Coordinated Engagements[*]

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Abstract: We study the nature and benefits of coordinated engagements by a prominent international network of activist shareholders cooperating to influence firms on environmental and social issues. We find a two-tier engagement strategy combining a lead investor with numerous supporting investors is effective in successfully achieving the stated engagement goals and subsequently improving target performance. Success rates are elevated when the lead investor is domestic and the supporting investors are international. An activist is more likely to lead the collaborative dialogue when its stake in the target firm is higher and relatedly when the free-rider problem is less pronounced in coalition.

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Coordinated Engagements

In January 2018 BlackRock, the world's largest asset manager, sent a letter to the chief executives of the world's largest public companies urging them to act with a sense of purpose and to embrace a governance model that focuses on sustainability and benefit all stakeholders.[1] In November 2017 the Norwegian Government Pension Fund, the world's largest sovereign wealth fund with assets over $1 trillion, received a recommendation from Norway's central bank to dispose of the Fund's entire shareholding in oil and gas companies (Berglund (2017)). In December 2016 the California Public Employees Retirement System, the largest US public pension fund with assets over $300 billion, discussed whether to reverse its tobacco-free investment policy; CalPERS' board decided to maintain and extend the tobacco restriction to all externally managed funds (Payne (2016)). These and many other recent policy changes are an outcome from coordinated action by multiple activists seeking to influence financial institutions. Environmental and social (E&S) activists are a growing power in the institutional investment world, and the pressures are increasingly global. Yet initiatives on E&S issues are still underpinned by sentiment, rather than supported by evidence.

One curious aspect of the collective action of investors is the well-known free-rider problem: it is costly to engage with the firms on E&S issues, and potential benefits of the engagement efforts such as improved firm performance and stock price are shared with the remaining shareholders. Focusing on "wolf-packs" in hedge fund activism, Brav, Dasgupta and Mathews (2017) highlight the implicit coordination among heterogeneous block investors where wolf-pack members, as delegated portfolio managers, are incentivized to overcome the free-rider problem through their reputational concerns in access to capital of investors.[2] Doidge et al. (2017) discuss how explicit coordination mechanisms for institutional investors in engaging target firms may help overcome the free-rider problem.

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[1] https://www.blackrock.com/corporate/en-no/investor-relations/larry-fink-ceo-letter

[2] "Wolf-pack activism" refers to the alleged coalition of institutional blockholders (typically hedge funds) implicitly coordinating their interventions with the target firms where one blockholder acts as a "lead" activist, and the other blockholders as supporting "wolf-pack" members. See Brav et al. (2008) for detailed discussion of hedge fund activism.

This paper examines engagements by asset owners and investment managers on Corporate Social Responsibility (CSR) principles. It is the first to study coordinated, collaborative and international efforts to influence investee companies on environmental and social issues. We address questions such as: What factors persuade investment institutions to engage with target companies? How does the free-riding problem affect the institutional investors in their collective E&S activism? Are collaborative actions more effective and does coordination with other stakeholders improve the outcome? What is the best approach to collective action for these projects? Does activist size and shareholding influence the targeting and success of engagements? Our answers to these questions are based on careful analysis of a detailed record of cooperative engagements by institutional investors. In particular, we study the strategy, success rates and financial outcomes of activist shareholders who coordinate their engagements through the Collaboration Platform provided by the Principles for Responsible Investing (PRI). Founded in 2006 and supported by the United Nations, PRI has become the leading network for investors with a commitment to responsible ownership and long-term, sustainable returns.

The PRI Collaboration Platform data have various desirable attributes for research. First, engagements are logged in a platform provided by a third party, and cannot be revised retrospectively by an organization involved in the study. Second, each engagement is supported by multiple asset owners, investment managers, and service providers, which strengthens the potential validity of the research relative to a study focusing on a single investor. Third, the dataset is truly global, embracing investors, managers, advisors and NGOs from many countries. Finally, there is a dated record for each engagement, and there is no need to rely on scores or ratings from ESG (environmental, social, and governance) advisory firms. To our knowledge, the PRI Collaboration Platform is the only source of global data that meets these criteria.

The focus of our study is engagements that emphasize E&S concerns, and we investigate the determinants of targeting, success and the benefits from coordinated action by investors. Our dataset is comprehensive, and runs from PRI's first collaborative engagement in 2007 to mid-2017. The study examines 1,671 engagement sequences undertaken by 252 investment organizations (including investment managers, asset owners, and

service providers) from 24 countries, representing an aggregate asset under management (AUM) of $23 trillion and an average AUM of $116 billion. They target 964 listed companies located in 63 countries. The success rate for engagements in our overall sample is 42%; the probability of achieving success in environmental themes is lower (33%) while for social themes it is higher (60%). The average and median elapsed times from initial engagement to success are around two years. Companies targeted for engagement are most frequently in the manufacturing sector, followed by the infrastructure, wholesale & retail trade, and mining sectors. Targeted companies are most frequently located in the United States, United Kingdom, France and Japan.

We compare targeted companies with their peers from the same country and industry sector in the year before they were engaged. We find that coordinated activists target firms that are relatively large, and that have a low growth rate relative to their peers. These firms experience low raw stock returns and high return on assets (ROA). They have low capital and R&D investment levels and high institutional ownership. We also show that, in collaborative engagements, leadership is decisive. Success rates are elevated by about one-third when there is a lead investor who heads the dialogue, especially when that investor is located in the same geographic region as the targeted firm. In addition to the importance of leadership, our results suggest that investor influence is also crucial. Success rates are higher when activist investors are more numerous, have larger assets under management (AUM) and own a bigger proportion of the target company. These investor attributes are especially important when investors are engaging across national boundaries and are investment managers (as opposed to asset owners or service providers). After engagements have concluded successfully, target companies experience an improved ROA, increased sales growth, and enlarged ownership by the lead investor. This contrasts with unsuccessful engagements, which are not followed by any change in ROA, sales growth, or in shareholding.

Analyzing the determinants of being a lead investor, we find that an activist is more likely to lead the collaborative dialogue when the activist's stake in the target firm is high, which increases the credibility and strength of the activist's voice and the potential benefits of the engagement. Relatedly, we find the activist to lead with higher likelihood when the free-rider problem is less pronounced in coalition due to lower costs

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and/or higher benefits of engagements: (i) the target firm is domestic, where there is likely higher familiarity or interest in E&S issue; and (ii) the other institutional investors and activists on the coalition are few in numbers and have lower holdings in the target, which would result in less shared benefits.

Since the objectives of the activity are achieved in a substantial proportion of the engagements, we conclude that coordinated activism on E&S issues improves social welfare. Furthermore, this activism is value enhancing, since it improves firm performance when engagements are successful and does not impair firm performance even when engagements are unsuccessful. Our evidence suggests that, for maximum effect, coordinated engagements should preferably have a lead investor that is well suited linguistically, culturally and socially to influencing target companies. Supporting investors are also crucial, and they should ideally be major investment managers who have influence because of their scale, ownership and geographic breadth.

The two-tier engagement strategy of combining lead investor with numerous supporting investors in our sample is reminiscent of the "wolf-pack activism" described and modelled in Brav, Dasgupta and Mathews (2017), though the objectives and methods of E&S activism differ from hedge fund activism, as discussed in detail in Dimson, Karakaş and Li (2015). The reputational concerns of fund flows constitute the primary incentive mechanism helping to overcome the free-rider problem in Brav, Dasgupta and Mathews (2017). Such concerns are very apparent and relevant in the ESG industry. In that respect, one can consider the implicit coordination endogenously generated in the model of Brav, Dasgupta and Mathews (2017) to potentially explain the formation of PRI and set a "lower bound" in alleviating the free-rider concerns. Such concerns are further alleviated with the fact that PRI and the nature of E&S issues establish a platform that allows for explicit coordination.

Our paper makes new contributions on three dimensions. First, to our knowledge this is the only research paper examining the nature and impact of internationally coordinated engagements on E&S issues. Second, by avoiding the data and methodological limitations that afflict many CSR studies, we add reliable additional evidence on the link between responsible investing and financial performance. Finally, our paper extends the substantial literature on shareholder activism and corporate governance.

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In Section 1, we discuss the institutional background, briefly summarize relevant literature, and present the main questions considered in this paper. In Section 2, we describe the engagements dataset that we use to answer these questions. In Section 3, we report our analysis and results. In Section 4, we present our conclusions. Appendix A provides brief case studies that illustrate the nature of engagements coordinated through the PRI Platform. Appendix B provides the definitions and sources of variables in our analyses.

1. Institutional background, literature, and research questions

A large proportion of asset owners and investment managers now express commitment to being responsible by signing up to the United Nations sponsored Principles for Responsible Investment (UNPRI.org). By March 2018 PRI had 1,948 signatories from 69 countries, representing over \$70 trillion in assets. The value of worldwide assets that are managed according to responsible investment criteria is estimated by the Global Investment Sustainable Alliance (GSI-Alliance.org) to be \$23 trillion. Moreover, non-profit organizations such as Inclusive Capitalism (Inc-Cap.com) and Focusing Capital on the Long Term (FCLTglobal.org) aim to engage business, government and civil society leaders in making capitalism more sustainable and inclusive, and to encourage responsible behavior among a membership that includes leading investment managers, asset owners, corporations and advisors.

There are, however, major gaps in academic work on active ownership and investor engagement. Almost a decade ago, a paper on the role of collaboration in achieving social objectives reported that "*The lack of a conclusive business case for corporate social responsibility (CSR) is at the heart of the ongoing debate over the role of business in solving social and environmental problems*" (Peloza and Falkenberg (2009)). The absence of a business case reflects not only of a lack of evidence, but also the fact that we do not know which interventions are more likely to be effective. As the authors explain, "*Although the link between CSR activities and firm financial performance is still debated, research suggests that the relationship depends, at least in part, on how the CSR initiative is executed*" (ibid). The knowledge gap about how to intervene with a target company is almost as large today as it was a decade ago.

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Most published research fails even to indicate whether investors who pursue a responsible E&S approach can anticipate an enhanced or an impaired financial return, even over the very long run. An exception is Dimson, Karakaş and Li (2015), a study of 2,152 engagements by a single investment firm with US target companies. The authors reported that successful engagements were followed by positive abnormal returns, improved performance and governance, and increased institutional ownership, while unsuccessful engagements generate zero returns. However, that was a clinical study of a single investment organization in a single country, and a natural question is how representative the investor might be? Prior research has had a profound home bias, typically examining activism emanating from the US, UK or Netherlands,[3] and reflecting the location of the activist. Yet most institutional investors hold financial assets that are distributed around the world, and many observers believe that encouragement for socially responsible behavior should embrace emerging as well as developed markets. There is a growing conviction that the biggest challenges confronting active owners are of truly global relevance. Some of the questions that are important to researchers and investment professionals on E&S issues are outlined in the following paragraphs.

1.1 Shareholder activism vs. social activism?

Many scholars and practitioners perceive a conflict between different types of activism. Shareholder activism generally addresses conflicts between managers and shareholders, and seeks to create value for shareholders. Barber (2007, p.66) asserts that "*portfolio managers… can also abuse their position by pursuing actions that advance their own moral values or political interests at the expense of investors (social activism)*" (parentheses in original). This raises the question as to whether it is on average value impairing to address E&S issues, or whether such activism is on average value enhancing. We provide evidence on this question.

Servaes and Tamayo (2017) discuss the role of social capital in corporations by reviewing the related literature, and argue that social capital is likely to enhance firm value. Using CSR performance as a proxy for social capital (i.e., for trust between shareholders and managers), and shareholder governance proposals for

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[3] See, e.g., Smith (1996), Carleton, Nelson and Weisbach (1998) and Barber (2007); Becht et al. (2009, 2017b), Bauer, Clark and Viehs (2014), Dimson, Karakaş and Li (2015) and Hoepner et al. (2016); and Barko (2015) and Kuijpers et al. (2015), respectively.

shareholder activism, Dimitrov and Gao (2017) argue that shareholders of firms with higher CSR scores play a constructive role in their activism on corporate governance.

1.2 Solo or collaborative engagements?

A detailed clinical study of activism was undertaken by Carleton, Nelson and Weisbach (1998). They gained access to as complete a collection as possible of engagement correspondence during 1992–1996 between the Teachers Insurance Annuity Association—College Retirement Equities Fund (TIAA) and various target companies. The correspondence provided the first "large sample" (45 firms) of private negotiations; in most cases TIAA was able to reach agreement with their targets to implement the requested changes. The fact that TIAA negotiated with the target almost never became public knowledge, and it seems that these solo negotiations were very successful in inducing change. While some initiatives may best be conducted privately by a single asset owner, this raises the question of whether broader collaborative engagement may be superior. Although other papers such as Smith's (1996) study of California Public Employees' Retirement System's (CalPERS) engagements included negotiated agreements, they are less informative about the nature of these private agreements. In our study, we have been given complete access to the files associated with each engagement.

There are significant benefits associated with collaborative engagements. First and foremost, by pooling resources and influence together, investors can achieve higher success via louder voice and larger voting power. Gillan and Starks (2000) find that shareholder proposals on corporate governance issues, sponsored by coordinated groups, gain substantially more support than those sponsored by individuals. Dimson, Karakaş and Li (2015) find that collaboration with other shareholders and/or stakeholders significantly improves the success rate of engagements, especially those in the environmental and social areas. Second, engaging as a coordinated group also improves engagement efficiency by borrowing expertise from investors in the group who are more knowledgeable about an issue or target company, and by sharing research costs. This is especially efficient for smaller investors who are too resource-constrained to afford an in-house engagement team. Third, collaboration in ESG engagements facilitates risk sharing among active owners.

However, collaborative engagements also face many challenges. First, there is the free-rider problem: costs may be borne by a small group of committed and resourceful investors, while benefits are shared by all investors in the group. Second, coordination is difficult and time-consuming: investors may face different objectives and interests, so to achieve agreement among many investors from diverse geographic and cultural backgrounds may prolong the process. The delayed action may reduce the effectiveness of engagements on issues that are time sensitive. Third, there is a potential regulatory barrier in certain markets that dissuades investors from behaving as a concert party. We argue in the next section that having a third-party coordinator, such as the PRI Clearing House team, can substantially overcome these challenges.

Studying a sample of international hedge fund activism, Becht et al. (2017a) report that engagements by multiple activists perform better than engagements by single activists. Doidge et al. (2017) analyze private engagements on corporate governance issues by a Canada-based investor collective action organization. The collective, Canadian Coalition for Good Governance (CCGG), has a record of successful engagements in which target firms are more likely to adopt corporate governance reforms in majority voting, say-on-pay, and compensation structure areas, and stock market reaction to such changes is more favorable. Consistent with our findings, Doidge et al. (2017) document that CCGG is more likely to target large firms in which the collective voting power is higher.

Focusing on wolf-pack activism, Brav, Dasgupta and Mathews (2017) highlight the implicit coordination among heterogenous block investors. In this form of activism, it is asserted that a coalition of institutional blockholders (typically hedge funds) implicitly coordinate their interventions with the target firms where one blockholder acts as a "lead" activist, and the other blockholders as supporting "wolf-pack" members. In the model of Brav, Dasgupta and Mathews (2017), wolf-pack members are delegated portfolio managers who compete for the capital of investors. The wolf-pack members are incentivized through their reputational concerns for being acknowledged as skilled institutions, which in turn helps overcome the free-rider problem of collective action.

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Brav, Jiang and Li (2017) analyze mutual fund voting in proxy contests, and find evidence for dissident shareholders with small block holdings (e.g., 5-10% of the target firm) "picking friends", i.e., selecting the target firm with pro-activist shareholder base, in their decision of engaging in a proxy fight. Such collaboration is crucial particularly in the contested elections during proxy fights.

1.3 Heavy or light-touch?

Collaboration between investors is particularly challenging and requires effective commitment mechanisms while not falling foul of restrictions on concert-party activities. A coordinated group of institutional investors, potentially including both index investors and active managers, can provide the necessary commitment mechanism. Long-horizon investors can be motivated by their universal ownership, which can transform competition between investment managers and asset owners and can alleviate the free-rider dilemma that might otherwise impede coordinated engagements with investee companies. Starks, Venkat and Zhu (2017) provide evidence that long-horizon investors prefer firms with better ESG practices. These long-horizon investors are likely to be large. The question of whether major asset owners are better able to influence target companies is an empirical issue. Our paper includes a very large number of these investors, together with information on their size and shareholdings, so this is also a question we address.

Bebchuk et al. (2017) analyze the cooperation between activists and target firms, and find that a settlement is more likely when an activist has a credible threat to obtain a board seat in a proxy fight. These findings of Bebchuk et al. (2017) resonate with ours, illustrating that the chances of success in E&S engagements increase with investor influence which, in our study, is proxied by the number of investors, assets under management, and holdings in the target.

Dyck et al. (2017) find evidence that institutional investors demand stronger E&S performance from the firms in which they invest globally, and both financial and cultural/social aspects play an important role in the actions of institutional investors. This is in line with Hart and Zingales (2017) arguing that asset managers should invest according to the preferences of their investors.

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2. Engagement Data

Our dataset is drawn from PRI's initiative to support investor engagements on ESG issues with corporations. PRI aims to be "*an enabling organization that may help to overcome barriers to collective action by providing an infrastructure for investors to work with one another, and through maintaining time-continuity of investors' engagement, thus resulting in continued pressure on targeted firms*" (Gond and Piani (2013)). Shortly after the Principles were launched in 2005, the PRI Collaboration Platform (then known as the PRI Clearinghouse) was initiated as a forum for shareholder engagement and as a vehicle for alliances among institutional investors and their advisors. This facility rapidly became the world's largest platform for coordinated engagement activities, and by 2017, PRI reported that over 500 signatories had been involved in at least one collaborative initiative and more than 700 collaborative proposals had been posted.

Posts to the Collaboration Platform vary in their intensity and resource requirements. Some are demanding, such as proposals for in-depth research, opportunities to participate in investor-company engagements, and requests to join in policy and regulatory dialogue. Other posts may be simpler, such as requests to co-sign letters to companies, or to support imminent shareholder resolutions. The PRI Executive actively coordinates a number of collaborative engagements with listed companies worldwide, provides administrative support to investor coalitions, and facilitates web-based virtual meetings and other facilities to support investor initiatives. The Platform can also be used by signatories for direct collaboration that bypasses the PRI Secretariat.

For this study, we focus on the engagement projects initiated and coordinated by PRI. Having PRI Clearing House as a third party to coordinate ESG engagements substantially reduces the costs associated with collaborative engagements. First, the PRI clearing house has a team of experts with background in areas associated with environmental and social issues. They proactively identify issues and invite institutions to participate and cooperate on its platform. After several years' experience of working together, PRI found it helpful to identify one or more lead investors to drive forward an initiative, with a larger number of supporting investors providing more limited resources. Such an engagement structure reduces the free-riding

problem as the costs of coordination and research are born by PRI, which is sponsored by a fixed fee paid by all signatories, not any individual investors. Second, PRI and its signatories work with local regulators and policymakers to seek amplification on issues that are unclear. Although anti-trust legislation does not primarily target collaborative engagement on ESG issues, there is some regulatory ambiguity and uncertainty. PRI's team and its investors have sought clarification on such issues.[4]

It is intriguing that these initiatives have led to a structure that bears some resemblance to private equity. Kaplan and Strömberg (2009) explain that private equity funds are organized as "*partnerships in which the general partners manage the fund and the limited partners provide most of the capital. The limited partners typically include institutional investors, such as corporate and public pension funds, endowments, and insurance companies, as well as wealthy individuals. The private equity firm serves as the fund's general partner.*" PRI and its signatories have similarly concluded that it is desirable to identify participants as *leading organization(s)* (signatories who post the invitation and/or commit significant time and resources) or as *supporting organizations* (signatories supporting the initiative by lending their names and allocating limited resources). Piani (2013) elaborates on PRI's engagement principles, process, and targets, and presents case studies on carbon disclosure, ESG communication/disclosure, anti-corruption, and supply-chain issues.

PRI maintains the Collaboration Platform database and monitors the progress of each initiative. We have been provided with detailed records on every initiative, together with a record of whether each engagement was successful. The evaluation of success varies from project to project and from firm to firm within each project. PRI keeps a record of objective targets for the measurement of success. This could be an at least target level improvement on the scores/criteria of anti-corruption, labor standards, gender equality, human rights etc.; reaching a target in carbon emissions; starting environmental disclosure and action; or becoming active through signing up to certain initiatives such as communication on progress (COP) by the UN Global

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[4] In the UK, the Financial Conduct Authority has clarified in its code of conduct that conversations between investors are not acting in concert. Therefore, the UK is a more permissive regime for inter-shareholder dialogue regarding investee companies. In the US, investors informally acting on an issue without disclosure may be regarded as in violation of Regulation Fair Disclosure (FD).

Compact (unglobalcompact.org/participation/report/cop). For most engagement projects, PRI hired and/or collaborated with an external organization such as CDP to evaluate whether the stated engagement goals had been achieved (see CDP.net).

Engagements are grouped into 31 projects in four broad areas: Environmental, Governance, Social, and (reflecting the United Nations origins of PRI) work related to the UN Global Compact (UNGC) and its sustainable development goals (SDGs). Projects have a limited life, and if the issues raised by a sequence of engagements persist or expand, a "Phase 1" project can be followed by a "Phase 2" project addressing related matters. Appendix A provides examples of PRI-coordinated projects and how success is evaluated in each project. The unit of analysis in this study is an engagement sequence level, defined as one target firm engaged in a project. Engagement sequence starting and ending dates are defined as project dates. Our dataset covers the engagements started as early as January 2007. Out of these 31 projects, six are still ongoing at the time of this study. Therefore, their success cannot be evaluated or was evaluated using interim reports. In total, PRI can evaluate the success of 1,010 engagements.

Insert Table 1 about here

Table 1 summarizes these projects. For each project, success is evaluated by the PRI Clearing House team based on scorecards prepared for each target firm in pre- and post-engagement periods. The scorecards cover areas from policy and strategy, implementation, disclosure and other material objectives. Success is recorded when there is a significantly increased post-engagement score relative to the pre-engagement score. The success rate, for those engagements where success has been evaluated, listed in Table 1, ranges from 0% (Forest Footprint Disclosure 2012) to 92.3% (Palm oil growers). A reason for the low success rates in Forest Footprint Disclosure projects is that target firms lack the data and information to form the reporting frame at the time of the project completion. For the Palm Oil projects, although they are still ongoing, an interim evaluation was conducted in mid-2016 for the growers project. A reason for the high success rate is that companies operating upstream (producers, processors and traders) were more likely to have a commitment than those operating downstream in this industry.

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The mean and median engagement periods for successful engagements are about two years, whereas such periods for unsuccessful engagements are about a year-and-a-half and one year, respectively. Among the successful engagements, engagements on social area have the longest period for success (about four years). Among the unsuccessful engagements, engagements on environment area have the quickest resolution.

The PRI Collaboration Platform data have four desirable attributes for research. First, engagements are logged in a platform provided by a third party and cannot be revised retrospectively by an organization involved in the study. Second, each engagement is supported by multiple asset owners, investment managers, and service providers, which strengthens the potential validity of the research relative to a study focusing on a single investor. Third, the dataset is truly global, embracing investors, managers, advisors and NGOs from many countries, and provides an opportunity to see whether US/UK findings are applicable in other environments. Finally, there is a dated record for each engagement, and there is no need to rely on scores or ratings from ESG advisory firms. To our knowledge, the PRI Collaboration Platform is the only source of global data that meets these criteria.

The new dataset used in this study has been assembled by us in a careful and painstaking collaboration with PRI and has not been analyzed previously. We do not rely on static and delimited measures for CSR performance, such as third-party ESG scores (see Ferrell, Liang and Renneboog (2016)), and we avoid "company insiders' self-reported impressions" (Margolis, Elfenbein and Walsh (2009)). We respond to Edmans' (2012, 2017) challenge that all prior work fails to address the impact of responsible investing on long-run, risk-adjusted investment performance. Our detailed data enables us to provide new insights on engagement by asset owners with the firms they own around the world.

3. Analysis

The PRI Collaboration Platform exists to facilitate investor engagement with target companies, and potentially with regulators and other actors in the business world. The companies that are targeted for

shareholder activism are selected by signatories. As Piani (2013, p.8) explains, *"Typically, engagement begins when one or more investors identifies an issue or specific ESG risk relating to a particular company or sector, and does some initial research to determine whether there is a business case for the company to take steps to respond. The investor may then decide they'd like to engage, and perhaps reach out to colleagues and peers to gauge interest in engaging collaboratively."* It is even possible for non-signatories to trigger new initiatives, though, after one year of involvement, they will normally be invited to sign up to PRI. The process of identifying target companies is bottom-up and is open to all members.

3.1 Characteristics of engagement target

To understand the characteristics of the target companies, we merge our dataset with WorldScope/Compustat Global and North America using ISIN and company name. We require market capitalization information in the fiscal year before the starting date of an engagement sequence. This reduces our sample size from 1,806 engagements to 1,671 engagements. PRI coordinated engagements are heavily in the manufacturing sector, followed by infrastructure and wholesale/retail trade. This resembles the distribution across industries reported in Dimson, Karakaş and Li (2015) for a single investor's engagements in US, whose most frequent engagements were in manufacturing, followed by financial and then wholesale/retail trade.

Flammer, Hong and Minor (2016) examine the integration of CSR criteria in executive compensation (CSR contracting) over 2004–2013 and find evidence for better alignment of interest between shareholders' and managers' preferences for stakeholder engagement. Consistent with our observations, they document CSR contracting to be more prevalent in emission-intensive industries and to become more prevalent over time. They further find that the adoption of CSR contracting leads to a reduction in short-termism, a rise in firm value, and an increase in E&S performance/innovations.

The geographic dispersion of collaborative engagements is further highlighted by the distribution of engagement targets in different regions around the world. More than three-quarters of engagements involve countries other than the US and the UK. Panel A of Table 2 lists 63 countries where target firms are domiciled. This further differentiates our global study from single-market investigations of shareholder

engagement. A more granular look at the countries covered by the Collaboration Platform confirms the worldwide focus of PRI signatories. This panel reports that there are over 100 engagement sequences in each of the United States, France and United Kingdom. There are 50–100 engagement sequences in Japan, Germany, Canada, India, Spain, Brazil and Italy. There are 30–50 engagement sequences in Australia, South Korea, Switzerland, Sweden, China, South Africa, and Pakistan.

Insert Table 2 about here

To characterize the firms targeted by PRI's projects, we compare them with their country and industry peers in the pre-engagement year. We create the pool of peer firms using WorldScope/Compustat Global and North America universe. Following Dimson, Karakaş and Li (2015), we remove all the target companies from the pool and require both the target and the control firms to have data on country of incorporation, industry, and market capitalization. To form the peer group, for each target firm, we calculate the average firm's characteristics in the same calendar year (i.e. the fiscal year before the engagement starting year). The average firms are drawn from the same country and industry (3-digit SIC); if there are fewer than three other firms from the same country and 3-digit SIC, we relax the industry classification to 2-digit SIC. If there are more than 10 control firms for each target, we keep only the 10 with closest market capitalization. We then calculate the difference between the target firm and the average firm.

In Table 3, we report the characteristics of companies targeted for engagement, and the difference between target companies and matched peer firms averaged across the target sample. The difference is computed as follows:

$$Diff_i = X_i - \sum X_j \,/\, m$$

where X_i is defined as a characteristic variable and the summation $\sum$ is over firms j =1,…,m from the matching group. The number of observations varies slightly due to the non-availability of data to calculate company characteristics.

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Insert Table 3 about here

Table 3 reports the attributes of the sample companies. Some of the attributes that we note are the following. First, target firms are more likely to be targeted by coordinated engagements with relatively large institutional ownership. The information on institutional ownership is obtained from FactSet using target firms' ISINs. As can be seen in the Table 3, such ownership information involves a variety of categories of shareholders, including pension funds and mutual funds. Second, compared to the average firm in the peer group, target companies tend to have a less volatile stock price, and a higher market capitalization, suggesting PRI targets the largest firms in their respective country and industry. Third, target firms tend to have lower stock return in the past year, but higher return on assets. Next, target firms have lower cash holdings and lower capital expenditures. Lastly, engaged firms are more likely to be targeted if their shares trade not only in their home market but also through an American depositary receipt (ADR). ADRs are denominated and pay dividends in dollars and may be traded like regular US securities on US markets. Examples of the target firms include First Resources (Singapore), Empresas COPEC S.A. (Chile), Lukoil (Russia), HSBC (UK), Petrochina (China), Microsoft (US), Nestle (Switzerland), EDF (France).

The target-firm attributes presented in Table 3 suggest that engagement collaborators tend to target more mature and larger firms, where there is higher institutional ownership and lower insider ownership, compared to control firms. This can strengthen the power of the engagers' "voice", reflecting both the activists' scale and the reputational concerns of the target. The higher institutional ownership also indicates activists who have greater voting rights and better alignment of (cash flow) interests than in the control sample. The lower insider ownership indicates the potential for lower entrenchment by the target management, and lower resistance to proposed advancements in responsible behavior. We also extend this analysis to ESG ratings, obtained from Sustainalytics. Firms with a high overall rating for ESG are more likely to be targeted. This is consistent with PRI's proactive approach to identify potential issues in an industry or region rather than to reactively fix ESG problems as they arise.

Insert Table 4 about here

We conduct a multivariate analysis of targeting the companies for ESG engagements by using a probit regression model. The dependent variable is *D_Target*, defined as one for target firm and zero for an average firm in the peer group. Table 4 reports the marginal effects of the probit regression coefficients. In these models, we control for year fixed effects, and standard errors are clustered at the target firm level. The findings are largely consistent with those in the univariate analysis with a few exceptions. The coefficient on ADR has a negative sign in columns (1) and (3), suggesting that ADR firms are less likely to be targeted. The switch in sign, as compared to the univariate analysis, could be due to the fact that size is controlled in the regressions and ADR firms tend to be larger. The coefficient on insider ownership becomes insignificant in most of the regressions, potentially because institutional shareholding, which is negatively correlated with insider shareholding, is now controlled. We also find that target firms are less likely to invest in R&D relative to their peers, again probably because we are controlling for other firm characteristics such as growth rate and cash holding.

3.2 Characteristics of activists

For each engagement, we are provided with data on the activist investors and the lead activists, if there are any. We are also provided with a separate list of 1,715 signatories with information on their name, signature date, headquarter country, asset under management, and type (asset owner, investment manager, or service provider). Such information is self-reported by institutions when they pledge to become signatories on PRI's website and is subsequently updated regularly when there are changes in, e.g., AUM. We manually match activists in each engagement with the signatory list by name. In total, we have 252 unique activists in our sample, 224 of which show up in the signatory list.[5] We next manually match each activist's name with the entity name in FactSet to obtain shareholding information. In total, these 224 signatories have an aggregate AUM of $23 trillion and an average AUM of $116 billion.

Panel B of Table 2 reports the geographic distribution of activist institutions in our sample. The 224 activist institutions are from 24 countries. This panel also reports how many engagements these activists are

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[5] The remaining 28 activists are removed from the signatory list either because they were no longer active in the platform or acquired by other institutions.

involved with. Institutions from the UK and the US are most active – they participate in 1,626 and 1,606 out of 1,671 engagements, respectively. These two countries also have the largest number of activists in our sample.

Panel A of Table 5 reports the number of activists and their combined AUM and shareholdings in target firms for an average ESG engagement in our sample. An average engagement in our sample has 26 activists, with a combined AUM of $2.7 trillion and a combined shareholding of $0.55 billion in the target firm in the quarter before the engagement starting date. Successful engagements have slightly more numerous activists and higher shareholdings in target firms. We next classify activists into domestic and foreign ones based on the geographic location of their headquarters. Domestic (foreign) activists are those with headquarters located in the same (different) country as (from) the target firm. An average engagement in our sample has 24 foreign activists and two domestic ones. We also classify activists into three types, namely the asset owners (AO), investment managers (IM), and service providers (SP).[6] The information on activist type is based on activists' self-reported information on PRI's website recorded while signing up as signatory.

An average engagement in our sample has 14 investment managers, 10 asset owners and one service provider. Not surprisingly, investment managers have the highest combined AUM and largest shareholding in target relative to asset owners and service providers, which have negligible AUM and shareholding in target firms. However, this could be a result of FactSet's data collection process. FactSet collects institutions' shareholding information from public sources, such as disclosures and regulatory filings, which may differ across countries and entity types. In cases where the filing is not required or public disclosure is not available, the institution may not appear in the database or the shareholding amount may be understated.

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[6] The top five investment managers in AUM in our sample are Deutsche Bank Asset and Wealth Management (Germany), Amundi (France), T.Rowe Price (US), Legal & General Investment Management (UK), and AXA Investment Managers (France). The top five asset owners in AUM in our sample are AXA Group (France), Norwegian Government Pension Fund Global (Norway), Old Mutual (UK), California Public Employees' Retirement System or CalPERS (US), and Caisse de depot et placement du Quebec (Canada). Examples of service providers include PIRC Limited (UK), Sustainalytics (Netherlands), As You Sow (US), Australian Council of Superannuation Investors (Australia), and Hermes Equity Ownership Service (UK).

This is more likely to be the case for asset owners, who may directly or indirectly own shares of the target firm without disclosure.

Among the 1,671 engagements in our sample, 410 have lead activist(s). Panel B of Table 5 reports the characteristics of lead activists for an average engagement with lead activist(s). On average, these engagements have 1.25 lead activists with a combined AUM of $170 billion and combined shareholding of $70 million in the target firm. The maximum number of lead activists in an engagement is four, while 80% of engagements in our sample have only one lead. The lead activists are most likely to be investment managers (with 79% of our sample having at least one investment manager as lead), and least likely to be service providers (10% of our sample). The lead activists could be either foreign or domestic.

3.3 Determinants of becoming activists

We first analyze an institution's decision to become an activist in an engagement. For this purpose, we create a pool of candidates for activists for each engagement. At the time when the data was provided to us (March 2017), PRI had a list of 1,715 active signatories from all over the world. By signing up as signatories, institutions pledge to follow PRI's six principles, one of which is to become active owners and incorporate ESG issues into their ownership policies and practices. However, many institutions have limited usage of PRI's Collaboration Platform for active engagements. In our sample, only 224 signatories out of 1,715 became activist exploiting the Collaboration Platform at least once. To alleviate the potential concern that these 224 signatories may be fundamentally different from the remaining 1,491, we limit the activist pool to the 224 signatories. In other words, for each engagement, there are 224 potential candidates to become activists. However, our results are unchanged if we expand the activist pool to include all 1,715 signatories.

Insert Table 6 about here

Table 6, Columns (1) and (2) report the regression results on signatory's first decision to become an activist. To understand whether time-invariant signatory features, such as size, type, and location, play a role in determining the decision, we report the results with and without signatory fixed effects. We include target

fixed effects to control for time-invariant target characteristics, such as location and industry.[7] We find that an important role in incentivizing the signatory to become an activist is being located in the same country as the target firm. Interestingly, we find locating in the same region (i.e., continent) but in a country that differs from the target firm does not seem to influence the decision to be an activist. These two results suggest that cultural similarity and language advantage, rather than geographic distance, are more likely to create incentives for activist engagements. This result could also be driven by the fact that signatories may have a home bias such that they are more interested in issues related to local firms and therefore more willing to be involved in engagement. We also find that the time since joining PRI as signatory and past engagement experience also play a role in activism decision, while signatory size, type, its holdings in target firm, and its exposure to target firm relative to its own portfolio value do not have a significant impact. The lack of significance of the latter factors indicate that the free-rider problem is less apparent in active engagements in our sample. Indeed, given that all the engagements are coordinated by PRI, who bear all the coordination and research costs, participating in engagement requires signatories to lend their names and allocate limited resources. This could be markedly less costly.

Columns (3) and (4) report the results on a signatory's incentive to become a lead activist, conditional on becoming an activist in a specific engagement. To play the lead role, the activist needs to be the point of contact, to post the invitation and to commit significant time and resources for the engagement. Some engagements even require face to face meetings with the management. While the lead activist arguably incurs considerable costs across activist investors, potential benefits of the engagement efforts such as improved firm performance and stock price are shared among all stakeholders. In such engagements, free-rider problems may disincentivize an activist from playing a lead role. Consistent with this conjecture, our results suggest that conditional on becoming an activist, a signatory is more likely to lead if it has higher holdings in the target, especially relative to its own portfolio value. On the other hand, more numerous activists on board, higher holdings in the target by institutional investors and other activists create a

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[7] We use an OLS model instead of probit or logit model due to high dimensional fixed effects.

disincentive for an activist to lead, as the associated benefits would be shared among more shareholders. Similar to the results on becoming an activist, a signatory is more likely to lead when the target is domestic, likely due to lower engagement costs or higher familiarity or interest in the matter.

Other observations from Table 6 are as follows. Interestingly, in contrast to their reputation in aggressive engagements on governance issues around the world, we find US signatories are less likely to become an activist or lead activist in our sample, perhaps partly due to a relative lack of interest in E&S issues. We also find that signatories with larger size (AUM) are more likely to lead, perhaps because larger institutors have more resources to expend on active engagements. Service Providers (as opposed to Asset Owners or Investment Managers) are more likely to lead, perhaps due to their expertise in shareholder engagements.

3.4 Determinants of engagement success

We now seek to estimate the determinants of success in individual engagements. We first examine whether success can be explained by target firm characteristics, including size (market capitalization), market-to-book ratio, return on assets, return volatility of its common stock, and institutional ownership. These variables are measured as the fiscal year immediately before the engagement starting date. After several years' experience without identifying a lead investor, PRI had found it helpful to recognize one or more lead investors to drive forward an initiative while drawing in numerous supporting investors. The change of engagement strategy enables us to examine the impact of a structured engagement on the effectiveness of engagement, i.e. whether the presence of lead investor(s) can explain success.

Next, we examine whether the composition of investors involved in ESG engagements, including geographic location (domestic or foreign) and type (investment manager, asset owner, or service provider) affects success. On the one hand, domestic activists would likely have linguistic and cultural advantages while establishing and maintaining the dialogue with the target firm. Proximity to the target may increase the chance of face-to-face interaction and thus the effectiveness of engagement. Having contacts in local regulatory body and/or media may also pressure target firms to adopt proposed changes. On the other hand, having foreign activists on board could broaden the scope and impact of engagements, particularly given the

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extent to which E&S issues are becoming a global concern. Due to their different compensation structure relative to fund managers of asset owners, investment managers possess the incentive and expertise to press for changes in target firms that they believe could enhance shareholder value. Service providers, though equipped with the skills and knowledge, often lack the means (e.g., voting rights) to forcefully pursue such changes.

Lastly, we examine whether the influence that can be mobilized by the activists—either the entire PRI team of investors that is actively seeking change, or just the lead activist(s)—could explain success. Measures of potential influence are based on the number of activists, their aggregate assets under management (AUM), or the combined dollar value of their investment in the target company.

Insert Table 7 about here

We conduct a multivariate analysis on the success of ESG engagements by using a probit regression model. The dependent variable is *D_Success*, defined as one for engagements recorded as successful and zero for engagements recorded as unsuccessful. We exclude engagements where success information is not available (655 observations). We include country fixed effects of the target to control for country factors, such as legal regime, capital market development, and investor protection that might explain the success rate. We also include area fixed effects to control for the possibility that success might be easier for certain engagement themes, notably for governance. In Panel A of Table 7, for the columns where we measure activist influence for all activists engaging with the target, we see a negative relation between market-to-book and successful engagement. In other words, when the target is more of a value stock, with a relatively low market-to-book ratio, the likelihood of a successful engagement is elevated. We observe in these specifications that stock return volatility is negatively related to the success of engagements, which is in line with the targeting approach of the active owners and suggests that active owners prefer less volatile firms to deal with on E&S issues. This is an interesting result, since Dimson, Karakaş and Li (2015) and Hoepner et al. (2016) find evidence that ESG engagements tend to decrease the stock volatility of the firms. We further find that success is more probable when there is a large institutional holding in the target company.

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The results in the first three columns of Table 7, Panel A, suggest that the presence of a lead activist is associated with an enhanced probability of success, and this is bolstered by having an influential group of activists (more numerous, larger AUM, and higher shareholding) involved in the engagement. The former finding is consistent with PRI's more structured approach in engagement via learning. This is in line with Dimson, Karakaş and Li's (2015) finding such that "voice" is better exercised with higher voting rights and cash flow exposure. In the last three columns, we limit the sample to engagements with lead activist(s) to further examine the impact of lead activist influence on success. We do not find the number of lead activists or the shareholding of lead activist(s) in the target to affect success. However, we find the size, i.e. the AUM, of the lead activist(s) does matter, probably because larger lead activists have higher stock-purchasing potential and thus larger bargaining power.[8]

In Panel B of Table 7, we examine the impact of activist location (domestic vs. foreign). The results in the first three columns indicate that having foreign activists with larger AUM and higher shareholdings in target firms significantly improves the success rate. This finding is consistent with the conjecture that having foreign activists on board broadens the scope and impact of engagements, especially when these activists are influential. In the last three columns, we examine the impact of lead activist location. Success is more probable if the lead activist is located domestically in location and is influential. This is consistent with the conjecture that proximity improves the effectiveness of engagements due to local expertise and knowledge.

In Panel C of Table 7, we consider the role of activist type. There are three types of activists—namely, investment managers, asset owners, and service providers—but only the former two types usually have AUM and shareholdings in the target firm. Therefore, the analysis in Table 7 mainly contrasts the role of investment managers to that of asset owners. The results suggest that the category of activist matters. There is a greater prospect of a successful engagement when there are more influential investment managers in the team. This finding is consistent with the conjecture that investment managers possess the incentive and expertise to press for changes in target firms. However, we do not find any benefit associated with having

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[8] This conjecture is consistent with our finding in Table 8 that lead investors start building up their shareholdings in target firms immediately after the initial engagement, especially for the engagements which turn out to be successful.

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more influential investment manager(s) appointed as lead activist(s). To sum up, findings in this section suggest that the most effective structure of a coordinated ESG engagement is to appoint a local lead with high influence, and to have influential foreign investment managers on board.

The enhanced success rates with lead activist(s) may reflect a learning curve, and opportunities for improvement in engagement strategies over time. This resembles the strategy of private equity activists. Given that some active owners, such as Blackrock, operate in both the private equity and the ESG domains, there may be learning opportunities that drive innovations in engagement. A related observation is that engagement success is positively related to the aggregate domestic lead activist's shareholding and the aggregate foreign activists' shareholding. This novel aspect may contribute to the ESG transfer and/or improved techniques for effective collaboration. This result is reminiscent of developing countries in which global brands ("foreign activists") invest in emerging markets in collaboration with affluent local families ("domestic lead activists").

3.5 Post-engagement changes in performance and shareholding

Table 8 reports the regression result for various performance outcomes following engagements. In particular, we analyze ROA, buy-and-hold annual return, sales growth, stock return volatility, ESG rating, institutional holdings, pension fund holdings, total activist US dollar holdings, and lead activist US dollar holdings. We include firm fixed effects and year fixed effects in all regressions. We also include firm size (market capitalization) and market-to-book ratio to control for firm characteristics and include industry medians of the dependent variable to control for potential industry trends. To assess the change in target firm performance, we limit the sample to two years before and four years after the engagement start date. The four post-engagement indicator variables, i.e. Post *Year+1, Year+2, Year+3,* and *Year+4,* thus capture the performance change in *Year +N* relative to the average performance in the two-year period prior to engagement. We conduct the analysis separately for successful and unsuccessful engagements.

Results in Panel A of Table 8 suggest significant increases in the ROA, especially at Year +3 and Year +4. This is not surprising given that on average it takes two years for a project to complete. We also observe a

significant increase in sales growth immediately after engagement. We do not observe such trend in Panel B, the unsuccessful engagement sample. These findings suggest that successful engagements in ESG issues lead to improvement in firm sales and profitability. Interestingly, we do not observe much change in stock return or stock return volatility. Additionally, we note that lead activist holdings increase significantly after successful engagements, but do not change after unsuccessful engagements. The former finding could be a result of lead activists using increasing shareholding as a bargaining tool to achieve success.

Insert Table 8 about here

Our findings suggest that successful engagements lead to improvement in the profitability of the targeted firms in the medium to long horizon. Increases in the lead activists' holding in the target company post engagements suggest that such activists are indeed "universal owners" with ultra-long-term holdings and substantial ownerships. The decrease in the institutional holdings in the first year after the engagements may enable these activists to realize potential gains. It enables them to undo their overweight position in the target company that had been necessary to boost their voting rights and to strengthen their voice during engagements. The neutral post-event change in performance measures after unsuccessful engagement is consistent with Dimson, Karakaş and Li (2015) who report no significant changes following unsuccessful engagements by a single major active activist.

4. Conclusion

Our study provides the first detailed evidence on the nature and impact of coordinated engagements in a global setting. We show that leadership is decisive in collaborative engagements. Success rates are elevated by about one-third when there is a lead investor who heads the dialogue, especially when that investor is in the same geographic region as the targeted firm. We also show that investor influence is crucial. Success rates are higher when activist investors are more numerous, have larger assets under management and own a bigger proportion of the target company, and this is especially important when investment managers are

engaging across national boundaries. These findings suggest that, for maximum effect, coordinated engagements on E&S issues should preferably have a lead investor that is well suited linguistically, culturally and socially to influencing target companies. Supporting investors are also vital, and they should ideally be major investment managers that have influence because of their scale, ownership and geographic breadth.

Our findings suggest that coordinating activity through a third party can significantly reduce the costs associated with active engagement. Importantly, it can alleviate the free-rider problem that is a deterrent to active ownership. Institutions' incentives to become activists are mainly shaped by their expertise and interest. Having a structured engagement strategy is more effective in achieving stated objectives and improving the performance of investee companies. Institutions with enough skin in the game relative to others are more likely to bear the engagement costs and to use their credible voice to play the lead role.

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Appendix A: Examples of PRI-Coordinated ESG Engagement Projects

This appendix provides a summary of three coordinated engagement sequences. Further details are provided by Piani (2013), from whom the following summaries are adapted.

A.1 Anti-corruption

During 2010-13, PRI signatories with assets of $2 trillion engaged with 20 companies in various sectors in the belief that robust anti-corruption measures enhance the corporate performance, while the absence of such measures can exacerbate risk exposures. A broad group of activists wrote to companies requesting details of their anti-corruption systems, and an independent research provider analyzed their performance. They then analyzed non-responders' performance, and letters were sent to them presenting the findings and requesting further information. Overall, 85% of targets responded and were willing to engage with activists. One-third of responders demonstrated improved systems and transparency. After a further letter in 2012, over 60% of non-responding companies agreed to engage with activists. By 2013, 16 of the companies recorded improved performance, with 10 quadrupling their score.

Success is evaluated based on comparing anti-corruptions scores in pre- and post-engagement periods. Engagements involving target companies whose anti-corruption scores improved by 10% or more are considered as successful, while engagements on those with scores improving by under 10% are considered to be unsuccessful.

A.2 Responsible business in conflict areas

During 2009-12, 16 PRI signatories with assets of $0.6 trillion, led by Hermes Fund Managers, engaged with 16 US, European and Japanese consumer electronics companies to ensure their supply chains were not involved in the Eastern Congo conflict. They requested public disclosure on mineral-sourcing and agreement to independent verification of suppliers' stated practices. 18 meetings were held with target companies, and several activists also lobbied in favor of the SEC's Conflict Minerals Provision rule (Section 1502) of the 2012 Dodd-Frank Act. By 2012, there were quantified improvements in public disclosure and implementation measures, including supplier monitoring and external verification. In 2012 the SEC Conflict Minerals Provision rule was approved, the expectation of potential regulatory requirements having strengthened the business case for companies to respond to activist concerns.

Success is evaluated based on comparing disclosure and implementation scores in pre- and post-engagement periods. Engagements on target companies whose scores improved for 10% or more are considered as successful, while engagements on those with scores improving 10% or below are considered as unsuccessful.

A.3 UN Global Contract (UNGC)

During 2012, 32 PRI signatories representing $3 trillion, led by Aviva Investors, engaged with 116 UNGC member companies regarding their communication on progress. They welcomed advanced reporting by some companies, and encouraged non-communicating companies to respond and thereby reactivate their UNGC status. Phone and email follow-up with the 25 non-communicating companies was undertaken by activists and the PRI Secretariat and by the UNGC's local networks. By end-2012, 76% of non-communicating companies had responded and regained active status. Consistent and frequent follow-up appeared to encourage responses, as did having local-level contact points.

Success is recorded when the target firm became active.

Appendix B: Success Measure

This appendix lists the criteria PRI uses to evaluate the success of each project. CDLI denotes Carbon Disclosure Leadership Index. Success is evaluated for each target firm individually for each project.

Project name	Success measure
Anti-corruption (Phase 1)	Scorecards
Anti-corruption (Phase 2)	Scorecards
CDLI 2011	Whether target's leadership index improves from the bottom quartile
CDLI 2012	Whether target's leadership index improves from the bottom quartile
CDP Carbon Action	Whether target sets an objective or demonstrates progress on this
CDP Engagement on Emissions Reduction Plans	Whether target set emission reduction program in the year after engagement
CDP Water Disclosure 2011	Whether the target disclosed CDP water in the year after engagement
CDP Water Disclosure 2012	Whether target's leadership index improves from the bottom quartile
CEO Water Mandate	Whether the target signed up in the initiative
COP1 - First annual UNGC engagement	Whether the UNGC target company became active
COP2 - Second annual UNGC engagement	N/A
COP3 - Third annual UNGC engagement	Whether the UNGC target company became active
COP4 - Fourth annual UNGC engagement	Whether the UNGC target company became active
COP5 - Fifth annual UNGC engagement	Whether the UNGC target company became active
COP6 - Sixth annual UNGC engagement	N/A
Corporate climate lobbying	N/A
Director nominations	Scorecards
Employee relations	Scorecards
Forest Footprint Disclosure 2011	Whether the target disclosed forest footprint
Forest Footprint Disclosure 2012	Whether the target disclosed forest footprint
Fracking	Scorecards
Human rights in extractives	Scorecards (interim)
Indigenous rights	Scorecards
Labor standards in the agricultural supply chain (phase 1)	Scorecards
Palm oil (buyers)	N/A
Palm oil (growers)	Scorecards (interim)
Responsible business in conflict areas	Scorecards
Senior gender equity with global companies	Scorecards
Sudan engagement	Scorecards
Sustainable fisheries	Whether the target provided a response which address requested areas
Water risks in agricultural supply chains	N/A

Appendix C: Variable Definitions

Variable Name	Definition
Fundamental data (Source: WorldScope & Compustat Global and North America)	
Market Cap	Market capitalization at fiscal year-end (in $millions)
Tobin's Q	(Total assets-Book value of equity + Market value of equity)/ Total assets
Market-to-book	Market value of equity / Book value of equity
Stock return	Buy-and-hold stock return of the fiscal year
Stock return volatility	Standard deviation of monthly stock returns during the fiscal year
Sales growth	(Current year sales - Previous year sales) / Previous year sales
Return on assets	Earnings before interest, tax, depreciation and amortization (EBITDA) / Total assets
Cash/Assets	Cash / Total assets
Capex/Assets	Capital expenditures / Total assets
R&D/Assets	R&D expenditures / Total assets
Leverage	(Short-term debt + Long-term Debt) / Total assets
Dividend payout	Common dividends in cash / Net income before extraordinary items
ADR firm indicator	A firm-level indicator suggesting a foreign firm has ADR traded in the US
Insider holding	Number of closely held shares divided by common shares outstanding
Shareholding data (Source: FactSet)	
Institutional holding	Percentage of shareholding by institutions
Independent institutional holding	Percentage of shareholding by independent institutions; independent institutions include investment companies (mutual funds, fund of fund, etc), investment advisors, hedge funds, VCs, and are as defined in Ferreira and Matos (2008)
Pension fund holding	Percentage of shareholding by pension funds, endowments, and sovereign wealth managers, i.e. Category 5 in Ferreira and Matos (2008)
Mutual fund holding	Percentage of shareholding by mutual fund and fund of fund, i.e. Category 3 in Ferreira and Matos (2008)
Blockholder holding	Percentage of shareholding by block holders. Block holders are defined as those holding 5% or above.
ESG rating data (Source: Sustainalytics)	
Overall ESG rating	The weighted total ESG score
Environment rating	The weighted environment score

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Table 1: List of coordinated engagement projects

This table lists 31 PRI-coordinated ESG projects used in our analysis. An engagement is defined as one target firm in one project. Data on success is provided by PRI and is available for 1,010 of 1,654 engagements. Success rate% is the number of successful engagements divided by the total number of engagements. Success measure is the criteria that PRI used to evaluate the success of each engagement (see Appendix B). This table also lists the average number of activists and domestic activists for each project.

Project name	Project duration	Engagements			Project has lead?	Activists	
		Total	Successful	Success rate%		Total	Domestic
Anti-corruption (Phase 1)	01-Mar-10 – 31-Mar-13	20	16	80.0%	Yes	25.4	1.1
Anti-corruption (Phase 2)	01-Apr-13 – 15-Jun-15	32	29	90.6%	Yes	37.2	3.1
Carbon Disclosure Leadership Index (CDLI 2011)	01-Mar-11 – 31-Dec-11	25	8	32.0%		1.7	0.4
Carbon Disclosure Leadership Index (CDLI 2012)	01-Mar-12 – 31-Jan-13	81	22	27.2%		34.0	3.0
CDP Carbon Action	16-Nov-12 – 19-Dec-14	123	34	27.6%	Yes	33.0	4.1
CDP Engagement on Emissions Reduction Plans	01-Sep-09 – 31-Dec-11	40	6	15.0%		29.9	2.6
CDP Water Disclosure 2011	01-Feb-11 – 30-Sep-11	93	19	20.4%		15.0	0.7
CDP Water Disclosure 2012	01-Mar-12 – 31-Oct-12	78	20	33.9%		20.0	0.7
CEO Water Mandate	01-Aug-08 – 30-Sep-10	100	.	.		35.0	0.8
COP1 - First annual engagement with UNGC Companies	01-Jan-07 – 31-Dec-08	109	23	45.1%		36.0	0.8
COP2 - Second Annual Engage- ment on UNGC Companies	01-Dec-08 – 31-Dec-09	101	10	38.5%		39.0	1.0
COP3 - Third annual engagement with UNGC companies	01-Jan-10 – 31-Dec-10	113	18	75.0%		35.0	1.0
COP4 - Fourth annual engage- ment with UNGC Companies	01-Jan-11 – 31-Dec-11	161				22.0	0.8
COP5 - Fifth annual engagement with UNGC Companies	01-Feb-12 – 28-Feb-13	90	24	26.7%		13.0	1.3
COP6 - Sixth annual engagement on UNGC companies	10-Mar-14 – 16-Apr-14	68	27	39.7%		21.0	1.4
Corporate climate lobbying	03-Mar-15 –	19	.	.	Yes	5.4	2.5

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Project name	Project duration	Engagements			Project has lead?	Activists	
		Total	Successful	Success rate%		Total	Domestic
Director nominations	19-Oct-12 – 30-Sep-16	23	18	78.3%	Yes	18.0	4.6
Employee relations	19-Oct-12 – 31-Dec-15	24	14	58.3%	Yes	24.0	2.5
Forest Footprint Disclosure 2011	01-Aug-11 – 31-Mar-12	25	4	16.0%		21.0	1.3
Forest Footprint Disclosure 2012	01-Jun-12 – 31-Oct-12	8	0	0.0%	Yes	31.0	7.0
Fracking	19-Oct-12 – 23-Dec-16	29	26	89.7%	Yes	7.6	1.5
Human rights in extractives	03-Feb-14 –	32	27	84.4%	Yes	51.5	3.2
Indigenous rights	01-Jun-09 –	10	3	37.5%	Yes	16.0	2.8
Labor standards in the agricultural supply chain (phase 1)	19-Oct-12 – 31-Dec-15	31	18	58.1%	Yes	39.0	5.0
Palm oil (buyers)	25-Jan-13 –	44	.	.	Yes	25.0	1.8
Palm oil (growers)	26-Mar-14 –	13	12	92.3%	Yes	9.8	0.5
Responsible business in conflict areas	01-Nov-10 – 30-Sep-13	15	9	69.2%		16.0	2.4
Senior gender equity with global companies	01-Feb-10 – 30-Sep-12	53	12	48.0%	Yes	10.0	1.5
Sudan engagement	01-Jan-08 – 31-Dec-12	7	1	14.3%		28.0	2.6
Sustainable fisheries	01-Jun-11 – 31-Jan-13	40	25	62.5%		20.0	2.7
Water risks in agricultural supply chains	19-Oct-12 –	47			Yes	22.7	2.7

Table 2: Geographic distribution of targets and activists

This table provides the geographic distribution of target firms and activist investors in our sample. Panel A lists the country where targets are domicile and the number of engagements and the number of targets within each country. Success rate% is the number of successful engagements divided by the total number of engagements. Our sample includes 995 unique target firms from 63 countries, involved in 1,671 engagements, among which 1,010 has information on success. Panel B lists the country where the activists' headquarters are located, the number of engagements in which activists from a particular country participate, and their success rate. Our sample includes a total of 224 unique activists from 24 countries and 206 of them are PRI signatories.

Panel A: Distribution of targets

Target country	No. of engagements	Success rate%	No. of targets	Target country	No. of engagements	Success rate%	No. of targets
United States	290	43.9%	162	Belgium	8	75.0%	6
France	123	50.0%	60	Bermuda	7	14.3%	4
United Kingdom	112	49.4%	67	Israel	7	40.0%	5
Japan	95	28.8%	62	Ireland	6	0.0%	3
Germany	83	35.7%	44	Luxembourg	6	50.0%	2
Canada	78	33.9%	49	Colombia	5	0.0%	4
India	77	22.4%	56	Croatia	5	33.3%	4
Spain	58	50.0%	28	Egypt	5	100.0%	4
Brazil	55	34.8%	29	Portugal	5	75.0%	3
Italy	53	54.5%	26	Sri Lanka	5	0.0%	4
Australia	45	61.3%	29	Thailand	5	66.7%	5
South Korea	44	35.5%	24	Turkey	5	33.3%	5
Sweden	41	61.9%	23	Bulgaria	4	50.0%	2
Switzerland	41	47.8%	21	Greece	4	100.0%	3
China	36	26.1%	20	Nigeria	4	0.0%	4
South Africa	34	45.0%	19	Peru	4	0.0%	3
Pakistan	32	50.0%	17	Poland	4	100.0%	2
Finland	29	40.0%	13	New Zealand	3	0.0%	3
Netherlands	28	75.0%	12	Tunisia	3	100.0%	3
Norway	23	46.2%	13	Bosnia-Herzegovina	2	0.0%	1
Singapore	23	35.0%	9	Czech Republic	2	0.0%	1
Denmark	20	42.9%	10	Hungary	2	.	1
Mexico	17	75.0%	11	Macedonia	2	50.0%	2
Hong Kong	16	23.1%	10	Slovenia	2	0.0%	2
Russia	15	20.0%	9	Bangladesh	1	—	1
Chile	13	33.3%	9	Cyprus	1	100.0%	1
Indonesia	12	50.0%	8	Kenya	1	0.0%	1
Argentina	10	0.0%	6	Latvia	1	100.0%	1
Austria	10	80.0%	5	Oman	1	0.0%	1
Lithuania	10	42.9%	6	United Arab Emirates	1	—	1
Malaysia	10	50.0%	7	Zambia	1	—	1
Taiwan	9	14.3%	8				

Panel B: Distribution of activists

Activist country	No. of engagements	Success rate%	No. of activists
United Kingdom	1626	40.9%	42
United States	1606	37.9%	40
Netherlands	1548	45.4%	21
Canada	1523	41.9%	20
France	1367	42.6%	14
Sweden	1316	55.5%	17
Australia	1209	39.2%	15
Luxembourg	900	42.8%	2
New Zealand	792	66.4%	4
Brazil	760	39.0%	4
Finland	716	45.9%	4
South Africa	690	34.1%	6
Norway	565	50.0%	6
Switzerland	542	59.5%	5
Spain	539	37.2%	4
Germany	222	70.0%	8
Italy	133	55.4%	1
Ireland	121	22.3%	2
Austria	119	73.3%	3
Denmark	109	45.1%	1
Japan	108	60.7%	2
Singapore	107	50.8%	1
Mauritius	47	—	1
Belgium	32	90.6%	1

Table 3: Summary statistics of targets

This table compares attributes of target firms with their peers in the fiscal year immediately before the engagement start date. For each target, the peer firms are drawn from the same country and industry (3-digit SIC). When fewer than three peer firms are found for a particular target, we relax the industry to 2-digit SIC. When more than 10 peers are found, we keep 10 with the closest market capitalization to the one of the target. We then calculate the average of each variable among the peers and compare the average with the target. The left panel reports summary statistics for all target firms with available data and the right panel reports the average difference between target firms and the peer group with available information on both. For environment rating, the statistics are only calculated for engagements in environment areas. All variables are defined in Appendix B. All continuous variables are winsorized at 1st and 99th percentile levels.

Firm attributes	Summary Statistics				Diff. from country/industry mean		
	Mean (1)	Median (2)	StDev (3)	Obs (4)	Avg. Diff. (5)	t-stat (6)	Obs (7)
Market Cap ($billion)	39.18	11.51	93.64	1,671	35.38	15.63	1,587
Tobin's Q	1.62	1.32	1.00	1,664	-0.30	-7.08	1,580
Market-to-book	2.55	1.83	2.55	1,652	0.03	0.47	1,565
Stock return	0.16	0.10	0.47	1,655	-0.07	-5.72	1,567
Stock return volatility	0.09	0.08	0.05	1,650	-0.04	-22.13	1,563
Return on assets	0.13	0.12	0.09	1,668	0.08	16.68	1,584
Asset turnover	0.91	0.77	0.68	1,662	0.00	0.30	1,578
Leverage	0.25	0.24	0.15	1,671	0.01	3.48	1,587
Dividend payout	0.39	0.34	0.66	1,671	0.09	5.35	1,587
Sales growth	0.09	0.07	0.21	1,656	-0.13	-11.30	1,566
Cash/Assets	0.06	0.04	0.07	1,658	-0.03	-12.87	1,571
Capex/Assets	0.01	0.00	0.02	1,671	0.00	-4.74	1,587
R&D/Assets	0.06	0.05	0.05	1,671	0.00	3.07	1,587
Institutional holding	0.72	0.99	0.40	1,671	0.28	29.03	1,587
Independent institutional holding	0.64	0.85	0.36	1,671	0.24	27.27	1,587
Pension fund holding	0.07	0.06	0.07	1,671	0.04	25.32	1,587
Mutual fund holding	0.13	0.12	0.11	1,671	0.06	22.24	1,587
Blockholder holding	0.22	0.18	0.20	1,671	-0.01	-1.33	1,587
Insider holding	0.27	0.17	0.29	1,671	-0.08	-11.23	1,587
ADR firm indicator	0.44	0.00	0.50	1,671	0.35	30.13	1,587
Overall ESG rating	61.99	62.00	10.22	982	5.41	15.28	648
Environment rating	55.25	56.00	12.03	457	3.32	5.11	289

Table 4: Determinants of targeting

This table examines the determinants of targeting by comparing target firms with their peers in the fiscal year immediately before the engagement start date using probit regressions. For each target, the peer firms are drawn from the same country and industry (3-digit SIC). When fewer than three peer firms are found for a particular target, we relax the industry to 2-digit SIC. When more than 10 peers are found, we keep 10 with the closest market capitalization to the one of the target. For each target, we obtain one observation for the peer by calculating the average of its peer group. The dependent variable D_Target is defined as one for the target and zero for the peer. Coefficients are presented as marginal effects. The first two columns include all engagements with data on regression variables and the last two columns only include engagements in environmental area. All variables are defined in Appendix B. All regressions incorporate year fixed effects. Standard errors are clustered at the target firm level. All continuous variables are winsorized at 1st and 99th percentile levels. ∗∗∗, ∗∗, and ∗ denote significance at the 1%, 5%, and 10% level, respectively.

	Prob (D_Target)			
Determinants of Targeting	**All Areas**		**Environmental Area**	
	(1)	**(2)**	**(3)**	**(4)**
Market Cap	0.021***	0.016***	0.018***	0.012***
	(12.00)	(10.49)	(10.25)	(8.76)
Tobin's Q	-0.051***	-0.052**	-0.033**	-0.042**
	(-3.53)	(-2.50)	(-2.03)	(-2.13)
Stock return	-0.054***	-0.098***	-0.119***	-0.113***
	(-2.68)	(-3.17)	(-3.17)	(-2.91)
Stock return volatility	-0.558***	0.375	-0.523*	0.191
	(-2.71)	(1.18)	(-1.90)	(0.59)
Return on assets	1.122***	0.756***	1.030***	0.526**
	(7.75)	(3.98)	(5.33)	(2.35)
Asset turnover	-0.006	-0.018	-0.002	-0.024
	(-0.33)	(-0.91)	(-0.11)	(-1.39)
Leverage	0.254***	0.135	0.383***	0.101
	(3.14)	(1.50)	(3.65)	(1.09)
Dividend payout	0.008	-0.028	-0.000	-0.027*
	(0.50)	(-1.23)	(-0.02)	(-1.70)
Sales growth	-0.293***	-0.315***	-0.208***	-0.115***
	(-7.75)	(-5.49)	(-4.34)	(-2.58)
Cash/Assets	-0.291*	-0.251	-0.343	-0.028
	(-1.71)	(-1.32)	(-1.50)	(-0.16)
Capex/Assets	-0.707***	-0.256	-0.587**	-0.407*
	(-3.33)	(-1.16)	(-2.32)	(-1.89)
R&D/Assets	-1.366**	-1.497***	-1.509**	-1.664***
	(-2.38)	(-3.31)	(-2.39)	(-3.59)
Institutional holding	0.249***	0.272***	0.233***	0.145***
	(7.83)	(5.89)	(5.87)	(2.78)
Insider holding	0.007	-0.085	-0.063	-0.124**
	(0.18)	(-1.47)	(-1.27)	(-2.03)
ADR firm indicator	-0.120***	-0.013	-0.052**	0.024
	(-6.04)	(-0.57)	(-2.23)	(1.21)
Overall ESG rating		0.006***		
		(4.11)		
Environment rating				0.000
				(0.11)
Observations	3,026	1,258	1,394	572
Pseudo R-squared	0.393	0.541	0.462	0.521

Table 5: Characteristics of activists

This table presents certain characteristics of the activists involved in the collaborative engagements with the target firms. Panel A presents the characteristics of all activists involved in ESG engagements. Panel B presents characteristics of lead activists. We classify activists into domestic and foreign ones based on the geographic location of their headquarters. Domestic (foreign) activists are those with headquarters located in the same (different) country as (from) the target firm. We also classify activists into three types, namely the assets owner (AO), investment managers (IM), and service providers (SP). The information on investor type is based on activists' self-reported information on PRI's website when they signed up as signatory. Total investor AUM is the sum of current AUMs of all activists in an engagement, wherever the information on AUM is available. Information on investor's AUM is obtained from FactSet dated as November 2016. When such data are missing, we supplement them with activists' self-reported AUMs on PRI's website when they signed up as signatory. Total investor shareholding is the sum of shareholdings in target from all activists involved in an engagement. Shareholding of each investor is calculated as percentage shares in target firm multiplied by target's market capitalization in the quarter immediately before the engagement starting date. Information on shareholding is obtained from FactSet. All continuous variables are winsorized at 1st and 99th percentile levels.

Activist Characteristics	All Engagements		Successful Engagements		Unsuccessful Engagements	
	Mean	Median	Mean	Median	Mean	Median
Panel A: All Activists	N = 1,671		N = 428		N = 588	
Total number of activists	26.11	24.00	25.38	24.00	24.37	21.00
Total number of foreign activists	24.38	22.00	23.13	21.00	22.41	20.00
Total number of domestic activists	1.73	0.00	2.25	1.00	1.96	0.00
Total number of Investment Managers (IM)	13.90	14.00	15.03	13.50	14.02	16.00
Total number of Asset Owners (AO)	9.63	11.00	8.03	8.00	7.27	8.00
Total number of Service Providers (SP)	1.15	1.00	1.18	1.00	1.37	1.00
Total activist AUM (current, $b)	2763.53	2760.17	2594.63	2410.77	2500.21	2523.19
Total foreign activist AUM (current, $b)	2604.19	2706.72	2396.98	2161.20	2354.88	2418.13
Total domestic activist AUM (current, $b)	159.34	0.00	197.65	4.95	145.34	0.00
Total IM AUM (current, $b)	2233.85	2326.75	2209.00	1886.17	2090.52	1886.17
Total AO AUM (current, $b)	529.21	433.14	385.09	258.14	408.90	250.17
Total SP AUM (current, $b)	3.78	0.00	6.26	0.00	3.27	0.00
Total activist shareholdings ($b)	0.55	0.08	0.70	0.13	0.34	0.04
Total foreign activist shareholdings ($b)	0.43	0.05	0.55	0.07	0.24	0.02
Total domestic activist shareholdings ($b)	0.13	0.00	0.16	0.00	0.10	0.00
Total IM shareholdings ($b)	0.49	0.07	0.64	0.12	0.31	0.03
Total AO shareholdings ($b)	0.07	0.00	0.07	0.00	0.03	0.00
Total SP shareholdings ($b)	0.00	0.00	0.00	0.00	0.00	0.00

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Activist Characteristics	All Engagements		Successful Engagements		Unsuccessful Engagements	
	Mean	Median	Mean	Median	Mean	Median
Panel B: Lead activists	**N = 410**		**N = 182**		**N = 85**	
Total number of lead activists	1.25	1.00	1.30	1.00	1.28	1.00
Total number of foreign lead activists	0.69	1.00	0.74	1.00	0.67	1.00
Total number of domestic lead activists	0.56	1.00	0.56	0.50	0.61	1.00
Total number of lead Investment Managers (IM)	0.96	1.00	1.03	1.00	0.92	1.00
Total number of lead Asset Owners (AO)	0.19	0.00	0.21	0.00	0.27	0.00
Total number of lead Service Providers (SP)	0.10	0.00	0.09	0.00	0.19	0.00
Total lead activist AUM (current, $b) *	170.27	69.63	208.35	130.81	124.95	34.35
Total foreign lead activist AUM (current, $b) *	138.60	14.38	165.56	54.59	112.61	7.63
Total domestic lead activist AUM (current, $b) *	31.67	0.00	42.79	0.00	12.34	0.00
Total lead IM AUM (current, $b)	156.03	34.35	188.22	97.58	112.15	13.40
Total lead AO AUM (current, $b)	14.21	0.00	20.11	0.00	12.76	0.00
Total lead SP AUM (current, $b)	2.29	0.00	1.97	0.00	5.45	0.00
Total lead activist shareholdings ($b)	0.07	0.00	0.08	0.00	0.02	0.00
Total foreign lead activist shareholdings ($b)	0.06	0.00	0.06	0.00	0.02	0.00
Total domestic lead activist shareholdings ($b)	0.02	0.00	0.03	0.00	0.00	0.00
Total lead IM shareholdings ($b)	0.07	0.00	0.07	0.00	0.02	0.00
Total lead AO shareholdings ($b)	0.01	0.00	0.01	0.00	0.00	0.00
Total lead SP shareholdings ($b)	0.00	0.00	0.00	0.00	0.00	0.00

* Number of observations are 390, 174, and 85 for all, successful and unsuccessful engagements, respectively.

Table 6: Determinants of becoming activist

This table reports OLS regression results on the determinants of a signatory becoming an activist or lead activist. In Columns (1) and (2), dependent variable is defined as one if a signatory pledges as activist in a particular engagement, and zero otherwise. For each engagement, all 206 signatories in our sample are potential candidates for activists. In Columns (3) and (4), dependent variable is defined as one if an activist in a particular engagement takes the lead role, and zero otherwise. For each engagement, only signatories who pledge as activists are potential candidates for the lead role. Target firm characteristics, including size and institutional holding, are measured at the fiscal year immediately before the project starting date. Signatory holdings in the target and signatory portfolio value are measured at the calendar quarter immediately before the project starting date. All variables are defined in Appendix C. All regressions incorporate target firm fixed effects and calendar year of project starting date fixed effects. Columns (2) and (4) also include signatory fixed effects. Standard errors are clustered at the target firm and signatory levels. All continuous variables are winsorized at 1st and 99th percentile levels. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

	Becoming an Activist		Becoming a Lead Activist	
	(1)	**(2)**	**(3)**	**(4)**
Target Size	-0.005	-0.005	0.028	0.035*
	(-1.34)	(-1.40)	(1.57)	(1.83)
Target Institutional Holding	0.022	0.022	-0.158	-0.208*
	(0.91)	(0.90)	(-1.19)	(-1.93)
Target is Domestic	0.016***	0.014**	0.211***	0.206***
	(2.67)	(2.46)	(7.58)	(7.27)
Target is Foreign but Local	0.007	0.001	0.008	0.001
	(1.06)	(0.18)	(0.78)	(0.05)
Signatory Size	-0.002		0.006**	
	(-0.63)		(2.11)	
US Signatory	-0.025**		-0.049***	
	(-2.16)		(-3.88)	
UK Signatory	-0.007		-0.006	
	(-0.62)		(-0.37)	
Asset Owner	0.009		-0.043**	
	(0.47)		(-2.17)	
Investment Manager	0.001		-0.045**	
	(0.04)		(-2.32)	
Joined PRI before Project Start	0.096***	0.122***	0.003	-0.001
	(8.05)	(7.61)	(0.30)	(-0.05)
Activist Experience	0.125***	0.117***	0.003*	-0.004
	(10.86)	(10.36)	(1.95)	(-0.88)
Signatory Holding in Target	-0.001	-0.002	0.046***	0.040***
	(-0.66)	(-0.80)	(2.77)	(2.97)
Holding in Target/Signatory Portfolio Value	0.001	-0.000	0.035**	0.043***
	(0.18)	(-0.05)	(2.01)	(2.67)
Holding in Target by Other Signatories	0.002	0.002		
	(0.08)	(0.06)		
Number of Activists			-0.003***	-0.003***
			(-3.28)	(-3.47)
Holding in Target by Other Activists			-0.500	-0.777**
			(-1.11)	(-1.98)
Observations	340,724	340,724	8,861	8,858
Adj. R-squared	0.399	0.440	0.118	0.167
Target Fixed Effects	Y	Y	Y	Y
Signatory Fixed Effects	N	Y	N	Y
Year Fixed Effects	Y	Y	Y	Y

Table 7: Determinants of successful engagements

This table examines the determinants of success by comparing successful with unsuccessful engagements using probit regressions. The dependent variable D_Success is defined as one for the successful engagements and zero for unsuccessful engagements. Coefficients are presented as marginal effects. All regressions include control variables (market capitalization of target and ROA of target), none of which are significant. Target firm characteristics are measured as the fiscal year immediately before the engagement start date. The first three columns include all engagements with data on success and regression variables and the last three columns only include engagements with at least one lead activist. In Panel A, (lead) activist influence is measured as the number of, total asset under management (AUM) of, and total value of shareholding in target of (lead) activists. In Panel B, we classify activists based on the geographic location of their headquarters. Domestic (Foreign) activists are those with headquarters located in the same (different) country as the target firm. In Panel C, we classify activists based on their type: whether the activist is an investment manager or is an asset owner or service provider. Information on activist type is based on their self-reported information on PRI's website when they signed up as signatory. Total activist AUM is the sum of current AUMs of all activists in an engagement, wherever the information on AUM is available. Information on activist's AUM is obtained from FactSet dated as November 2016. When it is missing, we supplement it with activists' self-reported AUM on PRI's website when they signed up as signatory. Total activist shareholding is the sum of shareholdings in target from all activists involved in an engagement. Shareholding of each activist is calculated as percentage shares in target firm multiplied by target's market capitalization in the quarter immediately before the engagement starting date. Information on shareholding is obtained from FactSet. Other variables are defined in Appendix B. All regressions incorporate year fixed effects and firm fixed effects. Standard errors are clustered at the target firm level. All continuous variables are winsorized at 1st and 99th percentile levels. ∗∗∗, ∗∗, and ∗ denote significance at the 1%, 5%, and 10% level, respectively.

	Prob (D_Success=1)					
Determinants of Success	**Engagements with all activists**			**Engagements with lead activist**		
	Activist influence measured as					
	Number	AUM	$ in target	Number	AUM	$ in target
Panel A: Influence of lead activist						
Market-to-book of target	-0.024***	-0.022**	-0.023**	-0.025*	-0.024**	-0.017
	(-2.63)	(-2.50)	(-2.48)	(-1.89)	(-2.02)	(-1.41)
Stock return volatility of target	-0.953**	-0.950**	-0.849**	1.001	0.901	0.692
	(-2.31)	(-2.30)	(-2.04)	(1.18)	(1.08)	(0.86)
Institutional holding (%) in target	0.183***	0.188***	0.156**	0.259*	0.327**	0.190
	(2.92)	(3.00)	(2.46)	(1.69)	(2.03)	(1.26)
Engagement has lead activist(s)	0.326***	0.331***	0.299***			
	(5.06)	(5.20)	(4.93)			
Activist influence	0.003*	0.035**	0.045***	0.009**	0.053**	0.070**
	(1.66)	(2.43)	(2.63)	(2.52)	(2.38)	(2.46)
Lead activist influence				-0.031	0.519**	0.319
				(-0.49)	(2.16)	(0.74)
Pseudo R-squared	0.164	0.167	0.166	0.131	0.172	0.132
Panel B: Impact of activist location						
Market-to-book of target	-0.024***	-0.023**	-0.023**	-0.025*	-0.024*	-0.015
	(-2.62)	(-2.55)	(-2.49)	(-1.89)	(-1.79)	(-1.23)
Stock return volatility of target	-0.957**	-0.951**	-0.851**	0.955	0.961	0.665
	(-2.31)	(-2.29)	(-2.04)	(1.11)	(1.14)	(0.84)
Institutional holding (%) in target	0.182***	0.190***	0.156**	0.258*	0.312*	0.186
	(2.92)	(3.03)	(2.46)	(1.66)	(1.93)	(1.23)

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Determinants of Success	Prob (D_Success=1)					
	Engagements with all activists			Engagements with lead activist		
	Activist influence measured as					
	Number	AUM	$ in target	Number	AUM	$ in target
Engagement has lead activist(s)	0.326***	0.336***	0.300***			
	(5.04)	(5.28)	(4.90)			
Foreign activist influence	0.003	0.030**	0.047*	0.008**	0.043*	0.100***
	(1.50)	(2.02)	(1.90)	(2.35)	(1.88)	(2.88)
Domestic activist influence	0.002	0.113	0.049	0.007	0.166	0.007
	(0.19)	(1.62)	(0.95)	(0.40)	(0.95)	(0.06)
Foreign lead activist influence				-0.012	0.411*	-0.169
				(-0.18)	(1.75)	(-0.34)
Domestic lead activist influence				-0.052	1.810**	2.752**
				(-0.65)	(2.05)	(2.08)
Pseudo R-squared	0.164	0.168	0.166	0.133	0.185	0.148
Panel C: Role of investment managers						
Market-to-book of target	-0.023***	-0.022**	-0.023**	-0.019	-0.025**	-0.017
	(-2.60)	(-2.51)	(-2.45)	(-1.44)	(-2.06)	(-1.34)
Stock return volatility of target	-0.962**	-1.034**	-0.844**	1.204	0.774	0.614
	(-2.32)	(-2.49)	(-2.02)	(1.39)	(0.91)	(0.76)
Institutional holding (%) in target	0.188***	0.192***	0.155**	0.229	0.337**	0.196
	(3.01)	(3.09)	(2.44)	(1.50)	(2.06)	(1.30)
Engagement has lead activist(s)	0.313***	0.304***	0.303***			
	(4.73)	(4.65)	(4.97)			
Investment Manager influence	0.007*	0.055***	0.035*	0.026***	77.820	0.031
	(1.79)	(3.25)	(1.71)	(3.21)	(0.20)	(0.86)
Other activist influence	-0.002	-0.107*	0.186	-0.028*	0.196	0.634*
	(-0.48)	(-1.85)	(1.17)	(-1.66)	(0.91)	(1.68)
Investment Manager lead activist influence				-0.000	0.405	0.179
				(-0.00)	(0.81)	(0.40)
Other lead activist influence				-0.087	0.078	11.580
				(-1.13)	(0.20)	(0.99)
Pseudo R-squared	0.165	0.171	0.166	0.153	0.171	0.145
Observations (for all three panels)	973	973	973	247	236	247

Table 8: Change in target performance and shareholding following engagements

This table examines the change in target firm's performance and shareholding following ESG engagements. Panel A reports regression results using successful engagement sample, and Panel B reports results using unsuccessful engagement sample. For all columns except Column (9), the sample includes target firms engaged in all engagement areas with information on success and available data to run regressions. In Column (9), the sample includes only target firms engaged in the environment area. For each target firm, we keep the data 2 years before and 4 years after the start of engagement whenever the information is available. Post $Year+N$ is defined as one for observations obtained from the Nth year after the start of engagement Industry controls are sample median of dependent variable for all non-target firms from same country, industry (2-digit SIC) and year. Other variables are defined in Appendix B. All regressions incorporate year fixed effects and firm fixed effects. Standard errors are clustered at the firm level. All continuous variables are winsorized at 1st and 99th percentile levels. ∗∗∗, ∗∗, and ∗ denote significance at the 1%, 5%, and 10% level, respectively.

Change in Performance	ROA	Stock return	Sales growth	Stock return volatility	Overall ESG rating	Environment rating	Institutional holding	Pension fund holding	Total activist holding ($)	Lead activist holding ($)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Panel A: Successful engagements										
Post *Year+1*	0.005	0.030	0.038***	-0.002	-0.392	-0.488	-0.016*	-0.179	-0.092	0.073**
	(1.30)	(1.27)	(3.22)	(-0.89)	(-1.21)	(-0.46)	(-1.78)	(-1.00)	(-1.06)	(2.11)
Post *Year+2*	0.006	0.035	0.029**	0.001	-0.421	-0.368	-0.010	0.018	-0.072	0.119**
	(1.51)	(1.15)	(2.26)	(0.27)	(-1.08)	(-0.25)	(-0.68)	(0.07)	(-0.48)	(2.11)
Post *Year+3*	0.011**	0.040	0.041***	0.004	0.296	1.363	-0.004	0.471	-0.028	0.166**
	(1.99)	(1.09)	(2.74)	(0.96)	(0.61)	(0.75)	(-0.22)	(1.41)	(-0.14)	(2.08)
Post *Year+4*	0.012*	0.025	0.033**	0.000	0.184	2.144	-0.005	0.258	0.027	0.201*
	(1.83)	(0.60)	(2.01)	(0.05)	(0.31)	(0.96)	(-0.20)	(0.65)	(0.10)	(1.95)
Market cap	0.209**	1.792***	0.758***	-0.052	2.476	23.950	-0.391	-1.888	2.971	-0.205
	(2.56)	(3.77)	(3.65)	(-1.64)	(0.24)	(1.21)	(-1.15)	(-0.75)	(1.34)	(-0.88)
Market-to-book	0.005	0.102***	0.017***	-0.002*	-0.154	-0.114	0.012*	-0.152	0.012	0.011**
	(1.62)	(6.84)	(3.43)	(-1.80)	(-0.99)	(-0.38)	(1.81)	(-1.29)	(0.29)	(2.19)
Industry controls	0.140***	0.551***	0.443***	0.118***	0.146***	-0.063	0.015	15.590*		
	(2.84)	(9.55)	(9.05)	(3.17)	(2.81)	(-0.71)	(0.54)	(1.84)		
Observations	2,318	2,312	2,292	2,300	1,448	723	2,460	2,460	2,460	1,039
Adj. R-squared	0.681	0.415	0.375	0.624	0.874	0.850	0.907	0.807	0.759	0.593

Change in Performance	ROA	Stock return	Sales growth	Stock return volatility	Overall ESG rating	Environment rating	Institutional holding	Pension fund holding	Total activist holding ($)	Lead activist holding ($)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)

Panel B: Unsuccessful engagements

Change in Performance	ROA	Stock return	Sales growth	Stock return volatility	Overall ESG rating	Environment rating	Institutional holding	Pension fund holding	Total activist holding ($)	Lead activist holding ($)
Post *Year+1*	-0.004	-0.019	-0.005	0.003	-0.242	-0.179	-0.009	-0.038	-0.030	-0.009
	(-1.36)	(-0.81)	(-0.37)	(1.33)	(-0.85)	(-0.34)	(-1.07)	(-0.25)	(-0.46)	(-0.87)
Post *Year+2*	-0.003	-0.009	-0.010	-0.004	-0.390	-0.559	-0.007	-0.024	-0.018	-0.019
	(-0.96)	(-0.34)	(-0.76)	(-1.59)	(-1.10)	(-0.98)	(-0.55)	(-0.11)	(-0.16)	(-0.88)
Post *Year+3*	0.002	-0.007	0.009	-0.001	-0.050	-0.207	-0.007	-0.039	-0.042	-0.040
	(0.55)	(-0.23)	(0.63)	(-0.20)	(-0.12)	(-0.30)	(-0.37)	(-0.14)	(-0.27)	(-1.22)
Post *Year+4*	0.004	0.010	-0.002	-0.003	0.121	-0.053	0.012	0.231	-0.071	-0.050
	(0.65)	(0.31)	(-0.13)	(-0.67)	(0.22)	(-0.07)	(0.53)	(0.63)	(-0.35)	(-1.17)
Market cap	0.015	0.409***	0.213***	-0.004	5.914***	9.602**	-0.017	0.769	0.291**	-0.010
	(0.92)	(3.53)	(4.52)	(-0.53)	(3.19)	(2.13)	(-0.17)	(1.46)	(2.10)	(-0.97)
Market-to-book	0.009***	0.118***	0.019***	0.000	0.060	0.290	0.001	-0.147**	0.044***	0.003
	(5.93)	(6.82)	(4.61)	(0.10)	(0.33)	(0.98)	(0.25)	(-2.24)	(4.05)	(0.99)
Industry controls	0.049*	0.558***	0.351***	0.225***	0.149***	0.224***	0.049*	10.657*		
	(1.66)	(11.41)	(7.31)	(5.33)	(3.10)	(2.71)	(1.84)	(1.88)		
Observations	3,226	3,204	3,208	3,202	1,699	1,426	3,389	3,389	3,389	499
Adj. R-squared	0.710	0.426	0.302	0.596	0.865	0.812	0.925	0.789	0.699	0.660