Advancing shareholder engagement

Eight contemplations for maximizing an engagements' impact

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Management summary

Conclusions

Shareholder engagement concerns the use of one's ownership position to influence the decision making of company management. In doing so, shareholders aim to increase transparency and accountability and to raise social and environmental standards of corporate behavior. The practice has been gaining popularity both in Europe and North America, and academic studies have shown that shareholder engagement can influence both ESG performance and financial results of investee companies.

This publication presents further insights into how shareholder engagements influence decision making within portfolio companies. The five cases of engagements studied show that shareholders influence companies 1) directly by raising novel topics and by offering their views on the organizations' performance, and 2) indirectly by supporting internal change agents. When shareholders ask about an issue on which the company has not developed a formal stance yet, the engagement can spark internal discussions at the director or board level. Questions on existing policies or targets meanwhile shape the boards' understanding of how the companies' activities are perceived by external agents. Indirectly, shareholder engagements are used by internal change agents to lobby for organizational change through regular organizational channels. These employees use the engagement as an external legitimation of the relevance of the topic they are promoting. Both direct and indirect modes of influence are more likely to alter organizational behavior if the topic is raised by multiple parties.

Recommendations

A. Defining the goal of the engagement

1. **Engage on opportunities or risks?**
   Rather than engaging when a company fails to 'tick a box', shareholders can also engage on sustainability themes on which the company is already performing well. This can help companies to maintain their position as frontrunner and to further exploit value creation opportunities.

2. **Define the long-term goal and theory of change**
   Shareholders are recommended to define the long-term engagement goal as well as their theory of change. A theory of change specifies how the desired change is expected to happen and as such, which short-term objectives the shareholder should pursue.

B. Understanding functionality and materiality within the organization

3. **Collaborate with employees to pursue mutual goals in the organization**
   Despite formal organizational stances, particular employees within companies may agree with shareholders on particular topics. These employees may use the engagement to promote organizational change internally. Additionally, these internal change agents may advise the shareholder on how to formulate particular questions during private dialogues.

4. **Gain insight into the policy cycle of the topic and current efforts**
   Inquiring into where in the policy cycle a strategy or policy is, and respecting that the timing of the organizational response to the engagement may depend on this cycle, will build understanding and trust with the investee company. Additionally, these insights will improve a shareholder's ability to monitor the progress of the issue within the organization.

5. **Know the cost of implementation and potential trade-offs**
   Shareholders are advised to consider what costs a company has to make in order to implement a shareholder's suggestion, and whether the benefits outweigh the costs. Costs include the necessary investments themselves, as well as the project that may be delayed or stalled due to the resources redirected to the shareholder's suggestion.

C. Preparing the engagement

6. **Assess how other shareholders think about this issue**
   When multiple parties, including other shareholders, governments and benchmarks, inquire into the same topic, the issue is given more weight by investee companies. When shareholders refer to the concerns of other parties during the engagement, they stimulate companies to realize that the issue is of societal interest. This makes companies more inclined to respond favorably.

7. **Align formulation of AGM questions with theory of change**
   Shareholders ask different types of questions. These include asking for novel information, making suggestions and asking for commitments. Depending on a shareholder's theory of change, a different type of question may be most appropriate. Choosing the right type of question will result in higher impact.

8. **With whom to discuss these questions**
   Prior to the AGM, shareholders may request a private meeting, as well as inquire which employees will attend this meeting. When meeting exclusively with the CSR department, employees may be inclined to share more information as well as to offer advice to the shareholder. When a member of the board or the company secretary is also present, content experts may be more reserved. However, these types of meetings stimulate an exchange of knowledge between different departments of the firm and contribute to the formation of novel relationships. Which type of meeting is preferable depends on a shareholder's theory of change.

Introduction

In the spring of 2016, VBDO facilitated a study of the ways in which shareholder engagements influence investee companies. Shareholder engagement is a responsible investment strategy, and is gaining in popularity. In Europe, capital managed under this strategy has grown by 36% over the last two years alone (Eurosif 2015). In the Netherlands, 82% of the pension funds and 34% of the insurance companies practice engagement. Academic research has shown that shareholder engagement can positively affect the ESG performance of companies (Lee & Lounsbury 2011; Allen, Letourneau & Hebb 2012) as well as financial results (Dimson, Karakaş & Li 2014; Becht et al. 2008; Barber 2006). Yet, little was known about the process through which shareholder engagements actually come to influence corporate decision making. This research project aims to improve the understanding of this process, for which five engagements of Dutch shareholders were studied.

VBDO defines shareholder engagement as the use of one's ownership position to influence company management's decision making, with the aim to increase transparency and accountability and to raise social and environmental standards of corporate behavior (Clark & Hebb 2004). In the Netherlands, shareholder engagement is based on the right to ask questions and vote at the AGM as a shareholder. Following the publication of the annual report, shareholders send the questions they intend to ask at the AGM to corporations. Often, firms agree to meet in private prior to the AGM to review these questions. Based on this exchange, shareholders review their questions, select a subset of these questions, and subsequently pose these at the AGM to the board. All these written and verbal exchanges constitute the engagement.

In this publication VBDO shares its findings on the processes through which investee companies are influenced by shareholder engagements. Additionally, a number of recommendations are offered as to how shareholders can use these insights to make their engagements more effective. This publication serves as a follow-up to the VBDO publication: 'Engagement: box-ticking or catalizing sustainability?' which provided recommendations on the whole engagement process, including which companies to engage, which topics to pick, how to execute the engagement and how to follow-up afterwards. In this publication the steps of choosing engagement topics and executing the engagement are discussed in more detail. A number of specific recommendations are offered on each of these steps, which are illustrated with examples from the case studies.

How investee companies are influenced by shareholder engagements

Providing official answers

The firms under study developed formal answers to shareholders' questions in a similar way. In all firms, the company secretary was responsible for preparing the Q&A session at the AGM, which included the writing of a document with potential AGM questions, as well as the official organizational answers. This document was shared with the supervisory and executive boards prior to the AGM.

When a question had been asked before, the company secretary would write the organizational response individually. When a question was new to the organization, the company secretary would ask content experts for input, which would be verified by their superiors. The company secretary would then write the answer based on the information gathered. In some companies, the company secretary would ask the executive committee for advice. This only happened if the question concerned a radical new issue, such as publishing the company's tax strategy and policies. As such, engagements could initiate quite some internal discussions.

Direct effects of asking AGM questions

Asking questions at the AGM had both direct and indirect effects on firms. Shareholders influenced corporations directly by raising novel issues and by suggesting ideas for corporate governance amendments.

When a firm had not developed a stance on a particular sustainability theme yet, a shareholder could compel them to do so by asking about it at the AGM. Examples of such themes were responsible taxation and living wage. Secondly, shareholders influenced investee companies by offering ideas on how to improve transparency or corporate governance policies. Ideas such as reporting on the top-3 most material risks, or inviting the accountant to give a statement at the AGM were easy to implement. If companies saw the merits of these amendments themselves, they were inclined to respond favorably to these engagement topics.

> *"What is interesting is that, whatever the outcome, these conversations do influence the corporation. Because it becomes an item on the agenda at the right level. Questions about tax transparency were discussed by the executive committee and the supervisory board. They consider it thoroughly, and make an informed judgement."*
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> — employee large industrial company B

Another effect of shareholders' questions came about when companies revised particular policies or strategies. In cases where companies did not commit to setting new targets (or raising them) at the AGM itself, employees explained that the engagement still influenced the organization later on, when companies reviewed their sustainability targets. At these moments in time, the executive committee would remember that a target had not been perceived as ambitious, which, in turn, could motivate them to raise the bar.

> *"While the answer may not be affirmative at the AGM, the questions that were posed to the board do tend to stick. The board remembers that external parties asked about it, and may*

> *conclude that the activity that was asked about is not perceived as ambitious. And so next time when there is a discussion about a particular topic or policy they may say: yes, people asked about this, perhaps it is time to raise the bar on this issue."*
>
> — employee large industrial company A

Indirect effects of asking AGM questions

Indirectly, shareholder engagements served as a resource to employees who were pursuing organizational changes on similar issues as the shareholder had asked about. These 'internal change agents' were usually either responsible for the issue in question (a tax director pursuing tax transparency) or for the sustainability strategy and performance of the firm (the CSR department). These employees used the engagement to 'sell' these issues within the firm.

Usually, these internal change agents had learned about shareholder's questions due to the company secretary having asked content experts for input to develop the official AGM responses. When these questions matched an employee's understanding of what the organization should be working on, he or she was more likely to promote the issue themselves within the organization. They tended to do so through regular organizational channels, such as a responsibility council or through the regular hierarchy. In their proposal for a particular amendment, the employee would refer to the shareholder engagement as an argument that there was an external need for particular information, or that the current behavior of the firm was not perceived as ambitious. As such, the shareholder engagement served as an external legitimation of the employee's concerns.

Often, employees referred to a shareholder's questions in combination with other external questions on the same topic. If multiple external parties had raised the same issue, the employee could develop the argument that it had not been a single incident, but that the topic was of interest to investors in general, or even to society at large.

Types of change within firms

Shareholder engagement contributed to five types of change within firms:

1. Improvements to transparency
2. Development of a formal position on an issue
3. Development of new policies or activities
4. Improvements to current policies or activities
5. Decision to join an ESG-related initiative

Quite often, an engagement on a particular issue contributed to multiple types of amendments. An example of this was a shareholder who engaged with a firm on responsible taxation. In the first year, questions motivated the company to develop a formal position on tax, leading to improved transparency. In the two years thereafter, the engagement led to further improvements of the transparency of the tax policy.

The value of engagements for investee companies

Most companies explained that sustainability related shareholder engagements are valuable to them because their questions help to keep sustainability on the agenda within the organization. Additionally, engagements serve as an opportunity to learn about the following topics:

1. Which sustainability issues are most important to shareholders
2. How other sectors are assessing and managing particular risks
3. How a companies' strategies and activities are perceived by stakeholders
4. Which issues are coming onto the horizon

Companies use the broader knowledge that shareholders may have on sustainability themes to adjust their understanding of which issues they should be focusing on, and what companies can do to manage particular risks.

> *"The engagement helps us because we learn about what the most important targets are according to the outside world. What you don't want as a company is to put time and effort into something that society doesn't value, whilst there are things that are valuable which you're not pursuing."*
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> — employee large real estate investment trust

> *"I use the engagements to get a feel of which other issues are coming onto the horizon."*
>
> — employee large industrial company A

Recommendations

The recommendations of this study are categorized in three phases: defining the engagement goal, understanding materiality and functionality within the organization, and preparing the engagement. A number of specific recommendations are offered on each of these phases, which are illustrated with examples from the case studies.

A. Defining the goal of the engagement

1. Engage on opportunities or risks?

While shareholders often engage with portfolio companies to manage risks, shareholders can also decide to stimulate companies to further improve their sustainability performance in areas in which they are already doing well. This can help companies to further exploit value creation opportunities, to maintain their position as frontrunner and may even stimulate the rest of the sector to raise its standards.

Most shareholders engage with companies when they fail to 'tick a box'. As such, companies receive few questions about issues on which they perform well. This is unfortunate as companies did express interest in this type of engagement. Employees of a Dutch multinational that had received a gold standard in the Dow Jones Sustainability Index in 2015, explained that questions on sustainability contributed to the perception that shareholders care about this issue, which in turn helped management to further integrate sustainability into the organization.

There are two more reasons to engage on opportunities. As companies are often compared to others in the same sector, frontrunners tend to stimulate laggards. Urging sustainability leaders to further improve their performance can raise the bar in entire industries. Secondly, shareholders can learn about best practices from frontrunners in engagements, which they can subsequently present in other engagements.

> *"In my five years as an investor relations officer I have not received a single question on safety from a shareholder. If you're a cynic, you might say that they don't care. But obviously, this is a relevant theme for long-term investors."*
>
> — employee large industrial company B

> *"Colleagues at investor relations and board members experience a dilemma when it comes to sustainability. Because they know it is important, but seldom receive questions from shareholders on it."*
>
> — employee large industrial company A

2. Define the long-term goal and theory of change

Engagements can serve different purposes, and it is important that a shareholder defines what they want to achieve with an engagement on the long-run, and what their 'theory of change' is. The theory of change describes how one believes that a desired change is expected to happen. The theory of change, in turn, defines which short-term objectives a shareholder should pursue with the engagement.

When a shareholder is preparing an engagement on a particular sustainability topic, it is important to formulate the final aim of the engagement, and to define a theory of change. Does the intended change concern amendments to the strategy, policies or performance of a company? What will motivate the firm to make these changes? What then, is the first step that the company should take?

While it may not be possible to determine up-front which theory of change will prove to be most effective, defining a long-term goal and a theory of change allows shareholders to develop more focused engagements and to evaluate engagements more thoroughly.

Example

In recent years, a number of shareholders have urged a Dutch energy company to make its business model more sustainable. Despite the similar long-term aims of these shareholders, they operated under distinct theories of change, and hence asked different types of questions.

One shareholder believed that a better consideration of the long-term effects of legislation would motivate the company to develop sustainable business models. Consequently, this shareholder used the engagement to ask the company to publish a report on how it perceived the effects of carbon legislation on the future profits of the firm. A second shareholder believed that individuals within the firm would have to drive the change, and requested that the company included a number of carbon reduction incentives in its remuneration policies. A third shareholder believed that the transformation was most likely to happen if it was implemented top-down, and asked the company to set a target on carbon reductions. Yet a fourth shareholder believed that the company would become more inclined to invest in renewable initiatives once it investigated the long-term financial results of these projects, and asked the company to clarify how it believed that particular renewables markets would develop in due course.

B. Understanding materiality and functionality within the organization

3. Collaborate with employees to pursue mutual goals in the organization

Within companies, employees may have divergent ideas about what the proper goals and means of the organization are. When employees who are responsible for the issue a shareholder has raised are in favor of the amendments that a shareholder has proposed, these employees can use the engagement to their advantage. Often these are employees of the CSR department, but they may also include other employees such as tax directors or operation managers. They may use the engagement to champion the issue internally, or share their knowledge of the firm with shareholders to maximize the shareholder’s impact.

Engagement can motivate ‘internal change agents’ to pursue novel projects within the company, and improve their ability to succeed. In the research, multiple instances were observed where employees had judged their chances of convincing higher management of a project to be slim prior to the engagement. Questions of shareholders, often in conjecture with other external parties asking about the same topics, had however altered their perception. The ability to argue that the project was considered important by shareholders, or society in general, had helped to sell the project internally. Shareholders can maximize the probability that this will happen by making sure that the right employees know that the shareholder has asked about a particular topic.

Example
Between 2012 and 2014, a shareholder asked a Dutch multinational to hold annual stakeholder dialogues. The CSR manager had personally been a proponent of this practice prior to the engagement, but had not pursued the project because he had considered his ability to persuade higher management to be slim. However, the engagement changed this perception.

> *"If I'm the first and only one to call for serious conversations with our stakeholders, then that's a nice opinion, but if heavyweights in the organization disagree than it won't happen. But if we've talked to shareholders, and the topic also returns in the benchmarks that we take seriously, then I can get things going."*
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> — employee large logistics company

Additionally, internal change agents may advise shareholders during private meetings how to frame questions, or even which specific topics within a general theme to pursue. This kind of collaboration was only observed in longer-term relationships where sufficient levels of trust had developed between the shareholder and specific employees. Another requirement was that the shareholder's agenda was sufficiently broad. Only if internal change agents believed that the shareholder was interested in understanding what is most material to a company, rather than championing one particular cause, they would volunteer advice.

We also observed that shareholders' explicit questions for input were often received favorably. When shareholders asked at the end of private meetings whether there were other issues that would be relevant to address to the board, internal change agents would offer their perspective on which themes were most material to the firm in question.

Example
In 2016, a shareholder met with the company secretary and the CSR manager of a Dutch multinational to discuss the questions the shareholder was intending to ask at the AGM. One question concerned whether the board might be willing to heighten the current GHG (greenhouse gas) emissions target. The CSR manager stated that he was doubtful that the board would agree to alter the existing GHG target, and continued to explain that the company was also considering to put a target on particulate matter emissions. The shareholder understood this to be a hint that the CSR manager would like the shareholder to ask a question on particulate matter at the AGM. Presumably, this was an issue the CSR manager was already pursuing, and questions of shareholders on this issue might make the board more inclined to do so.

4. Gain insight into the policy cycle of the topic and current efforts

When asking companies to amend existing policies or targets, it is essential to know where in the policy cycle the topic in question is. Often, companies consider shareholders' questions when the strategy or policy update of that issue is planned. While shareholders can also ask about an issue like sustainability targets at other moments in time, it is likely that these questions won't be considered until the update. Inquiring into this policy cycle and respecting the company's timing will build understanding and trust with the investee company. Additionally, these insights will improve a shareholder's ability to monitor the progress of the issue within the organization.

Additionally, shareholders may ask about issues which the company is already developing a novel strategy or policy on. As these efforts may not have been made public yet, the shareholder may only learn about these efforts in a private conversation. In these meetings it is important to understand which organizational processes are required to develop the strategy or policy in question, and to respect that this may take some time.

Example

One example where the shareholder did not understand what organizational processes were required in order to respond to a request: a shareholder asked an AEX-listed company to set a target on renewable energy usage. An employee recalled that this shareholder became frustrated that the company was not willing to just 'name a number' during their meetings. However, the company needed to map what energy they were currently using, as well as which alternatives were available at sites across the world in order to set a realistic, yet ambitious target.

> *"We can't just put a target on renewable energy. I can just say a number, but I wouldn't have a clue of how to execute it. As long as we haven't measured exactly what energy we are using in the world, and know what alternatives are available in each country, we simply can't set a target."*
>
> — employee large industrial company A

5. Know the cost of implementation and potential trade-offs

As a shareholder, it is important to be aware of what investments a firm has to make to properly address an issue that a shareholder has raised. Understanding and respecting what is required to amend particular policies is essential to assess whether the benefits outweigh the costs, as well as to maintain a constructive relationship.

> *"The feedback from investors enables me to up-weigh or down-weigh certain issues. I have some fairly clear ideas on what our material issues are, but there may be areas about which investors will say: 'well actually this is particularly important at the moment or this is an area that we are looking at.' So it is not that engagements change the way I look at our strategy, but it certainly influences and changes priorities."*
>
> — employee large real estate investment trust

Shareholders' questions on ESG issues generally fall in two categories: either they concern structural changes to the resources available for sustainability within the organization, or they concern how those resources should be allocated. Resources may include financial means, but often concern how employees within a department allocate their time and attention. Examples of questions for more resources may include adding more sustainability measures in performance management.

Often, when shareholders ask companies to pay increased attention to particular sustainability issues, the board expects that the sustainability department will take care of it. However, as many sustainability departments already have heavy workloads, pursuing a topic raised by the shareholder may come at the expense of other projects in the department's pipeline. Shareholders are therefore advised to consider whether their questions may influence the order of priorities within the sustainability agenda, and if this is the case, which projects may be stalled and whether that is desirable.

Shareholders may not know up-front what it will cost the firm to make the amendments requested by the shareholder, and which projects it may delay because of it. It is for this reason that it is important to maintain a spirit of dialogue. Only if shareholders are willing to understand how a company views its materiality, abilities and priorities can a shareholder assess what issues it should focus on. This information can in turn inspire the shareholder to adjust the questions it asks at the AGM and with which tone of voice.

Example

One shareholder asked an AEX-listed firm to include a reference to living wage across its supply chain. What the shareholder did not know was that responding to this request would require the human resources department to develop a novel reporting system, and since this company required highly skilled employees, employees' wages in developing countries were already quite high. Taking these factors into consideration, the shareholder may have concluded that organizational resources would be better spent on other projects.

C. Preparing the engagement

6. Assess how other shareholders think about this issue

Shareholders' engagements on topics that had been raised by multiple actors tended to be more influential than if a shareholder was the only party to express concern. If multiple external actors had raised an issue, and the shareholder subsequently asked about it, the question was perceived as part of a greater trend, rather than an isolated incident. As such, if a shareholder decides to engage on a particular topic, it is worthwhile to investigate whether other parties have also raised this issue with the company in question, or intend to do so in the near future. External parties include other shareholders, stakeholders such as NGOs or the government, and benchmark questionnaires such as the DJSI (Dow Jones Sustainability Index). Additionally, informing internal change agents of the broader interest in the theme will make the case they make for the issue within the company more convincing.

> *"If I see a topic return in different places, I can use this to convince persons internally by pointing out we are not going to get rid of this theme. Sometimes there are sustainability fashions which blow over before you had to do anything. But this theme is going to pull through because I see it here, I see it in the Dow Jones, I see it mentioned by multiple stakeholders. Then we have to do something with it'".*
>
> — employee large logistics company

7. Align formulation of AGM questions with theory of change

Both in bilateral engagements and during public AGMs, shareholders ask different types of questions. They ask companies to share information, to express a view in relation to a particular topic, to set targets, to change a policy or to commit to suggested improvements. Depending on a shareholder's theory of change, a different type of question may be most appropriate. Choosing the right type of question will result in higher impact. The different types of questions, and how they can influence firms, are discussed below.

Asking for novel information. In engagements, shareholders can ask companies to provide information that is not yet in the public sphere. This can concern information about their performances on different ESG themes, or information about how higher management of a company views particular development. Both types of questions may have the effect that employees come to learn that they lack specific information. This may motivate them to take action within the company.

Management may conclude that novel policies or reporting systems are required to obtain this information. Alternatively, employees may find the factual information they obtain surprising, which in turn can cause them to conclude that they are not satisfied with how that topic is managed within the corporation and to do something about it.

When shareholders use the engagement to raise awareness of novel sustainability issues that are coming onto the horizon, such as living wage or responsible taxation, companies have to consider what their views on these issues are. While the position they ultimately decide upon does not always match that of the shareholder, these questions do contribute to a better informed board.

> *"When the shareholder asks about an issue which we haven't sorted yet, it raises our awareness. We realize that we don't have an answer yet, and that we need one."*
>
> — employee large industrial company B

Example

When a Dutch multinational was asked about its supply chain, it realized that it knew very little about who its suppliers were. One employee explained that this was an uncomfortable position to be in; at the AGM the CEO had to admit that the company did not know all of its suppliers. This was one of the reasons that it decided to join a sector initiative to manage supply chains shortly thereafter.

"This shareholder asked questions on responsible supply chain management which we had not asked ourselves yet. And when you see a shareholder's questions on the same issue develop over time, it is interesting to see how his or her thinking about the topic is evolving."

— employee large industrial company A

"One of our shareholders kept sending us questions on sustainable supply chain management (…). And while we were not planning to join a sector initiative to manage supply chains collaboratively initially, these questions inspired us to change our plans."

— employee large industrial company A

Making suggestions. Another kind of question concerns specific suggestions on how to amend existing policies or transparency-related improvements. Contrary to 'asking for novel information', making suggestions concerns information that the company already has at its disposal, but which it has not made public yet. In these instances, shareholders offer concrete suggestions on which information to report, how to amend corporate governance policies or how to report on competition-sensitive information. Examples include reporting the top-three most material risks in the annual report, reporting whether the company's performance on remuneration targets was above or below target or reporting on tax payments on a region-by-region basis, rather than country-by-country. Companies may decide to adopt the suggestion in particular when: companies see the benefit of the proposal and the cost to implement it is low; or the suggestion solves a tension between not wanting to disclose fully, but having to show progress on the topic.

Examples

In 2010, a shareholder asked a Dutch AEX-listed firm to report its top-three most material risks in its annual report. The company responded favorably to this idea and within six months, the list was included in the annual report. One of the employees explained: *"yes that suggestion was made, and we adopted it because we considered it to be a good idea."*

— employee large industrial company B

"We try to make governance and sustainability into a non-issue so that we can continue to discuss investments. So even if it isn't an important topic for us, if altering our policies or practices regarding this topic won't hurt us either, and it does make a shareholder happy, then we say: why not?"

— employee large industrial company A

Asking for commitments. A last type of question shareholders ask is whether companies are willing to commit to specific goals. This often concerns setting novel sustainability targets, raising existing ones or improving the quality or level of existing sustainability policies. Questions on setting or raising sustainability targets, can alter managements' understanding of how a companies' sustainability performance and aims are perceived by the outside world. Additionally, these questions can support internal actors who are already working on developing novel, or raising existing targets.

Questions on improving existing policies can concern issues that the company does not necessarily oppose, but which management has not allocated resources to as other issues have been deemed more urgent. When shareholders do ask about these policies, it can motivate companies to alter the order of priorities of the sustainability issues on the agenda. This is more likely if multiple stakeholders ask about an issue or policy.

> *"We made the choice to pursue a target on sustainable energy usage 10 years ago. But when it is asked about at the AGMs consecutively, everybody said: well, ok, now we have to pursue this project more seriously."*
>
> — employee large industrial company A

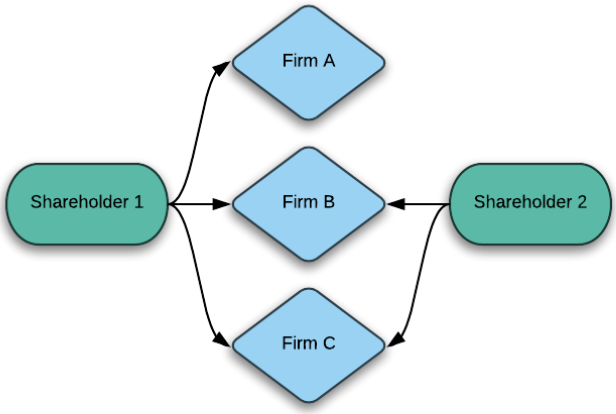
8. With whom to discuss these questions

Shareholders should consider with which employees they would like to discuss their AGM questions in advance, if given the opportunity. Many companies respond favorably if a shareholder asks to meet in private prior to the AGM to discuss their questions.

Companies differ in their strategies on who to send to private meetings with shareholders. While some companies invite those employees responsible for each of the questions posed by the shareholder, other companies only send investor relations or the legal department. Whether a member of the executive committee joins the meeting depends on how many shares the shareholder owns. Company secretaries vary in whether they are inclined to join all conversations with shareholders, or only those with larger shareholders.

As a shareholder, the main consideration with regards to these private meetings is whether it is preferable to meet exclusively with the content experts of the questions at hand, or to also have a member of higher management present, such as the company secretary. When meeting exclusively with the CSR department, shareholders may get more in-depth more information on sustainability matters. At meetings where a member of higher management is present, the conversation may become more high-level, including the strategy of the company in question. Another benefit of meeting with the company secretary is that all issues are immediately placed at the executive level. Additionally, this type of meeting stimulates the exchange of knowledge between different levels of the firm, and may contribute to the formation or further development of relationships across departments. Which type of meeting is preferable depends on a shareholder's theory of change.

Methodology



Research Design

The findings presented below are based on a multiple case study of the engagements of two Dutch shareholders with three investee companies. Two of these companies were engaged by both shareholders, one only by one of the two, leading to a total of five engagement relationships under study (see figure 1). All three companies were Dutch multinationals with high sustainability rankings in various benchmarks. The companies operated in different industries, had between 25,000 and 50,000 employees and their revenue varied from €3.5 to 15 billion. All were multinationals with activities both within and outside of Europe.

While some of the engagement relationships predated 2011, the analysis was restricted to the time period 2011-2016. The data collected included the shareholders' documentation of the engagements, observations of both private and public meetings of shareholders with firms, and a total of 18 interviews: 9 with shareholders and 9 with managers of investee companies.

In the analysis, the process through which the questions of shareholders were distributed within the organization was analyzed, as well as how firms developed formal responses to these questions and how these questions continued to influence investee companies after the AGM. We did so by tracing 'issue flows' within the organization. We defined an issue as any kind of event, development or trend that is perceived as possibly having implications for organizational performance (Bansal 2003). By observing who became involved with an issue over time, and how the stance of the organization on this issue changed over time, we traced the influence of the shareholder's engagement. An example of an issue flow diagram is presented below.