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Doing Well by Doing Good: Analyzing the Dynamics and Effectiveness of Corporate Engagement

Gillian Meyers
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Doing Well by Doing Good:

Analyzing the Dynamics and Effectiveness of Corporate Engagement

Gillian Meyers

Department of Science, Technology, and International Affairs, Georgetown University

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Dr. Goran Jovanovic

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Abstract
Sustainable investing and corporate climate action have grown exponentially in the last decade, generating a simultaneous need for customers, investors, and policymakers to determine when companies are genuinely achieving positive impact related to environmental, social, and corporate governance (ESG) factors. As a result, investors are increasingly employing ESG engagement, which typically takes the form of direct communication with holdings to determine and positively shape their impacts on their stakeholders. In this paper, I explore the reasoning for
conducting ESG engagement and refute arguments against it. I fill an existing research gap by analyzing the benefits of ESG engagement to both real-world impacts and financial performance, informed by six interviews with professionals in business and sustainable finance. Finally, I offer four solutions to common engagement-related issues—collaborative engagement, sector- and value chain-level engagement, internal best practices for investors, and policymaker engagement—with the ultimate goal of increasing the effectiveness and efficiency of engagement for sustainable investors.
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Research Questions, Objectives, and Justification

All sectors of the global economy must work together to combat the threat climate change poses to our economy and society. In the absence of the political impetus to mandate decarbonization on the scale needed to limit global warming to below 1.5°C, the private sector can voluntarily reduce its carbon footprint. In particular, the finance sector can mobilize significant capital to finance the transition to a low-carbon economy, and is already doing so (Barnett & Peura, 2022). Since 2016, financing for sustainable funds increased over tenfold to reach 360 billion USD in 2020 (BlackRock, 2022). By 2024, Deloitte estimates that over half of all professionally managed assets will be mandated to consider environmental, social, and corporate governance (ESG) factors in investment decision making (Taylor & Collins, 2022). As the climate crisis worsens, corporate social responsibility will only become more critical to investors over time (Wu, 2022).

Investment’s shift towards sustainability is currently driven mostly by changing consumer preferences. Clients are beginning to evaluate their asset managers’ ethicality and reputation based on their commitment to socially responsible investing (Ackerly & Vandenbergh, 2008; Barko et al., 2022). However, consumers and regulators alike are increasingly concerned about greenwashing in the investment world (Rushton, 2022; Oliver & Flood, 2022). In order to demonstrate genuine commitment to advancing ESG, investors have emphasized engagement with the companies that they hold in order to push them towards greater sustainability.

This trend towards greater corporate ESG engagement inspired my independent study project. Through my research, I plan to explore why investors and companies choose to pursue ESG engagement by analyzing the benefits and drawbacks of pursuing direct engagement with
target companies. While examining the potential advantages of engagement, I will question the effectiveness of engagement, as well as how investors measure effectiveness in this context (for example, some may measure effectiveness as improved financial performance compared to non-targeted companies, while others may seek out positive ESG-related impact). To remove bias from my research, I will also develop the disadvantages of engagement, and refute six arguments against conducting direct engagement.

Finally, I will explore several potential solutions to these issues with engagement. My research will conclude with an overview of unconventional forms of engagement and possibilities for future innovation in this field. This aspect of my research will delve into collaborative engagement, policy engagement, sector- and value chain-level engagement, and internal solutions that any investment firm can implement to achieve greater impact and outperformance. I hope to apply my research towards making corporate engagement more effective and efficient for financial institutions that are pursuing sustainable investing.

**Context and Literature Review**

For decades, the most powerful and polluting countries have disagreed on how to address climate change. My research is being carried out within the context of the COP27 Climate Summit, where past disagreements over which nations should bear responsibility for fossil fuel reduction are currently continuing. Though previous agreements like the Glasgow Pact have pushed countries to “revisit and strengthen” their targeted emissions reductions, international climate negotiations are infamously obstructed by arguments among countries, and international bodies are unable to enforce the weakened targets once they are finally agreed upon (Friedman, 2022). Similarly, on the national level, political infighting continually blocks necessary climate action. Among other reversals of Obama-era climate policies, former President Donald Trump
withdrew the United States from the Paris Climate Agreement in 2017; later, President Joe Biden rejoined the agreement hours after being sworn into office (Shear, 2017; Peltier & Sengupta, 2021).

In response to political uncertainty surrounding environmental policy at all levels, the private sector has stepped forward. Business leaders denounced the Trump administration’s decision to withdraw from the Paris agreement, and over 2,300 enterprises and financial institutions signed the We Are Still In pledge to declare their continuing support for climate action (We Are Still In, N.D.). The private sector’s action in the absence of governmental and political impetus is not new; leaders in business, finance, politics, and higher education have long debated the correct role of businesses. They have attempted to determine what responsibilities, if any, the private sector has to its stakeholders. Amidst a backdrop of worsening climate change, greater awareness of societal problems like human rights abuse, and increased scrutiny of business leaders, this debate continues today.

**Shareholder Prioritization and Stakeholder Prioritization**

At its most basic level, corporate social responsibility (CSR) is an argument in favor of stakeholder prioritization, in contrast to shareholder prioritization. Shareholder primacy, also called stockholder primacy, is the concept that a company should always prioritize the interests of those who own stock in the company above the interests of its stakeholders, no matter if their stakeholders are the corporation’s own employees, its consumers, the communities from which it extracts resources, or society as a whole. This view is founded upon the idea that shareholders are ultimately the owners of the enterprise in which they are invested. As a result, the ultimate responsibility of that enterprise’s employees and board members is to maximize the wealth of their shareholders, instead of prioritizing the well-being of their stakeholders. The shareholder
primacy theory is advanced by Milton Friedman’s famous 1970 doctrine, which argues that executives who advance corporate social responsibility ultimately waste shareholders’ money by reducing the corporation’s potential profits. CSR is, according to Friedman, “pure and unadulterated socialism.” It allows business executives to prioritize stakeholders and dodge their true responsibility: generating profit for shareholders (Friedman, 1970).

The shareholder primacy approach has several advantages. It is an easy way to directly measure a business’s success; one can simply track the amount of wealth its shareholders have gained through their investment in the business. The measure of returns to shareholders is used to gauge the performance of a business and allocate compensation to its leadership (Samuelson, 2022). Another advantage is the theory’s own simplicity: journalists and academics gained a “simple story of corporate purpose”, with an equally straightforward explanation for why corporations committed scandals (Stout, 2013). Some have also argued that shareholder models are more competitive than stakeholder models (Hansmann and Kraakman, 2000).

However, prioritizing shareholders has created a focus on short-term profit maximization, leading to several disadvantages. First, business leaders become unwilling to take risks, adopt new technologies, and invest in research and development, harming their enterprise’s capacity to innovate and remain competitive over the long term. This inability to adapt is particularly harmful considering long-term trends and threats to business outlook such as climate change, which will render some business models infeasible over time. Ultimately, the shareholder theory’s main failure is that it assumes that CSR always harms a company’s performance. In the half-century since Friedman’s article was published, most of the private sector now posits that this assumption is false. Corporations that consider societal needs now argue that they
outperform those that prioritize shareholders’ accumulation of wealth above all else (Stout, 2013; Interviewee 3).

This latter view is in keeping with the stakeholder theory of the firm. This theory argues that stakeholders’ needs should always be considered by business leaders, since stakeholders contribute to value creation within any business model. In contrast with the idea that shareholders own a firm and are therefore entitled to its dividends, this theory states that companies are standalone legal entities, and therefore are not beholden solely to their shareholders (McLaren, 2002).

Though this theory has been widely adopted by today’s environmentally conscious consumers and business leaders, it still carries disadvantages. The stakeholder theory assumes that businesses should be charged with the responsibility of determining what actions are in the best interest of their stakeholders. As Friedman argues, business executives are expected, and trained, to be experts in generating profit for their shareholders. Adding additional responsibilities to their stakeholders—such as safeguarding the environment—implies that business leaders must become experts in meeting the needs of broader society. In this way, Friedman determines, the executive assumes the duties of a civil servant, even though civil servants are chosen through political processes and judged based on their ability to advance the public good (Friedman, 1970). A business executive undergoes no such process. As a result, CSR creates two problems. First, a business executive may not be qualified to adapt their business model to address complex societal problems such as biodiversity loss or climate change. Second, CSR gives business leaders some of the same mandates of a political actor, though they have not been elected.
Socially responsible investing works within the shareholder paradigm while still prioritizing shareholders’ wealth gain. This type of investing can include a suite of strategies designed to take ESG factors into consideration when making investment decisions, which SRI practitioners argue subsequently increases the profits of the firm. As a result, when socially responsible investors engage with companies to improve their management of ESG-related issues, they do so with the intention of driving greater profits (McLaren, 2002). In this way, SRI investing uses the advancement of stakeholders’ needs to increase return for shareholders.

Fiduciary Duty and ESG Integration

Asset management firms that practice SRI, such as Acadian Asset Management, explicitly state that taking stakeholders’ needs into account is “rooted in [their] fiduciary duty” (Acadian Asset Management, 2022). Fiduciary duty is the obligation for asset managers to act in the best financial interest of their clients. In 2015, the United Nations Environment Programme (UNEP) and the Principles for Responsible Investment (PRI) reported that incorporating ESG issues in investment decision making is now a key requirement for financial advisors to fulfill their fiduciary duty (Sullivan et al., 2015). If investors fail to take ESG factors into account, they may expose their clients to greater risk and loss. For example, an investor who continues to invest in coal or other high-carbon-emitting assets may risk stranded assets in the long term, thus neglecting their fiduciary duty. In summary, ESG factors are now seen as financially material—they could “significantly affect the financial performance of the investment,” and should be treated accordingly (Sullivan et al., 2015).

Though the debate over whether to prioritize shareholders or stakeholders seems to have resolved in favor of considering ESG-related externalities, there is still nuance regarding the exact responsibilities and requirements for a socially responsible investor. The UNEP and PRI
urge investors to “integrat[e] ESG issues into investment research and processes” (Sullivan et al., 2015). But what exactly does ESG integration entail?

A comprehensive 2015 survey of asset managers from around the globe found that investors pursue “ESG investing” using five key strategies (van Duuren et al., 2016). The first, negative screening, is when investors eliminate certain companies or entire industries from a portfolio based on an ESG-related factor—for example, some portfolios completely exclude investments in coal because of their high greenhouse gas emissions. The reverse, positive screening, is when investors select certain investments based on desirable ESG-related attributes. One example could be a positive screen for companies with over 30% female representation on their executive boards. The third strategy, best-in-class investing, describes how investors select top performers on particular ESG metrics. Activism includes petitioning and proxy voting at the annual shareholder meetings for the companies that investors hold. The fifth and final ESG integration strategy, engagement, is the subject of this research paper.

**Defining ESG Engagement**

Engagement is when investment funds communicate their preferences with the companies in which they are invested, typically through correspondence or meetings with representatives of the enterprise. However, engagement can also be collaborative, or carried out jointly with partnering asset managers, nonprofits, or related organizations to target a company or group of companies. Though most investor engagement is confined to communications with publicly held companies, it is possible to conduct engagement for asset classes other than public equities; I will explore these alternative engagements and their effectiveness later in this paper. ESG engagement describes communications that are intended to change the social,
Engagement often requires greater time and resources than the other forms of ESG integration detailed above, since financial analysts must develop a comprehensive understanding of a holding’s business model, risks, and opportunities before meeting with its representatives. Though costly, engagement might also be more effective at driving ESG-related goals than other forms of integration. The UN-convened Net-Zero Asset Owner Alliance describes engagement as a critical strategy for capital reallocation, and as “one of the most direct levers” investors can use to affect change (Barnett & Peura, 2022).

ESG engagement is typically intended to cultivate an ongoing relationship between an investor and their holding, with the goal of pre-empting and preventing poor business practices. In contrast, traditional engagement often occurs when an investor responds to a crisis or mistake on the part of one of their holdings. The investor’s traditional response would be to threaten to replace corporate management (McLaren, 2002). Through ESG engagement, representatives from the asset management firm and the company often meet continually, and thus build trust in a way that is impossible through traditional engagement. From the company’s point of view, engagement is seen as an opportunity for relationship-building with their investor, with the underlying threat that the investor could take more extreme action to pressure the company if it fails to respond as desired (e.g. naming-and-shaming). Part of my research will investigate the relationship between investors and their holdings given this underlying potential for conflict. Through a thorough review of academic and media sources, as well as conversations with professionals in sustainable investment and business, I will develop my understanding of engagement and explore methods of increasing its effectiveness.
Methods and Ethics

My research draws upon a combination of academic research, media analysis, and six semi-structured interviews with professionals in the private sector who specialize in sustainability. I recruited potential interviewees through snowball sampling, cold-messaging professionals in sustainable business and finance, and leveraging my academic and professional networks. As a result, my findings may be biased due to the constraints of my personal network, which is largely formed of Georgetown University, SIT, and Brown Advisory employees. However, I attempted to create a representative sample by conducting interviews with a range of actors throughout the private sector, from small, privately owned enterprises to large multinational investment firms.

I conducted six 30- to 60-minute interviews during a six-week period between October 17th and November 27th, 2022, using a list of pre-written questions as a framework for conversations with my subjects (see Appendix). I held interviews in person when possible, either in the interviewee’s workplace or in a neutral public setting such as a coffeeshop. When in-person meetings were not possible, I conducted interviews over Zoom. Interviews were conducted in English, French, or a combination of the two, depending on the preferences of the interviewee.

Throughout my research, I closely followed human subjects policies and ethical research guidelines to ensure all interviewees’ informed consent, anonymity, and confidentiality. My initial communication to any potential interviewee described the purpose of my research and what their participation would involve. At the start of each interview, I obtained subjects’ verbal consent to participate and to be recorded, and determined the extent to which they wanted to be identifiable. My pre-interview script concerning consent and confidentiality is included in the Appendix.
Results

Advantages of ESG Engagement

ESG engagement holds tangible benefits for investors and companies alike, despite some drawbacks. Through the course of my research, I found that engagement unlocks three key advantages: greater cross-sectoral information sharing (and, as a result, greater positive ESG impacts), financial outperformance, and strong, stable relationships between investors and their holdings.

Increased Communication and Impact

Engagement enables actors from a variety of sectors to communicate with greater transparency, thus reducing information asymmetries and increasing the likelihood of positive ESG impacts. Engagement aids investors in gaining detailed, accurate information directly from company representatives, which can then be used to inform investment decisions. One of my interviewees, the director of ESG research and strategy at a large investment firm, described engagement as a “foundational piece of [the firm’s] research process” (Interviewee 3, 2022). This individual’s role included integrating ESG engagement in the investment firm’s overall research process for equities. Through this process, they incorporated engagement in bottom-up research of a company’s risks and opportunities as well as in top-down decisions on whether or not to invest in a particular holding (Interviewee 3, 2022). This information gained through ESG engagement can add significant value, as it may not be available elsewhere. For example, one French multinational company operating in a country where homophobia was common created an internal strategy to support employees experiencing discrimination, but did not disclose this policy to investors until it was described in engagement meetings. Additionally, engagement can help companies clarify and correct investors’ perceptions and expectations of an enterprise. One
surveyed representative of a European chemicals firm cited that, through a particular engagement call, its investors were able to “give us a chance to explain what we do” (Gond et al., 2020). These types of calls can correct misperceptions about a company that have emerged in the media or in third-party ESG ratings, which may require further contextualization in order to add value to an investment decision.

Just as engagement can help companies share new information with investors, these meetings also serve as an opportunity for investors to alert companies to potential risks. In some cases, engagement can even inform a company’s internal management of business and reputational risks of which they are completely ignorant. For example, Acadian Asset Management’s engagement team found evidence of forced labor within the supply chain of one of their holdings, a European automaker, before the company itself was cognizant of the issue. Through engagement meetings, Acadian prompted the automaker to find a resolution, thus avoiding a significant risk and achieving positive impact (Acadian Asset Management, 2022).

Though knowledge-sharing generally takes place between companies and investors, engagement can increase the amount of information available to all of a company’s stakeholders—their employees, organizations that specialize in the sector to which the company belongs, governmental and regulatory bodies, and relevant nonprofits (Drake & Romanek, 2021; Gond et al., 2020). This may be because engagement raises awareness of which issues are most pertinent to a company’s stakeholders, making it more likely that these topics are addressed in corporate sustainability disclosures (Barko et al., 2021). When more actors are aware of a company’s ESG-related impacts, it becomes easier for an enterprise’s investors and employees to hold it accountable, making positive ESG impact more likely (McLaren, 2002). Similarly, as
investors learn more about how their holdings are driving positive impact, they can then disclose their own impacts to their clients with greater transparency and accuracy (Gond et al., 2020).

Financial Outperformance

Greater knowledge sharing leads to the second main benefit of ESG engagement: financial outperformance. One large-scale, decade-long analysis of over 2,000 engagements with 613 public companies found that successful engagements resulted in outperformance after the initial engagement (Gond et al., 2020). Another comprehensive study found that, compared to companies that did not partake in ESG engagement, successful engagements drove up to 2.7% of risk-adjusted outperformance in the year following engagement. Outperformance compared to non-targeted peer companies continued in the month following a successful engagement, as well as the six- and twelve-month periods after the engagement’s conclusion (Barko et al., 2021).

Improved Investor-Company Relationships

The third principal advantage of ESG engagement is that it creates an opportunity for investors to build lasting relationships with representatives of their holdings. Investors, especially long-term investors, often engage continually with a company through face-to-face meetings and conference calls (Gond et al., 2020). At one institutional investment firm, financial and ESG analysts cover particular holdings “for years” (typically over a 3-5 year investment horizon), and as a result, “are borderline friends” with the holdings’ representatives (Interviewee 3, 2022). The strength of these relationships increases the investment firm’s leverage over the companies they invest in, often allowing investment analysts to gain access to the company’s upper management. As a result, even when the investment analysts expressed a desire for the company to change its approach to certain ESG factors, the relationship between the investor and the company improved due to the established baseline of trust between the two (Interviewee 3,
The importance of this connection should not be understated: another one of my interviewees, a Swiss financial expert and longtime practitioner of ESG engagement, defined engagement by the dynamic between the investor and the company (Interviewee 1, 2022). Robust investor-company relationships increase stability and help align ESG-related expectations for both sides (Gond et al., 2020). Due to the sunk cost of researching and engaging with a particular holding, investors are more likely to maintain their stakes in a company over time. For firms who own a significant stake in a particular enterprise, engagement is much less disruptive than exiting the holding (McLaren, 2002). Instead of an exit, ESG engagements allow investors to “leave [a call] with information to make a better investment decision… conviction in a company increases, decreases, or stays the same,” and the portfolio manager is better informed to take a wider suite of options: “trimming, initiating, leaving, or adding to a name” (Interviewee 3, 2022). In this way, ESG engagement helps investors and companies work together to clarify their expectations, create positive impact, and generate stronger financial performance.

**Refuting Arguments Against ESG Engagement**

**High Cost of Engaging**

Despite the clear benefits of engagement, its effectiveness can be hindered by several inherent drawbacks. The most obvious is its high resource requirements. In order to be effective and therefore worthwhile, engagement requires both companies and investors to devote significant resources, effort, and skilled intermediaries (McLaren, 2002; Barnett & Peura, 2022). In particular, investors must dedicate time towards fully understanding each of their holdings’ business- and ESG-related risks and opportunities. They should be able to analyze each company’s capacity to decarbonize, taking into account the broader context of the company’s sector. One investment professional emphasized that investors must cultivate a deep
understanding of a company’s business model. This professional’s approach to engagement involved building out an internal engagement team with multiple types of analysts—for example, one specializing in finance, another expert on the environment and climate, and a final expert on social issues. This approach is costly to the investor because of the number of personnel required; another interviewee explained that the true cost of engagement “is baked into salaries… [it’s] human resource capital (Interviewee 1, 2022; Interviewee 3, 2022). Yet these costs are necessary: if investors do not dedicate enough time towards thoroughly learning about the target company, engagements can easily fail. Companies often cite “ill-informed investors” as an obstruction to successful engagement (Barnett & Peura, 2022). As a result, both investors and companies must understand and appreciate the benefits of engagement in order to justify the necessary level of time and effort (McLaren, 2002). This can be difficult given the challenges of measuring engagement effectiveness. I will further develop this quandary later in my paper.

**Misalignment Due to Insufficient Policy and Economic Incentives**

In addition to the substantial resources required to engage, misaligned incentives between investment firms and their holdings may render engagement ineffective no matter how deeply investors understand a company’s particularities (McLaren, 2002). This is due to the fact that companies are bound by certain “rules of the game”—they are incentivized to seek profit in specific ways due to political or economic realities. As one of my interviewees pointed out, companies are ultimately limited by their mandate to be economic actors instead of environmental ones (Interviewee 2, 2022). As a result, there may not always be a business case for complying with an investor’s needs concerning ESG factors. For example, for enterprises which derive the majority of their profits from exploiting fossil fuels, an investor’s request to decarbonize would clearly be impractical and uneconomic. In some cases, there may be a
business case for emissions reduction or other changes intended to drive positive impact, but in most of these situations the business case is only viable up to a point. In other words, companies will gladly take steps towards positive impact as long as doing so improves returns, but after a certain threshold, further changes will incur an increasing marginal cost to the business (Barnett & Peura, 2022). Oliver Elamine, the CEO of a German property firm, described this set of circumstances well, arguing that if reducing his company’s carbon footprint also reduces costs for the business, “that’s not managing ESG, it’s just managing my business. If I manage my business properly, I should already be doing all this business-friendly stuff to reduce emissions because it’s a no-brainer,” (Robinson-Tillet, 2021). At some point, however, companies will “hit a boundary,” after which they will not be able to economically justify further emissions reductions (Barnett & Peura, 2022). If enterprises decide to prioritize positive impact over profit, they may be punished by shareholders, investors, or regulators for ignoring their fiduciary duty. Ultimately, many of the actions required to achieve impact on the needed scale (such as committing to net zero emissions) are unfeasible because they are not incentivized by policy, regulation, or the current market environment. One of the most obvious missing incentives for decarbonization is the lack of a carbon price. As a result of the current lack of mechanisms to spur greater action, companies that act aggressively to achieve positive climate or other ESG impacts may be punished by the market for being first movers (Barnett & Peura, 2022).

However, this argument against engagement, and general ESG-related corporate action, ignores the unquantifiable—though equally important—advantages of engagement for companies. Though it can be more difficult to establish a clear link between these benefits and an organization’s profits, they still exist. These upsides include improved reputation, the ability to break into new and growing markets, greater social license to operate, increased appeal to more
talented and motivated employees, and greater resiliency when faced with long-term climate risks (Henisz, Koller, & Nuttall, 2019). My final interviewee, Dan Esty, argued that voluntary sustainability action reduces risk, saves money, and allows businesses to market their products to environmentally-conscious customers (Interviewee 6, 2022). Another interviewee, Alexandre Burnand, furthered that popular support for climate action is growing rapidly: in Switzerland, he anticipates that the political party connected to environmental activism, the Verts, will gain power in the legislature and enact policy favorable to ESG action. He believes that smaller businesses in the early stages of their development are more likely to take voluntary sustainability action due to their target demographics: since these businesses are typically founded by millennials, they are more conscious of how their environmental impacts will be perceived by the younger generation to which they cater. Two of my millennial-aged interviewees confirmed this; though both are the primary owners and operators of small businesses based in Switzerland, both subjects argued that the integrating of sustainable practices into their business models improved their reputation and helped them market to fellow millennials (Interviewees 5 and 6, 2022). Larger, well-established enterprises are also improving their environmental practices. These changes are driven not only by a desire to improve their profit margins—due to the war in Ukraine, rising energy prices have created an increased competitive advantage for businesses that cut their energy use—but also by a desire to improve their reputations (Interviewee 2, 2022). This latter benefit is unquantifiable, but it is still important to the businesses’ success.

First movers can also signal readiness to policymakers and regulators, thus sparking mandatory change across sectors. As a result, these actors will be the most prepared for regulation before it is enacted—in fact, they may already be acting in accordance with upcoming
regulations—giving them a competitive advantage (Barnett & Peura, 2022). For example, a company that voluntarily discloses detailed reports of its scope 1, 2, and 3 emissions will already have the personnel and practices in place to continue these disclosures if and when they become mandatory, which could give them an edge over less prepared competitors.

Despite these benefits, corporations—and investors—must remain cognizant of the bottom line. Investors may fail to acknowledge the limitations businesses face when adopting voluntary action, leading them to overweight enterprises that employ “voluntary, market-led” strategies, or those that are first movers (Barnett & Peura, 2022). Similarly aggressive ESG action may not be feasible in all sectors or in certain markets. I will address ways that investors can avoid this bias and achieve engagement success across all sectors—even those that are difficult to decarbonize—in the “Potential Solutions” section below.

**Difficulty Engaging on Certain Subject Areas**

Even when investors and companies are able to dedicate the necessary resources to engagement, the subject matter may hinder progress. Within the realm of ESG, some topics are simply easier to engage on than others, especially due to varying levels of data quality and availability. For example, of Acadian Asset Management’s climate-related engagements, a significant majority—roughly 80%—are related to carbon emissions alone. Though biodiversity and climate goals are equally important to “nature-positive” investment, less than ten percent of Acadian’s climate engagements target biodiversity loss (Acadian Asset Management, 2022; Ermgassen et al., 2022). Many enterprises with firm carbon emissions targets fail to define quantitative biodiversity targets or report their impacts on biodiversity, partially because of the difficulty of accurately measuring biodiversity loss (Ermgassen et al., 2022). The lack of metrics makes it difficult for investors to prompt businesses towards tangible targets in this area of ESG.
Similarly, a comprehensive review of nearly 850 engagements carried out by one investment management firm over the course of a decade found that the majority of engagements involved either environmental or social matters. Only 14.4% concerned corporate governance (Barko et al., 2022). This may be due to the difficulty of capturing qualitative elements—such as the smoothness with which a board runs or their synergy with other leaders within a company—with quantitative metrics (Credit Suisse, 2016). Yet, like biodiversity, sound corporate governance policies lead to financial outperformance and positive impact, making them an important target for investor engagement. In fact, the very nature of these topics, and in particular the difficulty associated with quantifying good corporate behavior, makes engagement all the more necessary. For example, Credit Suisse recommends that investors select well-governed companies through a deep dive into the nuances of each holding, and emphasizing the elements that are most important for that specific enterprise and that specific sector (Credit Suisse, 2016). Investors can find details like these and gauge a company’s approach to hard-to-quantify topics more easily through an engagement call than through a company’s disclosure.

To overcome the challenges associated with engaging on particular ESG issues, investors and companies should work together to create coordinated national and sectoral strategies for engagement regarding hard-to-address areas like biodiversity. This will require greater investor political participation and broader-scale engagements across industries and sectors, as detailed in the “Potential Solutions” section.

**Uneven Engagement Across Asset Classes**

Most investors do not maintain an even engagement focus across different asset classes and companies. Instead, they currently focus on large, publicly held companies in order to maximize the impact of their engagement (Barnett & Peura, 2022). This problem is in part due to
engagement’s high demand on institutional capacity—because both investors and company representatives have limited time and resources to devote to engagement, they must focus their efforts where they believe they will make the most difference. If an investor succeeds in reducing the emissions of its five largest holdings, the benefit to the investor’s own sustainability goals is obviously greater than if it devoted equal institutional capacity towards engaging with its five smallest holdings. This concentrated focus on large companies may achieve greater impact for the sustainable investor; however, this approach neglects other areas of the economy that would equally benefit from investor engagement, such as fixed income, small-cap, or private asset classes. As a result, some studies have indicated that these asset classes—especially privately held companies—have less robust ESG commitments than the public market (Barnett & Peura, 2022). Investors’ current engagement focus on large, publicly held companies has also created an effect described as “squeezing the balloon”, in which larger companies respond from investor pressure to decarbonize by selling off their highest-emitting assets to either private companies or smaller, public enterprises, which are not subjected to the same level of scrutiny. In this way, large public companies seem to have decarbonized, but the same amount of greenhouse gasses are still emitted; they are simply under new ownership. This effect not only creates a false impression of progress, but also results in changes of ownership that make it difficult to create long-term, effective relationships through investor engagement. In this way, investors’ current engagement focus on their largest publicly listed companies may circumvent progress despite initially seeming to be the most efficient way to engage given limited resources (Barnett & Peura, 2022). One solution to this problem is for investors to deliberately engage with hard-to-decarbonize companies, and to carefully follow companies’ sales of high-emitting assets if possible.
Company-by-Company Focus

Most current investor engagement entails direct communication with single companies, with the aim of improving the choices and impacts of each individual company. For some issues, this approach is ideal, but in many cases individual enterprises may be powerless or ill-equipped to address the issue at the heart of the investor’s engagement. Some engagement topics are inherent to entire sectors and industries, and as a result, it may be impractical to expect a single company to be able to address them effectively. For example, in order for infrastructure-related investments to become less carbon-intensive, the entire industry will eventually need to shift to electrifying heavy-duty transport. It is impossible for one company alone to achieve total electrification. As a result, investors’ engagement would be more effective if it did not focus only on a single target company, but instead within the entire sector and related trade associations (Barnett & Peura, 2022). In the “Potential Solutions” section, I will explore what sector- and value-chain-level engagement could look like for investors, especially in the context of collaborative engagement among several investment firms.

Inefficiency of Targeting Voluntary Disclosure

A significant portion of investor engagement calls are currently dedicated towards improving the voluntary corporate sustainability disclosures of individual companies (Flammer et al., 2021). This focus is necessary, but inefficient given the limited resources investors and companies have to dedicate towards engagement. The Net Zero Asset Owner Alliance recommends that investors should continue this type of engagement, but that they should limit the amount of resources allocated towards improving individual corporations’ voluntary disclosure (Barnett & Peura, 2022). Instead, investors should clearly and publicly explain their expectations for their holdings, including their recommendations for best disclosure-related
practices. They should then use engagement to reinforce and clarify these expectations. Later, investors can continue to follow through by using other active investment strategies, such as policymaker engagement and proxy voting.

**Potential Solutions**

Engagement is an effective way to spur financial performance and positive impact, but requires significant resources, among other drawbacks. In this section, I will outline four solutions: collaborative engagement, sector and value chain engagement, reinforcing internal policies and practices, and policy engagement. These suggestions are intended to help investors resolve the disadvantages of direct engagement and support the progress they achieve through meeting with their targeted holdings.

**Collaborative Engagement**

As explained above, investor engagement can take a variety of forms. Direct engagement typically consists of a letter or email to a corporation’s board of directors or management, but can also signify continual meetings between investors and the companies they hold (Barko et al., 2022). Direct engagement is usually the preferred course of action for an investor when the engagement topic is well-defined and when the investor has evidence to back their concern (Acadian Asset Management, 2022). The main drawback of this approach, as elaborated previously, is its high resource requirement. Yet investors can circumvent the high sunk costs of directly meeting with target companies through another form of engagement: collaborative engagement.

One solution to many of the problems with direct engagement may be to engage in partnership with other asset managers, thus building coalitions of investment firms. One strong example of collaborative engagement is the investor group Climate Action 100+, which is a
coalition of 700 investors representing over $68 trillion of assets under management. It is the largest existing group of investors that collaboratively engage with companies to reduce negative impacts on the climate. Engagement through Climate Action 100+ has achieved significant progress in many sectors where emissions are traditionally difficult to curtail. For example, in February 2022 the investment firm Federated Hermes announced successful engagement efforts with the oil and gas company BP that were carried out collaboratively within the scope of Climate Action 100+. These engagement efforts resulted in increased ambition from BP: the company announced it would cut its operational emissions by 50% by 2030, a substantial increase from its previous goal to reduce emissions by 30-35 percent. BP also released a statement saying that its energy products would achieve net zero lifecycle emissions by 2050 at the latest, including Scope 3 emissions; its previous goal was to halve these emissions (Climate Action 100+, 2022).

Collaborative engagement gives asset managers greater leverage over the target company or companies, since investors present a united front, and thus a more compelling case for the company to change (McLaren, 2002). To ensure collaborative engagement is effective, investors must deliver a coherent message to the holding targeted. In this way, collaborative engagement requires stronger communication within the finance sector as well as between investors and enterprises. Finally, collaborative engagement may be more efficient than direct engagement (Barnett & Peura, 2022).

However, the drawbacks of collective engagement include the inability of any one asset manager to claim full responsibility for positive action. The accomplishments of collective engagement must be shared, which partially removes an investor’s ability to differentiate from the market. Another challenge of collective engagement is coordinating action among multiple
parties, some of whom may be in competition for the same group of clients. In spite of these setbacks, collaborative engagement can be a useful alternative to direct engagement, especially since it can circumvent the issue of limited institutional capacity.

**Sector and Value Chain Engagement**

Another innovative solution to the problems associated with engagement is sector and value chain engagement, through which investors and companies work together to identify the systemic obstacles that plague entire industries and find overarching solutions (Barnett & Peura, 2022). Through this type of engagement, investors meet with multiple major actors within a particular sector in order to gain a comprehensive understanding of the obstacles that stand in the way of achieving a particular ESG-related goal (typically decarbonization). Sector and value chain engagement is meant to inform both investors’ ongoing engagement with their portfolio holdings as well as investors’ policy engagement (which will be detailed later in this section).

This approach can be particularly well-suited to large asset owners managing global portfolios with long-term objectives. In addition, since sector and value chain engagement is typically collaborative, it reduces the burden of engaging for both companies and investors. It can also reduce information asymmetries between investors and companies and among companies, helping resolve sector-wide problems like misalignment of supply and demand (Barnett & Peura, 2022). One example of a successful engagement on this scale is the Mining and Tailings Safety Initiative, which was a collaborative effort among over 700 extractive companies and a group of institutional investors. This initiative resulted in new safety standards for the mining sector that are now recognized worldwide. Climate Action 100+’s Global Sector Strategies workstream is another example of successful sector-level engagement carried out collaboratively, with the added benefit of being able to take advantage of the pre-existing
structure created by this investment coalition (Barnett & Peura, 2022). Despite these advantages, sector and value chain engagements are still relatively new, and as a result they are not currently prioritized by investors. In addition, as these engagements are typically collaborative, they face similar disadvantages—especially the economic reality that investors’ collaborators are, ultimately, also their competitors (Barnett & Peura, 2022). However, these forms of engagement are an interesting direction for future study.

**Internal Policies and Practices**

Investor engagement can improve significantly if firms implement several internal policies and practices that reinforce the achievements they earn through direct engagement with their holdings. First, investment firms should ensure that their internal ESG policies are just as robust as the environmental, social, and corporate governance-related practices they ask their holdings to adopt. Investors should voluntarily disclose their own emissions and work to reduce them, detailing their actions through detailed sustainability reports that include quantifiable metrics. They should also distribute external reports on their engagement policy so that companies and clients know what to expect from investors. In these ways, working towards positive impact from within investment firms cements investors’ credibility and makes it easier for firms to expect the same level of commitment and action from the companies in which they invest. For example, investors’ calls for more diverse corporate boards may seem implausible if these firms’ own investment teams lack diversity (as many do; a 2022 PineBridge poll found that, out of 59 private equity and debt firms surveyed, only 18 percent employ teams where women hold over a quarter of the roles available) (Light, 2022). By committing to the very practices they espouse, investment firms can increase their leverage with target companies. An added benefit of this practice is that investment firms themselves strengthen transparency
regarding their ESG strategies, thus reducing the reputational and legal risks of being targeted by regulators due to suspicions of greenwashing.

Investment firms can further increase their credibility—to companies, clients, and other stakeholders—by publicly announcing their expectations for holdings regarding voluntary disclosure of ESG impacts. Doing so will also greatly reduce the amount of time spent during engagement calls clarifying expectations for these types of reports, and will consequently increase the efficiency and effectiveness of corporate engagement (Barnett & Peura, 2022). Even though governments are best positioned to mandate standardized corporate disclosure, as Dan Esty posited during our interview, finance can (and already is) stepping in to push businesses toward standard, comparable sustainability disclosures (Interviewee 6, 2022).

Another best practice for investment firms is to create clear, well-organized internal strategies that leverage the firm’s personnel and determine how to prioritize engagement with the firm’s holdings. One case study is Acadian, an asset management firm based in Boston. Acadian’s investment team prioritizes engagement with certain holdings based on a proprietary analysis that employs artificial intelligence, with a focus on companies for which they have an overweight position. Acadian’s organized, computer-driven approach helps the firm maximize the impact of its engagements, therefore making the most of its team’s limited time and resources (Acadian Asset Management, 2022). Another strategy utilized by Acadian is the organization of engagement calls around three key themes: climate action, corporate culture, and corporate behavior. One of my interviewees, who works for a global institutional investor, shared that their firm also employs this approach to engagement by prioritizing several themes (for example, climate change and diversity, equity, and inclusion). Their engagement efforts are also equally divided amongst all members of their equities-focused team (Interviewee 3, 2022). By ensuring
engagements are prioritized according to the firm’s own goals and values, and matching the firm’s internal structure to its external engagement, investors can improve the efficiency and organization of their engagement efforts.

Finally, investors should use proxy voting to reinforce their engagement efforts with publicly listed companies (Barnett & Peura, 2022). Many sustainable investors are already doing so; for example, in 2021, one successful shareholder proposal pushed Duke Energy to disclose its political spending in an attempt to increase transparency around ESG issues. Similarly, a recent proxy vote resulted in the addition of three climate activists to Exxon Mobil’s board of directors (Maine, 2021). Proxy voting is also deeply tied to ESG engagement, not just ESG issues themselves: the depth of corporate engagement on particular topics can sometimes even sway the decisions of proxy advisors (Drake & Romanek, 2021). As a result, investors should ensure that their engagement and proxy voting policies and practices are mutually reinforcing.

**Policymaker Engagement**

A final potential solution is policymaker engagement, which is when investors appeal directly to regulatory and governmental bodies to act in favor of certain reforms to the market. In the context of ESG and sustainability, policymaker engagement may be necessary due to investors’ current reliance on voluntary, market-led action from companies. However, as explained above, voluntary action can be impossible or inefficient for certain enterprises or sectors because of a lack of incentives. As a result, investor engagement alone is not enough to prompt these companies to adopt ESG-friendly policies and practices. Instead, engagement must be paired with incentivizing regulation. Ideally, this regulation is drafted by policymakers using input from investors.
Investors’ policy engagement can include several types of action. First, investment firms can request laws that mandate corporate disclosure of material climate information. One highly pertinent example is the SEC’s 2022 Proposed Rules to Enhance and Standardize Climate-Related Disclosures for Investors. These rules would require companies to disclose information, including measures of greenhouse gas emissions, about climate-related risks that could affect their financial performance. Government-mandated climate risk disclosures would significantly benefit investors, as they currently do not have a standardized system to help them receive and compare data related to corporations’ ESG impacts. SEC Chair Gary Gensler justified the proposed rule by arguing that it would aid in investment decision making by making “consistent, comparable, and decision-useful information” more readily available to sustainable investors (Securities and Exchange Commission, 2022). Additionally, mandatory disclosure would allow investors to dedicate resources towards strategic, focused engagements, instead of continually requesting the same information from each company they engage with (Barnett & Peura, 2022).

Second, policymaker engagement can include engagement with companies on their lobbying practices and industry associations to ensure that holdings are not actively obstructing climate action. The Net Zero Asset Owner Alliance argues that companies must encourage policy that facilitates the transition to net-zero, especially if these enterprises have net-zero pledges that contain a caveat requiring policies that support their decarbonization. If companies are actively lobbying against these policies, then investors should not consider these net zero pledges to be authentic. Equally, if companies themselves begin to lobby for policies that support decarbonization, they gain credibility and unlock even greater incentives derived from their position as market leaders on decarbonization (Barnett & Peura, 2022).
A final component of policymaker engagement is support for industrial policy that addresses climate change. Institutional investors often hesitate to support specific policies, even if they have broader commitments to support climate-friendly regulation. This reluctance is due to a fear that stakeholders will perceive them as partisan, as well as a lack of the expertise needed to fully understand sector-specific policies (Barnett & Peura, 2022). One interviewee emphasized that their firm “absolutely cannot map our values or our politics onto policy,” stating that even though “you can make a case that it helps the bottom line… people would argue it’s not our place.” During our conversation, my interviewee also noted that peer investment firms were across the board “really nervous” to partake in policymaker engagement. The sole exception, according to this interviewee, was “shops that are ‘deep green,’” or sustainable investors who are extremely liberal in regard to climate policy. In these cases, the clients of these firms are “signing up” for active managers who will push policymakers in a certain direction (Interviewee 3, 2022). However, for most institutional investors, moderation is key. Speaking out strongly in favor of climate disclosures or other ESG-related regulation may help the business, but ultimately doing so is not worth the risk of alienating clients who are more conservative. As a result, this solution may be out of reach for many investors, despite many asset manager associations’ strong calls for policymaker engagement.

Conclusion

The growth of sustainable investing will likely continue as the climate crisis worsens, and increasingly, companies should expect their stakeholders to ask for strong, ethical environmental, social, and corporate governance policies and practices. Chief among these stakeholders will be investors, who are facing pressure of their own to build and execute sustainable strategies. This trend is in part due to clients who are increasingly cognizant of their impact on the environment,
and who believe that sustainable investment is a means of generating outsize performance. In this way, ESG mandates are being incorporated into investors’ fiduciary duty. Aside from clients, regulation like the U.S. Securities and Exchange Commission’s newly proposed rules on climate disclosure and the EU’s Sustainable Finance Disclosure Regulation are increasingly pushing companies and investors to be more transparent about their environmental impacts and internal policies. These forces have created a growing need for genuine action from sustainable investors. Many are responding through deeper engagement with their holdings.

Engagement is an excellent way for investors to interact directly with the representatives of their holdings, gauge their action and sincerity, and prompt them to work towards positive impacts that, ideally, deliver corresponding outsize return. Though the relationship between ESG-related impact and financial return is not always immediately apparent, my interviewees unanimously supported stronger ESG-related policies from companies, and often made the link to improved performance in the long term. For example, one interviewee provided an example of engagement with one holding, a large industrial company, to increase diversity on the company’s board of directors. After thoughtful deliberation that the investor I spoke with supported and viewed as genuine, the company added a woman of color to their board. In this way, my interviewee argued that engagement to create a positive impact—more diverse leadership—increased long-term shareholder value and raised the potential for innovation within the company by ensuring more diverse perspectives from upper management (Interviewee 3, 2022).

In addition to improved impact and performance, through my research I found that engagement adds value and transparency to communication between different sectors. Investors can build strong, stable relationships with the representatives of their holdings, creating trust and
facilitating coordination between the finance sector and its investment holdings. Greater clarity about investors’ and companies’ ESG-related actions also makes it easier for policymakers to enact appropriate, incentivizing policy to support trends towards positive environmental, social, and corporate governance-related actions. In addition, customers have a heightened ability to discern when companies’ actions are genuine and when they should be categorized as greenwashing. In this way, engagement helped investors, clients, businesses, and regulators alike maximize positive impact.

Despite these clear benefits, my research revealed multiple disadvantages of engagement. Foremost among them is the high resource requirement to conduct engagement effectively: investors must devote ample time and effort towards understanding the business model and challenges faced by each targeted holding, with a keen awareness of the economic and political contexts in which the company operates. Even if the investor can devote this time to understanding one of their investments and meeting with its representatives, in some cases engagement may still be futile due to misaligned incentives, a lack of supporting policy, or significant difficulties surrounding data collection and availability on a particular engagement topic like biodiversity. Similarly, the characteristics of direct engagement can be intrinsically limiting, as this form of engagement requires investors to focus on a single company instead of on industry-wide problems that no one enterprise could hope to resolve. Finally, investors may also be compelled to focus on voluntary disclosures from individual companies when limited resources and time may have been better utilized by conducting engagement on other topics.

I found four key solutions that can help resolve these issues surrounding engagement and increase its effectiveness. First, investors can engage collaboratively by forming coalitions like Climate Action 100+, thus increasing their leverage over certain holdings. Second, they can
engage entire sectors or value chains—often as part of a collaborative investment initiative—to
dress larger obstacles that single companies are powerless to solve. Third, investment firms
can implement strong internal policies related to ESG that ensure credibility and transparency, as
well as more efficient engagement practices. Finally, investors can engage with policymakers
and regulators to inform policies that support engagement, though this final solution is difficult
for investors who do not want to alienate more moderate clients.

Future study should investigate how investors can best go about engaging with
collectors of asset owners and managers have expressed the need for
cross-sectoral collaboration to address the climate crisis, particularly between investors,
businesses, and policymakers. Another key direction for further research is the adaptation of
engagement for asset classes and market classes where it is not traditionally employed. These
rarer engagement applications include fixed income, where disclosure is uncommon and proxy
voting is nonexistent; small-cap companies, which may lack the resources and personnel to
create their own ESG policies and disclosures but which may still be generating positive impact
and performance; and emerging markets, especially given their strong potential for performance
(Strasser, 2019).

Engagement, and active management in general, is necessary in all contexts in order to
increase transparency, deliver positive impact, and plant the seeds for financial outperformance.
Implementing practical solutions to improve the effectiveness and efficiency of engagement can
help investors reach all of their goals—not just those related to sustainability, but also their
mandate to unlock positive return for their clients. In this way, investors can do well by doing
good.
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Interviewee 4, Anonymous, small business owner in Switzerland, 20 November 2022, duration approximately 30 minutes.

Interviewee 5, Anonymous, small business owner in Switzerland, 20 November 2022, duration approximately 45 minutes.
Interviewee 6, Esty, D., Hillhouse Professor at Yale University, director of Yale Center for Environmental Law and Policy and co-director of the Yale Initiative on Sustainable Finance, 21 November 2022, duration approximately 30 minutes.


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Secondary Sources


Appendix

Research Log

During the first week of the ISPF period, I conducted research to broaden my understanding of the issues pertinent to my research subject and the current debate in the field. I drafted interview questions and began connecting with professionals in the field to identify potential interviewees. I also completed the Human Subjects Review form and determined how I would obtain consent and guarantee confidentiality during my interviews.

In the second week of the ISPF period, I conducted my first interview with an expert in Swiss sustainable finance. I continued to build foundational knowledge of engagement dynamics related to ESG. Finally, I networked with SIT professionals and cold-messaged Swiss finance and business organizations to identify potential interviewees, and drafted questions to serve as a framework for my interviews.

During the third week of my research, I began writing sections of my final paper, and finished my exploratory literature review. I conducted my first interview during this week, and set up appointments for my next two interviews to take place during the following week. In the meantime, I continued searching for potential interview subjects, expanding to my Georgetown network and professional contacts.

In the fourth week of research, I conducted my second and third interviews, and used my notes from these interviews to inform my paper, particularly the Context and Literature Review and Findings sections. I continued writing sections of my final paper and networking with professionals to identify my final three interview subjects.
During the fifth week of my independent study project, I set up my final interviews, finished writing the Context and Literature Review section, and began writing the Results section of my final paper. I met with my academic mentor to learn about potential contacts.

In the sixth week of research, I conducted my final interviews and finished writing all sections of my paper. I had my final meeting with my academic mentor. I dedicated most of my time towards writing the Potential Solutions section and my paper’s conclusion and abstract. In addition, I prepared slides for my oral presentation of the ISPF and practiced delivering my presentation.

Pre-Interview Script
Thank you so much for agreeing to participate in my research. Before we start, I want to give a few details about my project so you know what to expect.

I’m conducting a research project on corporate engagement and sustainability in the private sector, and through this project, I’m conducting interviews with six professionals in this field. All information gathered through interviews, including any information that could identify you, is considered confidential unless you consent to its disclosure.

Do you have any questions about what your participation entails, or about the research project as a whole?

Could you verbally confirm that you consent to participating in this research project? You’re free to withdraw your consent at any time.

Is it alright if I record our interview? This recording will only be accessible by me.

Would you like to be identified by name in my final paper? At this time, I do not have plans to publish it in an academic journal, but my final paper will be read by my academic advisors, by SIT staff, and potentially by future SIT students and by other interviewees for this project. If I decide to publish this paper in the future, I will inform you first and change any identifying information if you’d like.
**If they wish to remain anonymous:** how would you like me to generalize information about you and your organization? Are you comfortable with me citing your exact position title at your organization, or would you prefer a different description?

Do you have any questions or concerns before we begin the interview?

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**Interview Framework Questions**

**General Questions**

1. Does your organization participate in corporate engagement focused on the environmental, social, and governance practices of your company/the company you are invested in?
2. If so, why does your organization participate in engagement?

**If the interviewee is the representative of a company:**

1. Do you believe engagement with investors benefits your company? If so, how do you quantify this benefit?
2. Could you describe an example of a successful engagement? Which factors do you believe led to the success of this engagement?
3. If you are comfortable sharing this information, what is an example of an unsuccessful engagement? What factors caused this engagement to be unsuccessful?
4. Could you describe your relationship to your largest investors? How do you maintain these relationships over time? Have they changed over time?
5. How do you prioritize engagement with different investors?
6. If you’re comfortable sharing this, what is the power dynamic between you and your largest investor(s)? Does it differ from the power dynamic between you and smaller investors, such as retail investors?
7. How does government policy shape your view of engagement? Do you believe your engagement with investors would change if government policy regarding corporate ESG practices changed?

**If the interviewee is the representative of an investment firm:**

1. How does your firm view corporate engagement? Do you have a dedicated engagement policy? If so, could you explain how your policy or philosophy surrounding engagement has changed over time?
2. Has the structure of your investment firm changed over time to better match your engagement activities and philosophy?
3. Do you believe engagement with companies benefits the investment firm? If so, in what ways does it benefit your firm? Does the firm track and/or quantify this benefit, and if so, what metrics or software are used?

4. Do you believe that engagement results in the financial outperformance of companies, and therefore of the investment firm? If so, how do you measure the impact of engagement on performance?

5. Could you describe an example of an engagement that improved the financial performance of a target company and of the investment firm?

6. Do you believe that engagement improves the environmental, social, and corporate governance practices of the target company? If so, how does the investment firm quantify and track these improvements? Could you describe an example of an engagement that has improved a company’s ESG practices?

7. Could you describe an example of a successful engagement? What factors made this engagement successful? Which representatives from the investment firm were present on the engagement call, and what kinds of questions did you ask?

8. Could you describe an example of a strong relationship with one of your holdings? What has strengthened this relationship, and how long have you been cultivating this relationship?

9. If you are comfortable sharing this information, could you describe an example of an unsuccessful engagement? What factors made this engagement unsuccessful?

10. Could you explain your view of the role of governmental policy relating to corporate ESG and sustainable investment? If governmental policy relating to corporate ESG practices became more strict, would your engagement practices change?