Shareholders show increased stewardship on corporate sustainability. In 2021, 20% of U.S. environmental and social shareholder proposals reached over 50% of shareholder support, while only 3% of such proposals obtained majority support in 2016 (EY, 2021). Investors also progressed their private engagement efforts. For example, collaborative engagement groups, like Climate Action 100+ and the Workforce Disclosure Initiative, have private communications with firms to affect change in corporate sustainability. However, to what extent are these stewardship activities relevant to the financial performance of target companies? Why do shareholders engage in these activities? And can corporate decision-makers learn from shareholder stewardship?

In this dissertation, I study the effects of shareholder stewardship related to environmental, social, and governance (ESG) issues on the performance of targeted firms and their directors. In Chapter 2, I distinguish between material and immaterial private engagement activities and investigate whether materiality matters for corporate financial performance. In Chapter 3, I aim to better understand investors' motives to support ESG initiatives by studying differences in shareholder support between material and immaterial shareholder proposals. Lastly, in Chapter 4, I investigate whether corporate directors can
learn from engagement activities and implement changes at firms not targeted by an engagement.

In Chapter 2, I find that private material engagements are associated with financial and ESG performance improvements. Target firms significantly outperform peer firms in the fourteen months after material engagements. I also find longer-term improvements in accounting performance; material social and governance engagements are associated with improved profitability and lower cost ratios. Although I do not find improved profitability after environmental engagements, they correlate with increased capital expenditures and R&D expenses. Lastly, my findings indicate that target firms have a higher ESG score after engagement than peers, whilst environmental engagements are also associated with a decrease in CO2e intensity. Chapter 2 suggests that private engagements on material ESG issues correlate with improved stock market, accounting, and ESG performance.

To what extent do investors take materiality into account in their stewardship activities? And if they believe materiality is important, can they recognise which ESG issues are material? I answer these questions in Chapter 3 by studying investors’ support for material and immaterial environmental and social (i.e., CSR) shareholder proposals. Based on previous academic evidence that institutional ownership leads to improved CSR and that local institutional environments shape investors’ preferences, I focus on institutional ownership separated by legal origin. I find that ownership from investors headquartered in civil-law countries positively relates to the support for CSR proposals, but only when they are material. In contrast, ownership from common-law investors does not relate to support. My findings suggest that civil-law investors can better determine which CSR topics are relevant for the long-term value of a company than common-law investors and that civil-law investors’ support for CSR is motivated by financial rather than non-pecuniary motives.

Finally, in Chapter 4, I examine whether corporate directors can learn from investor stewardship. This chapter focuses on shareholder pro-
posals addressing environmental issues because environmental risks are currently amongst the most likely and impactful ones. Because shareholder votes are not binding, I study proposals that the sponsor withdrew before moving to a vote. Such withdrawals occur whenever the proposal sponsor is satisfied with the target firm’s response to an engagement and, for example, pledges to take action. I capture a director-level effect by examining changes in the environmental performance of firms that have not been targeted by a proposal but share a director with a firm that experienced an environmental proposal withdrawal. Since the sponsor’s filing of a shareholder proposal at the target firm is exogenous to such “connected” firms, I causally test whether directors learn from engagements.

I find that connected firms have a significantly higher environmental score and are more likely to set a CO2e emission target after a withdrawal at the target firm. However, the connected firm’s total CO2e emissions and intensity do not change. These results imply that connected firms advance the management of environmental risks after an environmental engagement at a target firm made such risks more salient to its directors. Such spillover effects of environmental engagements can be highly valuable to investors.

Overall, this dissertation examines shareholder stewardship on corporate sustainability from three different angles: the effects on target firms, the support from investors, and the subsequent decision-making by corporate directors. First, I find that private ESG engagements are associated with positive effects on the financial performance of target firms. A key finding is that material engagements drive such performance improvements. Second, from the investor perspective, my findings imply that civil-law institutional investors can recognise which ESG issues are material while common-law institutional investors do not. Finally, I find that corporate directors targeted by environmental engagements learn from this experience and convince non-targeted firms where the director also holds a seat to improve their management of environmental issues.