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Chains of influence

Global differences in ESG shareholder engagement and how active owners can leverage them

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Photos of financial districts

This report features photos of financial districts from the 12 countries included in our analysis.

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Executive summary

- **Shareholder engagement varies significantly between countries as the relative power of asset owners, asset managers, and companies differs across contexts.**

To understand these differences, the Laudes Foundation funded this research to unveil the practices used by leading active owners for conducting engagements focusing on environmental, social, and governance (ESG) issues. These findings are based on 93 interviews with professionals involved in ESG shareholder engagement in 12 countries, in addition to an extensive review of the academic and practitioner literature.

- **We differentiate countries based on the direction of influence in the investment chain involving asset owners, asset managers, and companies as the key actors (Part 1 of the report).** In company-centric chains of influence, asset owners have little influence on asset managers and companies, while companies are less dependent on institutional investors (i.e., Brazil, China, India, and South

Africa). By contrast, in owner-centric chains of influence, asset owners can exert pressure on asset managers and companies, and companies are relatively dependent on institutional investors (i.e., Australia, France, Japan, Netherlands, Singapore, Switzerland, UK, and the US).

- **We detail five distinct steps in the ESG shareholder engagement process that are currently used in each chain of influence (Part 2 of the report).** These include: (1) structuring engagement capabilities, (2) setting the engagement goal, (3) interacting with companies, (4) pressuring companies and (5) reporting on ESG engagements. For each of these steps, we highlight the strategic choices available to active owners and show how the characteristics of their country, in terms of the direction of influence in the investment chain, can inform engagement practices. We highlight how these steps differ across company-centric and owner-centric chains of influence.

- **We outline how active owners can leverage these differences for ESG shareholder engagement across the two chains of influence (Part 3 of the report).** Specifically, we outline five opportunities for active owners to influence companies in company-centric chains of influence, which often lag behind global sustainability standards and which face limited pressure from institutional investors.

Introduction

ESG shareholder engagement refers to interactions through which active owners try to influence companies' ESG-related policies, practices, and priorities (Chuah et al., 2024; Marti et al., 2024; McNulty and Nordberg, 2016). Active owners can be asset owners, asset managers, or engagement facilitators. Their interactions with companies can be private (in-person and virtual meetings, formal letters, or emails) or public (communications through shareholder resolutions or attending annual shareholder meetings or investor days).

Interest in ESG shareholder engagement is booming around the world. However, the practices used by active owners differ meaningfully across countries. To date, there has been little emphasis on the differences between engagement approaches across countries. Yet, understanding these differences is crucial, especially because many active owners need to engage with companies across the globe. This means that recognising how power relations between shareholders and companies work in different countries can help to inform more effective ESG shareholder engagement.

To make sense of this messy picture, we synthesised findings from three sources of information. Most importantly, we conducted 93 interviews with professionals involved in ESG shareholder engagement in 12 countries. Interview participants included representatives from asset owners and asset managers, in addition to engagement facilitators who coordinate and participate in engagements on behalf of other investors (e.g., investor member

organisations, non-governmental organisations (NGOs), and engagement service providers). To broaden our perspective, we also used two additional sources, academic articles and practitioner reports, to conduct systematic reviews with an emphasis on identifying areas of consensus and dissensus between our interview participants, peer-reviewed academic articles, and practitioner reports. The Appendix provides further details on how we collected and analysed the data.

We focused our analysis on environmental and social issues due to the heightened societal interest in these concerns. Although traditional corporate governance issues are also within the purview of most engagement practitioners, the proliferation of governance codes means that expectations regarding these issues are reasonably well-defined. By contrast, sustainability issues continue to be contested, with stark differences in investors' attitudes and approaches to integrating these issues into their active ownership processes.

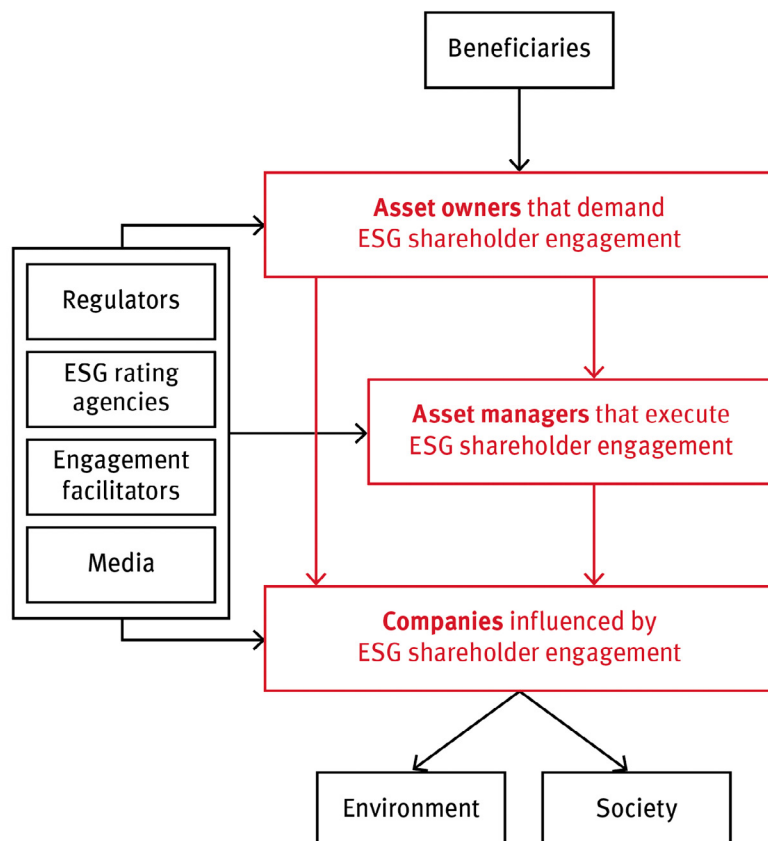
Our analysis led to the realisation that the ESG shareholder engagement approaches used by active owners depend on the context, which we refer to as a "chain of influence". A chain of influence describes the power relations between asset owners, asset managers, and companies, and focuses on the degree of influence that these actors have on each other. We identify two chains of influence that we call company-centric and owner-centric depending on the power relations among the actors.

In Part 1, we explain how these chains of influence serve as the background against which ESG shareholder engagement occurs. Part 2 outlines the shareholder engagement process and how it changes depending on whether it occurs within a company-centric or an owner-centric chain of influence. Part 3 highlights underappreciated opportunities for active owners that seek to influence companies across the two chains of influence. By recognising these opportunities, active owner can adapt their approaches to enable more effective ESG shareholder engagement on a global basis.

Part 1: Power relations among actors involved in ESG shareholder engagement

ESG shareholder engagement involves three central actors: (1) asset owners that demand ESG shareholder engagement, (2) asset managers that execute ESG shareholder engagement and (3) companies influenced by ESG shareholder engagement. Asset owners are organisations or individuals holding significant pools of capital, such as pension funds, insurance companies, foundations, and sovereign wealth funds. Asset managers are professional firms contracted by asset owners to invest their financial assets across various markets and asset classes. Figure 1 maps these three central actors, drawing inspiration from similar figures in the Swiss Stewardship Code (AMA and SSF, 2023) and in Ferraro et al. (2024). Other actors, such as regulators, ESG rating agencies, engagement facilitators, and the media, influence the three central actors but are not core to this report, and thus depicted in grey in Figure 1.

Figure 1: Central actors in ESG shareholder engagement



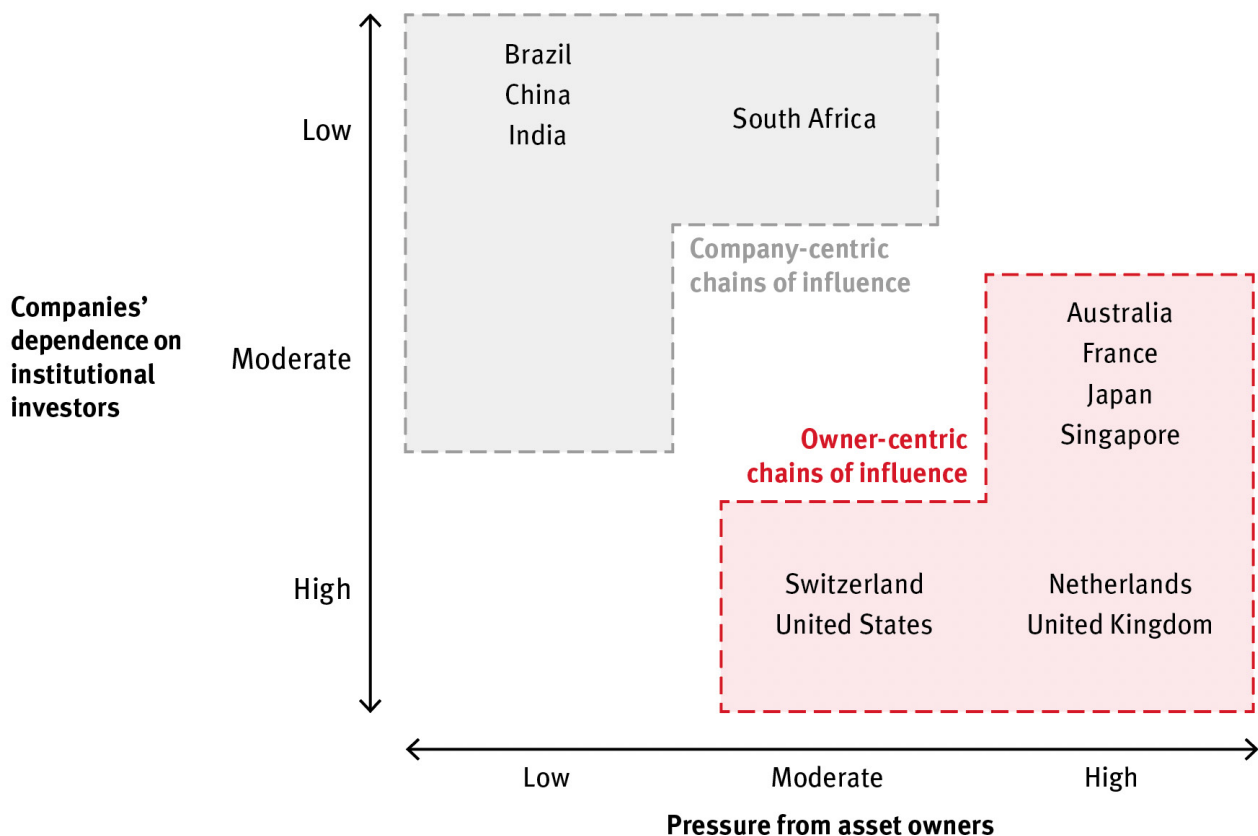
Depending on the country, different power relations exist between these three central actors. In this report, we analyse two dimensions of these power relations: (1) the pressure asset owners exert on asset managers and companies and (2) companies' dependence on institutional investors (i.e., asset owners and asset managers). For each of the 12 countries included in this report, we classify whether pressure from asset owners is high, moderate, or low and whether companies' dependence on institutional investors is high,

moderate, or low. Our analysis mainly draws on the 93 interviews with asset owners, asset managers, and engagement facilitators from the 12 countries, in which we asked detailed questions about how they relate to each other and to companies. We complemented our emerging insights with insights from our systematic analysis of academic articles and practitioner reports.

Our analysis leads us to distinguish between two contexts for ESG shareholder engagement (see Figure 2).

When pressure from asset owners is low or moderate, and companies' dependence on institutional investors is low or moderate, as is the case for four of the 12 countries, ESG shareholder engagement happens within a **company-centric chain of influence**. By contrast, when pressure from asset owners is moderate or high and companies' dependence on institutional investors is moderate or high, as is the case for eight of the 12 countries, ESG shareholder engagement happens within an **owner-centric chain of influence**.

Figure 2: Power relations in each of the 12 countries



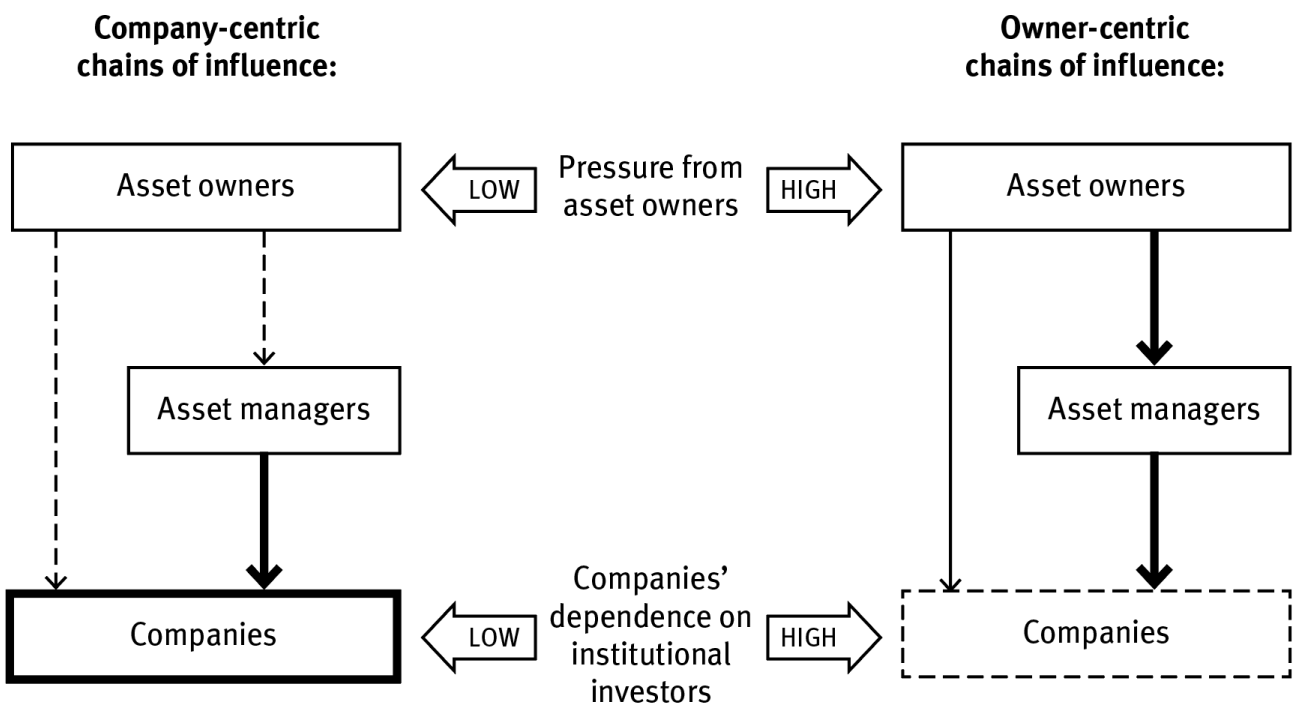
Importantly, this classification is based on our assessment at the current point in time and does not necessarily reflect the direction of travel. For example, the use of dual-class share structures has become increasingly common in the US in recent years and has shifted power towards corporate insiders and away from minority shareholders (Cremers et al., 2024), which is particularly relevant as companies have contested shareholders' ESG concerns (As You Sow, 2024). Meanwhile, the more prominent role of collaborative engagement has enabled some shareholders in Brazil and South

Africa to collectively raise their profile (Yamahaki, 2019). Regardless, we view the classification in Figure 2 to broadly reflect the current state of play.

A company-centric chain of influence means that asset owners have little influence on asset managers and companies (see the dashed arrows in Figure 3) and companies depend little on institutional investors (see the thick box surrounding companies in Figure 3). By contrast, an owner-centric chain of influence means that asset owners exert significant pressure on asset managers and companies

(see the thick arrows in the left part of Figure 3) and companies are relatively dependent on institutional investors (see the permeated box surrounding companies in Figure 3). In what follows, we provide details on these power relations for each of the 12 countries.

Figure 3: Two chains of influence



1.1 Pressure from asset owners

The degree of pressure that asset owners exert on asset managers and companies varies greatly between countries. In what follows, we distinguish between countries in which pressure is high, moderate, or low.

High pressure from asset owners

In some countries, asset owners exert high pressure on asset managers and companies. For example, asset owners can exert pressure, by hiring their own engagement specialists (Australia and the United Kingdom), by collaborating closely with asset managers (France and Netherlands), or by making ESG shareholder engagement mandatory for all external asset managers (Japan and Singapore).

AUSTRALIA

Superannuation or super funds—which is the Australian term for pension funds—have started to become very active in ESG shareholder engagement by creating internal ESG engagement teams. By 2025, most major superannuation funds built internal ESG engagement teams that directly engage with Australian companies. Given this increased internal capacity, it is “very common for the super funds here to retain control of the votes” (Australia, engagement facilitator 4). Superannuation funds also collaborate around ESG shareholder engagement through the Australian Council of Superannuation Investors (ACSI) and draw on insights from

shareholder advocacy groups such as the Australasian Centre for Corporate Responsibility (ACCR). The increased focus on sustainable investing emerged partly because superannuation funds have been “heavily scrutinised by beneficiaries, by external stakeholders, like media, NGOs, about their portfolio holdings and their position on certain issues” (Singapore, asset manager 3). One asset owner commented that this internalisation reduced reliance on external asset managers who may be “representing maybe 5 or 10 different beneficial owners, and they’ve all got different and competing interests” (Australia, asset owner 2). When asset managers serve superannuation funds, they perceive a “clear mandate” from some of these owners to tackle systemic risks with their stewardship activities (Australia, asset manager 1). Based on our interviews, we estimate that between 50 and 100 ESG engagement specialists are active at Australian asset owners, asset managers, and engagement facilitators.

FRANCE

Many French asset owners see sustainable investing as critical to managing their long-term risks (Novethic, 2014, 2015) and thus interact closely with asset managers around ESG shareholder engagement (Freshfields, 2021). For example, to improve ESG reporting from asset managers, one asset owner brought together three of its asset managers to develop improved reporting templates, which “was a really great

experience” (France, asset owner 2). Given this strong influence of asset owners, French asset managers view asset owners as thought leaders on climate risks (ShareAction, 2019). One asset manager explained that “the biggest pressure comes from ... the commitment of our main client ... to be part of the Net Zero Asset Owner Alliance” (France, asset manager 2). An engagement facilitator explained that “the asset owners from the public sector try to develop precise policies, so ... that their asset managers really operate these engagements and voting issues according to their will” (France, engagement facilitator 1). Public sector pension funds such as the Pension Reserve Fund (Fonds de Réserve des Retraites) have played a key role in scaling up responsible investing practices in the French financial marketplace (Giamporcaro and Gond, 2016; Giamporcaro et al., 2020) and are thus particularly demanding in terms of ESG shareholder engagement. Their dedication stems in part because unions have a strong presence on pension fund boards, which is why one pension fund has “a quarterly board meeting dedicated to ESG” (France, asset owner 1). Based on our interviews, we estimate that between 50 and 100 ESG engagement specialists are active at French asset owners, asset managers, and engagement facilitators.

JAPAN

The Government Pension Investment Fund (GPIF), the world's largest pension fund, has played a critical role in fostering "a pretty established demand from asset owners" for ESG shareholder engagement (Japan, engagement facilitator 1). In 2018, the GPIF increased the fees it pays to passive asset managers to facilitate their ESG stewardship efforts (CFA Institute, 2020). One asset manager commented, "without GPIF in Japan, we'd never have seen such a huge ESG integration or boom" and that is why "many asset managers hired other people like me to focus on sustainable investment and engagement" (Japan, asset manager 2). Today, "every Japanese asset manager would like to get a mandate from them [GPIF]" (Japan, engagement facilitator 2). Not only are other pension funds "following what the GPIF is doing" (Japan, asset manager 1)—so do other asset owners, such as insurance companies, with one asset manager commenting that "almost [all] major

asset owners are really following the GPIF" (Japan, asset manager 3). While the GPIF is prohibited from directly engaging with companies, it has set up a sophisticated monitoring program for its asset managers, for example, by surveying companies annually about their interactions with individual asset managers (GPIF, 2024). On that basis, GPIF may "provide additional fees to those investment managers who are managing those engagement practices effectively" (Japan, asset owner 1). Based on our interviews, we estimate that between 75 and 150 ESG engagement specialists are active at Japanese asset owners, asset managers, and engagement facilitators.

NETHERLANDS

Dutch pension funds have played a critical role in turning the Netherlands into "probably the most advanced market in terms of active ownership" (Switzerland, engagement facilitator 1). Pension funds have pushed for ESG shareholder engagement in three

ways. First, some major pension funds own asset managers as subsidiaries. For example, the biggest Dutch pension fund, ABP, owns APG, which manages most of the pension fund's assets. One asset manager commented that this leads to "strategic alignment" between the asset owners and their dedicated asset managers around the belief that sustainable investing "will be important for long-term returns" (Netherlands, asset manager 1). Second, pension funds exert a lot of pressure on asset managers (see also Wagemans et al., 2018). Pension funds regularly join engagement calls of their asset managers because, as one pension fund explained, "I don't want to lose my knowledge and let things slip away" (Netherlands, asset owner 2). Another pension fund noted that "we've switched around quite a lot our external parties just because sometimes we feel like that's the best thing to do" (Netherlands, asset owner 1). Third, pension funds share knowledge in various collaborations, from



Eumedion (which also includes asset managers) to the Dutch Federation of Pension Funds (Pensioenfederatie) to the Dutch Engagement Network (a collaboration of three pension funds), which strengthens their influence on asset managers and companies. Their focus on ESG shareholder engagement is backed up by a significant portion of pension fund beneficiaries who indicate that “they’re willing to sacrifice some return for focus on impact” (Netherlands, asset manager 7). To gather insights into the preferences of beneficiaries, one pension fund has conducted a member dialogue in which a representative sample of 50 members discussed the investment priorities of the fund for three days, deriving 49 recommendations for the fund (Cooper et al., 2024). Another pension fund sent a survey to 20,000 members, getting a 25% response rate (Netherlands, asset owner 4). Based on our interviews, we estimate that between 75 and 150 ESG engagement specialists are active at Dutch asset owners, asset managers, and engagement facilitators.

SINGAPORE

Particularly since the Monetary Authority of Singapore launched its Green Finance Action Plan in 2019, Singapore has strived to become a leading centre for sustainable investing. ESG shareholder engagement has been a critical part of that plan because, as one asset manager explained: “We cannot just exclude all high-emitting companies because most of our economies heavily depend on these sectors—we need to empower asset owners ... to actively engage with these companies to help them go through the decarbonisation journey at a faster pace and have a credible transition approach” (Singapore, asset manager 3). State-backed asset owners allocated money to asset

managers on the condition that they created ESG engagement hubs in Singapore, which led asset managers toward “setting up larger and larger teams in Singapore” (India, asset manager 2). Today, “if you’re wanting to provide asset management services to large Singaporean asset owners, such as sovereign wealth funds, then you have to have your story in place on responsible investment and ESG” (Singapore, engagement facilitator 1). Based on our interviews, we estimate that between 50 and 100 ESG engagement specialists are active at Singaporean asset owners, asset managers, and engagement facilitators.

UNITED KINGDOM

UK asset owners have traditionally exerted considerable pressure on asset managers and companies (Tilba and McNulty, 2013). ESG shareholder engagement continues to be critical for UK asset owners. One insurance company noted that they built internal capacity in addition to outsourcing ESG shareholder engagement “because you can’t really oversee stewardship activities if we don’t know what stewardship means and if you don’t do stewardship in-house in combination” (United Kingdom, asset owner 1). This asset owner influenced asset managers to change “the criteria in their voting policy to be more aligned with what we’re asking,” which could also influence the voting policies they use for other clients (United Kingdom, asset owner 1). Similarly, a pension fund noted that in addition to outsourcing engagements, they directly engage with companies when “there is a gap in the system” (United Kingdom, asset owner 2). Based on our interviews, we estimate that between 100 and 200 ESG engagement specialists are active at UK asset owners, asset managers, and engagement facilitators.



Moderate pressure from asset owners

In other countries, asset owners exert moderate pressure on asset managers and companies. Highlighting the prominent role that pension funds play in advancing ESG shareholder engagement, such a constellation is particularly likely when pension funds have less influence than in the countries described before. This can happen because pension funds overly on consultants (South Africa), are very fragmented (Switzerland), or own a relatively small proportion of assets (United States).

SOUTH AFRICA

A key driver of asset owner pressure in South Africa is that pension funds are required (through Regulation 28) to incorporate sustainability considerations into investment decisions (Yamahaki and Frynas, 2016). In addition, the government and unions expect that pension funds, such as the Government Employees Pension Fund (GEPF), Africa's largest pension fund, make investment decisions that help address "social ills rather than making them worse" (South Africa, engagement facilitator 2). Consequently, "asset owners are really putting the pressure on asset managers to start having much more productive and outcomes-based engagements" (South Africa, asset manager 1). GEPF and other pension funds also participate in the Asset Owners Forum, which brings together 15 of the largest pension funds in South Africa to "ensure that investment processes are looking at ESG" (South Africa, engagement facilitator 1). However, pressure from asset owners is also hampered because pension funds are "run by volunteer boards of trustees who [often] don't have expertise in any kind of asset management" (South Africa, engagement facilitator 2). Accordingly, many asset owners have

been "taking the guidance of their asset consultants and their [asset] managers when it comes to stewardship" (South Africa, engagement facilitator 3). An asset owner confirmed that "a lot of times, especially with the smaller funds, the asset consultant says something, and then they just go ahead with it" (South Africa, asset owner 1). Through this "over-delegation history" (South Africa, engagement facilitator 3), asset owners in South Africa end up being "asleep at the wheel in terms of ... engagement" (South Africa, engagement facilitator 1). Based on our interviews, we estimate that between 15 and 30 ESG engagement specialists are active at South African asset owners, asset managers, and engagement facilitators.

SWITZERLAND

Responsible investment has recently seen meaningful growth in Switzerland (SSF, 2021) after having lagged other European countries in earlier years (Novethic, 2015). The position of pension funds is strengthened through the Ethos Engagement Pool, which engages on behalf of close to 200 pension funds and other tax-exempt institutions (Ethos, 2024). To further strengthen ESG shareholder engagement, the Swiss Stewardship Code was launched in 2023. Still, asset owners remain relatively weak in Switzerland. One engagement facilitator commented that in "most other markets" it "is really the asset owners that drive the agenda because they push the asset manager to do more," noting that this does not happen in Switzerland because "the Swiss pension fund landscape is very fragmented, so we don't have these big sector-wide organisations like in the Netherlands" (Switzerland, engagement facilitator 1). A pension fund confirmed this imbalance between asset owners and asset managers, commenting that "we're clients to them,

but still they have more bargaining power" (Switzerland, asset owner 1). An engagement facilitator commented that "given the market structure, many small pension funds find it difficult to align the stewardship policies of asset managers or service providers with their own preferences" (Switzerland, engagement facilitator 2). Based on our interviews, we estimate that between 25 and 50 ESG engagement specialists are active at Swiss asset owners, asset managers, and engagement facilitators.

UNITED STATES

Many studies have noted the direct involvement of some high-profile public pension funds in ESG shareholder engagements (Kim et al., 2019; Proffitt and Spicer, 2006; Sikavica et al., 2020; Wang and Mao, 2015). For example, one pension fund noted that "we vote all of our proxies ourselves" (United States, asset owner 2). A critical feature of the public pension fund landscape in the US is the variation in state laws. This has contributed to some state pensions (e.g., California, New York) being particularly active in their engagement activities (Freshfields, 2021). But other studies highlight the dominant role played by asset managers in the US (Azar et al., 2021; Beccarini et al., 2023; Dimson et al., 2015), which reflects that pension funds own a lower proportion of managed assets than in Australia or some European countries. One Australian pension fund commented that when pension funds do not have the size of Australian pension funds, "like in the US, it's more about the managers, the BlackRocks and Vanguard, they're the ones who are on everyone's register—they hold all the market influence" (Australia, asset owner 1). Based on our interviews, we estimate that between 150 and 300 ESG engagement specialists are active at US asset owners, asset managers, and engagement facilitators.

Low pressure from asset owners

In still other countries, asset owners exert low pressure on asset managers and companies. In Brazil, China, and India, asset owners are largely unwilling and unable to push for ESG shareholder engagement.

BRAZIL

Asset owners hardly exert any pressure for ESG shareholder engagement in Brazil. One engagement facilitator noted that “in Brazil, the market is moved by asset managers and not by asset owners, which is very difficult to explain when you’re talking to Europe because normally asset owners will move asset managers and move the market” (Brazil, engagement facilitator 1). Several interviewees commented that asset owners take a passive stance on ESG shareholder engagement because most asset owners hold few shares and instead invest in bonds: “our country is based on investments in fixed income ... it’s very easy to invest in fixed income in Brazil because of our very high interest rate” (Brazil, asset manager 2). Asset managers thus try “to educate our clients—we’re talking to a lot of pension funds” (Brazil, asset manager 3). Based on our interviews, we estimate that between 15 and 30 ESG engagement specialists are active at Brazilian asset owners, asset managers, and engagement facilitators.

CHINA

In mainland China, asset owners exert little pressure for ESG shareholder engagement. An engagement facilitator commented that “asset managers have been leading the conversation [around ESG shareholder engagement] rather than the asset owners” (Singapore, engagement facilitator 1). Neither institutional asset owners nor retail investors

currently have a high demand for ESG shareholder engagement.

A large asset manager from mainland China commented that “only around ten of our domestic institutional clients will care about ESG” (China, asset manager 4). In Hong Kong, asset managers mainly focus on foreign asset owners, and the “asset managers have been most motivated because they frankly want to sell their services to international asset owners” (Singapore, engagement facilitator 1). The ESG engagement teams at asset managers in Hong Kong thus tend to be larger than those at asset managers in mainland China. Based on our interviews, we estimate that between 25 and 50 ESG engagement specialists are active at Chinese asset owners, asset managers, and engagement facilitators.

INDIA

The main asset owners in India are insurance companies and retail investors, while pension funds are less relevant. The large institutional owners “have not put any responsible investment criteria” into their contracts with asset managers (India, asset manager 1) and retail investors show “no demand” for sustainable investing (India, asset manager 2). Consequently, “asset owners have traditionally lagged asset managers when it comes to stewardship and engagement” (India, engagement facilitator 2). As one asset manager commented, “we’re managing a lot of retail capital, so then there’s usually not much of interest coming from them” for sustainable investing in general or ESG shareholder engagement in particular (India, asset manager 3). Based on our interviews, we estimate that between 15 and 30 ESG engagement specialists are active at Indian asset owners, asset managers, and engagement facilitators.



1.2 Companies' dependence on institutional investors

Countries also vary in terms of how dependent companies are on institutional investors. We distinguish between countries with high, moderate, and low dependence.

High company dependence on institutional investors

In the Netherlands, Switzerland, the United Kingdom, and the United States, companies are highly dependent on institutional investors, which makes them particularly responsive to ESG shareholder engagement.

NETHERLANDS

Shareholder rights are generally strong in the Netherlands, with the local corporate governance code encouraging investors to be active in their oversight of companies (CFA Institute, 2013). Interestingly, shareholder proposals are close to impossible in the Netherlands because defining the strategy of a company is the right of boards, and shareholder proposals would interfere with that right (Netherlands, asset manager 4). However, institutional investors have other ways of influencing companies (Wagemans et al., 2018). Voting is important, and voter turnout has increased from around 30% to around 80% over the last 20 years (Netherlands, engagement facilitator 2). Institutional investors are organised in member organisations such as Eumedion, which brings together large asset owners and asset managers that invest in Dutch companies. Eumedion has annual meetings with the CEOs or CFOs of large Dutch companies in which all members can participate (Netherlands, engagement facilitator 2).

Eumedion also organises an alert service when companies introduce management proposals that are not in the interests of shareholders. In “almost all cases, ‘alerts’ lead to a negative vote recommendation by [proxy advisory firms] ISS and Glass Lewis,” which is why “companies are quite responsive ... to prevent the issuance of an alert” (Netherlands, engagement facilitator 2).

SWITZERLAND

Swiss companies have traditionally been open to shareholders. An engagement facilitator commented that access to companies is “never a problem in Switzerland ... every chair of a board, if we call, knows that [they] should probably answer the phone because there’s a risk that we would advise to vote against an agenda item” (Switzerland, engagement facilitator 1). Shareholder proposals are possible, but the required ownership percentages are much higher than in the US, which is why they are rarely used. However, voting at annual general meetings is important. In addition, Switzerland is one of the first countries requiring that large companies have a binding vote about their corporate sustainability reports (McNally, 2024).

UNITED KINGDOM

UK companies have traditionally been very responsive to shareholders. Shareholder engagement is encouraged by the UK’s stewardship code with company boards having a responsibility to facilitate dialogue with investors (CFA Institute, 2013). For example, an asset owner commented that “access is positive for sure. Companies are very well

used to engage with shareholders—I think it’s a recognized practice” (United Kingdom, asset owner 1). Similarly, an asset manager noted that “there’s a well-understood dynamic between corporates and investors engaging primarily around corporate governance matters but the channels of communication were therefore there [for environmental and social issues]” (United Kingdom, asset manager 1). Industry associations are also “trying to improve stewardship practices in our members, thinking about how we can share best practice, knowledge, address issues which they are finding challenging with stewardship” (United Kingdom, engagement facilitator 2).

UNITED STATES

US companies have traditionally been very responsible to shareholders (Davis, 2009). Senior managers often interact directly with shareholders. For example, an asset manager explained that she often sends emails to chief sustainability officers or other senior managers whom she does not know, and that there is “a 50–50 chance that they reply” (United States, asset manager 3). Similarly, a report by Freshfields (2021) notes that there has been an increasing trend towards engagement activities by asset managers in the US, although some of this activity has been tempered with the recent mobilisation of actors opposed to ESG integration (As You Sow, 2024). Particularly, after the fossil fuel company Exxon Mobil sued two shareholders in 2024 (Vanderford, 2024), “everyone’s being very, very, very careful about filing proposals” (United States, asset manager 5).

Moderate company dependence on institutional investors

In Australia, France, Japan and Singapore, companies have a moderate dependence on institutional investors. In these countries, institutional investors are well organised but also face significant cultural and legal hurdles for influencing companies.

AUSTRALIA

Australian companies grant institutional investors good access but are not necessarily responsive to shareholder demands. An asset owner noted that “we get really, really good access” (Australia, asset owner 2). However, an engagement facilitator also commented that “Australian companies don’t listen to what investors really want. I’ve been in meetings with Australian companies, and I’ve got told by one particular chairman, ‘Why should shareholders tell me how to structure my remuneration policy?’” (Australia, engagement facilitator 4). What allows companies to hold “the market to ransom” is that “the Australian market is small”, so institutional investors “have to hold the top 10 companies, otherwise, your tracking error is going to be terrible” (Australia, engagement facilitator 1). As a consequence of these power relations, shareholders have a “certain reluctance to escalate” (Australia, engagement facilitator 3) and they are “very anti-divestment” (Australia, engagement facilitator 1). Particularly asset managers are fearful to “damage their ... relationship with the company” as this means that asset managers would be cut off from information “of what the company’s doing, strategy, governance, all

the rest, profitability, know-how, succession planning, that sort of stuff” (Australia, engagement facilitator 4). An engagement facilitator criticised this as “tea and scones stewardship”: “Everyone has a lovely chat and everyone feels good, and you write down that you met with the company on your annual report and nothing happens” (Australia, engagement facilitator 1).

FRANCE

French companies are moderately dependent on institutional investors. On the one hand, institutional investors are well-coordinated and can exert meaningful pressure on companies. What further strengthens the position of institutional investors is that companies are required to disclose a range of sustainability policies and metrics (WRI et al., 2015). On the other hand, submitting shareholder proposals is very difficult in France because “the capital needed and the time and everything linked to the filing of resolutions is super heavy ... There are a lot of documents. You have to hold shares in advance. You have to recruit a lot of capital” (France, asset owner 1).



JAPAN

Japanese companies have traditionally not been very open to shareholders due to the high prevalence of concentrated ownership by inactive shareholders (Yeh, 2014). However, such concentration has abated over time and revisions to the country's stewardship code have made companies more open to ESG shareholder engagement (CFA Institute, 2020). Still, it remains hard for shareholders to get access to top management. An engagement facilitator commented that while "it's easy to talk to companies, at least to the investor relations and sustainability teams—I think to get to the very senior level or the board member, it's a lot more difficult" (Japan, engagement

facilitator 1). This is partly because in many companies, the investor relations department "doesn't typically have a regular dialogue or open channel dialogue to the C-suite ... it's not really in their interest to try and help us get into the CFO and the CEO, because they don't really have much of a relationship themselves" (Japan, engagement facilitator 2). Companies' dependence on institutional investors is also reduced because "the definitions of concert party in Japan are much tighter than in other markets," which "has meant that the larger institutions domestically essentially don't collaborate" and "there's a real chilling effect on collaborative engagement" (Singapore, engagement facilitator 1).

SINGAPORE

While Singapore has many engagement specialists, the investable market in Singapore is "relatively thin" (Singapore, engagement facilitator 1), which is why engagement specialists based in Singapore mostly engage with companies in other countries. Ownership concentration is relatively high in Singapore, with state and family ownership being important factors that limit the effectiveness of engagement by minority shareholders (CFA Institute, 2020).



Low company dependence on institutional investors

In Brazil, China, India, and South Africa, companies have a low dependence on institutional investors, as companies are mostly controlled by families or the state.

BRAZIL

Brazilian companies are largely shielded from shareholder pressure because most have controlling shareholders (Yamahaki, 2019; Yamahaki and Frynas, 2016). An asset manager explained that “we have many companies here in Brazil that are controlled by some families or some specific shareholders. As a minority shareholder, I have limited power to influence them” (Brazil, asset manager 2). Asset managers are also “not open to exposing themselves with the companies because big asset managers in Brazil are normally controlled by big banks and these companies are clients of the banks” (Brazil, engagement facilitator 1). An engagement facilitator recounted that when organising a meeting for several asset managers to engage with a company, the asset managers would not ask questions because they do not want the company to identify them as “the asset manager that asked me the difficult question”—instead, asset managers “send me the question they want to ask via WhatsApp,” so that the engagement facilitator could raise the questions (Brazil, engagement facilitator 1).

CHINA

Chinese companies exhibit little dependence on institutional investors. An asset manager commented “we relatively have less

power compared to the company ... if you are not investing, they can always turn to another investor” (China, asset manager 1). State-owned enterprises (SOEs) are particularly difficult to influence for shareholders: “you cannot be that aggressive, you need to be kind, you need to become their friends” (China, asset manager 6). Until recently, many companies did not “know what engagement was—we had to do the education from the very beginning level” (China, asset manager 4). But this asset manager also commented that things are changing quickly and that today, “we don’t need to introduce them [to] what is engagement, what is stewardship, we can just go ahead with our questions” (China, asset manager 4).

INDIA

Indian companies have little dependence on institutional investors. An engagement facilitator commented that among the 500 largest public companies for “around two-thirds ... there’s a controlling shareholder, which is typically a family or people who have started the business and then taken it public, and then by virtue of taking it public, they have some institutions and retail shareholders” (India, engagement facilitator 2). Other companies are “controlled by the state” (India, asset manager 1). In this context, shareholder engagement in India “has always been spearheaded by minority shareholders,” but their influence remains limited (India, asset manager 1). Companies may still be “happy to have a conversation with the investors ... because they want their perspective,” but the companies do not depend on investments from institutional shareholders as they are “negligible to the company” (India, engagement facilitator 1). Another

engagement facilitator confirmed that Indian companies “are open to the dialogue but I would say the company is not that dependent on them. It’s like an opinion from outside” (Japan, engagement facilitator 1).

SOUTH AFRICA

South African companies have little dependence on institutional investors, mainly because shareholder concentration is high in South Africa, with founding families often retaining an influential stake in companies (Yamahaki and Frynas, 2016). An engagement facilitator commented that when shareholders raise sustainability concerns, companies “will engage you, they’ll entertain it, but they don’t have any incentive really to do anything about it” (South Africa, engagement facilitator 3). A reason for a lack of corporate responsiveness is that “we have a very small investable universe,” which means that asset managers “don’t have divestment as a stick”: “you’ll say, ‘Hey, you need to change,’ and the company will say, ‘Or what? Where are you going to go? You’ll be so far off the benchmark that you won’t get any clients’” (South Africa, engagement facilitator 3). Given these power relations, asset managers “are extremely averse to collaboration, and they are extremely averse to any kind of activity that they think might ... ruin the relationships [to companies], and they won’t have access anymore” (South Africa, engagement facilitator 2). Another engagement facilitator added that asset managers avoid collaborations because they “are protective of the relationships they have with company management, that’s how they get the information that they need to make good investment decisions” (South Africa, engagement facilitator 3).



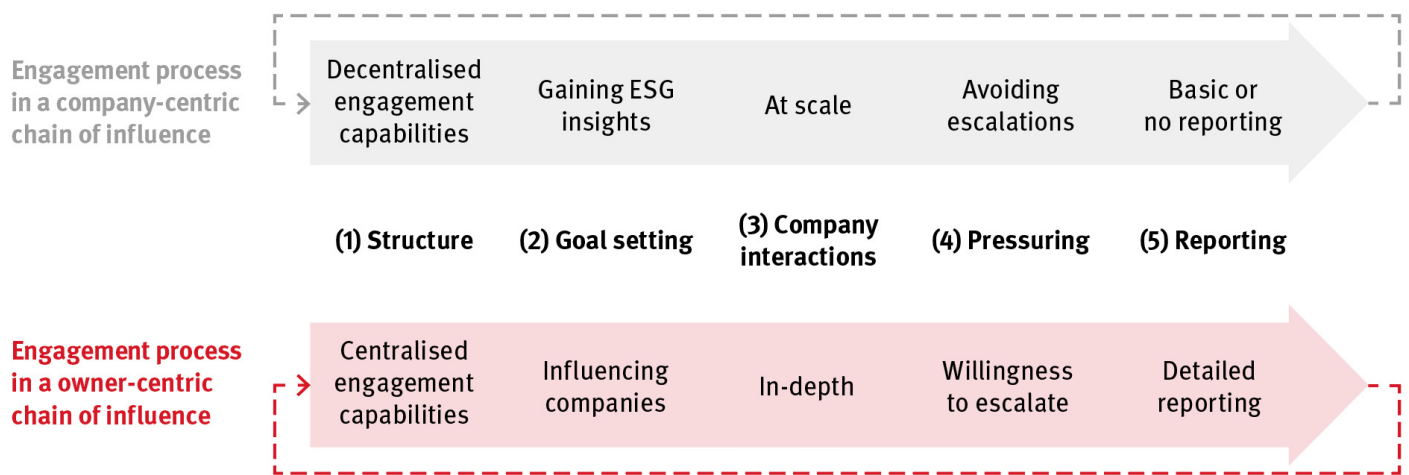
Part 2: The ESG shareholder engagement process in the two chains of influence

ESG shareholder engagement occurs through multiple steps (Goodman et al., 2014; McNulty and Nordberg, 2016; Sustainalytics, 2016). In this report, we distinguish five steps in this process, as illustrated in Figure 4. To simplify a complex reality, we present the five steps in a sequential order, though engagement specialists may sometimes change this the order or go back and forth between the steps.

For each step, we analysed the activities of seven asset owners, 53 asset managers, and five engagement facilitators that were directly involved in ESG shareholder engagement, totalling 65 organisations (this part of the analysis thus excludes ten asset owners that have fully outsourced engagements and 18 engagement facilitators that support engagements without being directly involved in them). We also systematically analysed insights from academic articles and practitioner reports on each of the five steps.

Our analysis led us to identify polar opposite ways of dealing with each step of the engagement process. For each step, we identified two polar opposites. For example, as illustrated in Figure 4, we identified decentralised and centralised engagement capabilities as two polar ways of structuring engagement capabilities. Focusing on **polar opposites** helps us show that different approaches predominate in company-centric versus owner-centric chains of influence, as illustrated by the two arrows in Figure 4.

Figure 4: Five steps of the engagement process in each chain of influence



Beyond the polar opposites, we encountered in-between and unclear cases for each of the steps. In-between cases mix elements from polar opposites, such as when an asset manager combines elements from decentralised and centralised engagement capabilities. Unclear cases emerged because the polar opposites became increasingly clear for us (the research team) as we were conducting the interviews, which meant that we sometimes did not ask the right questions during our early interviews. The subsequent figures on each of the steps of the engagement process indicate the number of in-between and unclear cases.

In what follows, we describe each of the five steps and their polar opposites, thereby showing how chains of influence shape the engagement process.

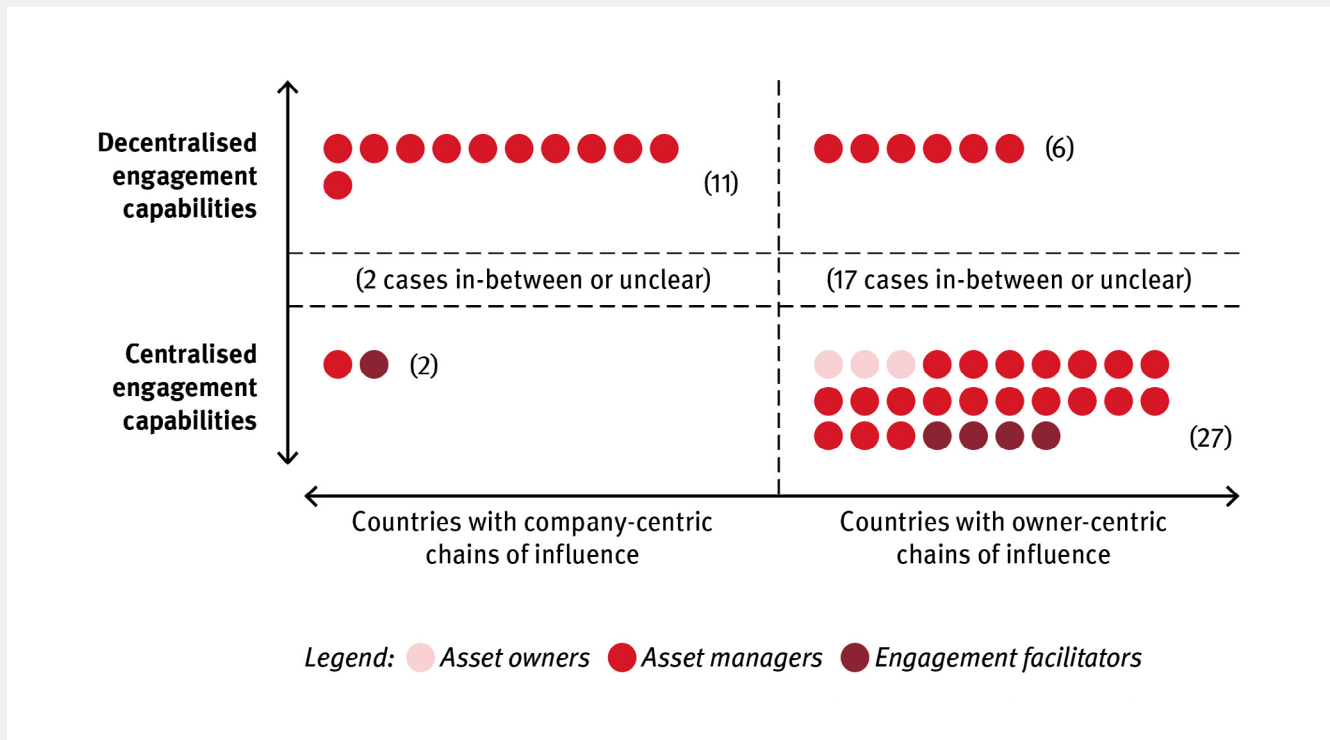


Lujiazui financial district, Shanghai

2.1 Structuring engagement capabilities

As a first and foundational step of the ESG shareholder engagement process, asset owners, asset managers, and engagement facilitators need to create engagement capabilities. We identified two polar opposites for doing this. Some active owners set up decentralised engagement capabilities in which a small team of engagement specialists coordinates engagements that are done by portfolio managers or analysts. By contrast, other active owners set up centralised engagement capabilities in which they created dedicated teams of full-time engagement specialists that conduct all or most engagements. Figure 5 shows that organisations are more likely to create decentralised engagement capabilities when they operate in countries with company-centric chains of influence, whereas a centralised approach is more likely when operating in countries with owner-centric chains of influence.

Figure 5: Polar opposites for structuring engagement capabilities



Decentralised engagement capabilities

At asset managers with decentralised engagement capabilities, engagements are mostly done by portfolio managers and analysts, with engagement specialists coordinating and supporting these activities. An engagement specialist noted that “each of the meetings should be joined by myself and also a lead analyst for the company to discuss financial as well as non-financial factors of the company” (China, asset manager 5). Another engagement specialist explained, “we’re trying to create an ecosystem where every analyst understands what ESG is, and they can also ask the questions to the management on their own” (India, asset manager 3). Lewis and Juravle (2010) refer to this structure as an “overlay” approach where a few sustainability specialists aggregate ESG research and then provide this to the traditional investment team.

A decentralised approach has several advantages. First, it allows asset managers “to leverage the expertise or the influence of fund managers and the sector analyst” to showcase to companies that “the portfolio manager does care about these [ESG] questions” (China, asset manager 4). Second, having portfolio managers in meetings “adds more credibility” because “financial materiality is usually driven by the PM [portfolio manager] side” (Singapore, asset manager 4). Third, this approach “is more scalable, because if you only rely on the, say the ESG team or the specialist, there would always be a limit in terms of the number of companies we can cover” (China, asset manager 2).

A decentralised approach is particularly suited within company-centric chains of influence. In

such contexts, ESG shareholder engagement happens not because asset owners demand it, but because asset managers believe this improves the financial performance of investments. The belief is that when portfolio managers and analysts drive ESG shareholder engagement, “it would be more investment-centred” (China, asset manager 2). One asset manager commented that “if you’re thinking about engagement from a financial materiality point of view, then there’s a strong argument that the PM [portfolio manager] and research analyst are actually better placed than someone who’s abstract to it” (Switzerland, asset manager 10). Figure 5 also shows that some asset managers within owner-centric chains of influence prefer a decentralised approach. One Swiss asset manager commented that “portfolio managers do have a dual role, they’re also at the same time analysts. In that analyst role, of course, we also do stewardship” (Switzerland, asset manager 8). Similarly, a UK asset manager noted: “my best engagements are with our analyst in the room ... because it gives you the right access, and it gives you a lot of gravitas” (United Kingdom, asset manager 2).

A limitation of a decentralised approach is that portfolio managers and analysts will focus mostly on short-term ESG risks, while engagements related to longer-term ESG risks or ESG-related opportunities may take a backseat. For example, one engagement specialist elaborated on a case in which “we got to work” after a fund manager raised an environmental issue for which “the motivation was de-risking” and the fund manager “wanted to see whether there was a risk which could actually threaten those investments” (India, asset manager 1).



Centralised engagement capabilities

At active owners with centralised engagement capabilities, a team of engagement specialists does most of the interactions with companies. A key benefit of this approach is that engagement specialists develop in-house expertise on complicated sustainability topics that they can then raise in engagements with portfolio companies. One asset owner noted, “I have to go from reading the IPCC report and understanding what climate scientists are saying to then turning around and saying, ‘Well, how do I make this relevant to an investment audience and to a corporate?’” (Australia, asset owner 1). Similarly, an engagement facilitator noted that “we have climate scientists in our research team that will analyse where the transition plan fits from a scientific credibility perspective” (Australia, engagement facilitator 5). To build expertise about companies and their sustainability-related challenges, engagement specialists

often collaborate with engagement specialists from other asset owners or asset managers.

Developing in-depth expertise on specific ESG issues is particularly relevant when asset owners actively push these issues, as is the case within owner-centric chains of influence. Creating centralised engagement capabilities was therefore particularly prevalent in countries with owner-centric chains of influence compared to those with company-centric chains of influence, as shown in Figure 5.

A centralised approach to engagement can be useful for ensuring consistency in engagements across asset classes, as ShareAction (2019) found in interviews with asset owners and asset managers. However, by taking a firm-wide approach to engagement, asset managers may inadvertently become exposed to conflicts of interest between different client segments (Freshfields, 2021). For example, a conflict may arise where a positive engagement outcome that benefits shareholders but is detrimental to bondholders.

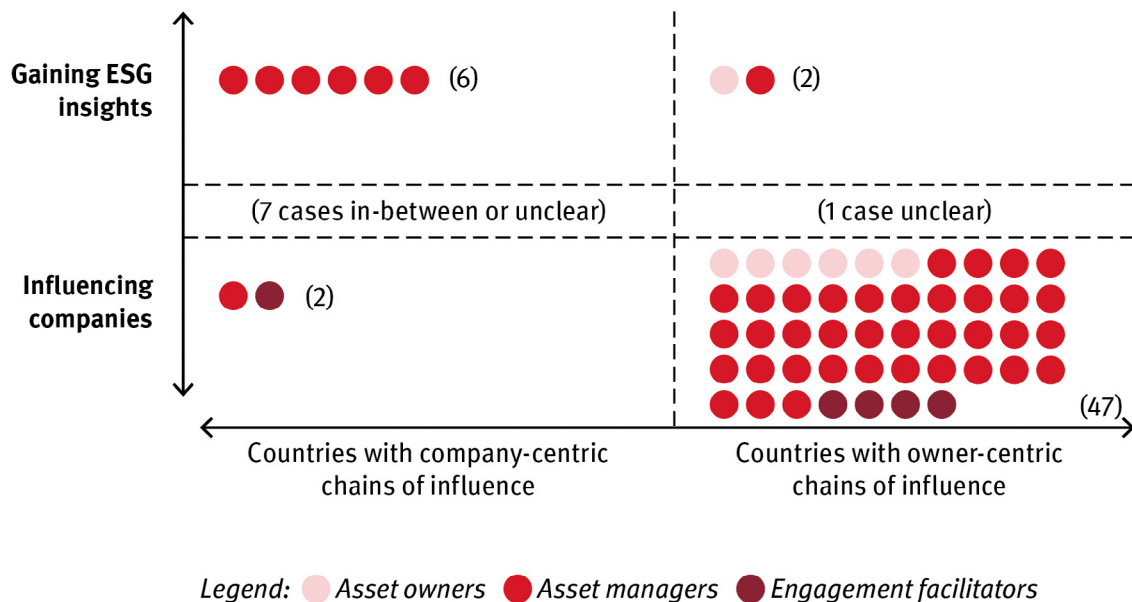
The key limitation of this approach is that financial analysts and portfolio managers already have contacts that may not be fully utilised by centralised teams of engagement specialists. An asset manager reflected on how “financial analysts have more opportunity to talk to management in general,” while engagement specialists “have to ask for an engagement meeting” (United States, asset manager 1). Similarly, Juravle and Lewis (2008) suggested that separate internal sustainability teams have been less able to access top management or influence portfolio investment decisions, compared to traditional investment specialists. An asset manager with a decentralised approach also commented that in collaborative engagements with a company, “other investors might have been represented only by an ESG team member [rather than an analyst of portfolio manager], and you could see that something was lacking—especially if you’re facing someone that might be a little bit too radical” (Switzerland, asset manager 9).



2.2 Setting the engagement goal

As a second step of the engagement process, asset owners, asset managers, and engagement facilitators need to set the goal for their engagements. ESG shareholder engagement can help these organisations gain new insights about companies that can be valuable for investment decisions (PRI, 2018d; Sustainalytics, 2016). This is a basic function of ESG shareholder engagement. The question is whether the goal of ESG shareholder engagement is only about gaining ESG insights. We identified two polar opposite positions. For some active owners, the main goal of engagements is to gain new ESG insights, whereas for others it is to influence companies. Figure 6 shows that gaining ESG insights as the engagement goal predominates in countries with company-centric chains of influence while influencing companies as the engagement goal is more prevalent in countries with owner-centric chains of influence.

Figure 6: Polar opposites for the engagement goal



Gaining ESG insights

Some active owners state they are active in ESG shareholder engagement primarily to gain ESG insights that improve their portfolio allocations. One engagement specialist noted that “our main motivation here is that we really believe that if we start analysing the company and understanding which company has a better competitive advantage in terms of being ready, mitigating, adapting to what’s coming ahead, that we will be actually more intelligent in our investment decisions” (Brazil, asset manager 3). Another engagement specialist noted that “engagement is really, at the end of the day for us, it’s a risk discovery tool” (United States, asset owner 1). Another engagement specialist explicitly noted that “the objective is not that if they [companies] improve their practices, then the stock prices will be higher. It’s just that I want to know the risks and then I want to work on my asset allocations accordingly” (India, asset manager 3).

Gaining ESG insights as the goal of ESG shareholder engagement is particularly likely in countries with company-centric chains of influence, as shown in Figure 6. If asset owners exert no pressure on asset managers to become active in ESG shareholder

engagements, it makes sense that asset managers will use ESG shareholder engagement in ways that most directly add to portfolio returns, which is by using engagements to gain ESG insights. Furthermore, the different steps of the engagement process are connected within each chain of influence. When active owners have created decentralised engagement capabilities (Step 1), portfolio managers and analysts drive engagements and focus on what directly adds to portfolio returns, which makes it more likely that active owners focus on gaining ESG insights (Step 2).

While gaining ESG insights is the main goal of these active owners, influencing companies may still be a positive side effect. An engagement specialist who mainly used engagement to gain ESG insights, for example, emphasised that by asking companies about ESG issues, shareholders can raise awareness of areas in which companies are performing poorly, making the companies realise that “Aha, we’re not doing enough in this space, we need to do more” (Singapore, asset manager 2). An engagement facilitator even noted that “it’s a bit like quantum: if you ask a question, then the thing that you’ve asked a question on changes, because

now they [companies] put more focus on the thing that you just asked about” (Singapore, engagement facilitator 1).

When companies react to active owners that seek to gain ESG insights, they mostly do this by improving their disclosure on ESG issues. For example, one engagement noted that a company that offered products for low-income communities did not include this in its ESG reporting: “I explain about rating agencies and how this can actually benefit stock trading. If you get a good rating, you’re actually better perceived by sustainability investors, and this can improve your stock price, daily volume traded, and things like that” (Brazil, asset manager 3). Research shows that such disclosure can set internal dynamics in motion within companies (McDonnell et al., 2015; Slager and Gond, 2022) Yet, evidence on whether pressure for improved ESG disclosures leads to substantive changes is mixed. Cohen et al. (2023) found that companies disclosing their carbon emissions subsequently reduce their carbon emissions. By contrast, Diaz-Rainey et al. (2024) found that shareholder pressure for carbon disclosure does not influence corporate emissions. Meanwhile, Michelin et al. (2020) found that shareholder pressure increased corporate sustainability disclosures, but did not lead to changes the practices of targeted companies.

Influencing companies

Active owners that seek to influence companies appreciate that ESG shareholder engagement can help them gain new insights: “engagement gives us better research insight than many reports—that should not be underestimated” (Switzerland, asset manager 7). Similarly, an engagement facilitator commented that active owners “get a lot of value out of engagement with companies because they learn about the risks the companies might be facing” (United States, engagement facilitator 1). But these active owners emphasise that in addition, engagement should try to influence companies. One engagement specialist commented that “monitoring the evolution of the company is a job of an ESG analyst” and that an engagement specialist (in contrast to an ESG analyst) must create “additionality,” that is, induce changes in companies that would otherwise not have happened (France, asset manager 2). Another engagement specialist also highlighted the “continuum between starting a conversation and going as far as requesting a change,” emphasising that only the latter is ESG shareholder engagement in the proper sense (France, asset manager 1).

These active owners expect that by influencing companies, they will increase the long-term financial performance of companies and their

portfolios, thereby taking a systemic perspective that is aligned with the concept of universal ownership (Fichtner and Heemskerk, 2020; UNEP and PRI, 2011). In line with this expectation, Hoepner et al. (2024) found that engagements reduce the risk that the share price suddenly drops. Given these expectations, these active owners clearly distinguish between “dialogue” and “engagement,” with “dialogue” encompassing all types of interactions with companies that can be “less structured,” while “engagement” requires distinct objectives that are defined in advance (France, asset manager 3).

Influencing companies as the goal of ESG shareholder engagement is particularly likely in countries with owner-centric chains of influence, as shown in Figure 6. In these countries, some asset owners strongly believe that ESG considerations matter for long-term financial returns and influence asset managers and companies accordingly. Influencing companies may also matter for some asset owners who care about impact, such as Dutch pension funds that, in addition to financial performance objectives, “also have a sustainable objective—that is, we want to give you a healthy pension in a healthy environment” (Netherlands, asset owner 3). Furthermore, when active

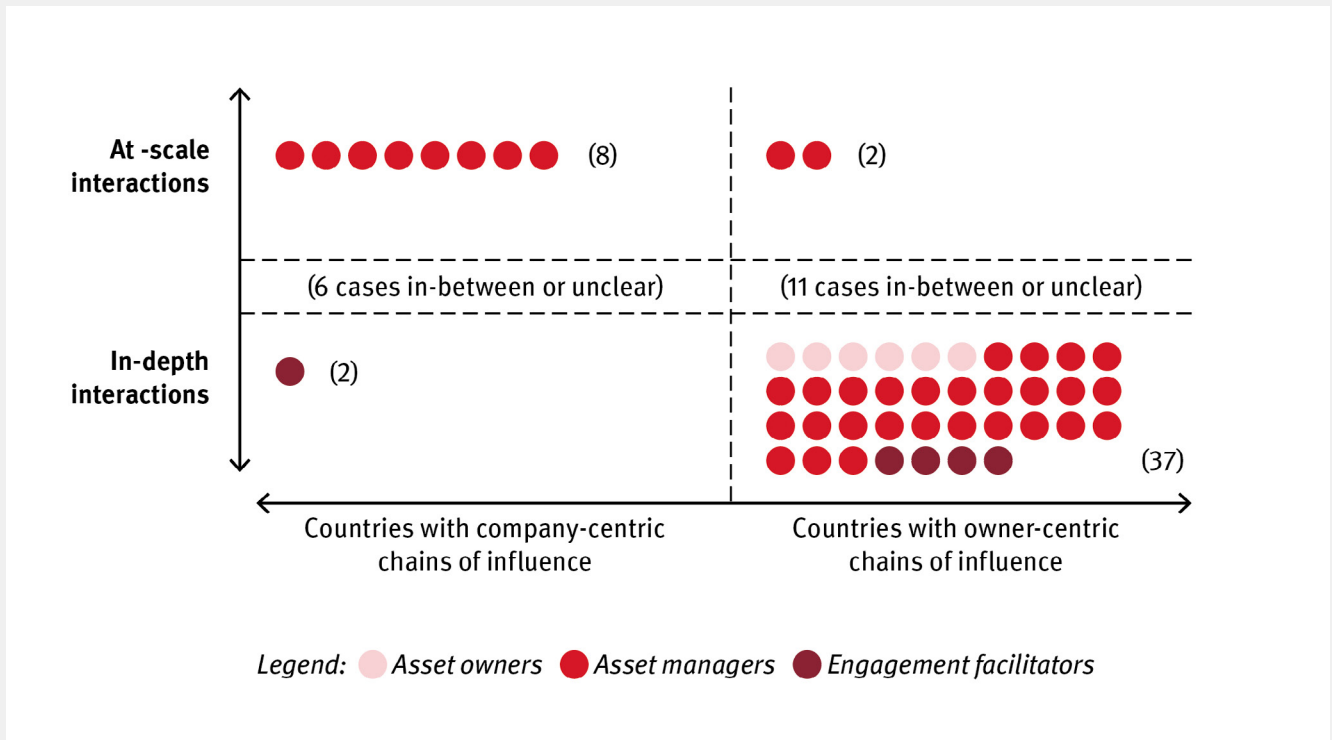
owners create centralised engagement capabilities (Step 1), the engagement specialists that drive engagements often deem impact highly relevant, which makes it more likely that active owners focus on influencing companies (Step 2).

When active owners try to influence companies, they tend to focus on substantive demands rather than disclosure-related demands. One engagement specialist noted that “the outcome we always want is a policy change” (United States, asset manager 7). Another engagement specialist noted that “we’re really getting much further past the stage where certain investors would be asking for simpler things like committing to publishing a sustainability report. Now we’re having much more nuanced, dynamic conversations about ... the ways that you are aligning with net zero from board-level oversight all the way down to ensuring operational decisions aren’t creating adverse impacts on certain communities in which you operate” (United States, asset manager 6). In line with this evolution, a pension fund representative noted, “sometimes a success was reported as companies being transparent about topics, while we really, as the asset owner, want to see progress on the implementation, changing the CapEx [capital expenditures], for example, within energy transition goals” (Netherlands, asset owner 5).

2.3 Interacting with companies

In the third step of the engagement process, asset owners, asset managers, and engagement facilitators interact with companies around ESG issues. Here, we identified two polar opposite types of interaction. Some active owners focused on at-scale interactions, which meant that they interacted with many companies at a relatively superficial level. By contrast, other active owners focused on in-depth interactions with a relatively small number of companies. Figure 7 shows that at-scale interactions predominate in countries with company-centric chains of influence, while in-depth interactions predominate in countries with owner-centric chains of influence.

Figure 7: Polar opposites for interacting with companies



At-scale interactions

Some active owners focused on engaging with many companies in relatively superficial ways. For example, an engagement specialist who also undertakes other stewardship activities, estimated that he engages with about 50 companies per year, noting that “with a few exceptions of really large holdings by our firm, we don’t usually do more than one engagement meeting every year” (China, asset manager 1). To reach many companies, engagement specialists may join meetings with companies that are mainly about non-ESG issues. One engagement specialist noted that often, “we’ll just ask the analyst to give us about 10 to 15 minutes for us to do a quick ESG check with the company,” explaining that they describe these “kinds of calls as engagement” (China, asset manager 6).

As shown in Figure 7, at-scale interactions were particularly likely for asset managers operating in countries with company-centric chains of influence. At-scale interactions are compatible with the two preceding steps of the engagement process within company-centric chains of influence (see Figure 4). When active owners have decentralised engagement capabilities (Step 1) and focus on gaining ESG insights (Step 2), they have the right people and right goal in place to focus on at-scale interactions (Step 3).

Sharing best practices from other companies is critical for at-scale interactions with companies, as sharing information can easily be scaled. To understand best practices, active owners need to engage broadly so that relevant practices from leading companies can be communicated to laggards (PRI, 2018a). One engagement specialist commented that they may point a local company to “a foreign company that reports really well on an issue or that’s looking at solutions that I don’t know if they are looking at” (Brazil, asset manager 3). Another engagement specialist noted that engagement may “include us sharing best practices of what we see in the space ... what are good trends that we are seeing that they should be thinking of, explaining why it is financial material” (China, asset manager 2). Still another engagement specialist explained that because they often visit factories, they can benchmark them against each other: “if we go to see the real factories, we can have a very preliminary evaluation about how they are doing this, how they are managing this issue. Is this above average level or is this below average” (China, asset manager 3).





In-depth interactions

Other active owners privileged in-depth interactions with a limited number of companies. At one asset manager, for example, a full-time engagement specialist is not supposed to engage with more than 30 companies per year, as a larger number would reduce the quality of the engagements (Singapore, asset manager 3). These active owners acknowledge that they “have a limited number of engagements” (France, asset manager 3) even if “some of our peers and certain of our direct competitors are reporting very high numbers of engagement” (France, asset manager 4). One engagement specialist explained, “we’ve made a very conscious decision, which costs us sometimes, to not engage all our holdings and not vote all our holdings” (United Kingdom, asset manager 2). Acknowledging that there is a “demand of having a lot of engagements,” some of these active owners outsource many engagements to external service providers: “although it sounds counterintuitive, outsourcing is part of the push towards quality ... you use in-house teams for quality engagements rather than pick up the phone and call 200 companies and ask them about whatever” (Switzerland, asset manager 6).

In-depth interactions are particularly likely for active owners operating in countries with owner-centric chains of influence, as shown in Figure 7. In these countries, some asset owners create pressure to change companies’ ESG performance. In-depth interactions also align with the two preceding steps of the engagement process in owner-centric chains of influence (see Figure 4). When active owners have centralised engagement capabilities (Step 1) and focus on influencing companies (Step 2), this setup is likely to steer them toward in-depth interactions (Step 3).

As for at-scale interactions, sharing best practices also matters for in-depth interactions—though only as

a starting point. One engagement specialist explained: “I think what companies like about engagement is that we engage with several of their peers. We know what’s happening within the sector, we also know what’s working” (Netherlands, asset manager 6). Similarly, another engagement specialist noted, “when we propose solutions, we sometimes refer to good practices at other companies in the same industry as a target company” (Japan, asset owner 2). Some active owners systematically benchmark companies against each other, which allows them to say to the lagging companies: “Look, this is the best practice. You are lagging. Is there a chance that you can improve?” (Netherlands, asset manager 5). A report by PRI (2018d) also examined such cross-pollinations of best practices. Similarly, Slager et al. (2024) analysed a European engagement consultant that acted on behalf of a group of institutional investors, playing the role of “coach” to engaged companies by giving best practice examples of peer companies’ sustainability practices (see also Gifford, 2010).

Beyond sharing best practices, what is distinct for in-depth interactions is that active owners try to influence internal dynamics within companies by building trusted relationships with corporate managers. One interviewee commented that “engagement professionals can actually almost conspire with the internal champions to put pressure on senior management to liberate budgets” (Switzerland, asset manager 2). Exemplifying this idea, one engagement specialist recounted an interaction with an ESG department that told him: “yes, we as an ESG department would like to move, there’s not much attention within the company. If you ask a question or send a letter to the board on this topic, they’ll move and we’ll get the resources” (Netherlands, asset manager 6). Another engagement specialist explained

that a corporate manager encouraged him to “gather a group of investors so we can accelerate the change that’s happening in the company that you have triggered,” which led the asset manager build a “large coalition” that then had productive discussions with the chairman of the company (France, asset manager 2). In another case, the head of ESG told an engagement specialist: “Let me just make an introduction ... because we’re trying to convince them [senior managers] as well. Hearing your voice, I think, will get it over the line” (United States, asset manager 2). Several academic studies have noted the importance of in-depth interactions (Allen et al., 2012; Wagemans et al., 2018). Ferraro and Beunza (2018) analysed how an automotive manufacturer worked closely with engagement specialists, which led both sides to understand that the slow adoption of hybrid vehicles was more the result of how products

were marketed, rather than customer concerns about the technology itself. This process required the development of a trusting relationship to the point that the company proactively sought the advice of the engagement specialists (see also IRRC and ISS, 2014; Sustainalytics, 2016; PRI, 2018b, 2018d; PWC 2021).

For both sharing best practices and influencing internal dynamics, engagement specialists need to talk to many different stakeholders. One engagement specialist reflected that “it’s all about preparation because we’re not the experts in oil and gas, for example. We’re not. We’re really not. We’re the aggregator of opinions ... You really need to speak to as many people and stakeholders as possible, so you’re armed to the teeth when you speak to the company” (Netherlands, asset manager 7). By talking to many stakeholders, active owners can “let

the company know this is not us, the small investors, but we just assembled all the evidence and all the research that is out there and compiled this for you” (Switzerland, asset manager 4).

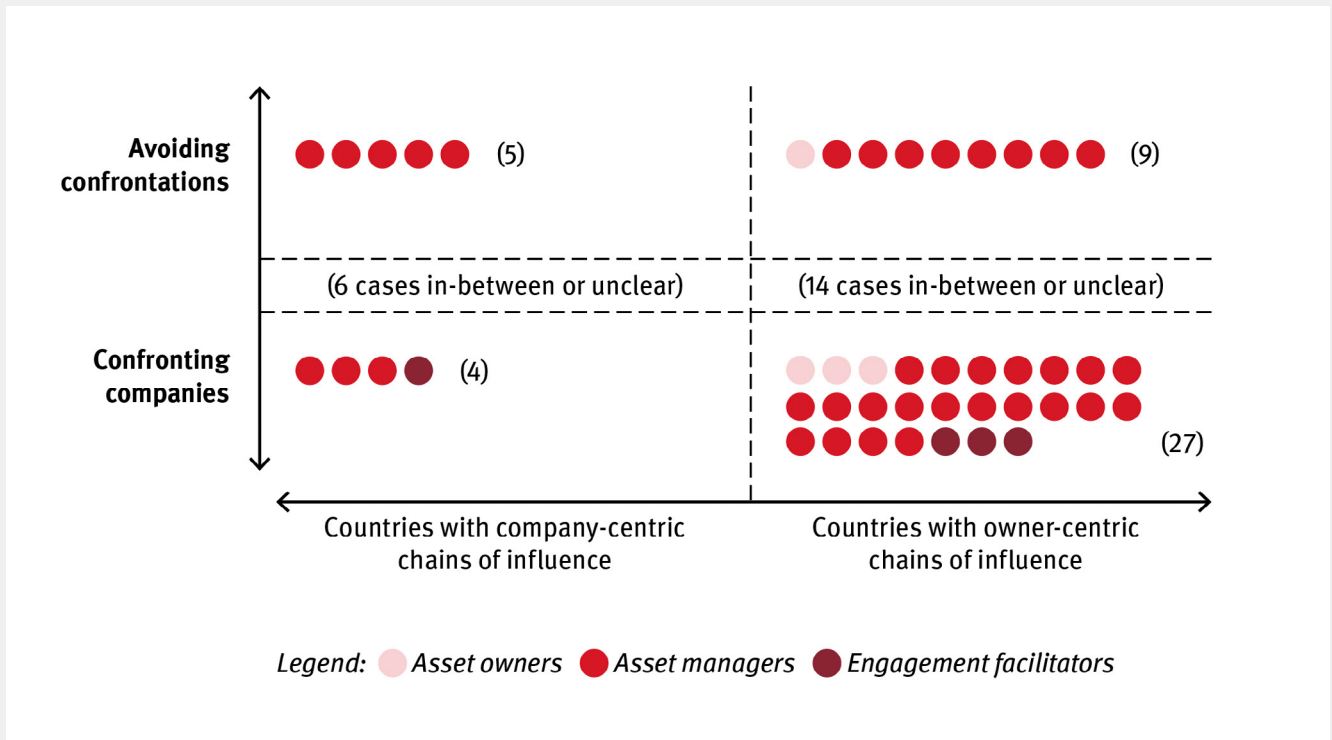
As a specific example, one engagement specialist talked with a government environmental agency about an incident involving a company: “then I called the company again and I said, ‘listen, I’ve just talked to the environmental agency’ ... Within less than 24 hours, they issued a press release on their website about this issue ... I can probably guess that they got a bit nervous when they heard that one of their investors was talking to the environmental agency” (Switzerland, asset manager 5). In line with this evidence, the Net-Zero Asset Owner Alliance encourages asset owners to request asset managers to align policy engagements with net-zero climate objectives (UNEP and PRI, 2024).



2.4 Pressuring companies

As a fourth step of the engagement process, asset owners, asset managers, and engagement facilitators may find themselves in situations in which companies ignore or resist their ESG demands, which raises the question of whether institutional investors should escalate their engagements. We identified two polar opposite approaches to escalation. Some active owners avoided escalations, while others were willing to escalate. Figure 8 shows that active owners in company-centric chains of influence are more likely to avoid escalations, whereas those in owner-centric chains of influence are more likely to escalate.

Figure 8: Polar opposites for pressuring companies



Avoiding escalations

Some active owners avoided the use of escalation strategies. For these active owners, voting against directors or even submitting shareholder proposals was perceived as a form of “burning bridges” with companies (Singapore, asset manager 3). One engagement specialist commented that in Asian countries, voting against a director would be “culturally unacceptable” and that directors would “take it personally” (Singapore, asset manager 1). These active owners also avoided raising concerns publicly as this may “totally ruin the relationships with the listed companies” (China, asset manager 3). Finally, divestments were not a credible threat. One engagement facilitator noted that the main problem in South Africa was that “no one has a credible escalation strategy. You can engage, you can extract commitments, you can improve disclosure, but when it comes to the real stuff changing on the ground, they simply don’t have the guts to back themselves, and so the companies just run rings around them all the time” (South Africa, engagement facilitator 2). And for companies with family or state owners, an engagement facilitator noted that “there’s no pressure for them to actually maintain that relationship [with institutional investors]—they don’t go out and ask for money” (Australia, engagement facilitator 6).

Active owners therefore rely on less confrontational tactics for pressuring

companies, most importantly, by trying to contact other managers within a company. One engagement specialist noted, “it’s all about contacts ... if I don’t get a reply [from a company], maybe my boss, the head of ESG, will go to WhatsApp and say, ‘Hey, look, we’re trying to engage with you. Your sustainability team isn’t replying. Can you help us?’” (Brazil, asset manager 1). Similarly, another engagement specialist explained that “sometimes we go up a little bit and involve the chairman or the CEO” of the asset management firm “to try to talk with the company” (Brazil, asset manager 4). Some engagement specialists also attended the annual general meeting (AMG) of companies to ask questions, with one engagement specialist commenting: “going to an AGM, it sounds a bit weak by European standards, but when you don’t get access to these people and you go to an AGM and actually voice directly to the chair or CEO, it is heard by everyone and they feel that this is important” (Singapore, asset manager 4). In line with this evidence, a report by the PRI (2018a) showed that collaborative engagements in the extractives sector were more likely to achieve their goals when there was direct access to senior corporate executives.

Figure 8 shows that active owners were particularly likely to avoid escalations when operating in countries with company-centric chains of influence. In these countries, companies depend little on institutional investors,

which makes escalations risky for investors. Avoiding escalations also aligns with the three preceding steps of the engagement process (see Figure 4). When active owners have decentralised engagement capabilities (Step 1), focus on gaining ESG insights (Step 2), and prioritise at-scale interactions (Step 3) they are more likely to ignore non-responsive companies rather than escalate engagements with them (Step 4). In line with this pattern, analysis by ShareAction (2023a) shows that the majority of large asset managers in Europe published escalation policies for unsuccessful engagements, whereas less than a quarter of asset managers in the Asia Pacific region provided this information. However, Figure 8 also shows that a relevant part of active owners in owner-centric chains of influence preferred avoiding escalations. For example, one US asset manager commented that “we’ve generally been hesitant to try to do anything that would be public ... a lot of it has to do with the fact that our clients are CEOs and CFOs, and people who find that stuff irritating” (United States, asset manager 3). A traditional European asset manager also commented that “we’re quite quiet,” emphasising that it builds trust when companies know that this asset manager will not broadcast its demands “in the newspapers the day after” (France, asset manager 3).



Willingness to escalate

Other active owners were more willing to escalate. For non-responsive companies, these active owners also tried to contact other corporate managers, as emphasised by an engagement facilitator: “you escalate the seniority of the meeting to someone who has more decision-making power” (Japan, engagement facilitator 1). But these active owners were also willing to pursue more confrontational approaches, four of which are particularly relevant.

First, active owners use their right to vote and submit proposals. One engagement specialist described “voting against the chair” as “such a good tool to support engagement” (Netherlands, asset manager 1). Another engagement specialist emphasised that they sometimes publicly announce in advance how they will vote (predeclaring), which “sends [a] public message” that companies take seriously (Singapore, asset manager 5). Filing shareholder proposals can also make companies more responsive, with one engagement specialist commenting: “some companies, you need a filing to get them to the table, unfortunately” (United States, asset manager 4). In the same spirit, an engagement specialist noted that: “we’ll always have a shareholder resolution or a board campaign ... in our back pocket as the stick if the company is not willing to come to the table and actually agree on an acceptable outcome” (Australia, engagement facilitator 5). One engagement specialist recounted an interaction with a company that was not responding to concerns, explaining: “we filed a shareholder resolution, and they were quite surprised. We managed to restore the relationship with them afterwards, explained why we did it and they understood where we were coming from. Since then, I feel like we’re being taken more seriously

also in the engagement because they don’t want to be surprised again” (Netherlands, asset manager 2). Importantly, shareholder resolutions are relatively easy to file in some countries, such as the US (Bauer et al., 2015; Eesley et al., 2016), and very difficult to file in other countries (PwC, 2021).

Second, active owners use various arenas to go public with their concerns. Some engagement specialists threatened to use the quarterly investor calls to ask questions on new ESG topics, which is “something Investor Relation does not want because then the board is put on the spot on topics that they are hardly doing anything on” (Netherlands, asset manager 6). Another engagement specialist noted that “sometimes we talk to the media. Very rarely, but every year maybe once, two, three times we talk to the media about the company, when we’re really not convinced that it’s moving into the right direction” (Switzerland, engagement facilitator 1). Other active owners are “now integrating sovereign engagement as almost an escalation strategy or a dual track to their company engagement” (Australia, engagement facilitator 2). Yet another engagement specialist highlighted litigation of companies as a “nuclear option” that is used “only in very extreme circumstances ... when all our other tools have failed” (United States, asset owner 1).

Third, active owners use collaborative engagements to increase pressure on non-responsive companies. One engagement specialist noted that if companies “don’t respond to our letters or to our calls, then the next step is to try this through a collective engagement route” (Netherlands, asset manager 2). Another engagement specialist commented that for collaborative engagements, “their access is actually quite good” (Switzerland, asset manager 1). Collaborations between shareholders have become a critical part of the

picture. High-profile organisations that facilitate collaborative engagements include AIGCC (Asia), Ceres (US), IGCC (Australia and New Zealand), IIGCC (Europe) and PRI (Global), who collectively comprise the Climate Action 100+ initiative, and others such as ICCR (US) and SHARE (Canada). Gond and Piani (2013) showed that by joining forces, a group of mainstream institutional investors coordinated by PRI could communicate the legitimacy and financial power of their coalition to targeted companies (see also PRI, 2018b; UNEP and PRI, 2021; Slager et al., 2023).

Fourth, active owners threaten to divest if companies remain unresponsive. One engagement specialist explained that “our CEO actually wrote to the company saying, we are going to divest by 2025 if you do not respond” (France, asset manager 4). Another asset manager even shorted the shares of companies with particularly high carbon emissions (relative to industry peers), which made companies eager to meet

with that asset manager. Reflecting on these reactions, an engagement specialist noted: “management doesn’t like being shorted. They also don’t know how big this short position might become, or in the future, investors might become desperate and decide ... to all short companies. I think this scares them” (Switzerland, asset manager 3). Goodman et al. (2014) analysed investments by religious asset owners in the UK and US. In one case, after a company remained unresponsive, these shareholders decided to divest, issuing a public statement to explain their divestment decision, generating high media coverage.

A willingness to escalate is more likely for active owners within owner-centric chains of influence, as illustrated in Figure 8. In these countries, some asset owners exert pressure for ESG-related changes within companies, which motivates escalations. This willingness to escalate also aligns with the preceding steps of the

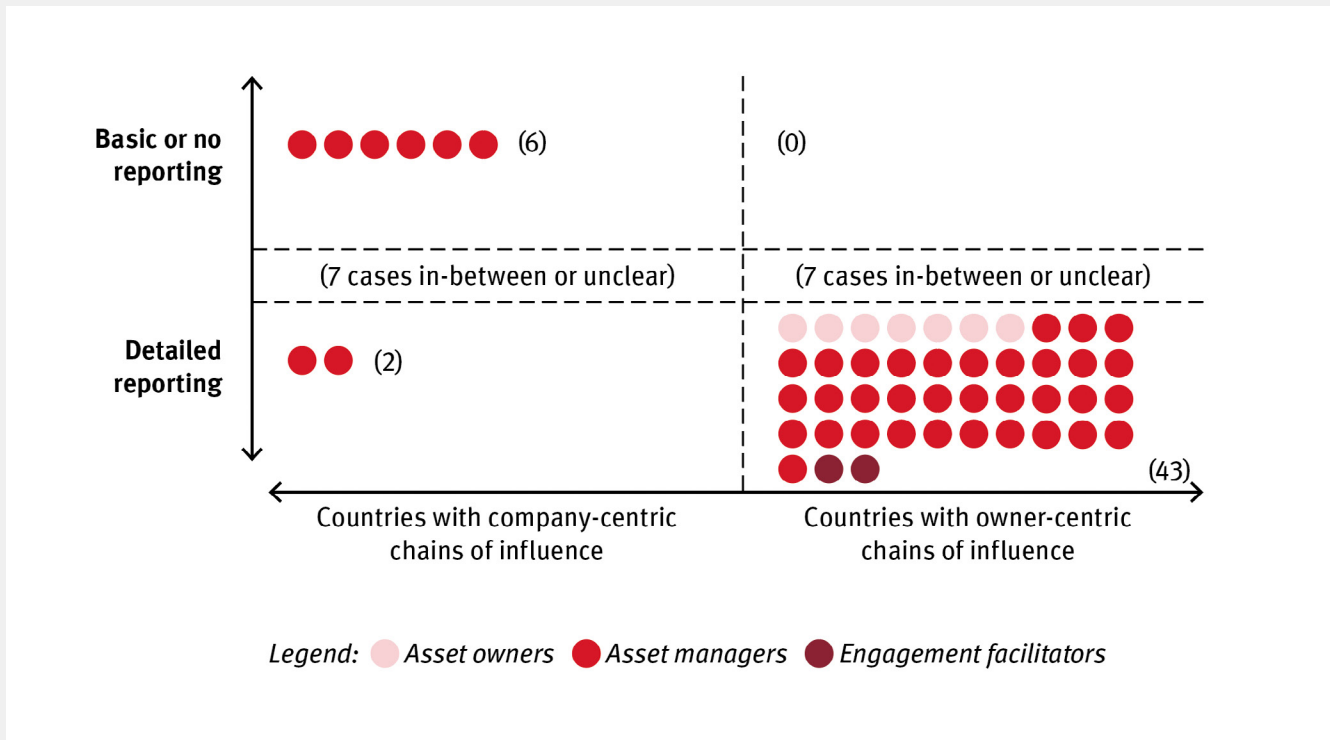
engagement process (see Figure 4). When active owners have centralised engagement capabilities (Step 1), focus on influencing companies (Step 2) and prioritise in-depth interactions (Step 3), then escalations are a logical next step when companies are not responsive (Step 4). Indeed, the stewardship codes of countries such as the UK explicitly encourage escalations when companies ignore investors’ demands (Freshfields, 2021). In this spirit, ShareAction (2023b) has published a framework for escalation where the approaches used by investors become more intensified as corporate resistance increases. The report also highlights an important role for asset owners in discussing escalation plans with their asset managers and seeking disclosure to understand whether the anticipated actions are being taken.



2.5 Reporting on ESG engagements

As a fifth and final step of the engagement process, asset owners, asset managers, and engagement facilitators can report on their ESG engagement. We identified two polar opposite approaches to reporting. Some active owners only had very basic or even no reporting on their engagements, while others published detailed reports (Sustainalytics, 2016). As shown in Figure 9, basic or no reporting is more likely in countries with company-centric chains of influence, while detailed reporting is the norm in countries with owner-centric chains of influence.

Figure 9: Polar opposites for reporting on ESG engagements



Basic or no reporting

Some active owners had only basic or no reporting on their ESG shareholder engagements. One engagement specialist explained that “we do have a very simple list where we control all the engagements” (Brazil, asset manager 3). Another engagement specialist noted that last year, “we published a small one-pager around how many engagements we did, what types of topics we talked about, and so on” (India, asset manager 2). Yet another engagement specialist noted that “we’re not systemically tracking the progress of our engagement” (China, asset manager 1).

Figure 9 shows that basic or no reporting only happens in countries with company-centric chains of influence. In these countries, asset owners do not demand such reporting, which is why publishing such reports is a low priority for asset managers. One engagement specialist noted that “we don’t have that much pressure from our clients ... Last year, we had one big client that asked us about our engagement, so we gave him a report, and then at the beginning of this year, we released our first active ownership report” (Brazil, asset manager 1). Having basic or no reporting also aligns with the other steps of the engagement process (see Figure 4). When active owners have decentralised engagement capabilities (Step 1), focus on gaining ESG insights (Step 2), prioritise at-scale interactions (Step 3), and avoid escalations (Step 4), then few engagement activities will have happened for each company and knowledge of what happened will be spread across many employees, which makes it difficult to report in-depth about each engagement (Step 5).



Detailed reporting

Other active owners published detailed reports on their engagements. One engagement specialist reflected: “it’s intensive, really intensive, and very effective. At the start of every quarter, we say, ‘Remember, we have to report to clients at the end of this quarter on progress on these specific companies, please make sure that you follow up,’ et cetera, et cetera. It’s a very detailed report that goes to the clients on whether a company has or hasn’t made progress” (Netherlands, asset manager 1). Similarly, an engagement facilitator noted that they evaluate engagements on a “continuous basis” with goals “set in the very beginning of when the engagement starts” (Netherlands, engagement facilitator 1). These active owners often track progress based on milestones, such as whether companies have acknowledged a demand or implemented it. An engagement facilitator commented that “the milestone approach is now the most commonly understood” (United Kingdom, engagement facilitator 1), and has been documented in multiple academic studies across a range of contexts (Bauer et al., 2023; Beccarini et al., 2023; Dimson et al., 2015; Semenova and Hassel, 2019). One engagement specialist described the resulting report as “a mammoth report, usually between 80 to 100 pages” (United Kingdom, asset owner 2).

Figure 9 shows that detailed reporting was the norm in countries with owner-centric chains of influence. In these countries, detailed reporting is needed to showcase to asset owners what asset managers are doing. In some countries, detailed reporting is even required by law. In France, since 2011, asset managers must have a sustainability-related engagement policy and must annually report how they implemented this policy (Freshfields, 2021). In Japan, the stewardship code compels asset owners and asset managers to report on how their stewardship policies were implemented (CFA Institute, 2020). Pursuing detailed reporting also aligns with the other steps of the engagement process (see Figure 4). When active owners have centralised engagement capabilities (Step 1), focus on influencing companies (Step 2), prioritise in-depth interactions (Step 3) and are willing to escalate (Step 4), then many engagement activities will have happened for each company, which facilitates detailed reporting on these engagements (Step 5).

Some organisations still think that reporting on ESG engagements needs to be improved. ShareAction (2023b) has analysed the practices of 77 large asset managers, finding that only 13% disclosed the impacts of their activities for all assets managed. And while most asset managers disclosed proxy voting decisions and examples of engagements, less than one third provided full lists of companies engaged. One challenge for reporting the number of ESG engagements is that “there are many definitions of engagements” (Switzerland, asset manager 9). One engagement specialist commented: “Every time we basically talk to a company, we engage, but that doesn’t mean it’s a high-quality engagement.

Basically, we are now differentiating between meetings, investor dialogue, and structured engagements” (Switzerland, asset manager 6). A further challenge is that it is difficult to attribute corporate changes to ESG shareholder engagements (Freshfields, 2021). For example, UNEP and PRI (2021) highlighted the difficulty of attributing decarbonisation by individual companies to investors’ engagements. One engagement specialist proposed that companies and active owners should issue joint statements in which companies acknowledge that changes were made because of an engagement (Verney, 2024).

Still others were concerned that reporting on ESG engagements lowers the quality of engagements. One interviewee criticised that “as soon as you start saying engaging a lot of companies is better than engaging a few companies, that’s your first way to degrade quality” and so does a “metric of how many milestones or percentage of milestones move ... because obviously, it encourages meaningless, pointless, easy-to-achieve milestones” (Switzerland, asset manager 10). Similarly, an engagement specialist reflected: “as soon as you have those systems in place internally within a firm, ... that encourages you to ... set a pretty unambitious objective that can very easily be achieved in three years ... If you step back and therefore look at the corporate and said, ‘What has actually been achieved?’ In most cases, very little” (United Kingdom, asset manager 1). Another engagement specialist criticised requirements to “engage” with a certain percentage of portfolio companies or financed emissions: “what you do is you hire two juniors and you have them call them [companies] and talk about climate” (Switzerland, asset manager 6). This engagement specialist also criticised efforts to attribute changes in companies to ESG engagements as “a waste of time because it’s impossible to prove causality” (Switzerland, asset manager 6).



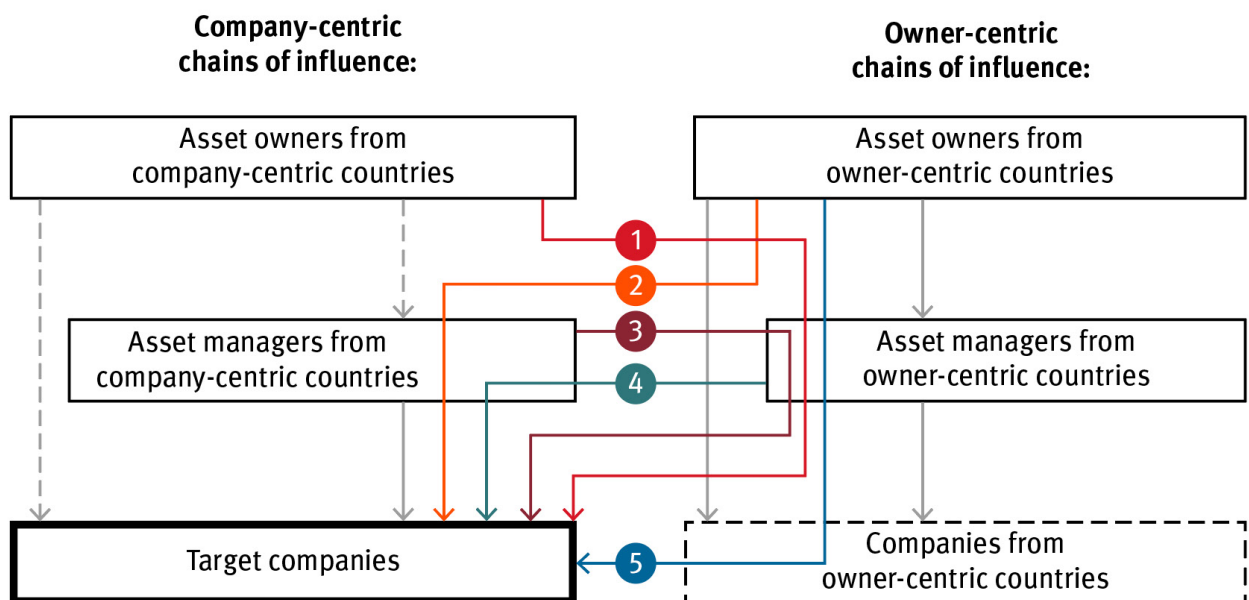
Part 3: Opportunities for ESG shareholder engagement across the two chains of influence

After having detailed the differences between the two chains of influence, we show that active owners can increase their pressure on companies by working across the two chains of influence. Specifically, by crossing boundaries, active owners can increase pressure on companies in company-centric chains of influence, such as companies in Brazil, China, India, and South Africa. We focus on companies in company-centric chains of influence for two reasons. First, these companies often lag behind global sustainability standards and large opportunities exist to improve their ESG performance (Singhania and Saini, 2023). Second, pressure from institutional investors on these companies remains limited.

Based on the numbers reported in Part 1 of the report, we estimate that in the eight countries with owner-centric chains of influence, the number of engagement specialists ranges between 575 and 1150, while the four countries with company-centric chains of influence only host between 70 and 140 engagement specialists. This imbalance suggests that many companies in company-centric chains of influence remain under-engaged. Our focus on these companies does not mean that companies in owner-centric chains do not warrant ongoing ESG engagement efforts. They do. But for companies in owner-centric chains of influence, we see fewer opportunities for how crossing boundaries could further increase pressure on them.

In Part 3 of the report, we outline five opportunities for how interactions between active owners from the two chains of influence can increase pressure on companies from company-centric chains of influence. For each opportunity, we show how the opportunity arises from the unique resources that active owners in the different chains of influence have at their disposal. We also emphasise potential challenges that active owners need to consider when crossing boundaries. In this part of the report, we go beyond analysing what is currently happening in ESG shareholder engagement (as we did for Parts 1 and 2) toward suggesting how ESG shareholder engagement could be more effective. In what follows, we outline the five opportunities, as illustrated in Figure 10.

Figure 10: Five opportunities for crossing boundaries between the two chains of influence



Five opportunities:

- 1 Importing pressure from owner-centric countries
- 2 Funding systemic change in company-centric countries
- 3 Leveraging the expertise of asset managers from owner-centric countries
- 4 Leveraging access by asset manager in company-centric countries
- 5 Mobilising companies from owner-centric countries

3.1 Importing pressure from owner-centric countries

The first opportunity is that asset owners from company-centric countries import pressure from asset managers from owner-centric countries (see Figure 10).

As shown in Parts 1 and 2 of the report, asset managers from company-centric countries are often hesitant to confront companies, as this could harm their relationships to companies. As one engagement facilitator commented, “they want the dialogue, they want to get information, they want to see where the company’s going—but we’re really far from escalating engagement” (Brazil, engagement facilitator 1). Against this background, asset owners from company-centric countries could try to bring in asset managers from owner-centric countries to shake things up.

When it comes to engaging with companies from company-centric countries, asset managers from owner-

centric countries will often be more willing to escalate. This tendency is not only due to cultural differences but also because these investments are less consequential for the overall portfolios of asset managers from owner-centric countries. As one engagement specialist noted, “excluding major producers has a massive tracking error. It’s small in the scheme of your emerging markets portfolio, but if you have a single country portfolio, it’s the single biggest bet that any active manager would have” (Singapore, asset manager 2). Against this background, several engagement specialists from company-centric countries commented that asset managers from owner-centric countries often played a key role in spearheading new ESG issues around the world. Based on this insight, asset owners from company-centric countries wishing to increase their influence within company-centric chains of

influence could give mandates to asset managers from owner-centric countries, thereby importing pressure.

A challenge for this approach is that asset managers from owner-centric countries often lack access to companies in company-centric countries. One Dutch engagement specialist, for example, acknowledged that “it’s difficult to engage with, for example, Chinese companies” (Netherlands, asset manager 3). This lack of access is simply the flip side of these asset managers’ willingness to escalate. Asset owners from company-centric countries would, therefore, need to collaborate closely with asset managers from owner-centric countries to facilitate access to companies and provide legitimacy to the efforts of these asset managers.



3.2 Funding systemic change in company-centric countries

The second opportunity is that asset owners from owner-centric countries fund asset managers from company-centric countries to address systemic issues (see Figure 10).

Some asset owners from owner-centric countries are willing to pay for impact, such as when a Dutch pension fund created an “impact portfolio” with a small percentage of its capital (Netherlands, asset owner 3). These preferences can make asset owners from owner-centric countries interested in longer-term systemic change, irrespective of whether it pays off immediately.

Some asset managers from company-centric countries have developed expertise for addressing systemic issues in their countries. Given their limited direct influence on companies, these asset managers resort to influencing companies indirectly via other stakeholders (Marti et al., 2023), such as by engaging with policymakers or regulators. For example, one Brazilian engagement specialist explained how they started “engaging with a meat packer regarding deforestation,” but realised that the company could do little within the current regulatory context, which is why they went on to “engage with the government to have a better regulatory aspect” (Brazil,

asset manager 1). At the same time, many asset managers from company-centric countries are heavily resource-constrained in their engagement activities, as local asset owners are unwilling to pay for engagement. An engagement specialist who mainly engages with Asian companies noted that “stewardship teams are so under-resourced,” calling on asset owners “to be more explicit about engagement” in their contracts with asset managers” (Singapore, asset manager 4). The opportunity we see is that asset owners from owner-centric countries could fund under-resourced asset managers from company-centric countries so that these asset managers can leverage their local contacts to address systemic issues.

A potential challenge to realising this opportunity is that it may be difficult for asset owners from owner-centric countries to assess whether asset managers from company-centric countries are delivering on claims that they address systemic issues, particularly as this type of impact is difficult to measure. To overcome this, clear engagement expectations need to be communicated, and strong relationships need to be built between asset owners and asset managers across the two chains of influence, which could be facilitated through member organisations such as the PRI.



3.3 Leveraging the expertise of asset managers from owner-centric countries

The third opportunity is that asset managers from company-centric countries can leverage the expertise of asset managers from owner-centric countries (see Figure 10).

Asset managers from company-centric countries often have few engagement specialists, which may make it difficult for them to stay up to date on emerging ESG issues.

By contrast, asset managers from owner-centric countries often have large teams of engagement specialists, which allows them to develop in-depth expertise about emerging ESG issues. For example, an Australian engagement facilitator used its large engagement team to develop expertise on an emerging green technology:

“we just realised there was a massive information gap. Investors just didn’t understand the speed at which the transition was happening. Yes, we’re still, five to 10 years away from a lot of these things getting commercialised, but the amount of investment and technological change in the space is quite staggering at the moment” (Australia, engagement facilitator 5). The opportunity we see is that asset managers collaborate across the two chains of influence, allowing asset managers from company-centric countries to draw on the expertise of asset managers from owner-centric countries, thereby increasing pressure on companies operating in company-centric countries.

A potential challenge for such collaborations is that asset managers from the two chains of influence may have different engagement priorities, as documented in Part 2 of the report. However, our report also documents that asset managers in the two chains of influence have very different—and complementary—resources. This complementarity of resources could become the basis for productive collaborations and the effective tailoring of engagements to targets (Slager et al., 2023), even if priorities are not fully aligned.



Central business district, Sydney

3.4 Leveraging access by asset managers in company-centric countries

The fourth opportunity is that asset managers from owner-centric countries leverage the access of asset managers from company-centric countries (see Figure 10).

Asset managers from owner-centric countries often have difficulties accessing companies operating in company-centric countries. For example, one Dutch engagement specialist noted that “Chinese companies, often just don’t respond at all. It’s impossible to engage” (Netherlands, asset manager 3).

By contrast, asset managers from company-centric countries expressed few difficulties accessing their home companies. A Chinese engagement specialist noted that, “it’s very easy for us in China to connect with companies” (China, asset manager 4). As shown

in Part 2, a key reason why asset managers from company-centric countries have better access is that they use a non-confrontational approach. We see an opportunity for more collaboration between asset managers across the two chains of influence, in which asset managers from company-centric countries can open up doors for asset managers from owner-centric countries. Such collaborations are already happening to some degree. An Indian engagement facilitator commented that “conversations with international investors” would rarely happen “without the presence of an Indian investor because the Indian investor would have definitely done the legwork, reached out initially, and explained where investors are coming from” (India, engagement facilitator 1). Similarly, a Brazilian engagement

specialist noted that “these global investors, they have companies in Brazil in their portfolio, and they sometimes cannot have access to the companies. We are specialists in Brazil, so we can make this connection” (Brazil, asset manager 1).

A challenge for such collaborations is that asset managers from the two chains of influence have different engagement priorities. Finding common ground may still be worth the effort, given the large complementarity of resources. Specifically, asset owners from company-centric countries could share their access, while asset managers from owner-centric countries could share their expertise.

3.5 Mobilising companies from owner-centric countries

The fifth opportunity is that active owners can mobilise companies from owner-centric countries to influence companies from company-centric countries (see Figure 10).

This opportunity would capitalise on the good access active owners have to companies from owner-centric countries.

Companies from owner-centric countries may be able to exert pressure on companies from company-centric countries as part of supply chain relationships. While companies in company-centric countries may have a low dependency on institutional investors, they depend on business partners, including companies from

owner-centric countries that active owners can engage with. For example, an engagement specialist explained that to influence a food company, they first engaged with a supermarket that was a big client of the food company, noting that the food company “may ignore their shareholders’ voice, but they cannot ignore their customers’ voice [supermarket]” (Singapore, asset manager 1).

A potential challenge to realise this opportunity is that active owners from owner-centric countries may not have sufficient knowledge about what is happening abroad to properly mobilise companies in their own

country. Collaborations between asset managers across the two chains of influence can be a solution, as asset managers from company-centric countries may bring in critical supply chain knowledge that asset managers from owner-centric countries can then use to mobilise their home companies.

Conclusion

This report underscores the rich opportunities available for ESG shareholder engagement. In light of the differences between the two chains of influence, we see particular promise for engagement activities across the two chains of influence.

By drawing on the unique resources available within each of the two chains of influence, active owners can increase pressure on those companies that are the hardest to influence, which are companies in company-centric countries.

We highlight these opportunities but are mindful of two important caveats. First, ESG shareholder engagement is unlikely to influence companies that are ESG laggards, and this holds for all types of engagements, including engagements across the two chains of influence. Engagement specialists are clear that “we are not engaging the laggards” (Switzerland, asset manager 7), noting that they target companies based on their “willingness to change” (Netherlands, asset manager 7). This is an important limitation because ESG laggards are where the most significant potential for ESG improvements lies. Second, ESG engagements are highly dependent on regulatory interventions, both within one and across the two chains of

influence. One engagement specialist commented that “it’s very difficult to engage if there’s no outlook that there will be regulations or anything” (Netherlands, asset manager 3). Similarly, an engagement facilitator reflected that “there’s this positive feedback loop between stewardship, policy intervention, and probably also civil society” (Switzerland, engagement facilitator 1). The potential for engagements across the two chains of influence thus depends on how regulation evolves.

The two caveats show that shareholder impact is always a “distributed process” that involves different actors (Marti et al., 2024, p. 2201). ESG shareholder engagement will not single-handedly manage to make companies more sustainable. For this to happen, various stakeholders (active owners, regulators, etc.) with different resources need to become active. In this distributed process, active owners can play an important role. By clarifying how ESG shareholder engagement works within different chains of influence and how active owners can leverage these differences, we hope this report helps make ESG engagement practices a little more impactful.



Appendix: Data used for the report

A1. Interviews

For this report, we conducted 93 interviews with 100 individuals between July 2024 and January 2025. We selected interviewees who were either actively involved in ESG shareholder engagement or monitoring/facilitating engagement activities. We contacted potential interviewees through our own networks, colleagues' networks, or through searches on LinkedIn for "stewardship" or "engagement."

Interviews were semi-structured, with different interview guides for asset owners, asset managers, and engagement facilitators. All interviews were recorded and transcribed except for one, during which we took detailed notes. Interviews had an average length of 56 minutes. We conducted all interviews in English, except for two, for which we had a translator.

These interviews covered 12 countries that have either leading financial centres or large economies, as shown in Table 1. For asset managers with offices in multiple countries, we assign interviews to the country in which the engagement specialists work. For China, we interviewed asset managers from both mainland China and Hong Kong (3 interviews each).

Table 1: Overview of interviews

	Asset owners	Asset managers	Engagement facilitators	Total
Australia	2	1	6	9
Brazil		4	1	5
China		6		6
France	2	4	1	7
India		3	2	5
Japan	2	3	2	7
Netherlands	5	7	2	14
Singapore		5	1	6
South Africa	1	1	3	5
Switzerland	1	10	2	13
United Kingdom	2	2	2	6
United States	2	7	1	10
Total	17	53	23	



We are grateful for all the interviewees who made time to share their insights. In what follows, we list 72 organisations that made time for interviews and agreed to be listed. We did 76 interviews with these 72 organisations, as we sometimes interviewed representatives from different countries within one organisation. The remaining 17 organisations preferred to be anonymous.

Interviewed asset owners

- Ahold Delhaize Pensioen
- Brunel Pension Partnership
- CalSTRS
- Établissement de Retraite Additionnelle de la Fonction Publique (ERAFP)
- Fonds de réserve pour les retraites (FRR)
- Government Employees Pension Fund (GEPF)
- Nest Sammelstiftung
- Pensioenfonds Detailhandel
- Pensioenfonds Horeca & Catering
- Philips Pensioenfonds
- Phoenix Group
- PME Pensioenfonds

Interviewed asset managers

- Achmea Investment Management
- Aegon Asset Management Netherlands
- Asset Management, L&G
- AXA Investment Managers
- BNP Paribas Asset Management
- Bradesco Asset Management
- Cardano
- COMGEST
- DSC Meridian Capital
- DSP Asset Managers Private Limited
- Edmond de Rothschild Asset Management
- Federated Hermes
- Fidelity International
- Finreon
- Globalance Bank
- Green Century Capital Management
- HDFC Asset Management Company
- Impax Asset Management
- Invesco
- Inyova
- J Safra Sarasin
- LGT Bank (Switzerland)
- Matthews Asia
- Mirova US
- MN
- Neo Investimentos
- Nikko Asset Management
- PGGM Investments
- Pictet Asset Management
- Radicant Bank
- RBC Brewin Dolphin
- Régia Capital

- Resona Asset Management
- Robeco
- Sanlam Investments
- Santander Asset Management Brazil
- SBI Funds Management Limited
- Sumitomo Mitsui Trust Asset Management
- Trillium Asset Management
- Triodos Investment Management
- Zürcher Kantonalbank

Interviewed engagement facilitators

- Asia Investor Group on Climate Change (AIGCC)
- Asia Research & Engagement (ARE)
- Australasian Centre for Corporate Responsibility (ACCR)
- Ceres
- ERM NINT
- Ethos Foundation
- Eumedion
- Forum pour l'Investissement Responsable (FIR)
- Impactive Tech
- Institutional Investor Advisory Services (IIAS)
- Investor Group on Climate Change (IGCC)
- JANA Investment Advisers
- Just Share
- Krutham
- Sodali & Co
- Morningstar Sustainability
- Principles for Responsible Investment (PRI)
- Swiss Sustainable Finance (SSF)
- The Investment Association



A2. Academic articles

We complement the interviews with published academic articles. Insights from academic articles can reveal general patterns that are not obvious to interviewees who participate in engagement activities on a day-to-day basis.

Sampling of academic articles

We conducted a systematic literature review building on prior work by Chuah et al. (2024) and Marti et al. (2024). We sourced published academic articles from the Scopus journal database for the period from 1990 to June 2024

filtering for the following key terms in the keywords, titles and abstracts of the articles: “activist investor”, “activist shareholder”, “activist stakeholder”, “ESG activism”, “ESG engagement”, “investor activism”, “proxy proposal”, “proxy resolution”, “shareholder activism”, “shareholder engagement”, “shareholder proposal”, “shareholder resolution” and “stakeholder activism”.

We further filtered the sample to only include articles specifically relating to ESG engagements (e.g., removing articles focused on hedge fund activism and those focused exclusively on proxy voting). We also restricted the sample to empirical

articles in journals rated as 4 or 4* in the 2021 Academic Journal Guide produced by the Chartered Association of Business Schools (the most recently available at the time). These articles were supplemented by others that were deemed relevant by the research team based on our familiarity with the literature, which is consistent with the best practices suggested by Kipping and Üsdiken (2014) and Leblebici (2014).

The final sample included 98 articles from a range of academic disciplines including accounting, business ethics and sustainability, corporate governance, finance, and management, as shown in Table 2.



Table 2: Overview of academic articles

Discipline	Academic articles
Accounting	Baloria et al. (2019), Barnett et al. (2024), Cohen et al. (2023), Dikolli et al. (2022), Michelon et al. (2020), and Pawliczek et al. (2021).
Business ethics and sustainability	Acharya et al. (2022), Allen et al. (2012), Amao and Amaeshi (2008), Barko et al. (2022), Beccarini et al. (2023), Byrd and Cooperman (2014), Clark et al. (2017), Cook (2012), Coumans (2012), Dawkins (2018), Diaz-Rainey et al. (2024), Giamporcaro et al. (2020), Gifford (2010), Gond and Piani (2013), Goodman et al. (2014), Gray (2011), Guay et al. (2004), Hamilton and Eriksson (2011), Lee and Xiao (2020), Lee and Lounsbury (2011), Lewis and Juravle (2010), Logsdon and Van Buren (2008, 2009), Louche et al. (2012), Nikolakis et al. (2012, 2014), Perrault (2015), Perrault and Clark (2016), Rehbein et al. (2004, 2013), Rojas et al. (2009), Sikavica et al. (2020), Sjöström (2010), Slager and Chapple (2016), Vandekerckhove and Leys (2012), Wagemans et al. (2018), Walls and Berrone (2017), Yamahaki (2019), and Yang et al. (2018).
Corporate governance	Anderson et al. (2007), Back and Colombo (2022), Bauer et al. (2015), Deakin and Hobbs (2007), Filatotchev and Dotsenko (2015), Foley et al. (2015), Judge et al. (2010), Mackenzie et al. (2013), Marquardt and Wiedman (2016), Semenova and Hassel (2019), Tilba and McNulty (2013), Viviers and Mans-Kemp (2021), Yamahaki and Frynas (2016), and Yeh (2014).
Finance	Azar et al. (2021), Bauer et al. (2023), Carleton et al. (1998), Chen et al. (2020), Dimson et al. (2015), Gantchev and Giannetti (2021), Heath et al. (2023), Hoepner et al. (2024), Homroy and Gangopadhyay (2023), McCahery et al. (2016), Thomas and Cotter (2007), Wang and Mao (2015), and Wei (2020).
Management	Benton (2017), Benton and You (2019), Cao et al. (2019), David et al. (2007), Eesley et al. (2016), Eesley and Lenox (2006), Ferraro and Beunza (2018), Flammer (2015), Flammer et al. (2021), Flammer and Bansal (2017), Gamache et al. (2020), Giamporcaro and Gond (2016), Hadani et al. (2018, 2019), Kim and Lyon (2011), Kim et al. (2019), McDonnell et al. (2015), Neubaum and Zahra (2006), Proffitt and Spicer (2006), Rao and Sivakumar (1999), Reid and Toffel (2009), Slager et al. (2023, 2024), Teoh et al. (1999), Vasi and King (2012), and Vasudeva (2013).

Analysis of academic articles

We used both inductive and deductive approaches to analyse the academic articles. The inductive approach involved reading the articles to identify key themes that were broadly common across various segments of the literature. This involved coding the articles to recognise the key actors involved, their geographic locations, the engagement approaches used, and the outcomes associated with those engagements. The deductive component involved comparing the findings in the articles to our interview insights and the practitioner reports to identify areas of consensus and cases of divergence among the sources.

Recommended reading

Among all the papers sampled, we view the following papers as particularly relevant for readers who want to understand more about ESG shareholder engagement:

- Chuah et al. (2024) provide a systematic account of shareholder activism to highlight how actors fit within a broader system of stakeholders both within and outside the financial system.
- Marti et al. (2024) thoroughly review the mechanisms through which sustainable investment practices (including ESG shareholder engagement) can produce beneficial societal impacts.
- Ferraro & Beunza (2018) illuminate the dynamics of shareholder engagement by analysing how investors and companies can reach common understandings.
- Goodman et al. (2014) outline the steps used by a group of socially oriented investors, including their decisions to escalate engagements when companies provide unsatisfactory responses to engagement demands.

A3. Practitioner reports

We incorporated insights from practitioner reports to include the perspective of leading organisations that have been involved in organising or advising on ESG shareholder engagements.

Sampling of practitioner reports

We employed the systematic approach to identifying and analysing the practitioner literature outlined by Adams et al. (2017). Although there are many different types of grey literature, the most used by practitioners for defining best practices and sharing

knowledge are industry-produced reports. These reports share knowledge and best practices between practitioners, and as such can be used to shape industry standards.

The most reputable reports are typically produced by business associations and industry service providers (e.g., consultants, law firms), as well as occasionally NGOs and other key stakeholders that have motivations to shape the field. We focused our review on high-quality reports from organisations that are most likely to garner practitioners' attention.

To mirror our qualitative interviews, we determined the most relevant industry reports by using a range of

pilot searches to retrieve relevant reports, including (1) internet search using relevant terms, (2) grey literature databases (including Business Source Complete and GreenFILE from EBSCOhost) and (3) organisations that coordinate ESG engagements (e.g., IIGCC, PRI, ShareAction) or are involved in advising on and developing ESG standards (e.g., CFA Institute, MSCI).

The final sample included 41 practitioner reports that we selected after reviewing them for relevance to ESG-related shareholder engagement, the reputation of the publishing organisation, the transparency of their research methods, and the independence of their perspective.



Table 3: Overview of practitioner reports

Issuing organisation	Practitioner reports
Business associations	AMA and SSF (2023), CA100+ (2021), PRI (2016a, 2016b, 2018a, 2018b, 2018c, 2018d, 2021), SSF (2018, 2019, 2021), and US SIF (2014, 2016).
ESG standards advisors and developers	CFA Institute (2013, 2017, 2020), IOSCO (2021), MSCI (2021, 2022a, 2022b), Novethic (2014, 2015), UNEP (2005), UNEP and PRI (2011, 2021, 2024), and WRI et al. (2015).
Non-governmental organisations	As You Sow (2020, 2024) and ShareAction (2019, 2021, 2023a, 2023b).
Service providers	BCG (2021), Deloitte (2019), Freshfields (2021), IRRC and ISS (2014), McKinsey (2017), PwC (2021), and Sustainalytics (2016).

Analysis of practitioner reports

We analysed the practitioner reports using the NVivo software to manually code the key topics and themes evident in the reports. We used inductive and deductive approaches so that insights could be compared and/or contrasted with the findings from other sources. We paid particular attention to reports that focused on differences in engagement practices across jurisdictions as practitioner reports paid more attention to these differences than academic papers.

Recommended reading

Among the practitioner reports we reviewed, the following reports are particularly notable:

- PRI (2018c) is an excellent primer on shareholder engagement, including several practical examples from leading practitioners in the field.
- ShareAction (2023b) outline a thorough and practical framework for how investors can effectively escalate their engagements based on different types of company responses.
- CFA Institute (2013) provides useful summaries of the norms of shareholder engagement across 28 countries, including most countries in our report.
- Freshfields (2021) detail the legal basis of shareholder engagement across a wide range of jurisdictions, with important distinctions between the rights, responsibilities and roles of asset owners, asset managers and companies.



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