Reimagining Shareholder Advocacy on Environmental and Social Issues:
The promise and pitfalls of ‘E&S stewardship’

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Executive Summary

E&S stewardship describes the ways investors use their ownership power to minimize corporate harms to the environment or society (our preferred approach), or to reduce material risk to firms from environmental and social controversies (the dominant US approach). Most commonly, stewards vote “yes” on E&S shareholder proposals or lobby corporate leaders for change.

Since 2021, investor support for E&S proposals has plummeted. This trend has evoked consternation because many scholars and ESG practitioners regard stewardship as a successful strategy. This report probes the basis of that assumption and reaches a more nuanced conclusion.

Academic evaluations of stewardship now define success as a steward getting what it asks for. Yet all too often, what it asks for is a dust-gathering report, an empty pledge, or an insignificant policy tweak. When Chevron signs on to embrace human rights treaties, that’s scored as a win—regardless of how the company then behaves. Stewardship efforts rarely change business models. At the end of the day, the typical deliverable is a tepid one-off report filed with the SEC that very few people read, much less act upon. The highest-profile example of supposed do-good stewardship—the election of three directors nominated by the “ESG activist” hedge fund Engine No. 1 to the Exxon board in 2021—turned out to be an embarrassing example of form over substance. In the last three years, Exxon has doubled down on its investments in fossil fuels with the blessing of these three new so-called ESG board activists.

The claim that “stewardship succeeds” typically does not reflect what the strategy actually achieves, which often is very little. A token gesture of good will should not be equated with improving society. Scholars who proclaim victory the moment a firm agrees to a symbolic report or minor policy adjustment are like armchair generals who declare “Mission Accomplished” when a recalcitrant foe has nominally surrendered yet the resistance has barely begun.

Shareholders are especially leery of meaningful action on the social front—the S—because it is more risky and costly, and there is less public pressure for them to do so. Within the S, human rights are topics that get the least attention by companies and investors. There has been virtually no success in dealing with global labor supply chain issues or harmful online content. Ambitious initiatives to engage on the S are advancing slowly. Stewardship has typically aimed for results so modest that nearly all claims of success deserve skepticism.

Because they are not evaluated on real-world outcomes, stewards do not sufficiently focus on the actual performance of companies with respect to these issues. This state of affairs is upside down. The only measure of E&S success should be impact on the environment and society. And the only goal of engagement should be meaningful change. Stewardship needs to be fundamentally recalibrated.

Change is hindered by the preference of managers and shareholders for disclosure over action. But even what passes for “action” rarely clears the skies or eases the plight of workers.

The ultimate goal is to generate real change. To achieve that rare outcome, investors must ride wider social currents, following up on pressure from the media and civil society to translate shifting sentiment into meaningful corporate action.
Conversely, some types of disclosure can be solid incremental steps toward upgrading the quality of the air or the quality of workers’ lives.

This report moves beyond the simplistic duality of disclosure versus action. We instead offer a framework that analyzes different forms of disclosure or action based on their social impact. We then apply our framework to examples from both the recent and distant past.

While the overall record of human rights stewardship is one of mixed effectiveness, in some important areas E&S stewardship has contributed to broad social progress, for instance on LGBTQ rights and women in the boardroom. History shows that quiet stewardship can boost compliance with data reporting regimes, which is often an essential first step toward action. In some cases, usually after embarrassing headlines, engagement can lead to deeper reforms. Make no mistake: stewardship needs to be thoroughly reconceived. But the strategy has enough potential and occasional impact to be worth saving.

Having finally established, with many caveats, that stewardship merits our concern, we return to the current moment of retrenchment. The most influential stewards—the major US money managers—deny that they are to blame. Silly as this may sound, their counter-narrative is so widely accepted in business circles that it deserves to be rebutted.

Genuine stewards need to learn from hard experience and aim higher. Campaigns that have real impact are often the result of collaboration and target full sectors of the economy. Many grab the firm’s attention by disapproving company directors—perhaps the most neglected tool in the stewards’ toolkit, but also the most robust. The ultimate goal is to generate real change. To achieve that rare outcome, investors must ride wider social currents, following up on pressure from the media and civil society to translate shifting sentiment into meaningful corporate action.

### Recommendations

**For Shareholder Advocates**

1. **Give greater priority to social issues, especially to the rights of workers in global supply chains.**

   Advocates have been most effective in promoting climate reporting and climate pledges. The climate crisis poses an existential threat and deserves priority attention. But this does not preclude greater attention also being paid to social issues. We recommend greater focus on three social issues in particular.

   Above all, we would like investors to prioritize the treatment of outsourced workers throughout global supply chains. Though shareholders have played an important role in supporting the rights of workers to organize in the US, for example at Starbucks, there have been very few instances where conditions for workers in developing economies have improved as a result of stewardship initiatives. Investors need to heed the call of advocates in this arena, with the goal being the actual improvement of worker conditions in the supply chains of global brands and retailers.

   In the realm of diversity, advocates have been effective in pushing many firms to disclose the composition of their workforce, and to raise the representation of women on corporate boards. Less progress has been made in raising the board representation of African Americans and other under-represented minorities. This should be a future priority.

   Finally, we would highlight a range of human rights challenges related to information technology, such as privacy and misinformation. To date, advocates have not succeeded in affecting the actions of major technology firms (in part because their high rates of insider ownership make them challenging to influence). These issues should nonetheless be future priorities for investors, who can add to the pressure on the tech sector coming from other sources.

2. **Assess the current social landscape.**

   A major shareholder advocacy group should undertake a comprehensive assessment of the effectiveness of social stewardship, with real-world change as the criterion of success. This type of assessment would provide a useful baseline, helping to identify areas where greater shareholder efforts are needed.
**Set a higher bar for future engagement.**

Too often, shareholder resolutions on S issues aim low in the hope of attracting majority support from large institutional investors. One popular strategy is to ask a company to commission a one-off report on its shortcomings. Few of these reports are revelatory, and they rarely lead to change. Shareholder advocates should judge success only by what alters outcomes in the real world. This means doubling down on strategies that hasten real-world change and abandoning strategies that merely secure victories on paper. S-related efforts should focus on areas like global labor rights, where the problems are most significant and widespread.

**Support the development of newly enacted social and environmental laws and regulations.**

As a new wave of mostly European ESG laws take root, investors have a key supplementary role to play. They can pressure businesses to comply fully with the requirements of the EU Corporate Sustainability directives, the German Supply Chain Act, the EU regulations on forced labor and deforestation, the US law on Uyghur forced labor, the SEC Climate Rule, California’s climate disclosure laws, and the EU Digital Services Act. In addition, advocates should harness the data from such laws to press for remedial actions that the data shows to be needed. Finally, shareholders can assist governments by demanding integrity in how data is collected and independently verified. Just as with financial data, investors should demand the highest levels of attestation and assurance.

**Where new ESG laws leave gaps, engage with responsible companies to fill those gaps.**

Investors should encourage mid-size and small firms in high-risk sectors to conduct human rights due diligence—even though those firms were excluded from the EU’s final Due Diligence Directive at the last moment. Similarly, investors should press companies to disclose their Scope 3 climate emissions, even though those emissions were omitted from the SEC’s final Climate Rule. And they should press firms to make workforce and diversity disclosures, despite the SEC’s failure to even propose a “human capital” rule. These should ideally detail employment data, wages, and workplace conditions for a firm’s full global workforce, broadly defined.

**Build ESG funds around a specific stewardship strategy.**

Due to the flaws in existing ESG funds, stewardship is for now the main operative theory of ESG change. Asset managers should embrace it wholeheartedly by designing funds whose unique strategy is to engage intensely on a certain theme—for instance, on supply chain human rights.

**For the US Government**

**The SEC should stop undermining shareholder activism.**

The SEC should give a full statement of reasons when it effectively permits a company to remove a shareholder proposal from the proxy ballot. It should stop interpreting its own rules so as to deny investors their rights as owners to give meaningful input on corporate social or environmental policies. Restraining investors in this way is especially absurd given that proxy proposals are already subject to the support of other investors, and to the company’s discretion.
1. Introduction

Environmental and social stewardship describes the methods by which investors use their ownership power to try curbing corporate harm to people and the planet. E&S stewards use the same tools as hedge fund activists or governance reformers, but differ in their goals. Hedge fund activists seek profit by boosting a firm’s share price. Governance reformers hope to better align manager and shareholder interests (occasionally toward E&S ends). E&S stewards push firms to protect people or the planet, and many believe that doing so will lower risks to investors.

Also known as “E&S engagement,” stewardship can take several forms. First, investors may vote “yes” on non-binding proposals filed by values-driven shareholders at company meetings. Second, they may lobby for change by engaging with corporate leaders. Third, they may withhold support for management proposals, especially for the election of directors. Finally, an investor may mount a proxy fight in the name of E&S values and seek to elect its own directors over those nominated by management. In theory, an E&S proxy fight has revolutionary potential because it gives values-driven shareholders the wherewithal to impose their will on the company. Unfortunately, history presents only one example of an E&S proxy fight that proceeded to a vote—at Exxon in 2021—and it has had no meaningful effect on the firm’s business practices.

A false dawn for Stewardship

The Exxon proxy fight fed a narrative of ESG triumphalism, because it arrived in the late spring of 2021. In the proxy season that was drawing to a close, average support for diversity and climate proposals would reach an unprecedented level of 50% or higher. Over three dozen E&S resolutions would pass. To climate and diversity activists, the future seemed bright.

It was at this moment that tiny Engine No. 1, presenting itself as an ESG-driven hedge fund, won a proxy fight to pack Exxon’s board with three new directors with expertise on the transition to green energy. The Exxon-Engine saga dramatizes the challenge of gauging, or achieving, E&S success.

Owning a trivial .002% of shares, Engine No. 1 energetically lobbied Exxon’s
leading owners, starting with the “Big Three” asset managers. At the May 26 company meeting, Vanguard and State Street supported two Engine candidates, and BlackRock supported three. When the dust settled, Engine No. 1 directors had captured a quarter of the 12-member board. For the first time, it seemed, an ESG activist had persuaded institutional investors to force change at one of the countless firms they significantly control.4 “This is a big deal,” proclaimed the financier-turned-columnist Matt Levine. Nearly all observers expected that Engine No. 1 would aim to transform Exxon’s climate approach. Some of the savviest foresaw a new era of E&S stewardship.5

These expectations aged poorly. In the year after Engine No. 1’s win, the price of oil and oil shares spiked. Exxon raised production, and skeptics’ eyebrows rose.6 In a head-snapping interview, Engine No. 1 founder Chris James told the Financial Times, “I never considered myself an activist investor.”7 In fall 2023 Exxon struck a $60 billion deal to buy Pioneer Natural Resources—doubling down on fossil fuels with the blessing of its three Engine No. 1 directors. “We need oil and gas in the short-term,” explained a spokesman for the not-so-revolutionary hedge fund.8 Then Exxon went to the extreme of suing genuine E&S stewards for trying “to stop climate change.”9

The new era of stewardship was illusory, for Engine No. 1 was never what it seemed. But regardless of that fund’s motives, a new E&S proxy fight will be tougher to win, because Engine No. 1’s win hinged on support from the Big Three asset managers, and their support was the artifact of a brief historical moment. In the surest sign of cultural turnabout, in 2023 BlackRock named the CEO of Saudi Aramco to its board.10

### The E&S roller coaster

Historical shareholder support for E&S proposals was meager, averaging under 10% during the 1990s and 2000s.11 Support jumped following the Deepwater Horizon spill of 2010. It kept climbing as more investors embraced the ESG framework, and as E&S advocates lowered their sights—increasingly asking for disclosure rather than demanding action.12 The pandemic years, when the murder of George Floyd heightened racial awareness, gave stewardship another boost. Yet the investor vogue for diversity was fleeting.

E&S advocacy has continued to intensify, with the volume of E&S filings nearly doubling in four years to 368 in 2024.13 But actual investor support reached its top in spring 2021, and for obvious reasons. Within weeks of the Engine No. 1 proxy fight, the first anti-ESG laws, restricting investment of red state public pensions with “woke” asset managers, took effect in Texas and Maine.14 At the end of the next proxy season, red state attorneys general upped the ante, sending BlackRock a threat letter arguing that net-zero pledges by asset managers are unlawful.15

The pro-ESG movement faltered. From a peak of 34% in 2021, average investor support for all E&S resolutions fell to 20% in 2023.16 As a result, the passage rate dropped from 21% to 3%.17 Among contested E&S proposals, the number that passed plunged from 38 to eight.18 Even then, some firms scoffed and ignored its shareholders’ nonbinding recommendations, like firearm maker Sturm Ruger, whose shareholders asked it to write a gun safety report. According to a survey by PRI, the UN coalition for responsible investment, only about a quarter of firms fully act upon a passed E&S proposal within a year, and another quarter are likely to ignore their shareholders’ will entirely.19

Aside from losing history’s only E&S proxy fight, Exxon has been near the top of the proxy hit list ever since E shareholder activism began in earnest, following the 1989 Exxon Valdez spill.20 In 2023 alone, it was the target of eight climate resolutions. Yet the NGO Carbon Tracker recently gave Exxon a below-failing grade for alignment with the Paris climate goals.21 As one astute observer put it, “Engagement as a way of achieving [the climate transition] seems to be like asking a lion very politely if he would consider the advantages of vegetarianism.”22
2. How Stewardship Falls Short, and Why it is Worth Reforming

The rate of “success” in E&S stewardship is studied obsessively, with success thinly defined as obtaining some of the advocate’s stated objective. Often what an advocate seeks is a report that’s doomed to gather dust or a procedural “action” that doesn’t reverberate in the real world.

The illusion of E&S “success”

A set of widely cited studies measure the general success rate for E&S stewardship by an asset manager over a multi-year period. According to the most encouraging findings, a European asset manager achieved a desired objective in 53% of E and 61% of S engagements.23

Cambridge University’s Ellen Quigley aptly dismisses these studies as meaningless because most of the “successes” merely generated ineffec-tual reports or protocols, rather than resulting in any operational change.24

A breakdown of the rosiest study shows a divide between requests for E disclosure, which “succeeded” at an 81% clip, and action-oriented E requests, which “succeeded” in 27-31% of cases.25 Yet even when stewardship spurs an “action”—a category that often encompasses empty pledges and policy tweaks—that action is rarely consequential. For instance, one study scored an energy company’s shift toward natural gas as an E victory.26

Another article valorized Chevron’s 2010 pledge to respect a few non-binding human rights treaties as an S triumph.27 A less naïve conclusion, by scholars of corporate communications, is that “[t]he changes corporations adopt as a result of engagement have been marginal procedural adjustments, rather than substantive changes.”28

The literature evaluating stewardship simply neglects to assess the real-world outcome of each campaign.29 Yet impact on the environment and society should be the sole criterion of E&S success. Hanging a “Mission Accomplished” banner after meeting an interim tactical goal does not signify that the war has been won.

The limited value of settlement

E&S advocates make the fair point that last year’s 3% passage rate for E&S proposals is misleading. Some companies respond to engagement before an issue matures into a proposal. Others respond to proxy votes that merely draw a decent level of shareholder support, short of passage.30

Many others forge an agreement in exchange for a resolution’s withdrawal from the ballot.31
But again, the advocates generally score a settlement granting some of their demands as a “win,” never mind the ultimate outcome. The NGO As You Sow boasted that it elicited a response from approximately three-quarters of the firms it engaged in 2022. The nonprofit Ceres hailed it as “the quiet victory” of 2023 when nearly a third of its tracked E proposals led to settlement. Putting aside outcomes, there is reason to doubt this trend will persist. After all, one year’s settlements rely on the scarce value of the prior year’s votes. Withdrawals are already dropping. The fall of E&S support may portend a reluctance to compromise.

By far the more fundamental question is whether what the activists want is enough. A 2015 Ceres study found that 86% of the climate commitments it tracked in 2014 and 2015 had been fully or mostly implemented. But this only assesses, for instance, whether a firm has set a target—not whether it has met a target. Cambridge’s Quigley objects that most withdrawals elicit mere commitments—and most commitments likely go unfulfilled in the larger sense. Another skeptical study finds that E&S conduct only worsens after a withdrawal agreement. “[M]anagers’ responses,” it concludes, “are symbolic rather than substantive.”

The special challenges of S engagement

If real-world change is the only proper measure of success, then human and labor rights stewardship usually fails. The hard truth is that meaningful improvements in human and labor rights—like raising wages or improving workplace health and safety globally—are likely to add costs and reduce profits, at least in the near term. And historically, both firms and shareholders have been unwilling to absorb these added costs. In the realm of the S, every proposal that passed in 2022 and 2023 was disclosure-based. Proposals on human rights (which proxy watchers conventionally analyze separately from labor rights) are among the least likely to either pass or end with a corporate agreement.

Since 2021, the number of resolutions filed on human rights risks have hovered around 20 per season. Last year, a dozen proposals on Chinese human rights issues averaged an anemic support rate of 4%. The SEC blocked the one vote set on Burmese human rights issues. Only three contested resolutions on supply chain human rights reached a vote. Longstanding campaigns against child labor yielded only a piddling 4% “yes” vote at Hershey, and a middling 20% at Mondelez. In the most successful supply chain vote, at TJ Maxx, support reached 26%. The one proposal for a human rights report that passed the prior year, at Sturm Ruger, was ignored.

Recognizing that social issues beyond diversity are under-engaged, several groups have mounted worthy initiatives. Regrettably, early progress has been halting. The UN Global Compact launched the Forward Faster Initiative on Achieving a Living Wage last year, yet the Platform for Living Wage Financials has pressed investors to supply chain wages since 2018. “[W]e are left with a bit of an unsatisfactory feeling,” confesses PLWF engagement manager Marie Payne, “as we have yet to see widespread evidence of brands moving from data-collection to action.”

The most notable new S group is Advance, a $30 trillion PRI coalition that launched in 2022 with the aim of balancing PRI’s historical tilt toward E stewardship. But Advance itself is advancing slowly. One participant grumbled to Responsible Investor magazine: “It’s not working. It’s just slow, and I’m not really satisfied with the progress.” A second saw “very little happening.”

Social stewardship appeals less to both investors and companies, because E progress can be measured more precisely (after years of hard work by groups like CDP and TCFD); and because climate change makes the business case for improving E performance more obvious, certainly in the long run. None of that removes the moral imperative of using stewardship to improve corporate S performance as well. Advocates’ continuing challenge is to refine outcome-based S metrics for each sector; and to maintain the pressure on firms to improve their S conduct, to avoid reputational risk and because it’s the right thing to do.

A surprising obstacle to E&S stewardship

Sometimes a company seeks assurance from US regulators that it may bar a shareholder proposal from its proxy ballot without being disciplined. The Trump administration gladly used this power to help strangle many E&S proposals in the cradle. In 2021, the Securities and Exchange Commission predictably signaled a change in direction. Democratic regulators issued a more shareholder-friendly reading of "SEC Rule 14a-8," which lays out the acceptable grounds for a company to block a proposal. On paper, that should have made it harder for a firm to obstruct investor activism. But surprisingly, the Biden SEC has effectively barred 2024 resolutions from the proxy ballot at the same rate as the Trump SEC.

Recent SEC rulings have been astonishingly restrictive—especially in the S domain—and deferring excessively to company assertions that disputed resolutions intrude on “ordinary business,” or constitute “micromanagement.” In 2024, the SEC cited micromanagement in blocking resolutions seeking to force
Delta to disclose its spending on union suppression and to oblige Amazon to disclose the payment of sub-living wages to workers. Using the same rationale, the SEC blocked a 2023 proposal for Kroger to join the Fair Food Program, which aims to end forced labor and worker abuses among suppliers.50

This year’s surge in anti-ESG Rule 14a-8 letters by the SEC may reflect a shift in corporate mores. Firms have been historically aggressive, making 259 requests to exclude proxy proposals in 2024 through May, compared with 167 such requests in all 2023.51 This is a disturbing trend, of a piece with Exxon’s astounding choice to sue the stewards who dare to query their co-owners on the wisdom of Exxon going all-in on fossil fuels. Nonetheless, it does not explain why the proportion of requests granted by the SEC has held steady despite the SEC’s change in policy.

What might account for the jarring discrepancy between the Biden administration’s avowed loosening of its Rule 14a-8 guidance and the continuity of results? One possibility is that the career staffers writing the advisory letters have not properly absorbed the new guidance, or are reverting to their personal biases as they are swamped by requests for Rule 14a-8 letters. A Journal of Accounting and Public Policy article, studying Rule 14a-8 advisory letters during the Obama and Trump administrations, found that the identity of the SEC staff member writing the letter was a statistically significant determinant of outcome — and that staffers who were inclined to bar a resolution outnumbered the staffers who were disinclined by 73 to 12.52 This would suggest a need for closer oversight by supervisors in the Corporate Finance division.

The SEC must appreciate that the “no-action letters” issued by its Rule

What E&S Stewards Say In Their Own Defense

Prior to final publication of this report, we shared a draft with several long-time shareholder advocates who generously offered feedback. Their common perspective is that the report does not adequately describe the many tangible benefits of stewardship. One of the highly respected leaders who responded was Tim Smith, who has been actively involved in a wide range of stewardship efforts since co-founding the Interfaith Center for Corporate Responsibility in 1971. Even though he and his colleagues are sometimes frustrated in their short-term efforts, he forcefully argued that investor advocates excel at “drawing attention to shocking and substandard corporate conduct in a very visible way.” In sum, Smith observed, “We often get the debate started.”

Jonas Kron, chief advocacy officer of Trillium Asset Management, told us that it’s unrealistic to expect investors to singlehandedly transform businesses overnight. He embraces what the Journal of Management Studies calls a “field building” approach.1 The idea is that stewards shape assumptions, norms, and rules in the larger corporate setting by stigmatizing certain behavior, promoting voluntary standards, and pushing regulatory change. “Engagement should not be viewed in isolation,” but as one point of pressure among many, he said. “We’re asking new questions, influencing investors to think differently, contributing to a larger body of work by stakeholders of all kinds.”

One of Smith’s colleagues, Rebecca De Winter-Schmitt, is the associate director of the Investor Alliance for Human Rights, an ambitious platform for collective action that shares many of our Center’s priorities. She argued that our report is too absolute in dismissing the value of certain modes of stewardship — and too quick to find failure — even as our report “captures the complex interplay of factors that can move corporations towards more responsible conduct.” Indeed, our two groups broadly agree that disclosure is generally a needed precursor to action, that stewardship “is only one tool to be used in conjunction with others,” and that the recent blossoming of sustainable regulation provides an opportunity for investors to play a crucial supporting role, because hard law is incomparably most effective in spurring a company to act.
Rob Berridge, who directs engagement at the non-profit Ceres, is among many advocates who stress the constraints placed on investors by the SEC. Climate pledges, while imperfect, are often the best practicable outcome in his view. As an example, he points to a 2021 settlement with the steelmaker Cleveland-Cliffs. “Investors basically got the US rolled steel leader to commit to decarbonize on a science-based timeline. That’s a win. Yes, some companies might fall short of meeting their commitments—but that’s why investors also increasingly ask for annual transition plans. What more can investors do? They are not regulators. The way the SEC interprets its rules, investors can’t just ask steel makers to do something really specific like use more green hydrogen.”

Andrew Bechar has served since 2010 as chief executive of As You Sow, which bills itself as the nation’s non-profit leader in shareholder advocacy. He agreed that E&S stewards are shackled by regulatory constraints—and highlighted the added challenges posed by the conservative anti-ESG movement. If the Republican-controlled House Committee on Financial Services ever has its way, Congress might pass a bill that gives companies near-total control over what investor proposals they are willing to entertain. “You have to understand that our hands and feet are tied behind our backs,” Bechar said.


14a-8 team have the force of legal rulings; yet they routinely assert that the line has been crossed into micromanagement, with no elaboration. A modicum of shareholder democracy requires that an E&S question be put to the full investor base (and if it passes, to management), subject to reasonable limits. The SEC should stop construing its rules so narrowly as to deprive investors of their right to urge corporate protection of the environment and society or the minimization of material E&S risk.

Why E&S stewardship is still worth reforming

There are two primary ways for socially conscious investors to influence large public companies to protect the environment and society: through engagement or through ESG fund construction. Most scholars believe that, at present, engagement is more likely to have an effect.

“[E]ngagement emerges as the most reliable mechanism for investors seeking impact,” concludes a team led by MIT’s Julian Köbel. On the same basis, Stanford’s Jonathan Berk and Wharton’s Jules van Binsbergen urge ethical investors not to divest, but rather “to invest and exercise their rights of control.” In more elegant terms, the economists Eleonora Broccardo, Oliver Hart, and Luigi Zingales advise using “Voice” over “Exit” as a way to boost social responsibility. Elsewhere, Hart and Zingales go further, and argue for designing ESG funds around a specific stewardship strategy. When Alex Edmans of the London School of Economics told the Wall Street Journal that “engagement is the key mechanism through which sustainable investing has impact,” he spoke for a daunting group of heavyweight scholars. We take a more nuanced view of both premises, and draw a more nuanced conclusion.
We agree that existing ESG funds generally fail to influence companies through portfolio construction, as we elaborated in the Center’s 2023 report on investment. Perversely, most ESG ratings only assess ESG factors when the legal or reputational risks to the firm are significant. Yet ESG investors must hold a firm accountable precisely when those mechanisms fail, and when harming the world may be profitable or go unnoticed. Most current ESG funds barely differ from their non-ESG benchmarks.

And most ESG funds pick their holdings based on an aggregate score for each company that combines countless subfactors, making it hard for the company to know what conduct is being encouraged or discouraged. ESG fund construction will not sway the C-suite until ESG funds are reformed. However, our last report charts a path to creating funds that prioritize clear and well-measured ethical objectives. And that path is worth pursuing.

As ESG funds are reimagined and strengthened, engagement is for now investors’ main potential lever of power over corporate conduct, with emphasis on the word “potential.” The stronger and more common claim—that stewardship is the key mechanism for actual impact—goes too far. A company tossing a bone to activists should not be confused with one agreeing to real-world change.

**Toward a pragmatic definition of E&S success**

“Evidence of positive results are lacking,” Cambridge University’s Quigley wisely concludes after reviewing the stewardship literature. “These results are incremental at best – if there is any real-world outcome at all.” Overall, E&S engagement “has not yet proven itself an effective” strategy in her view. The under-used exception is the tactic of withholding support for company directors, which has yielded robust real-world results in lowering CEO pay, enforcing climate disclosure, and promoting women or minorities on boards, as discussed below. Quigley holds out hope that the general strategy of E&S stewardship “could become more effective,” with greater use of the tactic that is proven (director voting)—and a greater focus on outcomes.

We concur with Quigley’s generalizations that E&S stewardship usually yields empty symbolism and that the existing scholarship has defined “success” naively. We also support her recommendations that stewards withhold their support for management directors more often and prioritize real-world change above all other goals.

However, Quigley may overstate the historical failures of stewardship because she is primarily focused on stewards’ inability to alter the business models that stoke climate change. In addition, her analysis is weakened by her reliance on the standard taxonomy, which simplistically divides all stewardship into the two goals of “disclosure” and “action.”

Just as ESG funds need to be reformed, so too must efforts to engage with companies be fundamentally strengthened if they are to realize their potential to shape business impacts on society. That potential makes it imperative to assess stewardship’s record, with an emphasis on the S. To do so properly requires a more precise and ambitious analytical framework.

“Until ‘ESG’ investment funds are fixed, engagement is for now investors’ main potential lever of power over corporate conduct, with emphasis on the word ‘potential.’”
Sophisticated activists have no illusion that stewardship is a cure-all. They know that their role is supplementary, to fill the void where government is paralyzed.

3. A New Analytical Framework for Stewardship

Stewardship proposals are conventionally divided into two unitary categories: corporate “disclosure” and corporate “action.” But these broad categories conceal more than they reveal. The only criterion that should matter is real-world change.

The Varieties of E&S Disclosure

However much they might prefer action, stewards are acutely aware that disclosure-based stewardship is likelier to find a receptive audience. Last year shareholders failed to pass a single action-directed E&S proposal. More precisely, every proposal that passed took the form of a report.64 A long-term study by the proxy adviser ISS shows that the proportion of proposals calling for E&S disclosure rose sharply after 2010. ISS partly credits this conciliatory approach with the long rise in shareholder support after 2010.65 But not all disclosures are created equal.

A tale of two reports

Whatever issue they addressed, most 2023 E&S proposals took a single form, and in most cases, a singularly ineffective one. Investors’ go-to move is asking the board to commission a one-off report assessing a certain problem. If company assent is the marker of success, then asking for a harmless report is a masterstroke. If social impact is the goal, then it’s usually pointless—but not always. Last year’s reports on union suppression at Apple and Starbucks present a fascinating case study, with Apple representing business as usual and Starbucks showing a new path forward.

One of the most feted “successes” of 2023 focused on freedom of association at Apple. Investors asked the firm to report on the tension between its alleged efforts to defeat union organizing and its nominal respect for the International Labor Organization’s Core Labor Standards. The resolution settled with fanfare—and a non-revelatory report issued quietly at year’s end. The proponents followed up with a sharp critique. The legal team that conducted the study had relied primarily on a “desktop review” of Apple’s written policies—without speaking to workers and without specifically addressing the federal unfair labor charges. The law firm report concluded that Apple was making reasonable efforts to comply.66

At Starbucks, investors obtained a similar report by winning a shareholder vote, and the report suffered from similar flaws.67 But there the story takes a dramatic twist. A union coalition called the Strategic Organizing Center (SOC) began to mount the world’s second
ESG proxy fight—nominating three union-friendly directors for the Starbucks board. About two weeks before Starbucks’ 2024 general meeting, Starbucks agreed to begin the process of national collective bargaining, and SOC dropped its proxy fight. An expert on unionization said that it was a “huge step forward” if genuine, and by June, Starbucks had reached several key early agreements with union organizers.68

What made the difference at Starbucks? Union organizing was clearly essential, but that was not sufficient at Apple. “I don’t believe Starbucks would have settled but for the proxy fight,” opines Chief ESG Officer John Adler of the NYC Comptroller’s Office, who helped lead both investor campaigns.69 What suddenly made an ESG proxy fight feasible after the Exxon debacle? The answer is “universal proxy cards.”70 A technical change in the physical logistics of voting, adopted by the SEC in 2022, reduced the cost of proxy fighting by an order of magnitude, from $35 million for Engine No. 1 to $3 million for SOC. And while the retreat of big US asset managers has made it hard to build support, SOC compensated by recruiting the top proxy advisers. With creative allies, genuine investor success is possible.

The value of ongoing reporting

Ongoing reporting of E or S data should not be lumped in with a one-shot, single-issue report by a professional beholden to the board. The value of such ongoing disclosure may be limited and contingent, but it can be real. That which is measured publicly may not improve immediately, but at least it stands a chance of improving, as better metrics and mechanisms of enforcement are developed, and as public opinion gathers force.

Our position is that stewards should make demands for ongoing reporting alongside their demands for sweeping action. Uniform reporting under the best metrics can have value so long as it is properly understood as the precursor to action, rather than as an end in itself—or even worse, as a substitute for action. Sophisticated activists have no illusion that stewardship is a cure-all. They know that their role is supplementary, to fill the void where government is paralyzed (as is routine these days in Washington, DC). While some cynical executives may see voluntary disclosure as a way to avoid mandatory disclosure, and disclosure as a way to stave off action, the shrewdest stewards push for all of the above. US sustainability advocates have recently poured their energies into SEC disclosure rules. They know that mandatory uniform reporting under clear metrics—on human capital as on climate—would empower constituencies inside and outside the corporations to push for follow-up reform and for further regulatory steps.

The value of any reporting system depends initially on the strength of its metrics and indicators, and many early reporting frameworks (like the UK Modern Slavery Act) have not been constructive.71 But if more ambitious frameworks evolve, especially within the S, this may be an area where future stewards can play a constructive role. Stewards have historically been effective in helping to enforce compliance with reporting frameworks, though many of the current reporting frameworks are weak.72

Since 2020, BlackRock has pushed the worst publicly-traded carbon polluters to report in line with voluntary global standards, warning that it would discipline laggards by opposing their directors.73 Here BlackRock has followed through in useful ways. On climate grounds, it withheld support for 270 management proposals related to directors in 2022, and 213 in 2023. The share of the world’s 1,000 most-carbon-intensive firms that fully disclose under the Task Force on Climate-Related Financial Reporting rose from 57% to over 70% in just two years.74 Vanguard and State Street, on a smaller scale, have also focused on engaging with carbon polluters.

One study has accordingly found a correlation between Big Three engagement and reduced emissions.75 Of course, a proven method in the E arena may also be applied in the S. The same discipline should be used to enforce reporting on S factors, like human capital management. And human capital data should encompass indirect workers in the supply chain.

An important caveat is that big asset managers outside Europe rarely discipline companies that lag in climate action (versus disclosure). The NGO Majority Action studied the director votes of 16 global asset giants at the 16 companies that it deems most out of sync with the Paris Climate Accord.76 Vanguard and Fidelity rubber-stamped every director named by the Paris scofflaws, and BlackRock was not much better.77

The Varieties of E&S Action

The key to understanding E&S proxy politics is to realize that the resolutions lauded by E&S advocates as “action-oriented” are exactly the ones deployed by big US asset managers as “prescriptive.” The irony is that disclosure is designed to lead to action. The whole point of firms disclosing their carbon footprint, or supply chain wages, is to enable other actors (like investors and regulators) to operationalize the shared data to protect people and the planet. A proposal requesting follow-up action is thus the logical sequel to one demanding disclosure. Such a strategy would seem unobjectionable when it seeks action aligned with globally accepted norms.

Managers driven by short-termism do object, because meaningful change will add costs. But not all “active” proposals are meaningful. Different types of action may be arrayed along a spectrum according to their likelihood to effect real change (and elicit resistance).

Pledges and commitments

Pledges are the easiest “action” for a company to concede, because they are costless, symbolic, and revocable.
Chevron’s 2010 commitment to the highest UN and ILO standards on human and labor rights didn’t halt its collaboration with Myanmar’s abusive military junta. Similar policies at Apple haven’t softened that firm’s hostility to unionization. BP and Shell scaled back their pledges to reduce oil and gas production this decade as soon as it suited management’s fancy. Even if a current CEO makes a pledge in good faith, he won’t be around forever. He might even be ousted because of his E&S commitment, as arguably contributed to leadership changes at Danone and Unilever. The median CEO tenure in the S&P 500 is under five years.

On the 2023 ballot, ShareAction classified over a quarter of the E&S questions it tracked as action-oriented (69 of 257). Most of the “actions” demanded were climate commitments—for instance, to set Paris-aligned emissions targets or a timeline for phasing out fossil fuel financing. The rare S example was a request that Rivian, the electric carmaker, adopt a human rights policy throughout its supply chain consistent with UN and ILO standards.

The best that can be said of pledges is that they provide a foothold within the company for constituencies to advocate for change. “Symbols can offer an important starting point,” argues the law professor Kishanthi Parella. Unfortunately, as the Apple example shows, follow-on reports that are designed to document the divergence between a firm’s pledges and practices can be futile in their own right. Perhaps a new wave of proposals that spotlight the mismatch between a firm’s policies and political activity will fare better.

**Due diligence: adopting a policy that might lead to real-world change**

The second-easiest way for a cynical company to coopt its critics is to agree to an empty, low-cost policy tweak. At the same time, protocols are the standard tools for an enterprise to operationalize change through human rights due diligence. As with ESG pledges or ESG reporting, human rights due diligence policies can be important, but are insufficient on their own. Firms must avoid the pitfall that procedural change will *take the place of substanti- tive change*—especially in the realm of human rights. As ever, the sole criterion of success should be outcomes: more livable wages, fewer accidents, less child labor, less forced labor, and so forth.

A dozen 2023 resolutions classified by ShareAction as “action-oriented” asked for due diligence, and many garnered substantial support. At least four asked firms to ban union-busting, with processes installed to identify and prevent or remediate any violations. Another half-dozen asked drug makers to adopt a process considering equitable access to drugs before extending their patents.

Due diligence merits close attention because advocates cite it as a historically successful strategy for engagement on *human rights*, and its centrality will only grow as EU supply chain laws are phased in. But it can only be judged retrospectively, and current evaluations rarely focus on outcomes. The most we can do is to review the policies adopted in the nominal success stories and look for hints in existing flawed sources as to whether change has taken hold and persisted.

A 2014 investigation by *The Guardian* exposed Thailand’s CP Foods for relying on forced labor to supply its fishmeal. Within weeks, the Dutch asset manager Robeco organized a PRI coalition. The investors pushed the world’s leading prawn producer to map its supply chain, limit its purchases to certified processing plants, audit its labor standards, and develop sustainable sourcing protocols. CP Foods still scores relatively respectfully in the World Benchmarking Alliance’s Seafood Stewardship Index. But in a common pattern, it has recently slipped from 3rd to 8th among the 30 companies ranked in its sector.

Following a 2020 sweatshop scandal at the UK fast-fashion brand BooHoo, US asset giants spurred the firm to publish its supplier list; cut nearly 400 suppliers from its roster; build a manufacturing center to model best practices; and—not least—appoint a director with ESG expertise. BooHoo debuted on the “Know the Chain” human rights scorecard in 2023, with an above-average rating of 28th among 65 apparel makers. While such tools are perhaps most reliable in comparing a single firm over time, here we lack the advantage of a prior score history.

As You Sow began engaging with Monster Beverage because the company placed dead last in Know the Chain’s 2016 food and beverage scorecard. As a consumer youth brand facing negative publicity on child labor among Indian sugar suppliers, Monster was receptive. As You Sow proclaimed Monster a stewardship poster child when its score soared to the 53rd percentile in 2020-21. Regrettably, its score then slid to the 38th percentile in 2022-23. For Monster’s slide, As You Sow CEO Andrew Behar blames fickle human rights funding, which halted his group’s annual follow-ups after five years. While media coverage and nonprofit funding may ebb and flow, the countervailing pressure to beat quarterly earnings calls never lets up.

Patricia Jurewicz, the founder and longtime CEO of the Responsible Sourcing Network, points to Uzbek cotton as a regional sector where a long stewardship campaign, starting in 2007, lastingly slashed the incidence of child labor. At the end of the campaign’s first decade, Jurewicz gave credit for the decline in child labor to multiple actors using multiple strategies. Reliably-funded nonprofits issued biting reports, seeded local or global media coverage, and threatened a consumer boycott. Investors prodded Western firms and governments to lobby Uzbekistan, and the ILO deployed experts to design an enduring solution. The 2016 death of the post-Soviet dictator Islam Karimov, and the coming
into power of a more reform-oriented government, has also aided efforts to address Uzbek forced labor. The US Labor Department confirms in its 2022 International Child Labor & Forced Labor Reports that Uzbekistan “has made strong progress in addressing labor issues in the cotton harvest.”

Finally, the Brumadinho dam disaster set in motion due diligence at a sectoral level worldwide. The 2019 collapse of a mine tailings dam in Brazil, killing 250 Vale workers and contractors, was both an E and an S tragedy. Within days, the pension funds of Sweden and the Church of England rounded up 114 PRI members managing $14 trillion. The investor coalition rapidly got 45 of the top 50 mining firms by revenue to publicly catalog nearly 2,000 tailings dams—which had previously been secret ticking time bombs—and to institute a 24/7 alert system. Next, the investors developed a global standard on mine waste management and persuaded over half of the sector to adopt it. To discipline firms that won’t consider the new standard, some investors are refusing to approve their board chairs. Though in some respects it seems a model for sectoral due diligence, this campaign is too fresh to assess. As for the vital task of providing a remedy to the victims’ families, Vale continues to keep that pace through 2023.96 This effort has resulted in the appointment of more women to corporate boards. Modest progress has also been made in appointing minority group members, and reducing extravagant CEO compensation.

Stewards who would slash CEO pay may also claim some limited impact. Despite the problem’s obvious persistence, a 2011 Review of Financial Studies study awarded a gold star to 134 campaigns opposing director reelection at firms that overpay their chief executives. Scholars give the activists credit for driving down CEO pay at targeted firms by a sturdy 38%.98

**A stark choice**

A choice between the tamest sort of disclosure and a bold form of action was presented by two competing 2022 resolutions to improve Amazon warehouse working conditions. Professional stewards presented a state-of-the-art proposal that asked for a report. At the general meeting, warehouse worker Daniel Olayiwola offered a floor resolution. He demanded an end to the productivity quotas and surveillance that he blamed for the epidemic of warehouse injuries. The proxy proposal won 40% support. Olayiwola’s idea garnered all of 0.2%.96 But is the goal to study the problem or to solve the problem? Olayiwola offered a real solution, which has since been taken up by federal and state legislators.100 The bolder strategy better served the workers’ cause.
4. How Large US Asset Managers Have Abandoned E&S Stewardship

Having established that engagement, for all its shortcomings, holds promise, we return to the present era of backsliding. The dominant US money managers insist that they’ve remained consistent. But the facts show clearly that they have retreated in the face of the anti-ESG movement.

The US Industry’s Responses to the Anti-ESG Backlash

The recent plunge in support for E&S proposals is driven by the choices of a few trillion-dollar US asset managers, starting with the two runaway market leaders. From 2021 to 2023, BlackRock went from embracing over 40% of the E&S proposals on its proxy ballots to under 10%. Vanguard slashed its rate of E&S support by a factor of 10, from 30% to 3%. Support from the “Big Four,” as those two plus State Street and Fidelity are known, is crucial to passage. A “yes” from each would have passed at least 69 extra E&S proposals last year.

Big US asset managers retreated regardless of any pledges or guidelines they’ve embraced. T. Rowe Price favored only 7% of the 2023 climate proposals tracked by ShareAction, despite its status as a supposed “Net Zero Asset Manager.” Goldman Sachs has impeccable E&S voting guidelines, yet embraced only 5% of the E&S resolutions tracked last year by ShareAction. Investors who wish to support ethical proposals should be leery of ESG rankings that focus on an institution’s pledges or policies. With some exceptions, they should simply be skeptical of huge US asset managers.

The ghost of proxy future

In January 2022, BlackRock introduced “Voting Choice,” also known as pass-through voting. The program gives clients the options of making their own decision on proxy votes, adopting BlackRock’s recommendations, adopting the recommendations of the top proxy advisers, or taking a hybrid approach. Over the past two-and-a-half years, the program has been steadily expanded by BlackRock, copied by its US peers, and taken up by some of its customers.

It’s hard to object to the principle of empowering the ultimate investors. But the practical fallout will be to diffuse the voting power of the Big Four—and make the passage of investor resolutions even less likely. “The result of this is likely to be less shareholder power,” observes Bloomberg’s Matt Levine. Pass-through voting lets money managers lower their sights,
Vanguard slashed its rate of support for environmental and social investor resolutions by a factor of 10, from 30% to 3%.

warns ShareAction. Put another way, advocates fear that big US money managers are abdicating their role to safeguard the systemic interests of their universal investor clients. Returning power to individuals re-introduces the problem that individuals won’t act in their own collective interest.

Is a retreat in the offing on engagement beyond the proxy ballot?

Historically, the Big Four are relatively weak E&S stewards. And they avoid collaborative engagement for fear of being labeled a cartel. In an extensive study of PRI campaigns launched between 2007 and 2015, none of the ten largest US asset managers joined a single stewardship campaign. Only two small US asset managers appeared on the honor rolls, which spotlighted the ten PRI members joining the most engagements, and the ten PRI members leading the most engagements.

But when the Big Four do engage, they tend to engage systemically, and they make a difference. Tackling systemic issues makes sense for players with a deep knowledge of the economy, who can spread costs widely, and whose clients stand to benefit from the broad gains that may follow. Most importantly, evidence shows business is likelier to heed investors holding a larger stake.

For now, BlackRock remains committed to E&S engagement (as opposed to proxy voting), with over 3,000 E&S engagements recorded in 2023. Similarly, 2023 saw BlackRock defy management on director-related votes over 1,500 times to chasten a firm for its lack of board diversity and over 200 times for poor climate reporting.

At the same time, BlackRock’s tone has shifted, and there are alarming hints of a policy shift on director voting. BlackRock’s 2024 climate policy—issued shortly after Tennessee filed a suit challenging the lawfulness of BlackRock’s climate policies—features two boldface paragraphs on fiduciary duty. If polluters lag on reporting, the new policy doesn’t threaten to oust their directors; it merely “look[s] for a fulsome explanation.”

The language of BlackRock’s policy on human capital has also grown more timid. Where it used to state in its own voice, “We view a company’s approach to human capital management as a potential competitive advantage,” BlackRock now hides behind the opinions of others: “[M]any companies and investors consider robust HCM to be … a competitive advantage.” These tonal shifts should put BlackRock watchers on high alert for a change in its behavior, especially on director voting.

The US Industry’s Excuses and Why They Ring Hollow

Conventional wisdom at first attributed the E&S retreat to anti-ESG pressure. Big US asset managers and their allies have since muddied the waters by spreading a different narrative. But the backlash theory is clearly correct, tightly fitting the nature and timing of the retreat.

A false epidemic of bold proposals

Asset managers insist they’ve stayed consistent in the face of anti-ESG pressure. Vanguard claims that recent resolutions go beyond disclosure to seek “specific actions.” Condemning efforts to “direct” a firm’s practices, BlackRock opposes E&S demands that are too “prescriptive” or “constraining,” or that seek “to engineer a specific decarbonization outcome.” Among the proposals it opposed last year as too “prescriptive” were 21 that asked firms to phase out fossil fuel financing, set targets, or plan other steps in line with the Paris Agreement. “Prescriptive” is, of course, code for action-oriented.

In reality, requests for disclosure still predominate. ShareAction calculates that calls for action only ticked up from 22% to 27% of all E&S resolutions last year. The deeper plunge in E&S support by US asset managers can only be explained by the fact that US asset managers are retreating on disclosure too. By way of illustration, BlackRock opposed 13 of 15 climate proposals classified by ShareAction as disclosure-based. Goldman Sachs rejected 12 of the 15.

The trend toward demanding action, such as it is, explains still less in the realm of the S. In justifying its “no” votes on S proposals, BlackRock says it defers to managers on issues like employee pay or workplace risks. Vanguard says it views “with some concern” any call for a third-party report, absent evidence that the board lacks independence.

The retreat closely tracks the anti-ESG agenda

The anti-ESG world’s twin obsessions are, in the Wall Street Journal’s words, “woke shareholder proposals to do racial audits or strangle fossil fuels.” Not coincidentally, proxy voting on those two issues has collapsed. Shareholder support of civil rights audits fell from about a third the prior two years to 14% in 2023—and none passed. On climate questions, support also fell from a peak of 50% in 2021 to about 20% in 2023. In the warmest year in recorded history, not a single vote on greenhouse gas emissions reached a majority.
Vanguard, along with Fidelity, voted "no" on nearly all of the 50 "wokest" 2022 proposals identified by the anti-ESG Committee to Unleash Prosperity, earning an "A" grade for anti-wokeness. Vanguard placed an exclamation point on its 2022 record by rescinding its Net Zero Asset Managers pledge. This flip-flop came barely a week after red state AGs opposed a regulatory petition by Vanguard to raise its national utility holdings, expressly citing Vanguard's net-zero policy. The next season, Vanguard found fault with 470 of 480 E&S proposals.

The other half of the Big Four has a more mixed voting record. Yet BlackRock downgraded its membership in the Climate Action 100+ coalition, and State Street left the group altogether. Meanwhile, State Street's acknowledgment that "climate change poses systemic risk" vanished from its annual climate report.

**Big US asset managers vote “no” while others vote “yes”**

In contending that E&S activists have grown bolder, the US industry likes to say that the "quality" of their proposals has fallen. Morningstar has a method of holding resolution "quality" steady in cross-year comparisons, which allows this contention to be tested. Morningstar tracks resolutions favored by at least 40% of independent investors, which it calls "key," or "high quality." A better term would be "widely accepted."

If the rise of "low-quality" resolutions explained their shift in voting patterns, then one might expect US asset giants' support of widely accepted E&S measures to hold steady. In fact, the roller coaster ride has been steeper for such proposals. Though a few of their peers have bucked the trend, there has been a sharp pull-back in support for widely accepted measures by five of the global top six—Vanguard, BlackRock, Fidelity, Goldman Sachs, and JPMorgan—as well as by American Century, Capital Group, T. Rowe Price, and TIAA/Nuveen.

**Big US asset managers are dramatically out of step with their European peers**

There has long been an E&S voting gap between US and continental European money managers. But from 2022 to 2023, the transatlantic gap widened into a chasm. This pattern buttresses the theory that US institutions are responding to the anti-ESG backlash, which thus far is almost exclusively a US phenomenon.

European money managers supported E&S resolutions last year at over triple the rate of their counterparts in the US. The latest voting scorecard kept by the NGO ShareAction, American money managers comprise 15 of the bottom 20 E&S performers, while the top 25 are all based in Europe or the UK. Unfortunately for E&S advocates, American firms still dominate the field.

The transatlantic divide is at its widest in close E&S votes. Fifteen of the largest European money managers favored 98% of widely-accepted proposals last year, while Vanguard approved 9.

**Concluding thoughts on big US asset managers**

As a simple matter of timing, the E&S retread of 2022 and 2023 coincided with an unprecedented wave of state-level anti-ESG laws and legal threats. Florida Governor Ron DeSantis used the issue to enhance his national profile, prompting attacks on ESG by all eight of the other GOP candidates that qualified for any 2024 presidential debate. Vanguard jumped when red state AGs assailed its net-zero pledge, and withdrew it a week later. The month after Tennessee filed suit, BlackRock pared back its climate engagement policy.

The conclusion is inescapable that big US asset managers retreated in response to anti-ESG pressure. Unfortunately, action-oriented stewardship has become anathema to large US asset managers. Those players are rolling back their support even for disclosure-based resolutions, while their expansion of pass-through voting dilutes their power and makes the passage of any proposal a long shot. The Big Four have never joined PRI's collective actions, even though sectoral engagement is their forte. BlackRock has so far continued to engage on diversity and climate. And those campaigns are exceptionally productive because they are backed by the discipline of voting down company directors. But BlackRock's shift in rhetoric, and its pattern of placating the anti-ESG movement, makes it essential for civil society to closely monitor its actions, along with those of its peers.

The big US asset managers are too important to give up on. But it isn't clear, in light of the current political climate, what might cause them to reverse course. Meanwhile, an alliance of European asset managers, global asset owners, and socially responsible investors can continue to send business a pro-ESG message through stewardship in all its forms.

There's been a sharp pull-back in support for ‘widely accepted’ environmental and social proposals by five of the six top global asset managers: BlackRock, Vanguard, Fidelity, Goldman Sachs, and JPMorgan.
5. Conclusion

Shareholder activism on environmental and social issues can potentially help press companies to improve environmental and social performance. This style of investor activism has been used most effectively to advance climate disclosure and the setting of climate targets. Stewardship has been much less effective in improving company performance on social issues, like the well-being of workers in global supply chains. In this area, the potential of shareholder activism is not being realized.

E&S stewardship takes three broad forms: (1) proxy resolutions asking for more disclosure or action; (2) informal efforts to engage directly with companies and persuade them to change course; or (3) various strategies relating to the board of directors. We address each in turn.

Shareholder resolutions

The first tool available to activists is to file shareholder resolutions calling for changes in corporate policies or practices. Such resolutions have been more effective in drawing support for environmental than for social issues, with the partial exception of diversity, which enjoyed a burst of passed proposals and commitments in 2020-2021. Other human rights issues have historically drawn lower levels of investor support. In the US, the ultimate limit on the effectiveness of shareholder proposals is the fact that they are non-binding. All too often these resolutions—or the agreements that are struck before the resolutions can be voted on—are too modest in their objectives. The most typical end result is for companies to prepare self-assessments that rarely yield new data or trigger remedial action.

Direct engagement

The second broad strategy available to shareholder activists is direct informal engagement with companies. In principle, all environmental and social engagement occurs in the shadow of shareholder voting power. Influential financial institutions—often acting in powerful coalitions—prefer to engage discreetly, without filing a contentious public proxy resolution. Some scholars find that this strategy is more likely to accomplish its objective. “[S]uccessful engagements are predominantly private,” concludes one study, with proxy votes “used only occasionally to increase leverage.” Discreet engagement is becoming more important, because the largest US investment managers have slashed their support for E&S proxy proposals—making it harder to reach the 50% threshold of investor support needed for their passage.
Ongoing attacks by conservative US politicians on ESG frameworks pose increased challenges to activist shareholders. These attacks underscore the imperative that governments introduce and apply binding human rights laws. The most notable new hard law in this area is the EU Corporate Sustainability Due Diligence Directive, which was adopted in April 2024, and needs to be implemented by new or amended supply chain laws in all 27 EU member states. Over time, these and other government regulations will obligate firms to take environmental and social remedial actions based on reported data. These ambitious and evolving statutes will not displace shareholder activism. Rather, they will play to the strength of these activists, who excel at helping to enforce compliance. Shareholder advocates already have a record of pushing for company adherence to a range of much weaker reporting frameworks, from the UK Modern Slavery Act to the UN Global Compact.

Strategies relating to boards of directors

Investors may send firms a strong message of disapproval by voting “no” on management proposals to reappoint their preferred board members. At most publicly listed corporations, a board nominee repudiated by a majority of investors must resign provisionally. Investors may send firms a strong message of disapproval by voting “no” on management proposals to reappoint their preferred board members. At most publicly listed corporations, a board nominee repudiated by a majority of investors must resign provisionally. And at most such firms there is a relatively strong norm to respect the will of the shareholders. Votes to reject directors, especially over climate issues, have been gaining prominence as an engagement strategy, if slowly. Over six years, the number of defeated directors has more than doubled, from 26 in 2018 to 65 in 2023. Ellen Quigley of Cambridge concludes that “voting against board members, a relatively rare tactic, may be significantly more effective than the much more common tactic of filing advisory shareholder resolutions.”

The ultimate way to confront a company over its board is for investors to mount an E&S proxy fight in a contested election, and to campaign on behalf of their own rival slate of directors. The most heralded example, the 2021 confrontation between Engine No. 1 and Exxon, failed to shift Exxon away from fossil fuels. A less heralded but far more promising model for E&S proxy fights was established last year by the union coalition SOC in the case of Starbucks. SOC persuaded the leading proxy advisers that the apparent suppression of union organizing at 300 cafes posed a material risk to a consumer brand catering to young professionals. Despite the retreat of big US asset managers from their support for E&S proposals, SOC’s proxy threat was credible enough for Starbucks to agree before the proxy vote to start collective bargaining. The Starbucks episode shows that the 2022 introduction of universal proxy cards has vastly lowered the cost of E&S proxy fights, and unexpectedly opened a new path forward.

The sensitivity of companies to director-based strategies points the way to another under-used tactic: demanding deeper expertise. A new report by the NYU Stern Center for Sustainable Business finds that the number of Fortune 100 directors with expertise on diversity or the environment grew respectably from 2018 to 2023—while director expertise on human rights, labor relations and workplace safety shrank by more than half, from 31 to 14. As in the BooHoo engagement, stewards can and should demand more supply chain experts on boards. There are few better or simpler ways to promote ongoing real-world change.

The key to stewardship “success”

One common thread that runs through every example of social impact in this report is that the resolutions or engagements were timely and coincided with intense pressure campaigns by other actors. Corporate America’s broader acceptance of LGBTQ rights and women on boards were part of broad social trends. The more constructive engagements tend to follow media firestorms—whether at firms like BooHoo and CP Foods, or at consumer brands reliant on Uzbek cotton or Indian sugar, or in the global mining sector after the Brumadinho dam tragedy. The recent investor breakthroughs at Norfolk Southern and Starbucks relied crucially on union organizing.

Each of these campaigns coincided with a wider wave of pressure, whether at the level of the company, the sector, or society as a whole. It’s hard to know how much credit for a given breakthrough should go to investors, as opposed to consumers, employees, organizers, litigators, or journalists. E&S stewards played a valuable role in translating social sentiment into corporate action. Of all the players in this complex drama, investors enjoy unique access to the boardroom and a unique understanding of boardroom culture. Stewardship can succeed when investors work in tandem with other constituencies to shift social mores over time.
Endnotes

1 See, e.g., Eriq Dinson, et al., “Active Ownership,” 28 Review of Financial Studies 3225 (2015) (“Traditional shareholder activism and hedge fund activism typically focus on issues related to the interests of shareholders only, whereas ESG activism focuses on issues related to the interests of a broader range of stakeholders, including employees, customers, and creditors.”).

2 A more recent E&S proxy fight at Starbucks, discussed below in Section IIIIA, did not proceed to a vote—but offers a far more intriguing model for the future.


4 See Conor Sen, Twitter post (May 26, 2022). See also Ian Fichtner et al., “The New Permanent Universal Owners: Index funds, patient capital, and the distinction between feeble and forceful stewardship,” 49 Economy & Society 493-516 (Nov. 2020) (showing that the Big 3 “are the largest owner in almost 90 percent of the S&P 500 firms, holding on average 21 percent of the ownership, with an even higher percentage of voting shares.”)


6 After one year, Engine has made no “discernible difference in the way Exxon is addressing climate change,” the president of As You Sow told Deabook: Andrew Ross Sorkin, et al., “Reasessing the Board Fight That Was Meant to Transform Exxon,” New York Times (May 31, 2022).


8 For its part, Exxon argues that the deal will accelerate Pioneer’s net zero timeline. Kevin Crowley & Sajee Kishan, “Why One-Time Exxon Adversary’s Board Picks Backed Mega Deal,” Bloomberg Green (Oct. 12, 2022).


16 In a given year, about 80% of annual company meetings occur from March through June. Most data analysts define the 2023 proxy season to include resolutions from the second half of 2022 through the first half of 2023; we generally follow that convention. Lindsey Stewart, “Proxy Voting Insights,” Harv. L. Sch. Forum on Corp. Governance (Oct. 4, 2023) (citing Morningstar figures).

17 ShareAction, Voting Matters 2023: Are asset managers using their proxy votes for action on environmental and social issues? (Jan. 2024). By other calculations, the passage rate in 2023 was only 2%.

18 See Lara Argani & William Kim, “A Review of the 2023 Proxy Season: An ESG Backlash?” Harv. L. Sch. Forum on Corp. Governance (Dec. 21, 2023) (charting a decline in passed E&S proposals from 38 to 32 to 7). Our more comprehensive count of eight companies where shareholders passed a contested E&S proposal during the 2023 season includes: Coterra Energy (74% for methane emission disclosures); Dollar General (68% for a worker safety audit); Expeditions International (57% for a DEI report); General Mills (56% for a plastic packaging report); Wells Fargo (56% for a harassment and discrimination report); Starbucks (52% for a labor relations report); and Kroger (51% for a pay gap report). We are excluding a lobbying report at McDonald’s that was approved by 50.3% of votes cast, but only 49.75% counting abstentions. See Ben Maiden, “Lobbying proposal attracts strong support at McDonald’s AGM,” Governance Intelligence (July 6, 2023). We are also excluding three companies where 2023 E&S proposals passed with management assent: FLSmidth & Co. (100% support for a management-approved human rights report); Cenovus Energy (89.5% for a management-approved climate lobbying report); NY Community Bankcorp (85% for a management-approved climate lobbying report).


21 Carbon Tracker, “Oil and gas companies are way off-track from Paris Agreement goals, finds new combined alignment scorecard” (Mar. 20, 2024).


30 See, e.g., Lindsey Stewart, “Starbucks Investors Aren’t Unified on Unionization” (Apr. 6, 2023) (“Usually, 30% support for a shareholder resolution is seen as a strong prompt for management action.”). See also The Conference Board Heat Map, 2023 Proxy Season (treating 30% support as the threshold for a proposal that firms take seriously). For a slightly different rule of thumb, see Jennifer Williams-Arroz, “Investors Put Forward More Proposals, Dialing Up Pressure on Companies,” Wall Street Journal (Aug. 2, 2022) (suggesting a corporate response is expected when the proxy vote reaches 25 to 30%).


...on corporate lobbying & policy capture” (Feb. 2021). Policy Capture” (May 2021); “Global asset managers have some catching up to do managers have yet to match rhetoric with action to address negative lobbying & on hypocrisy in corporate advocacy of tax-cutting, which promotes inequality issue of ethical lobbying. Since then, a wave of “political congruence” proposals... Project, which began with the insight that E&S stewardship has neglected the... to Rules on Shareholder Proposals,” 63 Fed. Reg. 29,106, 29,108 (May 28, 1998)


Sanford Lewis, “SEC No Action Statistics to May 1, 2024,” Harv. L. Sch. Forum on Corp. Gov. (May 20, 2024) (finding a 69.4% exclusion rate in the 2024 season to date, compared with an average rate of 69% from 2017-20).

This report does not address the important but distinct strategy of “impact investing.” Impact funds invest in firms whose business model is to directly pursue E&S goals. The targeted firms tend to be private and small.


Michael D. Goldhaber, Making ESG Real: A Return to Values-Driven Investing (NYU Stern Center for Business and Human Rights, 2023).

See, e.g., Jan Fichtner, et al., “Mind the ESG capital allocation gap: The role of index providers, standard-setting, and ‘green’ indices for the creation of sustainability impact,” Regulation & Governance (June 4, 2023); Jan Fichtner, et al., “ESG Funds and the Question of Sustainability Impact.” Oxford Business Law Blog (July 4, 2023) (finding that ESG integration funds constitute 88% of ESG funds, versus 12% for light green or dark green funds).

We remain optimistic that a reinvented ESG fund could affect boardroom decisions. Skeptics object that ESG funds can’t affect the price of capital because they don’t trade in the primary capital markets (where an issuer directly sells securities to investors), but rather in the aftermarket (where securities trade among investors). We find this objection unpersuasive, because the aftermarket helps set the price in the primary markets. As for the effectiveness of divestment, skeptics cite empirical research that is old, sparse, and divided. Recent research shows that BlackRock’s announcement that it was divesting from thermal coal did drive down the share prices of large US thermal coal firms. That would explain why fossil fuel firms appear terrified of ESG. For reviews of the skeptical scholarship, see Köbel, et al., “Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact.” Organization & Environment (June 2020); Ellen Quigley, “Universal Ownership, in Practice: A Practical Investment Framework for Asset Owners,” at 7-8 (May 8, 2023). For the recent scholarship on BlackRock’s divestment from coal, see Daniel Buchholz, Sustainability in Finance — Real Effects and Capital Market Consequences, at 60 (University of Hamburg Doctoral Thesis, Mar. 7, 2023); Alexander Bassen, Thomas Kaspareit & Daniel Buchholz, “The Capital Market Impact of BlackRock’s Thermal Coal Divestment Announcement,” 41 Finance Research Letters (July 2021).


67 “Proponents’ Review of Starbucks Labor Assessment” (Jan. 25, 2024).


69 Email from John Adler to the author (June 2, 2024).


72 One investor coalition rapidly pushed 80 of 83 holdouts into compliance with the mandatory UK Modern Slavery Act. Other coalitions have had effective in enforcing voluntary reporting, for instance under the UN Global Compact, or the Carbon Disclosure Project. See Rathbones Group, Votes Against Slavery: Investor action on supply chain transparency (Mar. 2022); PPR, “Case Study: Carbon Disclosure Project (Sept. 1, 2013); PPR, “Case Study: Communication on progress (COP)” (Sept. 1, 2013).


74 BlackRock, Advancing our clients’ financial interests: Overview of the 2022-23 proxy voting year (July 2023).


77 Id. Of the 16 asset giants studied, the only 3 that sometimes rejected directors at most of the Paris scofflaws were the 2 in the study—France’s Amundi and Britain’s LGIM—and the US outlier, Franklin Templeton.


86 See https://knowthechain.org/company/boohoo-group-plc/.

87 As You Sow, “Monster Beverage Corporation – A Case Study in Shifting from Laggard to Leader on Slavery in the Supply Chain” (June 4, 2019).

88 See https://knowthechain.org/company/monster-beverage-corporation-2/ (Monster Score History).


90 See https://www.dol.gov/agencies/lab/resources/reports/chid-labor/uzbekistan#:~:text=However%2C%20children%20in%20Uzbekistan%20make%20agriculture%20and%20public%20works.


93 Josh Funk, “Norfolk Southern is first railroad to give all workers sick day—like most other industries have done for decades,” Forbes (June 5, 2023); David Shepardson, “Most unionized US rail workers now have new sick leave,” Reuters (June 5, 2023). See Public forcibly to Stopped Applying Pressure: Hard-Fought Success on Rail Sick Days” (June 20, 2023); Nandita Bose, “White House reviews pressure on railroads over paid sick leave,” Reuters (Feb. 9, 2023).


101 E&S support by European money managers has spiked, as elaborated below. Retail investors pulled back by only two percentage points from 20% support in 2021 to 18% in 2022. It’s Chuck Callan & Mike Donowitz, “2023 Proxy Season Review,” Harv. L. Sch. Forum on Corp. Governance (Oct. 13, 2023).

102 BlackRock cut its E&S support rate from 41% in 2021 to 24% in 2022 to 9% in 2023. Vanguard downshifted from 30% in 2021 to 12% in 2022 to 3% in 2023. State Street moved from 44% in 2021 to 29% in 2022 to 21% in 2023. Alan Murray, et al., “BlackRock, Vanguard, and State Street turned against environmental and social proposals this year, a clear sign of backlash,” Fortune CEO Daily (Oct. 31, 2023) (citing Dissent data). According to ShareAction, Fidelity reduced its support level from 29% in 2021 to 17% in 2022 to 16% in 2023, while the Big Four’s collective support rate fell from 32% in 2021 to 20% in 2022 to 12% in 2023. ShareAction, Voting Matters 2023: Are asset managers using their proxy votes for action on environmental and social issues? (2024).


105 Id. at Finding 10. Findings are based on the 257 E&S proposals tracked by ShareAction in 2023, at Finding 3.

106 Id. at Finding 11.

108 In ShareAction’s latest comparison of E&S voting records, the best-performing asset managers among its “top decile” US asset managers were Northern Trust (supporting 77% of E&S measures), Morgan Stanley (supporting 58%), and Franklin Templeton (supporting 49%), although each modestly lowered their support from the prior year, and none could match their European peers. ShareAction, Voting Matters, 2023: Are asset managers using their proxy votes for action on environmental and social issues? (2024).


111 ShareAction, Voting Matters 2023, at page 27.


115 Dimson, Active Engagement, at Table I.A.2: Among 121 engaging asset managers in the Dimson sample, only 21 were from the US. The largest US manager that participated was T. Rowe Price (ranked 12th in the US at end 2022), followed by Nuveen, Hermes, and Alliance Bernstein within the US top 20. More recently, JP Morgan and Morgan Stanley (ranked 5th and 14th) have joined as lead investors in PFI’s “Advance” initiative for social engagement. The only US firms among the top 10 most active engagement leaders or 10 most active engagement leaders, in Dimson’s large sample, were two small socially responsible offices (Boston Common and Boston Trust). The honor rolls also featured two European firms that later became US-owned (Hermes Federated and Candriam). Dimson, Coordinated Engagements, at Table I.A.4.


118 Compare BlackRock Investment Stewardship, Advancing our clients’ financial interests: Overview of the 2022-23 proxy voting year at 15; with BlackRock, Investment Stewardship Annual Report at 14 (Sept. 2020). Examined individually, the fastest growing themes were strategy and S issues, which each nearly doubled.

119 BlackRock, Advancing our clients’ financial interests: Overview of the 2022-23 proxy voting year at 28 (2023).


126 Vanguard, “Vanguard Investment Stewardship—U.S. Regional Brief” (Aug, 28, 2023), Vanguard also argues that advocates overcook the “complexity” of the issues. See id. at 11.

127 BlackRock, Advancing our clients’ financial interests: Overview of the 2022-23 proxy voting year, at 54. In addition, BlackRock opposes proposals that are immaterial or superficial. See id. at 12, 43, 46, 48. See also Vanguard, “Vanguard Investment Stewardship—U.S. Regional Brief” (Aug, 28, 2023), BlackRock BlackRock, BlackRock, BlackRock, Net Zero Statement web page last checked Feb, 22, 2024; BlackRock, Response by BlackRock to Letter from 19 Republican State Attorneys Generals (Sept. 7, 2022); BlackRock, Climate-related risks and the low-carbon transition (Jan. 2024).

128 Freshfields, “Trends & Updates from the 2023 Proxy Season,” at 52, Figure 7 (July 2023); The Conference Board, “2023 Proxy Season Review” (Oct. 19, 2023). It’s also true that BlackRock favored a handful of E proposals that seem specific or prescriptive, leading Tennessee to accuse it of “pure activism.” Perhaps a fairer generalization is that BlackRock’s votes have been consistently inconsistent, while trending pro-climate in 2020 and 2021, and anti-climate in 2022 and 2023. See Complaint, State of Tennessee, ex rel. Jonathan Skrmetti, Attorney General v. BlackRock, Inc., 23CV-618, at paras. 18, 136-139, 145-146 (Williamson County Circuit Court, 21st Judicial District, Tennessee, Dec. 19, 2023).


130 BlackRock, Advancing our clients’ financial interests, at 54.


138 Though the connection was largely overlooked in the press, the Kentucky AG declared victory. Kentucky.gov, “Vanguard Withdraws from ESG Initiative Following Attorney General Cameron’s Challenge to Federal Energy Regulatory Commission Application” (Dec. 8, 2022).

139 Among the EAS proposals considered by State Street, the proportion it supported fell by about half, from 44% in 2021 to 22% in 2023. State Street compares especially well with its closest peers in its support for widely-supported E&S resolutions, approving between about 50% and 70% of such resolutions over the past four proxy seasons. See Alan Murray & Nicholas Gordon, “BlackRock, Vanguard, and State Street turned against environmental and social proposals this year, a clear sign of backlash,” Fortune CEO Daily (Oct. 31, 2023); Lindsey Stewart, “Proxy Voting Insights,” Harv. L. Sch. Forum on Corp. Governance (Oct. 4, 2023).

145 Morgan Stanley, Invesco and Franklin Templeton have been quasi-European in their reliability when E&S votes are close. Even State Street has tended to be supportive, increasing its support last year from 59% to 66%. Id.

146 Between 2021 and 2023 support for key E&S proposals at American Century fell 54 points, to 38%. At Goldman Sachs it fell 47 points to 22%. At Vanguard it fell 41 points to 9%. At Capital it fell 38 points to 30%. At T. Rowe Price it fell 32 points to 14%. At BlackRock it fell 31 points to 37%. At Fidelity it fell 27 points to 24%. At JP Morgan it fell 19 points to 51%. At Nuveen/TIAA it fell 18 points to 67%. By contrast, support for key E&S measures has consistently remained in excess of 80% at Morgan Stanley, Invesco, Franklin Templeton, Charles Schwab, MFS Investment Management, and Columbia Threadneedle. Id.

147 From 2021 to 2023, the average European asset manager tracked by ShareAction (including those from the UK) went from approving about 69% of E&S ballot questions to 88%, while the typical US manager went from favoring about 40% to 25%. At the same time, the typical UK asset manager steadily embraced about 84% supporting a new gap between asset managers in Britain and the Continent. Values might explain this intra-European divide, but so might the EU’s recent directives. What’s clear is that America lags far behind all of Europe in both the law and culture of sustainable finance. America’s fondness for index funds cannot explain the transatlantic gap, as the UK indexing giant Legal & General supported 92% of E&S measures in ShareAction’s 2023 sample, compared with 8% and 3% by BlackRock and Vanguard. ShareAction, Voting Matters 2023: Preparing for a New Wave of ESG Engagement” (Jan. 24, 2023) (citing the figures for 2021-2023).

148 Id. at pages 12-19.

149 US money managers account for 12 of the global top 16 by AUM, and manage over double the sum overseen by Europeans ($67 trillion to $30 trillion). The world’s largest 500 asset managers: A Thinking Ahead Institute and Pensions & Investments joint study, at 12 (Oct. 2023).


For a useful compendium of actions by state and federal officials pressuring ESG asset managers or owners, see Ballotpedia, “Opposition to environmental, social, and corporate governance (ESG) investing.”


154 Matteo Tonello, “The Conference Board, and Paul Hodgson, “Corporate Board Practices in the Russell 3000, S&P 500, and S&P Mid-Cap 400,” Harv. L. Sch. Forum on Corp. Gov. (Nov. 6, 2021). A majority voting system of some kind is in place at over 90% of the S&P 500 and nearly half the Russell 3000. The “majority voting with board-rejectable resignation rule” is in place at nearly 80% of the S&P 500 and nearly 40% of the Russell 3000. However, over 40% of the Russell 3000 still followed a simple plurality rule, which essentially gives shareholders no power over director appointment. Id.


158 Quigley et al., “Divestment: Advantages and Disadvantages for the University of Cambridge” Appendix V, “Impact of Engagement on Companies’ Environmental and Social Performance,” at 104-105, 110-111. The “Boardroom Access Project,” launched by NYC Pensions Systems in 2014, used the threat or passage of a shareholder proposal to persuade 167 of 181 firms (targeted for E or S reasons) to give large shareholders the power to nominate directors. Following up with 62 firms that had been targeted for climate reasons, a study found that they lowered their greenhouse gas emissions by about 7%, and toxic releases by 13%, based on better operating practices and more spending on abatement. This was an example of G stewardship that aimed to indirectly pursue E and S goals, and purportedly succeeded on climate. S. Lakshmi Naaraayanan, et al., “The real effects of environmental activist investing,” European Corporate Governance Institute, Working Paper No. 743/2021 (Mar. 2021).


160 See Emma Sjöström, “Active ownership on environmental and social issues: What works? A summary of the recent academic literature” (Stockholm School of Economics, 2020), at 9 (discussing “the time is right” factor).