2025 MOSKOWITZ PRIZE HONORABLE MENTION

RESEARCH BRIEF

ABOUT THE PRIZE

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Coordinated Engagements

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As the focus on environmental and social (E&S) factors grows, shareholder organizations encourage investee businesses to act responsibly. This research studies the impact of coordinated, international E&S engagements. It shows that shareholder coalitions with clear leadership are more likely to achieve success and to deliver financial benefits to target and investor firms.

SUMMARY OF FINDINGS

When an investor coalition seeks to influence the environmental and social (E&S) responsibility of an investee company, how does the group's leadership structure impact success on key dimensions?

The growing focus on E&S issues has meant more pressure on businesses in these areas from institutional shareholders. But scholarly work on how the structures of such engagements affect their E&S-related success and the performance of investors and investees has remained limited.

The authors address this by studying coordinated, cross-country E&S engagements and outcomes. They hypothesize that engagements with leaders that signal their commitment to the effort—through devotion of resources—and hold informational and reputational assets will promote greater success than engagements without leaders. They test this on a sample of 31 projects coordinated through the UN-supported Principles of Responsible Investment network and targeting 960 publicly listed firms.

While 52.7% of all engagements were successful, those with a clear leader were 23-31% more likely to succeed in driving E&S change. Coalitions with leaders holding informational advantage and reputational credibility were more likely to succeed. Both investor and target firms experienced post-engagement financial benefits as well. The results suggest coordinated E&S engagements—especially those with clear leadership—achieve their objectives while contributing to shareholder value.

The Impact of Coordinated E&S Engagements

As the importance of environmental and social (E&S) issues grows globally, investors have launched myriad initiatives to pressure businesses to act responsibly. Scholars have argued that "voice" (engagement) with investee companies is more effective than exit/divestment. But there has been only limited research on the structure and success of coordinated, collaborative, cross-country attempts to influence E&S-related behavior.

The authors work to fill this gap through research on the structure of such engagement strategies, with focus on understanding the impact of patterns of coalition-formation and leadership on success rates and financial outcomes. Specific measures include those related to leadership characteristics and mechanisms (informational and reputational advantages) and target-firm returns (stock returns and return on assets).

Central to the research is a previously established economics of leadership framework—specifically, that coalition dynamics unfold in two main scenarios: with and without a leader, whether an individual or organization. The argument is that coalitions with leaders who have superior information and "lead by example"—and signal their commitment through use of resources—will perform better than coalitions without leaders. The authors apply this proposition to E&S engagement efforts by coalitions of shareholders.

A Study of PRI-Coordinated E&S Engagements
The researchers studied engagement efforts coordinated by institutional investors through the Collaboration Platform provided by the Principles of Responsible Investment (PRI), the UN-supported largest global network for investors committed to corporate responsibility and sustainable returns.

The data included coordinated engagement projects initiated between 2007 and 2015 by 224 investment organizations. These collaborators—investment managers, asset owners, and service-providers from 24 countries—targeted 960 publicly listed firms, with an average of 26 investors per engagement and a duration of about two years. Among the engagements, 15 had lead organizations.

The researchers tapped PRI and multiple other sources for information on coalition members, target firms, engagement success, and pre- and post-engagement performance on financial measures including returns and fund flows.

E&S Engagement Leadership Promotes Success on Multiple Dimensions
The work yielded multiple results with meaningful implications for investors' E&S influence efforts.

Overall, the average rate of success across engagements in the sample was 52.7%. As predicted, engagements with clear leadership were 23-31% more likely to be successful in driving E&S change in target firms, an economically significant finding.

Leaders were more likely to be investment managers, and leaders tended to have formal internal engagement processes and to participate in other collaborative initiatives—characteristics that acted as signals of their ability to lead E&S engagements, consistent with the idea of leading by example through resource-intensive effort.

As far as mechanism, engagements with leaders holding an informational advantage—as represented by the leader's location in the same country as the target firm—were more likely to succeed, as were those led by leaders with a strong reputation, as measured by repeated interaction between the leader and followers in the coalition.

Moreover, both investor and targeted firms benefited from engagements driven by coalitions with clear leaders: investors enjoyed increased fund flows; target firms experienced an average increase in annual abnormal buy-and-hold stock returns of 4.7% and in annual return on assets of 0.9% in the first two years following engagement initiation, with those growing to 9.4% and 2.3%, respectively, by the third year. Engagements with no leader resulted in no changes in these measures for target firms.

Overall, the findings suggest that coordinated E&S engagements achieve their objectives in a large proportion of cases without compromising investment returns. Indeed, PRI-coordinated activities are shown to contribute to shareholder value, and should be headed by a credible leader to maximize outcomes.

KEY DATA

- PRI-coordinated E&S engagements reflecting UN Social Development Goals in Environmental, Social, and Governance areas
- Coalition members/roles and target firms (from PRI data)
- Success of engagement (from PRI records, with varying criteria such as scorecards related to policy and implementation pre- and post-engagement)
- Target-company attributes and performance (PRI, WorldScope/Compustat, MSCI country return index, and other data)
- Leader firm fund flows (FactSet data)

PRACTICAL IMPLICATIONS

- *Coordinated E&S engagements are largely successful in driving meaningful change in responsible policy, implementation, and other activities among target firms—along with financial benefits for coalition leaders and target firms. Coalition leadership characteristics predict likelihood of success, meaning everyone can win from well-structured engagements.*
- *Institutional investors seeking to engage with investees around E&S can work to maximize the likelihood of success by leading or joining shareholder coalitions. There should be a leader that signals substantial commitment of resources to the effort and has an informational advantage and reputational credibility, probably underpinned by geographic and cultural proximity to the target company.*
- *The best leader of an engagement is not simply making a moral decision. They will also have an economic motivation and more "skin in the game" than other investors, along with the ability to deploy key resources toward the engagement. The*

economic motivation may help the institution achieve its objectives and increase future fund flows.

QUESTIONS FOR FUTURE RESEARCH

On the relationship between resources expended and engagement success:
The authors observe an inverse U-shaped relation between signatory size and the likelihood of collaborating This may arise from two opposing effects: large signatories with sufficient resources and influence over the target firm may prefer to engage independently, while smaller signatories may lack the means to engage. The largest investors spend a smaller proportion of assets on engagement, as compared to their mid-sized counterparts. What drives the resource commitment to E&S engagement of mega-investors?

On the value of past engagement leadership:
The authors conclude that leaders of engagements are conscientious: "leaders are unlikely to take a checking-the-box approach in collaborative engagements." Being a leader may involve significant work, yet the authors do not find evidence that past leadership experience reduces signatories' inclination to lead in the future. The authors also report that for investment managers, demonstrating leadership in E&S engagements can be particularly rewarding. Do leaders of E&S-focused coalitions benefit from the experience beyond the measures used here—such as with regard to other activism efforts aimed at more purely economic returns?