MOTIVATION

This is the first paper to study the nature and benefits of coordinated, collaborative and international efforts by activist shareholders to influence investee companies on E&S issues.
PRI & SIGNATORIES

Principles for Responsible Investment (PRI)

- Founded in 2006 and supported by the UN.
- Leading network for investors committed to responsible ownership and long-term, sustainable returns.
- By December 2018, PRI has 2,205 signatories from 67 countries, representing over $80 trillion in assets.
PRI & SIGNATORIES

Source: PRI

Assets under management (LHS)
Number of signatories (RHS)

Source: https://www.unpri.org/directory
PRI & SIGNATORIES

Signatory breakdown by region

- North America: 415
- Latin America: 61
- Europe: 929
- Asia: 101
- Africa: 63
- Middle East: 8
- Oceania: 136

Source: PRI
PRI’S COLLABORATIVE PLATFORM

Desirable attributes for research:

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

- Benefits of collaboration
  - Pooling of resources.
  - More voting power, “voice” for mid-size firms.
  - Risk sharing.
  - Information and cost sharing.

- Costs of collaboration
  - Free-riding and competition.
  - Coordination is difficult and time-consuming.
  - Legal concerns/regulatory barriers: “concert party”.

- As a third-party coordinator, PRI can help activists to exploit the advantages and overcome the challenges.
RESEARCH PROCEDURE

- **Quantitative data analysis**
  - 4 areas: environmental, social, governance, UNGC.

- **Global engagements**
  - 1,671 dialogues with target companies.
  - Targeting 964 listed firms in 63 countries.

- **International involvement**
  - 224 investors from 24 countries
  - Aggregate AUM $24 trillion, average $115 billion.
  - Asset owners, investment managers, service providers.

- **Extensive data from commercial providers**
MAIN FINDINGS 1/5

Which firms are targeted?

- **Most engaged countries:** US, UK, France, Japan.
- **Most engaged industries:** Manufacturing, infrastructure, wholesale and retail trade.
- **Target firms:** Large, low Tobin’s Q, high institutional ownership, low insider ownership, and a high rating for ESG.
MAIN FINDINGS 2/5

Which institutions engage and lead?

- An average engagement has **26** investors.
  - Combined AUM $2.8 trn, and target shareholding $0.5 bn.
  - 2 domestic investors, and 24 foreign investors.
  - 14 asset managers, 11 asset owners, 1 service provider.

- Two-tier engagement strategy: **lead and supporting** activists.
  - 410 engagements out of 1,671 have lead investor(s).
  - On average **1.4** lead investors with overall AUM $162 bn.
  - Leaders have high ownership/exposure & employee ratings.
What influences institutions to take a role?

- Decisions to engage and lead are shaped by home bias (cultural similarities), engagement cost and benefits, and free-riding concerns.

- Decision to engage: (i) Domestic target, (ii) Fewer past or continuing projects.

- To lead: (i) Domestic target, (ii) Higher exposure to and higher stake in target, (iii) Fewer ongoing projects.
What determines success?

- Having a **lead** activist, especially a **local** lead.
- Having **foreign** supporting activists on board.
- Having **influential** activists:
  - Activists with large AUM, big holdings in the target, and high employee/culture ratings.
The impact of successful engagements (with lead)

- Higher abnormal returns, ROA, sales growth.
- Lower stock return volatility.
- Increased lead activist shareholding in target.
- Decreased supporting activist shareholding in target.
CONCLUSIONS

- Coordinated engagements on E&S are expanding.
  - This is the first global study of E&S engagements.

- Engagement practices associated with success:
  - Lead investor from same location as target.
  - Lead should have high AUM, high stake in and high exposure to target, high employee/culture ratings.

- Supporting investors widen impact of engagement.
  - Supporters should be from foreign countries.
  - Preferably with high AUM and big holding in target.
COORDINATED ENGAGEMENTS
(DIMSON, KARAKAŞ, AND LI)

Available at ssrn.com/id=3209072