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Shareholders' role and responsibilities in times of corporate disruptions

2025 IESE – ECGI CORPORATE GOVERNANCE CONFERENCE

Marco Becht
Jordi Canals
(Editors)

Center for Corporate Governance

european corporate governance institute

With the support of the Social Trends Institute

Shareholders' role and responsibilities in times of corporate disruptions

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CONTENTS

Introduction 4

Jordi Canals

Agenda 7

Authors 8

Shareholders, corporate purpose and sustainability 9

Colin Mayer

Public pension funds in corporate governance 12

Jill E. Fisch

Who cares about diversity? 15

Luc Renneboog

What do we know about institutional shareholders' impact on governance and sustainability? 17

Mireia Giné

Shareholders and divestment decisions 21

Marco Becht

Shareholders' coalition for climate solutions: Is there a case for competition policy? 24

Xavier Vives

Final reflections 27

Marco Becht

Introduction

Watch video

Shareholders' role and responsibilities in times of corporate disruptions

By Jordi Canals

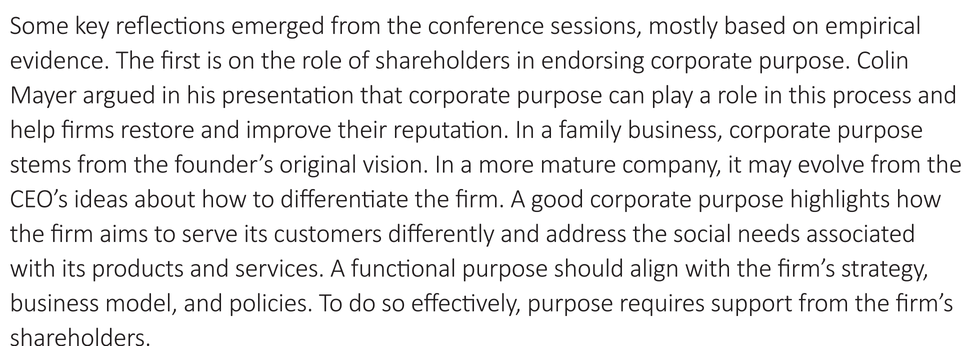
An effective corporate governance model rests on the delegation of power from shareholders to boards and executives. In strong delegation cases, the governance debate is mostly focused on the structure, composition, and practices of the board of directors. The board is the fulcrum of a good model of corporate governance, but shareholders also play a very relevant role in supporting it.

Technological, economic, and geopolitical disruptions raise new challenges to governance effectiveness. For most companies, these challenges require strategic decision-making and allocation of additional resources to speed up their transformation. A critical question is how effective different types of shareholders are in supporting companies in their necessary evolution beyond merely providing capital. Corporate evolution often requires large-volume, long-term investment in areas such as decarbonization, developing more resilient global supply chains for a more fragmented world, and adopting artificial intelligence, for which boards need to gain shareholders' support.

The changing roles of key shareholders (i.e., family offices , large asset managers, foundations, private equity firms, and—more recently—governments) over the past two decades have become a relevant development for capital markets and the funding of innovation and investment. Many of these shareholders are considering how they can develop new competencies and become more responsible owners.

However, polarized views have emerged regarding the role of shareholders in environmental, social, and governance (ESG) issues. The Friedman doctrine asserts that boards have the social responsibility to maximize shareholder value and that governments are responsible for regulation, supervision, and law enforcement. Therefore, many economists argue that internalizing externalities is the task of regulators, not corporations. The defunding and downsizing of key government agencies in recent months have intensified these disagreements over fundamental questions, such as energy security and climate policy.

The 2025 IESE-ECGI Corporate Governance Conference addressed specific issues regarding the role and responsibilities of shareholders in governance and strategic decision-making.



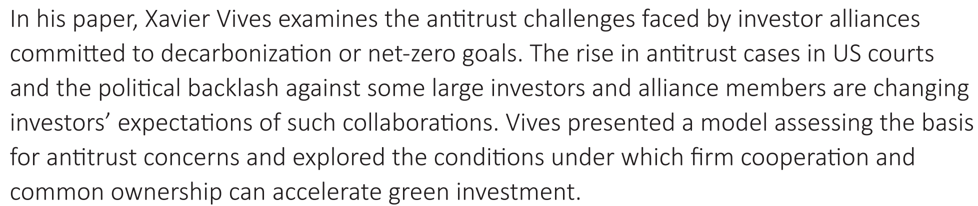
Some key reflections emerged from the conference sessions, mostly based on empirical evidence. The first is on the role of shareholders in endorsing corporate purpose. Colin Mayer argued in his presentation that corporate purpose can play a role in this process and help firms restore and improve their reputation. In a family business, corporate purpose stems from the founder's original vision. In a more mature company, it may evolve from the CEO's ideas about how to differentiate the firm. A good corporate purpose highlights how the firm aims to serve its customers differently and address the social needs associated with its products and services. A functional purpose should align with the firm's strategy, business model, and policies. To do so effectively, purpose requires support from the firm's shareholders.

The second reflection emerged from Mireia Giné's paper examining the evidence of the impact of institutional investors on corporate governance and how this impact is conditioned by the increasing prevalence of common ownership. Asset managers have a fiduciary duty to their end investors—not to the companies in which they invest. Institutional investors' underinvestment in corporate governance is a salient feature of this model and poses challenges for both shareholders and firms. This presentation identified two pathways through which institutional shareholders can influence a firm's governance: internal mechanisms, such as board composition, compensation, and voting; and the external mechanism of M&As. Giné also explored the sustainability of this governance model when companies face critical challenges or when boards are required to support dramatic changes, such as M&A decisions.

Jill Fisch's paper and presentation on the role of public pension funds in corporate governance highlighted some qualities of this type of investor. These funds are highly relevant shareholders, and their role is evolving. Fisch argued that public pension funds are principals—not agents—and, thus, can pursue goals beyond maximizing the funds' economic value. However, she also pointed out the risks associated with certain investment policies, which may exacerbate pension funds' underfunding or increase political influence over them.

Marco Becht's coauthored paper and presentation on voice through divestment assess fossil fuel divestment decisions. In this context, divestment serves as a statement of disapproval that aligns actions with words to increase effectiveness. Becht et al. (2023) analyze the impact of the Go Fossil Free divestment campaigns and how viral divestment pledges reduce the share prices of all carbon-emitting firms—including those that do not announce divestments. The authors argue that divestment announcements that "resonate" increase regulatory and other forms of transition risk. Thus, "viral" divestment announcements reposition divestment decisions from merely moral statements to a form of strategic risk management.

The evolving landscape of firms' social policies—particularly concerning diversity—and shareholder support for them is a pertinent issue. Luc Renneboog presented a paper that comprehensively examines the extent of support for diversity-promoting policies among shareholders, employees, consumers, boards of directors, and other stakeholders. Overall, stakeholder support for such policies is limited. At a time of changing political and social perspectives on this issue, the evidence presented in Renneboog's paper is especially timely.



In his paper, Xavier Vives examines the antitrust challenges faced by investor alliances committed to decarbonization or net-zero goals. The rise in antitrust cases in US courts and the political backlash against some large investors and alliance members are changing investors' expectations of such collaborations. Vives presented a model assessing the basis for antitrust concerns and explored the conditions under which firm cooperation and common ownership can accelerate green investment.

The CEOs' Panel, which concluded the conference, offered many insights into how shareholders can enhance corporate governance and support companies during disruptive times. Shareholders have many tools for ensuring that the board is performing well and taking care of the firm. Critical tools include the board's proposals to shareholders—particularly regarding the board composition and nominees, and executive compensation. Shareholders should voice their opinions on these matters to help ensure that the board fulfills its governance responsibilities professionally. Moreover, ordinary shareholders—especially institutional investors—should proactively engage with the board on relevant issues rather than waiting for the intervention of activist hedge funds.

A key insight is that shareholders' time horizons should align with those of the company's investment plans. By definition, each shareholder and company—even within the same industry—operates on a different timeline. However, responsible investors should ensure that their plans and horizons are compatible with the company's goals. Misalignment in this area can distort expectations and have serious consequences for both companies and shareholders.

The increasing complexity of global corporate competition calls for a more effective governance model backed by shareholders. Investors should leverage their decision-making power to enhance corporate competitiveness and resilience, thereby helping shape companies into engines of economic prosperity.

This Report includes six brief articles that summarize the central issues discussed in the conference's presentations.

Agenda

MONDAY, MARCH 31, 2025

Welcome and Conference Introduction

Marco Becht, Université libre de Bruxelles and ECGI

Jordi Canals, IESE Business School

Session 1

SHAREHOLDERS, CORPORATE PURPOSE AND SUSTAINABILITY

Speaker: **Colin Mayer**, Oxford University
Discussant: **Fabrizio Ferraro**, IESE Business School
Moderator: **Africa Ariño**, IESE Business School

Session 2

PUBLIC PENSION FUNDS IN CORPORATE GOVERNANCE

Speaker: **Jill E. Fisch,** University of Pennsylvania
Discussant: **Amir Licht,** Reichman University
Moderator: **Miguel Antón,** IESE Business School

Session 3

WHO CARES ABOUT DIVERSITY?

Speaker: **Luc Renneboog,** Tilburg University
Discussant: **Pascual Berrone,** IESE Business School
Moderator: **Núria Mas,** IESE Business School

Session 4

SHAREHOLDERS' COALITION FOR CLIMATE SOLUTIONS: IS THERE A CASE FOR COMPETITION POLICY?

Speaker: **Xavier Vives,** IESE Business School
Discussant: **Giacinta Cestone,** Bayes Business School
Moderator: **Herman Daems,** ECGI and IESE Business School

Session 5

WHAT DO WE KNOW ABOUT INSTITUTIONAL SHAREHOLDERS' IMPACT ON GOVERNANCE AND SUSTAINABILITY?

Speaker: **Mireia Giné,** IESE Business School
Discussant: **Jordi Gual,** IESE Business School
Moderator: **Miguel Duro,** IESE Business School

Session 6

SHAREHOLDERS AND DIVESTMENT DECISIONS

Speaker: **Marco Becht,** Université libre de Bruxelles and ECGI
Discussant: **Gaizka Ormazabal,** IESE Business School
Moderator: **Nuno Fernandes,** IESE Business School

CEOs' Panel

BOARDS OF DIRECTORS AND SHAREHOLDERS IN CORPORATE TRANSFORMATION

Rosa García, Exolum, Chairperson
Janina Kugel, Kyndryl, TUI and Swissport, Board Member
Emmanuel Lagarrigue, KKR, Partner
Juvencio Maeztu, Ingka Ikea, Deputy CEO
Eloi Planes, Fluidra, Chairperson
Moderator: **Jordi Canals,** IESE Business School

Wrap-up

Marco Becht, Université libre de Bruxelles and ECGI
Jordi Canals, IESE Business School

Presentations and papers (when available), as well as conference videos, can be downloaded at the beginning of each section.

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Shareholders, corporate purpose and sustainability

Speaker: **Colin Mayer**, Oxford University

Discussant: **Fabrizio Ferraro**, IESE Business School

Moderator: **Africa Ariño**, IESE Business School

Watch video

Download Colin Mayer's presentation

Download Fabrizio Ferraro's presentation

ESG is dead, be true and fair instead

By Colin Mayer

ESG is dead. It failed because it did not serve a purpose. It was both insignificant and unworkable. In its extrinsic, single-materiality form—as promoted by the IFRS[1]—it was no more than another investment risk factor. In its intrinsic, double-materiality form—as advocated by the European Union (EU)—it was another cost center and form of regulation. It was designed neither to save the world nor promote growth, investment, and prosperity. It should not therefore be missed.

But do not take this as a sign that all is well without it. All is not well and will likely not be. In fact is manifestly getting worse. "Crises are increasing in frequency and growing in intensity. Their frequency and intensity will continue to increase until we solve the problem" (Colin Mayer 2024). The problem is that there has been too much emphasis on risk, regulation, and costs, and not enough on value creation and profit, as well as the commercial opportunity that comes from solving problems.

Profit is the fuel that lies at the heart of capitalism and the incentive that drives business. *Profit* comes from the Latin *proficere* ("to advance") and *profectus* ("to progress"). Those are precisely where profit should come from—from advancement and progress. Too often, however, it is also associated with disadvantage and regress.

As currently measured, a profit is simply the difference between the revenue of a business and its input costs: its labor, material, and capital costs. However, these costs do not account for the costs of paying employees below a living wage and suppliers below a fair-trade price, and the costs of the pollution, biodiversity loss, and global warming that a company causes. In other words, it does not account for the costs of avoiding or cleaning up the mess that a company creates.

Therefore, a company's measured costs are not its true costs, and its measured profits are not its fair profits. Indeed, whenever the directors of a company sign off their accounts as being "true and fair," they are doing no such thing. They are neither being true nor fair. They are not being true because they are not reflecting their true costs, and they are not being fair because they are, therefore, not reporting a fair profit.

They must do both, and there is one party that has a particular duty to ensure that they do—their owners, their shareholders. Shareholders have many rights, but they have one overriding responsibility: to ensure that they profit without harm. We are justifiably outraged when companies profit at the expense of others, as they did in the financial crisis. Profit without harm is a fundamental requirement for every business and a basic right of all citizens worldwide.

This is not just a moral precept but a necessary requirement for the functioning of economies. As Adam Smith noted in The Wealth of Nations, without it, markets and competition fail because good firms that incur their true costs and earn a fair profit cannot compete against those that do not. Far from encouraging runs to the top, competition creates runs to the bottom – a Gresham Law of bad firms driving out the good.

Profit without harm is both a necessary and sufficient condition for markets to function and for competition to promote social well-being. It is the duty of directors of corporations to ensure that they report their true costs and fair profits without harm. It is the role of shareholders to ensure that they earn nothing else.

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[1] International Financial Reporting Standards

Corporate law should determine that corporate success derives from profit without harm. Banking and securities laws should ensure that investors and investment institutions do not profit unfairly at the expense of others. Corporate auditing, reporting, and governance standards should confirm that companies' accounts and reports are true and fair, and stewardship codes that investors' profits are earned without harm. Together, they will provide a uniform standard of performance for all businesses everywhere.

But much more significant than just avoidance of the negative is the contribution this makes to the positive- value creation. This is the source of the innovation, imagination, and inspiration that allow profits to be earned without harm. Instead of risk-taking coming at the expense of other stakeholders as at present, it is solely borne by those who should bear it, namely the shareholders. Shareholders become the true residual claimants of a firm.

This is not a stakeholder proposition. Directors' duties of loyalty remain solely to their shareholders but in the context of a recognition that the "success" and "interests" of the corporation derive from profiting without harm, in other words from value creation not value diversion or transfer from others. It is this that associates innovation and investment with advancement and progress, not disadvantage or regress.

By aligning shareholders with other stakeholders' interests, all parties, including governments, are encouraged to innovate and invest. Trust is created where mistrust prevails, and stakeholders are confident about investing in companies where at present they fear being exploited and expropriated. In particular, the interests of government in social well-being are aligned with those of business in profits without harm.

As a result, firms are assisted by their stakeholders and governments in internalizing and capitalizing benefits conferred on others that currently remain external and unrewarded. Mutually reinforcing interests promote partnerships between businesses, investors, governments, customers, employees, suppliers and communities in committing to a common purpose of shared prosperity.

There are two reasons why this shift from costly regulation and reporting to financial value creation from problem solving appeals to both businesses and investors. Firstly, it is about the core of what a business does, its strategy, namely problem solving, and, secondly, it is the core of financial investment, namely financial value creation.

For companies that recognize their purpose to be profitable problem solving, not creation, new problems and crises are new opportunities. They find innovative ways of solving problems profitably. In the process, they create new problems, which in turn they solve profitably, which then create further problems, and so businesses and the world progress and advance.

This changes the focus of companies from wading in the weeds of exploitation, expropriation and unjust enrichment at the expense of others, to surfing the waves of innovation, imagination and inspiration of earning fair profits from shared prosperity.

Public pension funds in corporate governance

Speaker: **Jill E. Fisch**, University of Pennsylvania

Discussant: **Amir Licht**, Reichman University

Moderator: **Miguel Antón**, IESE Business School

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Download Jill E. Fisch's presentation

Download Jill E. Fisch's paper

The singular role of public pension funds in corporate governance

By Jill E. Fisch

Among institutional investors, public pension funds hold a uniquely public and potent position. With over $5 trillion in assets under management, these funds influence corporate governance, ESG initiatives, and economic development far beyond their nominal mandate of managing the retirement money of public employees. Yet the prevailing legal and policy framework is anchored in the doctrine of "beneficiary primacy," which posits that fund managers must act solely in the economic interest of pension beneficiaries. In this article, we argue that beneficiary primacy fails to capture the singular structure and role of public pension funds and subjects them unduly to litigation risk. Instead, we propose a fundamental reconceptualization: public pension funds should be understood not as intermediaries whose managers are fiduciary-bound to serve passive beneficiaries, but as public principals imbued with public values and run in accordance with those values.

We start with an overview of the structure, investment policies, and governance initiatives of four major public pension funds. We recount the paradigm-shifting role that public pension funds have played – from pioneering socially responsible investing to serving as catalysts for governance changes that have increased management accountability through greater shareholder empowerment. We also identify developments in public pension fund engagement on ESG issues.

Although these efforts have been longstanding and extensive, they have also been controversial. Public pension funds have faced legal challenges to actions ranging from their 1975 bailout of New York City to their 2024 divestment from fossil fuels. Although courts have generally rejected these challenges, in doing so, they have reaffirmed the foundational principle of beneficiary primacy— that fund managers have a fiduciary duty to focus exclusively on fund economic value for the benefit of the funds' beneficiaries.

As we explain, beneficiary primacy is rooted in the obligations imposed on mutual funds by the Investment Advisers Act and on private pension funds by Employee Retirement Income Security Act (ERISA). While public pension plans are instead governed by a patchwork of state and local laws, ERISA's exclusive benefit rule is the de facto legal standard. We argue that this approach is misguided: it is unfaithful to public pension funds' historical investing and engagement practices and fails to reflect critical differences between public pension funds and private funds.

The core conceptual error behind beneficiary primacy is that, unlike typical mutual fund investors, public pension beneficiaries are not residual claimants. Fund managers owe fiduciary duties to residual claimants because their returns are based on fund performance. However, public pension beneficiaries receive fixed payments after retirement, regardless of returns. Because beneficiaries are contractual claimants, fiduciary duties are inapt. Moreover, the focus on beneficiaries ignores the institutional design of public pension funds, which positions them as embodiments of public values, not vehicles to maximize beneficiary wealth.

To cure this misalignment, we argue that public pension funds should be conceptualized as principals— entities with autonomous interests shaped by legislation, democratic processes, and institutional design. Thus, fund managers are agents of the fund itself, with a duty to represent the fund, not merely its beneficiaries. This reframing aligns with how public pensions actually operate; they are governed by boards representing diverse constituencies, constrained by legislation, and politically accountable through elected officials.

This model legitimizes investment decisions that reflect public values—whether through climate-conscious portfolios, worker protections, or local economic development. It also offers doctrinal coherence by aligning fiduciary obligations with institutional purpose, rather than forcing conformity to a private-law templates.

The implications of our theory are significant. First, our approach would de-weaponize fiduciary law in ESG debates. Anti-ESG laws—like Florida's prohibition of non-pecuniary investing, or New Hampshire's criminalization of ESG considerations—rely on the narrow conception of fiduciary duty enshrined in beneficiary primacy to restrict public pension funds. Our model reframes decisions to constrain public pensions as political, not legal, judgments. States that want to limit or promote ESG investing should do so transparently through legislation, not via contorted interpretations of fiduciary law.

Second, our retheorization would transform fund managers' discretion. Currently, fund managers must justify values-aligned actions in economic terms, often leading to disingenuous arguments about long-term returns. Yet it is nearly impossible to parse the pecuniary and non-pecuniary motivations underlying managers' decisions as well as the potential economic consequences of values-based investment decisions. Under our model, fund managers need no longer defend their decisions purely in economic terms, freeing them to openly pursue public-oriented goals, while remaining accountable through the political process and legal safeguards against self-dealing and mismanagement.

Third, our model invites better alignment between public values and capital markets. Public pension funds can and should serve as democratic conduits for societal preferences in corporate governance. Their activism in shareholder voting, ESG proposals, and securities litigation has already shaped practices and norms around board accountability and corporate sustainability and transparency. Viewing them as principals solidifies their role as stewards of the public interest in the financial sector.

Who cares about diversity?

Speaker: **Luc Renneboog**, Tilburg University

Discussant: **Pascual Berrone**, IESE Business School

Moderator: **Núria Mas**, IESE Business School

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Download Pascual Berrone's presentation

Who cares about diversity?

By Luc Renneboog

Gider, Renneboog, and Zhang (2025) have examined who actually cares about corporate diversity, equity, and inclusion (DEI) by analyzing stakeholder responses to discrimination litigation. The research investigated whether discrimination lawsuits related to gender, race, disability, age, and appearance significantly impact various corporate stakeholders, from financial markets to employees, consumers, and government entities.

The authors analyzed 5,586 discrimination lawsuits involving US public companies between 2001 and 2021. Their methodology treated these litigation events as “shocks” to corporate DEI quality, enabling them to assess how different stakeholders respond to these incidents. They first validated the premise that these events represent genuine DEI shocks by demonstrating that both news coverage and ESG ratings change significantly following litigation filings.

Surprisingly, the study found no significant stock or bond price reactions to the discrimination litigation announcements, despite their visibility in the media and among rating agencies. While some institutional investors—particularly mutual funds—temporarily reduced their holdings in the sued firms, this selling pressure was quickly absorbed by other shareholders, leaving stock prices largely unaffected.

The research revealed interesting patterns in the nonfinancial stakeholder responses. General employees showed little reaction to DEI incidents at their employers, based on employee ratings on platforms such as Indeed. However, highly skilled employees involved in innovation and R&D demonstrate a different pattern—they were more likely to leave following discrimination litigation. This effect was particularly pronounced among female researchers after gender-related discrimination cases, who showed a 24% increase in departure rate within three months of the case filings.

Regarding business relationships, the study found that supply chain partners (i.e., corporate customers and suppliers) showed no significant changes in their dealings with firms facing discrimination lawsuits. Similarly, government entities at the federal, state, and local levels maintained their levels of subsidies, tax benefits, and favorable loan terms for the sued companies.

Consumer behavior, analyzed through household-level scanner data on retail products, showed a modest short-term decline—approximately 1% of the average monthly household consumption—in sales of brands owned by litigated firms within the three months following their litigation. However, this effect dissipated after these three months, suggesting that consumers have short memories of corporate DEI incidents. Notably, certain demographic groups—older consumers, urban households, white households, and those living in predominantly Democratic or Catholic counties—reduced their consumption more significantly.

While external stakeholders demonstrated limited sustained reactions, internal corporate governance adjustments were found. Firms increased their boards’ diversity by appointing more female and minority directors after discrimination incidents, possibly as a preventive measure against future litigation.

The authors acknowledge that their findings might have underestimated the full impact of DEI issues, as many discrimination cases are settled confidentially before litigation. Nonetheless, the large sample size supported robust conclusions about stakeholder reactions to public DEI controversies.

Overall, the analysis suggests that while discrimination litigation triggers some reactions—particularly among certain consumers, skilled employees, and corporate governance structures—its aggregate effect on firm value and stakeholder relationships remains limited. These findings deepen our understanding of how DEI concerns translate into concrete stakeholder behaviors and illuminate different responses across stakeholder groups.

What do we know about institutional shareholders' impact on governance and sustainability?

Speaker: **Mireia Giné**, IESE Business School

Discussant: **Jordi Gual**, IESE Business School

Moderator: **Miguel Duro**, IESE Business School

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Download Mireia Giné's presentation

The new governors: How institutional investors have changed governance mechanisms around the world

By Mireia Giné

Over the past two decades, the ownership structure of global corporations has significantly changed. Institutional investors—once background players in corporate governance—now increasingly influence both board composition and firms' strategic direction. Their rise has been steady and global.

This shift is most evident in the United States, where the "Big Three" asset managers—BlackRock, Vanguard, and State Street—now rank among the top five shareholders in 90% of S&P 500 firms. Globally, ownership concentration among the top five investors per firm has steadily increased, leading to more homogeneous shareholder bases, particularly among large firms.

Global patterns, local variations

Ownership concentration varies by region. In the United States, institutional ownership dominates, with universal investors—those holding diversified stakes across entire markets—playing an especially prominent role. In Europe, family business owners are increasingly delegating wealth to institutional vehicles, shifting from industrial to diversified financial portfolios. In Asia, families and state actors still control large swaths of equity, although exchange-traded funds (ETF)-driven penetration is on the rise.

The growth of passive investment—largely through ETFs—has been instrumental. These funds, which track indices rather than select stocks, now account for a significant share of capital flow. Their rise has contributed to overlapping ownership across economic sectors and geographies, centralizing influence and voting power in the hands of large institutional investors.

Impact of passive funds on governance mechanisms

The growing presence of passive funds poses an interesting dilemma in the governance of firms where they invest. On the one hand, they are long-term holders without a clear exit option, and therefore, should be incentivized to conduct governance research. On the other hand, since these funds do not aim to "beat the index," they are under pressure to minimize fees, which might weaken their incentive to perform deep monitoring.

Still, there is ample academic evidence that passive investors influence governance as they enter large publicly traded firms: 1) increased appointment of independent directors to boards, 2) greater opposition to antitakeover measures and dual-class structures, 3) more forward-looking disclosure with earnings guidance and earlier filings, 4) expanded analyst coverage of the firm, which reduces information asymmetry, and 5) favoring of increased payouts to shareholders over capital expenditures for capital allocation.

Mergers and acquisitions: Consolidation over discipline

One of the more consequential areas of influence of passive funds is in mergers and acquisitions (M&A) activity. Our research shows that institutional investors—especially universal owners—favor consolidation. This stems from their incentive alignment across firms: while corporate discipline might improve individual firm performance, consolidation can lift sector-wide margins.

This preference has broader implications. M&As are increasingly becoming tools for market power rather than for corporate reform. Institutional support for such deals reflects a shift in governance logic—from disciplining managers to optimizing portfolio performance, especially when those portfolios include rival firms.

Voting and monitoring: How influence is exerted

Institutional investors engage primarily through voting—in both routine annual shareholder meetings and high-stakes contests. Their governance teams examine regulatory filings, proxy statements, and proposals. This research discipline reduces inefficient investments and enhances shareholder returns. However, this engagement is not evenly distributed: large-cap firms receive disproportionate scrutiny, raising concerns about a two-tier governance regime.

In high-profile proxy battles, institutional votes often tip the balance. When activists win the support of passive giants, boards frequently settle. Conversely, a lack of support from passive funds significantly weakens dissident campaigns. Thus, their role is not merely procedural— it is pivotal.

Delegation and decentralization

As their influence grows, some asset managers are experimenting with decentralized voting models. For instance, Vanguard is piloting fund-level voting delegation. The rationale is that decentralization may enhance legitimacy on contentious topics, especially in ESG-related proposals. Early evidence suggests that decentralized voters are more supportive of environmental and social proposals while remaining aligned with management on conventional matters.

However, delegation raises new questions: Do retail investors or fund managers have the bandwidth and expertise to vote responsibly? Will a more fragmented voting landscape increase the influence of proxy advisors?

A glass half full

In sum, institutional investors have improved internal governance mechanisms. Boards are more independent. Transparency has increased. Voting has become more informed and consequential. Antitakeover measures have declined. Shareholder payouts have risen.

Yet some gaps persist. Executive compensation remains largely unchallenged. Oversight of smaller firms is still thin. Institutional ownership appears more effective when outcomes are observable, standardized, and scalable, and less so when issues require judgment or sustained engagement.

What’s next?

Several challenges loom. First, geographic limits remain: evidence shows that governance effects are strongest in US firms with US shareholders. Governance in other jurisdictions might be weaker as US-based passive investors might lack the focus needed and the incentives to monitor firms far away in Europe or Asia.

Second, and most importantly, the concentration and overlap of ownership across a few large institutional owners raises a fundamental question: What do these investors ultimately want? Thus far, the evidence points to a bias toward shareholder payout, transparency, and industry consolidation. Whether that bias aligns with long-term economic dynamism remains uncertain.

For now, institutional investors are no longer mere shareholders—they are governors, armed with data, votes, and increasingly, the final say.

Shareholders and divestment decisions

Speaker: **Marco Becht**, Université libre de Bruxelles and ECGI

Discussant: **Gaizka Ormazabal**, IESE Business School

Moderator: **Nuno Fernandes**, IESE Business School

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Download Gaizka Ormazabal's presentation

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Divestment: More than just selling shares

By Marco Becht

The traditional view in finance is that divestment—selling off assets, particularly company shares—is ineffective as a form of activism. The argument is that it works only if the sale is large and lacks buyers; otherwise, others will simply purchase the shares, in which case the impact on the company would be negligible. Thus, finance often favors engagement over exit.

However, this perspective is challenged by the growing divestment movement and the strong opposition to it from industry and politicians. If divestment were truly inconsequential, why would it provoke such resistance?

This resistance suggests that divestment can have an impact, and it reframes the choice as not simply between “voice” (engagement) and “exit” (divestment)but, rather, more accurately as “voice and conditional exit.”

Voice through divestment: Making a statement

In our paper, we define fossil fuel divestment announcements as “statements of disapproval that align actions with words to enhance effectiveness.” Fundamentally, therefore, divestment is about making a statement.

This form of voice begins with a narrative. For fossil fuels, this narrative is based on climate science: that meeting climate targets requires keeping known fossil fuel reserves in the ground. These reserves are largely controlled by approximately 200 listed companies. The assertion is that divesting from these companies makes a statement that can stop the reserves from being brought up and burned. This divestment strategy is claimed to have worked in the past, such as in South Africa.

How divestment campaigns work (and resonate)

A campaign begins with this narrative and targets notable investors. When these key investors announce a divestment, the hope is that it would resonate socially. This societal resonance is crucial because it increases long-term risk for all high-carbon emitters—not merely the companies divested from but also industries such as cement and aviation. This increased risk can affect even nonlisted companies with outstanding bonds. Other investors concerned with risk may follow suit, which could lead to the traditional price channel effect. As a bonus, the public nature of the campaign may pressure companies to change their behavior during the process.

To empirically measure this societal resonance, we analyzed X (formerly Twitter) data, focusing on retweets as a measure of amplification. Using large language models, we classified a vast number of tweets to identify divestment announcements. Although the movement has recorded over 1,700 such announcements, only some of them truly resonated—those that “went viral.”

Measurable impact on share prices

Our study found a significant negative impact on the share prices of the targeted companies (i.e., the Carbon Underground 200) following the viral divestment announcements. This contradicts the standard finance view that divestment has no impact. Even more compellingly, share prices of other high-carbon companies—such as cement producers and airlines—also declined, suggesting that the divestment narrative increased the perceived long-term transition risk across the sector.

Notably, the extent of the impact was not always correlated with the size of the divesting entity. For example, while Ireland had the most viral divestment announcement (related to a significant policy shift), the most significant share price impacts were seen from announcements by the Vatican and 12 major European cities, and, surprisingly, Leonardo DiCaprio—despite his comparatively smaller net worth. This suggests that the statement and its societal resonance are stronger drivers of impact than capital volume.

Voice and conditional exit in practice

The Church of England offers a clear example of the “voice and conditional exit” model. It engages fossil fuel companies first, and if the engagement fails, it publicly divests. This public divestment is reported in the news and is explicitly attributed to the divested company’s lack of change although the possibility of reinvestment with the company’s change is left open. Companies reportedly dislike being publicly divested by asset owners.

In contrast, some asset managers may pursue escalation strategies quietly—engaging and later divesting without public disclosure. However, this approach lacks “voice through divestment,” making it much less effective. Some asset managers, such as Aviva, even recently announced that they were abandoning this escalation strategy altogether (Financial Times).

The emergence of anti-ESG laws penalizing institutions for fossil fuel divestment further underscores the perceived significance of divestment—after all, why legislate against something ineffectual?

Our findings suggest that divestment activism can be a powerful force, particularly when executed as public “voice through divestment.” Rather than being a simple transaction, it can impact share prices by increasing carbon risk and its perception across the market.

Shareholders' coalition for climate solutions: Is there a case for competition policy?

Speaker: **Xavier Vives, IESE Business School**
Discussant: **Giacinta Cestone, Bayes Business School**
Moderator: **Herman Daems, ECGI and IESE Business School**

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Shareholders’ coalition for climate solutions: Is there a case for competition policy?

By Xavier Vives

The investment required for the energy transition is substantial. The market may provide too little investment—a market failure—due to two externalities: the environmental or climate externality and the technological spillover externality in abatement and green technology adoption. In principle, these externalities could be addressed in competitive markets through carbon pricing and green subsidies. However, many markets are oligopolistic, and governments often face constraints in using taxes and subsidies. Firm cooperation may offer a solution, raising important questions about what levels of cooperation should be allowed and what role common ownership (i.e., shared investors in different firms within or across industries) can play.

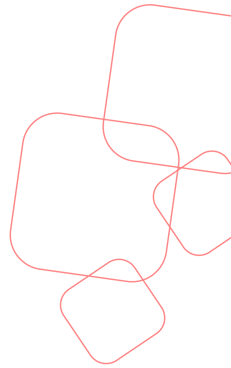
In the United States, congressional committees have scrutinized firm collaborations and coalitions addressing climate change from an antitrust perspective. In contrast, regulatory authorities in the EU, the United Kingdom, and other jurisdictions have adopted a more benign view of sustainability collaborations and climate coalitions. These divergent regulatory approaches highlight the potential tension between promoting environmental objectives and preserving competitive market structures. This paper reviews recent developments in competition policy surrounding environmental agreements in the United States and Europe and examines its role in policy definition, drawing on insights from the industrial organization literature. An adaptation of the industrial organization innovation framework suggests that cooperative agreements and overlapping ownership can help promote green innovation and net-zero commitments primarily by internalizing technological spillovers. Both firm size and common ownership are potentially key determinants of net-zero commitments and emission abatement efforts.

We know that the (first-best) welfare-optimal solution can be achieved in competitive markets equipped with optimal carbon pricing—equal to the social cost of carbon—and R&D subsidies that incentivize innovation without the need for firm cooperation or commitments. In reality, however, oligopolistic competition complicates this outcome. Firms’ incentives to commit to green innovation and the welfare implications of these commitments depend on the degree of technological spillovers in R&D and the strategic nature of competition. R&D cooperation raises welfare when firms do not act strategically in their R&D choices (that is, when they do not try to influence market outcomes with their R&D investments) and when spillovers are positive. In those circumstances, R&D subsidies may not be needed alongside carbon pricing. If firms act strategically and spillovers are high, R&D cooperation can still enhance welfare by reducing the green subsidy needed.

When R&D cooperation spills over into partial coordination in output and spillovers are large, cooperative cost-reducing investments in R&D may still rise under reasonable demand specifications—but full product–market collusion remains socially undesirable, as the losses from the reduced output and higher prices outweigh the innovation gains. When spillovers are high, common ownership increases output, abatement effort, and welfare levels. The optimal welfare level of common ownership is positive when spillovers are sufficiently large and rises with the intensity of spillovers, the number of firms, the elasticity of demand and the innovation function. In some cases, even full cartelization may yield optimal outcomes.

Larger firms and coalitions are more likely to commit to decarbonization targets in the presence of carbon pricing. In an oligopoly where spillovers are high, firms' R&D commitments may lead to underinvestment, requiring greater levels of common ownership to improve welfare. In an oligopoly with a competitive fringe, commitments of large firms or coalitions to "overinvest" in green innovation may be suitable substitutes for innovation subsidies by incentivizing smaller rivals to increase production and green investment, thereby enhancing overall welfare. In this context, firm commitments and government carbon pricing can be substitutes: strong decarbonization commitments of firms reduce the burden on public policy to incentivize the transition.

Several open questions remain. What is the optimal policy for jointly regulating carbon prices, green subsidies, and the extent of common ownership? What role do green preferences play in the determination of the optimal policy when environmental damages cannot be priced properly and/or green subsidies are limited?



Final reflections

Shareholders in a disrupted world: Final reflections and insights from the 2025 IESE-ECGI Corporate Governance Conference

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By Marco Becht

The shifting landscape of responsible investment

The 2025 IESE-ECGI Corporate Governance Conference, titled Shareholders' Role and Responsibilities in Times of Corporate Disruptions and held in Madrid on March 31, 2025, highlighted the dramatic shift in ESG investing following the November 2024 US elections. What was once a growing consensus around responsible investment has been significantly disrupted in only a few months, creating both challenges and opportunities for shareholders.

Despite 2024 being the warmest year on record—with devastating climate disasters in the United States and beyond—the new administration swiftly withdrew from the Paris Agreement and reversed policies on phasing out coal. These actions came as atmospheric CO_2 concentrations reached record highs above 431 ppm, and global temperature records were repeatedly broken.

The great divergence: Asset managers versus asset owners

Perhaps the most striking development has been the divergence between asset managers and asset owners in their response to the new political landscape. Major asset management firms have rapidly retreated from climate commitments through multiple channels:

- Withdrawing from climate initiatives, including the Net Zero Asset Managers initiative, which subsequently suspended operations;
- Explicitly disavowing the use of stewardship to achieve decarbonization goals;
- Rebranding climate-focused funds and weakening ESG criteria; and
- Dramatically reducing or eliminating support for environmental shareholder proposals.

In stark contrast, pension funds and other asset owners have largely upheld their climate commitments. As universal long-term investors, they recognize that climate risk threatens their portfolio values more than ever. The conference highlighted that the fiduciary duty of public pension funds should compel them to consider systemic risks, such as climate change.

Systematic pressure on asset managers

The asset manager retreat must be understood in the context of systematic pressure from multiple fronts:

- The Securities and Exchange Commission reintroduced guidance requiring ESG-related shareholder proposals to demonstrate company-specific financial materiality, making climate and social resolutions easier for firms to exclude.
- The Department of Labor finalized rules prohibiting ESG considerations in retirement plans unless linked to clear financial returns.
- The SEC's reclassification of routine shareholder engagement as "activist behavior" triggered additional reporting burdens, leading some major firms to pause climate dialogs indefinitely.
- Over 25 states enacted laws penalizing financial institutions for "boycotting" fossil fuels.
- Legal intimidation campaigns forced major law firms to provide $600 million in pro bono work that could be used against noncompliant asset managers.

Asset owners under pressure: The weaponization of pension funds

State pension funds in Republican-led states are increasingly being used to advance political agendas at the expense of prudent risk management. Some state laws now require pension funds to divest from companies accused of "boycotting" fossil fuels, forcing fiduciaries to prioritize politically favored industries over financial stability. Other laws compel pensions to invest in high-carbon emitters—even as studies have shown that such mandates could lead to substantial losses for retirement systems. Anti-ESG shareholder proposals amplify these pressures.

This politicization extends to broader regulatory and international contexts. Although the US government cannot (yet) directly mandate investment decisions for state pension funds, legislative proposals have aimed to curb ESG consideration through regulation. Globally, funds might face indirect pressures stemming from geopolitical tensions or trade-related factors, which would further complicate their ESG strategies.

This paradigm shift forces a reevaluation of asset owners' independence. Pension funds from politically vulnerable countries —once regarded as stewards of long-term value—may begin to resemble sovereign wealth funds in nations where political objectives override fiduciary duty. As regulatory and geopolitical pressures mount, the line between principled stewardship and state-directed capital allocation becomes increasingly blurred.

Rethinking shareholder power in a polarized environment

The conference raised important questions about the very nature of share ownership. The term "common ownership" mischaracterizes a dynamic in which asset managers hold shares across industries but do not actually own them. Their recent actions are supposedly aligned with asset owners' preferences, making "common stewardship" a more apt term—or, perhaps, in today's environment, "common absence."

This disconnect creates a crucial decision point for asset owners: Will they accept diminished stewardship from their asset managers or take more direct action? Possible responses include replacing asset managers, assuming investment and stewardship functions themselves, or forming alliances with like-minded asset owners.

The path forward: Courage in a time of challenge

The conference underscored that shareholders play an even more vital role in today's disrupted landscape. While many asset managers face commercial and political pressures that may prevent them from fulfilling their responsibilities, this creates both a moral and commercial opportunity for truly committed shareholders to demonstrate leadership.

This evolving situation represents a "natural experiment" that scholars will analyze for years. What is already clear is this: despite increased difficulty, those who truly care about the future of their companies, beneficiaries, and of our planet, must now act with greater courage and commitment.

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