

ecgi 2025 Global Corporate Governance Colloquium

COORDINATED ENGAGEMENTS

Elroy Dimson
Joint research with Oğuzhan Karakaş and Xi Li

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UNIVERSITY OF CAMBRIDGE
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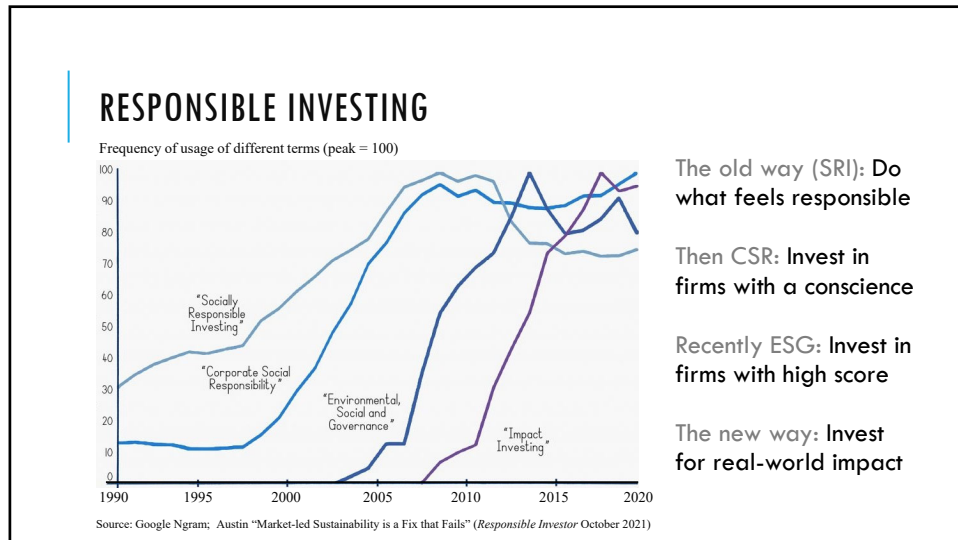
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DIVEST OR ENGAGE?

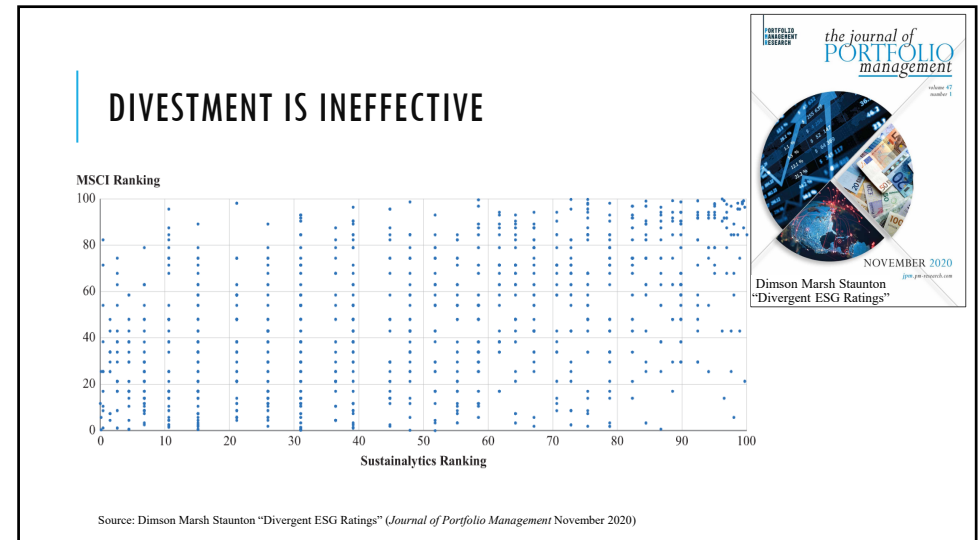


THE JOURNAL OF INVESTING
PORTFOLIO MANAGEMENT
SPECIAL ISSUE: ENVIRONMENTAL, SOCIAL, & GOVERNANCE
TO DIVEST OR TO ENGAGE? A CASE STUDY OF INVESTOR RESPONSES TO CLIMATE ACTIVISM
Source: Chambers Dimson Quigley "To divest or to engage?" (Journal of Investing 2020)

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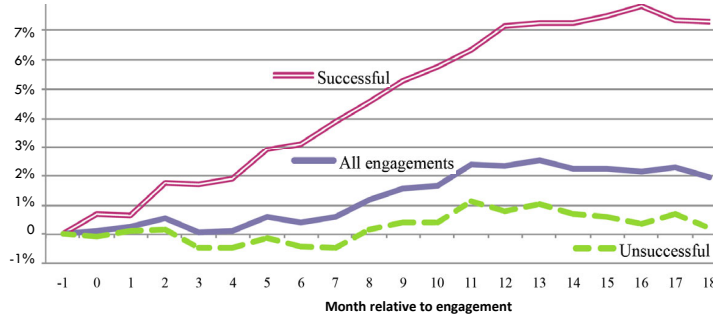
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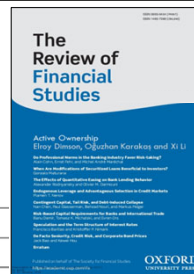
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ENGAGEMENT CAN BE PRODUCTIVE

Market and size adjusted return



Source: Dimson Karakas Li "Active ownership" *Review of Financial Studies*, December 2015



PRINCIPLES FOR RESPONSIBLE INVESTMENT

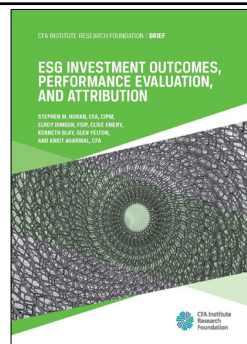
- We examine global PRI engagements
 - PRI founded 2006
- PRI is the leading network for responsible investing
- PRI has great scale:
 - 5,227 signatories
 - from 88 countries
 - assets of \$128 trillion

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SETTING THE SCENE

- How should engagements be conducted?
- Should investors cooperate in engagements?
- What is the stock market impact of engagements?
- Are successful engagements rewarded financially?



Source: Horan Dimson Emery Blay Yelton Agarwal *ESG Investment Outcomes, Performance Evaluation, and Attribution*, CFA Research Foundation, 2022

SIGNATORIES

- **Investment Managers**
Deutsche Bank (Germany), Amundi (France), T. Rowe Price (US), Legal & General (UK), AXA (France)
- **Asset Owners**
Norwegian Government Pension Fund (Norway), Old Mutual (UK), CalPERS (US), Caisse de depot et placement du Quebec (Canada)
- **Service Providers**
PIRC (UK), Sustainability (Netherlands), As You Sow (US), Australian Council of Superannuation Investors (Australia), Hermes Equity Ownership Services (UK)

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It is also the first to introduce and test the theoretical framework on **leadership** (specially the influence of leaders' **information** and **reputation**) within the context of collaborative shareholder engagements



KEY LITERATURE

- **Coalition Structure** Hermalin (1998, 2007)
 - Only second-best outcome can be achieved without a leader, due to **free-riding** in teams as in Holmstrom (1982)
 - A better outcome can be achieved when the leader credibly signals her **superior information** to the rest of the coalition (e.g., “lead by example”)
 - A leader can establish **reputation for credibility**, in repeated interactions. Such a reputation is valuable when high-productivity state will occur
- **Incentives** Brav, Dasgupta, and Mathews (2019)
 - Wolf-pack activist investors are incentivized to overcome free-rider problems by **reputational concern** about **attracting investment flows**

COLLABORATION

- **Benefits**
 - Pooling information and reducing risks
 - Cutting duplication and controlling costs
 - Alleviate impact from extreme activists
- **Costs**
 - Free-riding and competition
 - Coordination is difficult and time-consuming
 - Legal concerns/regulatory barriers: "concert party"

PRI, as a third-party coordinator, can help substantially exploit the advantages and overcome the challenges

PRI'S COLLABORATION PLATFORM

Desirable attributes for research

- Engagements are logged in a platform by a third party
 - No retrospective data revisions
- Engagements are supported by multiple asset owners, investment managers, and service providers
 - Not a single investor
- Dataset is truly global
- There is a dated record for each engagement
 - No reliance on ESG scores/ratings

RESEARCH PROCEDURE

1. Quantitative data analysis

- 31 PRI-coordinated projects over 2007-2017
- Environmental and social issues

2. Global engagements

- 1,654 dialogues with target companies
- Targeting 960 listed firms in 63 countries

3. International involvement

- 224 investors from 24 countries (overall AUM \$23 trn, average AUM \$116 bn)
- Asset owners, investment managers, service providers

4. Extensive additional data from commercial databases

MAIN FINDINGS 2/6

What does a typical collaborative engagement entail?

Coalition size

- Average coalition has 26 signatories
- 2 domestic investors, and 24 foreign investors
- 14 inv. managers, 10 asset owners, 2 service providers

Coalition formation

- Inverse U-shaped relation between signatory size & engagement

Coalition structure

- Two-tier engagement strategy: lead & supporting (from July 2012 onwards)

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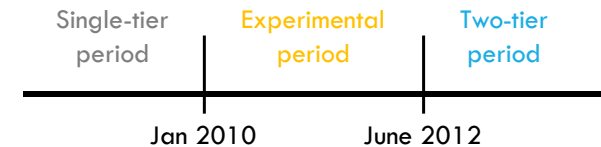
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MAIN FINDINGS 1/6

Which firms are targeted?

- **Most engaged countries**
 - US, UK, France, and Japan
- **Most engaged industries**
 - Manufacture, infrastructure, wholesale and retail trade
- **Target firm characteristics**
 - Large firms, business in foreign countries
 - High ownership from the engaging group
 - High ESG score

TIMELINE OF PRI ENGAGEMENT STRUCTURES



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MAIN FINDINGS 3/6

Is leadership decisive?

- **Yes: Two-tier structure** elevates success rates
- Having a **leader** increases success rate **by half**
- **Robust** to: (i) matching target firm characteristics using entropy balancing and propensity score matching, (ii) identifying pseudo-lead investor, (iii) addressing possible investor learning

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MAIN FINDINGS 5/6

What are the attributes of a leader?

An investor is more likely to lead a collaboration, when it is/has:

- An **investment manager**
- Higher **stakes** in and **exposure** to the target
- **Not busy** with leading other PRI engagements
- **Formal engagement processes** by internal staff
- A frequent participant of **other collaborative engagements**

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MAIN FINDINGS 4/6

What are the mechanisms for effective leadership?

- **Informational advantage:** when the leader is **domestic**, especially amidst **opaque** information environments
- **Reputation for credibility:** when the leader is **reputable**, especially originating from **high social norm** countries

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MAIN FINDINGS 6/6

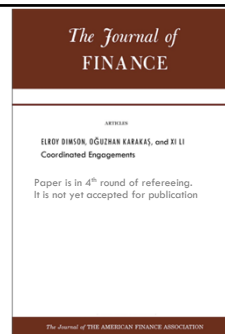
What are the financial impacts of engagements?

- **Target firms** in two-tier engagements experience an increase in **abnormal returns** and **ROAs**. No change in single-tier engagements
- **Signatories** experience increased **fund flows** following engagement episodes that result in success or involve leadership by the signatory

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EVIDENCE BASED ENGAGEMENT

- **Success rates are elevated** with a **two-tier structure** (using a lead and supporting signatories)
- **Even stronger improvement** when lead signatory is **domestic** and supporting signatories are **foreign**
- **Target firms** in two-tier engagements have an **abnormal return** and rise in **ROA**. No change with single-tier engagement
- **Signatories** experience increased **fund flows** following engagement episodes that result in success



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