC supply.

"A consequential inference is that shaping fiduciary loyalty in a manner that overlooks the unique role of constituency directors and, more broadly speaking, the specific characteristics of VC-backed firms can prove problematic."

In other words, the VC business model requires a customized duty of loyalty owed by the portfolio company's directors. This is key for VC, and by (any possible) extension for private capital investments at large, to flourish.

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The Role of Pay-to-Play in Startup Survival

Gad Weiss, NYU School of Law

The startup ecosystem fuels America's economy in ways few other sectors can match. It has also ridden waves of boom and bust, with periods of explosive growth followed by cool-downs. During these market downturns, capital becomes scarce and investors must make difficult decisions about which startups in their portfolios deserve continued support. In a new paper, I examine one mechanism that can help startups survive these periods of contraction – pay-to-play clauses— to which law and finance scholars have so far given little attention.

Pay-to-play provisions are designed to induce investors to provide a startup with fresh capital, as necessary. Their operating mechanism is simple but painful for investors: decline to participate in future financing when called to, and penalties will follow. A pay-to-play clause would typically force the conversion of the non-participating investors' shares into a junior class, stripping them of economic privileges such as antidilution protections and liquidation preference, decreasing their voting power or ownership stake, or causing the loss of their control-related privileges such as secured board seats or veto rights. Having reached all-time highs in the aftermath of the dot-com bubble crash in the early 2000s, the prevalence of pay-to-play clauses in venture deals serves as a barometer for the VC market's health. They tend to fade during bull markets and resurge during downturns – with the current VC winter (or at least, outside of AI investments) being no exception. VC-focused law firms tracking trends in VC-deal structuring have reported that the rate of deals including pay-to-play clauses is the highest it has been in years.

My paper discusses pay-to-play clauses, examining their construction, their role in shaping

efficient governance and capital structures in VC-backed startups, and their standing under Delaware law. The paper opens with an empirical study of pay-to-play clause design, based on a survey of a novel dataset of 150 pay-to-play provisions hand-collected from U.S. startup charters. Prior research touching on pay-to-play variations has mostly focused on a single feature: whether non-participating investors saw their preferred stock converted to common stock or to a new class of "shadow" preferred stock with diminished rights. This study goes further by analyzing these clauses across additional dimensions, including the investors bound by them, the types of financing rounds that might trigger them, and their sunset mechanisms (if any). It also takes a closer look at the clauses' penalty aspect – examining not just the conversion of their shares into a junior class, but also whether that conversion applies to investors' entire holdings, and whether a punitive conversion ratio is applied, leaving them with fewer shares compared with other, "benign" conversion scenarios.

The survey reveals several patterns that challenge conventional wisdom. First, only slightly more than half of pay-to-play clauses in my dataset targeted "down round" financings (where new shares are priced below previous rounds). Second, many pay-to-play clauses discriminate among investors based on ownership thresholds or other characteristics, even though Delaware courts have suggested that they may be more likely to uphold clauses that apply equally to all investors. Lastly, while investor syndicates have traditionally used the clauses to resolve or prevent disputes within investor syndicates, startup boards are often given the power to trigger or disarm the clauses

at their discretion – regardless of investor consent.

As my paper discusses, pay-to-play clauses can play a role in solving startup governance problems. First, they can help create and stabilize investor syndicates by deterring free-riding. When, for example, a startup needs more funding to survive – and all investors would benefit from its survival – but the investors willing to put up the money needed would be economically worse off compared with those who did not, negotiations among the investors can be difficult or even fail, leading to inadvertent underfinancing of viable startups.

"Pay-to-play clauses can help by requiring all investors in advance to pony up in that situation or face economic penalties, which encourages, when appropriate, the investors' long-term commitment."

Second, pay-to-play provisions can help optimize staged-financing structures by startup investors to discourage entrepreneurs from creating agency costs. For example, when entrepreneurs seek large upfront investments to maintain control, but investors prefer smaller, staged investments to enhance monitoring, pay-to-play provisions can help bridge the gap. By making it possible but costly for investors not to invest more money in the future, the provisions allow startups to proceed with smaller initial investments that satisfy investors' monitoring needs, while assuring entrepreneurs that investors have stronger incentives to maintain support in future rounds.

This feature is, I argue, what made pay-to-play provisions particularly useful in sectors such as life sciences, where information asymmetries between entrepreneurs and investors are extreme and reaching an agreement over the initial investment amount is particularly difficult.

Lastly, the paper examines how Delaware law shapes and potentially constrains the use of pay-to-play provisions. The provisions are potentially vulnerable to two main legal challenges: questions about their disparate treatment of investors in the same stock class, and heightened judicial scrutiny of the approval of financings by boards that include directors whose interests may conflict with the company's because they were appointed by investors. The Court of Chancery's WatchMark opinion offered some comfort by validating an investor-controlled board's decision to trigger a pay-to-play provision under the business judgment rule. However, it left many questions unanswered as it dealt with a simple case – one where the pay-to-play clause treated all investors equally and affected investors of similar financial means. The WatchMark court's reasoning, as well as that of subsequent Delaware cases, suggest that pay-to-play provisions might face greater scrutiny when investors are treated equally under the corporate charter but have grossly disparate financial abilities to participate in future rounds.

This uncertainty should, presumably, impose costs by making pay-to-play provisions less reliable and more expensive to implement and adjust for firm-specific use cases. However, perhaps surprisingly, my survey data shows that the industry's response has not been for drafters to conservatively adhere to the court-validated WatchMark template. Lawyers frequently deviate from it – using more aggressive terms and selective application – while also resorting to functionally-equivalent mechanisms outside the charter when legal risks seem high.

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The Hidden Tradeoff in Public Venture Capital: Lessons from China's GVC Boom

Isabelle Zhang, University of Virginia School of Law

In recent years, governments around the world have poured billions into venture capital programs to spark innovation and entrepreneurship. China's government venture capital (GVC) funds, once hailed as a masterstroke of state-backed innovation policy, are often viewed as a global exemplar. But my research suggests the story is more complicated.

Using a manually collected 20-year dataset covering 280 Chinese cities, I examine the effects of GVC programs on entrepreneurship, as proxied by new firm formation. While GVCs boost early-stage venture investment, they appear to discourage overall entrepreneurial activity. The underlying mechanism is a by-industry crowd-out effect: capital floods into government-prioritized sectors, leaving other sectors sidelined and chilling overall startup activity.

This finding is both surprising and consequential. It suggests that ...

"GVCs may be reshaping market behavior in unintended ways—crowding out entrepreneurs in non-favored sectors and creating a more concentrated, less dynamic startup ecosystem."

A Tale of Two Trends

The backdrop is striking: China has emerged as a global venture capital powerhouse. In 2001, the United States accounted for 88% of global VC investment, with the rest of the world sharing the remaining 12%. By 2019, China had surged to capture 38% of global VC dollars—just behind the U.S. share of 42% (Lerner et al., 2024). This shift coincided with a massive expansion of state-backed capital: by 2022, China's GVCs had committed over \$400 billion—about two-thirds the size of the U.S. VC market.

Most Chinese GVCs are created and operated by city-level governments. These programs are typically structured as fund-of-funds that require private sector co-investment while tightly channeling capital into government-prioritized industries. This blending of public and private capital creates analytical challenges. Prior firm-level studies have struggled to distinguish GVCs from private VCs due to opaque ownership structures.

I address this by asking a simple but fundamental question: has a given city committed public sector capital to venture investment, or not? This clean treatment definition shifts the unit of analysis from individual funds or portfolio companies to the city level, enabling a comparison between cities with and without GVCs and facilitating the assessment of broader policy effects.

A city-level lens is especially useful. Even if GVCs improve firm-level portfolio performance, they may do so by picking a few winners while

reducing overall entrepreneurship through capital concentration in a narrow set of favored industries. This pattern may crowd out other sectors and deter entry by entrepreneurs who anticipate limited funding opportunities.

I use a difference-in-differences design and a weighted stacked event study to address pre-trends, selection bias, timing heterogeneity, and imbalanced treated-to-control ratios. The results show that once a city adopts a GVC program, early-stage VC activity rises significantly, consistent with the policy's intended goals.

But that is only half the story. New firm formation falls significantly after GVC adoption. This decline is not explained by economic conditions, demographics, or other confounding policies, all of which are controlled in the analysis. Nor is it a fluke—the result holds across multiple robustness checks, including propensity score matching, placebo tests and alternative measurements for entrepreneurship.

Sectoral Targeting and Capital Reallocation

Digging deeper, I find that GVCs operate under strict mandates to invest only in government-supported sectors—such as semiconductors, new energy, and advanced materials—and within the sponsoring city's jurisdiction. Many GVC programs also include regulatory carve-outs: fund managers enjoy explicit liability exemptions when investing in these "safe" sectors, but face heightened legal exposure when backing unapproved ventures.

These legal structures matter. Based on 22 interviews with VC practitioners, financial advisers, and lawyers, I found a consistent theme: private VCs adjust their investment strategies to align with GVC priorities. They do so to access follow-on capital, streamline regulatory approvals, and ease IPO exits, which is especially important in China's policy-sensitive capital markets.

To test this mechanism, I conduct a triple-differences analysis comparing supported and unsupported industry sectors.

The results are striking: GVCs significantly increase new firm formation in policy-supported sectors but depress it in non-supported ones. Entrepreneurs, seeing capital flowing toward a narrow band of industries, appear to exit the market or pivot toward politically favored areas.

Innovation or Illusion?

One might ask: even if entrepreneurship declines overall, could the rise in early-stage investment and targeted support for key sectors still be considered a net positive?

That depends on the quality of innovation. Using patent data as a proxy, I find that GVC programs lead to a decline in invention patents, which require substantive review and are generally seen as higher-quality innovation. In contrast, there is an increase in design patents, which do not require such review and are often labeled "junk patents" in both academic and practical contexts. This pattern suggests that local governments may prioritize easily inflated metrics over meaningful innovation, reflecting broader concerns about bureaucratic incentives and symbolic compliance.

Lessons for Policymakers

China is not alone. Countries from Israel and India to Germany and Singapore have embraced government-backed VC models. But China offers a cautionary tale: GVCs can be powerful policy tools, yet their impact depends on careful design and implementation. Poorly structured programs may not fail overtly, but can subtly distort market incentives and suppress the very innovation they aim to promote.

As public capital becomes more active in areas such as sustainable technology and clean energy, understanding these dynamics is critical. GVCs can play a valuable role in fostering innovation. Their success, however, depends on sound governance, well-aligned incentives, and vigilance against unintended consequences.

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Event | 13-14 June 2025 | Organised by:

ECGI

GCGC 2025, hosted by Imperial College London, brought together scholars from law, economics, and finance for an in-depth exchange on the evolving frontiers of corporate governance. GCGC is hosted annually by a consortium of twelve leading academic institutions across the Americas, Asia, and Europe, in collaboration with ECGI and Japan Exchange Group.

In an era marked by political volatility, technological disruption, and the global push for sustainability, the contours of corporate governance are being redrawn. This edition highlights three research contributions that tackle these shifts head-on, offering insights into legal doctrine, investment strategy, and the growing influence of geopolitics in the boardroom.

Corporate Governance in an Era of Geoeconomics

Curtis J. Milhaupt, Stanford Law School and ECGI

The “End of History” for corporate law and governance has come to a messy conclusion, marked by U.S.-China rivalry, techno-nationalism, economic sanctions, export controls, supply chain vulnerability, and resulting efforts by multinational enterprises and their governments to “de-risk” in a global environment that has upended many assumptions on which the post-Cold War economic order operated.

This new global environment has ushered in the era of geoeconomics – “the pursuit of power politics using economic means.”

“Geoeconomics requires leveraging, curtailing or blocking the actions of profit-oriented commercial enterprises to increase governmental power vis-a-vis geopolitical rivals.”



It thus places corporations in a role for which they are unaccustomed and organizationally not well suited. As a result, the era of geoeconomics portends significant changes in the corporate governance environment.

In a recent paper, I explore the potential implications of geoeconomics for corporate governance of publicly listed U.S. firms. To frame the inquiry, I contrast the optimism about globalization and convergence that infused academic corporate governance debates around the turn of the twenty-first century with the darker vision of “weaponized interdependence” that fuels contemporary discussions of decoupling. I trace the steps in one of the principal forces driving weaponized interdependence, the geopolitical chain reaction between China and the United States.

The paper’s assessment of the implications of geoeconomics for U.S. corporate governance emphasizes the following:

Rising perceptions of risk

Corporate perceptions of geopolitical risk are now widespread and acute. Consistent with other recent measures of risk perception, my research indicates steep increases in mentions of various forms of geopolitical risk in Annual Reports on Form 10-K over the past twenty years. For example, the number of mentions of “supply chain vulnerability/interruption” rose from virtually zero in 2003 to over 6000 in 2023.

An Increasingly Complex Policy Environment

In geoeconomics as in ESG (concern for environmental, social and governance issues), corporations are being called to internalize the externalities of their operations and to partner with, or substitute for, the government in achieving objectives beyond the ordinary commercial remit of the private sector. In policy terms, it is useful to consider this the era of ESG + G (for geopolitics or geoeconomics). But in contrast to the bitter political division over ESG, there is widespread bipartisan support in

Washington for policies to address the perceived threat to global security and the rules-based international order posed by China. This suggests that corporations will need to adapt to their long-term role on the front lines of geopolitical rivalry.

Effects on Firm-level Governance

Board and senior executive expertise: U.S. corporations face a “make or buy” decision on geopolitical expertise. My research indicates that while the number and percentage of independent directors with international experience is significant and increasing steadily, the number of independent directors with experience in government or the military – presumably valuable training ground for skills directly relevant to the oversight of geopolitical risk – is modest and declining.

Governance of geopolitical risk: It is still uncommon for U.S. corporations to disclose whether and where within the firm geopolitical risk is assessed. My search of all U.S. public company filings from 2018 to 2024 reveals that only 154 Russell 3000 companies (5.1%) disclosed that a specific corporate governance organ or officer was responsible for oversight of geopolitical risk (excluding cybersecurity). In most of the disclosing companies, the board, either alone or together with senior management, oversees geopolitical risk. A small number of companies have assigned the task to a specialized risk committee or risk officer. Virtually none of the disclosing companies provides any information about how geopolitical risk is assessed or mitigated, presumably a subject of importance to investors and other stakeholders, including the government.

Compliance: The dense thicket of sanctions and technology transfer restrictions that sprouted in the Trump administration has continued to grow under the Biden and second Trump administrations, adding complexity to the corporate compliance function. It is now routinely said that “economic sanctions are the new FCPA [Foreign Corrupt Practices Act],” while others have remarked that “export controls are the new sanctions.”

Heightened geopolitical risk to corporate strategy and operations appears to be altering the role of the general counsel in some firms, expanding their role in risk assessment, crisis management, and strategic guidance.

Supply chain management: The Biden administration promoted U.S. supply chain resilience as a matter of national security and competitiveness. The CHIPS for America Act sought to reduce reliance on Taiwan as the principal source of semiconductors by promoting U.S. capacity in advanced chip manufacturing. Another part of the strategy sought to improve coordination and trust-building on supply chain issues by forming networks among U.S. allies. It is unclear whether the second Trump administration places a similarly high priority on a complex, protracted process requiring close collaboration between Western governments and corporations to evaluate and manage each stage of often lengthy supply chains.

Litigation risk: The heightened compliance risks and supply chain rewiring challenges just discussed – and illustrated in the steeply rising Form 10-K risk factor counts my research reveals – implicate two major sources of litigation risk: the Delaware judiciary's well-known Caremark doctrine on a board's duty to monitor, and class action securities litigation for materially misleading statements and omissions in corporate communications.

Under current Delaware doctrine, the potential for Caremark liability plainly exists with respect to corporate losses incurred due to a board or an officer's failure to monitor compliance with export controls and related national security regulations, since they constitute violations of positive law. But interesting questions remain about potential Caremark liability for geopolitically induced corporate trauma in the absence of legal violations, for example, losses stemming from supply chain vulnerabilities or poor estimation of geographical/political risk factors in capital allocation decisions.

A second form of heightened litigation risk arises out of securities disclosures. As the magnitude and range of risks related to geopolitical tensions and events steadily increase, the specter of shareholder class action litigation for failure to disclose material geopolitical risks has also grown. At the same time, however, companies face significant challenges in determining the precise nature of the risks that require disclosure.

Investor/public and government relations: Geoeconomics is also confronting boards with new investor and public relations challenges, such as criticism of continued investment or operations in China and shareholder proposals on geopolitical subjects. These challenges amplify controversies that have arisen in connection with the ESG movement. Lobbying and corporate influence will also become an even more controversial subject, as companies vie for defense contracts and the national security partnership between government and the private sector deepens.

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Sustainable Investing: Beliefs, Constraints, and the Limits of Impact

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Sustainable investing is no longer niche. With trillions under management in funds labelled as sustainable, ES (Environmental and Social) performance has moved from the periphery to the centre of investment strategy—or so it seems.

But how much substance lies behind the sustainability label? And are portfolio managers genuinely trying to make a difference—or simply doing what's required to tick the ESG box?

In our recent study, we surveyed over 500 equity portfolio managers from both sustainable and traditional funds with a balanced sample from the US, EU, and UK/rest of world. Our aim was to go and get under the skin of what's really going on: What do fund managers believe about ES performance? What are they trying to achieve? And what should we expect from sustainable investing?

The results challenge many assumptions about sustainable investing and highlight uncomfortable truths about its likely real-world impact.

ES matters but is nothing special

How important is ES performance to portfolio managers?

The answer: not so much. Relative to five other drivers of company value, ES performance ranked a clear last place in importance amongst managers of both traditional and sustainable funds.

Although this does not mean it is irrelevant in absolute terms – most portfolio managers believe that at least some dimensions of ES performance are material to value. So ES performance matters somewhat but is nothing special.

Surprisingly, given the academic evidence to the contrary, most portfolio managers believe strong ES performance leads to better share price performance and that bad ES performance damages returns. Why do they believe this? Mostly not because good ES performance is intrinsically valuable, but because it is associated with other characteristics that drive returns: a well-run company will likely have good ES performance, and vice versa.

Portfolio manager beliefs translate into action: 74% of sustainable investors and 51% of traditional investors consider ES performance when selecting stocks, because they believe it affects financial risk or returns. Few are seeking impact, with only a fifth of investors or fewer using stock selection to reward or penalise companies for their ES performance or to affect their cost of capital.

Constraints Matter—And Not Just for Sustainable Funds

One of the most striking findings is the power of constraints in shaping investment decisions.

Seventy-two percent of fund managers told us that ES constraints—be they fund mandates, firm policies, or client preferences—led them to make decisions they wouldn't have made otherwise. For sustainable funds these constraints are the primary reason ES performance affects stock selection. But constraints aren't limited to sustainable funds. Among traditional fund managers 62% faced constraints, mainly from firmwide policies or client wishes. These constraints can matter, with at least 38% and up to 70% of sustainable investors reporting that they resulted in lower returns.

Perversely, these constraints can actually reduce both financial returns and ES impact. Nearly a third of sustainable investors said they had to avoid holding ES laggards they might have improved through engagement. Constraints also led many to avoid companies that were ESG leaders in "dirty" sectors—precisely the kind of firms that may be best placed to lead a sustainable transition.

Constraints are simple and effective, but a blunt instrument.

Limited Appetite for Sacrifice

Only 27% of investors said they would tolerate any sacrifice in financial returns to achieve better ES outcomes. Even among funds marketed as sustainable, few are willing to tolerate even a single basis point of performance drag in the name of ES performance. Fiduciary duty is the most cited reason for this. The prevailing view is that if you're managing other people's money, your job is to maximise their financial return—full stop.

Sustainable and Traditional Funds: More Similar Than Different

Sustainable and traditional funds are surprisingly similar in practice.

Both overwhelmingly prioritise financial performance and are unwilling to sacrifice returns in the name of ES performance.

Both believe that ES performance is less financially material than many other factors but majorities of both do think that good ES performance is correlated with the good returns and bad with bad. Use of ES factors to inform stock selection and engagement is common across the board.

For sure, constraints from mandates and firmwide policies are more prevalent for sustainable funds and have a bigger impact on returns. But constraints matter for traditional funds too. Constraints and beliefs do not map neatly along sustainable and traditional lines. Asset owners wanting portfolio managers who care about ES performance need to interrogate the manager beliefs as well as focussing on the mandate.

What Should We Expect from Sustainable Investing?

Most investors aren't trying to save the world. They're trying to make money – subject to constraints. Both traditional and sustainable investors believe that companies on the whole invest the right amount in ES to maximise shareholder value. Few are prepared to sacrifice returns for better ES performance. So we shouldn't expect the fund management industry to lead the charge in improving the ES performance of companies.



If we want ES performance to align with returns more often, we need government policy to do the heavy lifting: pricing carbon, protecting human rights, and enforcing social norms.

"Because until doing good becomes consistently profitable, fiduciary duty and incentives within the investment chain will limit the impact of sustainable investing."

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Fixing MFW

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Delaware's regime governing controlling shareholders relies on courts to police conflicted transactions under the stringent "entire fairness" standard of review. In theory, judicial review under this standard allows courts to distinguish between fair transactions and those that are the product of value-reducing self-dealing. However, this framework critically depends on courts' competence in determining a transaction's fairness, a task that often requires complex financial valuation. This valuation is challenging even for expert courts, and it becomes especially unwieldy when courts are asked to review transactions whose value to the company depends on an entrepreneur's idiosyncratic vision—an inherently subjective concept that defies conventional financial modeling.

Recognizing the limits of judicial valuation, Delaware courts provided a means for transactional planners to avoid entire fairness review in *Khan v. M&F Worldwide Corp.* ("MFW"). Under MFW, courts apply the deferential business judgment rule if controlling shareholders voluntarily condition a self-dealing transaction on the approval of both a special committee of independent directors and a majority of informed minority shareholders. In theory, this regime eliminates the need for courts to determine a fair price, reducing reliance on judicial valuation.

Yet, in practice, MFW's procedural protections frequently fail to function as intended. Courts have increasingly invalidated these mechanisms due to disclosure deficiencies concerning the independence and process of special committees. For example, in *Tornetta v. Musk*, the Chancery Court rescinded Tesla's \$55.8 stock-option grant to Elon Musk after it disregarded the shareholder vote approving Musk's compensation package because Tesla failed to disclose

conflicts and poor process within the special committee. This outcome, we believe, has led to a paradox where both cleansing mechanisms can be undermined by the same procedural flaws, thrusting courts back into the role of primary arbiters of fairness—precisely the scenario MFW aimed to avoid.

In our recent article, "Fixing MFW: Fairness and Vision in Controller Self-Dealing," we critically examine the limitations of the current MFW framework and propose reforms to better align it with the realities of controller transactions.

In particular, we argue that disclosure deficiencies regarding the special committee process should not invalidate an otherwise informed shareholder vote. In controller transactions, members of the special committee face inherent conflicts that are already obvious to minority shareholders. After all, the power of controlling shareholders over independent directors underlies the courts' reluctance to treat independent directors' approval as conferring full cleansing of controller transactions. Therefore, shareholders' understanding of the financial terms of the transaction should be the key question. Accordingly, ...

"... if shareholders are given full information about the financial terms of the transaction, their approval should be respected by the court ..."

and the quality of the special committee process should be addressed separately by MFW's other cleansing mechanism (and potentially the court's substantive review of the transaction as well).

One concern with this proposal is that it might disincentivize companies from disclosing details about the bargaining process and the special committee's independence. Our second proposal addresses this concern by calling on courts to adopt a Corwin-style rule that would encourage companies to provide full disclosure about the special committee process, including its flaws. If the company fully describes the special committee process and secures a disinterested vote approving the transaction, this vote should immunize the transaction from post-closing challenges related to the special committee. This approach creates a powerful incentive for companies to provide full transparency regarding the special committee process.

Our analysis also challenges aspects of the new controller self-dealing regime brought about under the 2025 amendments to the Delaware General Corporation Law (DGCL). Under this statute, non-freezeout transactions can be cleansed by a single mechanism—either special committee approval or a disinterested shareholder vote. We argue that the amendments erred in giving these mechanisms equal cleansing weight. In our view, the majority of minority vote is a stronger indication of fairness than special committee approval. While in theory, a special committee is better informed than shareholders and can engage in back-and-forth negotiations to secure a share of the surplus, the controller's power and sway over director appointments raise concerns about its true independence. Moreover, because calling a shareholder meeting is costly and activist shareholders may block proposed transactions, controllers should be incentivized to submit self-dealing transactions to a majority of minority vote.

Accordingly, we would have given the majority of minority vote greater cleansing power. More specifically, when only a special committee is used, its effect should vary based on the size of the transaction. If the transaction is significant, the special committee's approval should not insulate the transaction from judicial review but rather afford a shift in the burden of proof under entire fairness review. To receive business judgment rule protection for significant self-dealing transactions with the controller, the cost and effort of calling a shareholder meeting are justified, given the structural bias inherent in the committee process.

All in all, our modified framework would refine the MFW framework to better serve its intended purpose. It respects the core goal of protecting minority investors from overreaching by controlling owners by preserving a means for shareholders to secure stringent review of a transaction's fairness where such review is most needed. Moreover, it addresses the limits of judicial competence in valuation and the comparative advantage of the shareholder voting process, which aggregates each shareholder's subjective judgment of value and price. Accordingly, our framework would restore MFW cleansing to its proper role, safeguarding minority shareholders while enabling visionary entrepreneurs to pursue value-creating activities without undue judicial second-guessing.

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2025 Global Corporate Governance Colloquium

Insights from GCGC Conference

Event | 13-14 June 2025 | Organised by:

ECGI

Hosted by Imperial College London, GCGC 2025 convened leading scholars and practitioners to examine frontier corporate governance issues amidst geopolitical shifts, regulatory expansion, and market restructuring. Discussions placed strong emphasis on political economy and regulatory reality, exploring how boards navigate geoeconomic pressures, state ownership dynamics, and the practical challenges of frameworks such as the EU's Corporate Sustainability Due Diligence Directive.

The conference also reflected a maturing debate on sustainability and capital markets, moving past broad ESG rhetoric toward granular analyses of operational limits, metrics, and ESG-linked executive pay. Across paper sessions and prize presentations, researchers blended empirical and legal perspectives to reassess core governance mechanisms under stress—spanning share repurchase effects, corporate political spending disclosures, controlling shareholder transactions, and the governance implications of emerging technologies.

The Investment Effects of Legalizing Share Buybacks

Charles C.Y. Wang, Harvard Business School and ECGI

Share buybacks have become one of the most contentious issues in corporate governance over the last decade in the U.S. and abroad. The volume of stock buybacks in the U.S. has increased dramatically, reaching a record \$1.2 trillion in 2022; estimates suggest that 2025 may yet be the biggest year on record.

Critics argue that public companies buying back their own stock are essentially eating themselves—choosing short-term stock price gains over valuable long-term investments in employees, research and development, and capital projects. This line of thinking was in part promulgated by economist Bill Lazonick's influential HBR article, which showed that public firms in the S&P 500 regularly pay out more than 90% of their cumulative net income to their shareholders.

These payout levels “left very little for investments in productive capabilities or higher incomes.” Stock buybacks, it would seem, are both a cause and a symptom of long-feared corporate short-termism.

Despite important conceptual and measurement flaws with Lazonick's analyses, his worries about stock buybacks struck a chord with the public, including asset managers, corporate lawyers, and senior politicians. Indeed, stock buybacks became a rallying call among politicians to rein in corporate short-termism. Since 2018, politicians from both sides of the aisle have made various proposals to limit or ban (e.g., The Reward Work Act) open market share repurchases. Interest in regulating stock buybacks has also gained prominence.

By 2020, the debate over stock buyback had become an international phenomenon, as regulators in the U.K. and the E.U. scrutinized their use and abuse in their respective markets.

Despite the widespread concerns, empirical evidence on the impact of stock buybacks on corporate investments remains scant. Most existing studies focus on correlations within individual firms or specific scenarios, making it difficult to establish causality or understand market-wide effects.

My new study with Elliot Tobin (Cornerstone Research), addresses this gap by examining what happened when 17 countries legalized share repurchases between 1985 and 2010. This staggered adoption provides a unique natural experiment to test whether allowing public companies to repurchase their own shares truly harms corporate investment—or whether the story is more complex than critics suggest.

What We Found

When we looked at all public firms in these countries, we found that ...

"... legalizing share repurchases led to an increase in overall corporate investment (CAPEX + R&D), by 8-10% on average. This headline result would seem to contradict the oft-touted belief that stock buybacks harm investment."

Indeed, our findings also contradict a recently published paper in the *Journal of Financial Economics*, which also examines the impact of share repurchase legalization using the same international setting.

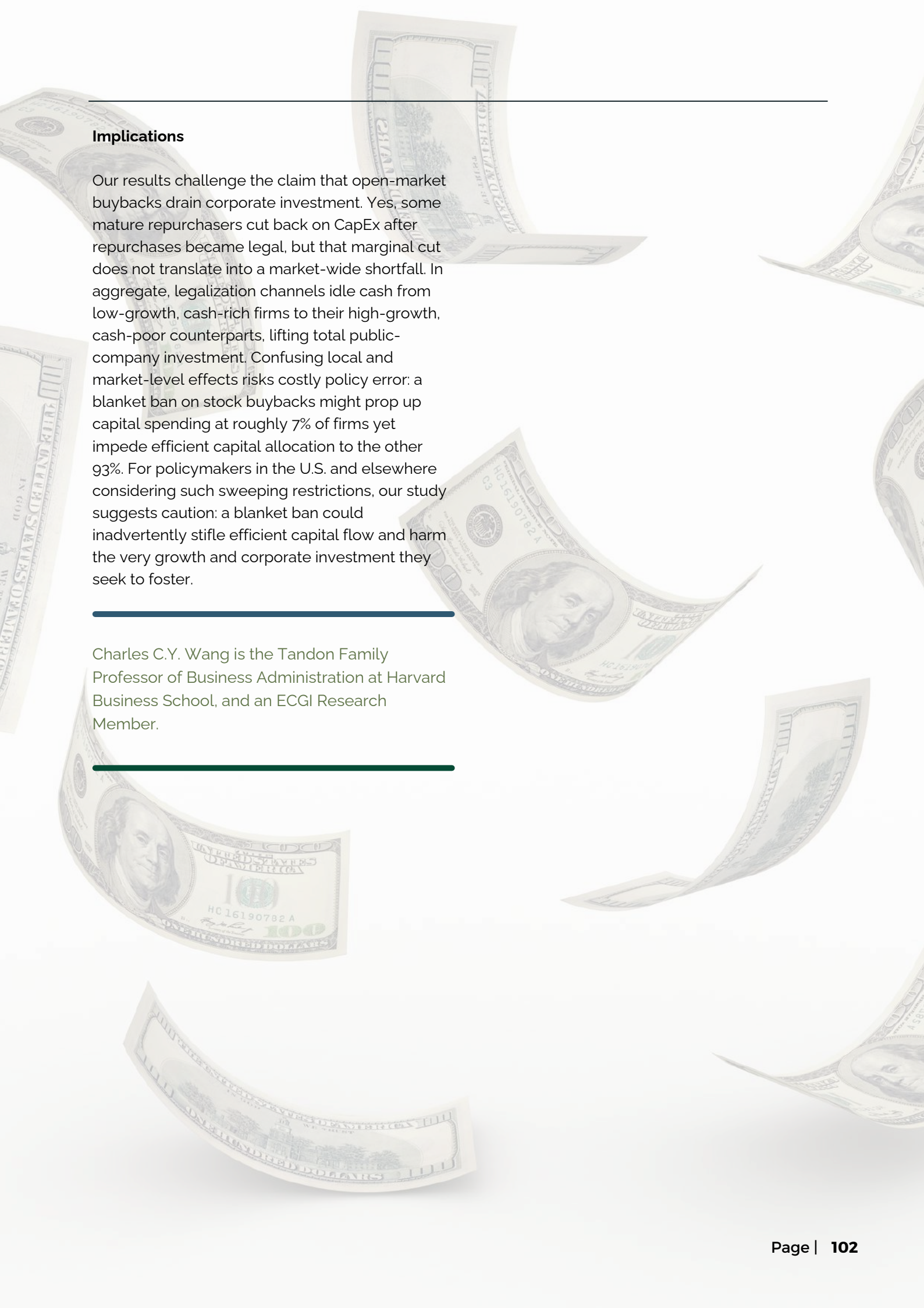
However, this paper focused exclusively on firms that actually conducted buybacks shortly after legalization. These "repurchasers" represent only about 6.5% of public companies, which tend to be older, larger, hold more cash, have fewer growth opportunities, and more likely to pay dividends. When they buy back shares, yes, they tend to reduce their own investment. But that's not necessarily bad, and that's not the whole story.

For example, if legalizing share repurchases help to facilitate access to equity capital—what we call the equity-capital access hypothesis—all public firms could stand to be impacted. And, from a regulator's perspective, it is at least as important to understand how repurchase legalization impacts all public firms.

Testing the Equity-Capital Access Hypothesis

To see why overall investment rises once buybacks are allowed, we ran four diagnostics that an "easier equity funding" story must pass. Our results confirm.

- **Who invests?** The investment bump comes from the 93% of firms that don't engage in repurchases right after the law changes. These companies are typically younger, smaller, and cash-poor but rich in growth options. Meanwhile, repurchasers themselves trim CapEx, but the cash they release appears to be absorbed by other, more cash-needy firms.
- **How do firms fund those projects?** Balance sheets tilt away from debt and toward equity, signaling a decline in the cost or accessibility of equity.
- **How do firms perform financially?** ROA, ROE, sales growth, Tobin's Q, and buy-and-hold returns all improve—signs that firms are better able to realize positive-NPV projects with easier access to equity capital.
- **Where is the investment effect stronger?** The positive investment effect is stronger in markets where capital was harder to raise—countries with capital controls, cash hoarding, or fragmented equity markets—exactly where a new "equity spigot" should make the biggest difference.



Implications

Our results challenge the claim that open-market buybacks drain corporate investment. Yes, some mature repurchasers cut back on CapEx after repurchases became legal, but that marginal cut does not translate into a market-wide shortfall. In aggregate, legalization channels idle cash from low-growth, cash-rich firms to their high-growth, cash-poor counterparts, lifting total public-company investment. Confusing local and market-level effects risks costly policy error: a blanket ban on stock buybacks might prop up capital spending at roughly 7% of firms yet impede efficient capital allocation to the other 93%. For policymakers in the U.S. and elsewhere considering such sweeping restrictions, our study suggests caution: a blanket ban could inadvertently stifle efficient capital flow and harm the very growth and corporate investment they seek to foster.

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How Rigid Corporate Law Hinders Venture Capital Contracting: A Taxonomy of the Impediments

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Venture capital (VC) has been a driving force behind innovation and economic growth since the 1980s and is an established cornerstone of the U.S. economy. The success of the U.S. VC market hinges also on venture capitalists' and entrepreneurs' ability to leverage the flexibility of U.S. (Delaware) corporate law. This flexibility enables them to develop sophisticated contractual frameworks that economists consider the most effective real-world solution to market frictions in financing high-tech innovation—a model that has been widely adopted globally.

A key insight from the existing literature is that efficient VC contracting relies heavily on private ordering. A flexible corporate law framework, therefore, facilitates VC contracting, while rigid corporate laws can constrain it. While scholars have emphasized this point over the past two decades, the precise mechanisms by which rigid corporate laws influence the complex contracting dynamics of VC have received far less attention.

Our new paper, *Venture Capital Contracting as Bargaining in the Shadow of Mandatory Corporate Law*, addresses this gap by introducing a theoretical framework that provides a detailed understanding of what happens to VC contracting in countries where, unlike in the U.S., corporate law imposes numerous mandatory requirements. These requirements restrict contracting parties' ability to design optimal VC contracts—both directly through prohibitions and indirectly through increased legal uncertainty surrounding the scope of private ordering.

We test this theoretical framework by comparing VC contracts that venture capitalists and entrepreneurs negotiate under U.S. (Delaware) corporate law and European (German and Italian) corporate laws, that is, reach against the background of flexible and rigid corporate legal frameworks, respectively.

We start from the premise that sophisticated market participants, especially with specialized legal advisors, can effectively protect their interests and, thus, define corporate law as optimally flexible for VC contracting when it:

1. Takes a hands-off approach toward the enforceability of private ordering solutions that structure VC transactions;
2. Avoids ex-post gap-filling mechanisms that could retroactively limit contractual rights in ways inconsistent with the economic logic of VC agreements;
3. Prevents the abusive exercise of contractual rights, where "abuse" means self-serving behavior that contradicts the economic rationale of the VC deal.

A legal framework that prioritizes private ordering enhances contracting parties' ability to clearly define their rights and obligations, minimizing legal uncertainty.

Under such an ideal pro-VC corporate law model, sufficiently sophisticated contracting parties can engage in value-maximizing private ordering.

Yet existing corporate laws often deviate from our pro-VC corporate law paradigm, imposing legal restrictions on venture capitalists and entrepreneurs that significantly affect their ability to reach a Coasean bargain. Especially if local rules of interpretation allow scholars and courts to identify implicit mandatory rules, these legal restrictions may prevent contracting parties not only from adopting optimal solutions but also from deploying functionally equivalent or even inferior alternative arrangements. If only inferior alternative arrangements are available, or worse, if even these arrangements prove unavailable altogether, corporate law constraints negatively affect parties' ability to achieve their goals through private ordering, decreasing the value of contracts and affecting deal-making and ultimately innovation financing negatively.

Building on this framework, we outline the universal mechanisms by which rigid corporate law hinders efficient VC contracting and ultimately leads to welfare losses. We identify two types of constraints.

First, corporate law's negative impact on private ordering can result from prohibitions that are either absolute or relative:

- Absolute prohibitions prevent contracting parties from incorporating a specific private ordering arrangement into their deal and—possibly with the support of general anti-evasion standards or other doctrines—any functionally equivalent solutions or even inferior alternative arrangements.
- Relative prohibitions rule out the viability of a specific private ordering solution but allow contracting parties to adopt inferior alternative arrangements.

Second, corporate law's negative impact on private ordering can stem from uncertainty about the validity and/or enforceability of a private ordering solution and/or how contracting parties should exercise the resulting rights. The more pronounced the legal uncertainty, the more significant the litigation risk.

And the more significant the litigation risk, the greater the decrease in contractual functionality and, eventually, contract value.

We test our theoretical framework by comparing VC contracting under U.S. (Delaware) and European (German and Italian) corporate laws. In the U.S., venture capitalists and entrepreneurs can negotiate under a corporate law regime that closely matches the pro-VC corporate law we envision. They can thus smoothly achieve their goals through private ordering. By contrast, venture capitalists and entrepreneurs in Germany and Italy must navigate corporate law regimes that significantly deviate from our ideal pro-VC corporate law. When structuring their deals, they must account for numerous mandatory requirements that prevent them from adopting not only U.S.-style contractual arrangements but also functionally equivalent solutions. Instead, they must resort to inferior alternative arrangements, if they are available at all. We assess the decrease in functionality of each individual contractual component and evaluate the "functionality gap" between the contractual frameworks governing VC deals in the U.S. versus Germany and Italy. Although we do not quantify this efficiency gap, our work suggests that ...

"... rigid German and Italian corporate laws lead to a significant decrease in contract functionality, which can deter VC investments at the margin."

While we focus on U.S., German, and Italian corporate laws, our analytical framework can be applied to examine the corporate law-VC contracting relationship in any jurisdiction. The mandatory character of German and Italian corporate law is common to many non-U.S. jurisdictions.

Therefore, as we argue in a companion paper, our discussion has important implications for the design of corporate law reforms to support the development of a vibrant VC market and provides valuable insights for policymakers interested in creating pro-VC corporate legal frameworks.

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ESG Metrics in CEO Pay: A Signal to Shareholders or a Shift in Strategy?

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In recent years, environmental, social, and governance (ESG) concerns have become central to the corporate conversation. Social and environmental goals, in particular, often require long-term commitments—commitments that typically stretch well beyond the tenure of any individual CEO. It's no surprise, then, that ESG-conscious investors increasingly worry that companies are quick to make bold, long-term promises but slower to implement the concrete short-term actions needed to deliver on these commitments.

One solution, often discussed in boardrooms and shareholder meetings, is to link CEO compensation to ESG outcomes. If ESG goals are truly strategic priorities, the logic goes, then tying them to executive pay ensures accountability. By embedding ESG metrics in compensation packages, companies appear to affirm that these goals matter—not just in press releases, but in the decisions that guide corporate behavior. But are these incentives real drivers of change, or are they simply well-crafted messages to placate concerned investors?

At first glance, using ESG metrics in executive pay seems like a tangible way to ensure companies walk the talk. It aligns managerial incentives with broader stakeholder goals and suggests a shift toward long-term value creation. However, this approach comes with caveats. ESG goals are notoriously difficult to define and measure in a way that is both objective and contractible.

What exactly does “improving a company's ESG performance” mean? Without clear answers, skeptics argue that ESG-linked compensation may reflect CEO influence more than shareholder accountability—a way for powerful executives to increase their pay and shape the narrative without meaningfully altering behavior.

Our research adds nuance to this debate. Analyzing a broad sample of global firms, we find that ESG metrics are rarely used in isolation. Instead, they are typically bundled with financial and non-financial performance indicators. Crucially, the presence of these metrics does not seem to be associated with high-powered incentives or excessive pay. In other words, companies adding ESG metrics to the compensation formula are not necessarily rewarding their CEOs more lavishly in the process.

Moreover, while ESG metrics do appear in pay packages, they often target dimensions where firms already perform relatively well. Even though boards are more likely to implement ESG compensation when the firm's overall ESG performance has been poor—possibly to signal a change in direction—they still select specific metrics that reflect areas of relative strength. In other words, companies tend to emphasize their strengths, even when they're underperforming overall.

This raises an important question: Are boards using ESG metrics to redirect managerial effort toward areas of weakness, or are they cherry-picking favorable metrics to present a rosier picture of performance? Our findings suggest the latter. This strategic selection of ESG targets—while technically transparent—undermines the intention behind ESG-linked pay. Rather than driving improvement, it appears to be more about shaping perceptions.

This behavior is hard for investors to detect, even diligent ones. Boards tend to select “material” metrics—those considered relevant to a firm’s industry—which makes the choice appear legitimate. However, assessing how a company actually performs along specific ESG dimensions requires highly granular data. In our research, we use data obtained through AI analysis of millions of news items to analyze the sentiment around a firm’s performance on specific ESG metrics—a level of scrutiny that goes far beyond the tools typically available to shareholders or even institutional investors.

So what role, then, do ESG compensation metrics really play? The evidence points to a signaling function—less about guiding internal strategy and more about managing external expectations. We find that companies’ choice of compensation metrics closely mirrors those of peer firms, particularly peers defined by proxy advisory firms like ISS. When companies face shareholder dissent on say-on-pay votes, they often respond by expanding the number of compensation metrics—ESG-related or otherwise.

And it works. Companies that adopt more pay metrics experience less opposition from shareholders, not only on compensation but also on broader corporate proposals. Shareholders appear more satisfied, or at least less combative, when they see detailed performance criteria embedded in executive pay. This is not limited to ESG issues: the addition of any type of performance metric is associated with a lower likelihood of ESG shareholder proposals being submitted.



Importantly, however, this increased shareholder approval does not translate into improved company behavior. Our data show little evidence that the adoption of ESG metrics leads to better ESG outcomes. Nor do we observe meaningful changes in how companies are run after introducing these metrics. The symbolic gesture may calm investor concerns, but it does not seem to move the needle operationally.

What are the implications of these findings?

"On one hand, the inclusion of ESG metrics in CEO pay packages does not appear to be a backdoor to excess compensation."

We find little evidence of rent extraction or inflated payouts. On the other hand, investors should be cautious about interpreting ESG-linked pay as a credible signal of corporate transformation.

In practice, ESG metrics in pay seem to function more as reputation management tools than as mechanisms for change. They help companies maintain legitimacy in the eyes of shareholders and proxy advisors while reducing dissent. Yet they do not, based on our evidence, reshape strategy or outcomes in a meaningful way.

Our findings should prompt reflection among institutional investors who advocate for ESG integration in compensation. While well-intentioned, this approach may amount to little more than adding an ESG gloss to business as usual. If real progress is the goal, investors and boards alike may need to look beyond pay metrics and ask harder questions about how companies set priorities, allocate capital, and engage with stakeholders over time.

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The Hidden Reality of Shareholder Activism in China: Defying Western Assumptions

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Retail investors in China forced a politically powerful state-owned shipping giant to pay dividends after a decade of refusals. Private shareholders successfully sued government-backed companies. State activists lost battles against private firms. Our groundbreaking study of 156 shareholder activist campaigns from 2007-2023 reveals a China that defies Western assumptions about its corporate governance.

The numbers tell a striking story: shareholder activism campaigns increased nine-fold from 2008 to 2023, with over two-thirds occurring in just the last five years. Most remarkably, we found no statistically significant difference in success rates between campaigns against state-owned enterprises (SOEs) and privately-owned enterprises (POEs) – political power doesn't predict outcomes.

President Xi Jinping is (in)famous in the West for demanding “that businesses conform to the aims of the Communist Party.” The newly appointed boss of the China Securities Regulatory Commission (CSRC) has earned the sobriquet “Broker Butcher” for his alleged zealous crackdown on traders. Western media regularly reports on billionaire tycoons being driven underground after criticizing the government.

But this view is woefully incomplete.

Our new research, based on the first hand-collected dataset of 156 publicly reported shareholder activist campaigns and detailed case studies, finds that China has developed a surprisingly vibrant and rules-based market for shareholder activism shaped by legal mechanisms and market dynamics, not political fiat.

The Data That Defies the Narrative

The meteoric rise is undeniable. In 2023 alone, there were 27 publicly reported campaigns – nine times more than in 2008. This surge coincides with China's 2018 Code of Corporate Governance amendments and has been reinforced by the 2024 Company Law reforms, that lowered the shareholder proposal threshold from 3% to 1%, expanded inspection rights, and enabled double derivative suits – changes that strengthen shareholder rights and increase transparency in Chinese listed companies.

Equally important is who is participating: retail investors, private institutions, and even state-controlled entities all appear in the ranks of activists. And they are targeting both POEs and SOEs. In our dataset, 78% of activist campaigns against national champions – China's most politically powerful SOEs – were brought by private activist shareholders, with 57% succeeding.

Most strikingly, our regression analysis reveals that political identity has no statistically significant impact on campaign success. Private investors targeting SOEs, and state actors targeting POEs, had roughly equal odds of success. Even more surprising: over 50% of campaigns by national state-controlled activist investors failed when targeting POEs. The outcomes didn't follow a political script – they followed legal rules and shareholder dynamics.

When David Beats Goliath in Beijing

The case studies are just as surprising as the data.

One of the most striking involved China COSCO Shipping Holdings, a politically powerful national champion that had refused to pay dividends for over a decade. In 2021, retail investors organized on the Chinese financial platform Snowball and launched a campaign demanding dividend payments. At the centre was an anonymous online activist known as "Legend of the Red Scarf" – perhaps China's answer to "Roaring Kitty" – who used catchy language and the internet to overcome collective action problems among retail investors to mobilize support.

Within 24 hours, Legend of the Red Scarf had mobilized nearly 500 million proxy votes, successfully meeting China's 3% Proposal Right threshold. The campaign succeeded: COSCO publicly committed to paying dividends of 50.15% of attributable profits, celebrated as a win for minority shareholders. The episode conjured up images of WallStreetBets meets China – a grassroots investor movement successfully challenging one of China's most politically powerful SOEs.

In another revealing case, a state-controlled activist shareholder (SAS) targeted a POE that responded with obstructionist tactics – refusing to allow votes on director nominations and cancelling shareholder meetings. The SAS didn't resort to backroom political influence – it sued. After a drawn-out battle through legal channels, the activist prevailed in court. In China, it appears that even the state acts like a private shareholder

bound to follow the legal rules, at least in its capacity as a shareholder of public companies.

That is not to say politics is entirely irrelevant in every single case. In a single campaign in our dataset, involving FAW Car Co., the company appeared to ignore a 97.3% shareholder vote that rejected a delay in fulfilling a key reorganization promise. The firm's national champion status may possibly have contributed to this outcome. But this was the singular exception in our detailed review of the 156 activist campaigns in our dataset – all others adhered to the rules-based market for shareholder activism that has become a defining (yet almost entirely overlooked) feature of Chinese corporate governance.

Why Politics Doesn't Predict Success

Our research complicates the conventional binary between state and private sectors. The data reveals patterns that defy expectations.

Economic incentives matter more than political status: Shareholder activists holding a larger percentage of target company shares have a statistically significant higher chance of succeeding. Targets of successful campaigns had return on assets (ROA) over 50 percentage points lower on average than unsuccessful campaigns (though this difference wasn't statistically significant).

State entities compete against each other: In several cases, state-owned entities were both activists and targets. Some campaigns involved contests between SOEs controlled by different provincial governments. These episodes played out through shareholder meetings, board elections, and courts – not in smoky political backrooms or by public political decrees.

Controlling shareholders don't guarantee failure: Chinese listed firms are overwhelmingly controlled, yet minority shareholders have successfully used cumulative voting, shareholder proposals, related-party transaction rules, and even (rarely) litigation to exert meaningful influence.

What This Means Going Forward

For investors: ...

"China's shareholder market may be more rules-based than you think."

Engagement strategies that work in Western markets may have more applicability in China than previously assumed. Factor this into your risk assessments and engagement strategies.

For scholars: It's time to reconsider fundamental assumptions about political influence in Chinese corporate governance. Theories that assume political dominance in all aspects of Chinese corporate governance need updating. The rise of shareholder activism suggests market mechanisms play a larger role than previously recognized.

For policymakers: Market mechanisms can thrive even within state capitalism environments. Legal infrastructure, not just political systems, shapes corporate governance outcomes in China. Consider how robust minority shareholder protections can create space for market-based governance even in unexpected political contexts.

A Closing Reality Check

What emerges from our study is not the tired trope of corporate governance in China by political fiat. Rather it illuminates the current reality that China has a complex and evolving system in which shareholders are increasingly empowered, legal rules matter, and market-based outcomes appear to be the norm.

Chinese companies have become world leaders in many important industries. Over the past 15 years, China has had the world's largest market for initial public offerings and the world's second largest stock market, which has grown five-fold in the past decade. To think that this success is the result of a system in which the government uses its political influence to dictate corporate governance outcomes gives far too much credit to the Chinese government – and far too little credit to rules-based markets.

As we conclude in the final line of our article:

"There is a reason why the USSR regularly had shortages of toilet paper and why it did not have shareholder activism. China has an abundance of both."

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Does Sustainable Investment Inspire Sustainable Governance?

Jitendra Aswani, MIT Sloan

The global fixed-income market reached 140 trillion USD in 2024; from this, sustainable debt^[1] is 5 trillion USD. Even though the latter is a small part of the global debt market, the growth in this sub-asset class is commendable as it originated post-financial crises. Most sustainable debt comes from corporations, and the rest comes from supranational agencies and other institutions.

Despite the tremendous spike in sustainable investment around the globe, limited disclosure on how the proceeds are allocated among the green projects and whether these projects help reduce negative environmental externalities raises concerns for investors. Also, green project categories are decided on green/sustainable bond principles, which are acceptable but are not mandatory guidelines for green project classification, and fear investors about greenwashing. Similar issues arise when implementing and managing green projects, which are supported by the proceeds of the sustainable debt. As firms want investors to support their green initiatives, they are adopting sustainable governance practices by hiring a chief sustainability officer (CSO) and forming an ESG/sustainability committee from existing board members or from external members who have expertise and experience in this field. For instance, a survey by Mattison Public Relations found that 54% of the Financial Times Stock Exchange (FTSE) 100 companies have a board-level committee dedicated to ESG issues. Such steps by firms are needed to communicate clearly with stakeholders about the firm's sustainable practices.

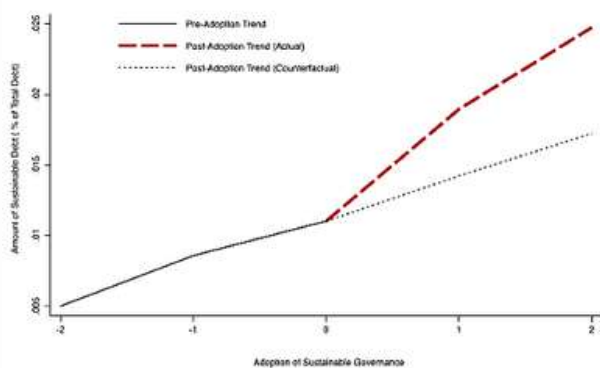
Our research investigates whether firms recognize the importance of sustainable governance and implement changes in their

organizational structures to effectively leverage sustainable investments. To conduct this analysis, we collected data on 3,944 sustainable bonds issued by globally listed firms between 2013 and 2022 from the Bloomberg Global Fixed Income database. Approximately 77.5% of these bonds are classified as green bonds, while the remainder falls into categories such as sustainability bonds, sustainability-linked bonds, or similar classifications.

Data on sustainability governance metrics—such as the hiring of Chief Sustainability Officers (CSOs) and the establishment of Environmental, Social, and Governance (ESG) committees—were obtained from the BoardEx database. We aggregated these observations at the firm level, resulting in a final dataset that includes 6,925 firms and 59,019 firm-year observations. Of these, 30% (or 3,053 firms) have made significant organizational changes to enhance their sustainability efforts during the observed period. We measure sustainable investment by calculating the ratio of cumulative sustainable debt to the firm's total debt, while we define sustainable governance using a binary variable that assigns a value of 1 to firms appointing a sustainability officer or establishing a sustainability committee within the year, and 0 otherwise. We externally validate these measures using different proxies of sustainable investment (such as natural logarithm of number of green debt) and sustainable governance.

To conduct the empirical analysis, we begin with a panel regression that includes fixed effects for country, year, and industry. We find that a 1% increase in the amount of sustainable debt (in total debt issued) improves sustainable governance by 9%.

Results suggest that sustainable debt issuances inspire the firms to adopt sustainable governance. We are aware of endogeneity concerns, such as whether the adoption of sustainable governance increases sustainable investment or whether sustainable governance is a result of sustainable investment. To mitigate such concerns, we use identification through heteroskedasticity (see Rigobon (2003) and Rigobon and Sack (2003)) and generate the causal generalized method of moments (GMM) estimates. To show the robustness of our results, we conduct event studies. A figure, part of event study, demonstrates that how sustainable investment inspires the firms to introduce the organizational changes to better govern the investment and mitigate the concerns of investors regarding disclosures.



Further check reveals that this 'investment inspires governance' relation is slightly stronger among the financial institutions and in the countries which have strong investor protection laws. This result for financial institutions is appreciable as there are concerns about lack of due diligence by financial institutions on sustainable loan borrowers' environmental performance.

"Our findings suggest that sustainable investment encourages firms to implement sustainable governance practices."

These initiatives can help companies monitor the progress of green projects, ensure successful implementation, manage proceeds from sustainable investments, and effectively communicate with investors about their green initiatives and sustainability efforts. This also supports the notion that whether the presence of better governance mitigate the concerns of investors even if disclosure is limited or opaque.

By Jitendra Aswani (MIT Sloan)

A response to Colin Mayer's 'ESG is Dead, Be True and Fair Instead'

Constantijn van Aartsen, Maastricht University

Colin Mayer writes that ESG is dead. However, his proposal that companies should focus on problem solving and 'true and fair' accounting does little more than recast its core argument. Both it and ESG build on the same premise that free and efficient markets are the best and only way to address problems with firms, markets and sustainability.

Mayer is unfair to ESG when he says that it has had "too much emphasis on risk, regulation and costs, and not enough on value creation and profit, and the commercial opportunity that comes from solving problems." He misses that leading best practices and frameworks for sustainable business are converging to focus not only on financial and non-financial risks but also on opportunities, dependencies, and impacts. The latter are easily consistent with a focus on genuine value creation and true value accounting.

The aim of this convergence – like Mayer's proposal – is to help private actors distinguish between companies who 'really' maximise value and those that inefficiently appropriate value from other parties. Another similarity is that Mayer's proposal also relies on state regulation. As he writes in *Capitalism and Crises*, his ideas on company purpose, director's duties and true accounting can only be effective when they are adopted by all states as a universal 'Moral law'.

A more fundamental issue with Mayer's proposal, and ESG in general, is the belief that the true costs of company activity can be measured and accounted for. The Achilles heel of this viewpoint is that money is not a universal measure of truth but a social convention and governance tool (as demonstrated by historians and anthropologists).

Prices are a complex manifestation of personal values, subjective beliefs, state policy, market conditions, and commodity availability. There is no robust evidence to suggest that they can objectively or effectively represent the extent to which company activities are 'good' or 'bad' (i.e. solving problems or unfairly appropriating). The fact that firms may profit from harmful activities is not a call for more efficient, moral markets and prices but for better governance to address the viability of harmful business models.

Ultimately, a belief in true cost accounting is an expression of faith in the perfectibility of free and efficient markets. It is only when market actors are perfectly informed, and when there are no transaction costs or market failures such as externalities, that it is (theoretically) possible for 'true' prices to manifest. Put differently, it is only when market actors are omniscient and omnipotent – with divine knowledge and freedom of action – that perfect prices emerge.

The impossibility that underpins true cost accounting – that we can solve all problems by empowering individuals with God-like powers – is foundational to the common view that the 'right' approach to CSR, ESG and corporate purpose can unlock win-wins for all stakeholders, society, the economy and the environment. Promises of such win-wins appear not only in Mayer's work but also in that of others such as Porter and Kramer, Freeman, Elkington, Eccles, Edmans, Henderson and Serafeim – each of them offers a different flavour of heaven on earth.

It is not plausible to imagine that we can solve sustainability problems by effectively addressing market failures and achieving true pricing.

Yet it is exactly this mechanism – perfecting markets via the divine optimisation of individual rationality – that Mayer and others rely on as a means to distinguish between good and bad firms, and to realise win-wins. This economic line of reasoning has long been identified and criticised (Hayek, Coase and Demsetz) as a ‘Nirvana fallacy’. It is troubling to see that this fallacy is so prevalent in research on sustainable business.

Lost in the comparison of Nirvanas is that there is no universal measure of value to enable win-win outcomes. Despite the utopian economic promise that we can use utility or prices, research clearly demonstrates the existence of legitimate, competing values and that there is no singular, universal, and transcendent measure of the Good.

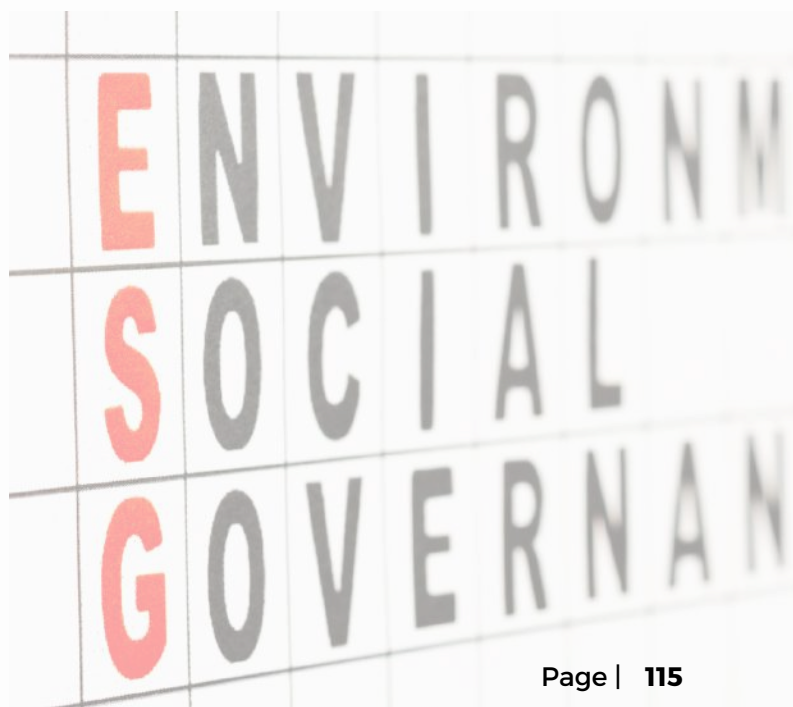
"Conflicting values make it wishful thinking to suggest, as Mayer does, that shareholders could be effective in a role to ensure that companies do not profit from harm."

Their information can only ever be imperfect, their powers less than ideal, and their decisions moulded by commercial concerns. This does not make them evil or immoral but underscores that they act on the basis of human values and within human constraints. These preclude them from being ideal stewards to ensure that companies do not profit from harm. Similarly, it is wrong to imagine that directors can report on true costs and fair profits when markets are not divine, money does not measure morality, and their first loyalty is towards business continuity.

There is no evidence to suggest that people in particular roles – such as consumers, directors, shareholders, etc. – can be informed and empowered to the extent that they will realise a divine and universal rationality (of whatever flavour). Instead, the reality is that human existence is constituted by conflicting values and less-than-perfect conditions. This obviates the possibility of win-wins and dictates that we must make difficult choices between different, non-ideal pathways of human development.

In terms of governance, this means that sustainable business is not about one ‘right’ approach to economic efficiency but about the formulation of effective and coherent industrial policy. It is only once we recognise this, and abandon wishful thinking about creating perfect free markets, that there will be scope for a genuine, transformative discussion on business sustainability. Only then will ESG be dead, and good riddance.

Constantijn van Aartsen is Lead Researcher for the Beyond Governance Project, a Research Fellow at the ICGI and METRO research institutes, a Professional Support Lawyer at Van Doorne Advocaten, and a Research Fellow at Maastricht University.



A Comment by Colin Mayer on Constantijn van Aartsen's Blog

Colin Mayer, University of Oxford and ECGI

I would like to thank Constantijn van Aartsen for raising an important question about whether recent suggestions about sustainability, including my ECGI blog, are adopting "the utopian economic promise that we can use utility or prices" to "solve sustainability problems by effectively addressing market failures and achieving true pricing". He sees this as "wishful thinking" requiring problems to be solved "by empowering individuals with God-like powers" and "perfecting markets via the divine optimisation of individual rationality".

His blog allows me to clarify that this is not what I, or probably most of the other people he cites in his blog, are advocating. On the contrary, my critique of environmental, social and governance (ESG) factors is that they are indicative of the inadequacies of solving sustainability problems through the lens of market failures and prices.

Instead, what is required is a recognition of the role of corporate purpose of profiting from solving not creating problems for others in aligning the interests of business with those of the economy, environment and society.

"This is not about determining prices to remedy market failures but the way in which the ownership, governance, culture, and organization of companies assist companies in determining strategies and processes to achieve this."

Accounting and reporting for true costs and fair profits are the outcomes not the drivers of problem-solving corporate purposes. They are based on actual not hypothetical costs and revenues. They do not rely on God-like powers or divine rationality but on much more mundane management processes and systems that many well-run companies employ all the time.

Sustainability in this context is associated with investors earning long-run returns on capital by investing in activities that benefit not harm others. This means that it is in their interest, as much as it is in their customers' and communities', to ensure that companies do not profit from harm.

"The effective and coherent industrial policy" to which Constantijn refers at the end of his blog is an important part of this because business on its own cannot necessarily capitalize on the benefits it confers on others. The interest of businesses in profiting from solving not creating problems creates a natural alignment with that of governments and public sectors in addressing environmental and social issues. But if companies profit from harm, then, as we have recently witnessed around the world, public-private partnerships fail, and businesses undermine democratic as well as economic systems by lobbying governments for their own ends.



So, while Constantijn sees a sharp contrast between his concerns about using prices to solve market failures and his advocacy for industrial policy instead, and mine about the failures of ESG and the role for problem solving corporate purposes, there is in fact a close parallel. In both cases, they reflect an acknowledgement of the limitations of conventional economic policy and a need to recognize the significance of value creation through outcomes and impacts.

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Expiry Day and the Governance of Algorithmic Trading: The Jane Street Episode

Vishrut Kansal, Shardul Amarchand Mangaldas & Co

On July 3, 2025, the Securities and Exchange Board of India (SEBI) issued a 105-page interim order against global proprietary trading firm Jane Street Group, accusing it of orchestrating a sophisticated expiry-day trading strategy designed to manipulate the Bank Nifty index. SEBI found that on 18 derivative expiry days between January 2023 and March 2025, Jane Street-linked entities executed trades that distorted index levels to benefit their substantial options positions. The regulator directed Jane Street to deposit ₹4,843.57 crore, representing alleged unlawful gains, into an escrow account and barred it from trading in Indian securities markets pending further proceedings. Jane Street complied with the interim order by depositing the full amount on July 14, 2025, while reserving its right to contest the findings. As such, on July 21, 2025, SEBI announced that certain restrictions, including bans on trading, account freezes, and asset transfers, would cease to apply, provided ongoing compliance. A hearing on final directions is scheduled for August 2025.

Algorithmic Execution Meets Expiry-Day Strategy

The alleged manipulation involved a dual-phase trading pattern. In the first half of expiry day (Patch I: 9:15–11:46 AM), Jane Street reportedly executed large-volume buy orders in Bank Nifty component stocks and their corresponding stock futures. These trades – at times constituting over 20% of market-wide volumes in securities such as Kotak Bank, SBI, and Axis Bank – were often placed above the last traded price, thereby elevating the prices of both individual stocks and the index. Simultaneously, Jane Street built large net short positions in index options by selling calls and buying puts, essentially betting on a later decline in the index.

In the second half of the trading session (Patch II: 11:49 AM onwards), Jane Street unwound its long stock and futures positions by selling aggressively, thereby exerting downward pressure on the index. This sell-off coincided with the close of trading, resulting in a drop in the Bank Nifty and magnifying the profits from its bearish options exposure. The regulator alleged that this strategy was employed systematically despite cautionary communications from the National Stock Exchange in February 2025.

Corporate Governance and Market Conduct: A Fine Line

The case raises critical questions of governance – not just within Jane Street, but across the broader architecture of algorithmic trading in capital markets. SEBI's findings indicate that Jane Street's trading alone accounted for the full extent of positive index movement in the morning sessions on several expiry days, with the rest of the market exerting net downward pressure. The regulator concluded that this was not incidental to legitimate hedging or arbitrage, but part of a designed mechanism to influence settlement prices.

For market participants and regulators alike, the Jane Street matter blurs the line between aggressive arbitrage and manipulative conduct. The enforcement action brings to the fore an increasingly urgent question: should algorithmic strategies that rely on concentrated expiry-day trades be subject to the same governance expectations as traditional market conduct rules? From a corporate governance standpoint, the case signals that algorithmic opacity is no defence.

If the effect of a strategy distorts fair price discovery—particularly around sensitive benchmark events—it may well fall within the domain of manipulative conduct, regardless of intent or economic logic.

Comparative Enforcement: Global Lessons

Globally, comparisons are inevitable. In the U.S., the Commodity Futures Trading Commission's (CFTC) 2019 enforcement against Tower Research Capital for futures spoofing—resulting in a \$67 million settlement—similarly involved high frequency trading (HFT) strategies that manipulated price discovery in technically legal but functionally deceptive ways. The LIBOR rigging scandal likewise saw traders manipulate benchmarks to advantage their derivatives positions, although those cases involved submissions rather than market execution. In contrast, Jane Street's case reflects a live-market manipulation of index expiry via real-time trading behaviour.

The common thread in these cases is the regulatory emphasis on effect over form. Financial sophistication cannot shield firms from accountability when market integrity is compromised. This aligns with evolving views on corporate governance in financial firms: robust oversight must extend to automated systems, algorithmic design, and the governance of strategy deployment—especially in high-volume, high-impact scenarios like expiry days.

Structural Reforms and Forward-Looking Governance

The fallout from the Jane Street case is already influencing regulatory discourse. Proposals gaining ground include algorithmic strategy sandboxing (i.e., the process of testing trading algorithms in a controlled, simulated environment that mimics live market conditions, without the risk of causing real-world disruptions) and pre-clearance mechanisms, allowing exchanges and regulators to evaluate potential expiry-impacting algorithms before deployment. Such initiatives align with global best practices on governance of technological risk in financial systems.

Further, SEBI may revisit disclosure norms for foreign portfolio investors (FPIs). Jane Street operated through multiple affiliated FPIs, raising questions about regulatory arbitrage through fragmented trading identities. A possible solution is consolidated reporting and beneficial ownership traceability across all entities under common control—measures that would improve transparency and hold parent firms accountable for sub-account conduct.

On the settlement side, the use of VWAP (Volume Weighted Average Price) for index expiry could also be recalibrated. Measures such as broadening the settlement window or imposing participation caps during expiry hours are being discussed. Enhanced audit trail obligations—such as version-controlled algorithmic code, decision logic, and real-time logs—could also be mandated to support post-trade surveillance.

Conclusion: Governance in the Age of Algorithmic Influence

Whether Jane Street's legal challenge succeeds or not, the July 2025 interim order is a watershed moment in India's approach to market conduct enforcement. For regulators worldwide, particularly in emerging markets with shallow underlying volumes but complex derivatives activity, the message is clear: advanced trading strategies are not exempt from governance norms. The case also reiterates that in modern markets, governance must extend to the design, deployment, and disclosure of algorithmic decision-making systems—particularly when such systems can materially shape price discovery during benchmark events like index expiries.

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