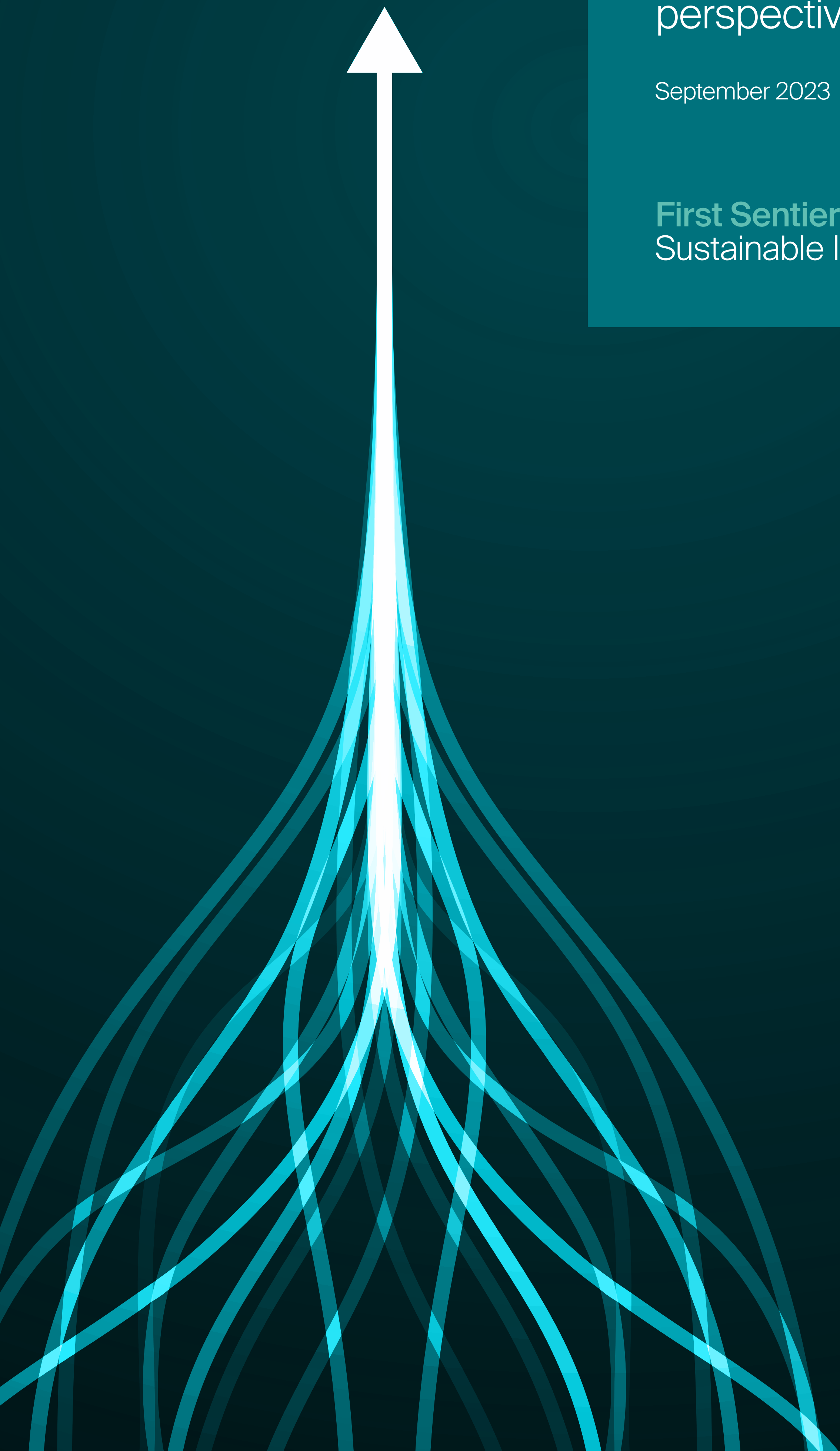
Constructive corporate engagements
From a corporate perspective

September 2023



First Sentier MUFG
Sustainable Investment Institute

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1. In Hong Kong, the SFC has not reviewed the contents of this website.

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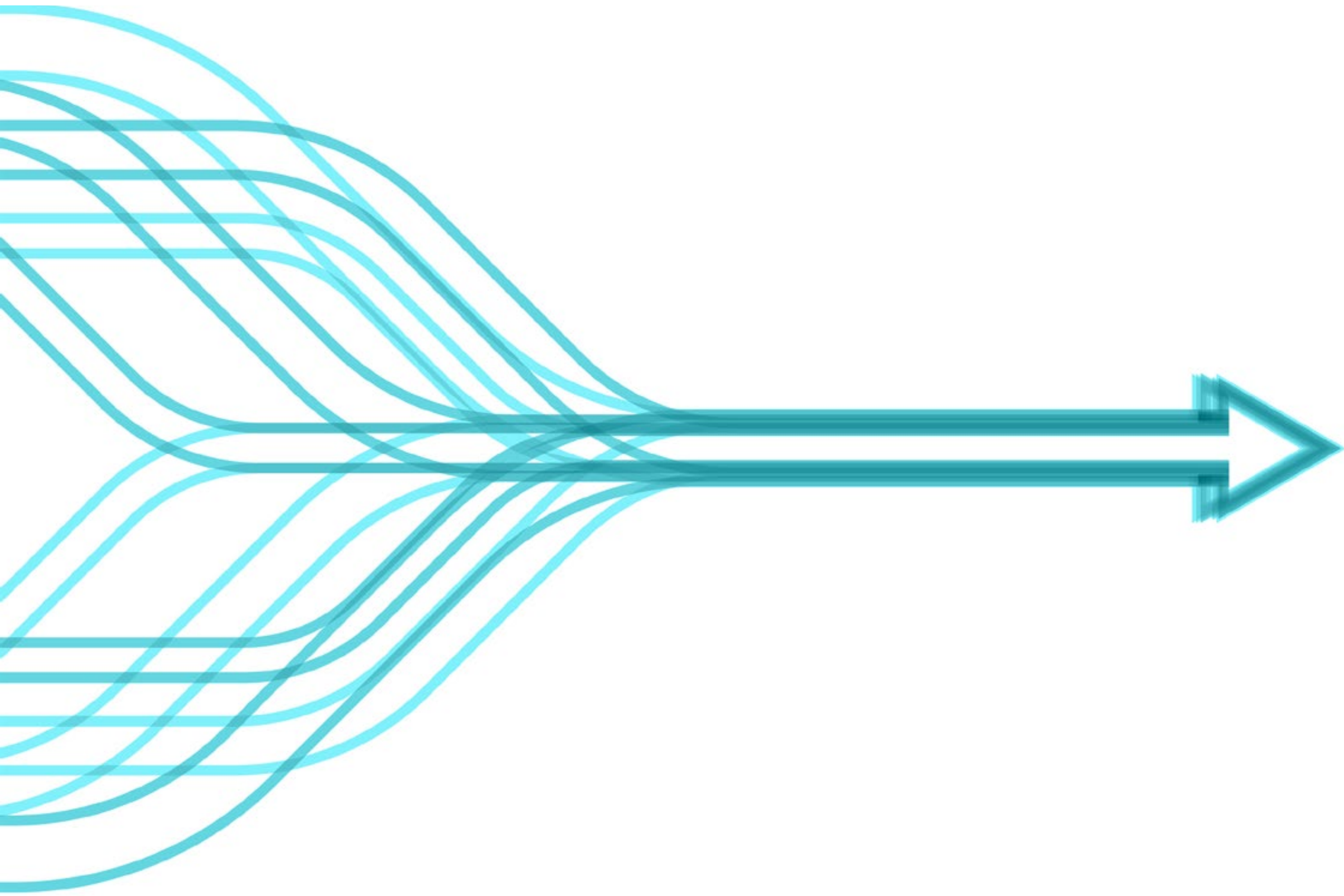


Executive summary

Background and introduction to successful engagements

Beyond provision of capital, shareholders provide important support to companies, monitoring, scrutinising and influencing their behaviour. When working well, shareholder engagement brings wider investor perspective, challenges and proposals company management may not have considered. But engagements also require a time commitment from management to resolve, reducing the time they have available for their other tasks.

This report seeks to identify the characteristics of the most effective engagement approaches and behaviours undertaken by shareholders. In other words, the actions that trigger a change in company behaviour, strategy or policy. Although companies frequently engage with a range of stakeholders – including employees, customers, suppliers, regulators and industry peers – the focus on this report is on shareholders. Based on our findings, we recommend actions that shareholders should consider to improve the effectiveness of their engagements.

This report comes at a time of increasing scrutiny of how shareholders engage with their companies. Frameworks such as the UK Stewardship Code and EU Shareholder Rights Directive II require shareholders to demonstrate their responsible and active ownership of companies. Shareholders also face scrutiny from investor bodies to hold their companies to account on various issues, particularly those that relate to Environmental, Social, and Governance (ESG). These factors provide an important rationale for shareholders to know how to engage effectively.

There is no universally accepted definition of a successful engagement
Some shareholders and companies measure the success of an engagement by a set of criteria, usually an objective agreed upon at the start of an engagement. Some consider an engagement to have been a success according to its effect on the company's share price. Others view the quality of the engagement process itself the measure of success: whether all parties reach an agreement, all differences of views are resolved, and the relationship between parties enhanced.

We define a successful engagement as an engagement which results in a meaningful change in corporate behaviour, strategy or policy. We acknowledge that there may be cases where an engagement does not result in such a change, but where the company and shareholders still view it to have been a success. In such cases, the reason for success may be attributed to a helpful sharing of information by one or both sides, or to a constructive dialogue between parties. Our company survey and interviews reveal the different metrics of success that companies and shareholders use to define a successful engagement.

We also recognise that there is often inherent uncertainty as to whether a specific engagement, led by specific shareholders, resulted in a specific outcome. Shareholders may not know whether an outcome was achieved due to their engagement activity, the activity of others, or whether it would have occurred irrespective of any engagement.

Our company survey shows that overall, companies view shareholder engagements positively
Almost all (96%) of companies consider shareholder engagements to be a productive use of time and resources.[2] Companies are willing to act in response to shareholder requests, even those requests that require substantial action. Over half (56%) of companies reported that in the past five years they had encountered a shareholder engagement that required substantial action. Of these substantial engagements, companies took action in 73% of cases (PwC Survey, Q14).

Companies are willing to act in response to shareholder requests, even those requests that require substantial action.

2. Very few companies (3%) believe that engagements are largely unproductive and produce little fundamental benefit for the company. Instead, half (50%) believe that engagements enable them to better understand their shareholders, while 46% believe engagements are a productive use of management and board time, leading to improved outcomes for the company. 1% responded 'Don't know' (PwC Survey, Q22).

Our company survey also shows that most companies experience little confrontation,[3] while a few experience a lot of confrontation

Most (70%) of companies reported that their engagements were rarely[4] or never confrontational, either from the beginning or mid-engagement. This contrasts with 11% of companies for whom confrontation was the norm,[5] (PwC Survey, Q4.5). Our survey consists of mainly routine shareholder engagements that are not motivated by activism. We therefore find companies reported that fewer engagements were based on confrontation, and that these engagements were not associated with a higher success rate than non-confrontational engagements. That said, engagements from activist investors, who are more prone to using a more confrontational approach, are also considered by the industry to be an effective form of engagement.

Our company survey revealed that in the past 12 months, the issues that had led to the most engagements related to audit or financial reporting (63%) or to the company's strategy or performance (60%, PwC Survey, Q7). These are topics on which shareholders and companies tend to have constructive engagements. Interviewees, in particular, described an engagement landscape that increasingly involves standardised engagement topics, particularly those relating to ESG. Their assessment corresponded with the survey respondents, for whom a third (35%) reported that ESG topics had led to the most engagements in the prior 12 months. Yet standardised engagements can create differences of opinion between shareholders and companies about their relative importance and effectiveness.

This suggests that company management and investors are still grappling with how to engage on ESG topics effectively. While company management and investors agree on the important bearing of ESG factors on company strategy and financial performance, the complexity of ESG topics, and heavy information requirements means that some company management and shareholders have yet to find the right balance of engagement format, reporting and priorities around ESG topics.

Company management and investors are still grappling with how to engage on ESG topics effectively.

There are five key factors that increase the likelihood of a company taking action in response to an engagement:

1. **A good case, relevant to the individual company, is the most important factor associated with companies taking action**

   In 70% of cases when a company took action, one of the top three reasons for doing so was that the company believed that the engagement was well thought through and the shareholders had a compelling case (PwC Survey, Q15).

   Yet proposals that have little or no demonstrable commercial benefit can still lead to action if shareholders effectively communicate their other benefits (whether they be social, environmental, reputational, etc). In half (50%) of cases, a company took action because they believed doing so would give rise to a significant stakeholder benefit at limited cost to the company, despite being of little gain to the company itself. Yet this still requires shareholders to effectively communicate the benefit that they themselves would receive. In over half (55%) of cases, a company took action because they had similar plans to those that their shareholders proposed (PwC Survey, Q15).

2. **How well the engagement is run is also an important factor for influencing companies to act**

   A good engagement process enables shareholders to effectively communicate their proposals and for shareholders and the company to identify and address points of difference. In over half (51%) of engagements that led to action, the fact that the shareholders were available for face to face meetings, and that the shareholders engaged with them directly rather than relying on proxy advisors were both highlighted as one of the top three reasons for companies taking action (PwC Survey, Q18). Companies also prefer engagements to be private rather than public (PwC Survey, Q24.3), and to be verbal rather than written (PwC Survey, Q24.4). A well-run and collaborative engagement process has an important influence on whether a company deems an engagement to have been successful, even if they do not act.

3. Using the same definition as in our corporate survey, we define an engagement to have been confrontational where shareholders request a change that is clearly adversarial to the board. A confrontational engagement will frequently involve against votes or the threat of against votes. It may also be public or involve threats to go public.
4. Occurring in fewer than 25% of their engagements
5. Occurring in more than 75% of their engagements

3. **The greater the shareholder consensus, the greater the impetus for companies to act**
   Shareholders should demonstrate that their engagement has widespread support. Companies give weight to proposals that demonstrate collaboration and are backed by a significant number of shareholders (PwC Survey, Q18 & Q20b). Shareholders should consider collaborating with other shareholders if they wish to make their proposals more compelling.

4. **The more knowledgeable the engagement leader, the more likely the company will act**
   Company interviews revealed that the quality of shareholder engagement varies considerably across shareholders. A key determinant of success is the quality of the person or people leading the engagement. Usually, the more resources a shareholder devotes to company engagements, the better the person or people who lead their engagements. Occasionally, companies reported variations in the quality of engagement within the same shareholder. These cases were due to managers of different funds within one group having separate approaches to engagement. Furthermore, these managers would often have contradictory requirements, despite representing the same shareholder. A well-prepared shareholder tends to have a good understanding of the company, a clear case for business proposals, and a constructive engagement process. All of these factors increase the likelihood of success.

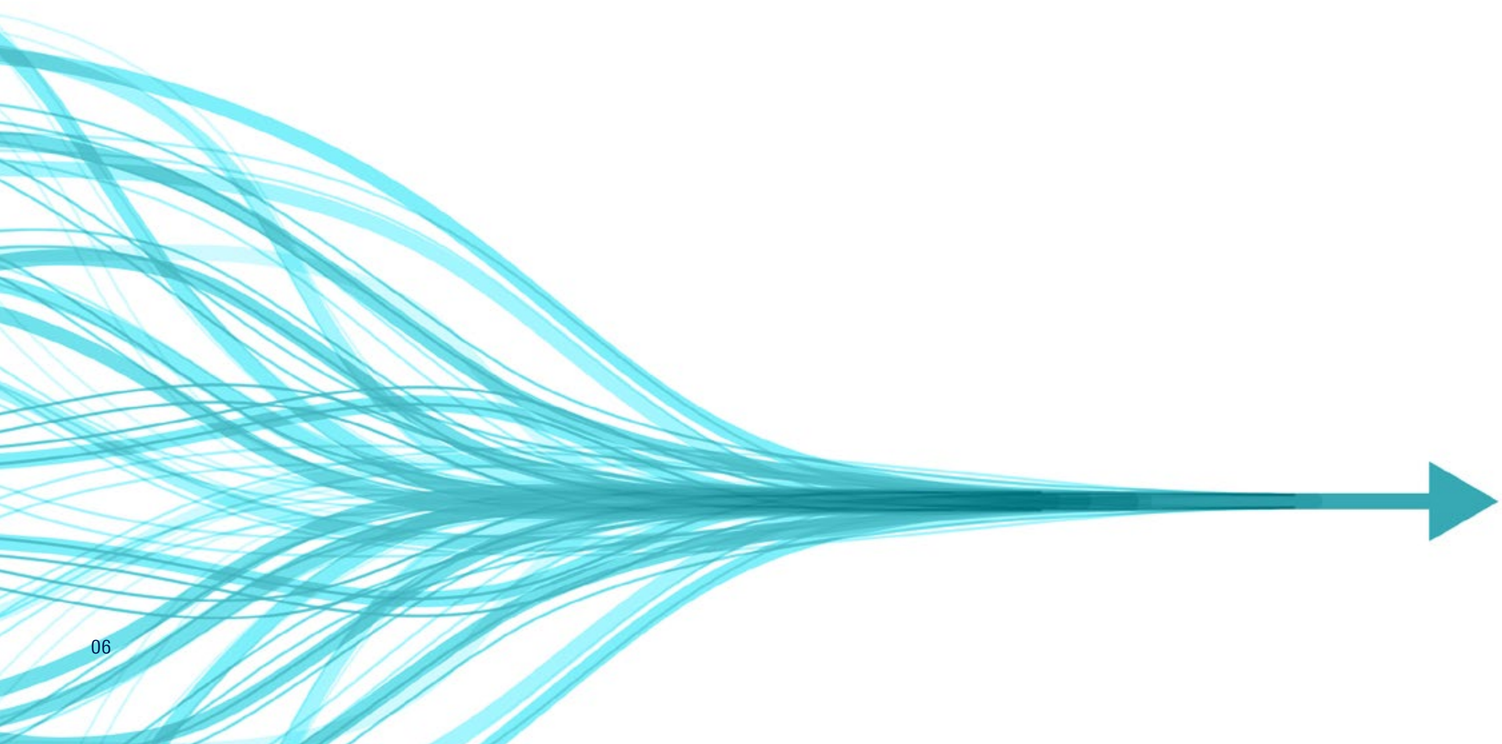
5. **High costs of inaction can spur companies to act**
   Instead of focusing on the benefits of a company acting on their engagement, shareholders can also signal the costs of a company not acting. For example, inaction around environmental or social policies can be detrimental to customer and wider stakeholder perceptions of the company.

Unsuccessful engagements usually have at least one of the following four features:

1. A lack of demonstrated value
Shareholders must convince companies that the benefits of taking action will outweigh any costs. When a company did not act on an engagement that required substantial action, in over half (53%) of cases it was because they considered the costs of the proposed actions would outweigh any benefits (PwC Survey, Q16). Even if a case has merit, it should be aligned with the company's objectives. Similarly, in half (47%) of instances where action was not taken, it was because a shareholder proposal did not align with the company's strategy or was of limited relevance (PwC Survey, Q16).

2. A lack of shareholder knowledge or understanding
People involved in shareholder engagements frequently lack relevant knowledge. Companies report that, of the engagements that did not lead to action, 68% lacked knowledge of the issues at hand (PwC Survey, Q19). Many company executives who we interviewed perceived that their shareholders were devoting fewer resources to their engagements, or were spread more thinly across more companies, compared to previous years. One consequence is that companies have shareholders who do not understand their strategy, market or business model. Without this knowledge it is difficult for shareholders to produce a compelling case for action that is tailored to an individual company.

3. A lack of company resources
Even if a company wishes to act following a shareholder engagement, a lack of resources often prevents them. The company may not have sufficient time, expertise or financial resources (PwC Survey, Q16). Shareholders who do not know the resource limits of the companies they invested in risk wasting their engagement efforts.



4. A confrontational engagement process

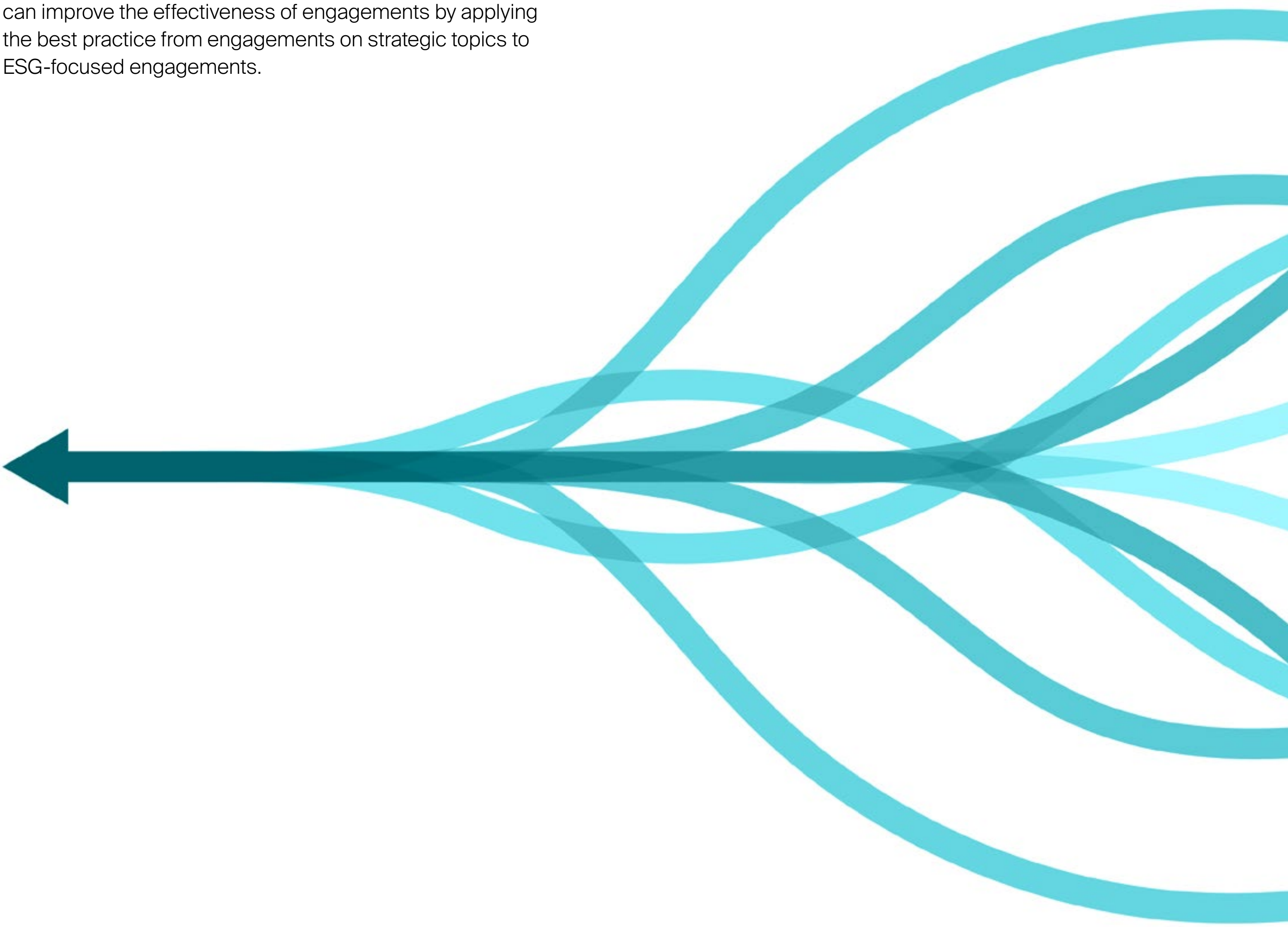
As evidenced by the success of some activist investors, companies do act in response to confrontational engagements. The most effective threats that shareholders can leverage are bringing a shareholder resolution, downgrading the company's ESG rating, publicly criticising the company and divesting the company's shares. Other (but less effective) threats include promising a negative vote on director re-election or encouraging a negative reaction from other shareholders, such as NGOs (non-governmental organisations) (PwC Survey, Q20a). That said, companies can also cite a confrontational engagement as the reason why they did not act (PwC Survey, Q19).

A few interviewees indicated that some ESG-related engagements are not as constructive as strategy-related engagements. Both interviews and survey results show that shareholders know how to engage companies constructively on traditional topics (e.g. those related to strategy). The lower quality of some ESG-focused engagements may be due to the different incentives for this type of engagement. For example, the need to evidence activities and outcomes may cause perverse incentives to use more public engagements as opposed to the more effective private engagements. Shareholders can improve the effectiveness of engagements by applying the best practice from engagements on strategic topics to ESG-focused engagements.

Escalation

Shareholders can escalate beyond engagement where they feel they are not being listened to, or insufficient action has been taken. This can involve bringing a shareholder resolution, divesting the company's shares and publicly criticising the company (PwC Survey, Q20a). But such behaviour can erode trust between shareholders and the company, reducing the effectiveness of future engagements. Shareholders should therefore use such actions wisely.

Alternatively, shareholders can demonstrate that the company's inaction risks missing an opportunity to enhance shareholder value. Other potential costs of inaction that weigh in company decision-making include negative media coverage, public protests or negative media coverage (PwC Survey, Q20a).



We consider the best way to influence companies to act is through building meaningful relationships. Below are some recommendations for how shareholders could increase the likelihood of their engagements leading to company action:

1. **Build trust and a mutual understanding with companies.** A constructive process and good relationships matter to companies. Differences of opinions may sometimes be necessary, but companies report a greater likelihood of change when they experience a constructive engagement process.
2. **Discuss the engagement objectives and success metrics at the outset.** Shareholders and companies may have different measures of success and cost, benefit and risk tradeoffs. So an upfront discussion enables both shareholders and companies to better understand each other and to work constructively together.
3. **Demonstrate the added-value to the company and the link to its strategy.** The most common reason why companies acted on a shareholder engagement was because doing so would add value to the business. Engagements that lack clear financial objectives are less likely to be taken seriously and therefore more likely to be dismissed.
4. **Collaborate with other shareholders where possible.** The larger the shareholder (or group of shareholders) the greater their influence. Faced with competing demands, companies are most likely to listen to proposals from their anchor shareholders, or which represent a large proportion (more than 20%) of their investor base. Collaborative engagement initiatives – such as the Climate Action 100+ initiative, which comprises over 700 investors managing $68 trillion in assets[6] – enable shareholders to coordinate and present a united message to companies.
5. **Use direct, private and face-to-face engagements were possible.** Companies have clear preferences for how they would like their shareholders to engage. They generally prefer engagements to happen in person (or at least virtually) rather than in writing, to be done privately rather than public and to be constructive rather than confrontational.
6. **Use confrontational measures wisely.** If shareholders are persistently confrontational, they risk undermining their relationship and trust with a company. This can lead to companies being less willing to engage with such shareholders. An overuse of confrontational measures can reduce the effectiveness of future engagements.
7. **Take the recommendations of proxy advisors as advice, rather than automatically following their recommendations.** Shareholders have a role to play in encouraging their proxy advisors to engage well on their behalf. They can do this by scrutinising their recommendations instead of always voting as the proxy advisors suggest.
8. **Have capable and experienced individuals lead company engagements.** The best engagements are closely related to the quality of the people who lead them. Shareholders should prioritise having experienced, knowledgeable and personable people engage with their companies.
9. **Consider the company's priorities and resources.** A lack of available resources is a frequent reason that companies give for not adopting a shareholder proposal. So shareholders should themselves prioritise the engagements that they present to their companies.

6. https://www.climateaction100.org

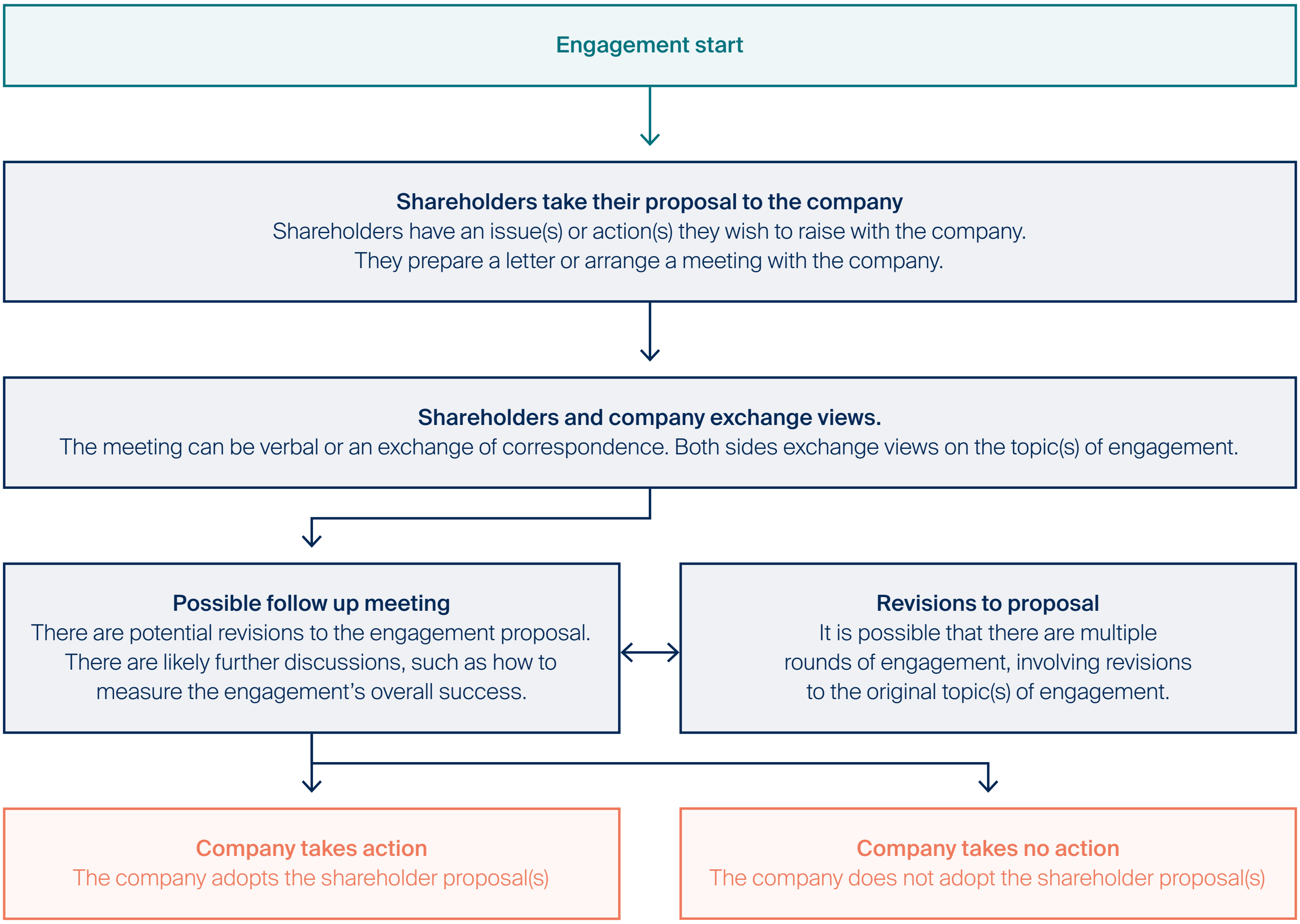
Introduction

The introduction of stewardship codes around the world, combined with increased expectations from end beneficiaries, has resulted in a growing need for investors to evidence how they exercise their stewardship rights and obligations and the outcomes such activities deliver. In particular, there is increased emphasis on the role of investor engagement in influencing investee companies to deliver changed outcomes, whether in terms of strategy, operations, governance, or disclosures.

A body of research exists on the extent to which investor engagement can deliver outcomes in terms of a company's share price, financial performance, or environmental and social objectives. However, little research has been done to identify the specific characteristics of an engagement that trigger companies to act.

We define a shareholder engagement as the process of a shareholder or group of shareholders communicating with, providing input to, and holding accountable, a company in which they own equity. Shareholder engagements normally involve shareholders asking for company boards to take specific action – such as changing their strategy or adopting policies – and normally occur outside of the normal corporate processes of roadshows and standard AGM (Annual General Meeting) resolutions. Companies frequently engage with a range of stakeholders besides its shareholders. These include its employees, customers, suppliers, regulators and industry peers.

Indicative engagement process



This report focuses on the engagements that companies have with their shareholders. This report identifies the characteristics of the most effective engagement approaches and behaviours that shareholders can adopt to change a company's behaviour, strategy, or policy. This report is informed by an academic literature review and by a survey and interviews with company executives.

We note that some of the most extensive and compelling evidence on investor engagement relates to activist campaigns, which are found to have a relatively high success rate in terms of achieving outcomes. However, such activism remains relatively rare. Although we make some reference to activist investment in this report, the study's primary focus is on more routine engagement between investors and companies, the likes of which most companies will experience in most years.

We also recognise that there is often inherent uncertainty as to whether a specific engagement, led by specific shareholders, resulted in a specific outcome. Shareholders may not know whether an outcome was achieved due to their engagement activity, the activity of others, or whether it would have occurred irrespective of any engagement.

Three sources inform our understanding of this topic: a review of the academic literature, a survey of companies and in-depth interviews with company senior executives. These three sources reveal interesting insights on how companies engage and why some engagements and not others lead to action. A full description of our approach to the study and of the sources used is in Appendix 1.

The report is structured as follows:

Chapter 1 outlines our approach to this study, namely our academic literature review, corporate surveys and corporate interviews.

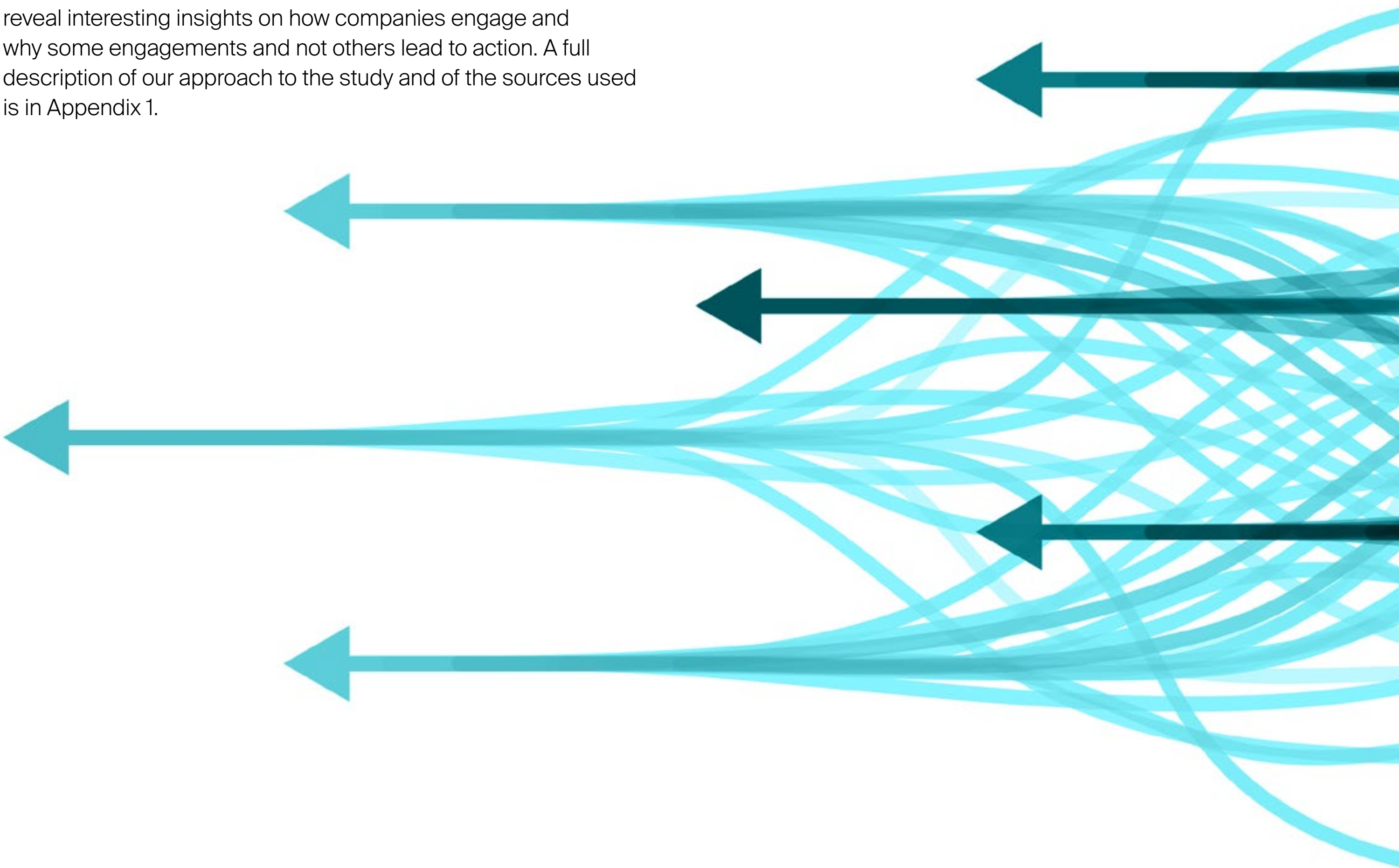
Chapter 2 summarises the recent trends in the number, manner and topics of corporate engagements.

Chapter 3 considers how companies and shareholders define a successful engagement.

Chapter 4 explores the factors that affect the likelihood of a company taking action.

Chapter 5 explores the drivers of unsuccessful engagements.

Chapter 6 lists nine recommendations for how shareholders can best influence companies to act.



01. Recent trends in corporate engagements

Number of engagements

The number of annual engagements between companies and their shareholders has increased in recent years. The 2022 PwC Corporate Director survey found that approximately 60% of companies had engaged with shareholders in the preceding 12 months, up from 42% in 2017. This increase over time is corroborated by Tonello and Gatti (2019) who find the majority of companies across indexes and revenue sizes report that the frequency of engagement has "*somewhat increased*".

The larger the company, the more engagements it can expect with its shareholders. Firms with annual revenue of less than $1 billion faced an average of 60 engagements in the previous year. This compares with an average of 75 engagements for companies with annual revenues greater than $1 billion (PwC Survey, Q3). These findings are consistent with other surveys. For example, Gatti and Tonello (2019) find that only 10% of the respondents from larger companies had not engaged with shareholders in the last 12 months, compared to 42% of respondents from the smallest companies.

The number of engagements varies by the company's sector. The sectors with the highest average number of engagements in the prior 12 months were Energy (115), Communication Services (90), and Information Technology (89). The sectors in which companies were involved in the fewest engagements were Industrials (27), Consumer Stables (42) and Healthcare (54) (PwC Survey, Q3).

More extensive engagements usually involve larger rather than smaller companies. 51% of engagements involved at least two rounds of communication at companies with annual revenues greater than $1 billion, compared to 43% of engagements at smaller companies. Engagements that are specific and involve multiple shareholders are more likely to involve at least two rounds of communication (PwC Survey, Q4).

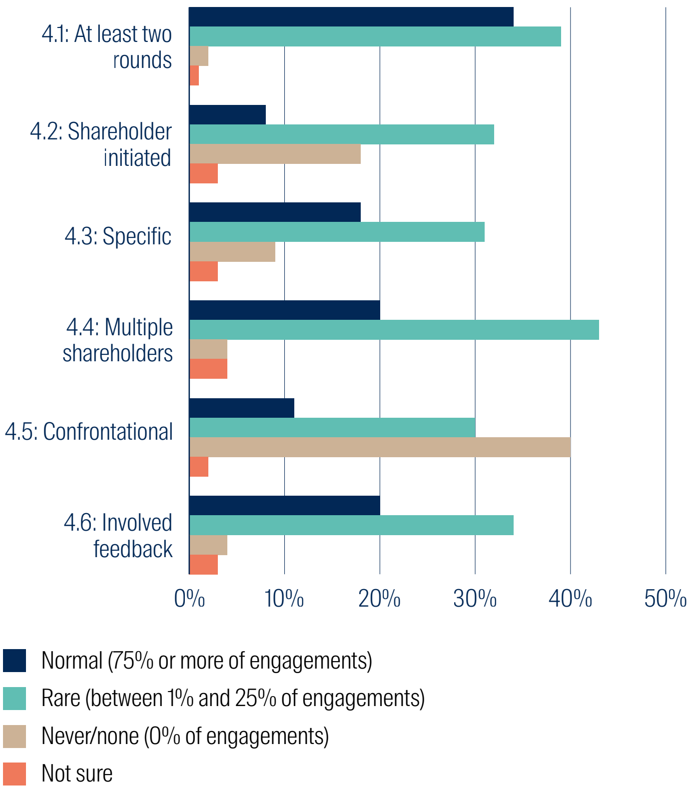
Nature of engagement

Our findings showed:

- **Increased dialogue** – In the past 12 months almost all companies (97%) had been involved in an engagement with at least two rounds of communication, with 34% citing this as normal.[7] However 39% of companies cited that multiple rounds were a rare[8] occurrence (PwC Survey, Q4.1).
- **Driven by companies** – Only 8% of companies reported that shareholders regularly[9] initiated engagement, and 32% classed it as a rare occurrence (PwC Survey, Q4.2).
- **Specific and general** – Specific engagements were the norm for 18% of companies. But specific engagements were rare or non-existent for another 40% of companies (PwC Survey, Q4.3).
- **Involve multiple shareholders** – 92% of companies surveyed reported that in the past 12 months they had participated in at least one engagement that involved communication with multiple shareholders. However, engagements that involved communication with multiple shareholders was a rare occurrence for 43% of corporates and a normal occurrence for only 20% (PwC Survey, Q4.4).
- **Rarely confrontational** – 11% of corporates reported that confrontational engagements were normal, versus 70% who reported rarely or never having confrontational engagements (PwC Survey Q4.5).
- **Involved feedback** – Almost all companies reported that they had been involved in giving or receiving feedback in their engagements (only 4% of companies responded had no feedback). However, only 20% of corporates reported that feedback was normally shared in their engagements. Nearly four in ten (38%) of corporates reported that their engagements rarely or never involved the sharing of feedback (PwC Survey, Q4.6).

7. Occurring in 75% or more of their engagements
8. Occurring in between 1% and 25% of their engagements
9. Occurring in 75% or more of their engagements

Question 4: What proportion of engagements with your shareholders over the past 12 months have had these characteristics? N=100



Source: PwC survey results

These findings suggest that there are some clear trends across companies when it comes to the nature of engagement. Almost all companies have had at least one experience of engaging over multiple rounds, engaging with multiple shareholders and giving or receiving feedback. However, many of these features are rare across all engagements despite almost all companies having some level of exposure. Furthermore, it appears that confrontation is indeed rare; only 11% of companies experienced it as the norm.

Topic of engagement

There seems to be an increasing focus on ESG-related topics. Gatti, Strampelli and Tonello (2023) emphasise that the most frequent current topics of engagement across most companies are climate and greenhouse gas emissions, board diversity, as well as executive compensation. This sentiment was echoed in our interviews. Instead of interactions being about specific company policies, they are now more frequently about standard issues relating to all companies ("*We talk to people who are much more general in their enquiries [than 20 years ago]*" (Company executive interview)).

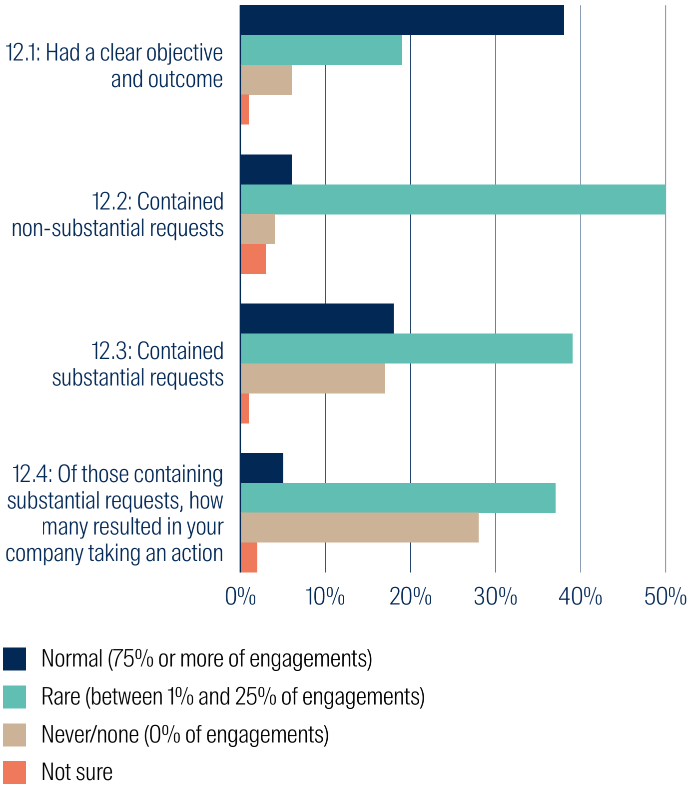
That said, our survey suggests that company strategy and performance continue to dominate the majority of their shareholder engagements.

- **In the past year** – Our survey (Q7) found that the most common topics of engagement are audit and financial reporting (63% of companies engaged on this in the past year), company strategy or performance (60%), Board composition and leadership (37%) and ESG (35%). Yet these topics are dependent on factors outside the company or shareholders' control. The 2022 PwC Corporate Director Survey highlighted that 61% of directors believe that in an economic downturn, issues such as carbon emissions and climate risk would receive less investor attention.
- **In the past 3–5 years** – Corporates report that some topics have become much more common in company-shareholder engagements. The topics that companies report as having increased in importance over the past 3–5 years (PwC Survey, Q8) relate to company strategy or performance (67% of companies), audit and financial reporting (52%), data reporting (49%), board composition, leadership and executive remuneration (46%) and ESG (44%).

This difference could be driven by the difference in the size of the company. We found that 52% of larger companies (revenue above $1bn) indicated that ESG topics have increased in importance, as compared to 37% of smaller companies (revenue less than $1bn, PwC Survey, Q8).

Of the surveyed companies' engagements in the previous 12 months, 38% reported that it was the norm for the engagements to have a clear objective and outcome (PwC Survey, Q12.1). Half of companies reported that it was rare for proposals to contain non-substantial requests (PwC Survey, Q12.2), while 18% of companies reported that it was the norm for their engagements to contain substantial requests (PwC Survey, Q12.3). These substantial requests would have involved significant changes in the company's strategy, improvements in the company's environmental footprint or significant changes in capital expenditure, among other changes. Most (65%) companies that received substantial requests rarely or never took action on those requests (PwC Survey, Q12.4).

Question 12: Overall, what proportion of shareholder engagements in the last 12 months...? N=100



Note: Non-substantial requests include further disclosure or clarifications.
Substantial requests include strategy changes, improvements in environmental footprint, large CapEx changes, etc.
Source: PwC survey results

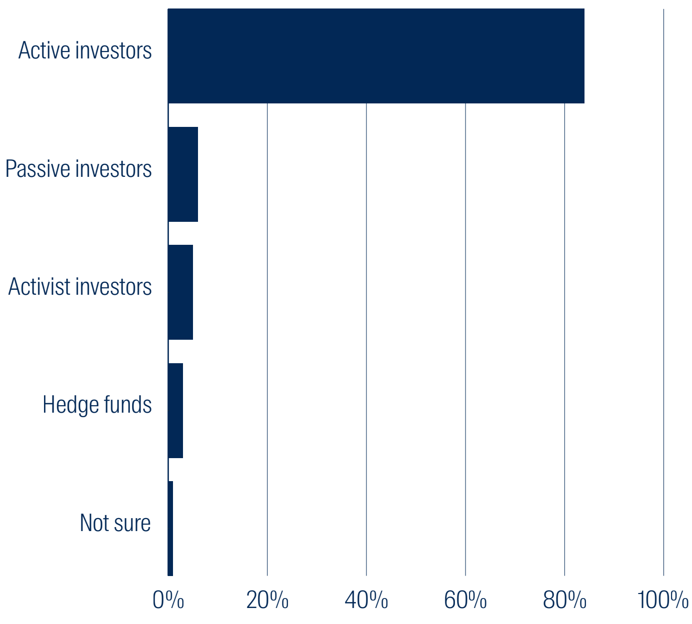
Participants

When a company initiates an engagement, there is no standard person who leads. The most common person in a company to lead an engagement is the Managing Director or CEO (43% of the time), Head of Investor Relations (28%), followed by the CFO (19%, PwC Survey, Q5).

Priority and escalation

Companies tend to prioritise larger investors and active investors. It was clear from our interviews that the larger the shareholder, the greater the priority a company gives to their concerns. The next most important influence is the shareholder's relationship with the company. Companies give considerably greater weight to the concerns of active shareholders than they do to passive shareholders. Activist investors and hedge funds are also accorded little weight. However, we note that this last result may be influenced by the fact that activist campaigns remain relatively rare and specialised. Many respondents have never had an activist investor on their register.

Question 6: Besides the size of the investor, what else influences how you prioritise their concerns? Select one option
Proportion of respondents selecting



Source: PwC survey results

The escalation process upon receiving a shareholder concern varies considerably between companies. Over half (55%) of companies surveyed reported not knowing or not being sure of the process and criteria for internal escalation (PwC Survey, Q13).

Some companies escalate shareholder queries straight to their board, CFO or CEO. The nature of the query often determines who receives it. For example, one company reports that financial matters are directed to the CFO, whereas strategy concerns go to the CEO. Other companies filter requests through their investor relations team, directing most requests to the relevant business unit and the most important ones directly to the senior leadership (PwC Survey, Q13).

Where companies receive a large number of requests, the company secretary and investor relations team play an important role in ensuring that important requests reach the senior leadership. During our interviews, one chairman emphasised the importance of having a good company secretary who can help to prioritise and make sure that the important shareholders are met in a timely manner.

Shareholder cohesion

There have been three notable trends in shareholder engagement. They are:

1. A large, longer-term trend towards more shareholder engagement and on more generic topics;
2. A small, recent increase in shareholder cohesion;
3. A small, short-term decrease in cohesion among different parties within the same shareholder (for example between different funds or between portfolio managers and the governance or ESG function).

First, the way that shareholders engage with companies has changed significantly over time. Historically, engagements typically concerned a company's performance and not standardised industry metrics, such as diversity or ESG targets ("*20 years ago, shareholders were interested in strategy, results, and where the company was going*" – Company executive interview). Such a close scrutiny of the company by shareholders was made possible by a smaller and more localised shareholder base. With a smaller list of engagement topics, companies generally had less interaction with shareholders than they do now.

The longer term trend towards a dispersed and international shareholder base reduces the ability of individual shareholders to be as informed about their portfolio companies ("*Most shareholders lack the resources to be as thorough on companies. As such, they are not as intelligently informed*" – Company executive interview). In the place of less frequent but more informed engagement, shareholders typically engage more often and on more generic topics ("*general issues such as ESG, remuneration and diversity*" – Company executive interview).

Second, there has been a short term increase in shareholder cohesion. A third (33%) of companies believe that over the past 3–5 years, the topics of engagement from different types of shareholders are converging and are more consistent. This compares to 55% of companies who believe that there has been no change in investor cohesion, and 10% who believe that investor cohesion has fallen in the past 3–5 years (PwC Survey, Q9).

The increase in short-term shareholder cohesion is in part due to the increased population of certain engagement topics. These include: a company's positive performance, converging investor demands, and wider economic and geopolitical events such as the COVID pandemic, inflation, and the energy crisis caused by the Ukraine war. The main company-driver for higher engagement is improved company performance ("*profit growth", "company profits*", "*company revenue growth*" – Company executive interview). Some topics reappear as being of common interest to most if not all shareholders ("*investors have taken more interest in the operations of the business, especially those involving ESG…*" – Company executive interview). Events outside the company's or shareholders' control have also driven up engagement ("*the cost of living has increased*", "*it is quite a volatile market due to Brexit, Covid, geopolitical uncertainty, high interest rates and high inflation*" – Company executive interviews).

Where shareholders have become less cohesive in the short-term, it could also be due to the lack of communication, negative company performance and a more diversified shareholder base. Some reasons given for this trend include "*lack of communication*" and "*the failure of the investment strategy that is leading to a decline in the confidence of investors, leading to different views between supportive and non-supportive investors*" (Company executive interview). In some cases, the short-term fall in shareholder cohesion reflects the longer term trend of shareholders becoming more dispersed: "*We have a larger flow of shares so we have a more dispersed shareholder base. In the past, we had a more concentrated shareholder base whereas now we have a less concentrated shareholder base and therefore less cohesion*" (Company executive interview).

Third, there has been a small, short-term decrease in cohesion among different teams within the same shareholder. A quarter (24%) of companies reported that in the previous 12 months they had experienced a net increase in the number of cases where different representatives of the same shareholder had conflicting requests. (PwC Survey, Q11). For example, one company reported "*our largest shareholder had several separate funds who would not coordinate and would each vote differently*" (Company executive interview). Yet a lack of coordination within shareholders may simply represent competing priorities of different types of funds. The majority (66%) of surveyed companies said there had been no change in the number of conflicting requests from shareholders, and 5% who say there has been a decrease (PwC Survey, Q11).

Engagement outcome

Companies make a distinction between shareholder requests that require substantial action, and those that just contain substantial requests. Half (56%) of companies reported that in the past five years they had encountered a shareholder engagement that required substantial action. In these cases, companies took action in 73% of cases (PwC Survey, Q14). Conversely, 82% of companies reported that in the preceding 12 months they had encountered at least one shareholder engagement that contained substantial requests (PwC Survey, Q12.3). Of these, 70% of companies took action on at least one substantial request that they received (PwC Survey, Q12.4).

Very few companies (3%) believe that shareholder engagements are largely unproductive and produce little fundamental benefit for the company. Instead, half (50%) believe that engagements enable them to better understand their shareholders, while 46% believe engagements are a productive use of management and board time, leading to improved outcomes for the company (PwC Survey, Q22).[10]

Opinions on additional regulation

Interestingly, the majority (78%) of companies do not believe that there is a need for more regulation of stakeholder engagement, while 8% are unsure (PwC Survey, Q25). Of the 14% that believe there should be more regulation, there is no clear area of agreement for where this regulation should be.

Two areas of potential regulation concern the shareholders' obligations to the company and the proxy advisors' obligations to the shareholders they represent. One company expressed concern about how shareholders may be able to influence the company's share price and, perhaps inadvertently due to unintended consequences, "*destroy value.*" They reported that shareholders will not be held accountable for doing this, whereas company executives will ("*there is less accountability for shareholders who are in a position to influence the share price, and even they may not have all the facts or information*", PwC Survey, Q26). This demonstrates the importance of sharing information and developing understanding across both companies and their shareholders. Another company wished to see regulations on proxy advisors so that they properly represent their shareholders ("*there should be more regulations on [proxy advisors] to make sure that when they vote their shares it should truly reflect what their shareholders believe*", PwC Survey, Q26).

Other companies wished to see regulations on what topics shareholders could engage on and how they could engage. One company wished to codify the responsibility of shareholders to their companies and to the environment. Others believed that regulation should mandate how shareholders and companies engage ("*face to face meetings other than virtual*", "*interaction with employees and management should be regulated.*". Another believed there should be guidelines that govern a shareholder's eligibility to participate in company engagement (PwC Survey, Q26).

10. Of the 55 companies that encountered a shareholder engagement that required substantial action (Question 14) in the previous five years, 40 (73%) took action. Of the 100 survey companies, only 17 had not encountered at least one shareholder engagement that contained substantial requests.

02. What is a successful engagement?

Before considering what triggers companies to act, we first consider how to define a successful engagement. Interestingly, when asked about this question during interviews, half of the interviewees took some time before answering. Many acknowledged that it is hard to define success using qualitative or quantitative metrics. There is no universal agreement for how to define a successful engagement.

Knowing how companies view success is important because it affects how shareholders may want to engage with companies to achieve the best outcome.

There is a wide variety in how companies and shareholders measure the successfulness of an engagement. The three main measures of success are:

1. First, some companies and shareholders define success in terms of the engagement's impact on the company's performance (Dimson, Karakas and Li, 2015). These metrics could be the company's share price, revenue, profit or customer base.
2. Second, success could be measured according to select criteria. These might be set out during the engagement process or might be standardised across all engagements (Gatti, Strampelli and Tonello, 2023). Examples of these criteria might include the company meeting diversity targets, implementing ESG policies or meeting specific commercial targets.
3. Third, success could be measured according to how pleased the company and shareholders are during and after the engagement process (Burgess and Gowers, 2022).

These three main measures of success may not be of equal importance to shareholders and companies alike. They may instead use just one measure or an unequal weighting of two or more measures.

The shareholders' response to the engagement

Many companies evaluate the success of an engagement according to how well they and the shareholders responded, both during and after the engagement. The measure of success that some companies use is if there was a shared understanding ("*they understood the agenda and strategic plans*") and mutual agreement ("*If investors agree to the suggested changes/ plans*"). Others measure success according to whether conflict was resolved and concerns were addressed ("*If conflicts have been resolved*", "*concerns shared were properly addressed*"). Still other companies measure success by future shareholder behaviour ("*whether they actively participate in further meetings*"). Some companies judge success according to a formal vote taken at the end of the engagement ("*we should have positive votes from shareholders*") or from shareholder feedback ("*shareholder feedback tells us the successfulness of an engagement*"). Overall, companies appear to place significant weight on having a constructive process regardless of its outcome (PwC Survey, Q20b).

Standard or bespoke metrics

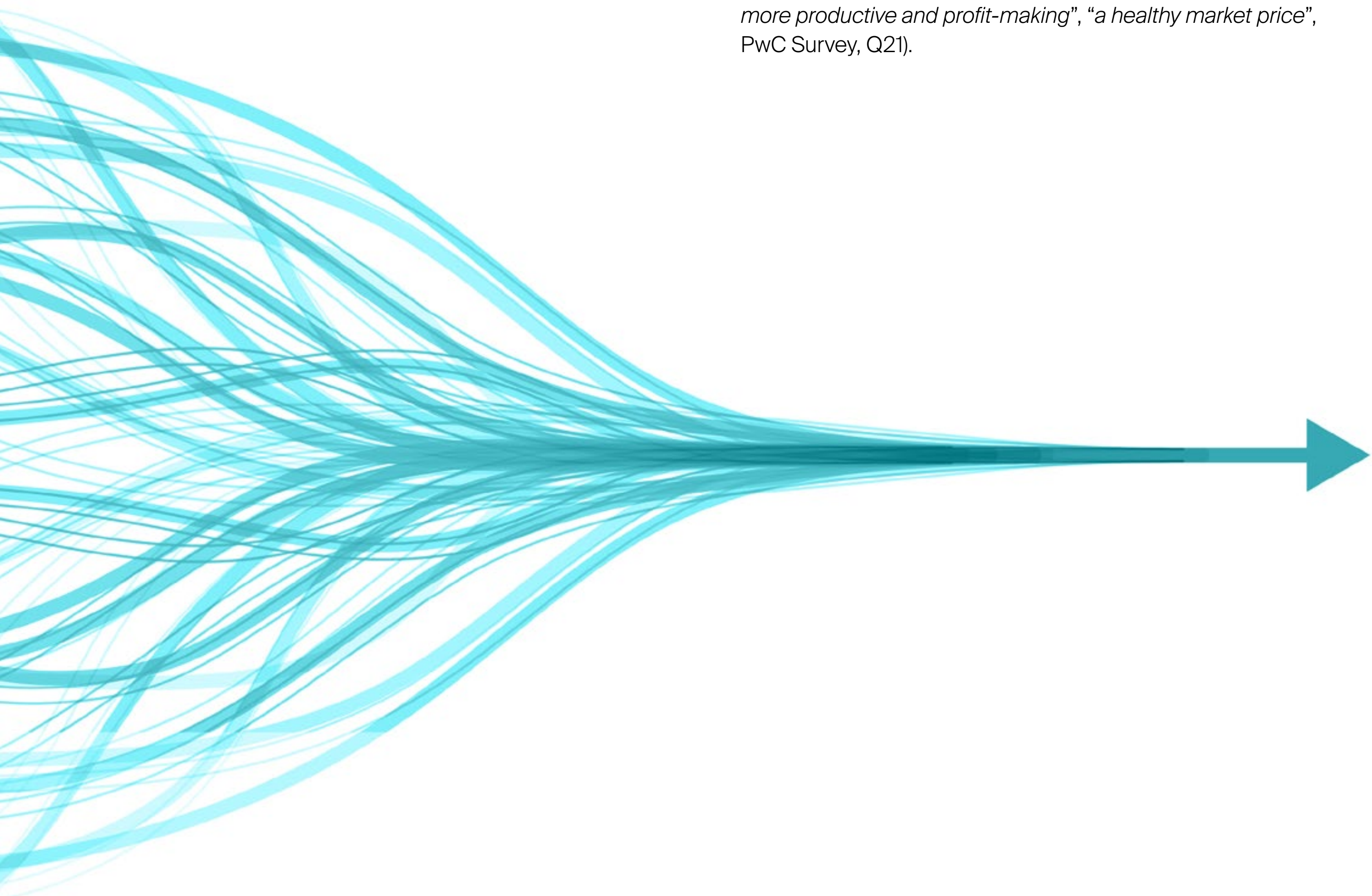
Other companies judge the success of an engagement by measuring the outcomes that were implemented following the engagement. In only a few cases this is by using metrics that were agreed upon from the outset. In most cases, companies use standardised metrics that can be used across all engagements. Examples of these metrics include an external audit and shareholder investment levels (PwC Survey, Q20b).

The company's performance

Only a few companies use performance as the main measure of an engagement's success. Here the primary metric is the company's share price ("*by the change in relative share price*", "*by the share price and the activity on the stock market*"). The primary metric could be the company's performance ("*the effect on profitability*", PwC Survey, Q20b). Some measures of success can depend on a company's circumstances. That said, when asked if an increase in shareholders' stakes in the company would be considered as a success metric, one interviewee strongly asserted that the share purchase decision following the engagement is definitely not a good indicator of success. Other companies have mentioned that having the "*wrong*" shareholders can be a worse outcome for the company (PwC Survey, Q21). We note that the company's share price is a common metric of success used in academic studies of activist investment strategies.

Shareholders and company boards may disagree as to whether an engagement has been successful. Such disagreement is most common when the shareholders are confrontational. A confrontational engagement that applies pressure on a company may achieve all that the shareholders want. But companies may see the engagement as disruptive, undesirable or short-termist. Even if the activity produces value for the company, there can still be disagreement over whether these justify the confrontational engagement.

There is no absolute consensus on what companies consider to be the most important aspects of a successful engagement. However, most companies consider communication and a positive culture to be essential ("*clear communication should be there from both sides*", "*the most important factor in stakeholder engagement is organisational culture*"). Some companies put most weight on the quality of the outcomes ("*the results define the engagement*"). This often includes engagement's impact on company performance and the share price ("*becoming more productive and profit-making*", "*a healthy market price*", PwC Survey, Q21).



03. What triggers corporate action?

We have heard anecdotally from investors that some CEOs would not wish to admit that a shareholder engagement caused them to act. Not all the companies that we spoke to shared this sentiment. Most of them genuinely appreciate their long-term shareholders who understand their company and offer challenging and constructive feedback. That said, companies see some shareholder engagements as irrelevant and confrontational. This section explores what causes a company to act in response to a shareholder engagement.

According to our survey, there are five key factors that affect the likelihood of a company taking action. They are:

1. The benefits of a proposal relative to its cost
2. How the engagement is run
3. The extent of shareholder consensus
4. The quality of the personal engagement, and
5. The costs of inaction

01. The benefits of a proposal relative to its cost

The first key factor that affects the likelihood of a company acting is the size of the benefits of a proposal relative to its cost. Shareholder proposals can normally be separated into two groups: those that are directly related to the company's strategic objectives and those that relate to the company's culture, social or environmental obligations or governance.

Strategy-focused engagements

The main driver for a company to act is because the proposal offers compelling results. 73% of the time the reason why a company acts is because the board believes doing so will have net benefits for the company (PwC Survey, Q15). Boards look much more favourably on proposals – commercial and noncommercial alike – that demonstrate clear, proportionate benefits for the company. A feature of 70% of engagements that resulted in company action was that the engagement was well thought through and the shareholders had a compelling business case (PwC Survey, Q15). Similarly, 67% of the time when a company had the necessary resources, they chose not to implement a proposal because the shareholders did not present a compelling business case (PwC Survey, Q16).

The more disruptive to the company to act – in terms of its operations, strategy or structure – the less likely it will do so. Even if the shareholders' proposals could lead to large benefits for the company, boards are inherently risk-averse and resource constrained. Engagements that target wide-reaching or "*organisational*" change are 16% less likely to result in change than those that propose a smaller intervention (Barko, Cremers & Renneboog, 2022).

Instead, engagements that focus on smaller, targeted changes are more likely to lead to action (Barko, Cremers and Renneboog, 2022). But there is a balance to be had. Proposals should be large enough to produce meaningful outcomes. If not, a company is less likely to act in response to an engagement that they see as being of negligible benefit ("*shareholder engagement can focus too much on nitpicking, where it is harder to demonstrate impact of such engagement*" – Company executive interview). Companies tend to prefer engagements that are about important outcomes and principles instead of small details (Investor Forum, 2019). Shareholders must therefore find the balance between engagements that are small enough for the company to accept but large enough to still create value.

Other engagements

Companies also act on engagements that demonstrate clear, non-commercial benefits. Generally, firms are most likely to act on governance issues, closely followed by social issues. Yet the likelihood of success varies even within sub-topics. The topics most likely to lead to action concern public health, labour standards, climate change reporting standards and corporate governance (Barko, Cremers and Renneboog, 2022).

Non-commercial proposals should have a proportionate cost to the company. Boards do accept proposals that offer little benefit to the company – and may even be happy to do so to meet their shareholders' preferences. In 50% of the cases where a company acted, it was at least partly because the action would give rise to significant shareholder benefit (PwC Survey, Q15). This was true even if taking action would be of little gain to the company itself. However, an important caveat is that the costs to the company were small.

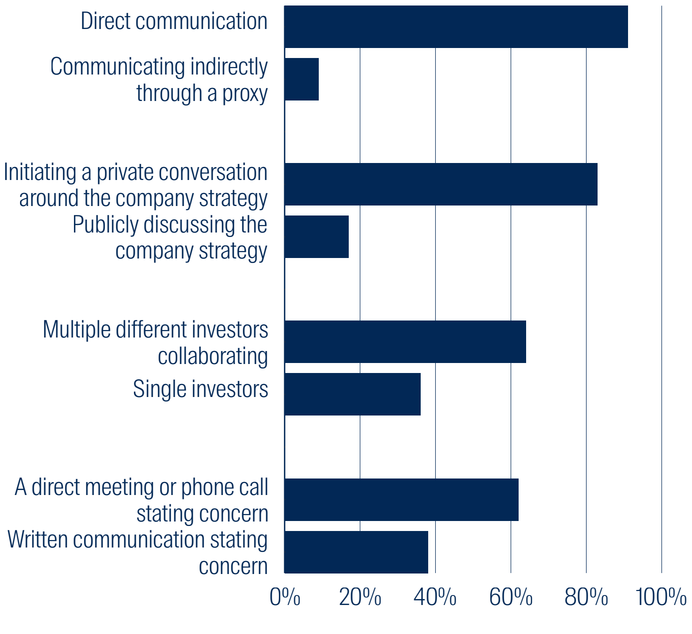
02. How the engagement is run

The second key factor that affects the likelihood of a company acting is how the engagement is run.

Collaborative engagement

Collaborative engagements are associated with a higher success rate than unilateral ones. Two thirds (64%) of companies prefer engagements where shareholders collaborate to those that involve a single investor (PwC Survey, Q24.3). This preference translates into an approximate 33% success rate for collaborative engagements, compared to an 11% success rate for unilateral engagements (Dimson, Karakas and Li, 2015).

Question 24: Which of the following engagement methods do you prefer? Proportion of respondents selecting



Source: PwC survey results

The preference for collaborative engagements is greatest for larger (>$1 billion in annual revenue) companies than for smaller ones (74% versus 54%, PwC Survey Q24.3). This could be that their more dispersed shareholder base requires shareholders to collaborate so as to represent a significant portion of the company's ownership.

Companies also much prefer shareholders to engage privately rather than publicly (PwC Survey Q24.2). Smaller companies do not have preference for whether the engagement is via a meeting or phone call or is written. Larger companies have a clear preference for verbal engagements (for 72% of large companies) instead of a written engagement (PwC Survey, Q24.4).

Direct communication

Engagements that involve direct communication are equally likely to be associated with a company taking action (51% of the time) as engagements that involve proxy advisors (PwC Survey, Q18). Yet 91% of companies prefer direct communication to indirect communication through a proxy (PwC Survey, Q24.1). Indirect communication can therefore still lead to company action. But in such engagements there is likely to be less deep understanding between shareholders and the company. Where there is a deadlock between companies and shareholders, direct communication between the two is vital for reaching a consensus (Blackrock and Ceres, 2015).

03. The degree of shareholder consensus

The third key factor that affects the likelihood of a company taking action is the degree of consensus among shareholders. Companies want to please their shareholders. In half the cases where companies act following an engagement, it is because doing so would significantly benefit their shareholders, while being of limited cost or benefit to the company itself (PwC Survey, Q15). The greater the shareholder consensus, the greater the incentive for a company to adopt a proposal. This is further supported by 53% of companies who reported that having the support of an anchor shareholder or more than 20% of all shareholders was a key feature of an engagement that led to action (PwC Survey, Q18).

04. The experience of the shareholder engagement team

The fourth key factor that affects the likelihood of a company acting is the level of experience of the shareholder engagement team. This comprises their experience of shareholder engagements and their experience with a specific company and its strategy.

Shareholders who proactively engage with companies demonstrate that they are committed to the company and to its future success. The better both sides know each other, the more confident they will be that they are working in their mutual shared interest.

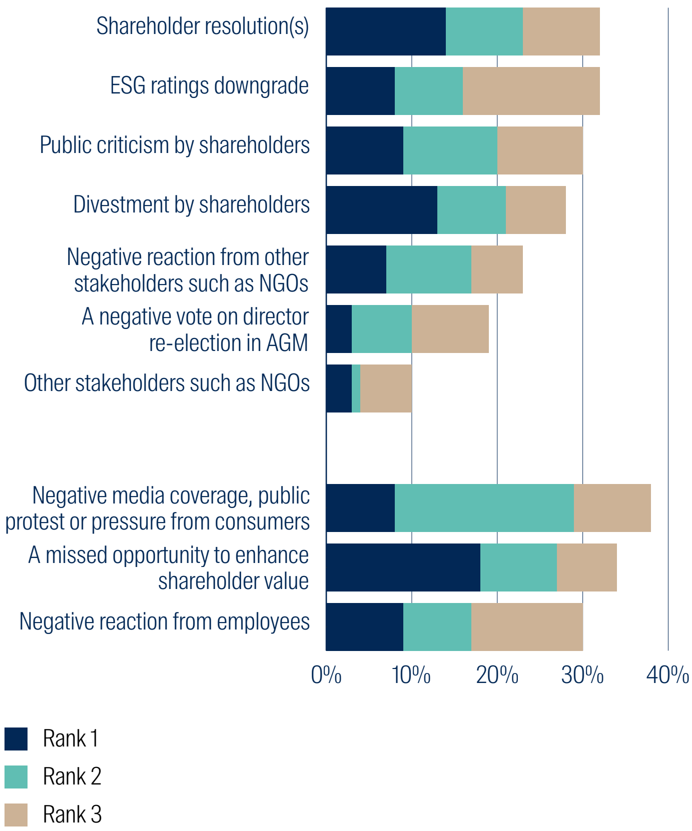
In addition, the better a shareholder knows a company, the more informed they are about the company's strategy, vision and the market in which it operates. It is necessary for shareholders to have this company-specific information to create compelling and tailored engagement proposals. Companies report that strategy engagements are usually better led and are better informed than ESG engagements. This presents an opportunity for shareholders to increase the effectiveness of their ESG engagements by assigning more experienced leaders to run them.

05. The costs of inaction

The fifth key factor that affects the likelihood of a company acting is the cost of inaction. Shareholders may choose to engage by exerting pressure on a company. Of the ten largest threats or risks (informed by research and asked in our survey) that drive a company to act in response to an engagement, seven relate to negative actions that shareholders might take. These include passing a shareholder resolution or downgrading the company's ESG rating (a threat for 32% of companies, publicly criticising the company (30%), divesting the company's shares (28%) or casting a negative vote on director re-election at the company's AGM (19%, PwC Survey, Q20a). These are all threats that shareholders can leverage to pressure a company to act.

Question 20a: Which of the following potential threats/risks are the biggest drivers for your company to act in response to investor engagement? Rank your top three. 100 respondents

Percentage of respondents per rank



Source: PwC survey results

Shareholders can influence the other, larger costs of inaction that companies fear. These are potential negative media coverage or pressure from consumers (a threat for 38% of companies), missing an opportunity to enhance shareholder value (34%) or facing a negative reaction from employees (30%, PwC Survey, Q20a).

04. What are the drivers of unsuccessful engagements?

There are some behaviours and approaches to engagements that shareholders should avoid. These relate to shareholders being ignorant of either the impacts of their proposal, the company itself, or how the company would like to engage. Shareholders can increase the effectiveness of their engagements by avoiding these drivers and adopting the best practices outlined in the previous chapter.

There are four main reasons for why engagements do not succeed:

1. A lack of demonstrated value
2. A lack of shareholder knowledge or understanding
3. A lack of company resources, and
4. A confrontational engagement process

1. A lack of demonstrated value

Over half (53%) of times a company did not act (on a substantial engagement), it was because the costs of the proposed actions outweighed any benefit. A similar proportion (47%) of engagements were unsuccessful because the actions proposed were not aligned with the company's objectives or strategy, or they were of limited relevance (PwC Survey, Q16).

2. A lack of shareholder knowledge or understanding

Shareholder engagements frequently lack basic knowledge. Companies report that, of the engagements that did not lead to action, 68% lacked knowledge of the issues at hand (PwC survey, Q19).

70% of companies reported that, before commencing an engagement, they would like shareholders to be better informed about the company's financial position. Two thirds (66%) said they would like shareholders to better understand the issue being discussed and the cost benefit analysis, while 62% wanted shareholders to be better informed about the company's strategy (PwC Survey, Q23).

A reason why some shareholders do not properly understand their companies is because they do not devote as many resources to company engagement as in the past. "*Shareholders lack resources to be thorough enough on companies*" (Company executive interview). Historically, shareholders would have senior staff with close relationships with their major companies "*The people doing governance were ex-investment and fund managers*" (Company executive interview). As well as fostering trust, such relationships would give shareholders unequalled insight into the company. This knowledge would then enable shareholders to engage in an informed manner with the company.

Our interviewees cities the time and resource restraints of shareholders as the key reason for their lack of company knowledge. They attributed this to shareholders being unable or unwilling to commit a large amount of resources to company engagements. Interviewees said that "*Lots of shareholders don't want detailed discussions"* and "*Some fund managers have much less in-depth knowledge now than previously*" (Company executive interview). This is of course anecdotal, but was a sentiment that several of our interviewees shared.

3. A lack of company resources

Four in ten (40%) substantial engagements did not result in action because the company lacked the resources needed to undertake the proposed action at the time (PwC Survey, Q16). This could have been due to the company not having sufficient time, expertise or financial resources to act. In the majority of these cases, the companies believed that the benefits of taking action would outweigh the costs. Even so, their lack of resources prevented them from acting.

4. A confrontational engagement process

Companies reported that, of the engagements that did not lead to action, 28% of them were characterised by shareholders being overly confrontational or threatening negative reactions (PwC Survey, Q19).[11] The biggest potential threats that shareholders can leverage are bringing a shareholder resolution, downgrading the company's ESG rating, publicly criticising the company and divesting the company's shares (PwC Survey, Q20a). There are four drivers that can lead to confrontational engagements.

First, company boards may wish to meet short term goals and not take risks necessary for long-term value creation. The result is that companies might be inclined to reject shareholder engagements that create long-term value but at a short-term cost (McKinsey, 2017).

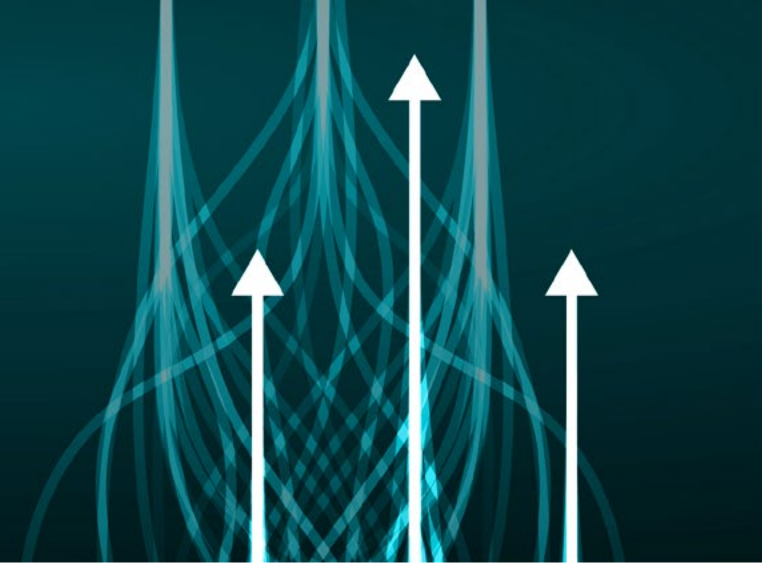
Second, shareholders may have different views among themselves. Low-equity shareholders may wish to engage on proposals that might increase the short-term share price of the company, but which come at a longer term cost. These can create a confrontational engagement process where different sized shareholders want the company to act in different ways (Shah, 2014). When there is division among shareholders, it makes it harder for companies to take action that only a portion of their shareholders support. Tensions between shareholders have increased as the shareholder base of companies has grown and become more international. ("*There is a tension between UK and US investors on what they want to engage on*" – Company executive interview).

Third, shareholders may have their own motivations for running a confrontational engagement. For example, some shareholders may prefer to engage publicly and in writing. A need to demonstrate that they are indeed engaging with companies makes certain methods of engaging, such as in person and in private, less attractive. These incentives are most common for ESG-related topics of engagement (Gifford, 2010).

Fourth, another cause of differences in opinion between shareholders and company management is the former's use of proxy advisors. Some companies believe that passive shareholders allow proxy advisors to wield more influence than perhaps they should. Over 70% of company Directors believe that proxy advisors are more, or much more, influential than they should be (Edmans, Gosling and Jenter, 2022). Shareholders who do not scrutinise their proxy advisor and always vote as their advisor recommends cede power control of setting the terms of the company engagement. This behaviour further demonstrates to the company that its shareholders have little or no desire to fulfil their obligations to the company.

Companies report a large range in the quality of proxy advisors. Some proxy advisors are considerate and informed, enabling shareholders to effectively participate in company engagements. The better the proxy advisor, the better the quality of engagement for both shareholders and companies. It therefore matters how proxy advisors interact with companies. Some companies report that proxy advisors do not give them enough time to respond to requests and do not seek to know the company properly. Others report that proxy advisors can be fixated on what they perceive as tick-box, one-size-fits-all engagements (Burgess and Gowers, 2022).

11. Using the same definition as in our corporate survey, we define an engagement to have been confrontational where shareholders request a change that is clearly adversarial to the board. A confrontational engagement will frequently involve against votes or the threat of against votes. It may also be public or involve threats to go public.



05. How can shareholders engage more constructively?

Both the interviews and survey results show that shareholders know how to engage constructively with companies on traditional topics, such as those related to the company's strategy and financial performance. A few interviewees have indicated that some ESG-related engagements are not as constructive as strategy-related engagements. The lower quality of some ESG-focused engagements may be due to the different incentives inherent to these types of engagements.

In particular, the need for shareholders to evidence their engagement activities and outcomes may distort how they would normally engage. For example, some shareholders might agree with companies that private engagements are more effective. But they might consider that they have no choice but to engage publicly so as to have evidence of their engagement. Shareholders can improve the effectiveness of engagements by applying the best practice from strategic engagements to their ESG-focused engagements.

Overall, we consider the best way for shareholders to influence a company's action is by building meaningful relationships. Below are some recommendations to increase the likelihood of companies acting on shareholder proposals

1. Build trust and a mutual understanding with companies
A constructive process and relationship matters to companies. Disagreement can happen given the differences in perspectives sometimes between shareholders and companies. Nevertheless, companies report a greater likelihood of change when they experience the process as constructive. Where possible, shareholders should aim to meet company representatives and to form constructive relationships.

2. Discuss the engagement objectives and success metrics at the outset
At the start of the engagement, shareholders should discuss the objective of the engagement with the company. It may sound obvious, but not all engagements start this way. As shareholders and companies may have different measures of success, an upfront discussion enables companies and shareholders to better understand each other and to work constructively together. It is important to mention that it is not always possible to align each side's incentives. The goal here is not to agree on the success measures, but to recognise the areas of differences.

3. Demonstrate the added-value to the company and the link to strategy
More than 70% of the time, the reason a company takes action is because shareholders have a compelling case for business change. A high quality case is also a way for shareholders to demonstrate that they understand the company's business model, strategy and market. This may require shareholders to consult with industry specialists or acquire the specialist knowledge themselves. Where engagements do not add value to a company, corporate executives are more likely to interpret any proposal as being a disengaged, box-ticking exercise. If the engagement contains no obvious financial benefit, shareholders should emphasise other benefits, such as a greater recognition of the company's brand.

4. Collaborate with other shareholders where possible
Most large companies seek to have a good understanding of the views of their top 20 shareholders. The larger the shareholder (or group of shareholders), the greater the weight they carry with companies. Small shareholders who engage alone risk being overlooked. As companies are often presented with a diverse range of shareholder engagements, shareholders who collaborate are more likely to be heard. In working together, shareholders are more likely to deliver a compelling and informed engagement. An example of effective shareholder collaboration is the Climate Action 100+ initiative, where the 700 investors with $68 trillion in assets under management have targeted 171 global companies, 75% of which now have net zero commitments.[12]

5. Use direct, private and face-to-face engagements were possible
Companies have clear preferences on how they would like their shareholders to engage. They prefer engagements to happen in person (or at least virtually) rather than in writing, to be done privately rather than public and to be constructive rather than confrontational. It is possible that individual companies have different preferences to the majority. Shareholders will find that companies are more receptive to their proposals if they adhere to each company's preferred methods of engagement.

6. Use confrontational measures wisely
The most effective forms of pressure are threats of shareholder resolutions, divestments or creating negative publicity. But if shareholders are persistently confrontational, they risk undermining trust with the company. This can lead to companies being less willing to engage with shareholders. An over-use of confrontational measures can reduce the effectiveness of future engagements. Companies can eventually become desensitised to shareholder threats. If done correctly, shareholders can apply pressure, disagree amicably with the company and still maintain a trusting relationship.

7. Take the recommendations of proxy advisors as advice, rather than automatically following their recommendations
Companies recognise the limitations that their shareholders face. They have three recommendations for how shareholders should use proxy advisors. First, shareholders should ensure their proxy advisors are considerate, giving the company adequate time to respond to requests. Second, shareholders should ensure their proxy advisors are informed, have adequate knowledge about the company, its strategy and its market. Third, shareholders should scrutinise the recommendations of their proxy advisors and interpret them as advice only.

8. Have capable and experienced individuals leading company engagements
The best engagements are closely related to the quality of the people who lead them. Shareholders should prioritise having experienced, knowledgeable and personable people engage with their companies. Shareholders should consider the trade-offs between the number of companies they engage with and the quality of engagement they can maintain. They should therefore consider whether they should devote more resources to hiring effective engagement leaders to improve the outcomes of their engagements.

9. Consider the company's priorities and resources
Shareholders should identify which incentives and constraints restrict their ability to engage well. They should then consider how they can improve the quality of their engagement given their incentives and constraints. Shareholders should even consider how they could better align their incentives with those of the companies so as to promote better engagement. They should also consider whether they could allocate more resources to company engagement then they currently allocate.

12. https://www.climateaction100.org

Appendix 01. Approach and Methodology

This section summarises our approach and methodology for the three sources that inform this report: the academic literature review, the corporate survey and corporate interviews. The latter two were with C-suite business leaders and executives from a range of listed companies across countries and sectors.

Academic literature review

The purpose of the academic literature review was to:

- Understand recent trends in corporate engagement (in terms of the number, topics and participants);
- Identify factors that affect an engagement's probability of success or failure;
- Identify any gaps in the literature that can be tested using our survey.

It is worth noting that the vast majority of academic studies relating to corporate governance published in top quality journals are based on US data. Moreover, there is not a large amount of academic research that explores the practicalities of the corporate-investor engagement process, how particular engagement features affect outcomes, or the views of the participants on it.

We first searched for academic papers in journals on topics related to shareholder engagements, stewardship, and corporate governance. We analysed the relevance of each paper using our own judgement as well as the topic and year of publication, giving greater weight to recent papers. We then sorted the literature by reputability of the journal and the paper's number of citations.

We supplemented this selection by reviewing papers that were cited in our selection of leading papers and are relevant to the topic.

Due to the lack of external observability, there are a limited number of academic papers that directly concern the shareholder-company engagement process. We therefore also reviewed reports from leading investors and practitioner reports from consultancies and investor bodies.

Appendix 2 summarises the key findings from our review of studies on corporate engagement.

Corporate survey and interviews

The corporate survey and interviews complement the academic literature review in two ways. First, they confirmed some findings in the academic literature. Second, they addressed topics that the literature did not cover, such as the particular features of engagements that lead to success and what investors can do to promote better engagement.

Ten senior company executives were interviewed.
All interviewees spoke in the knowledge that they would not be named. The expectation of anonymity removed any barriers that may have impaired the ability of each interviewee to speak freely.

Role in company	Company region	Company sector	Company size/ revenue
Senior Advisor	Japan	Financial Services	Mixed[13]
Non-executive Director	UK	Financial services	Mixed
Chairman	UK	Technology	$1 billion–$10 billion
Chairman	UK	Defence	$1 billion–$10 billion
Company secretary	Australia	Mining	$10 billion–$50 billion
Head of Investor Relations	UK	Energy	$10 billion–$50 billion
Managing Director	US	Financial Services	$1 billion–$10 billion
Chairman	UK	Retail	$50 billion–$100 billion
Company secretary	UK	Oil and gas	>$100 billion
Governance consultant	UK	Mixed	Mixed

The survey was piloted internally by both governance and research experts. We then tested the survey externally with ten corporate contacts and refined the questions in response to the initial feedback. One hundred business executives completed the survey, all of which are involved in shareholder engagements. They belong to a representative sample of countries, sectors and business sizes.

The survey results are intended to show patterns that are common to particular countries and business sizes. Since the survey results are anonymous, these allowed respondents to give qualitative responses that they might not give if they could be identified.

Our approach to designing the interviews also involved extensive feedback and finetuning. The interviews had two primary aims. First, to supplement the qualitative data gathered in the surveys. Second, to gather answers to questions that were best asked face to face and not via a survey. The structure of the interviews and the questions asked were continually updated, as informed by earlier interviews.

The interview responses were synthesised, and key messages identified. The results from the survey, interviews and academic literature were reviewed and checked for consistency.

It must be acknowledged that any survey and interview process has inherent limitations. These are widely recorded in the academic survey literature. These limitations include:

- **Response bias** – Executives with strong views on shareholder engagement may be more likely to respond to surveys or requests for an interview.
- **Recency and availability bias** – The recent prominence in the news and practitioner discourse on ESG and investor engagement may lead to respondents overweighting experiences that reinforce a particular view of the "*state of engagement*" while underweighting a continued underlying body of engagement on conventional topics.
- **Actual versus reported motivations** – Surveys are based on what respondents say their motivations are, which may differ from their actual motivations.
- **Non-uniform definitions of success** – Companies may have a view of what constitutes a "*successful*" engagement that is determined by their preferences. These may not be aligned with positive outcomes for shareholders.

Well-designed questions and a good sampling process can help control these limitations. But they remain an inherent part of an opinion-based interview and survey study.
Set against this, and compared with empirical archival research, interviews provide a unique insight into the thought processes of participants in the engagement process. Interviews also enable us to untangle specific features of the engagement process that influence outcomes.

13. 'Mixed' in the company sector and company size/revenue categories was used in instances when interviewees advised companies of different sectors and sizes.

Appendix 02: Academic Literature Review

Introduction and approach

This section summarises the key findings from our review of studies on corporate engagement.

The purpose of the review is to:

- understand general trends in corporate engagements (e.g. in terms of numbers, topics and participants)
- identify factors that may be relevant for the success or failure of an engagement
- find empirical evidence that supported any hypothesis of the relevance of a certain factor
- identify any gaps in the literature that can be tested using the survey

It is worth noting that the vast majority of academic studies relating to corporate governance published in top quality journals are based on US data. Moreover, there is not a large amount of academic research that explores the practicalities of the corporate-investor engagement process or the views of the participants on it. To identify the papers in this review we undertook the following approach:

- We searched for academic papers in journals on topics related to shareholder engagements, stewardship, and corporate governance. We analysed the relevance of each paper leveraging our own judgement as well as the topic and year produced, emphasising more recent papers. We then reviewed the reputability, focusing on the journal of publication and number of citations and again utilising judgement.
- We supplemented this selection by reviewing papers that were cited in our selection of leading papers and are relevant to the topic.
- The academic literature contains a limited selection of papers looking at the details of the engagement process, due to the lack of external observability. We therefore also considered insights from practitioner reports. This included stewardship reports from leading investors and practitioner reports from consultancies and investor bodies.

Overview of the literature on the topic of corporate engagement

The academic literature emphasises the distinction between voice and exit as tools used by shareholders to exert influence on corporations

Edmans (2014) and Edmans and Holdreness (2017) review the theoretical and empirical literature focusing on the channels through which large shareholders engage in corporate governance. He defines voice as exerting governance through "*direct intervention in a firm's operations.*" Examples include suggesting a strategic change via a public shareholder proposal or via a private letter to management, or voting against directors.

By contrast, exit uses sale of shares to incentivise change as companies face lowering share prices, which may increase the difficulty in raising capital, or increase the risk of takeover, or have an adverse impact on stock-based executive compensation, or the security of the CEO's position. Edmans (2014) and Edmans and Holderness (2017) also identify the threat of exit as a key lever in exerting pressure on companies.

In this study, we focus on the use of engagements (i.e. voice) instead of exit, although we will return below to emerging evidence on the interaction between the two.

Descriptive studies on engagements

This research project aims to identify the characteristics of the most effective engagement approaches and behaviours undertaken by shareholders. In other words, what triggers a change in company behaviour, strategy or policy. In order to best understand these characteristics we consulted both academic literature as well as practitioner insights to assess all forms of information that describe engagement and to provide maximum insight into characteristics of existing engagements. We have included studies from journals that are less well-established as well. Key studies were as follows:

- Gatti and Tonello (2019) – A survey of 145 SEC-registered businesses on engagement practices that had taken place in the last 12 months.
- McCahery, Sautner and Starks (2016) survey investors to find the forms of engagement that are most commonly used.
- Carleton, Nelson and Weisbach (2002) use a private database to analyse private negotiations between financial institutions and companies.
- Gatti, Strampelli and Tonello's (2023) survey among corporate secretaries, general counsel, and investor relations officers, combined with disclosure data on engagement.
- Dimson, Karakas, and Li (2015) analyse a database of Corporate Social Responsibility (CSR) engagements with US public companies from 1999-2009 and assess the impact of activism ownership on environmental, social and government issues on companies' performance, governance and institutional ownership.
- Becht, Franks, and Wagner (2022) analyse proprietary data from a large UK active asset manager.
- Glac (2014) investigates the influence of shareholders on CSR.
- Dimson, Karakas and Li (2022) study the coordinated engagements by a prominent international network of long-term shareholders cooperating to influence firms on environmental and social (E&S) issues.
- Burgess and Gowers (2022) interview 35 chairs of major UK companies to gain insights on stewardship. However, It should be noted that The Investor Forum (2022) has disputed the findings of this study in strong terms.
- PwC, Annual Corporate Directors Survey (2022) – A survey of more than 700 public company directors.

We analysed the above papers and searched for descriptive statistics, our key findings were as follows:

The number of engagements a company has varies widely, but there seems to be an overall increase

Gatti and Tonello (2019) find that some companies had not engaged with their shareholders in the period of study (approximately 26% of their sample), whereas approximately 5% of companies had engaged shareholders over 25 times. In addition to this, the 2022 PwC Corporate Director survey found that approximately 60% of companies had engaged with shareholders in the past 12 months, up from 42% in 2017. This increase over time is corroborated by Tonello and Gatti (2019) who find the majority of companies across indexes and revenue sizes report that the frequency of engagement has "*somewhat increased*".

The number and frequency of engagements are dependent on the size of the company

Gatti and Tonello (2019) find that only 10% of the respondents from larger companies had not engaged with shareholders in the last 12 months, compared to 42% of respondents from the smallest companies. The findings were similar in Gatti, Strampelli and Tonello (2023), as well as Dimson, Karakas and Li (2015).

Lead independent directors engage most often for companies

Gatti, Strampelli and Tonello (2023) suggest that the lead independent director was the most involved in engagements (with approximately 80% involvement), followed by the CEO (approximately 59%) and the compensation committee chair and nominating/governance committee chair respectively (both approximately 42%).

Corporates report that topics of engagement have significantly evolved over recent years, from financial performance-related topics to Environmental Social and Government (ESG) related issues

Glac (2014) claims that shareholder demands have expanded since the 1960s to include non-financial expectations of corporate conduct. Gatti, Strampelli and Tonello (2023) emphasises the most frequent current topics of engagement across most companies are climate and greenhouse gas emissions, board diversity, as well as executive compensation. It is evident that issues surrounding board diversity and ESG are more recent phenomena that have become popularised over the course of the 21st century. This move from strategic issues to more general ESG issues was also reported in Burgess and Gowers (2022). On the other hand, the PwC Corporate Director Survey highlighted that 61% of directors believe that in an economic downturn, issues such as carbon emissions and climate risk would receive less investor attention.

There are diverging views on the relevance of the engagement topics
Burgess and Gowers (2022) also claim that many company chairs complained about engagements that were time consuming and not value adding. Similarly, the 2022 PwC Corporate Director Survey, finds that only 45% of directors believe that ESG issues actually have an impact on company performance. That said, the PwC survey also highlighted that 84% of directors found discussion to be productive.

Implications for our survey
The studies by Tonello and Gatti (2019) as well as Tonello, Gatti and Strampelli (2023) provide evidence on the number of engagements and how this both differs by company size and has evolved over time. The former study also details who engages from each company and how this also depends on size. Although, the evidence is limited in how these statistics affect the success rate of engagements. This is therefore an area our survey will focus on. Furthermore Glac (2014) as well as the non-academic study by Burgess and Gowers (2022) provide some evidence on how topics on engagement have evolved and expanded over time. There is, however, limited academic evidence on the opinions of corporates on the effectiveness of engagements over time. This is another area we hope to shed light on in our survey.

Definition of successful engagements

There are many different definitions of a successful engagement and it is hard to prescribe a single metric across all engagements
Some focus on more measurable outcomes. For example Dimson, Karakas and Li (2015) define a successful engagement as one that leads to the company taking the action requested by investors. They find that successful engagements so defined are followed by positive abnormal returns for the company. The literature referenced above on hedge fund activism has focussed on share price performance, operational performance outcomes, and innovation. Whereas the study by Gatti, Strampelli and Tonello (2023) finds that engagement success may be defined as a change in corporate practices, the withdrawal of shareholder proposals, changes in the proxy vote previously announced and inclusion in the management slate of a director nominee proposed by the engaged shareholder.

Investors and corporates may disagree on the definition of success
On certain topics there is likely to be disagreement on whether an outcome is successful. Boards may view hedge fund activity as disruptive, undesirable, or "*short termist*" even if the evidence is that, on average, it is value creating. Corporate managers and their advocates generally view activist engagement less favourably than academic evidence suggests is justified, viewing it as disruptive to business and often accusing activists of having a short-term focus (see for example Lipton, 2013). Therefore, the "*effectiveness*" of engagement is to some degree in the eye of the beholder. We bear this difference in definition in mind in the design of the questionnaire, because an engagement that has, in terms of shareholder value, been "*successful*" may not be viewed as such by company managers.

Successful engagements are about process as well as outcome
Frustrations expressed by both corporates and investors about engagement frequently focus on dissatisfaction with the process. For example, Edmans, Gosling, and Jenter (2022) reports that directors believe investors rely too much on proxy voting services and "*box-ticking*" engagement. By contrast, investors do not believe that directors take their concerns about pay levels and structure seriously. Concerns around the process also come out of Burgess and Gowers (2022). Therefore, success in engagement could be defined as:

- a performance outcome (e.g. share price),
- an activity that otherwise would not have happened but for the engagement (which could be a corporate action or, indeed, a change in shareholder action such as withdrawal of a shareholder proposal), or
- simply a process that was felt by all parties to be well run and beneficial to mutual understanding, regardless of any tangible outcome.

For the purposes of the survey we define a successful engagement as one that led to a change in corporate action. This has the advantage of providing an explicit definition that can be accurately assessed by a survey respondent.

The implications for our survey
Defining success is an area where academic literature is broadly aligned such as in the aforementioned studies by Dimson, Karakas and Li (2015) and Gatti, Strampelli and Tonello (2023). This is an area where the survey need not focus heavily on.

Characteristics of successful engagements

Overall, the empirical evidence related to what triggers a company to act is relatively limited. In the following sections, we highlight the evidence available from literature review that is relevant. It should also be noted that this impacts the quality of literature available. Some of the literature is therefore drawn from lesser known or less established journals.

In terms of drivers and characteristics, we considered different relevant aspects of an engagement that may influence the likelihood of the engagement resulting in action and ultimately being classified as a success. In order to best answer this question we structured the drivers and characteristics into four distinct questions:

1. Why is the engagement run?
2. Who participates in the engagement?
3. How is the engagement run?
4. What is the topic of discussion?

The following section details our literature-based answers to these questions, with a view to analysing the key characteristics and drivers of successful engagements. Given the highly practical (and unobservable) aspects of some of these factors, we have drawn here on a combination of the academic literature and practitioner studies in order to develop preliminary hypotheses from the literature that can be tested in our survey.

1. Why is the engagement run?

Engagements that focus on targeted smaller, focused changes are more likely to lead to an outcome
Barko, Cremers and Renneboog (2022) uses a dataset of 660 companies globally and 847 engagements (from 2005-2014) to examine the relationship between shareholder engagement, ESG performance and engagement success. Their results suggest that engagements targeting wide-reaching or "*organisational*" change are 17% less likely to result in a change in action. Similarly the Investor Forum (2019) details their advice for successful engagements. They cite a bespoke and targeted approach specific to the target company as a key characteristic of a good engagement approach.

There is some evidence that proactive and private engagement may enable shareholders to affect greater change
Dotsenko and Filatotchev (2015) analyse a database of shareholder activism events between 1998-2008 to analyse factors affecting the effectiveness of shareholder activism. Their findings indicate that activism that is proactive and private results in better results, measured by adoption/full discussion of proposals and post-engagement returns, versus that that is event-driven and public. Kim and Schloetzer (2013) review global trends in engagement practices. They cite examples and explain how Pfizer was one of the first US companies to adopt a proactive engagement strategy. They attribute the success of this as a potential catalyst for more regular proactive engagements.

Some evidence also suggests that activist engagements are likely to achieve positive returns
For example, Becht et al (2017) find that activist campaigns achieve positive average announcement returns ranging from 4.8% in Asia to 7% in the US. Such campaigns are successful over half the time in the US and Europe, although this falls to less than one-fifth of the time in Asia. By contrast, Dimson, Karakas and Li (2015) find a success rate of only 13% when looking at E&S engagements (compared with 24% for G) and average abnormal returns for engaged companies of just 2.3% over the year following engagement (they cannot calculate an announcement return because of the private nature of most engagements).

2. Who participates in the engagement?

Senior level representation is conducive to a positive engagement
Adamson and Macdougall (2011) review existing information on shareholder engagements and describe relevant trends as well as benefits and risks, followed by strategies for efficient and effective engagement. They argue that the presence of a senior board member is conducive to a positive engagement as it signals the intent of the company to engage in a serious manner. It also enables decisions to be made as they are likely some of the key decision makers.

The level of understanding of board members and stakeholders can also affect the success of an engagement
Adams and Macdougall (2011) also emphasise the importance of educating the board on topics. They suggest various methods for this such as utilising the relevant governance committees, partnering with academic institutions or inviting subject matter experts to speak to/meet with the board.

3. How is the engagement run?

Collective engagements tend to trigger firms to action more than individual engagements
Doidge, Dyck, Mahmudi and Virani (2019) use data from the Canadian Coalition for Good Governance (CCGG) to examine how investor collective action organisation (ICAO) enhances activism. Their key finding suggests that firms engaged by the ICAO are 58% more likely to adopt the proposed governance changes. Dimson, Karakas and Li (2015) find a similar result. Their findings show that engagements without collaboration result in an approximate 11% success rate, this increases to approximately 33% with collaboration. Becht et al (2017) find that the success rate in their sample rises from 46% for standalone engagements to 78% for multiple activist engagements. Belief in the efficacy of collaborative engagements has led to the development of structures specifically designed to facilitate such collaboration, such as the Principles of Responsible Investment Collaboration Platform or the UK-based Investor Forum.

Two way communication and good corporate governance are important for successful engagements
Blackrock and Ceres (2015) analysed engagements over the course of the 21st century and compiled a wide-ranging list of investor strategies and recommendations. Their findings indicate that direct communication was fundamental in unlocking any deadlock between corporates and shareholders. Furthermore, Aayalew (2018) reviews scholarly articles on CSR engagement and his findings suggest that companies with strong practices which combined industry best practices with local values were involved in the most successful engagements. The presence of a powerful governance committee can be used to oversee the development of good CSR practices. .

Informal engagements sometimes lead to better outcomes than formal engagements
Logsdon and Van Buren (2009) analyse data on dialogues from 1999-2005. Their findings imply that "*dialogue*" (where corporates and shareholders agree to communicate with regards to an issue) achieves the "*most substantive changes.*" This is in comparison to votes at public meetings as they find that "*shareholder resolutions very rarely win on that basis of shareholder votes at the annual meeting.*"

4. What is the topic of discussion?

The topics of engagement can also affect a company's decision to take actions
Strampelli (2018) assesses research on institutional shareholder engagement in the US and Europe. He found that research suggested that the majority of company directors considered governance issues to be relevant for discussion such as executive compensation and board elections. Burgess and Gowers (2022) found that engagement topics have moved from strategic issues to more general ESG issues. There seems to be a frustration that strategic engagement with shareholders about a company's strategy and performance is being eclipsed by a mechanical process where investors vote on board resolutions based on detailed, prescriptive rules on matters not always central to companies' long-term success.

The level of firms' responsiveness varies depending on the specific ESG topic discussed
Barko, Cremers and Renneboog (2022) found that the success of engagements varies widely by ESG topic. This is true not just between environmental, social and governance topics, but also within each topic as the level of responsiveness varies by sub-topic discussed. Generally, they find that firms are most responsive when it comes to governance issues, closely followed by social issues, in which public health is the single most successful sub-topic. This is followed by environmental topics which have a modestly lower success rate, except for engagements related to climate change. Dimson, Karakas and Li (2015) found similar results, showing that firms are most responsive to governance issues, which have the highest proportion of engagement success.

Implications for our survey
Barko, Crennes and Renneboog (2022) provides evidence on targeted versus general engagements. Dotsenko and Filatotchev (2015) provide evidence on the benefit of proactive engagement. Although there is limited evidence on what triggered the engagement and how confrontational they are, this is an area our survey will seek to address. Furthermore Adamson and Macdougall (2011) provide evidence on the importance of having senior attendees who are educated on the topics at hand. In addition to this, multiple sources including Doidge, Dyck, Mahmudi and Virani (2019) and Becht et al (2017) find that collective activism is significantly more effective. There is however minimal evidence on the evolution of investor cohesion over time, this is a gap our survey will seek to fill. Similarly, Blackrock and Ceres (2015) find that two-way communication is key. This was furthered by Logsdon and Van Buren (2009) who found that informal dialogue was most conducive to success. Nonetheless, there is limited evidence on the company's preference for each engagement method, this is another area our survey will focus on. Finally, Strampelli (2018) provides evidence on the importance of the engagement topic. This was furthered by Barko, Crennes and Renneboog (2022) who demonstrate the varying levels of success across ESG engagements.

Despite this, there is limited evidence more generally on which topics are most and least conducive to effective engagements. This is a question our survey will seek to gain insight on.

Causes of unsuccessful engagements

While these triggers may contribute to the success of an engagement, they are not sufficient conditions for success. The drivers of success go much further than the who, what, how and why. Our literature reviews have also considered the root causes of unsuccessful engagement. Broadly speaking, we consider there are three main categories of reasons, namely, information asymmetry, misaligned incentives (principal agency problem) and a lack of good governance process/best practice. We have discussed the impact of good governance in the previous section. We will focus on the other two here.

Information asymmetry

The lack of resources is one of the key contributors for asymmetrical information, and therefore unsuccessful engagements

This applies to both shareholders and board members. Burgess and Gowers (2022) conduct structured interviews with both chairmen and senior representatives of major institutional investors. Their findings indicate that the overwhelming majority of chairs and investors believed that relationships between the board and shareholders were not operating optimally. Their findings also indicated that chairs believed that many investors lacked the requisite knowledge on specific company issues. Furthermore, their interviews suggested that investors have less time and resources to devote to engaging with companies they invest in. This findings was applicable for UK companies and was attributed to the lower weighting of UK firms in investors' portfolios.

This manifests itself in the use of proxy voting agencies, which can be an impediment to a productive engagement. Burgess and Gowers (2022) also demonstrate that a key concern of chairs they interviewed was the increasing reliance from shareholders on third-party proxy voting agencies. They found that their sample of chairs believed that the use was a potential contravention of the Stewardship Code, which most institutional investors had signed up to, compounding their frustration. They are cited as regularly causing a direct obstacle to engagements as the chairs claimed many refused to engage with them on critical issues. Edmans, Gosling, and Jenter (2022) report similar director frustration with proxy voting agencies, with 71% of directors considering that they more, or much more, influential than they should be, as compared with 43% of investors.

Misaligned incentives

Misaligned incentives can exist both amongst investors and between investors and shareholders.

A low stake in a company by shareholders may exacerbate the principal agency problem and reduce the effectiveness of engagements

Edmans (2014) argues that the source of agency problems is when managers have inadequate stakes in their firms. This means that they are not always incentivised to act in the company's best financial interests which sets them on a collision course with large shareholders. This is also linked with the information asymmetry problem as explained above in the Burgess and Gowers (2022) paper.

The lack of cohesion amongst investors could potentially contribute to ineffective engagement

The aforementioned Burgess and Gowers (2022) paper also cites that some corporates believe a cause of ineffective engagement to be the lack of cohesion among investors. The sampled corporates claim that this is especially prevalent for ESG related engagements where investors are more likely to exhibit "*incoherence.*"

A clearly articulated case for business change may help companies to take actions

A study by Gond et al (2018) conducted 36 interviews with representatives of large companies and combined their findings with two prior studies involving 66 institutional investors. This gave the authors a view from both the corporate and investor perspective. Their study suggests that when it comes to ESG topics, once the easy to achieve recommendations are implemented, firms may struggle to find the business case to justify the change. Encouraging change therefore requires investors making a strong case to companies.

However, another challenge related to this is that some benefits are only realised in the long-run, but companies may be short-term focused

Graham, Harvey and Rajagopal (2005) surveyed more than 400 executives to determine the factors driving reported earnings and disclosure decisions at companies. They found that 78% of their sample admitted to sacrificing long-term value to smooth short-term earnings.

Implications for our survey
The majority of the evidence on information asymmetry is based on the Burgess and Gowers (2022) paper. This was not an academic study and its findings were also disputed by some investors. Our survey therefore seeks to add evidence as to the opinion of corporates on the levels of information asymmetry between companies and investors. The evidence on misaligned incentives also draws heavily on the disputed Burgess and Gowers (2022) paper. though it is supplemented by a small amount of academic evidence on the difficulty to implement wholesale ESG initiatives by Gond et al (2018) and also Graham, Harvey and Rajagopal (2005) who found that many corporates suffer from short-termism. Our survey therefore seeks to gain general insights on potential misaligned incentives and does not focus heavily on specific causes.

Survey Design

Separately we review the use of survey studies to obtain insight. These have been used extensively where there has been a desire to understand the process as well as the outcome of the process. Examples include:

- Graham, Harvey and Rajgopal (2005), The Economic Implications of Corporate Financial Reporting
- Mccahery, Sautner and Starks (2016), Behind the Scenes: The Corporate Governance Preferences of Institutional Investors
- Edmans, Gosling and Jenter (2021), CEO Compensation: Evidence From the Field

We analysed the strengths and weaknesses of survey design and implications for response rate and found the following:

There was a clear emphasis and alignment across all papers on **the need for extensive feedback prior to administering and launching the survey**. This feedback should come from a wide range of relevant people including academics, subject matter experts and the target audience. Any relevant feedback should be incorporated into future iterations of the survey.

The surveys also recommend **time duration to be sufficiently short and a commonly cited maximum was the imposition of a 15 minute approximate response time**. In addition to this the surveys do not find any evidence of concentration or other biases as respondents complete them so ordering of questions need not be changed between surveys.

The surveys utilised a range of approaches for contacting the audience with **varying degrees of success in terms of responses**. The first and seemingly weakest approach was to utilise a database to identify eligible contacts. As used in Mccahery, Sautner and Starks (2016), which elicited a response rate of approximately 1%, although it should be noted that one can contact a much larger quantity of people this way. Furthermore there was a contrast in response rates when potential respondents were contacted online via email or in person (at an event) with a paper survey. The emails achieved response rates between 5% and 22% whereas a paper survey tended to achieve around 20% responses. However it should be noted that a monetary incentive such as a charitable donation can be a significant factor in increasing response rates and was utilised in the cited example by Edmans, Gosling and Jenter (2021), who were able to achieve a 22% response rate. Anecdotal feedback to the authors of Edmans, Gosling and Jenter (2021) suggests that participants were more motivated to fill out an academic survey than a consultant survey, especially given the charitable donation that resulted from participation.

Implications for our survey
There is a clear consensus among survey studies that surveys should be sufficiently short. We will therefore aim for our survey to take no longer than 15 minutes to complete. Furthermore, it is clear that extensive feedback prior to administering the survey is highly advisable. We will follow this advice and leverage our contacts to test the survey on both corporates and professional survey designers. We will seek feedback and incorporate any necessary changes into our survey.

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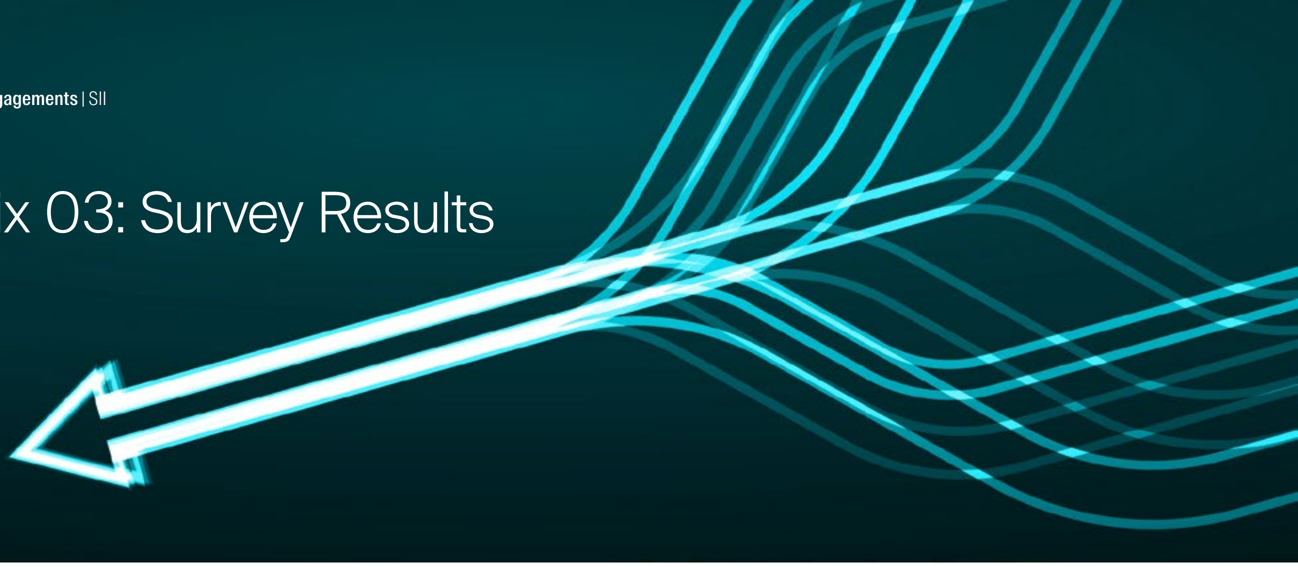
Appendix 03: Survey Results



We conducted a survey of 100 senior corporate directors and CEOs in companies of varying sizes, countries and sectors. All respondents were involved directly or to some extent in shareholder engagement. The countries included were UK, US, China, India (17 responses each), Japan and Australia (16 each). Nine sectors were included, the most common being financial services and informational technology (20 responses each), consumer stables (15), consumer discretionary, industrials and healthcare (10 each).

PwC worked closely with First Sentier to design the survey questions. They were then reviewed by PwC's academic advisor then piloted. The survey was conducted in April 2023.

Question 1: What stake does your largest shareholder have? N=100

Less than 10%	22%
11–20%	54%
21–30%	8%
31–40%	8%
41–50%	5%
51–60%	3%
61–70%	0%
71–80%	0%
81–90%	0%
91–100%	0%
Don't know	0%

Question 2: Which of the following best describes your role at your company? N=100

CEO	12%
Managing Director	12%
Non-executive board member	9%
CFO	8%
Chairman	7%
General Counsel/Company Secretary	3%
Other board level or senior executive	49%

Question 3: Approximately how many engagements with shareholders has your company held over the last 12 months? N=100

None	0%
1–20	37%
21–50	23%
51–100	13%
101–150	15%
151–200	5%
201–250	3%
Over 250	4%
Not sure	0%

Question 4: What proportion of these engagements had these characteristics? N=100

4.1. Involved at least two rounds of communication via any means of communication?

None	2%
1–25%	39%
26%–74%	24%
Over 75%	34%
Not sure	1%

4.2. Were initiated by shareholders, as opposed to your company?

None	18%
1–25%	32%
26%–74%	39%
Over 75%	8%
Not sure	3%

4.3. Were specific as opposed to generalised?

None	9%
1–25%	31%
26%–74%	39%
Over 75%	18%
Not sure	3%

4.4. Involved communication with multiple shareholders?

None	4%
1–25%	43%
26%–74%	29%
Over 75%	20%
Not sure	4%

4.5. Became confrontational (either from the beginning or along the way)?

None	40%
1–25%	30%
26%–74%	17%
Over 75%	11%
Not sure	2%

Question 5: Who, in your company, typically leads an engagement? N=100

Head of Investor Relations	28%
Managing Director	24%
CEO	19%
CFO	19%
General Counsel/Company Secretary	5%
Non-executive board member	0%
Other, please specify	5%
Not sure	0%

Question 6: Besides the size of the investor, what else influences how you prioritise their concerns? N=100

Active Investors	82%
Passive Investors	6%
Activist Investors	4%
Hedge funds	4%
Other (please specify)	3%
Not sure	1%

Question 7: Which of the following issues have led to the most engagements over the last 12 months? N=100

Audit and financial reporting	63%
Company strategy or performance, including Mergers & Acquisitions (M&A)	60%
Board composition and leadership succession	37%
An Environmental, Social and Governance (ESG) topic	35%
A wider externally or company driven event, such as a geopolitical event or takeover approach	32%
Executive Remuneration	27%
Data reporting	26%
A low vote at a previous Annual General Meeting (AGM)	20%
Other	0%
Don't know	0%

Question 8: Which of the following topics have increased in importance the most over the last 3–5 years? N=100

Company strategy or performance including M&A	67%
Audit and financial reporting	52%
Data reporting	49%
Board composition, leadership succession or Executive remuneration	46%
An ESG topic	44%
Response to a wider externally or company driven event, such as a geopolitical event or takeover approach	40%
N/A – No topics have increased in importance over the last 3–5 years	1%
Don't know	0%

Question 9: Considering shareholder engagements over the past 3-5 years, has the level of investor cohesion changed at all during this time? N=100

There has been no change	55%
We have seen an increase in cohesion – the asks from different types of shareholders are converging and more consistent	33%
We have seen a reduction in cohesion – different types of shareholders are increasingly asking for different things, and	10%
Hard to tell/Don't know	2%

Question 10: Why do you think this change in cohesion has occurred? N=100

Open text responses	

Question 11: Have you noticed a change at all to the number of cases where different representatives of the same shareholder have conflicting requests? (E.g. The investment team and an ESG team representative?) N=100

Yes, a big increase	4%
Yes, a slight increase	20%
Yes, a slight decrease	4%
Yes, a big decrease	1%
No, no changes at all	66%
N/A – we do not experience this at all	5%
Net increase	24%
Net decrease	5%

Question 12: Overall, what proportion of shareholder engagements in the last 12 months... N=100
12.1. Had a clear objective and outcome?

None	6%
1–25%	19%
Over 75%	38%
26%–74%	36%
Not sure	1%

12.2. Contained non-substantial requests (such as further disclosure or clarifications)?

None	4%
1–25%	50%
26%–74%	37%
Over 75%	6%
Not sure	3%

12.3. Contained substantial requests (such as strategy changes, improvements in environmental footprint, large CapEx changes, etc.)?

None	17%
1–25%	39%
26%–74%	25%
Over 75%	18%
Not sure	1%

12.4. Of those containing substantial requests, how many resulted in your company taking action?

None	28%
1–25%	37%
26%–74%	28%
Over 75%	5%
Not sure	2%

Question 13: What is your company's process and criteria for internal escalation, when required? N=100

Open text responses	45%
Don't know/not sure	55%

Question 14: Has your company encountered a shareholder engagement that has required substantial action by your company in response in the last 5 years? N=100

Yes – where action was taken	41%
Yes – where action was not taken	15%
No	48%
Not sure/don't know	3%

Question 15: Which of the following best describes the reasons why your company decided to take action [on engagements that required substantial action]? (Please select up to three), N=40

We agreed that the action has net benefits for the company	73%
We believed that the engagement was well thought through and the shareholders had a compelling business case	70%
We had similar plans even without shareholder engagements	55%
We believed that the action would give rise to a significant shareholder benefit at limited cost to the company, despite being of little gain to the company itself	50%

Question 16: Where you did not take action [on engagements that required substantial action], what best describes your company's reasons? N=15

We believed the costs of actions proposed by shareholders would outweigh any benefit	53%
The actions proposed by shareholders were not aligned with the company's objectives/strategy or were of limited relevance	47%
Shareholders were unable to present a compelling business case for why we should pursue the suggested action	47%
We did not have the resources needed to undertake the proposed action at the time	40%
We agreed in general with the engagement proposals, however, their implementation is a long-term process and will not be resolved within 12–18 months	27%
Other	0%

Question 17: You mentioned that you/your company believed that the action would give rise to a significant shareholder benefit at a limited cost to the company, despite being of little gain to the company itself as one of the reasons for taking action. Why did you/your company believe this? Please provide an example if at all possible. N=20

Open text responses

Question 18: Considering engagements you have been involved in, which of the following best describes features of the engagements that resulted in action from your company? Please select the top three. N=100

Supported by our anchor shareholder(s) or a significant block of shareholders overall (20%+)	53%
Availability of shareholders for face to face meetings	51%
Shareholders engaged directly rather than relying on proxy agencies	51%
Joint approach by the portfolio manager and ESG team	39%
Pressure factors such as the threat of a negative shareholders vote or negative reaction	27%
Supported by a major proxy voting agency(s)	20%
N/A – I have not experienced an engagement that required actions	8%

Question 19: Considering engagements you have been involved in, which of the following best describes features of the engagements that did not lead to action from your company? N=100

Shareholders lack the knowledge or resource on the issue	68%
We fundamentally disagreed with what shareholders/investors were proposing (as previously mentioned)	34%
Over reliance on proxy voting agencies	30%
The management team or board were not familiar with the topic or mechanism of the suggestions	30%
Shareholders are overly confrontational or threaten negative reactions	28%
Other	0%
N/A – I have not experienced an engagement where there were barriers to taking action	21%

Question 20a: Which of the following potential threats/risks are the biggest drivers for your company to act in response to investor engagement? Rank your top three. N=100

Reason	Rank 1	Rank 2	Rank 3	Total
Negative media coverage, public protest or pressure from consumers	8	21	9	**38**
A missed opportunity to enhance shareholder value	18	9	7	**34**
Shareholder resolution(s)	14	9	9	**32**
ESG ratings downgrade	8	8	16	**32**
Public criticism by shareholders	9	11	10	**30**
Negative reaction from employees	9	8	13	**30**
Divestment by shareholders	13	8	7	**28**
Negative reaction from other stakeholders such as NGOs	7	10	6	**23**
A negative vote on director re-election in AGM	3	7	9	**19**
Other stakeholders such as NGOs	3	1	6	**10**

Question 20b: How do you measure the successfulness of an engagement? N=90

Open text responses

Question 21: What do you consider to be the most important aspect of a successful engagement? N=100

Open text responses

Question 22: To what extent do you find the outcomes for the company from engagement a productive use of time? N=100

A productive use of time as we were able to better understand our shareholders/investors	50%
A productive use of management and board time leading to improved outcomes for the company	46%
Largely unproductive use of time with little fundamental benefit for the company	3%
Something else	0%
Don't know	1%

Question 23: What would you like investors to be better informed about before commencing an engagement, if anything? N=100

The company's financial position	70%
The significance of the issue being discussed and the cost-benefit analysis of any proposed actions	66%
The company's strategy	62%
The availability of company resources to address the issue	45%
The views of other shareholders relative to their own	44%
Other	0%
N/A – I do not think investors need to be better informed about anything before commencing an engagement	2%

Question 24: Which of the following engagement methods do you prefer? N=100

Direct communication	91%
Communicating indirectly through a proxy	9%
Initiating a private conversation around the company strategy	83%
Publicly discussing the company strategy	17%
Multiple different investors collaborating	64%
Single investors	36%
A direct meeting or phone call stating concern	62%
Written communication stating concern	38%

Question 25: Do you think there is a need for more regulation of stakeholder engagement? N=100

No	78%
Yes	14%
Not sure	8%

Question 26: What areas do you recommend more regulations on? N=14

Open text responses

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