Activism on Corporate Social Responsibility

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PRELIMINARY – PLEASE DO NOT CITE OR CIRCULATE

Abstract

I use a detailed proprietary dataset to shed light on the mechanisms and outcomes of investor activism promoting better environmental, social and governance practices (ESG). My panel of international firms covers the years 2005-2014 and 660 companies globally. I find that companies that have a significant presence in their industry and are followed by more analysts are more likely to be engaged. Higher stock returns and liquidity further increase the probability of investor activism. I find that engagements are more likely to succeed if engaged companies have a good ESG track record and following previous successful cases. High ownership concentration and short-term growth lower the likelihood of a favorable outcome. When I turn to evaluating the performance changes attributable to engagements, I do not find significant changes in measures such as ROA, asset turnover or profitability. The findings indicate, however, that engagements reveal information as ESG ratings are significantly adjusted for engaged firms. Looking at nominal returns, I find that successful engagements outperform unsuccessfully engaged firms. Abnormal return figures also confirm that successful cases outperform.

Keywords: investor activism; corporate social responsibility; socially responsible investing (SRI); engagement; environmental, social and governance (ESG).

JEL classification: G15, G23, G32, G34, G39.

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1 Introduction

The separation of ownership and control has always been a central question of corporate finance. Investor activism is ever increasing and hedge funds, pension funds and influential individuals, like Carl Icahn set out to reshape the corporate playing field. These activists, however, mostly target companies to change their governance or restructure them. Given that responsible investment became an important investment strategy in recent years, it is important to understand investor activism that promotes good environmental, social and governance (ESG) practices.

Does promoting corporate goodness actually make companies better corporate citizens? Does it make companies more effective users of their resources? Does it pay out for the activist to engage companies? To answer these questions, I use a novel dataset on engagements on corporate social responsibility. To the best of my knowledge this is the first paper to investigate ESG engagement characteristics in an international setting.

I find that engagements for corporate goodness are significantly different from traditional activist tactics. A significant predictor of the probability of engagements is the ex ante lower ESG rating of targets. These engagements reveal information about the ESG practices of companies which is subsequently reflected in ratings. Stocks with successful outcomes earn on average 4-8% higher returns. This return differential is the most pronounced in North American companies. However, ESG engagement tactics do not significantly change the operations of target companies. Taken together, the results imply that altering environmental, social and governance practices does not change the operations of companies. However, the information is picked up by the market, and subsequently ratings and returns reflect the new information.

In the past two decades, responsible investing became one of the main investment principles. Once a niche segment, responsibly managed portfolios now account for a considerable portion of the $156 trillion global financial market. Several global organizations have social responsibility on their agenda, establishing the principles of responsible investing and providing guidelines for companies. The UN Principles for Responsible Investing (2015) reports that a total of 1380 institutional investors and financial service providers, representing $59 trillion, signed the initiative. Similarly, the Global Sustainable Investment Alliance (2015) estimates that over $21 trillion of professionally managed assets are allocated in accordance with environmental, social and governance (ESG) stan-

dards. Pension funds drive the demand for socially responsible assets, with funds such as CalPERS in the US, the Norwegian State Pension Fund and the Dutch ABP all having ESG as their main investment objective. However, mutual funds, hedge funds, venture capital and real estate funds also invest their capital using responsible standards. According to the UN Global Compact (2015), there are 8371 companies in 162 countries around the globe that conduct their business in a socially responsible manner.

Investors not only pose an ever increasing demand for socially responsible stocks, but it is becoming more common that they request that companies in their portfolio improve their corporate citizenship status, e.g. in Dimson et al. (2015) or Doidge et al. (2015). Since there is a large amount of capital flowing into responsible and activist portfolios, it is important that we understand the mechanisms through which activist investors target companies in their portfolios, the strategy and tactics that the employ, and finally the outcomes of these engagements.[1] To answer these questions, I use a detailed proprietary dataset to shed light on the mechanisms and outcomes of investor activism promoting better environmental, social and governance practices (ESG). My panel of international firms covers the years 2005-2014 and 660 companies from around the globe.

The engagements in my sample concern predominantly the topic of social issues (43.3%), followed by environmental (42.3%) and governance issues (14.4%). Despite the sample is tilted towards environmental and social cases, this breakdown shows that the activist in my sample does not focus on a simple topic. This is in contrast with other activists, e.g. hedge funds, that have a few goals typically in terms of restructuring and governance (Becht et al., 2014). Most of the engagements in the sample are successful, with an overall 59% success rate across all topics. I find that the most common channel for engagement is either letter or email in the case of environmental and social topics, however, in the case of governance issues, the activist chooses to actively participate in general meetings or meet in person with the representatives of companies. I also find that the activist has a strong focus on Europe and North America, however, about 15% of my sample covers Asia, the Pacific and the rest of the world.

I cross-reference my data on activism with stock market and accounting variables, as well as ESG ratings from the Asset4 database provided by Thomson Reuters. In order to avoid any selection

[1]Throughout the paper I use the terms "engagement" and "activism, as well as "engager" and "activist" interchangeably.

bias and to account for unobserved heterogeneity, I match my sample of engaged firms with similar firms from the Asset4 database. Specifically, I match each engaged firm with a peer from the same industry that is similar in terms of size, market-to-book ratio, ESG rating and ROA.

I find that engaged companies typically have a higher market share and are followed by more analysts than their peers. The ownership stake of the activist positively affects the probability of engagement, while the presence of a large controlling shareholder has a negative effect. Furthermore, when I control for ESG ratings in regressions, I find that there is an inverse relationship between the propensity of being engaged and ESG track record. This finding suggests that the activist is more likely to target companies where there is headroom for improvement.

When I turn to the analysis of success, I find that engagements are more successful in the case of firms with a larger market share, a good ESG track record and following successful previous engagements. The presence of a large controlling shareholder, high short-term growth and a larger cash reserve adversely affect outcomes. Requesting a material change from the engaged company also reduces the likelihood of a successful outcome.

When I look at changes in operating performance following engagement, sales growth increases following a successful outcome, which could indicate that implemented changes indicate a broader costumer clientele. Furthermore, pension and mutual funds increase their ownership stakes especially in case of European firms. Other operating performance indicators do not change significantly. It is possible that due to the nature of engagement topics the activist is not able to change the actual operating performance of engaged firms, however, there is an information revelation process in the background that increases the visibility of engaged firms and hence the increase in sales. Looking at changes in ESG ratings between engaged firms and the control pool, the information revelation effect is further substantiated. Ratings are significantly adjusted for companies that were top ESG performers or laggards prior to engagement, relative to a matched sample. After realizing an outcome, the ESG ratings are significantly adjusted upwards for firms in the bottom ESG quartile and downwards for those in the top quartile. This suggests that the activist reveals information through engagement that is picked up by independent rating agencies (Asset4 in this case) and ratings are readjusted.

Finally, when I look at stock returns after the completion of an engagement, I find that returns are higher after successful outcomes, however, this difference is only significant at a period of 6 to

12 months following the closure of the case files and disappears afterwards. Cumulative abnormal return figures indicate that returns to successful engagements are higher, and this difference is especially marked for social engagements. When I analyze the relationship between cumulative abnormal returns and potential drivers for good stock performance, I find that companies with a higher employee satisfaction score (Edmans, 2012) and higher customer satisfaction (Albuquerque et al., 2014) earn significantly higher returns.

2 Literature review

Social responsibility and ethical investments have religious roots. However, it was not until the 1960s that socially responsible investing (SRI) gained momentum and the general public's interest. Growing concerns about human rights, pacifism and environmental issues paved the way of todays SRI. The first modern investment vehicle was Pax World Fund, a mutual fund founded in 1971 as a response to demand growth from socially responsible investors. Since the introduction of the Pax World Fund, SRI has been expanding constantly, from a niche market strategy to one that is currently mainstream investment style. According to the most recent SRI reports, by the end of 2014, total assets under management (AUM) surpassed the $21 trillion mark globally (Global Sustainable Investment Alliance, 2015), with $6.20 trillion in the United States (US SIF, 2014) and $6.72 trillion in Europe (Eurosif, 2014).

There is a vast body of literature evaluating the performance of SRI (see for example Barko and Renneboog (2016) or Margolis et al. (2009) for comprehensive overviews). The surveyed papers indicate that socially responsible funds typically perform on par with their market benchmarks or their conventionally managed counterparts. However, funds that are managed by specialized management firms and are more active in portfolio selection, significantly outperform conventional mutual funds (Gil-Bazo et al., 2010). This is in line with the findings of Cremers and Petajisto (2009), who show that mutual funds outperform their benchmark the higher the portion of actively managed stocks in their portfolio.

Fund managers can apply various techniques and screens to form socially responsible portfolios. Renneboog et al. (2011) differentiate four distinct types or generations of screens. The first one, negative screening is the most basic type with origins in religion. Negative screens eliminate

stocks that are involved in sin industries, such as alcohol, tobacco, military, weaponry, abortion and pornography. Second, positive screens select companies that meet above average standards in areas, such as the protection of the environment, the promotion of human rights, or the sustainability of investments. A branch of positive screens is the best-in-class approach, when all companies are ranked within an industry and a certain quantile, meeting the requirements, is selected. Third, negative and positive screens are often combined yielding the so-called transversal" Capelle-Blancard and Monjon (2014), "sustainable" or "triple bottom line" (People, Planet and Profit) screens. Finally, the fourth generation of ethical funds combines the sustainable investing approach (third generation) with shareholder activism. In this case, portfolio managers attempt to influence their portfolio companies policies through direct dialogue with the management or by the use of voting rights at Annual General Meetings.

Shareholder activism can be loosely divided into three categories according to Dimson et al. (2015): traditional activism, hedge fund activism, and corporate social responsibility activism. Traditional activism is typically exercised by mutual funds or pension funds and generally concerns topics related to corporate governance. Hedge fund activists seek to create returns by influencing corporate strategy and structure. Activism on corporate social responsibility aims to improve corporate citizenship, mainly focusing on issues related to environmental and social topics.

The literature offers opposing views on whether any form of activism is beneficial. Bainbridge (2008) claims that investor activism is detrimental as the separation of ownership and control is the optimal setup to run a company, and hence activism is merely a waste of resources. Gillan and Starks (2007) argue that activism is myopic and has no positive effect on the long run. Despite these views, investors do want to be able to exercise control over how firms are run, as the survey evidence of Lewis and Mackenzie (2000) suggests. One of the first papers to investigate the effects of shareholder activism by institutional investors is Smith (1996). Smith studies activist cases carried out by the California Public Employees Retirement System (CalPERS). He finds that successful cases increases shareholder wealth, but has no effect on operating performance. This finding, labeled the "CalPERS effect", spurred considerable debate. English II et al. (2004) argue that the effect is present only in the short run, in the first 6 months following the announcement of activism and diminishes afterwards. Nelson (2006) comes to the conclusion that abnormal returns are insignificant in any time window, once confounding effects are controlled for. Greenwood and

Schor (2009) specifically show that returns to activism are positive only if targeted companies are acquired as a result of activism.

Contrary to this, other papers that examine various activists find support that shareholder activism is beneficial. Using information from 13-D filings, Brav et al. (2008) document that activist hedge funds in the United States earn an abnormal return of 7% around the announcement of activism, and that there is no reversal in the subsequent year. Furthermore, successful cases lead to an increase in the operating performance of targeted companies. Bebchuk et al. (2015) address the question of myopic activism by looking at a 5-year period following activism and find that initial positive returns are not followed by a reversal and that improvements in operating performance are permanent.

Investor activism, however, may not always happen in the public eye. Managers may conceive that public proposals and requests threaten their position and hence oppose them. Therefore, alternative activist tactics might be taken with more goodwill and support by company executives. Studying the activist files of the Hermes UK Focus Fund, Becht et al. (2009) find evidence that activism through private channels creates significant returns and increases operating performance. Doidge et al. (2015) also confirm using information from a Canadian institutional investor platform, that engaging companies through private channels increases shareholder value and through border interlocks there is a positive dissemination effect of best practices.

Similarly, according to the US SIF (2014) and Eurosif (2014) reports about 28% and 40% of institutional investors filed ESG related request with their portfolio companies in the US and Europe, respectively. Among these institutions, it is predominantly mutual funds and pension funds that contact companies regarding environmental and social issues (Dyck et al., 2015). Our understanding is limited on the effects of investor activism for ESG. Using a proprietary sample of US activist files, Dimson et al. (2015) uncover that successful engagements in social and environmental topics induce positive returns and improvements in operating performance and corporate governance.

However, as Becht et al. (2014) point out, activist tactics differ across countries. Furthermore, there are also differences in terms of companies' ESG performance in various regions (Liang and Renneboog, 2014). In my paper I try to fill in this gap, by analyzing a sample of activist files targeting companies internationally. Additionally, I am also able to verify whether the activist can truly change the environmental and social performance of companies. Studies focusing on the US

typically use the E-index (**?**) or G-index (Gompers et al., 2003) to evaluate governance changes attributable to investor activism. However, to the best of my knowledge I am the first to conduct such an analysis related to ESG activism.

The rest of the paper is organized as follows. In the next section I describe the my data sources, followed by a detailed explanation of engagement characteristics in Section 4. Section 5 and 6 provide the results on the analysis of targeting and success, respectively. Section 7 deals with the analysis of post-engagement operating performance of targeted companies. Section 8 provides the results of the analysis of returns to engagements. Section 9 concludes.

3 Data

I obtain data on investor activism from a Dutch asset manager with over 210 billion euros ($230 billion) in total net assets under management. The activist has offices and funds across Europe, North America and Asia, and has long had a focus on ESG-specific investments. The activist mainly manages mutual funds and pension funds, thus the focus and methods of activism are different from those of hedge funds. The activist has a specialized team of analysts that employs both in-house and independent third-party research to identify companies that have room for improvement in either environmental, social or governance issues. My dataset is comparable to that in Dimson et al. (2015) or Doidge et al. (2015) in terms of details and coverage, however, I do not focus on a single country. The data cover completed engagement cases with a global focus, over the period starting in the third quarter of 2005 through the end of 2014. This allows me to test differences in engagement techniques and corresponding outcomes. As Liang and Renneboog (2014) show, there is an important difference in the perception and implementation of corporate social responsibility across countries with different legal, political and historical origins. In order to contrast these differences, I split the sample into three distinct domiciles: North America, Europe and Other (mostly Asian) companies. Engaged companies are all either part of the MSCI All-Cap World Index or a major regional or country index. In total, my database has 847 completed engagement sequences and 660 different companies.

3.1 Engagement data

There is a specialized team that carries out engagements at the asset manager. The duties of the team include screening portfolio companies that are suitable for engagement and then making contact with the company and overseeing the engagement process. In addition, the team also works on commissioned cases on behalf of consulting clients. Engagement typically happens behind the scenes, communicating directly with the engaged company, and in several instances, in coalition with other activists and non-governmental organizations. The engager typically does not have a case over the reporting threshold, i.e. the activist is not required to file 13-D reports in the United States that would reveal a large stake that can be used as a bargaining chip in engagements.

An activist case (alternatively, sequence) starts with the identification of a concern where the target company can improve upon its ESG practices. The engagement team relies on its own research, as well as reports published by specialized research companies and institutes. Such reports include the environmental report of the World Bank or the UN Global Compact Monitor. Additionally, an engagement case can be triggered by some unforeseen events, where the engager determines that company policies in place were insufficient to deal with the situation and requests a change to better mitigate such events in the future. A prominent example of such an event is the 2010 Deepwater Horizon oil spill in the Gulf of Mexico, that BP arguably could have avoided if they had had clearly formulated environmental and disaster contingency plans in place (Watkins, 2010).

At the initiation of a case, the engager has a clearly defined goal to achieve. Based on this target, I categorize cases into two groups: reorganization and transparency. I define a case as reorganization when the engager demands material changes in corporate policy, such as board restructuring or the installation of a more efficient water management plant. These cases resemble hedge fund activism described in Becht et al. (2014). As opposed to this, cases for transparency typically involve requests for better reporting standards, such as the publication of a detailed sustainability report. At the start of the engagement, the activist also decides whether to carry out the case in a coalition with one or more other activists and whom to contact at the company. Typical contact persons include investor relations personnel, ESG representatives, as well as executive and non-executive management. The engager has a self-imposed deadline of three years to achieve the

desired outcome. In most cases, a successful outcome is reached within 20 months.

In Appendix A, I provide illustrations for each main ESG topic. In the environmental example, the engager contacted a large French cosmetics and beauty company regarding their use of palm oil. I cross-checked on Factiva that the engagement followed a series of press releases and environmental reports regarding the effect of palm oil on deforestation. Furthermore, a major UK retailer announced a ban on palm oil products coming from unsustainable sources. The engager was concerned that this would affect the competitive position of the company in its industry, and requested clarification regarding the use of palm oil. The company provided the requested information, indicating that it was only a minor user of palm oil and that it was purchasing its supplies from sustainably managed sources. They also asked the company to provide this information on their website. After the company complied and published a detailed sustainability report with a special focus on environmental reporting, this transparency case was successfully closed. This short example shows two typical elements among all cases. First, there is always a trigger for engagements that can be either a significant event, the surfacing of new information or changes in regulatory or competitive environment. Second, the engager has a clear request and the engagement team follow through with that request and make sure that all requirements are fulfilled by the engaged company.

For each engagement sequence, I verify that success is determined based on the initial criteria. Furthermore, I cross-reference outcomes with Factiva records and company websites to check the validity of registered outcomes. I find that the data are not affected by false reporting.

3.2 Company-level data

I obtain my firm-level data from a variety of sources. I download accounting and stock return data from Datastream, ESG performance indicators from Asset4 (available through Datastream), analyst coverage data from I/B/E/S, ownership data from Morningstar and Orbis, and M&A information from SDC Platinum. I merge data from different sources using ISINs, Datastream Codes and I/B/E/S identifiers, and cross-check by hand using company names that all available data are matched. I use the international industry return data from Kenneth Frenchs website to calculate abnormal returns. I define industries in various ways, following the classification on Kenneth Frenchs website for 10, 17 and 49 major industry groups. All variable definitions and their

respective sources are provided in Appendix C.

4 Engagement characteristics

Engagement cases can be categorized into three larger groups or themes based on the underlying goal, either environmental, social or governance. Additionally, the engager defines topics and subtopics within each theme.[2]

The various panels of Table 1 provide a detailed overview of engagement characteristics. In Panel A, I list cases by topics and outcome ,along with lifespan and intensity statistics. The table shows that the engager focuses mostly on environmental and social topics, the two making up 42.3% and 43.3% of the 847 cases, respectively. On average, the engager makes more contacts in successful cases, but success is also reached faster. The exception is engagement for corporate governance, however, for this topic the prevalent contact method is through shareholder meetings, relative to other topics where the engager mostly contacts companies in written communication.

In Panel B, I provide a breakdown by reorganization and transparency, and the engaged company's compliance. I define a company compliant if it responds to the engagers request in a satisfactory manner. However, compliance does not imply success, this variable measures the willingness of companies to start a conversation with their investors in ESG related topics. Overall, about 51.5% of cases aim to induce a material change in company policy, and in 67.5% of engaged companies are compliant. Overall, Panel A and B indicate a success rate of about 60%, that is higher than in Dimson et al. (2015). This is because my sample covers a different period, for example the success rate of cases initiated in 2009 is 33% which is considerably closer to their figure of 17.8%. Nonetheless, such a high success rate is not unprecedented in the literature, for example, Klein and Zur (2009) report a success rate of 60% and 65% for hedge fund and private equity activists, respectively.

Panel C of Table 1 provides a breakdown of engagement cases by the year of the first contact with the company and the eventual outcome. It shows that after a steady success level above 60% there was a considerable drop around the financial crisis, especially for cases initiated in 2009, while for later years the success ratio increased again. Arguably, this drop in the number of successful

[2]In Appendix B, I provide an overview of topics and subtopics by each theme. In order to keep things tractable, in the rest of the analysis I focus on the three main ESG topics.

outcomes is related to financial constraints induced by the financial and economic crisis following the credit crunch (Hong et al., 2012).

Looking at the case files in detail allows us to determine the most common form of communication of the engager. Panel D of Table 1 indicates that most contacts happen in the background, sending a letter or an email being the most common. Out of the nearly 3,000 activities recorded in the case files, public channels, such as annual or extraordinary general meetings and press releases, account for only 170 instances. However, these public activities mainly pertain to governance cases with 139 occurrences. In Panel E, I provide a yearly overview of activities by topics. Engagement activity peaked in 2010 with almost 700 activities in that year. The table shows a gradual decline in activity after 2011, due to the fact that I include only activities related to finished cases. If I incorporate incomplete cases as well, the activity level of the engager stays steady over more recent years as well.

In Panel F and G of Table 1, I look at the distribution of engagements by industries and geographical areas, respectively. Out of the 17 Fama-French industries, Oil and petroleum, and Financials are engaged the most, with 93 and 86 cases respectively. In terms of geographical areas, the engager focuses mostly on European and North American companies.

–Insert Table 1 about here–

5 Determinants of engagement

In order to uncover the determinants of engagement, I look at the characteristics of target companies in the year preceding engagement, relative to a matched sample. My matching pool is the entire universe of companies listed in the Asset4 ESG index. The constituents of the Asset4 index include major indices like MSCI World, MSCI Europe, DJ Stoxx600, NASDAQ100, Russell 1000, FTSE250 and ASX 300 with over 4,200 equities. The usage of the Asset4 index is advantageous for several reasons. First, it is an international index with broad coverage of large international companies, comparable to my sample in this regard. Second, by using the index, I ensure that in subsequent analyses I can point out changes in ESG performance that is validated by an independent rating agency.

To construct the matching sample, I take several steps. First, I exclude all engaged companies

that are also part of the Asset4 index. Second, I restrict the pool to industries based on the 49 Fama-French industry classification. Finally, I calculate the Mahalanobis distance score for each possible engaged and matching company combination based on size, market-to-book ratio, ESG score and ROA. The advantage of this method is that I do not impose a hierarchy on the matching variables by sequentially sorting companies into portfolios and that the Mahalanobis distance score is not sensitive to the scaling of the data and performs well with a small number of matching covariates (Stuart, 2010). Furthermore, the Mahalanobis score is an intuitive measure that takes the covariance of matching variables into account, and if the covariance is zero, then it reduces to the Euclidean distance. If I cannot find a match based on 49 industries then I relax the classification to 17 industries. Finally, I pick three companies that have the lowest distance metric from the engaged company. For companies that have multiple engagement cases I keep the same set of matching companies for subsequent engagements. In unreported results, I conduct my analyses with a single best match, and with other matching methods based on propensity scores (Leuven and Sianesi, 2003), but my conclusions remain qualitatively similar.

5.1 Univariate results

I present summary statistics for target and matching firm characteristics in Table 2. I test the difference in means and medians between the engaged and matching sample using a paired t-test and a Wilcoxon signed-rank test, respectively. Furthermore, I provide descriptives for the three main geographical regions in the sample. For testing the difference between means of the engaged and control sample, I create a portfolio or pseudo company for each engaged company using the equally weighted mean of their respective matching companies, as in Brav et al. (2008) or Dimson et al. (2015). The pseudo-company characteristic is calculated by

$$\tilde{X}_i = \frac{1}{3}\sum_{j=1}^{3} X_{j,i}, \tag{1}$$

where $\tilde{X}_i$ represents a characteristic variable for a pseudo company for each engaged company i and $X_{j,i}$ is the characteristic variable for each matched company $j = 1, ..., 3$. All variables definitions and their respective sources are provided in Appendix C.

–Insert Table 2 about here–

ESG performance. I use ratings provided by Thomson Reuters Asset4 to gauge the ESG attributes of target and matching companies. The use of this rating metric is beneficial for two reasons. First, Thomson Reuters is a for-profit organization, paid by investors, so rating shopping is unlikely to be an issue, as opposed to for example credit ratings where the issuers pay to get a score (Benmelech and Dlugosz, 2009). Second, the Asset4 index has a global coverage with industry adjusted scores and ratings. The final rating is the equally weighted average of the four underlying pillars of Asset4: environmental, social, governance and economic. The first three pillars refer to the usual topics of ESG, while the economic pillar address the financial performance and economic outlooks of companies. I find that both at the aggregate and the individual pillar level engaged companies have a significantly higher score. This is similar to Dimson et al. (2015) who find that engaged companies already have a higher standard of corporate governance in place prior to investor activism. I also present a modified version of the Entrenchment index (E-index) of Bebchuk et al. (2009), that measures the protection that incumbents have against removal or the consequences of removal. Out of their six proposed governance provisions, I include poison pills, golden parachutes, staggered boards, and supermajority for bylaws and mergers, as Asset4 only records these for all companies. I find, that on average, engaged firms have a significantly higher level of entrenchment.

Risk and performance. On the one hand, in terms of stock market performance, engaged companies earn slightly lower returns, exhibit lower stock return volatility and are more liquid than matched companies, however, these differences are not statistically significant. On the other hand, engaged companies are still followed by more analysts. Despite engaged companies have higher growth potential indicated by Tobin's Q, their past sales growth was lower than that of comparable companies. The table also indicates that even though companies have a comparable profit margin, engaged companies use their assets more efficiently, and signified by higher asset turnover, ROA and ROE. Furthermore, engaged companies are capable of slicing out a higher share of the market in their respective industries.

Cash and expenses. Free cash flow and cash holding figures are comparable across the two groups. In terms of expenses, engaged companies spend more to maintain their operations and to advertise their products, however, they are more conservative in extending their operations. Engaged companies tend to pay out more in the form of dividends both in absolute terms and as a percentage of their net income.

Size and capital structure. Engaged companies are significantly larger, however, they have significantly less tangible assets installed in place. I find that their book leverage is not significantly different from their matched peers.

Ownership. Looking at ownership figures, the table reveals that the engager has a significantly higher stake in engaged companies, double the mean holding in the control sample. Engaged companies have a more dispersed ownership structure, with fewer blockholders (with a 5% or larger stake) and controlling shareholders (25% or larger holding). However, on average executives have a larger ownership stake in the engaged sample.

5.2 Multivariate results

In Table 3, I provide the results of probit regressions on targeting. The dependent variable is 1 for engaged companies and 0 for the control sample. Based on previous literature, I expect that the activist targets companies that have a considerable scope for improvement. Variables that can indicate poor performance are low stock returns, Tobin's Q, market share, sales growth, profitability (see e.g. Becht et al. (2014) or Dimson et al. (2015)).

The marginal effects show that the asset manager targets more visible companies. The engager has a higher stake in these firms and analysts also follow them more closely. Furthermore, engagement is more likely to take place if the target has a higher market share. The results also show that the asset manager does not pursue an agenda to target companies multiple times. This implies that engagements are evaluated and started on a per-case basis and the activist does not have "favorite" targets. Additionally, a company that has a dispersed ownership structure is significantly more likely to be targeted. Looking at different geographical regions, size has a mixed effect on the likelihood of engagement. The relationship is negative in Europe, positive in the Other domiciled companies and positive but insignificant for North American companies. Looking at ESG rating quartiles, the results indicate that the activist is more likely to engage companies where there is potential room for improvement. This means that the activist tries to identify companies that can benefit most from being engaged. The coefficient of liquidity is negative and significant, meaning that is indeed an important factor in facilitating monitoring and engagement (Maug, 1998; Gillan and Starks, 2003).

In Panel B, I provide a breakdown by engagement themes. The three main themes of ESG are

rather different and one can expect that different characteristics lead to engagement between e.g. social and governance cases. I find that the results hold up from the previous panel, however, in case of the governance theme, companies that are smaller and have lower potential growth opportunities are significantly more likely to be contacted by the activist. Contrary to that, companies with higher potential growth opportunities are more likely to be targeted in environmental cases as the coefficient on Tobin's Q indicates. A potential interpretation that the activist has a different focus for different cases. Companies with high growth opportunities are likely to be engaged in arguably costly environmental issues, whereas companies where there is a potentially larger need to interfere in management and governance are likelier engaged in governance topics.

As a robustness test, I repeat the analysis in the first panels of Table 3 for varying levels of engagement. Specifically, I apply an ordered probit, where the dependent variable is 1 for transparency (light engagements), 2 for reorganization (strong engagements) and 0 otherwise. The ordering refers to differences in the effort level that is required for strong engagements, light engagements and not engaging at all. In unreported results, I find that previous findings are robust to ordering and for strong engagements coefficients are larger in their absolute magnitude.

Overall, the results indicate that the engager's focus is the overall ESG rating that determines the propensity of engagement. Across all samples, it is always the lowest rated companies that are most likely to be engaged. It also firmly holds that variables related to visibility positively influence the likelihood of being targeted by the activist. Other variables, such as returns, size and Tobin's Q do not show a uniform picture across engagement themes and domiciles.

–Insert Table 3 about here–

6 Determinants of success

In Table 4, Panel A, I examine the characteristics of target firms with which engagements turn out to be successful. I include the same independent variables as before, also augmenting my model with engagement characteristics that could influence outcomes. The results reveal that on average, cases where the activist requests a significant change in corporate behavior are less likely to succeed. A higher effort level, measured by the number of contacts with the company, exerted by the engagement team yields better results, and companies that previously implemented changes

requested by the activists are significantly more likely to comply again. The indicator variable of contacting executives bears a negative coefficient, indicating that engagements are more likely to succeed if the activist makes contact with ESG specialists. The negative coefficient of Tobin's Q, ROA and sales growth conveys that engagements are more likely to turn successful if there is room for improvement. The coefficients of market share and analyst coverage are positive, suggesting that more visible companies are more likely to comply with the activist's requests. Companies that do not have a major controlling shareholder are significantly more likely to adopt changes, suggesting that dispersed ownership fosters corporate social responsibility.

I also include two variables to control for the effect of the activist's holdings. The first variable is "Initial holding jump" that measures how much the activist tilted its portfolio towards the engaged company prior to engagement. The second variable is "Holding increase" that captures changes in holdings during engagement. I find that none of these two variables is significant indicating that this particular activist does not gear up towards engaged companies like a hedge fund typically would. The results also show that a good ESG track record prior to engagement makes firms more likely to comply with the requests of the activists. The results are generally consistent across geographical regions, however, I do find that cases are more likely to succeed with larger companies in the Other region and the opposite holds for North America. This potentially indicates a difference in the relationship between the life cycle of companies and the propensity of increasing corporate goodness across regions. Smaller and younger firms in North America might potentially find it easier to improve their ESG practices, while in the Other region it is the more mature, larger and probably less resource constrained firms that commit to such practices.

When I turn to the analysis of outcomes by engagement themes in Panel B, I find that a reorganization request is less likely to succeed in all areas, but especially in environmental issues, suggesting that implementing material changes is the hardest in environmental management. The ESG track record of engaged companies is important for environmental and social engagement cases. However, turning to the subsample of governance cases, I find no association between ex ante governance ratings and the outcome of engagements. I find that market share loses its significance for environmental and governance cases, suggesting that consumers might care most about high social standards or that even industry leaders can improve in this respect. Managerial entrenchment contributes to success for environmental cases, potentially because entrenched teams

are more willing to commit to such long-term goals as better environmental management.

Concerned with the possibility that the activist selects firms for engagement with which it is more likely to reach a favorable outcome, I estimate a 2-stage Heckman regression to control for potential selection issues. For the selection equation, I apply the same specification as in Table 3, Panel A (2). In unreported results, I do find that the results from Panel A carry through, selection does not appear to be an issue as the inverse Mills ratio is insignificant in all specifications.

–Insert Table 4 about here–

7 Analysis of performance after engagement

There are several ways through which implementing or increasing corporate social responsibility can increase firm value. Pro-social behavior can be rewarding for various stakeholders, shareholders and the management as well (Baron, 2008; Benabou and Tirole, 2006). First, higher ESG standards can increase consumer loyalty through product quality signaling, and consequently lead to higher market share, as well as higher and less volatile profits (Albuquerque et al., 2014). Second, employee satisfaction fosters productivity and efficiency, also leading to higher profits (Edmans, 2011, 2012). Third, corporate social responsibility can attract a specific shareholder base with long-term investment goals, thereby reducing pressure on management to generate short-term profits and allowing them to undertake investments that yield returns on a longer horizon (Gaspar et al., 2013). Fourth, improved governance standards also indicate better management practices and result in higher future performance (Bebchuk et al., 2015; Brav et al., 2008). Finally, CSR can increase goodwill towards the company and alleviate financial penalties in rare events (Hong and Liskovich, 2015).

In Table 5, I test these channels through which activism can improve the operations of engaged companies. Furthermore, I also examine changes in ownership and ESG ratings. I estimate a differences-in-differences (DD) specification of the following form:

$$y_{t,i} = \alpha + \beta \text{post}_t + \gamma \text{success}_i + \delta \text{post}_t \times \text{success}_i + \nu \text{controls}_{t,i} + \epsilon_{t,i}, \tag{2}$$

and the model below for the engagement treatment

$$y_{t,i} = \alpha + \beta \text{post}_t + \gamma \text{engaged}_i + \delta \text{post}_t \times \text{engaged}_i + \nu \text{controls}_{t,i} + \epsilon_{t,i}, \quad (3)$$

where *Post* is an indicator variable that equals 1 if the engagement is finished and 0 otherwise, and *Treat* equals 1 for the treatment group and 0 otherwise. I consider two different treatment effects, first, I define *Treat* as 1 for successful outcomes and 0 otherwise. Second, I consider engaged companies versus the control sample, where *Treat* is 1 for all engaged companies and 0 for the sample of matched firms. I define *Post* as 0 one year before the engagement, and as 1 the year following the closure of a case for the *Success* treatment. This setup allows me to evaluate the effect of successful outcomes and investor activism separately. The vector *controls* includes leverage, size, tangibility, and time and industry fixed effects in all specifications. Furthermore, in the analysis of Tobin's Q, I also include ROA, CapEX and sales growth. I cluster standard errors at the firm level. For the sake of brevity, I only report the DD coefficients (δ). In other words, each entry in the table shows the result for the δ term coming from a separate regression of a different dependent variable and subsample.

In Panel A of Table 5, I report DD coefficients for the evaluation of success for all engagement cases and subsamples by the theme of engagement and the ESG rating of target companies. I assign companies to the lowest and highest ESG quartile based on their relative ESG ratings prior to engagement. The top portion of the table list DD coefficients from Equation 2, while the bottom portion for Equation 3. The results indicate that on average, following a successful engagement, accounting performance is not affected significantly except for sales growth. The coefficients indicate that following a successful engagement, sales growth increases by 3-22% across subsamples, but the result is not significant for social engagement cases. This is in line with Klein and Zur (2006) who find that hedge fund activism does not improve accounting measures. I find that sales , albeit at the cost of increased capital expenditures and operating expenses. The coefficients on Asset4 ratings confirm that successful engagements do contribute to better corporate citizenship. This suggests that companies, especially ones with considerable room for improvement, can increase their overall perception through implementing better ESG standards, however, these changes are costly.

It is possible that reaching out to companies has an effect on its own as the management learns about their investors' concerns, even if the activist does not attain its specific goal over the course

of engagement. To investigate this issue, in the bottom part in each panel of of Table 5, I report DD coefficients where the treatment effect is engagement, that is, I evaluate the changes in performance relative to the matched sample. I find that post-engagement, my sample firms experience lower ROA, asset turnover and decreased market share, but also lower expenses and a higher profit margin. A potential underlying mechanism for this is that incorporating higher ESG standards into products and services is costly, requires more (expensive) assets. These corporations might lose a part of their cost-sensitive clientele, but in the meantime charge higher prices to provide for their socially-conscious customers. My results corroborate this, as the Asset4 economic score that proxies for shareholder and customer loyalty increases on average, and significantly improves for previously low-rated companies.

Another mechanism that might be at play is an information revelation process. The activist conducts research to identify companies that have potential room for improvement. If the activist correctly identifies companies then subsequent ESG ratings should reflect this new information. I find that for the lowest ESG quartile of companies all ratings significantly increase compared to their matched peers, while the opposite is observed for the highest quartile. This implies that research and engagement activity brings new information to market actors and better reveals the ESG practices of companies. It is realized that previous low-rated companies are not lost cases and late best-performers might still have some room for improvement. The possible mechanism behind this rating adjustment is that Asset4 ratings are always industry specific and final scores are harmonized across industries to ensure comparability. As the activist engages companies, the rating agency realizes that previous scores were flawed in that engaged companies still had key points to improve on. Hence, previous top performers are downgraded and to overall industry score is adjusted.

Looking at Panel B-D of the table, the results indicate that the above proposed information revelation process seems to be at play across all geographical subsamples. However, there are differences in terms of operating measures. Following a successful engagement the increase in sales growth is prevalent across all samples, however, in case of European firms it is accompanied by a significant increase in capital expenditures. This might be due to the fact the European firms change their operations over the course of engagements, while North American and other domiciled firms have other means to increase their sales.

–Insert Table 5 about here–

8 Returns to engagement

The ultimate goal of any asset manager is to generate returns to its shareholders and investor activism might be one way to achieve superior performance. In this section, I look at nominal and cumulative abnormal returns to shed light on the market's reaction to engagement.

In Table 6, I report buy-and-hold returns for various event windows, i.e. at completion and over 6 and 12 months. I find that on average, returns are positive and significant following the closure of a case, and that successful cases earn significantly higher returns in the month when the outcome is realized and over the following 12 months. The results show that the market react positively to successful outcomes. However, there are differences among the three main topics. Successful environmental returns are higher up to 6 months following the closing of the case, while successful social cases earn higher returns following the sixth month and up to a year. While successful governance cases exhibit higher returns than their unsuccessful counterparts, this difference is not statistically significant.

–Insert Table 6 about here–

In Figure 1, I depict mean buy-and-hold portfolio returns after completion. I form equally weighted portfolios of engaged companies prior to the event month and calculate returns over 18 months. The figures confirm the findings of Table 6, in that returns to successful cases are indeed higher over the 12-month period following completion, but this difference seems to diminish after the first year.

–Insert Figure 1 about here–

In Table 7, I report cumulative abnormal returns (CAR). I calculate abnormal returns using 49 Fama-French industry portfolios.[3] In Panel A through D, I report CARs for three different event windows following the completion of engagements for the full sample and the three different regions.

[3]As a robustness check I also use Fama-Frech-Carhart factors, 17 Fama-French industry portfolios, as well as size and book-to-market matched portfolios. I find that the results are qualitatively similar.

The returns indicate that on average CARs are negative and significantly different from zero. However, it appears the successfully engaged companies earn significantly higher returns. In North America, this result is driven by environmental and social engagements, whereas in Other domiciled firms successful reorganizations, environmental and social cases earn high returns. In Europe, CARs are not significantly different between successful and unsuccessful cases.

–Insert Table 7 about here–

Figure 2 corroborates the findings in Table 7. Panel A indicates that for all cases the difference between successful and unsuccessful cases widens after about 4 months. In North America and the Other region this difference is relatively stable at about 4-7%, while the return patterns in Europe are lined up closely.

–Insert Figure 2 about here–

Table 8 presents the outcome of regressing CARs on various economic strengths reported in Asset4. The independent variable is the change in a specific economic strength over the course of engagement. These economic strength variables come directly from Asset4 and represent a score assigned by Asset4 about the economic outlooks of a given company. The table gives mixed results about the relationship between CARs and economic strengths. Employee satisfaction (Edmans, 2011) is positive and significant in certain specifications and samples, and so is customer satisfaction (Albuquerque et al., 2014). Margin stability appears to be positive and significant in the Other domicile.

Taken together, the results in Table 6-8 do not give a clear indication of the relationship between engagement outcomes and returns. Looking at Table 6 it is clear that the activist does not lose money on engaged firms. However, the CAR figures in Table 7 show that there is a negative return surprise following the closure of engagement cases. It appears that looking at potential value increasing factors such as customer loyalty or employee satisfaction the CARs still give a mixed picture, so it is unclear whether the market assigns a positive value to engagements on ESG.

–Insert Table 8 about here–

9 Conclusions and extensions

This paper embarked upon answering the questions about how an activist investor targets companies, how the investor carries out engagement and whether there is value created through activism. Taken together, my results that the activist tries to engage companies that have the potential to improve in terms of ESG. However, engagement cases are more likely to succeed with firms that had a good ESG track record to begin with. The engagements do not have a material effect on the operating performance of companies. Furthermore, despite the fact that market actors can learn about the ESG qualities of engaged companies, the market does not value successful outcomes.

The findings indicate that the activist is likely to target visible companies that have a high market share, earn high stock returns, are more liquid and that are followed by many analysts. I also find that the activist tends to target companies that have headroom for improvement in terms of ESG scores.

Turning to the analysis of engagement outcomes, I find that companies that go through a phase of expansion, that hold high cash reserves and where the activist requested a material change are less likely to comply with the demands of the activist. I also show that companies that were engaged successfully on previous occasions and whose ESG scores are higher ex ante are likelier to fulfill the requests of the engager.

Looking at operating performance measures and ESG ratings following engagements, I uncover that the actual outcome of the engagement does not have a significant impact on variables such as ROA, operating expenses or asset turnover. However, I do find that sales growth increases for all companies in the sample and for all engagement topics. Gauging the effect of engagement, I show that the process of engagement has an information revelation content. The results indicate that following engagements the ESG ratings of engagement companies are seriously adjusted across all ESG factors. Companies that had a lower rating prior to engagement receive a higher rating afterwards, and the opposite holds for ex ante highly rated firms. This indicates the investor activism does matter, regardless of the actual outcome of the case.

Moving on to the analysis of returns, I show that after the closure of an engagement case, normal returns of successfully engaged firms are significantly higher than those of unsuccessfully engaged companies. When I analyze cumulative abnormal returns, however, I find that CARs are

negative after adjusting for industry specific returns. Furthermore, CARs cannot be explained by changes in economic performance measures, such as customer loyalty of employee satisfaction.

A natural extension of this work is to look into the portfolio holdings of the activist in more detail. Since the activists primary objective is to generate returns through holdings and engagements, it is important to further investigate their holdings and check if there is a different point in time when they realize returns, not when they actually close the file. On the same note, it can be a fruitful path to look at different definitions of success. The activist has a limited capacity to contact companies and it might be the case that an outcome is realized prior to the date when the activist close an engagement file.

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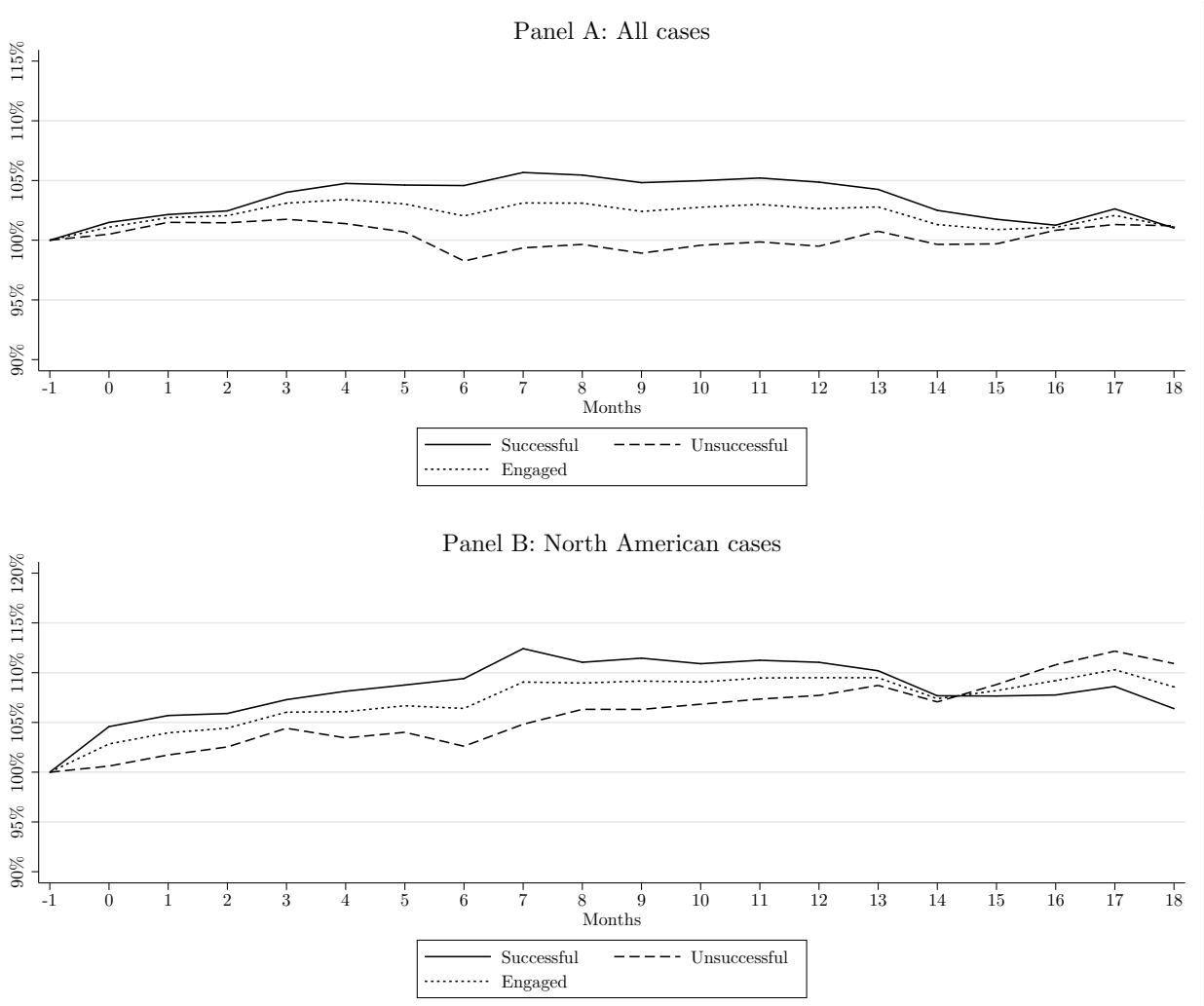
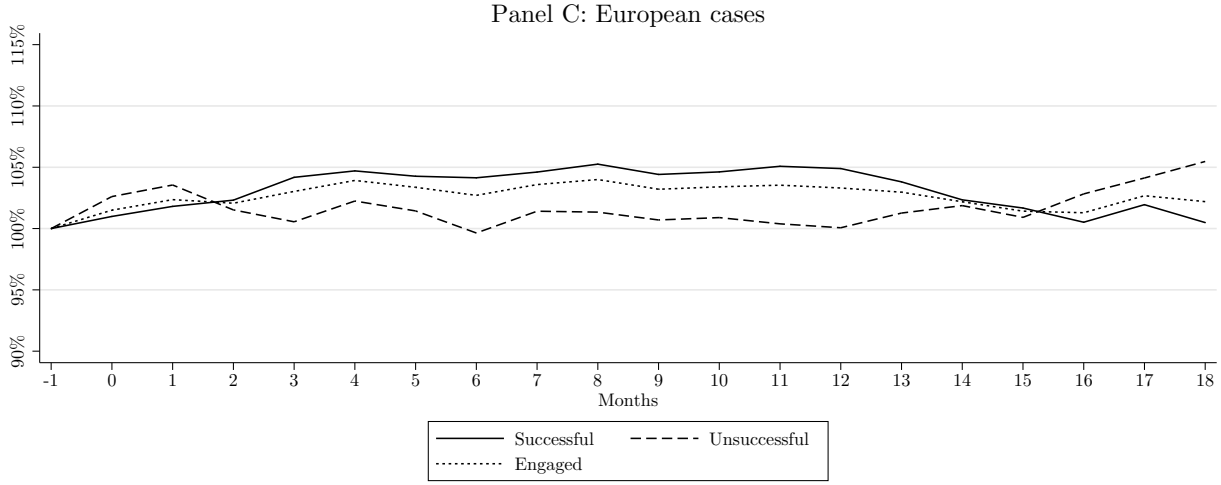
10 Figures and tables

Figure 1: Buy-and-hold returns after completion. The figure shows buy-and-hold returns for an equally weighted portfolio of engaged companies for various geographical regions. The portfolios are formed at the completion of engagements.



Panel C: European cases



Panel D: Other cases

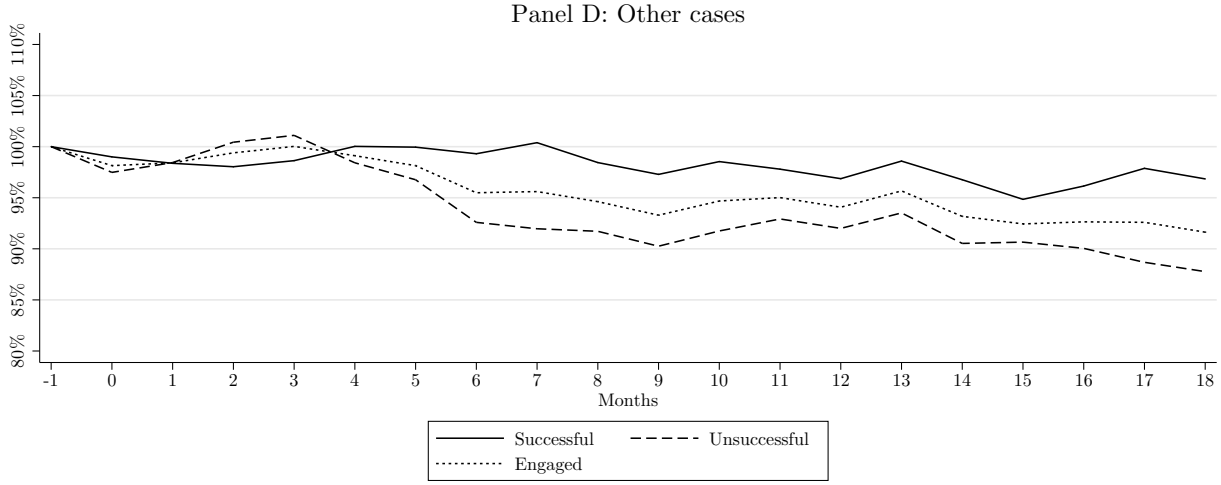
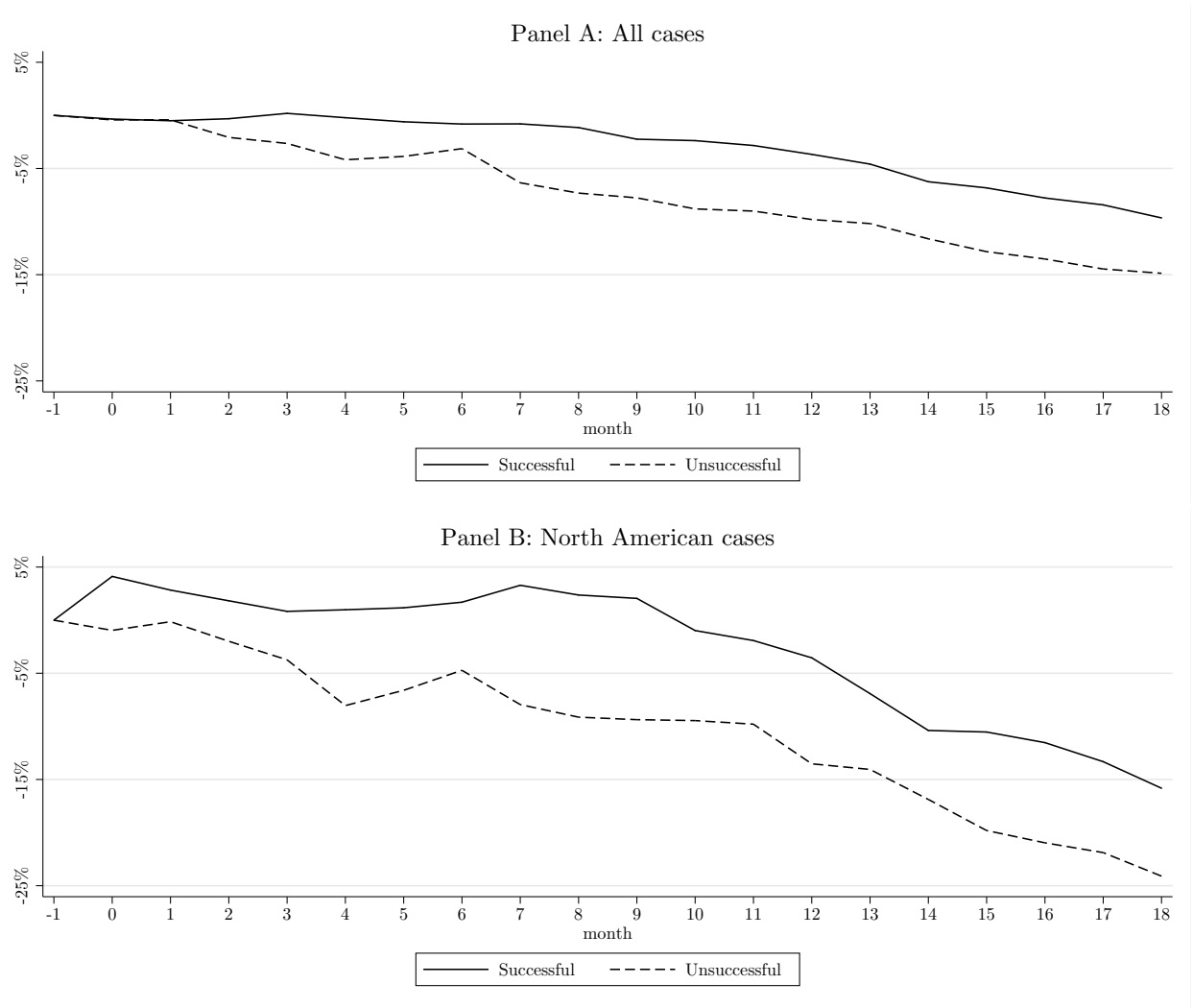
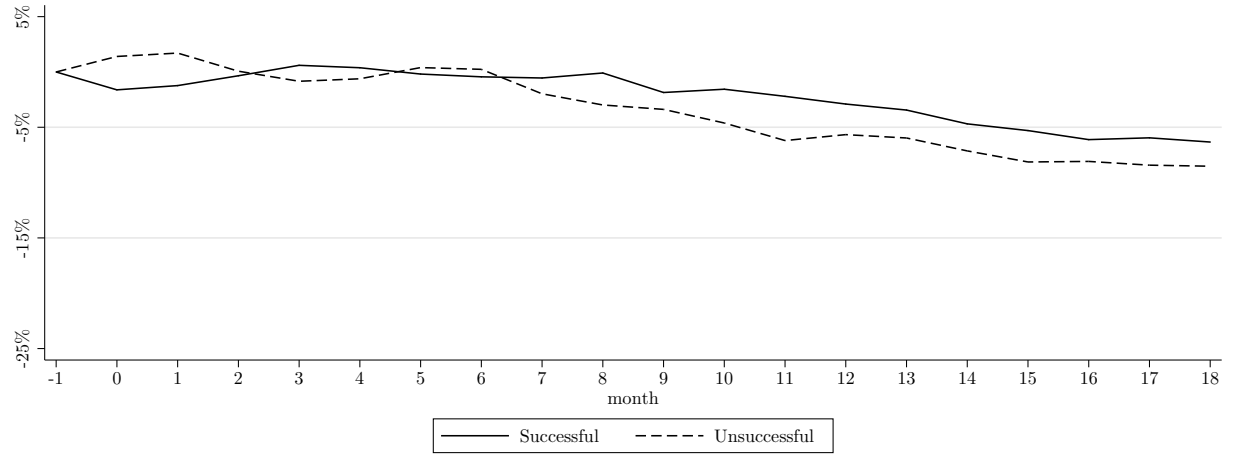


Figure 2: Cumulative abnormal returns after completion. The figure shows cumulative abnormal returns for equally weighted portfolio of engaged companies for various geographical regions. The portfolios are formed at the initiation of engagements. Returns are adjusted for 49 Fama-French industry portfolios.



Panel C: European cases



Panel D: Other cases

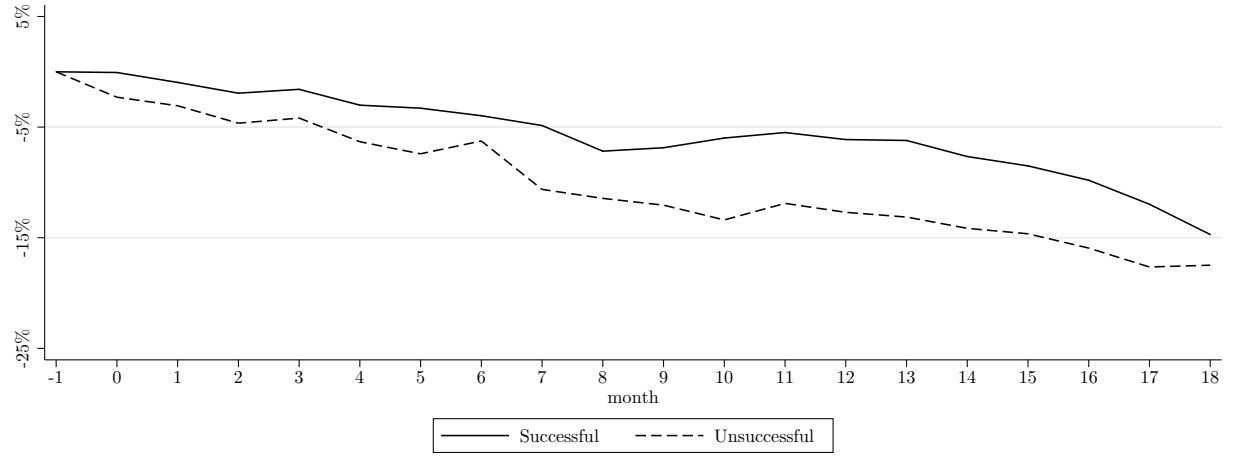


Table 1 – Panel A: Engagement characteristics by outcome

This table shows the breakdown of completed engagements by ESG themes and topics. A further breakdown of engagement topics is provided in Appendix B. In the first part we report the number and percentage of all and successful engagements. In the second and third part we report statistics for the number of contacts, the length of the engagement and the typical contact type, for successful and unsuccessful cases, respectively. The length of engagement sequences is defined in calendar days. The contact type is the most frequently applied contact channel per topic. Percentages are calculated over all cases.

	Whole Sample (1)				Successful (2)						Unsuccessful (3)					
	All engagements		Successful		Contact number		Length of sequence		Contact type		Contact number		Length of sequence		Contact type	
	N	%	N	%	Mean	Median	Mean	Median		%	Mean	Median	Mean	Median		%
Theme: Environmental																
Climate Change	21	5.9%	17	81.0%	5.2	5	584.4	491	Email	41.2%	4.8	4.5	383.8	500	Email	75.0%
Ecosystem Services	113	31.6%	64	56.6%	5.2	4	857.8	909	Email	50.0%	3.9	4	700.9	895	Letter	65.3%
Environmental Mgmt.	224	62.6%	109	48.7%	3.1	2	379.6	328	Letter	37.6%	2.5	2	583.0	730	Letter	62.6%
Total	358	42.3%	190	53.1%	4.0	3	559.0	451	Letter	42.1%	2.9	2	612.6	730	Letter	63.7%
Theme: Social																
Public Health	30	8.4%	27	90.0%	3.0	2	395.5	341	Meeting	37.0%	1.7	2	329	357	Email	66.7%
Human Rights and Ethics	238	66.5%	116	48.7%	3.3	3	424.1	374.5	Letter	37.1%	2.7	3	479.6	491	Letter	47.5%
Labor Standards	99	27.7%	80	80.8%	4.6	4	647.4	716	Email	63.7%	6.3	5	938.9	1,064	Email	68.4%
Total	367	43.3%	223	60.8%	3.7	3	500.7	391	Letter	46.6%	3.1	3	537.1	491	Letter	50.7%
Theme: Governance																
Corporate Governance	86	70.5%	66	76.7%	3.4	2	448.6	270.5	A/EGM	39.4%	2.3	2.5	234.4	98	A/EGM	50.0%
Mgmt. and Reporting	36	29.5%	30	83.3%	4.3	3.5	402.5	388	Meeting	36.7%	3	2.5	600.2	681.5	Meeting	33.3%
Total	122	14.4%	96	78.7%	3.7	3	434.2	355.5	Letter	38.5%	2.4	2.5	318.8	196.5	Email	46.2%
Total	847		509	60.1%												

Table 1 – Panel B: Number of engagements by reorganization and target firm compliance

This table shows the breakdown of completed engagements by ESG themes and topics. A further breakdown of topics is provided in Appendix B. An engagement case is defined as reorganization if the engager requests a change in the strategy or governance of the firm. A company is deemed as compliant if it responds to the request of the engager. The first part of the table reports the breakdown of reorganization cases, and compliance by firms for all cases. The second and third part of the table give a breakdown of reorganization and compliance by successful and unsuccessful cases, respectively. Percentages are calculated over all cases for each topic.

	Full sample (1)					Successful (2)				Unsuccessful (3)			
	All	Reorganization		Compliance		Reorganization		Compliance		Reorganization		Compliance	
	N	N	%	N	%	N	%	N	%	N	%	N	%
Theme: Environmental													
Climate Change	21	0	0.0%	17	81.0%	0	0.0%	16	76.2%	0	0.0%	1	4.8%
Ecosystem Services	113	74	65.5%	82	72.6%	31	27.4%	56	49.6%	43	38.1%	26	23.0%
Environmental Mgmt.	224	178	79.5%	116	51.8%	69	30.8%	107	47.8%	109	48.7%	9	4.0%
Total	358	252	70.4%	215	60.1%	100	27.9%	179	50.0%	152	42.5%	36	10.1%
Theme: Social													
Public Health	30	0	0.0%	24	80.0%	0	0.0%	21	70.0%	0	0.0%	3	10.0%
Human Rights and Ethics	238	124	52.1%	143	60.1%	47	19.7%	115	48.3%	77	32.4%	28	11.8%
Labor Standards	99	2	2.0%	90	90.9%	1	1.0%	78	78.8%	1	1.0%	12	12.1%
Total	367	126	34.3%	257	70.0%	48	13.1%	214	58.3%	78	21.3%	43	11.7%
Theme: Governance													
Corporate Governance	86	49	57.0%	67	77.9%	34	39.5%	64	74.4%	15	17.4%	3	3.5%
Mgmt. and Reporting	36	9	25.0%	33	91.7%	8	22.2%	30	83.3%	1	2.8%	3	8.3%
Total	122	58	47.5%	100	82.0%	42	34.4%	94	77.0%	16	13.1%	6	4.9%
Total	847	436	51.5%	572	67.5%	190	22.4%	487	57.5%	246	29.0%	85	10.0%

Table 1 – Panel C: Yearly distribution of initiation and success

This table shows the yearly breakdown of the initiation and success of completed engagements by ESG themes and topics. A further breakdown of topics is provided in Appendix B. For each year, the first column indicates the number of engagement sequences initiated, and the second column shows the percentage of engagements that eventually turn successful.

	Year of starting the engagement																			
	2005q4		2006		2007		2008		2009		2010		2011		2012		2013		Total	
	N	%	N	%	N	%	N	%	N	%	N	%	N	%	N	%	N	%	N	%
Theme: Environmental																				
Climate Change	0	0.0%	0	0.0%	1	100.0%	4	100.0%	0	0.0%	15	80.0%	1	0.0%	0	0.0%	0	0.0%	21	81.0%
Ecosystem Services	0	0.0%	1	100.0%	0	0.0%	0	0.0%	54	27.8%	35	80.0%	12	91.7%	11	81.8%	0	0.0%	113	56.6%
Environmental Mgmt.	1	100.0%	24	83.3%	21	76.2%	13	15.4%	102	34.3%	25	52.0%	35	54.3%	0	0.0%	3	100.0%	224	48.7%
Total	1	16.7%	25	15.9%	22	19.1%	17	0.1	156	24.5%	75	23.7%	48	30.3%	11	36.0%	3	60.0%	358	22.4%
Theme: Social																				
Public Health	0	0.0%	15	86.7%	1	0.0%	0	0.0%	0	0.0%	2	100.0%	0	0.0%	12	100.0%	0	0.0%	30	90.0%
Human Rights and Ethics	1	100.0%	34	50.0%	29	48.3%	3	100.0%	35	22.9%	109	53.2%	27	55.6%	0	0.0%	0	0.0%	238	48.7%
Labor Standards	1	100.0%	21	95.2%	16	68.8%	14	100.0%	0	0.0%	36	63.9%	10	100.0%	0	0.0%	1	100.0%	99	80.8%
Total	2	33.3%	70	37.9%	46	28.1%	17	27.0%	35	0.0	147	37.1%	37	25.3%	12	48.0%	1	20.0%	367	26.3%
Theme: Governance																				
Corporate Governance	2	0.0%	28	78.6%	18	61.1%	20	95.0%	10	70.0%	2	100.0%	3	66.7%	2	100.0%	1	100.0%	86	76.7%
Mgmt. and Reporting	1	100.0%	9	88.9%	3	66.7%	9	77.8%	3	66.7%	0	0.0%	11	90.9%	0	0.0%	0	0.0%	36	83.3%
Total	3	16.7%	37	22.7%	21	14.6%	29	41.3%	13	0.0	2	0.0	14	12.1%	2	8.0%	1	20.0%	122	11.3%
Total	6	66.7%	132	76.5%	89	61.8%	63	77.8%	204	32.8%	224	61.6%	99	67.7%	25	92.0%	5	100.0%	847	60.1%

Table 1 – Panel D: Engagement contact types

This table shows the type of activities applied by the asset manager by engagement topics. A further breakdown of topics is provided in Appendix B. Frequencies are calculated by topics over all activity types.

	Activity type																	
	Meeting at activist		Meeting at company		Other meeting		Conference call		Letter		Email		AGM/ EGM		Press		Analysis		Total
	N	%	N	%	N	%	N	%	N	%	N	%	N	%	N	%	N	%	N
Theme: Environmental																			
Climate Change	6	5.6%	2	1.9%	0	0.0%	15	13.9%	2	1.9%	47	43.5%	0	0.0%	0	0.0%	36	33.3%	108
Ecosystem Services	17	3.3%	10	1.9%	3	0.6%	83	15.9%	118	22.6%	180	34.5%	4	0.8%	0	0.0%	106	20.3%	521
Environmental Mgmt.	45	7.2%	8	1.3%	3	0.5%	47	7.5%	186	29.7%	163	26.0%	6	1.0%	0	0.0%	168	26.8%	626
Total	68	5.4%	20	1.6%	6	0.5%	145	11.6%	306	24.4%	390	31.1%	10	0.8%	0	0.0%	310	24.7%	1,255
Theme: Social																			
Public Health	13	15.3%	2	2.4%	0	0.0%	15	17.6%	2	2.4%	45	52.9%	1	1.2%	0	0.0%	7	8.2%	85
Human Rights and Ethics	41	5.7%	19	2.7%	5	0.7%	58	8.1%	191	26.8%	260	36.4%	16	2.2%	0	0.0%	124	17.4%	714
Labor Standards	51	10.5%	14	2.9%	17	3.5%	71	14.7%	23	4.8%	260	53.7%	4	0.8%	0	0.0%	44	9.1%	484
Total	105	8.2%	35	2.7%	22	1.7%	144	11.2%	216	16.8%	565	44.0%	21	1.6%	0	0.0%	175	13.6%	1,283
Theme: Governance																			
Corporate Governance	44	16.2%	23	8.5%	11	4.0%	35	12.9%	24	8.8%	15	5.5%	109	40.1%	4	1.5%	7	2.6%	272
Mgmt. and Reporting	23	15.8%	5	3.4%	3	2.1%	13	8.9%	2	1.4%	44	30.1%	24	16.4%	2	1.4%	30	20.5%	146
Total	67	16.0%	28	6.7%	14	3.3%	48	11.5%	26	6.2%	59	14.1%	133	31.8%	6	1.4%	37	8.9%	418
Total	240	8.1%	83	2.8%	42	1.4%	337	11.4%	548	18.5%	1,014	34.3%	164	5.5%	6	0.2%	522	17.7%	2,956

Table 1 – E: Activity distribution over time

This table shows the yearly breakdown of the number of activities by engagement topics. A further breakdown of topics is provided in Appendix B. Frequencies are calculated by topics over all years.

	Year of activity																		
	2005q4		2006		2007		2008		2009		2010		2011		2012		2013		2014q3		Total
	N	%	N	%	N	%	N	%	N	%	N	%	N	%	N	%	N	%	N	%	N
Theme: Environmental																					
Climate Change	0	0.0%	0	0.0%	1	0.9%	2	1.9%	11	10.2%	47	43.5%	36	33.3%	11	10.2%	0	0.0%	0	0.0%	108
Ecosystem Services	0	0.0%	1	0.2%	0	0.0%	0	0.0%	123	23.6%	108	20.7%	71	13.6%	59	11.3%	120	23.0%	39	7.5%	521
Environmental Mgmt.	1	0.2%	30	4.8%	32	5.1%	23	3.7%	127	20.3%	91	14.5%	201	32.1%	74	11.8%	38	6.1%	9	1.4%	626
Total	1	0.1%	31	2.5%	33	2.6%	25	2.0%	261	20.8%	246	19.6%	308	24.5%	144	11.5%	158	12.6%	48	3.8%	1,255
Theme: Social																					
Public Health	0	0.0%	16	18.8%	6	7.1%	0	0.0%	0	0.0%	4	4.7%	4	4.7%	32	37.6%	14	16.5%	9	10.6%	85
Human Rights and Ethics	1	0.1%	46	6.4%	45	6.3%	22	3.1%	59	8.3%	249	34.9%	201	28.2%	83	11.6%	4	0.6%	4	0.6%	714
Labor Standards	1	0.2%	24	5.0%	23	4.8%	38	7.9%	13	2.7%	136	28.1%	78	16.1%	103	21.3%	61	12.6%	7	1.4%	484
Total	2	0.2%	86	6.7%	74	5.8%	60	4.7%	72	5.6%	389	30.3%	283	22.1%	218	17.0%	79	6.2%	20	1.6%	1,283
Theme: Governance																					
Corporate Governance	2	0.7%	47	17.3%	35	12.9%	40	14.7%	47	17.3%	40	14.7%	32	11.8%	27	9.9%	2	0.7%	0	0.0%	272
Mgmt. and Reporting	1	0.7%	24	16.4%	10	6.8%	5	3.4%	16	11.0%	6	4.1%	45	30.8%	35	24.0%	4	2.7%	0	0.0%	146
Total	3	0.7%	71	17.0%	45	10.8%	45	10.8%	63	15.1%	46	11.0%	77	18.4%	62	14.8%	6	1.4%	0	0.0%	418
Total	6	0.2%	188	6.4%	152	5.1%	130	4.4%	396	13.4%	681	23.0%	668	22.6%	424	14.3%	243	8.2%	68	2.3%	2,956

Table 1 – Panel F: Industry breakdown

This table shows the breakdown of engagements by topics and industries. A further breakdown of topics is provided in Appendix B.

	17 Fama-French industries																	
	Food	Mining and Minerals	Oil and petroleum	Textile, apparel and footwear	Consumer Durable	Chemicals	Drugs, soap, perfume, tobacco	Construction and materials	Steel	Fabricated products	Machinery and business eqpm.	Automobiles	Transportation	Utilities	Retail	Financials	Other	Total
Theme: Environmental																		
Climate Change	0	0	0	0	0	0	0	0	0	0	0	15	1	5	0	0	0	21
Ecosystem Services	14	7	27	10	0	6	20	4	2	0	2	3	0	7	7	0	4	113
Environmental Mgmt.	10	19	34	2	2	7	5	13	6	3	13	2	20	27	8	17	36	224
Total	24	26	61	12	2	13	25	17	8	3	15	20	21	39	15	17	40	358
Theme: Social																		
Public Health	9	0	0	1	0	2	7	0	0	0	1	0	0	0	5	4	1	30
Human Rights and Ethics	10	10	8	3	12	9	19	9	19	0	19	5	14	9	9	39	44	238
Labor Standards	3	5	18	2	2	1	7	1	1	0	3	1	3	1	14	6	31	99
Total	22	15	26	6	14	12	33	10	20	0	23	6	17	10	28	49	76	367
Theme: Governance																		
Corporate Governance	5	2	4	1	3	7	7	2	3	0	7	2	4	2	3	11	23	86
Mgmt. and Reporting	0	1	2	0	1	4	0	2	1	1	1	1	4	0	2	9	7	36
Total	5	3	6	1	4	11	7	4	4	1	8	3	8	2	5	20	30	122
Total	51	44	93	19	20	36	65	31	32	4	46	29	46	51	48	86	146	847

Table 1 – Panel G: Geographical breakdown

This table shows the breakdown of engagements by topics and geographical areas. A further breakdown of topics is provided in Appendix B.

	Continent						
	Africa	Asia	Europe	North America	Pacific	South America	Total
Theme: Environmental							
Climate Change	0	7	11	3	0	0	21
Ecosystem Services	1	1	72	39	0	0	113
Environmental Mgmt.	5	17	106	74	15	7	224
Total	6	25	189	116	15	7	358
Theme: Social							
Public Health	0	1	17	12	0	0	30
Human Rights and Ethics	18	73	86	41	2	18	238
Labor Standards	0	10	56	32	0	1	99
Total	18	84	159	85	2	19	367
Theme: Governance							
Corporate Governance	0	3	80	3	0	0	86
Mgmt. and Reporting	0	5	28	2	0	1	36
Total	0	8	108	5	0	1	122
Total	24	117	456	206	17	27	847

Table 2: Descriptive statistics

This table reports summary statistics for all variables. For each case, we keep the first firm-year Observation and use a lag of one year. The control sample is determined by Mahalonobis distance metric matching. For all engaged companies, we draw 3 matching pairs with replacement. The Mahalanobis distance is determined based on industry, ESG score, size, market-to-book ratio and ROA. The t-statics stand for the difference in means between the engaged and the control group. The Z-score is calculated for the Wilcoxon signed rank test, for which we use the median difference between the engaged firm and the control group. For the t-statistics and Z-scores we report p-values in brackets. Variables are winsorized at 2.5% on both tails of the distribution. All variable definitions are in the Appendix.

	All cases			Control group and difference			North America		Europe		Other	
Variable	Obs.	Mean	Sdev.	Mean	t-test	Rank	Obs.	Mean	Obs.	Mean	Obs.	Mean
ESG ratings												
ESG score	705	77.315	23.821	67.861	[0.000]	[0.000]	195	77.581	409	82.449	101	56.011
Environmental score	705	74.627	25.317	67.412	[0.000]	[0.000]	195	68.643	409	80.261	101	63.366
Social score	705	76.913	23.534	67.194	[0.000]	[0.000]	195	69.209	409	83.874	101	63.599
Governance score	705	64.412	26.324	57.244	[0.000]	[0.000]	195	80.613	409	64.753	101	31.753
Economic score	705	71.345	26.151	63.508	[0.000]	[0.000]	195	69.524	409	75.419	101	58.366
E-index	641	0.376	0.252	0.360	[0.136]	[0.151]	185	0.469	401	0.352	55	0.241
Risk and performance												
BHR	847	0.043	0.490	0.041	[0.935]	[0.130]	206	-0.016	456	0.045	185	0.101
Volatility	839	0.353	0.198	0.386	[0.000]	[0.000]	203	0.360	453	0.310	183	0.452
Amihud ILLIQ	840	0.207	1.018	0.183	[0.509]	[0.000]	204	0.100	453	0.093	183	0.609
Asset turnover	846	0.848	0.566	0.827	[0.375]	[0.371]	206	0.866	456	0.846	184	0.830
Profit margin	841	0.080	0.147	0.083	[0.637]	[0.177]	205	0.090	451	0.077	185	0.077
ROA	846	0.059	0.064	0.053	[0.009]	[0.000]	206	0.066	456	0.060	184	0.052
ROE	846	0.157	0.166	0.133	[0.000]	[0.000]	206	0.161	456	0.163	184	0.137
Sales growth	835	0.101	0.290	0.109	[0.445]	[0.020]	202	0.067	450	0.124	183	0.081
Sales over employee	824	0.742	0.917	0.686	[0.138]	[0.001]	205	0.870	449	0.698	170	0.702
Market share	847	0.028	0.030	0.017	[0.000]	[0.000]	206	0.030	456	0.034	185	0.012
Market-to-book	843	2.578	1.986	2.361	[0.001]	[0.255]	204	2.740	455	2.727	184	2.033
Tobin's Q	843	1.977	1.284	1.891	[0.073]	[0.033]	204	2.102	455	2.033	184	1.697
Interest coverage	825	17.343	30.032	14.805	[0.032]	[0.485]	201	13.409	447	17.331	177	21.838
Cash and expenses												
Free cash flow	833	0.100	0.071	0.095	[0.108]	[0.005]	206	0.108	445	0.099	182	0.092
Cash holding	846	0.066	0.073	0.067	[0.771]	[0.000]	206	0.074	456	0.065	184	0.061
Current ratio	765	1.491	0.890	1.639	[0.001]	[0.000]	198	1.675	407	1.402	160	1.491
CapEX	846	0.053	0.046	0.057	[0.060]	[0.000]	206	0.061	456	0.045	184	0.065
Operating expenses	817	0.862	0.128	0.862	[0.933]	[0.779]	205	0.842	439	0.867	173	0.872
R&D expenditures	846	0.014	0.027	0.014	[0.869]	[0.000]	206	0.015	456	0.017	184	0.007
Advertising	91	0.036	0.033	0.021	[0.000]	[0.008]	87	0.037	2	0.018	2	0.008
Size and capital structure												
Log total assets	846	9.623	1.858	9.293	[0.000]	[0.000]	206	9.860	456	9.956	184	8.534
Log sales	841	9.146	1.719	8.798	[0.000]	[0.000]	205	9.426	451	9.517	185	7.932
Log market equity	843	9.164	1.752	8.907	[0.000]	[0.000]	204	9.541	455	9.512	184	7.883
Book leverage	846	0.327	0.220	0.320	[0.381]	[0.408]	206	0.341	456	0.340	184	0.281
Tangibility ratio	845	0.313	0.234	0.338	[0.010]	[0.000]	205	0.392	456	0.258	184	0.364

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	All cases			Control group and difference			North America		Europe		Other	
Variable	Obs.	Mean	Sdev.	Mean	t-test	Rank	Obs.	Mean	Obs.	Mean	Obs.	Mean
Other												
Dividend yield	843	0.029	0.027	0.026	[0.012]	[0.138]	204	0.024	455	0.029	184	0.034
Dividend payout	846	0.389	0.508	0.353	[0.070]	[0.756]	206	0.339	456	0.412	184	0.389
Company age	847	51.8	52.5	52.6	[0.647]	[0.000]	206	44.9	456	61.9	185	34.4
Analysts	810	19.1	10.6	14.2	[0.000]	[0.000]	202	17.4	445	23.5	163	9.3
HHI sales	847	0.055	0.070	0.054	[0.424]	[0.270]	206	0.059	456	0.055	185	0.054
Log(distance)	847	6.749	2.839	8.209	[0.000]	[0.000]	206	8.730	456	4.899	185	9.101
Ownership												
Holding of engager	847	0.002	0.002	0.001	[0.051]	[0.580]	206	0.002	456	0.002	185	0.002
Average ownership	847	0.048	0.077	0.046	[0.314]	[0.000]	206	0.032	456	0.051	185	0.060
Ownership conc.	847	0.204	0.225	0.185	[0.018]	[0.000]	206	0.101	456	0.222	185	0.276
Blockholders	847	3.851	1.813	4.092	[0.001]	[0.000]	206	3.572	456	3.814	185	4.251
Long-term investors	847	0.018	0.068	0.015	[0.196]	[0.000]	206	0.023	456	0.017	185	0.017
Financials	847	0.035	0.070	0.034	[0.654]	[0.000]	206	0.027	456	0.038	185	0.037
Industrials	847	0.049	0.105	0.048	[0.900]	[0.000]	206	0.011	456	0.060	185	0.063
Governments	847	0.025	0.057	0.026	[0.570]	[0.000]	206	0.009	456	0.025	185	0.042
Hedge fund & PE	847	0.009	0.020	0.010	[0.172]	[0.000]	206	0.010	456	0.009	185	0.006
Individuals and family	847	0.018	0.068	0.015	[0.196]	[0.000]	206	0.023	456	0.017	185	0.017
Mgmt. and directors	847	0.005	0.033	0.002	[0.005]	[0.000]	206	0.000	456	0.009	185	0.002
Independent firm	829	0.840	0.367	0.848	[0.547]	[0.000]	205	0.937	447	0.841	177	0.723
M&A activity												
Acquisitions	847	0.375	0.802	0.440	[0.068]	[0.000]	206	0.233	456	0.478	185	0.281
Divestitures	847	0.026	0.166	0.018	[0.162]	[0.036]	206	0.015	456	0.029	185	0.032
All M&A deals	847	0.412	0.827	0.466	[0.138]	[0.000]	206	0.248	456	0.520	185	0.330

Table 3 – Panel A: Analysis of targeting by regions

This table reports the marginal effects obtained from probit regressions on the probability of targeting relative to a matched sample. The first two columns report regression results for the whole sample of engagements (1-2), while the second, third and fourth set of columns refer to North American (3-4), European (5-6) and Other domiciled (7-8) companies, respectively.The dependent variable equals 1 if the company is targeted and 0 otherwise. Marginal effects are evaluated at the mean of the respective independent variable. Standard errors are clustered at the firm level. The matching sample is determined by Mahalanobis score matching on industry, size, market-to-book, ESG and ROA. Variable definitions are provided in the Appendix. *, ** and *** indicate statistical significance at the 10%, 5% and 1%, respectively.

	All cases		North America		Europe		Other	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Log total assets	-0.018	0.015	0.022	0.023	-0.064***	-0.048***	0.031**	0.046**
Tobin's Q	-0.004	0.005	0.011	0.009	-0.026	-0.008	0.020	-0.003
Sales growth	0.022	-0.046	-0.188**	-0.151*	0.083	0.054	0.091	-0.033
BHR over 12 months	0.033*	0.053**	-0.017	-0.033	0.036	0.066**	0.051*	0.048
ROA	0.262	0.215	1.008**	0.949**	0.094	-0.042	0.166	-0.072
Sales market share	3.218***	3.513***	2.790***	2.357**	3.580***	3.818***	0.957	1.207
Cash holding	0.009	0.145	0.237	0.080	-0.113	-0.156	-0.402	-0.264
Book leverage	0.020	-0.041	0.199*	0.149	0.005	-0.005	-0.071	-0.314***
Dividend yield	0.119	0.596	-0.314	0.403	0.873	1.380*	0.608	1.369*
CapEX	-0.044	0.155	0.079	0.136	-0.720*	-0.620	0.655*	0.798**
Amihud ILLIQ	-0.005	-0.319*	-0.045	-114.433***	0.006	-0.106	0.000	-0.939
Analysts	0.009***	0.010***	0.004	0.002	0.021***	0.022***	-0.009***	-0.001
Previous engments	-0.024***	-0.024***	-0.025	-0.031	-0.019*	-0.020**	-0.006	-0.009
Holding of engager		4.052		6.290*		4.745*		17.468
Independent company		0.078**		0.092		0.035		0.027
Entrenchment index		0.010		0.172**		-0.074		-0.333***
ESG Q2		-0.070**		-0.021		-0.024		-0.026
ESG Q3		-0.039		-0.032		0.009		-0.035
ESG Q4		-0.097**		0.010		-0.045		-0.016
Year FE	yes	yes	yes	yes	yes	yes	yes	yes
Industry FE	yes	yes	no	no	no	no	no	no
Geographic FE	yes	yes	no	no	no	no	no	no
Pseudo R2	0.13	0.22	0.09	0.24	0.20	0.27	0.05	0.23
N	3,188	2,484	782	646	1,727	1,503	679	337

Table 3 – Panel B: Analysis of targeting by engagement topics

This table reports the marginal effects obtained from probit regressions on the probability of targeting relative to a matched sample. The first three columns report regression results for the subsample of environmental engagements (1-3), while the second and third set of columns refer to social (4-6) and governance subsamples (7-9), respectively. The dependent variable equals 1 if the company is targeted and 0 otherwise. Marginal effects are evaluated at the mean of the respective independent variable. Standard errors are clustered at the firm level. The matching sample is determined by Mahalanobis score matching on industry, size, market-to-book, ESG and ROA. Variable definitions are provided in the Appendix. *, ** and *** indicate statistical significance at the 10%, 5% and 1%, respectively.

	Environmental			Social			Governance		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Log total assets	-0.000	0.039**	0.039**	-0.015	0.014	0.013	-0.046	-0.037	-0.038*
Tobin's Q	0.013	0.031*	0.032*	-0.011	-0.001	-0.002	-0.040	-0.085***	-0.062**
Sales growth	-0.010	-0.063	-0.063	0.032	-0.032	-0.034	0.108	-0.093	-0.152*
BHR over 12 months	0.029	0.033	0.032	0.041*	0.078**	0.077**	0.024	0.151**	0.127**
ROA	0.121	0.044	0.042	0.392	0.312	0.313	0.434	0.652**	0.635*
Sales market share	2.467***	2.592***	2.600***	4.079***	4.041***	4.023***	3.554***	4.499***	4.301***
Cash holding	0.212	0.194	0.196	-0.108	0.026	0.026	-0.019	0.168	0.068
Book leverage	0.003	-0.045	-0.049	-0.022	-0.057	-0.057	-0.011	-0.083	-0.108
Dividend yield	0.123	0.590	0.590	-0.095	0.423	0.413	1.529	1.534	2.137**
CapEX	0.339	0.419	0.415	-0.492	-0.256	-0.261	-1.434*	-0.990	-0.908
Amihud ILLIQ	-0.078*	-0.463*	-0.448*	0.025*	-0.169*	-0.169*	-0.023	-2.169**	-2.138***
Analysts	0.008***	0.007***	0.007***	0.008***	0.010***	0.010***	0.011***	0.011***	0.010***
Previous engagements	-0.036***	-0.040***	-0.040***	-0.023**	-0.020**	-0.019**	-0.014	-0.006	-0.005
Holding of engager		12.950	12.822		1.341	1.164		36.338***	37.274***
Independent company		0.072	0.072		0.056	0.054		0.176***	0.155***
Entrenchment index		0.006	0.004		0.015	0.014		0.061	0.042
Asset4 environmental		-0.001							
Asset4 social					-0.001				
Asset4 governance								-0.003***	
E/S/G Q2			-0.032			-0.040			0.061
E/S/G Q3			-0.059			-0.046			0.059
E/S/G Q4			-0.059			-0.077			-0.114**
Year FE	yes	yes	yes	yes	yes	yes	yes	yes	yes
Industry FE	yes	yes	yes	yes	yes	yes	yes	yes	yes
Geographic FE	yes	yes	yes	yes	yes	yes	yes	yes	yes
Pseudo R2	0.14	0.20	0.20	0.14	0.23	0.23	0.34	0.54	0.57
N	1,366	1,076	1,076	1,374	1,007	1,007	434	390	390

Table 4 – Panel A: Analysis of success by regions

This table reports the marginal effects obtained from linear probability regressions on the probability of success. The dependent variable equals 1 if the engagement is successful and 0 otherwise. The first two columns report regression results for the whole sample of engagements (1-2), while the second, third and fourth set of columns refer to North American (3-4), European (5-6) and Other domiciled (7-8) companies, respectively. Standard errors are clustered at the firm level. The dummy "Reorganization" takes the value 1 for reorganization cases and 0 otherwise. The dummy variable "Collaboration" equals one for cases where the engager contacts the company alone. The variable "Contacted executives" is 1 if executive management is contacted and 0 otherwise. "Number of activities" and "Success streak" refer to the number of contacts per case and the number of previous successful cases with the company. Other variable definitions are provided in the Appendix. *, ** and *** indicate statistical significance at the 10%, 5% and 1%, respectively.

	All cases		North America		Europe		Other	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Reorganization	-0.144***	-0.136**	-0.273*	-0.170	-0.159***	-0.145***	0.196	-0.004
Collaboration	0.005	0.002	0.205	0.143	-0.04	-0.026	-0.114	-0.244
Contacted executives	-0.010	-0.007	-0.153	-0.248	0.053	0.042	-0.225*	0.268
Number of activities	0.005	0.004	-0.007	-0.015	0.013*	0.013*	0.015	0.079
Success streak	0.030**	0.021*	0.069	0.006	0.024	0.016	0.086	0.030
Log total assets	0.044**	-0.034	-0.036	-0.128***	0.027	-0.009	0.082***	0.012
Tobin's Q	-0.011	-0.02	0.021	-0.027	-0.007	-0.009	-0.024	-0.185**
Sales growth	-0.176**	-0.337***	0.008	0.014	-0.371***	-0.463***	0.020	0.123
BHR over 12 months	-0.022	-0.045	0.159	0.232**	-0.118*	-0.198***	0.008	0.020
ROA	-0.272	-0.609	-0.625	-1.177	0.167	0.124	1.056	-1.918
Sales market share	-0.011	0.859	2.106	2.424	0.522	0.540	-0.414	-2.614
Cash holding	-0.108	-0.569*	-0.809	-1.128**	-0.301	-0.647*	0.501	1.832
Book leverage	0.030	-0.053	-0.262	-0.425*	0.127	0.077	0.201	-0.303
Dividend yield	-0.634	0.221	0.411	4.237**	-1.126	-1.308	-0.922	-0.969
CapEX	0.010	0.223	0.966	2.093**	-0.822	-0.624	0.644	0.280
Amihud ILLIQ	0.002	0.182	0.116**	-93.087***	0.064*	0.286	-0.014	-23.326
Analysts	0.000	-0.002	0.002	0.004	0.002	-0.001	-0.004	-0.021
Initial holding jump		0.008		0.008		-0.001		0.053
Holding increase		-0.007		-0.049		0.039		0.104
Independent company		0.129*		0.151		-0.001		-0.052
Entrenchment index		0.020		0.023		0.172		0.005
ESG Q2		0.238***		0.130		0.061		-0.002
ESG Q3		0.194***		0.271**		0.067		0.238
ESG Q4		0.259***		0.252**		0.133*		0.426
Year FE	yes	yes	yes	yes	yes	yes	yes	yes
Geographic FE	yes	yes	no	no	no	no	no	no
Industry FE	yes	yes	yes	yes	yes	yes	yes	yes
Adjusted R2	0.21	0.23	0.13	0.19	0.22	0.21	0.16	0.00
N	781	569	187	161	432	356	162	52

Table 4 – Panel B: Analysis of success by engagement topics

This table reports the marginal effects obtained from linear probability regressions on the probability of success. The dependent variable equals 1 if the engagement is successful and 0 otherwise. The first three columns use the subsample of environmental engagements (1-3), the second set uses social (4-6), and the final three columns represent governance engagements (7-9), respectively. Standard errors are clustered at the firm level. The dummy "Reorganization" takes the value 1 for reorganization cases and 0 otherwise. The dummy variable "Collaboration" equals one for cases where the engager contacts the company alone. The variable "Contacted executives" is 1 if executive management is contacted and 0 otherwise. "Number of activities" and "Success streak" refer to the number of contacts per case and the number of previous successful cases with the company. Other variable definitions are provided in the Appendix. *, ** and *** indicate statistical significance at the 10%, 5% and 1%, respectively.

	Environmental			Social			Governance		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Reorganization	-0.333***	-0.199*	-0.261**	0.033	-0.040	-0.074	-0.077	0.002	-0.001
Collaboration	0.030	0.002	0.064	0.022	0.046	0.048	-0.180	-0.180	-0.200
Contacted executives	0.025	-0.105	-0.094	-0.201**	-0.099	-0.122	-0.008	0.011	0.015
Number of activities	0.007	0.016	0.013	-0.024**	-0.020	-0.023	0.015	0.013	0.012
Success streak	0.063***	0.050*	0.045*	0.002	0.006	-0.000	0.033*	-0.003	-0.003
Log total assets	0.026	-0.066	-0.030	0.038	-0.022	-0.028	0.069*	0.139**	0.151**
Tobin's Q	-0.011	-0.070	-0.059	-0.027	-0.018	-0.020	0.017	0.031	0.045
Sales growth	-0.128	-0.224	-0.226	-0.146	-0.302**	-0.226	-0.538***	-1.000***	-1.042***
BHR over 12 months	-0.016	-0.032	-0.040	-0.004	0.055	0.039	-0.124	-0.322*	-0.378*
ROA	-0.612	0.081	0.033	0.990*	-0.161	0.109	0.057	1.026	1.204
Sales market share	-0.500	-0.077	0.091	1.998*	1.654	1.854	-0.359	-0.657	-0.738
Cash holding	-0.964**	-1.204**	-0.948*	0.157	-0.538	-0.402	0.397	0.460	0.361
Book leverage	-0.258*	-0.125	-0.170	0.273**	-0.001	0.080	0.139	-0.076	-0.043
Dividend yield	-0.719	0.315	0.455	-1.155	-0.489	-1.113	-3.210	-1.861	-1.659
CapEX	-0.520	-0.376	-0.328	1.034	1.937*	2.045**	0.085	0.318	0.721
Amihud ILLIQ	0.105***	-0.138	-0.033	-0.004	0.695**	0.553*	-7.606	-8.485	-5.310
Analysts	-0.002	-0.006	-0.005	0.007*	0.009**	0.011**	-0.010*	-0.019**	-0.021**
Initial holding jump		0.001	0.001		0.011	0.011		-0.004	-0.003
Holding increase		-0.080	-0.066		0.064	0.064		0.067	0.088
Independent company		0.009	0.042		0.107	0.108		-0.239	-0.195
Entrenchment index		0.192	0.173		-0.148	-0.087		-0.187	-0.223
Asset4 environmental		0.005***							
Asset4 social					0.003**				
Asset4 governance								-0.001	
E/S/G Q2			0.223**			0.221***			0.032
E/S/G Q3			0.073			0.088			-0.024
E/S/G Q4			0.152			0.133			-0.171
Year FE	yes	yes	yes	yes	yes	yes	yes	yes	yes
Geographic FE	yes	yes	yes	yes	yes	yes	yes	yes	yes
Adjusted R2	0.20	0.21	0.20	0.28	0.31	0.31	0.09	0.13	0.12
N	340	256	256	324	217	217	117	96	96

Table 5: Financial and ESG performance, and ownership after engagement by regions

This table reports the results of differences-in-differences estimations of the effect of engagement and success on financial and ESG performance, as well as changes in ownership. The table reports the coefficient of the differencing term. The pre-treatment period is defined one year before the start of an engagement sequence. In the top section of each panel, post-treatment is defined one year after completion. In the bottom section of each panel, post-treatment is defined two years after the first contact with the company. The period variable is 1 for post-treatment and 0 otherwise. In the top portion of each panel, the treatment is success versus no success, where the treatment variable is 1 for success and 0 otherwise. In the bottom portion of each panel, the treatment is engaged versus matched companies, where the treatment variable is 1 for engaged companies and 0 for the control sample. The matching sample is determined by Mahalanobis score matching on industry, size, market-to-book, ESG and ROA. Leverage, size, tangibility, and industry and time fixed effects are included in all specifications. Additionally, for Tobin's Q ROA, CapEx and sales growth are also included. Standard errors are clustered at the firm level. *, ** and *** indicate significance at the 10%, 5% and 1% level, respectively.

Panel A: All cases

	Success vs. no success						
	All cases	Reorg.	Lowest ESG quartile	Highest ESG quartile	E cases	S cases	G cases
Tobin's Q	-0.043	-0.008	-0.167	0.110	0.036	-0.124	0.266*
ROA	-0.003	-0.003	0.006	0.002	0.008	-0.006	-0.019
Operating expenses	0.002	-0.006	0.014	-0.012	-0.008	0.008	-0.019
CapEX	0.004	0.002	0.001	0.003	0.005	0.001	-0.001
Sales growth	0.076***	0.053*	0.093*	0.103*	0.097***	0.032	0.229**
Sales market share	0.000	0.001	-0.002	0.003	0.002	0.000	0.000
Profit margin	-0.018	-0.005	0.004	0.001	0.022	-0.039**	-0.093
Asset turnover	0.010	-0.023	0.032	0.004	0.003	0.023	-0.043
Long-term holdings	0.304	-0.217	0.527	-1.708	2.098**	-0.778	-4.161
Holding of engager	0.012	0.012	0.007	-0.028*	-0.019	0.043**	-0.010
ESG rating	-0.654	1.605	10.635***	-0.231	1.844	-3.849	-0.953
Environmental score	0.129	2.780	13.917***	-0.491	1.552	-2.122	-3.103
Social score	-0.491	1.557	4.394	-1.016	0.143	-2.374	-0.553
Governance score	-1.855	-0.905	-2.513	0.900	1.157	-4.603*	-2.629
Economic score	-1.129	1.612	6.429	6.070	2.604	-4.368	0.265
Entrenchment index	0.026	0.037	0.003	0.031	0.002	0.040	0.016
Analysts	-0.336	-0.147	-0.468	-1.567	-1.037	0.470	0.522

	Engaged vs. matched						
	All cases	Reorg.	Lowest ESG quartile	Highest ESG quartile	E cases	S cases	G cases
Tobin's Q	0.013	0.039	-0.060	0.019	0.058	-0.062	0.093
ROA	-0.000	-0.003	0.008	-0.005	0.001	0.001	-0.005
Operating expenses	0.003	0.004	0.010	0.000	-0.007	0.010	0.009
CapEX	0.002	0.000	-0.002	0.003	0.002	0.000	0.007**
Sales growth	-0.011	-0.018	0.031	-0.015	0.005	-0.008	-0.064
Sales market share	-0.001***	-0.001	0.000	-0.004**	-0.001	-0.002**	-0.002
Profit margin	0.002	-0.004	0.026	-0.008	0.000	0.003	0.004
Asset turnover	-0.016	-0.028**	-0.014	-0.050**	-0.004	-0.022	-0.030
Long-term holdings	0.520	0.380	-0.155	1.178	0.379	0.282	1.659*
Holding of engager	0.009	-0.004	-0.025	0.017	-0.004	0.006	0.048
ESG rating	0.522	0.957	9.284***	-4.134***	0.677	0.385	-0.214
Asset4 environmental	0.281	1.376	10.425***	-4.901***	0.135	0.119	0.720
Asset4 social	-0.996	-0.982	4.167	-6.406***	-1.114	-0.858	-1.367
Asset4 governance	-0.475	0.322	8.822***	-8.681***	0.208	-1.113	-1.611
Asset4 economic	2.229	3.469*	21.680***	-9.294***	2.852	2.299	-0.467
Entrenchment index	0.006	0.009	0.006	0.021	-0.001	0.012	0.018
Analysts	0.258	0.351	0.705	0.788	0.688*	0.108	-0.640

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Panel B: North American sample

	Success vs. no success						
	All cases	Reorg.	Lowest ESG quartile	Highest ESG quartile	Environm. cases	S cases	G cases
Tobin's Q	-0.296	-0.099	-0.698*	-0.167	-0.351	-0.091	
ROA	-0.005	0.006	0.011	0.040	0.009	-0.014	
Operating expenses	0.030	0.010	0.019	-0.014	-0.008	0.043*	
CapEX	0.006	0.000	-0.017	0.000	0.004	0.009*	
Sales growth	0.031	0.024	0.154	0.105	0.023	0.013	
Sales market share	0.000	-0.002	-0.001	0.004	0.004	-0.003	
Profit margin	-0.012	0.013	-0.043	0.038	0.019	-0.046	
Asset turnover	-0.037	-0.068	-0.071	0.039	-0.029	-0.032	
Long-term holdings	-0.987	-3.033*	3.321	-9.142	-0.549	-1.214	
Holding of engager	-0.043	-0.046	-0.159	-0.058*	-0.073	-0.010	
ESG rating	0.906	4.260	13.531	1.354	3.040	-1.383	
Environmental score	-0.363	4.005	25.497***	-1.965	2.331	-4.024	
Social score	3.536	6.510	8.820	-1.075	2.568	4.081	
Governance score	-2.195	-2.145	-2.793	0.976	-1.530	-2.864	
Economic score	4.523	14.071**	4.654	8.510	12.072*	-3.785	
Entrenchment index	0.012	0.022	-0.011	0.094	-0.014	0.070	
Analysts	-0.684	-1.290	0.810	-4.982**	-1.140	1.589	

	Engaged vs. matched						
	All cases	Reorg.	Lowest ESG quartile	Highest ESG quartile	E cases	S cases	G cases
Tobin's Q	0.057	0.072	-0.075	0.115	0.114	-0.055	0.628**
ROA	0.003	0.005	-0.001	-0.002	0.004	0.004	-0.029
Operating expenses	-0.008	-0.025*	0.019	-0.028**	-0.023**	0.000	0.213
CapEX	0.004	0.000	-0.011	0.004	0.002	0.007**	0.001
Sales growth	0.021	0.018	0.031	0.005	0.045	0.002	-0.263
Sales market share	-0.002*	-0.001*	0.002	-0.007**	-0.002**	-0.003	0.004
Profit margin	0.009	0.019	0.008	-0.011	0.007	0.015	-0.032
Asset turnover	-0.013	-0.057**	-0.018	-0.054	-0.016	-0.003	-0.082
Long-term holdings	-0.474	-0.229	-0.819	0.216	-0.417	-0.605	0.577
Holding of engager	0.008	-0.025	-0.126**	0.010	-0.025	0.057	-0.177**
ESG rating	-0.610	-0.463	8.244	-5.313***	-0.485	-0.948	4.843
Asset4 environmental	0.778	1.079	12.136**	-8.653***	0.983	0.356	5.482
Asset4 social	-2.284	-2.773	3.799	-12.247***	-1.949	-3.070	7.731
Asset4 governance	-2.722*	-3.263	17.202	-9.403***	-2.247	-2.982	-8.706
Asset4 economic	1.298	3.445	25.166***	-10.096***	0.312	1.688	11.370
Entrenchment index	-0.047**	0.005	0.061	-0.077**	0.000	-0.104***	-0.132
Analysts	0.827	1.527**	0.936	1.232	1.338**	0.040	0.305

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Panel C: European sample

	Success vs. no success						
	All cases	Reorg.	Lowest ESG quartile	Highest ESG quartile	Environm. cases	S cases	G cases
Tobin's Q	0.119	0.048	-0.021	0.002	0.121	0.118	0.268*
ROA	-0.005	-0.014	0.016	-0.018	0.004	-0.008	-0.019
Operating expenses	-0.012	-0.008	-0.019	-0.020	-0.004	-0.016	-0.035
CapEX	0.007**	0.008*	0.007	0.003	0.010**	0.002	0.001
Sales growth	0.092***	0.068	0.061	0.077	0.109**	0.025	0.187**
Sales market share	0.002	0.002	0.000	0.003	0.002	0.003	0.000
Profit margin	-0.037	-0.026	0.038	-0.010	-0.004	-0.051	-0.099
Asset turnover	0.034	-0.017	0.040	-0.019	0.029	0.083*	-0.037
Long-term holdings	0.967	1.510	1.686	0.966	3.752**	0.094	-4.442
Holding of engager	0.016	0.025	-0.011	-0.027	-0.000	0.049	-0.002
ESG rating	-2.414	0.343	5.440	-1.506*	0.482	-7.240	-1.407
Environmental score	-1.021	1.722	5.777	-1.389***	0.437	-2.601	-3.545
Social score	-2.116	-0.229	-1.813	-1.338	-2.151	-3.157	-1.112
Governance score	-2.000	1.735	1.186	-1.179	2.854	-7.555*	-3.268
Economic score	-5.672*	-5.095	3.452	-4.509**	-3.342	-10.074	0.042
Entrenchment index	0.016	0.032	-0.039	-0.008	-0.001	-0.026	0.037
Analysts	-0.872	-0.211	-1.932	-0.508	-0.783	-0.792	0.439

	Engaged vs. matched						
	All cases	Reorg.	Lowest ESG quartile	Highest ESG quartile	Environm. cases	S cases	G cases
Tobin's Q	0.025	0.029	-0.165	0.015	0.041	-0.047	0.077
ROA	0.000	-0.003	0.011	-0.006	0.002	0.001	-0.005
Operating expenses	0.005	0.009	0.012	0.008	-0.002	0.016	-0.001
CapEX	0.002	0.002	0.000	0.005	0.002	0.001	0.005
Sales growth	-0.022	-0.042	0.038	-0.035	-0.002	-0.040	-0.031
Sales market share	-0.001*	-0.001	-0.000	-0.002	-0.001	-0.002	-0.002
Profit margin	-0.002	-0.009	0.029	-0.008	-0.001	-0.007	0.003
Asset turnover	-0.008	-0.022	-0.004	-0.048	0.008	-0.012	-0.027
Long-term holdings	1.188**	0.908	0.746	2.257**	0.942	1.011	1.884*
Holding of engager	0.020	0.012	0.041	0.024	0.002	0.014	0.060*
ESG rating	-0.127	1.455	8.733**	-2.901**	1.933	-1.756	-0.992
Asset4 environmental	-0.599	1.366	12.333***	-3.221***	-0.536	-0.631	-0.313
Asset4 social	-1.720	-0.446	3.255	-4.636***	-0.367	-2.718	-2.342
Asset4 governance	0.132	2.098	10.369***	-7.882***	3.649**	-2.699	-1.494
Asset4 economic	1.829	4.047	20.390***	-6.372**	5.097**	0.282	-1.820
Entrenchment index	0.014	-0.001	-0.042	0.058*	-0.010	0.044	0.023
Analysts	-0.822	0.169	0.656	-0.622	0.202	-1.475	-1.663*

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Panel D: Other sample

	Success vs. no success						
	All cases	Reorg.	Lowest ESG quartile	Highest ESG quartile	Environm. cases	S cases	G cases
Tobin's Q	-0.079	0.065	0.184	0.829	0.419*	-0.224	-0.036
ROA	0.006	0.009	-0.005	0.028	0.016	-0.001	0.031
Operating expenses	-0.005	-0.020	0.016	-0.048	-0.018	-0.001	0.016
CapEX	-0.007	-0.008	-0.021	-0.023	-0.013	-0.006	-0.008
Sales growth	0.132**	0.088	-0.041	0.350	0.182	0.135**	0.629
Sales market share	-0.001	0.000	-0.000	0.010	-0.001	-0.000	0.001
Profit margin	0.013	0.020	-0.059	-0.010	0.091	-0.026	0.039
Asset turnover	-0.012	0.008	0.049	-0.008	-0.040	-0.002	0.066
Long-term holdings	-0.500	-2.222	-5.324	3.796	0.801	-1.412	-3.533
Holding of engager	0.048**	0.035	0.064	0.072	0.018	0.068***	0.044
ESG rating	-4.016	-8.093	-0.522	2.541	-3.260	-2.998	
Environmental score	0.846	-4.193	14.050	-1.292	3.144	0.267	
Social score	-5.381	-5.871	7.997	-1.889	-0.178	-8.454	
Governance score	-6.965*	-14.822***	7.211	-4.306	-11.410*	-2.303	
Economic score	-2.692	-4.554	11.203	34.320**	-4.491	-0.970	
Entrenchment index	0.039	0.063	0.237***	-0.010	0.025	0.046	
Analysts	3.292*	1.404	3.480	7.514*	0.417	3.800	-11.556

	Engaged vs. matched						
	All cases	Reorg.	Lowest ESG quartile	Highest ESG quartile	Environm. cases	S cases	G cases
Tobin's Q	-0.060	0.021	0.045	-0.248**	-0.059	-0.066	0.073
ROA	-0.003	-0.010	0.015	-0.007	-0.012	-0.001	0.012
Operating expenses	0.010	0.021*	0.002	0.030*	0.017	0.007	0.020
CapEX	-0.001	-0.003	0.003	-0.002	0.001	-0.005	0.029**
Sales growth	-0.018	-0.011	0.031	0.019	-0.051	0.025	-0.401
Sales market share	-0.001	0.000	0.000	-0.003*	-0.002	-0.000	-0.003
Profit margin	0.004	-0.017	0.049	-0.004	-0.015	0.010	0.026
Asset turnover	-0.031	-0.013	-0.023	-0.016	-0.011	-0.042*	0.002
Long-term holdings	0.041	0.014	-1.213	-0.835	0.237	-0.024	-0.771
Holding of engager	-0.016	-0.018	-0.032	-0.002	0.019	-0.035**	0.034
ESG rating	5.001*	3.396	11.466*	-6.584***	1.246	5.917*	14.175
Asset4 environmental	1.933	2.547	-0.240	-5.884***	1.430	1.055	12.695
Asset4 social	2.671	0.961	6.917	-7.019***	-1.421	4.040	10.334
Asset4 governance	4.383*	4.219	4.057	-9.706**	-1.729	6.514**	14.021
Asset4 economic	5.097	1.648	17.863**	-20.110***	1.808	6.043	14.227
Entrenchment index	0.076***	0.061*	0.070	0.058*	0.070**	0.078***	0.087
Analysts	2.409**	-0.261	0.557	4.654	0.984	2.350**	9.463**

Table 6: Buy-and-hold portfolio returns after completion

The table presents mean buy-and-hold returns for different event windows after the completion of engagements and various subsamples by regions. For each subsample and event window, returns are calculated for the entire subsample, successful and unsuccessful engagements, respectively. The table reports whether the mean is equal to zero and the difference between successful and unsuccessful cases. For differences, one-sided statistics are reported.*, ** and *** indicate significance at the 10%, 5% and 1% level, respectively.

Panel A: All cases

	[0]			[0,6]			[0,12]		
	All	Success	No success	All	Success	No success	All	Success	No success
All cases									
Mean	0.008**	0.012**	0.002	0.013	0.043***	-0.031**	0.018	0.044**	-0.019
Obs	847	509	338	841	503	338	804	471	333
Diff. (t-stat)		1.338*			3.976***			2.346***	
Lowest ESG quartile									
Mean	0.000	-0.002	0.003	-0.010	0.031	-0.043	0.010	0.023	0.000
Obs	176	78	98	176	78	98	170	74	96
Diff. (t-stat)		-0.344			1.829**			0.412	
Highest ESG quartile									
Mean	0.010	0.009	0.016	0.022	0.033	-0.020	0.028	0.036	0.001
Obs	165	131	34	165	131	34	155	122	33
Diff. (t-stat)		-0.462			1.121			0.484	
Reorganization cases									
Mean	0.011**	0.023***	0.002	-0.004	0.036	-0.035**	-0.010	0.011	-0.026
Obs	436	190	246	436	190	246	425	182	243
Diff. (t-stat)		2.191**			2.623***			0.997	
Environmental									
Mean	0.010**	0.018***	0.000	-0.016	0.032	-0.069***	-0.013	0.010	-0.036
Obs	358	190	168	353	185	168	330	167	163
Diff. (t-stat)		1.867**			3.806***			1.240	
Social									
Mean	0.001	0.000	0.002	0.023*	0.040**	-0.003	0.024	0.058**	-0.025
Obs	367	223	144	366	222	144	352	208	144
Diff. (t-stat)		-0.200			1.621*			2.074**	
Governance									
Mean	0.026**	0.029*	0.019	0.069**	0.072**	0.056	0.084*	0.074	0.123
Obs	122	96	26	122	96	26	122	96	26
Diff. (t-stat)		0.319			0.214			-0.474	

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Panel B: North America

	[0]			[0,6]			[0,12]		
	All	Success	No success	All	Success	No success	All	Success	No success
All cases									
Mean	0.023***	0.042***	-0.001	0.059***	0.090***	0.019	0.084***	0.111***	0.054
Obs	206	116	90	205	115	90	184	99	85
Diff. (t-stat)		2.431***			2.325**			1.188	
Lowest ESG quartile									
Obs	0.000	-0.003	0.002	0.014	0.071	-0.018	0.063	0.141**	0.021
Obs	44	16	28	44	16	28	40	14	26
Diff. (t-stat)		-0.226			1.144			1.054	
Highest ESG quartile									
Mean	0.006	0.003	0.016	0.051	0.077*	-0.015	0.017	0.059	-0.085
Obs	43	31	12	43	31	12	38	27	11
Diff. (t-stat)		-0.411			1.264			1.609*	
Reorganization cases									
Mean	0.021**	0.051**	0.000	0.031	0.093***	-0.012	0.046	0.072	0.029
Obs	103	42	61	103	42	61	96	38	58
Diff. (t-stat)		2.558***			2.354**			0.661	
Environmental									
Mean	0.012*	0.023**	0.001	0.020	0.065***	-0.024	0.055*	0.067*	0.044
Obs	116	59	57	115	58	57	102	50	52
Diff. (t-stat)		1.711**			2.342**			0.396	
Social									
Mean	0.021	0.038	-0.004	0.087***	0.083***	0.093***	0.090**	0.104**	0.070
Obs	85	52	33	85	52	33	77	44	33
Diff. (t-stat)		1.374*			-0.219			0.473	
Governance									
Mean	0.302	0.302	·	0.455**	0.455**	·	0.602*	0.602*	·
Obs	5	5	0	5	5	0	5	5	0
Diff. (t-stat)		·			·			·	

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Panel C: Europe

	[0]			[0,6]			[0,12]		
	All	Success	No success	All	Success	No success	All	Success	No success
All cases									
Mean	0.012***	0.006	0.023***	0.019	0.038**	-0.023	0.023	0.041*	-0.015
Obs	456	312	144	452	308	144	438	294	144
Diff. (t-stat)		-1.845			2.045**			1.353*	
Lowest ESG quartile									
Mean	0.010	0.003	0.020	0.031	0.038	0.021	0.006	0.016	-0.009
Obs	103	60	43	103	60	43	102	59	43
Diff. (t-stat)		-0.767			0.273			0.295	
Highest ESG quartile									
Mean	0.009	0.007	0.016	0.052*	0.055*	0.037	0.090**	0.075	0.156
Obs	91	75	16	91	75	16	88	72	16
Diff. (t-stat)		-0.373			0.249			-0.750	
Reorganization cases									
Mean	0.021***	0.014	0.028***	0.001	0.008	-0.006	-0.003	-0.006	0.001
Obs	219	114	105	219	114	105	215	110	105
Diff. (t-stat)		-1.030			0.312			-0.121	
Environmental									
Mean	0.013*	0.009	0.018*	-0.021	0.013	-0.067**	-0.033	-0.005	-0.067
Obs	189	109	80	186	106	80	178	98	80
Diff. (t-stat)		-0.617			1.969**			1.106	
Social									
Mean	0.006	-0.005	0.036***	0.032	0.039	0.011	0.050	0.068*	0.000
Obs	159	119	40	158	118	40	152	112	40
Diff. (t-stat)		-3.069			0.556			0.894	
Governance									
Mean	0.019*	0.019	0.020	0.069**	0.069*	0.068	0.075*	0.060	0.130
Obs	108	84	24	108	84	24	108	84	24
Diff. (t-stat)		-0.060			0.012			-0.657	

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Panel D: Other

	[0]			[0,6]			[0,12]		
	All	Success	No success	All	Success	No success	All	Success	No success
All cases									
Mean	-0.017**	-0.008	-0.024***	-0.051***	-0.005	-0.087***	-0.059**	-0.028	-0.083***
Obs	185	81	104	184	80	104	182	78	104
Diff. (t-stat)		1.083			2.345**			1.138	
Lowest ESG quartile									
Mean	-0.002	0.021	-0.015	-0.073	0.094	-0.175***	0.020	0.203*	-0.092
Obs	29	11	18	29	11	18	29	11	18
Diff. (t-stat)		1.384*			3.440***			2.817***	
Highest ESG quartile									
Mean	-0.009	-0.013	0.019	-0.061	-0.065	-0.030	-0.135**	-0.145**	-0.060
Obs	27	24	3	27	24	3	26	23	3
Diff. (t-stat)		-0.410			-0.267			-0.514	
Reorganization cases									
Mean	-0.017*	0.018	-0.032***	-0.047**	0.059	-0.093***	-0.072**	0.001	-0.102***
Obs	114	34	80	114	34	80	114	34	80
Diff. (t-stat)		2.616***			3.251***			1.584*	
Environmental									
Mean	-0.006	0.052**	-0.047***	-0.082**	0.033	-0.160***	-0.079*	-0.058	-0.091*
Obs	53	22	31	52	21	31	50	19	31
Diff. (t-stat)		3.814***			2.881***			0.367	
Social									
Mean	-0.020**	-0.028*	-0.015	-0.032	0.000	-0.055*	-0.048	-0.002	-0.082**
Obs	123	52	71	123	52	71	123	52	71
Diff. (t-stat)		-0.774			1.287			1.322*	
Governance									
Mean	-0.037	-0.048	0.003	-0.142***	-0.157**	-0.089	-0.098	-0.136	0.035
Obs	9	7	2	9	7	2	9	7	2
Diff. (t-stat)		-0.652			-0.724			-0.719	

Table 7: Event cumulative abnormal returns at case closure

This table reports cumulative abnormal return statistics for various event windows and subsamples. For each subsample, cumulative abnormal return statistics are reported for three event windows. The beginning of an event window is defined as the month when an engagement case is completed, the end of the window is either the month, when the engagement is completed, 6 or 12 months following completion. Abnormal returns are relative to 49 Fama-French industry portfolios. The table reports whether the mean is equal to zero and the difference between successful and unsuccessful cases. For differences, one-sided statistics are reported. *, ** and *** indicate significance at the 10%, 5% and 1% levels, respectively.

Panel A: All cases

	[0]			[0,6]			[0,12]		
	All	Success	No success	All	Success	No success	All	Success	No success
All cases									
Mean	-0.006**	-0.001	-0.015***	-0.052***	-0.039***	-0.070***	-0.125***	-0.104***	-0.156***
Obs	838	508	330	827	501	326	780	464	316
Diff. (t-stat)		2.122**			1.934**			2.181**	
Reorganization cases									
Mean	-0.009**	-0.002	-0.015**	-0.056***	-0.054***	-0.057***	-0.146***	-0.136***	-0.155***
Obs	427	189	238	422	188	234	402	176	226
Diff. (t-stat)		1.432*			0.128			0.519	
Lowest ESG quartile									
Mean	-0.018***	-0.015	-0.020***	-0.066***	-0.041	-0.086***	-0.127***	-0.095**	-0.152***
Obs	169	77	92	167	76	91	158	70	88
Diff. (t-stat)		0.375			1.190			1.039	
Highest ESG quartile									
Mean	-0.002	-0.003	0.001	-0.061***	-0.057***	-0.079**	-0.135***	-0.131***	-0.153**
Obs	165	131	34	164	131	33	154	122	32
Diff. (t-stat)		-0.299			0.581			0.357	
Environmental									
Mean	-0.008*	-0.006	-0.010	-0.080***	-0.074***	-0.087***	-0.130***	-0.109***	-0.151***
Obs	353	190	163	344	184	160	320	165	155
Diff. (t-stat)		0.544			0.558			1.135	
Social									
Mean	-0.008*	0.001	-0.022***	-0.039***	-0.022	-0.067***	-0.142***	-0.104***	-0.200***
Obs	363	222	141	361	221	140	339	204	135
Diff. (t-stat)		2.272**			1.979**			2.643***	
Governance									
Mean	0.004	0.006	-0.001	-0.008	-0.014	0.015	-0.065**	-0.093**	0.035
Obs	122	96	26	122	96	26	121	95	26
Diff. (t-stat)		0.251			-0.477			-1.640	

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Panel B: North America

	[0]			[0,6]			[0,12]		
	All	Success	No success	All	Success	No success	All	Success	No success
All cases									
Mean	0.006	0.021	-0.015**	-0.017	0.003	-0.044**	-0.054**	-0.019	-0.098***
Obs	203	116	87	199	115	84	176	98	78
Diff. (t-stat)		2.259**			1.728**			1.776**	
Reorganization cases									
Mean	-0.001	0.016	-0.014	-0.034	-0.011	-0.051*	-0.072*	-0.021	-0.109**
Obs	100	42	58	97	42	55	88	37	51
Diff. (t-stat)		1.586*			0.960			1.185	
Lowest ESG quartile									
Mean	-0.023**	-0.028	-0.019	-0.066*	0.003	-0.112**	-0.074	0.029	-0.142
Obs	41	16	25	40	16	24	35	14	21
Diff. (t-stat)		-0.435			1.652*			1.282	
Highest ESG quartile									
Mean	-0.003	-0.008	0.008	-0.024	-0.003	-0.085	-0.111**	-0.041	-0.299**
Obs	43	31	12	42	31	11	37	27	10
Diff. (t-stat)		-0.578			1.243			2.791***	
Environmental									
Mean	-0.010*	-0.007	-0.012	-0.043**	-0.025	-0.062**	-0.055*	-0.010	-0.102*
Obs	113	59	54	110	58	52	96	49	47
Diff. (t-stat)		0.430			1.062			1.414*	
Social									
Mean	0.010	0.028	-0.020	-0.006	0	-0.016	-0.080***	-0.072*	-0.092**
Obs	85	52	33	84	52	32	75	44	31
Diff. (t-stat)		1.755**			0.391			0.373	
Governance									
Mean	0.283	0.283	·	0.375*	0.375*	·	0.358	0.358	·
Obs	5	5	0	5	5	0	5	5	0
Diff. (t-stat)		·			·			·	

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Panel C: Europe

	[0]			[0,6]			[0,12]		
	All	Success	No success	All	Success	No success	All	Success	No success
All cases									
Mean	-0.003	-0.008*	0.006	-0.049***	-0.048***	-0.051***	-0.123***	-0.122***	-0.124***
Obs	452	311	141	447	307	140	427	289	138
Diff. (t-stat)		-1.763			0.147			0.069	
Reorganization cases									
Mean	0.002	-0.009	0.014	-0.052***	-0.073***	-0.030	-0.144***	-0.173***	-0.112***
Obs	215	113	102	214	113	101	205	106	99
Diff. (t-stat)		-1.917			-1.203			-1.148	
Lowest ESG quartile									
Mean	-0.018*	-0.021	-0.013	-0.042*	-0.045	-0.038	-0.143***	-0.137***	-0.151***
Obs	101	59	42	101	59	42	98	56	42
Diff. (t-stat)		-0.437			-0.153			0.203	
Highest ESG quartile									
Mean	-0.007	-0.008	-0.004	-0.049**	-0.047**	-0.057	-0.102***	-0.119***	-0.026
Obs	91	75	16	91	75	16	88	72	16
Diff. (t-stat)		-0.180			0.184			-1.037	
Environmental									
Mean	-0.001	-0.009	0.012	-0.085***	-0.093***	-0.074***	-0.150***	-0.139***	-0.164***
Obs	187	109	78	183	106	77	175	98	77
Diff. (t-stat)		-1.590			-0.611			0.520	
Social									
Mean	-0.006	-0.008	0.002	-0.031*	-0.024	-0.054	-0.123***	-0.114***	-0.150**
Obs	157	118	39	156	117	39	145	108	37
Diff. (t-stat)		-0.826			0.770			0.518	
Governance									
Mean	-0.005	-0.005	-0.004	-0.014	-0.024	0.024	-0.078**	-0.112***	0.042
Obs	108	84	24	108	84	24	107	83	24
Diff. (t-stat)		-0.095			-0.773			-1.925	

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Panel D: Other

	[0]			[0,6]			[0,12]		
	All	Success	No success	All	Success	No success	All	Success	No success
All cases									
Mean	-0.027***	-0.006	-0.043***	-0.096***	-0.069***	-0.117***	-0.201***	-0.142***	-0.247***
Obs	183	81	102	181	79	102	177	77	100
Diff. (t-stat)		2.685***			1.393*			2.059**	
Reorganization cases									
Mean	-0.036***	0.002	-0.052***	-0.081***	-0.044	-0.096***	-0.211***	-0.143**	-0.241***
Obs	112	34	78	111	33	78	109	33	76
Diff. (t-stat)		2.876***			1.094			1.343*	
Lowest ESG quartile									
Mean	-0.032*	-0.010	-0.045**	-0.096*	-0.042	-0.128*	-0.155**	0	-0.246***
Obs	28	11	17	27	10	17	27	10	17
Diff. (t-stat)		1.038			0.755			1.925**	
Highest ESG quartile									
Mean	-0.016	-0.018	-0.007	-0.129***	-0.145***	0.003	-0.275***	-0.297***	-0.105*
Obs	27	24	3	27	24	3	26	23	3
Diff. (t-stat)		-0.151			-1.080			-0.855	
Environmental									
Mean	-0.030**	0.016	-0.063***	-0.144***	-0.116**	-0.161***	-0.204***	-0.220*	-0.195***
Obs	53	22	31	51	20	31	49	18	31
Diff. (t-stat)		3.495***			0.716			-0.229	
Social									
Mean	-0.024***	-0.008	-0.037***	-0.072***	-0.038	-0.098***	-0.204***	-0.110**	-0.277***
Obs	121	52	69	121	52	69	119	52	67
Diff. (t-stat)		1.644*			1.396*			2.801***	
Governance									
Mean	-0.041	-0.062	0.030	-0.149**	-0.167*	-0.085	-0.153*	-0.184*	-0.044
Obs	9	7	2	9	7	2	9	7	2
Diff. (t-stat)		-1.028			-0.559			-0.828	

Table 8: CAR regression on economic strengths

This table reports results from regressing event CARs on various economic strength indicators. The event window is defined around the completion of the engagement up to 12 months after completion. Each row represents a separate regression. For the scores, percentages are used, for dollar values terms the natural log is applied. CARs are based on 49 Fama-French industry adjusted portfolios. Standard errors are clustered at the firm level. *, ** and *** indicate significance at the 10%, 5% and 1% level, respectively.

Panel A: All cases

	CAR[0]	CAR[0,6]	CAR[0,12]
Economic score	-0.019	0.013	0.134*
Brand value	-0.001	0.036	0.043
Marketing expenditures	0.000	0.002	0.006
Margins stability	0.002	0.044	0.099*
Revenues - customer loyalty	-0.019	-0.068**	0.004
Profitability - shareholder loyalty	-0.003	0.053	0.130*
Employee satisfaction	0.207**	-0.076	-0.244
Customer satisfaction	0.064	0.818	2.580***

Panel B: North America

	CAR[0]	CAR[0,6]	CAR[0,12]
Economic score	0.001	0.063	0.166
Brand value	-0.020	-0.018	0.028
Marketing expenditures	-0.003	-0.022*	-0.010
Margins stability	-0.004	0.036	0.083
Revenues - customer loyalty	-0.025	-0.036	-0.001
Profitability - shareholder loyalty	0.043	0.119	0.272*
Employee satisfaction	-0.045	0.264	1.372*
Customer satisfaction	0.205***	0.440	0.368

Panel C: Europe

	CAR[0]	CAR[0,6]	CAR[0,12]
Economic score	-0.028	-0.003	0.118
Brand value	0.006	0.045	0.059
Marketing expenditures	0.000	0.006***	0.013***
Margins stability	-0.001	0.037	0.068
Revenues - customer loyalty	-0.007	-0.063	0.032
Profitability - shareholder loyalty	-0.020	0.021	0.065
Employee satisfaction	0.296**	-0.153	-0.421
Customer satisfaction	0.102	2.895**	6.333***

Panel D: Global

	CAR[0]	CAR[0,6]	CAR[0,12]
Economic score	-0.005	0.030	0.210
Brand value	-0.001	0.070	0.037
Marketing expenditures	0.031*	-0.096*	-0.163*
Margins stability	0.027	0.105	0.236*
Revenues - customer loyalty	-0.043*	-0.109	-0.037
Profitability - shareholder loyalty	0.011	0.146	0.310*
Employee satisfaction	-0.249	0.512	-0.471
Customer satisfaction	-0.039	-0.230	1.589

Appendix A: Engagement case examples

Environmental

Concerned with the environmental risks associated with the use of palm oil, the activist engaged company XXX to assess the exposure of the company. The engagement followed a series of press releases and environmental reports regarding the effect of palm oil on deforestation. Furthermore, a major UK retailer announced a ban on palm oil products coming from unsustainable sources. The engager was concerned that this would affect the competitive position of the company in its industry, and requested clarification regarding the use of palm oil. The engagement began on September 26, 2007 when the activist sent out a request for transparency in email. The activist followed up on the questionnaire with an email on March 20, 2008 as the company did not answer all the questions in a satisfactory manner. Following email correspondence, the engagers met with a company representative at the activist's offices on June 17, 2008. The company representative answered all questions in full. It turned out that XXX was only a small buyer of palm oil and that the company only purchased from sustainable sources. The activist also requested that XXX would publish this information on its website. Subsequently, the company made available its code of business ethics policies and the activist closed the engagement as successful on August 19, 2008.

Social

The activist engaged financial institution YYY on March 10, 2006 to acquire more information on human rights policies, following the publication of a BankTrack report in January that indicated that YYY reported less information on the topic than its peers. Specifically, the activist was concerned about the ethical standards of the bank corresponding to investments in Russia and third world countries. The first meeting took place at the activist's offices with an investor relations officer. This meeting was followed by a conference call on April 6, 2006 during which an YYY executive assured the activist that the bank had nothing to hide. Furthermore, the executive explained that they do take human rights issues into account for project financing and investments, however, this was all part of their internal scoring processes and as such they did not want to disclose in detail to maintain their competitiveness. In response to the request for more transparency, the YYY executive promised that they would publish a sustainability report for 2006. Following the publication of the report, engagers had a last meeting on October 26, 2006 with the investor relations officer to go over the details of the report. The report covered all concerns that the engager previously raised, consequently the case was closed as successful.

Governance

The activist engaged company ZZZ in 2007 concerning the size and composition of the supervisory board of the company. The activist was concerned that the size of the board was not large enough to fully oversee the company's operations. A further concern was that the CEO of the company was also the chairman of the supervisory board. The activist voiced these concerns in collaboration with other investors at the AGM in mid-2007. ZZZ showed willingness to revise its governance practices, however, the CEO remained the chairman of the board. The activist revisited the

case in 2008 and 2009 at the AGMs to no avail. Since they could not reach their goal of improving ZZZs corporate governance, they closed the cases as unsuccessful on May 12, 2009.

Appendix B: Engagement topics – detailed

Environmental

Climate Change: Carbon Disclosure Project, Climate Change

Ecosystem Services: Alternative energy, Biodiversity, Eco-Efficiency; Emissions, Effluents and Waste; Nuclear power, PVC and phthalates, Tropical hardwood, Water

Environmental Management: Environmental management, Environmental Policy & Performance, Environmental Reporting, Environmental Supply Chain Standards

Social

Human Rights and Ethics: Animal testing, Anti-corruption, Customer satisfaction, Ethics, Fur, Gambling, Human Rights, Military production and sale, Pornography and adult entertainment services, Social Supply Chain Standards, Stakeholder management & Reporting, Sustainability reporting

Labor Standards: Attraction & Retention, Controversial Regimes, Forced and Compulsory Labor, Human Capital, Labor Standards, Privacy & freedom of speech, Third world, Training & Education, UN Global Compact

Public Health: Access to Medication, Alcohol, Genetic engineering, Healthy Nutrition, Integration in products, Intensive farming & meat sale, Product Safety, Tobacco

Governance

Corporate Governance: Board Practices, Governance Structure, Remuneration, Shareholder Rights, Supervisory board

Management and Reporting: Accountability & Transparency, Anti-corruption, Corporate strategy, Risk & Crisis-Management, Stakeholder management & Reporting

Appendix C

Table A1: Variable definitions

This table provides variable definitions. All variables based in $ terms, if applicable.

Variable	Definition	Source
ESG scores		
ESG score	Equally weighted Asset4 score: based on the Environmental, Social, Governance and Economic pillars (0-100)	Datastream - Asset4
Environmental score	Environmental pillar score: a companys impact on living and non-living natural systems, as well as complete ecosystems (0-100)	
Social score	Social pillar score: a companys ability to generate trust and loyalty with its workforce, customers and society (0-100)	
Governance score	Governance pillar score: a companys systems and practices that ensure that its executives and board act in the interest of (long-term) shareholders (0-100)	
Economic score	Economic pillar score: a companys capacity to generate sustainable growth and returns through the efficient use of its assets and resources (0-100)	
E-index	Index of entrenchment measures (E-index): poison pill, golden parachute, staggered board, bylaws and lock-ins (0-1)	
Risk and performance		
BHR	Buy-and-hold stock return over 12 months	Datastream
Volatility	Stock return volatility	
Amihud ILLIQ	Amihud illiquidity measure scaled by $1 million	
Asset turnover	(Total sales)/(Total assets)	
Profit margin	(Net income)/(Total sales)	
ROA	(Net income)/(Total assets)	
ROE	(Net income)/(Book value of equity)	
Sales growth	Year-over-year sales growth	
Sales over employee	(Total sales)/(Number of employees)	
Market share (sales)	Percentage of total industry sales	
Market-to-book	(Market value of equity)/(Book value of equity)	
Tobin's Q	(Market value of equity + Total book liabilities)/(Book value of equity + Total book liabilities)	
Interest coverage	EBIT/(Total interest expenses)	
Cash and expenses		
Free cash flow	(Net income + Depreciation)/(Total assets)	Datastream
Cash holding	(Total cash)/(Total assets)	
Current ratio	(Current assets)/Current liabilities)	
CapEX	(Capital Expenditures)/(Total assets)	
Operating expenses	(Operating expenses)/(Sales)	
R&D expenditures	(Research and development)/(Total assets)	
Advertising	Advertising over total assets (only North American companies)	Compustat North

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Variable	Definition	Source
Size and capital structure		
Log total assets	Natural log of total assets	Datastream
Log sales	Natural log of total sales	
Log market equity	Natural log of total market capitalization	
Book leverage	(Total book liabilities)/(Total book liabilities + Book value of equity)	
Tangibility ratio	(Plant, property and equipment)/(Total assets)	
Other		
Dividend yield	(Total dividends paid)/(Market value of equity + Market value of preferred shares)	Datastream
Dividend payout	(Total dividends paid)/(Net income)	
Company age	Years since incorporation or IPO date	
Analysts	Mean number of analysts issuing earnings estimates annually	I/B/E/S
HHI sales	Herfindahl-Hirschmann index of industry sales	Datastream
Log(distance)	Logarithm of Km distance between engager and corporate headquarters	
Ownership		
Holding of engager	Portfolio holdings of engager (total)	Morningstar
Average ownership	Mean of ownership stakes	Orbis
Ownership concentration	Herfindahl-Hirschmann index of ownership	
Number of blockholders	Number of owners with a +5% stake	
Long-term investors	Holding of pension and mutual funds	
Financials	Holding of insurance companies, banks, mutual and pension funds, financial companies, and foundations	
Industrial companies	Holding of industrial companies	
Governments	Holding of public authorities, states and governments	
Hedge funds and PE	Holding of hedge funds, venture capitalists and private equity firms	
Individuals and family	Holding of individuals and families	
Mgmt. and directors	Holding of managers, employees and directors	
Independent company	Indicator if a company has no majority shareholder with a stake larger than 25%	
M&A activity		
Acquisitions	Number of completed acquisitions annually	SDC Platinum
Divestitures	Number of completed divestitures annually	
All M&A deals	Total M&A activities annually	