

Institution: City, University of London		
Unit of Assessment: Business & Management		
Title of case study: Enhancing the understanding and effectiveness of institutional investors' engagement with Environmental, Social and Governance issues: New tools to assess how ESG engagement creates value		
Period when the underpinning research was undertaken: 2010 - ongoing		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s):	Role(s) (e.g. job title):	Period(s) employed by submitting HEI:
Prof Jean-Pascal Gond	Professor of Corporate Social Responsibility	2012 – current
Period when the claimed impact occurred: 2016 - ongoing		
Is this case study continued from a case study submitted in 2014? N		
<p>1. Summary of the impact (indicative maximum 100 words)</p> <p>There has been a rise, globally, in investors' engagement with companies about environmental, social and governance (ESG) issues. Yet little is known about how ESG engagement creates value. To address this gap City, with the United Nations-backed Principles for Responsible Investment (UN-PRI) - a 3,000-member organisation, with \$103.4 trillion assets under management - developed a novel framework that provided guidance for enhancing understanding and communication of ESG and pathways for promoting sustainability within, and between, corporations and investment firms. This framework was embedded into industry guidelines and adopted by the PRI and leading investors, such as USB, when re-organising and up-skilling teams dedicated to ESG and communicating its benefits to stakeholders.</p>		
<p>2. Underpinning research (indicative maximum 500 words)</p> <p>ESG engagement has become a prominent practice in the field of investment management. Regulators, financial associations and leading institutional investors (e.g. Aviva Investment) and service providers (e.g. Sustainalytics) endorse ESG engagement by devising policies focussed on sustainability. They also encourage investors, themselves included, to be more active owners of the companies in which they invest in order to stimulate the adoption of ESG-focussed practices. Earlier quantitative studies show that - when successful - ESG engagement can generate positive financial returns. However, there is little research on ESG engagement practices and the mechanisms by which they create value for the investment value-chain (corporations, asset managers/owners, financial service providers and pensioners). This has been due, largely, to the difficulty of accessing confidential engagement data and to the qualitative nature of engagement. To address this pervasive knowledge gap, Prof. Gond led a research team, including Prof. Furnari (City), Dr. Slager (Groningen University Business School), Dr. O'Sullivan (Sustainalytics until 12/2016, Nottingham University Business School since then), Dr. Mosonyi (City, 09/2014-09/2019), and Dr. Homanen (City, 08/2015-07/2019) during 10/2015-10/2020. This research provided insights into how institutional investors' dialogue with companies on ESG issues created value for both investors and corporations (3.2, 3.3).</p> <p>Leveraging unique access to qualitative data obtained through strategic partnerships with the UN-PRI and Sustainalytics - both of which commissioned projects to evaluate how engagement creates value (3.1) - Gond et al. achieved their aims through two strategies: Firstly, overlaying a broader theoretical approach to value-creation using knowledge management theory and qualitative methods, the team assembled a unique perspective on how ESG engagement creates different types of value for different stakeholders; Secondly, they adopted a multi-method qualitative design via fuzzy-set Qualitative Comparative Method interviews with leading asset management professionals and confidential archival</p>		

data from global organisations. Although producing impactful reports for practitioners took priority (3.2; 3.3), the research team already has one publication (3.4) and has developed two papers—including one already under review in a top-tier journal (3.5; 3.6).

The first set of outcomes was derived from 36 interviews with investors. By broadening the approach to value-creation and focusing on practice, the researchers showed that engagement creates more than financial value. It achieves this via: 'stewardship value' - by helping the fulfilment of non-fiduciary duties in relation to clients and beneficiaries; 'collaborative value' - by enabling closer collaboration between ESG and financial analysts; 'relational value' - by enabling unique, long-term relationships with executives inside firms; 'knowledge value' – by providing new perspectives on investee companies; 'signalling value' - by highlighting to corporations which ESG issues should be prioritised and 'social and environmental value' - by transforming corporate sustainability policies (3.2). A second set of outcomes focussed on corporate-investor interactions, based on interviews with 52 corporate actors and 66 investors (3.3). Informed by knowledge management theory, these took the form of theoretically novel and practically applicable frameworks, which describe how investors and corporations generate and capture communicative, knowledge and political value from their interactions during ESG engagement and as well as from pressures from ESG rating agencies (3.3; 3.4, 3.5). The third set of outcomes used fs-QCA, interviews and archival data to identify which configurations of factors enhance the effectiveness of collective ESG engagement (3.6).

3. References to the research (indicative maximum of six references)

- 3.1. Gond, J.-P., Piani, V. 2013. Enabling institutional investors' collective action: The roles of the Principle for Responsible Investment Initiative. *Business and Society*, 52(1): 64-104 [ABS 3]. This paper was invited for republication in a slightly extended version in a book (see: Gond, J.-P. & Piani, V. 2013. Chapter 2. Organizing the collective action of institutional investors: Three cases studies from the Principles for Responsible Investment initiative. In: S. Young & S. Gates (eds.) *Institutional Investors and Corporate Responses: Actors, Power and Responses How Do Institutional Investors Use Their Power to Promote the Sustainability Agenda? How Do Corporations Respond?* Emerald Group Publishing, pp. 19-69), and was highlighted by Emerald as "Outstanding Author Contribution 2014". A shorter managerial version has also been published in a field practitioner journal (see: Piani, V. & Gond, J.-P. 2014. Facilitating investor engagement on ESG issues: The PRI initiative in action. *Rotman International Journal of Pension Management*, 7(1), pp. 14-22) and an executive summary was produced in the PRI newsletter, *RI Quarterly* (see: Piani, V. & Gond, J.-P., 2015).
- 3.2. O'Sullivan, N. & Gond, J.-P. 2016. *Engagement: Unlocking the Black-box of Value Creation*. Co-edited by Cass Business School, City University London & Sustainalytics. Presented at Cass Business School on June 30th 2016. [Key industry report #1]
- 3.3. Gond, J.-P., O'Sullivan, N., Slager, R., Homanen, M., Mosonyi, S., & Viehs, M. 2018. *How ESG Engagement Creates Value for Investors and Companies*. United-Nations Principle for Responsible Investment. [Key industry report #2]
- 3.4. Slager, R., & Gond, J.-P., 2020. The politics of reactivity: Ambivalence in corporate responses to corporate social responsibility ratings. *Organization Studies*. Published on line the 22nd of October 2020, doi: 10.1177/0170840620964980.
- 3.5. Gond, J.-P., Slager, R. & Marti, E. 2018. *Why and When do Companies Respond to Back stage Negotiations with Stakeholders? Insights from Shareholder Engagement on Environmental, Social & Governance Issues*. Earlier versions of this paper were presented at the 2nd annual Ivey Sustainability Conference on November 30 – December 1, 2017; the annual conference of the EGOS (European Group on Organization Studies), Tallin, Estonia, July 2018; and the 1st Annual Conference of the GRASFI (Global Research Alliance for Sustainable Finance and Investment) held at the University of Maastricht in September 2018. Target journal: *Academy of Management Journal*, 4 star rating. Can be supplied on request.
- 3.6. Gond, J.-P., Slager, R., Chuah, K., Furnari, S. & Homanen 2020. *Tailor-to-Target: Configuring Collective Shareholder Engagement on ESG Issues*. Paper under review at

Management Science (4 star rating), Special Issue on Business and Climate Change. Can be supplied on request. Earlier exploratory versions of this paper were published in the first ARCS-HEC Paris report *Accelerating Research-Practitioner Collaborations in Sustainability Research*, following the workshop by HEC Paris and the ARCS at the College des Bernardins, Paris, October 11-12. An earlier version of the paper was presented at the PRI Academic Network Conference (San Francisco, US, Sept., 2018).

4. Details of the impact (indicative maximum 750 words)

Creating and sharing new knowledge

The consideration and integration by investors and corporations of ESG issues such as climate change or the protection of human rights are necessary conditions to shift financial markets, and global economic systems of production, towards environmental and human sustainability and to ultimately deliver the UN Sustainable Development Goals. Accordingly, the research had global reach. It raised awareness, to those within an interest in responsible investment including the asset management sector, of the role, process and value of ESG engagement. Novel insights provided by the research also changed understanding and influenced ESG engagement practices at the UN-PRI, ESG engagement service providers as well as at major asset management firms, and, in turn, their investee companies. New frameworks and tools were provided. These enabled knowledge about how to conduct engagement, that had been 'tacit' previously, to become evident for consideration by executives and then applied in practice and policy. These included: (a) a **business case tool (BCT)** with which to evaluate the multiple forms of value derived from engagement by investors (3.2); (b) a **typology (PT)** to evaluate investors' engagement practices (3.2); (c) a **value-creation framework (VCF)** for mapping the communication, learning and political mechanisms by which ESG engagement creates value (3.3); **an illustration of (d) configurations of factors leading to un/successful collaborative engagement** (3.6).

Shifting the understanding of how ESG engagement creates value and providing toolkits for the industry

According to the CEO of PRI Gond et al.'s research "*has helped to comprehensively: dispel common myths that often deter ESG engagement, introduce a new global perspective on active ownership policy, and alleviate the current frustrations that asset owners have regarding the voting behaviour of some of their investment managers*" (see 5.2). Specifically, this impact has been delivered through interactions during various stages of the research process. The team's industry reports (3.2, 3.3) have been co-produced through interactions with final users via three workshops held at The Business School (formerly Cass) in the heart of the City of London, and at major industry events. The core tools of our first key industry report (BCT & PT, 3.2) were discussed with 65 ESG experts from the finance and consultancy industry, before being showcased during a global webinar organised by Sustainalytics for their clients about value-creation through ESG engagement (5.1, 5.3). The preliminary version of the second tool (VCF, 3.2) was presented at The Business School (formerly Cass) in front of 78 ESG experts and investment professionals, and then discussed during a plenary session of the 2017 PRI-in-Person conference in Berlin attended by 850 investors, including major UN-PRI signatory institutional investors (5.2). The UN-PRI CEO statement and the electronic poll conducted before and after this session suggested that the team's research contributed to shift the audience's attitude towards the value of engagement and that their tool was deemed very useful in the promotion of change in the organisation of ESG engagement within investment firms (5.2). Following these presentations, Professor Gond and the team were invited to showcase their tools at eight industry events focussed on institutional investors, clients of engagement service providers, or multinational corporations (5.3).

The key frameworks from the researcher team's second industry report (3.3) were included in a new set of practical guidelines & toolkits published by PRI in 2018 to encourage and guide ESG engagement in listed equities and fixed income (5.4) as well as in multiple

webinars used by PRI to promote these guidelines (5.3). The introduction of the first set of widely diffused PRI guidelines noted that *'successful engagement dialogue is not only correlated with positive returns on assets, but it also increases communication, learning and internal relationships for investors and companies'*.

Impacting practices along the ESG engagement supply-chain

The research directly affected organisations as these tools were used to transform organisational practices of associations acting to encourage ESG engagement, ESG service providers, asset owners and asset managers, as illustrated below:

Transforming the practices of Associations Enabling ESG engagement. The research team provided feedback to UN-PRI on their practices to support collective engagement. The VCF tool was used to guide the reorganisation of the UN-PRI engagement team. It also enhanced its daily work, by promoting engagement as a core skill to be nurtured and by enhancing the quality of corporate feedback on ESG engagement through a better knowledge of how companies use ESG engagement (5.5). The VCT framework is now part of the slide deck used to present the value of ESG engagement to UN-PRI signatories.

Transforming the practices of ESG engagement Service Providers. The tools from the first industry report (3.2) helped the research partner, Sustainalytics, to expand its range of services for ESG engagement and to develop a suite of supporting tools for its 700 institutional investor clients (5.1). Specialised ESG engagement service firms such as Aequo used the research team's tools (3.2, 3.3) to engage their clients, and to document and explain the value of their services as well as to inform the training of their team of ESG engagers as well as decision making (5.6). As explained by the CEO of Aequo *"my team conducts constructive dialogues with companies through one-on-one meetings or collaborative campaigns, aimed at better understanding how they currently address challenges, and suggesting appropriate actions to improve their performance. Jean-Pascal's framework on company-investor dynamics was particularly useful in providing rationales to support our decision-making across these various dialogues"* (see 5.6).

Transforming the practices of Asset Owners. NN Investment, the third largest Dutch asset owner, invited Professor Gond and his team to present their results at their premises. The industry report #2 (3.3) has since been used by NN to reshape training activities, enhance ESG integration and promote ESG engagement by being shared with the firm's 400 financial analysts. (5.7). According to a SRI manager at NN, report #2 was used as a *"pedagogical tool"* and this is been extremely useful, as ESG engagement was found *"to be one of the most difficult topics to understand for our team of portfolio managers and analysts"* (see 5.7). The largest Danish pension fund, ATP, invited Professor Gond to explain to the members of the financial board how ESG engagement adds value based on his research; this meeting resulted in upgraded ESG engagement policies and enhanced ESG integration across investment practices (5.8).

Transforming the practices of Asset Managers. Finally, the VCT framework was used by leading players from the asset management industry, such as UBS Asset Management. UBS Asset Management used the frameworks to communicate the value of active ownership and reorganised its ESG team according to the PRI guidelines (5.9) whereas Hermes Asset Management, a pioneering firm in the ESG engagement space, relied on the frameworks to explain to its team and clients how engagement creates value (5.10).

5. Sources to corroborate the impact (indicative maximum of 10 references)

[5.1] Testimonial Letter from the Executive Director of Methodology of Sustainalytics (part of the Morningstar group since August 2020). See also the link to the webinar organized around the first key industry report (3.2): <https://www.sustainalytics.com/webinar/real-estate-two-steps-forward-one-step-back-3-3-2-2-3/>

[5.2] Testimonial Letter from the CEO of UN-PRI. See also the full video record of the PRI Plenary Session *"Is shareholder engagement adding value?"*, PRI-in-Person Conference,

27 September 2017. An overview of the session was also published in the responsible investment industry newsletter *RI Quarterly* vol. 12, pp. 12-18 under the title: ***Unlocking the value of shareholder engagement and collaboration***.

- [5.3] Selection of events during which the two Core Industry Reports were discussed with stakeholders. A video about the report and an accompanying article were also diffused through the ELITE Connect platform to make it accessible to companies listed on the London Stock Exchange.
- [5.4] UN-PRI industry 'soft regulation' documents embedding the frameworks publications: (a) PRI 2018. ***A Practical Guide to Active Ownership in Listed Equity***. Widely diffused guidelines about how to conduct ESG engagement that extensively relied on our tools. Available online: <https://www.unpri.org/download?ac=4151>. The framework from report 3.2 is also directly used in the Webinar use by PRI to explain how ESG engagement creates value, see: <https://www.youtube.com/watch?v=XEPUaXHFs3w>; (b) PRI 2018. ***ESG Engagement for Fixed Income Investors. Managing Risks, Enhancing Returns***. PRI more specific toolkit for fixed income investors.
- [5.5] Testimonial Letter from the Head of Stewardship of UN-PRI.
- [5.6] Testimonial Letter from the CEO of Aequo.
- [5.7] Testimonial Letter from the Senior Responsible Investment Specialist of NN Investment Partners B.V.
- [5.8] Testimonial Letter from the Head of ESG, Senior Vice President of ATP.
- [5.9] Testimonial Letter from the Strategic Engagement Lead, UBS Asset Management.
- [5.10] Testimonial Letter from the Head of ESG Integration of Federated Hermes (Hermes Fund Managers Limited).