Executive summary

Assets under management in sustainable funds grow steadily. In Europe, nearly half of all managed assets are invested in sustainability-labelled investment vehicles (Global Sustainable Investment Alliance (GSIA) (2019)). GSIA (2019) classifies the following strategies as sustainable: negative and positive screening, ESG (environmental, social, and governance) integrated analysis, sustainability-themed investing, impact investing, and active ownership, and shareholder engagement. These strategies attract strong inflows from investors with intrinsic social preferences and the desire to have an impact. Kölbel et al. (2019) examine three mechanisms investors can use to achieve change in companies' environmental and social impact and conclude that shareholder engagement is the most reliable. Existing literature has documented the success of these shareholder engagements.

Dimson, Karakaş, and Li (2015), as well as Barko, Cremers, and Renneboog (2017), focus on engagement strategies and analyse which companies are targeted by an investor, what determines successful engagements and what impact engagements have on the financial and operational performance of the company. They find that the requests investors address through shareholder engagements can be successful and lead to improvements in the company’s ESG assessment. Furthermore, companies with successful engagements show an increase in abnormal cumulative stock returns compared to unsuccessful engagements. Successful engagements also reduce the downside risk of a company (Hoepner, Oikonomou, and Sautner (2016)).

As shareholder engagement appears to be effective, generates higher abnormal returns, and attracts investors’ money, it is essential for fund managers to differentiate their sustainability funds from conventional funds. This can be achieved through public disclosure of engagement policies, approaches and success rates. However, the content of such disclosure has not been standardized (O’Sullivan and Gond (2016)). The lack of requirements in sustainability disclosures for institutional investors raises the question of whether such reports can be “greenwashed” by conducting engagements that require a low effort level from the company to comply.

I examine the content of an institutional investor's engagements and investigate which requests have the highest success rate. Additionally, I test the hypothesis of whether the overall success rate is dependent on the choice of the request category.

First, I categorize the engagements corresponding to the request directed at the company and rank the categories according to their impact. The impact is defined as the degree of change the investor tries to achieve. The categories *Advice* and *Informative* raise awareness and do not require further action or change from the company. The category with the lowest impact is *Request for Information*. These requests ask for updates on specific topics and are successfully closed after delivering the requested information. The next category is *Request for more Disclosure,* which asks for changes in the companies' regular reporting. Engagements conducted through shareholder voting ask for change related governance topics. I categorize these engagements as *Request for Change via Voting*. The last category is *Request for Change.* These engagements request material changes that include adjustments to board composition, supply chain management, or sustainability strategies. I identified *Request for Change* to have a higher impact than *Request for Change via Voting* as private and direct interactions tend to be more effective than voting requests.

The results reveal a significant negative correlation between impact and success rate; requests that have a higher impact are less likely to be successful. Additionally, engagements with a higher impact take, on average, longer to be fulfilled. This result supports previous findings that the requests for a material change tend to be more costly and need more effort to be completed (Barko, Cremers, and Renneboog (2017)).

In the second step, I investigate the relatively high success rate of large companies. 47.7% of engagements with large companies are successfully closed, whereas engagements with small- and mid-sized companies only have an average success rate of 6.0%.

The result suggests a positive correlation between the market capitalization of a company and the success rate of engagement requests. However, controlling for the impact category, the positive and significant relationship between size and success diminishes. The coefficient becomes insignificant and the relationship turns negative.

These findings suggest that the distribution of request categories play a more critical role in the overall success rate than the size of the company. Furthermore, it might implicate that a specific request category can influence the overall success rate of engagements. Taking the different request categories into account, smaller companies seem more successful than large companies – contrary to previous findings.

The importance of the request category on the overall success rate might give investors the possibility to use a specific type of requests to influence their engagement reporting. Conducting engagements with low impact requests that require a low effort level to comply can lead to a higher success rate. Interesting research might further be directed whether such manipulation is present in the industry and how institutional investors can be rated accounting for the different impacts they try to achieve.