

# Towards a New Model of Boards of Directors

IESE Madrid - April 15, 2024

# Towards a New Model of Boards of Directors



**IESE**  
Business School  
University of Navarra

Center for  
Corporate  
Governance



european corporate governance institute



# Boards, Purpose and ESG

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Brodsky Trustee Professor in Global Business

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Northeastern University

IESE & ECGI, April 15, 2024

# Agenda

- Some working definitions



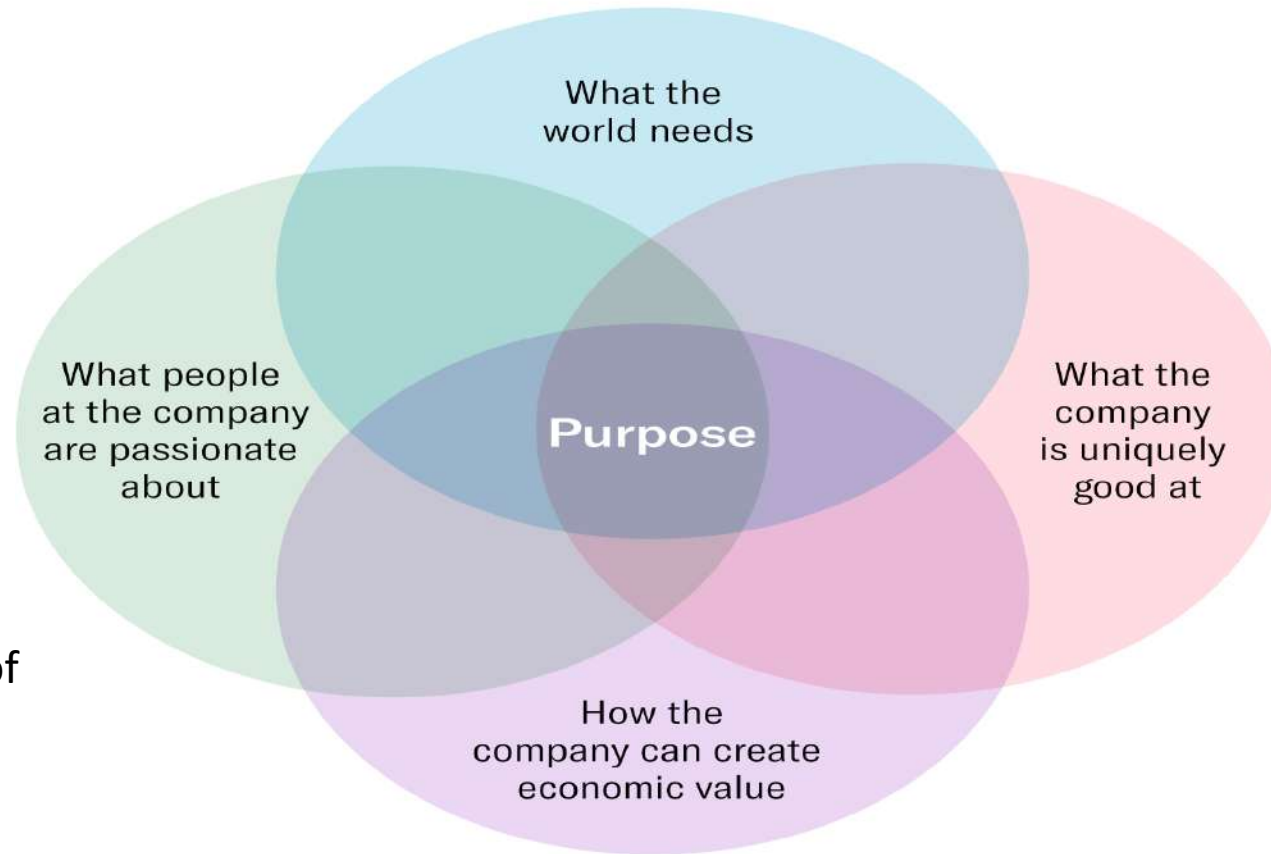
## Two Remarks:

1. Corporate Purpose and the Role of Corporate Governance
2. Boards and ESG. The Efficacy of Shareholder Activism
  - Study 1. Submitted Proposals
  - Study 2. Withdrawn Proposals

# Hubert Joly's Definition of Corporate Purpose

## Looking for Your Company's Purpose

It lies at the intersection of these four circles.



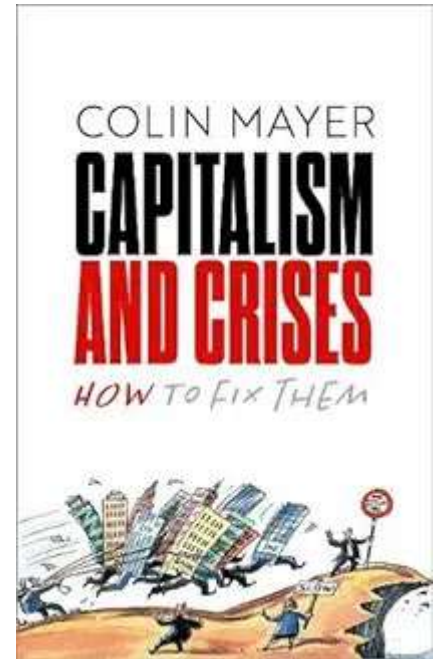
Joly, Hubert, and Caroline Lambert. *The Heart of Business—Leadership Principles for the Next Era of Capitalism*. Boston, MA: Harvard Business Review Press, 2021.

# Colin Mayer's (Creatively Concise) Definition of Corporate Purpose

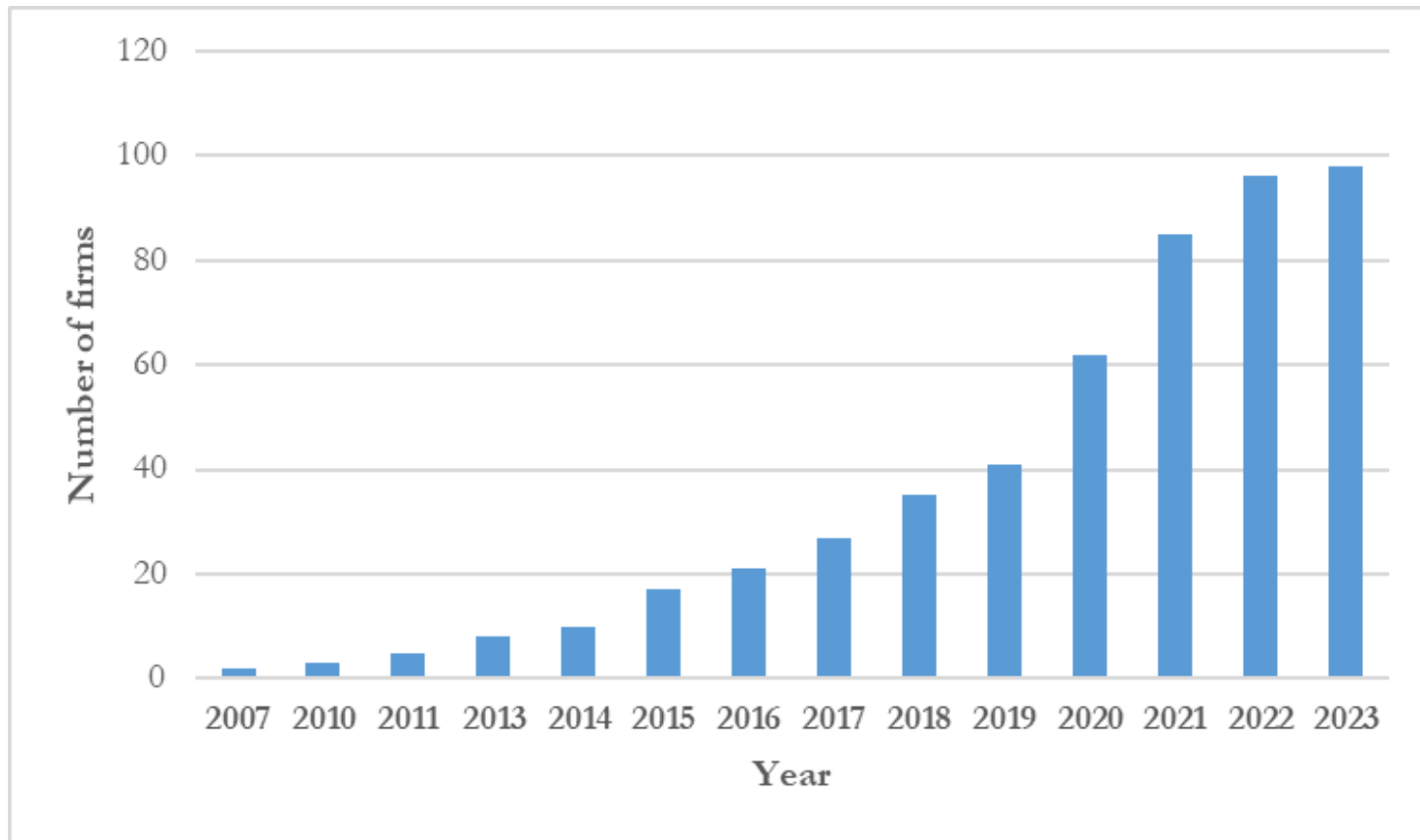


- The purpose of business is to produce **profitable solutions** to the problems of people and planet, and in the process ... it produces profits.

Source: The Future of the Corporation (2019)

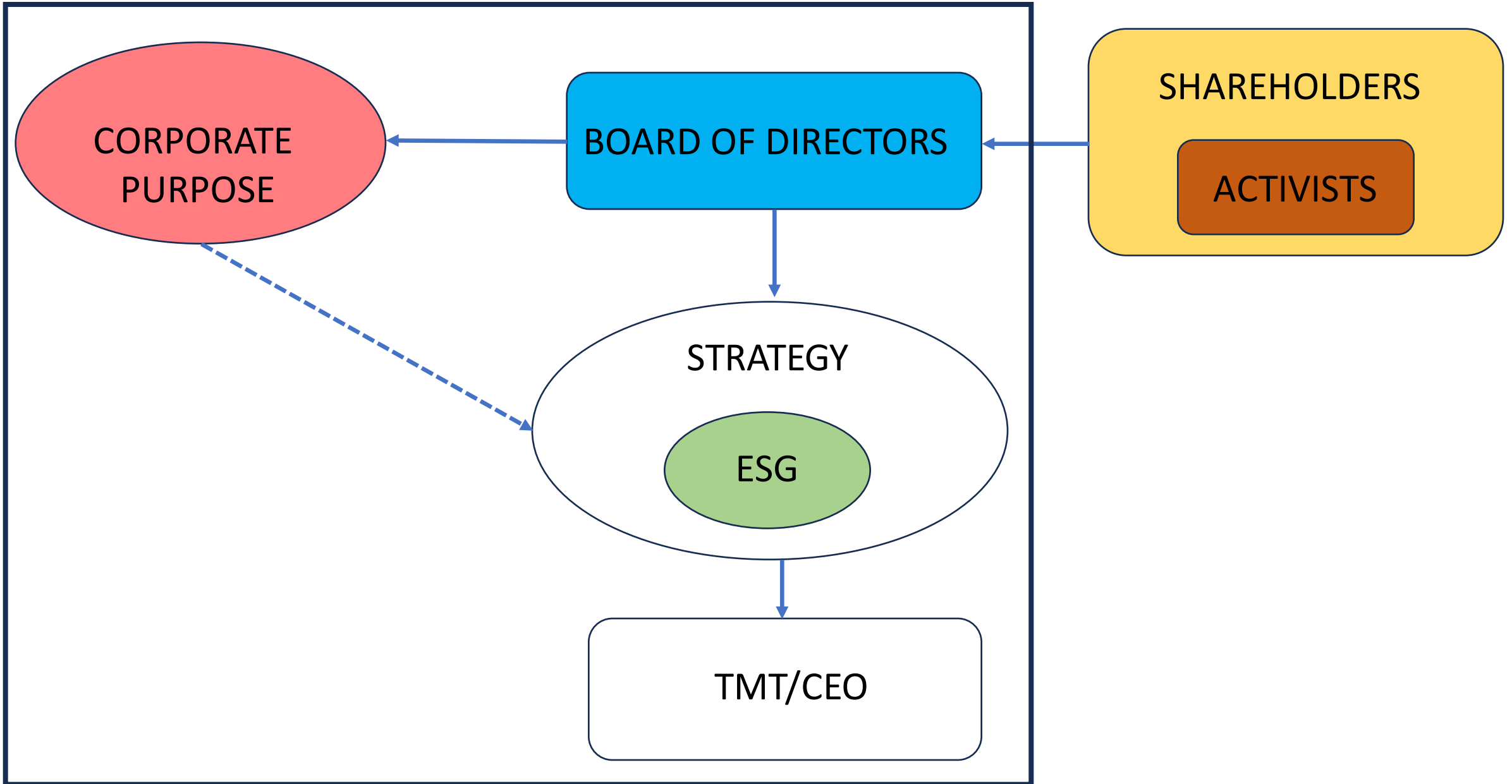


# S&P500 Firms: Pro-Social Goal (Purpose)



Webpages

Source: Chhillar (2023) "Duality of Purpose: When does organizational purpose align with employee experiences?"





# 1. Corporate Purpose and Corporate Governance

## Corporate Purpose in Comparative Perspective: The Role of Governance

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**Abstract.** Corporate purpose has become a central part of doing business as usual and in the social movement to involve corporations in solving complex societal and environmental challenges. In this essay, I first deconstruct what corporate purpose means from a sociological perspective, and I submit that it is important to identify to whom that purpose is targeted. Second, I seek to make the point that corporate purpose is not universal in that there is not a one-rule-fits-all template on how to develop corporate purpose. I draw on comparative corporate governance, stakeholder management, and institutional theory arguments to illustrate how corporate purpose means different things in different societies and that the departure point of the emanation of corporate purpose varies across countries. This differential meaning is explained in part by the institutional setting as well as very different societal expectations of corporations. Finally, building on insights from existing corporate governance research, I argue that stakeholder engagement can be a useful tool toward effectively deploying corporate purpose.

- **What** are we trying to achieve?  
(C. Mayer)
- **Who** develops the corporate purpose?



# From Corporate Purpose to Corporate Governance

- What are we trying to achieve? (C. Mayer)
- Who develops the corporate purpose?
  
- For whom the corporation is managed?
  - ➔ Strategy Research:
    - How the value created by the corporation is going to be appropriated and subsequently shared among its stakeholders (including shareholders)? (Bacq and Aguilera, 2022)
    - It is a dynamic process like sustaining firm competitiveness

# From Corporate Purpose to Corporate Governance

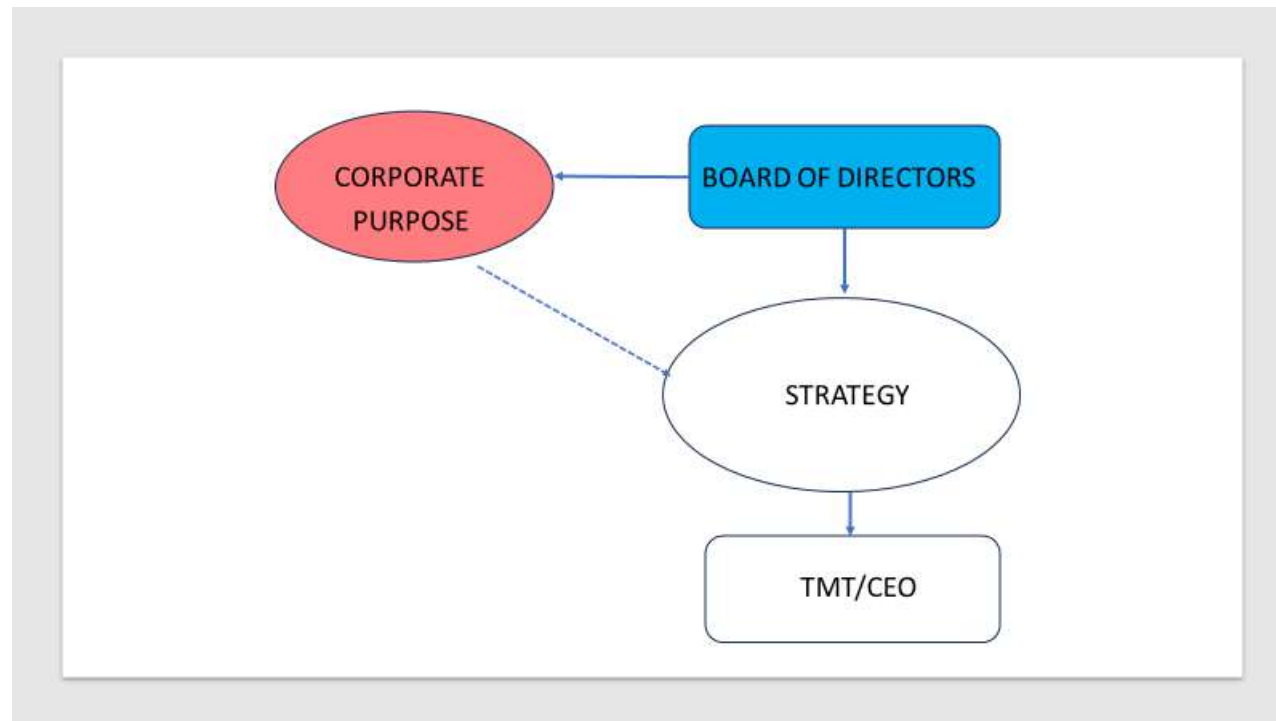
- What are we trying to achieve? (C. Mayer)
- Who develops the corporate purpose?
- For whom the corporation is managed?
  
- How do owners influence purpose? What are their rights across different jurisdictions?

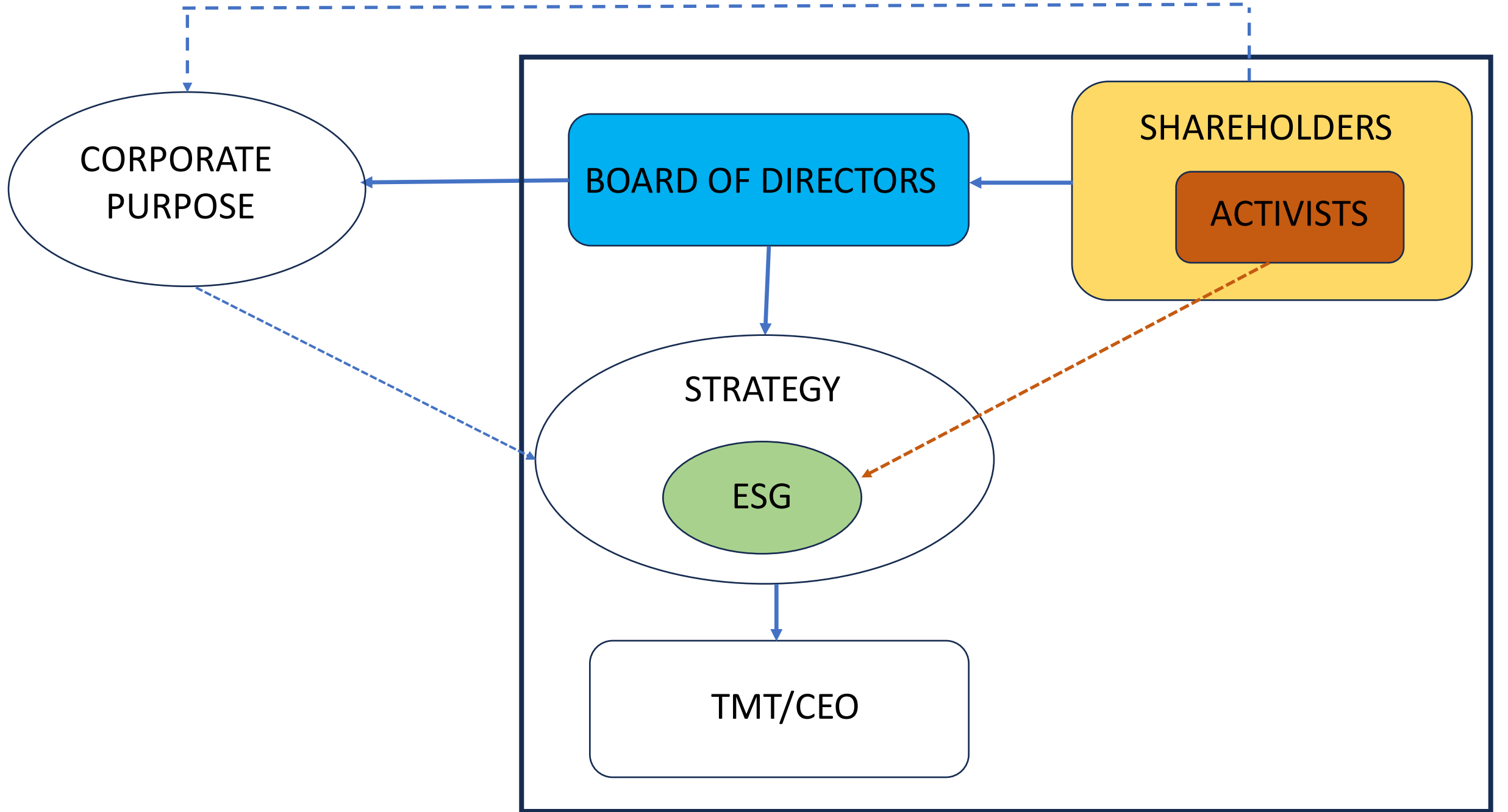
# From Corporate Purpose to Corporate Governance

- What are we trying to achieve? (C. Mayer)
- Who develops the corporate purpose?
- For whom the corporation is managed?
- How do owners influence purpose? What are their rights across jurisprudences?
  
- How corporate purpose is defined is part of corporate governance process
  - How are the intra-organizational power relations distributed?
  - Purpose relationship with incentives, time horizon, corporate strategy, etc.
  - Strengthen corporate purpose with accountability and trust
  
- *Canals, 2022 – Boards of Directors in Disruptive Times*
  - Purpose in boards & long-term strategic view

# The Board: Linchpin btw Purpose and Strategy

- Defines why the firm exists and which stakeholders seeks to serve.
- Anchors firm's strategy and policies on a clear notion of purpose.





## 2. Shareholder Activism and ESG

Maria Ruiz-Castillo, PhD Candidate at U. de Granada  
Ruth V. Aguilera, Northeastern University  
J. Alberto Aragón-Correa, Universidad de Granada  
Nuria E. Hurtado-Torres, Universidad de Granada

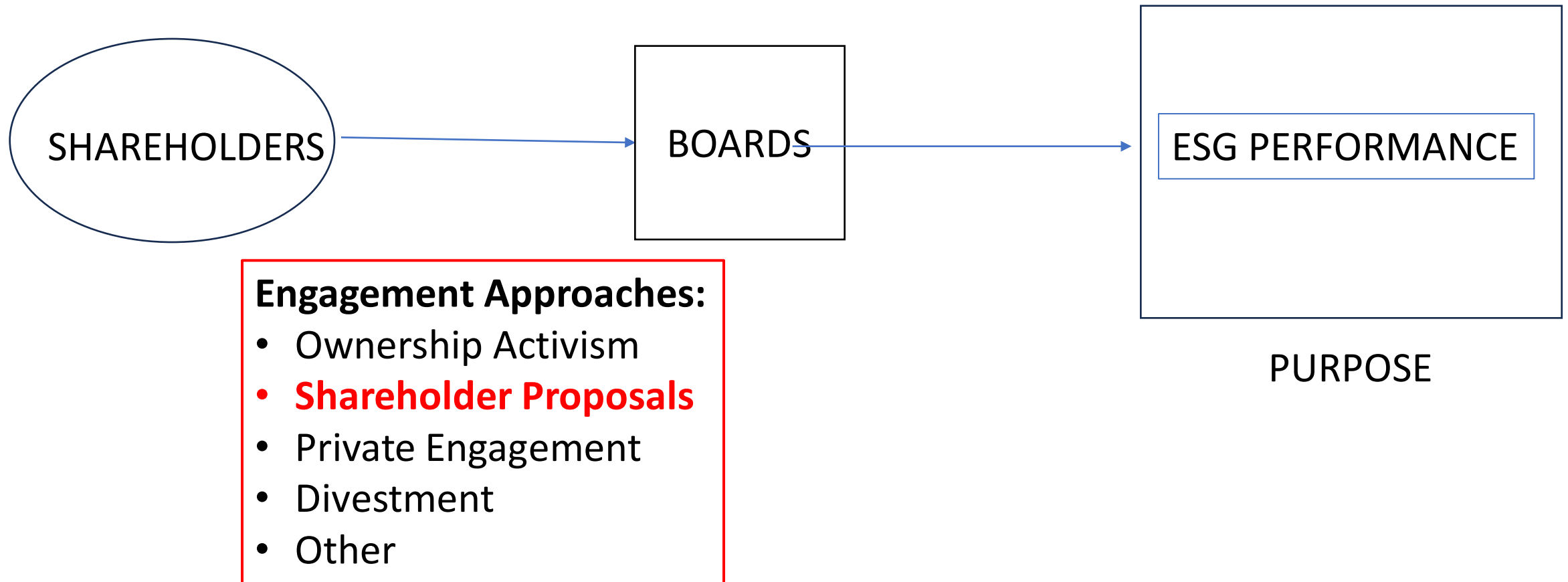


Project PID2019-106725GB-I00  
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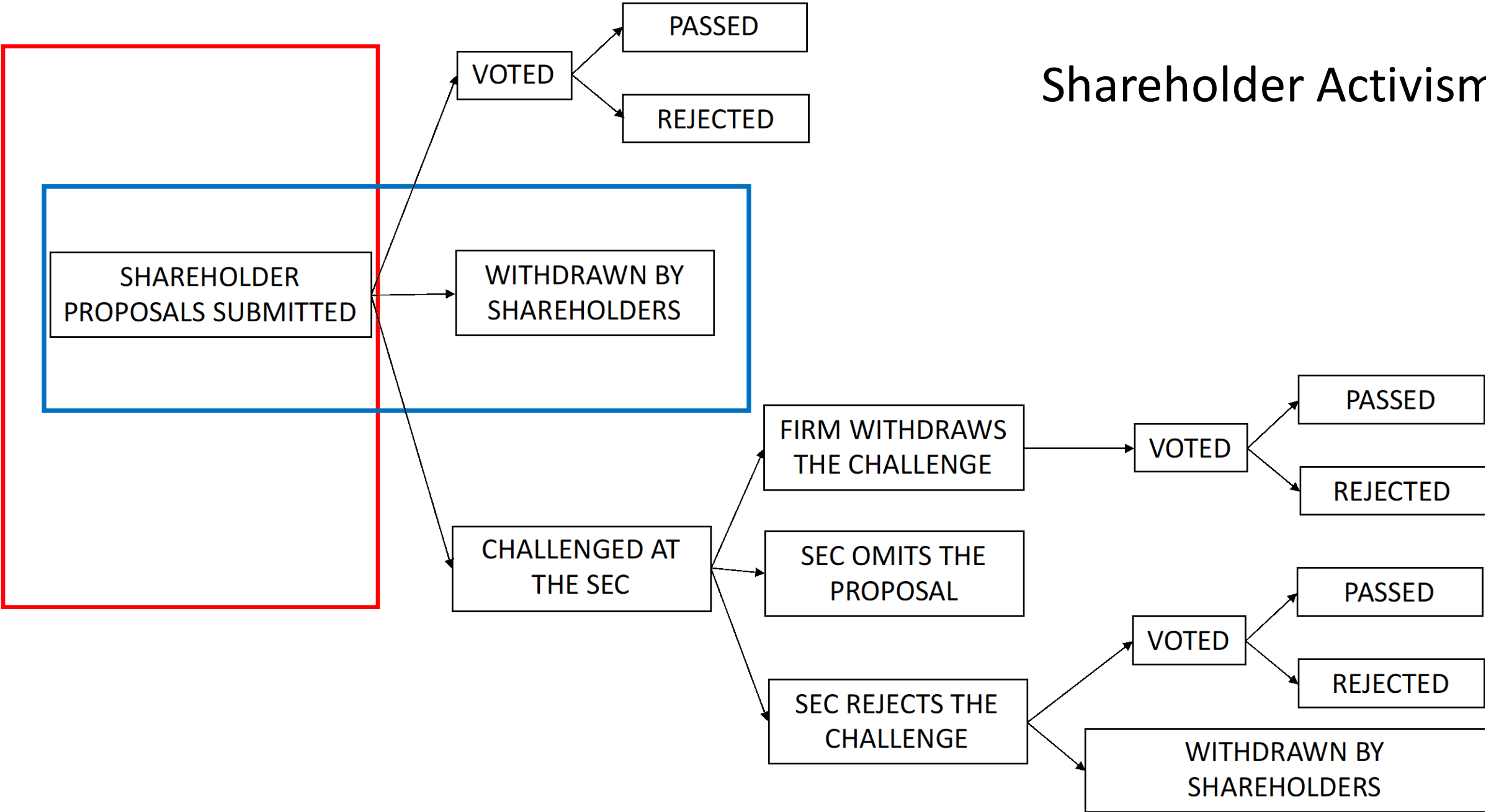
# Boards and ESG. Shareholder Activism

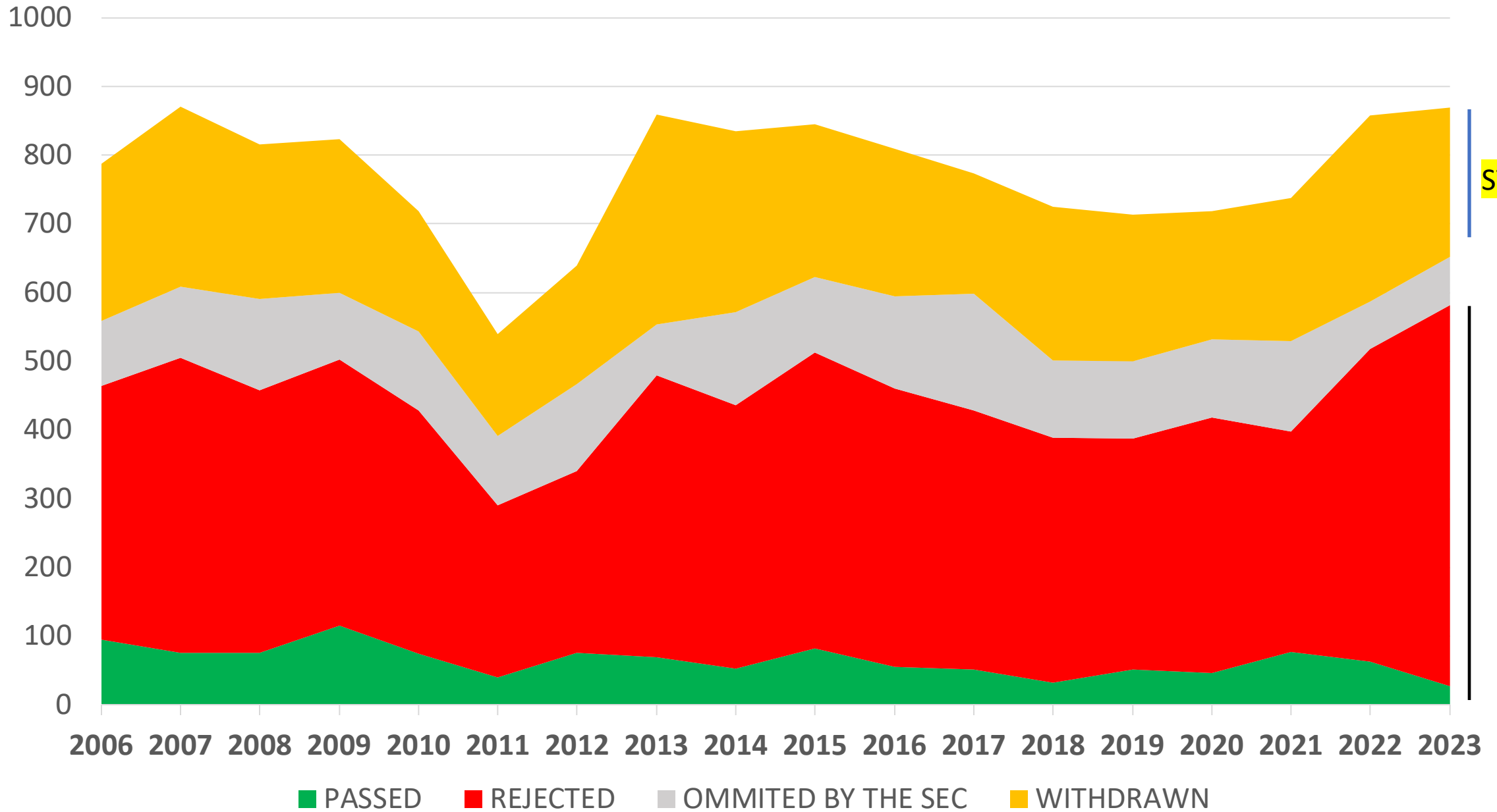
- ESG performance is the result of the implementation of corporate purpose





# Shareholder Activism

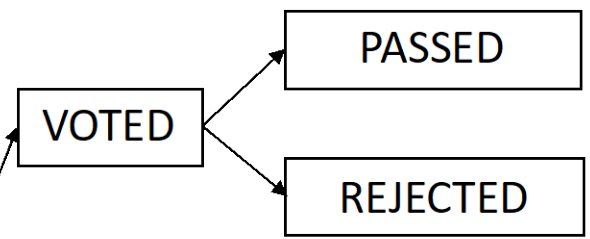
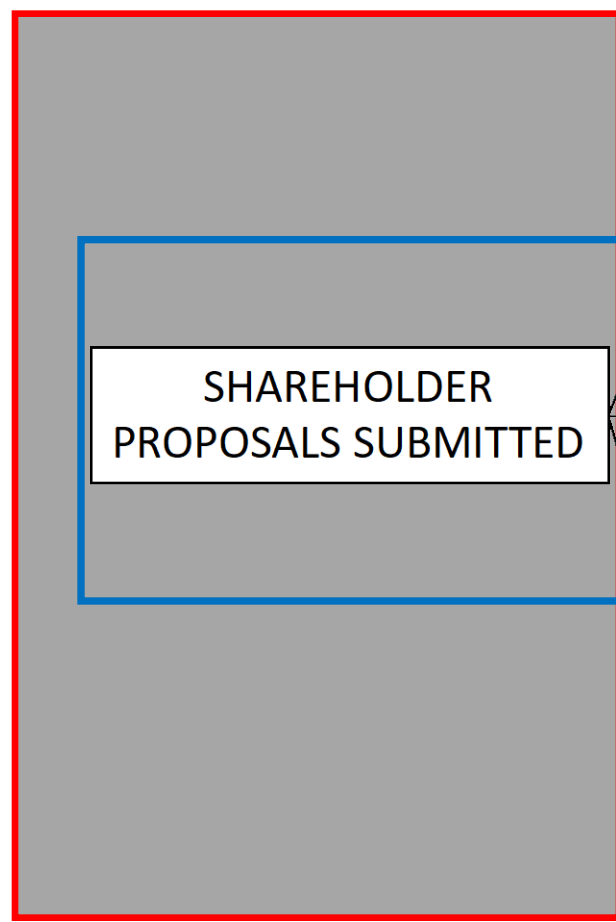




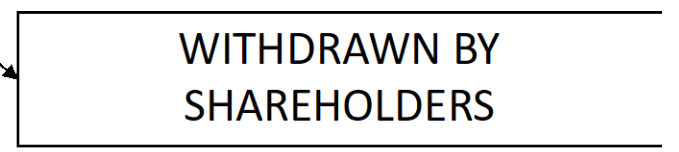
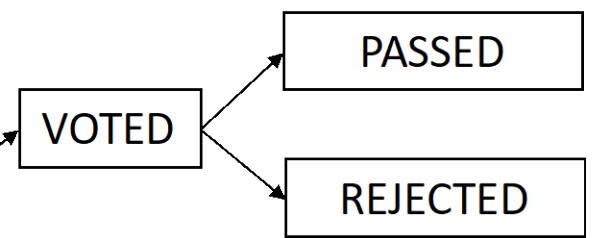
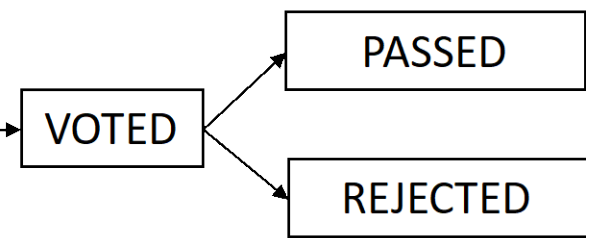
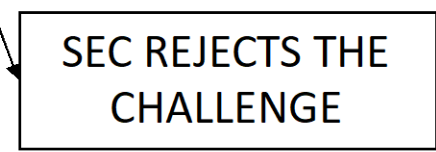
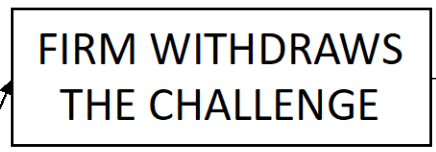
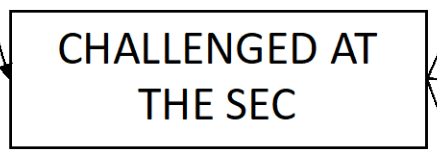
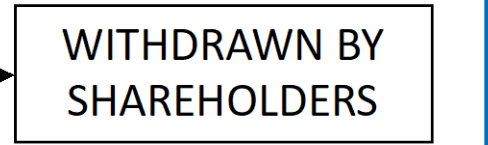
STUDY 2

STUDY 1

# Study 1



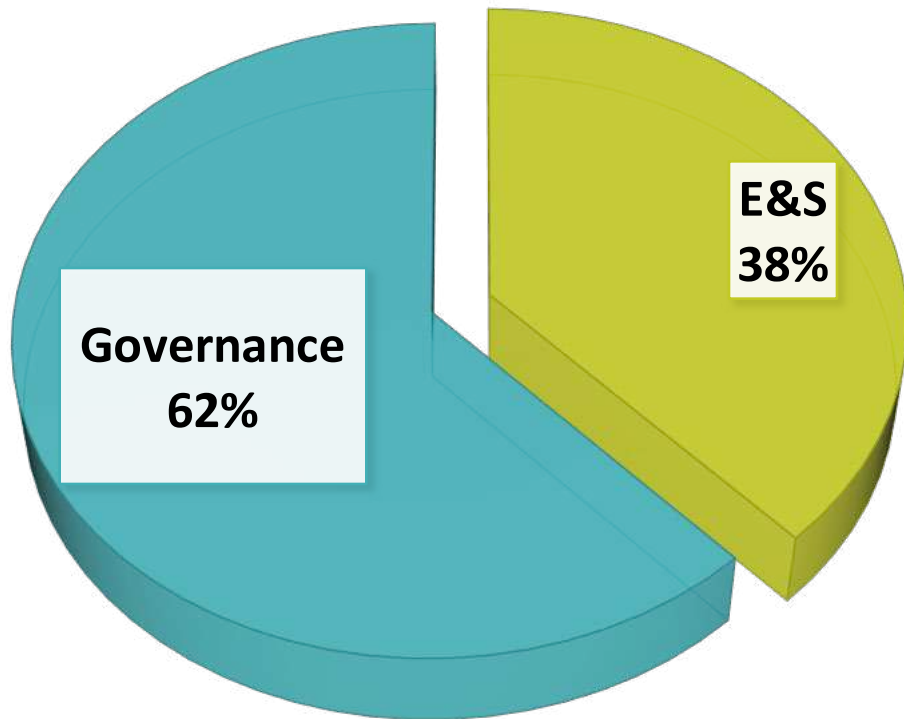
# Study 2



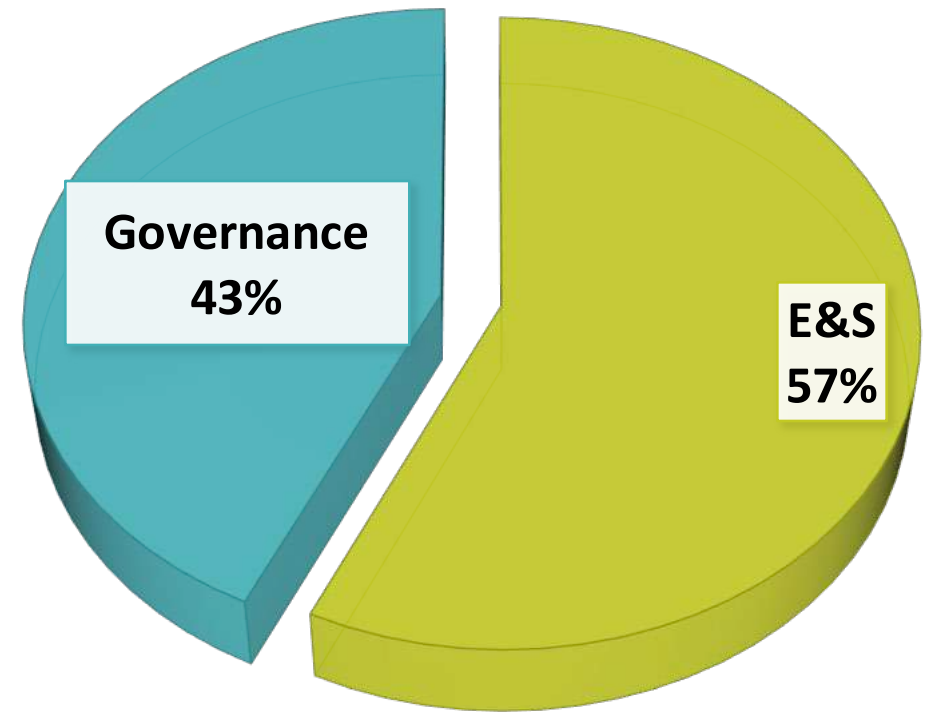
# Shadow Activism

# Shareholder Proposals Submitted to S&P 500 Firms

**2006**



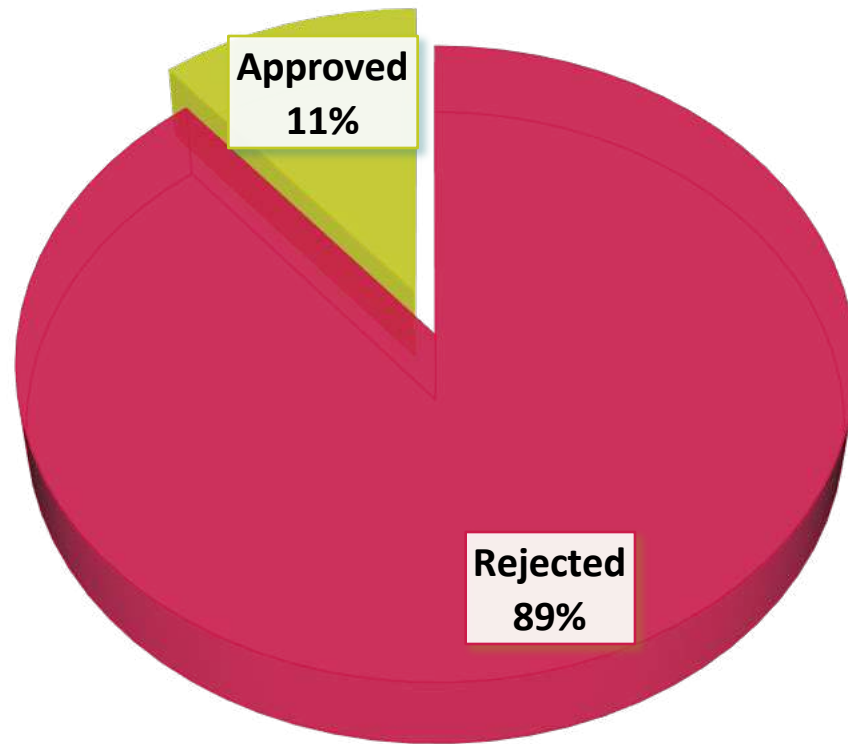
**2020**



## DEBATE ABOUT PROPOSALS EFFECTIVENESS

Approved/Rejected Shareholder Proposals -- S&P 500 Firms (voted)

**2006-2020**



8474 submitted  
5133 voted



Consequential risk to public wellbeing

AGM Date	Company	Country	Category	Resolution Description	Lead Filers and Co-Filers	Status	Vote Split	Rationale	Vote Split (%)
2 June	Alphabet	US	Digital Ethics	Report on effectiveness of Audit and Compliance Committee in promoting public wellbeing. <a href="#">Read the resolution here</a>	 SumOfUs, Harrington Investments	Filed		Alphabet – owner of YouTube, DeepMind and Google – has increasing sway on how privacy, AI and online content is managed. The resolutions asks that the consequential risks to public wellbeing are being effectively assessed by the Audit and Compliance Committee.	91.6 against 

27  
April

BP



UK

GHG  
Targets

Adopt GHG reduction  
targets.

[Read the resolution  
here.](#)

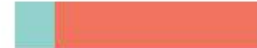


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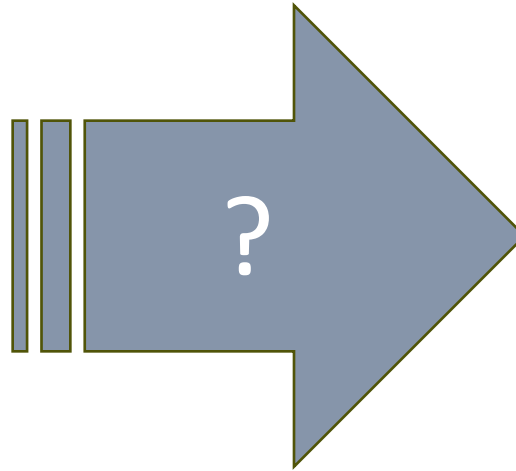
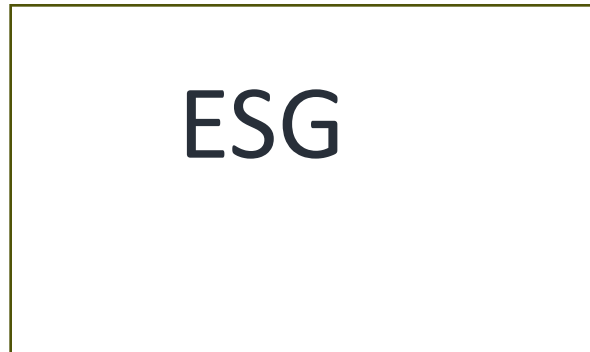
BP's current scope 3 emissions reduction targets are not Paris-aligned. Adopting and implementing strong greenhouse gas emissions targets will help this oil major reach net-zero by 2050 and mitigate systemic climate risks for investors.

83.3 against





## SHAREHOLDER PROPOSALS

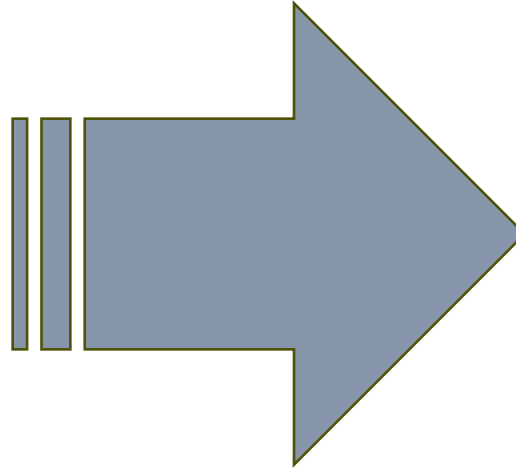
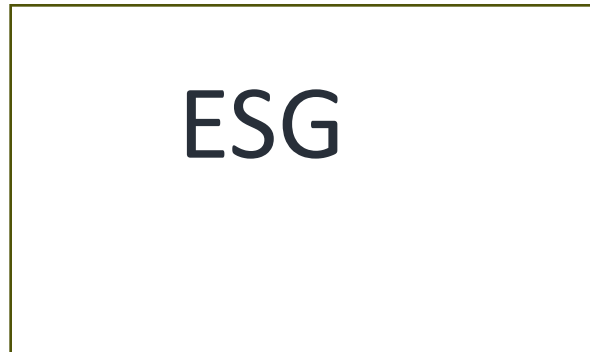


## NON-FINANCIAL FIRM PERFORMANCE



- Sample of S&P 500 firms
- 2016-2022
- Fixed effects
- Lots of controls: performance, ownership, board characteristics, etc
- ESG Performance (Refinitiv Eikon)

## SHAREHOLDER PROPOSALS



## NON-FINANCIAL FIRM PERFORMANCE

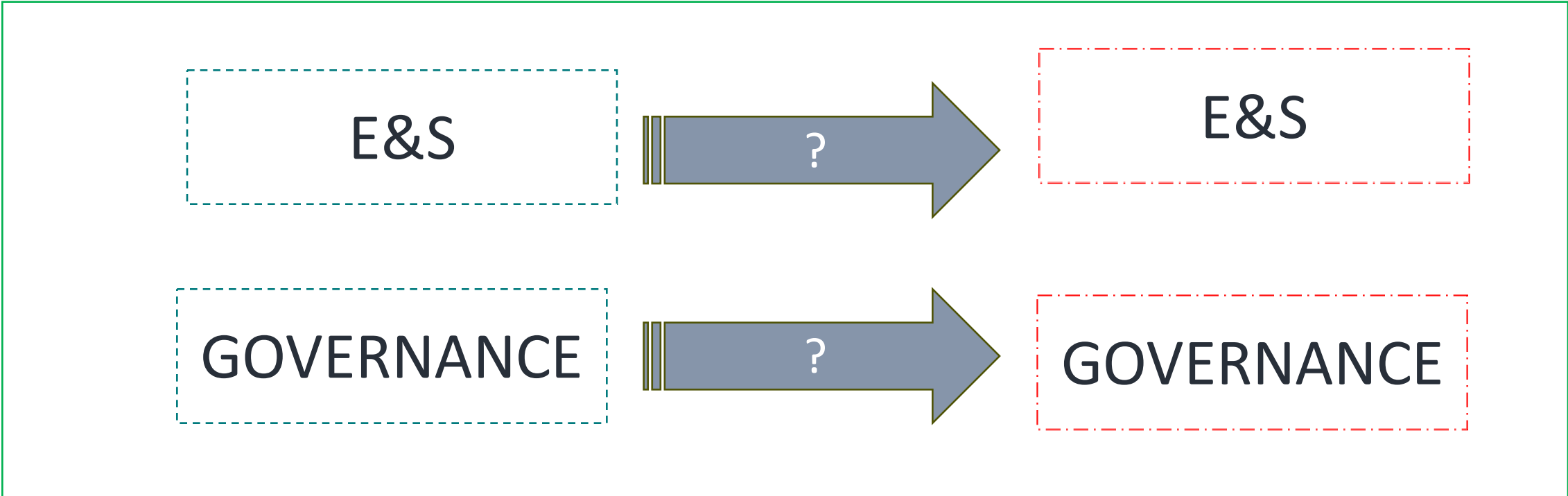


- Finding: Strong positive significant relationship between number of proposals submitted and subsequent ESG performance.

**SHAREHOLDER  
PROPOSALS**



**NON-FINANCIAL  
FIRM PERFORMANCE**



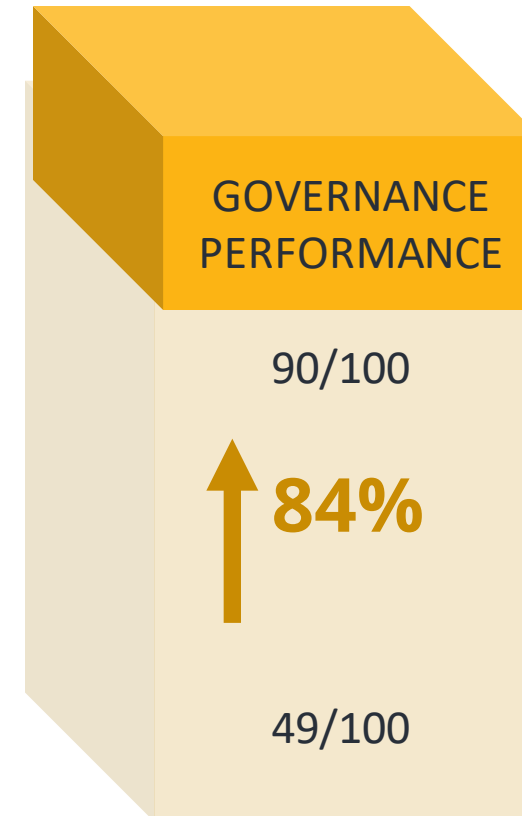
# Corporate Governance Shareholder Activism



- Finding: CG Shareholder Proposals leads to subsequent improvements in CG Performance



**13** GOVERNANCE PROPOSALS  
Demanding independence



# E&S Shareholder Activism

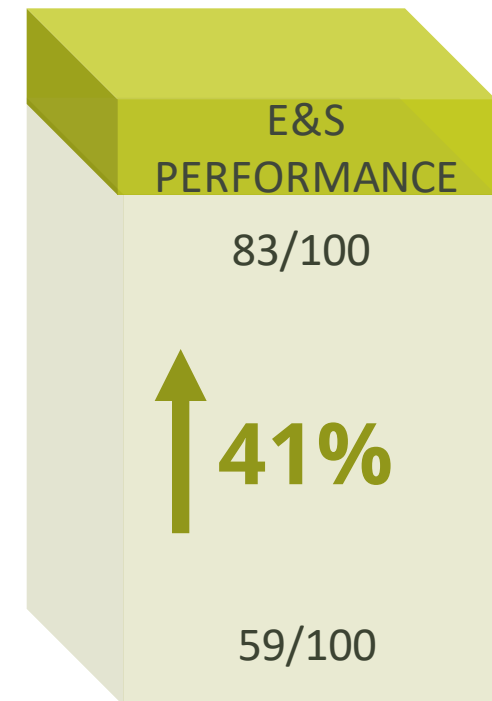


- Finding: E&S Shareholder Proposals lead to subsequent improvements in E&S Performance



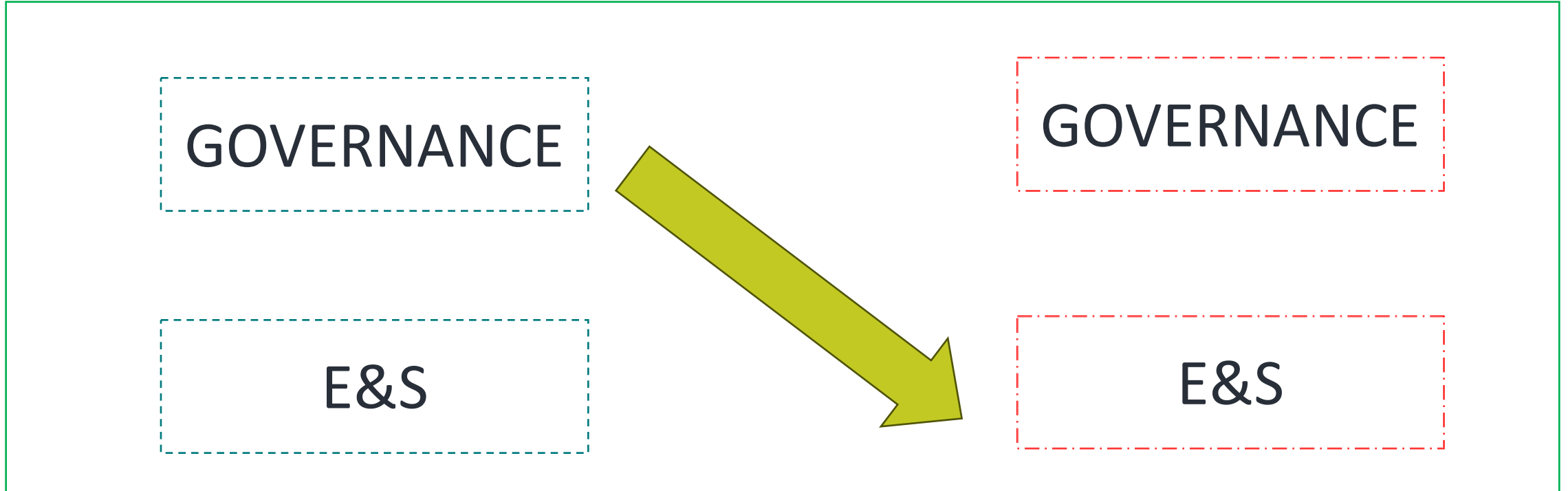
54

E&S PROPOSALS



# SHAREHOLDER PROPOSALS

# NON-FINANCIAL FIRM PERFORMANCE





# Issue Salience Shareholder Activism

- Finding: CG Shareholder Proposals also lead to subsequent improvements in E&S Performance

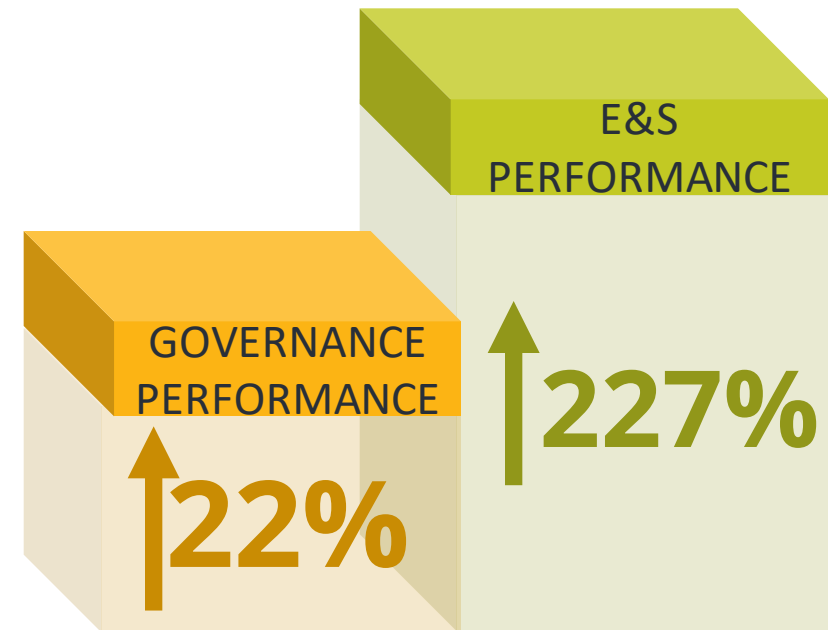


23

GOVERNANCE PROPOSALS

6

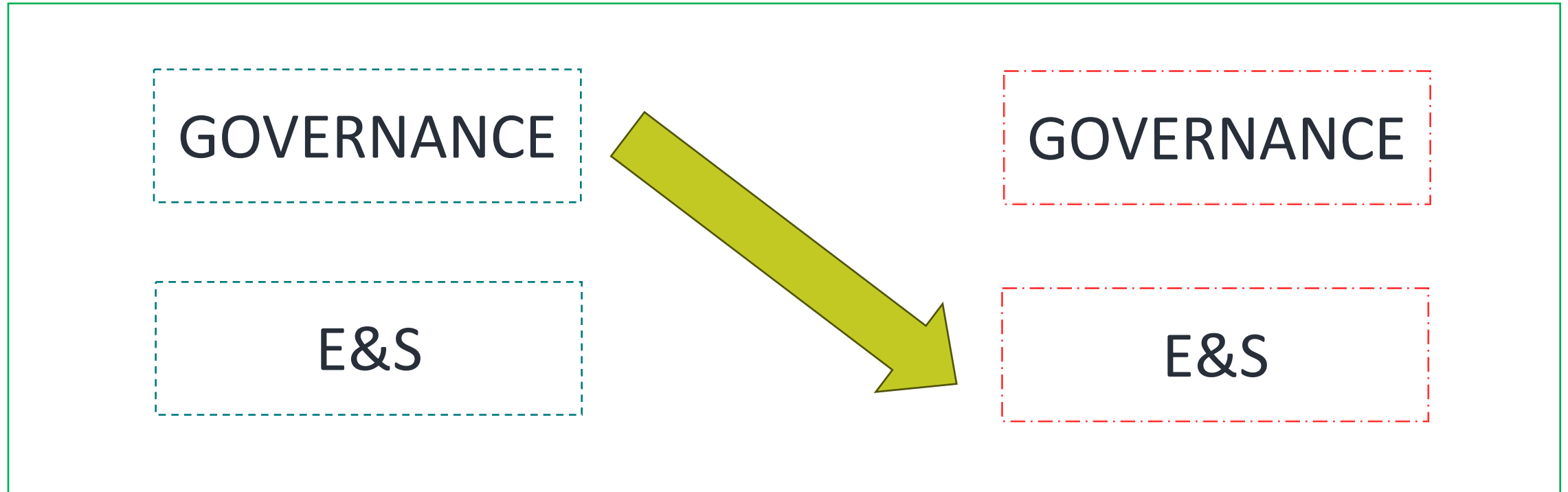
E&S PROPOSALS





## SHAREHOLDER PROPOSALS

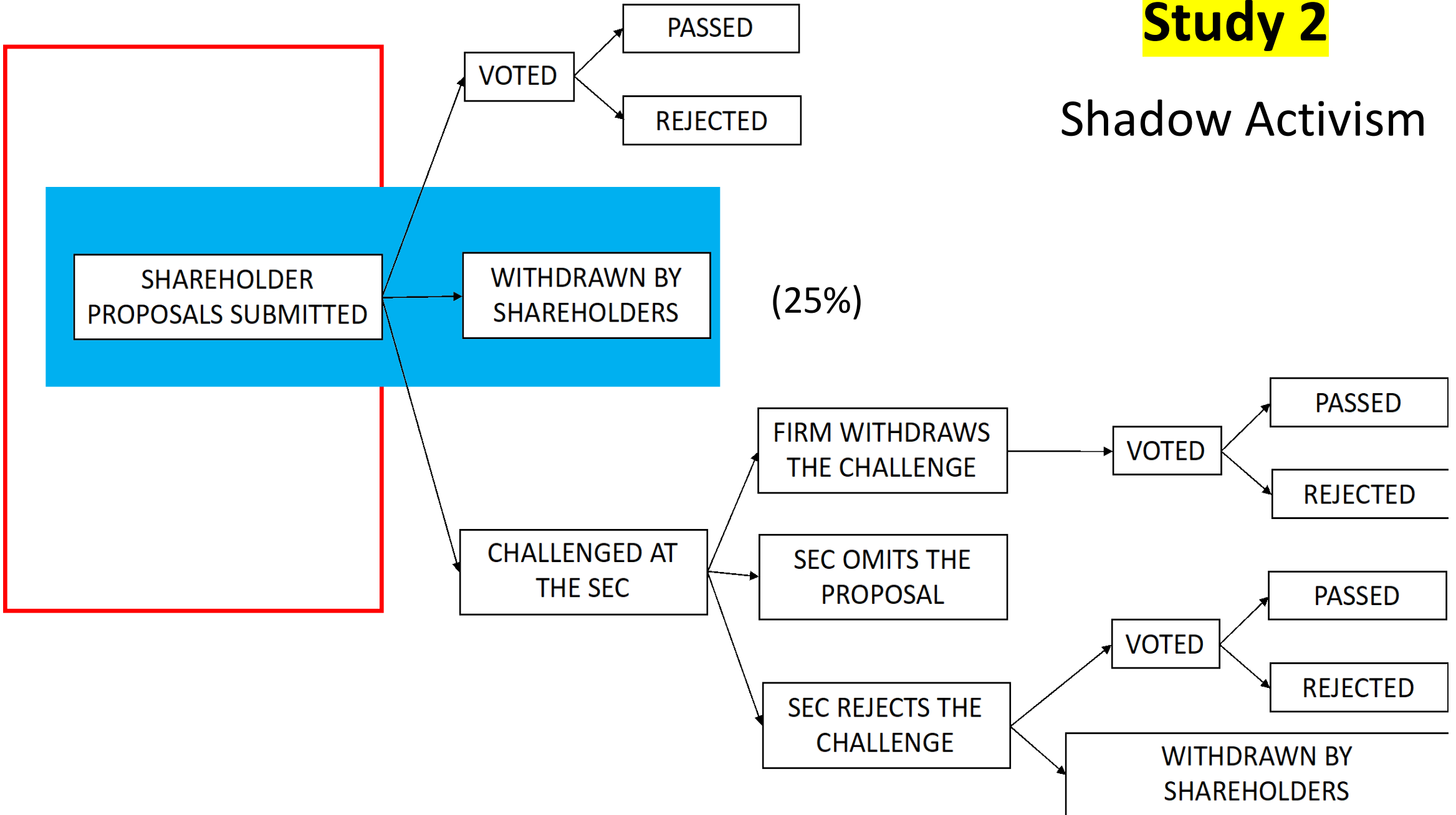
## NON-FINANCIAL FIRM PERFORMANCE



- Socio-cognitive stakeholder argument → issue salience
- Some explained by degree of environmental reputational risk
- Current CG proposals are hard to fulfill (field more mature)

# Study 2

## Shadow Activism



# Withdrawn Shareholder Proposals



## Shareholder Resolutions

Escalation is a tactical decision to increase pressure on a company that we believe isn't adequately addressing material ESG issues. Shareholder proposals are the most common escalation tactic.

Shareholder resolutions are a way for investors to get issues that are important to them onto the proxy ballot. These often call for the company to take specific action, and even though the results of the vote are generally nonbinding, they can serve as an important signal to companies about investor interest in specific issues that may not otherwise be a priority for them.

Escalation strategies are appropriate when:

- A company ignores or refuses our invitation to engage.
- Takes no action, or no meaningful action, to address concerns about ESG risk.
- The analyst—possibly in consensus with investor partners—concludes that additional discussions are unlikely to move the discussion forward.

After filing, we seek to negotiate an agreement to withdraw the proposal on terms that advance our objectives with the company and lead to a more collaborative dialogue. Calvert will proceed to a vote if the terms for withdrawal offered by the company are not sufficient to meet our expectations for progress.

In 2022, Calvert filed three shareholder resolutions, two of which were withdrawn after the company committed to disclosing what we were asking for.

“After filing, we seek to negotiate an agreement to withdraw the proposal on terms that advance our objectives with the company and lead to a more collaborative dialogue. Calvert will proceed to a vote if the terms for withdrawal offered by the company are not sufficient to meet our expectations for progress.”

# Withdrawn Shareholder Proposals



## BOSTON TRUST WALDEN SHAREHOLDER RESOLUTIONS

Shareholder resolutions are a critical lever of our active ownership strategy – one we employ when engagement via dialogue is unproductive. During the 2022 proxy season, Boston Trust Walden led or participated in 15 shareholder resolutions.

While a resolution is a valuable tool, it is not by itself indicative of progress until it yields measurable improvement in ESG policies, practices, or performance. Moreover, our most successful shareholder resolutions may never make it to the printed proxy statement, but instead are withdrawn upon the achievement of meaningful agreements with the engaged companies.

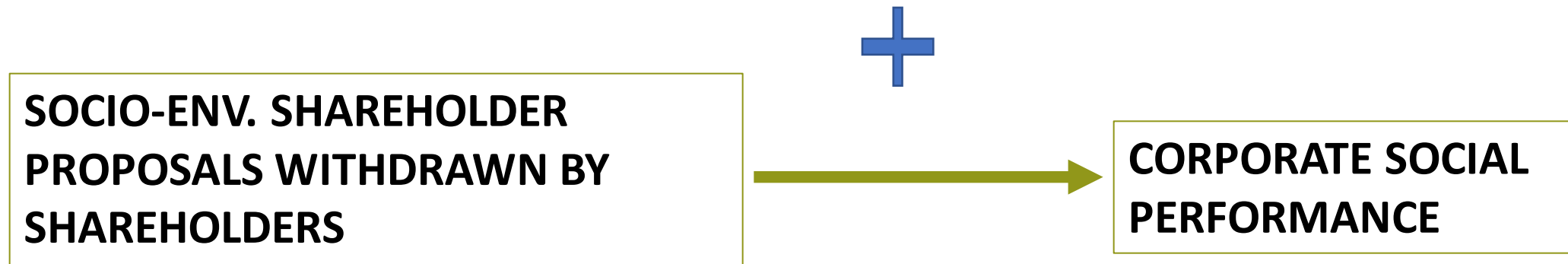
In 2022, more than 70% of the resolutions we filed were withdrawn based on negotiated corporate commitments. Of the three resolutions that went to vote, we received an average of 28% shareholder support.<sup>3</sup> However, given that two of the three companies (Alphabet and UPS) have stock with unequal voting rights, voting support is likely understated.

---

Boston Trust Walden  
withdrew 70% of  
resolutions filed after  
negotiating corporate  
commitments.

“Our most successful shareholder resolutions may never make it to the printed proxy statement, but instead are withdrawn upon the achievement of meaningful agreements with the engaged companies.”

# Withdrawn Shareholder Proposals



# Proposal Issuer

Socio-environmental shareholder proposals withdrawn:	
By special interests	-2.403** (1.074)
By SRI funds	1.392** (0.677)
By unions	5.347*** (1.804)
By companies	2.909 (3.701)
By funds	1.370 (1.496)
By individuals	3.283 (2.463)
By public pensions	0.029 (0.823)
By religious groups	0.377 (0.968)
By others	0.287 (1.395)
By more than 1 shareholder	1.136 (4.274)
R-squared	0.401
Firm fixed effects	Yes
Year x Industry fixed effects	Yes
Controls	Yes
Observations	3,703
Firms	429
Note: Standard errors are reported in parentheses. *p <0.1; **p <0.05; ***p <0.01	



SPECIAL INTERESTS (NEG)



SRI FUNDS (POS)



UNIONS (POS)





# Individuals: Gadflies

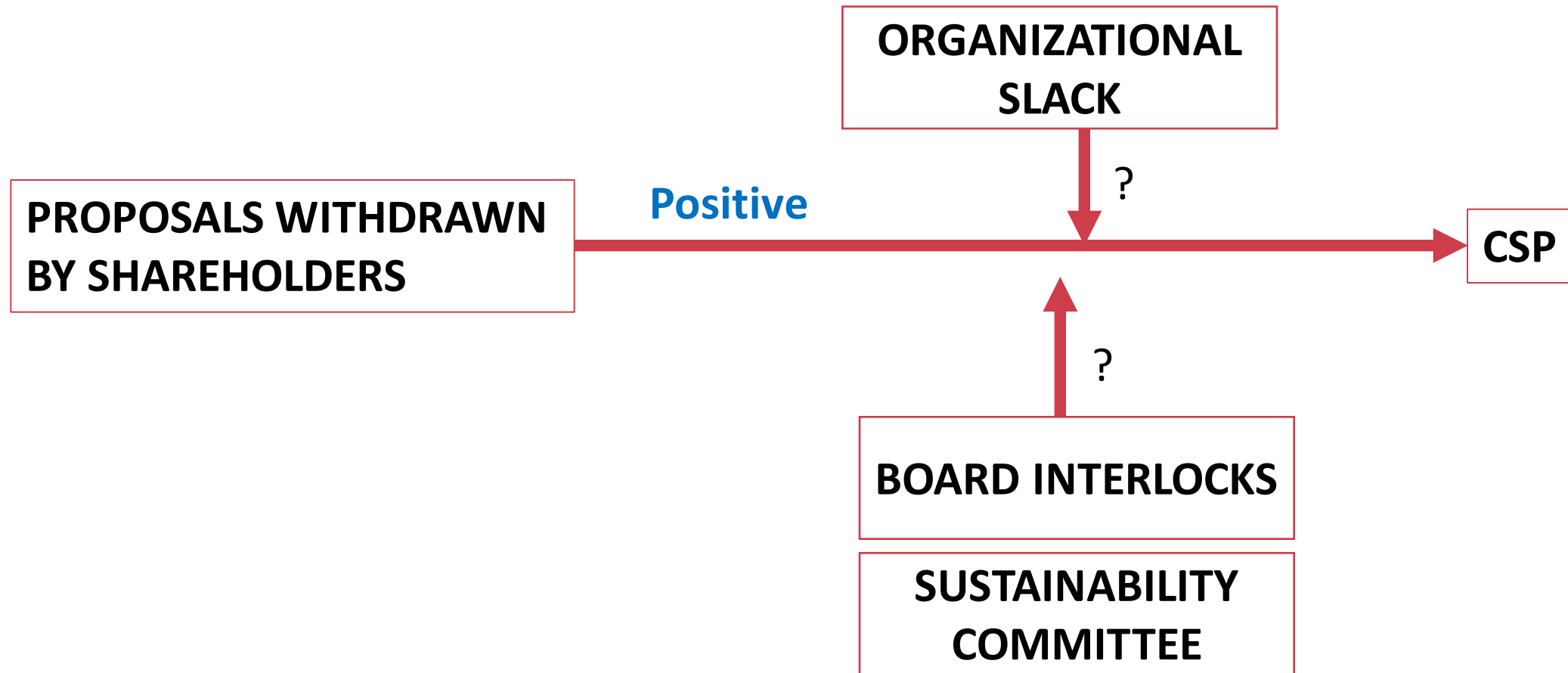
John Chevedden has filed more than 1,000 shareholder proposals. This proxy season he has a new angle: social issues.



Evelyn Davis

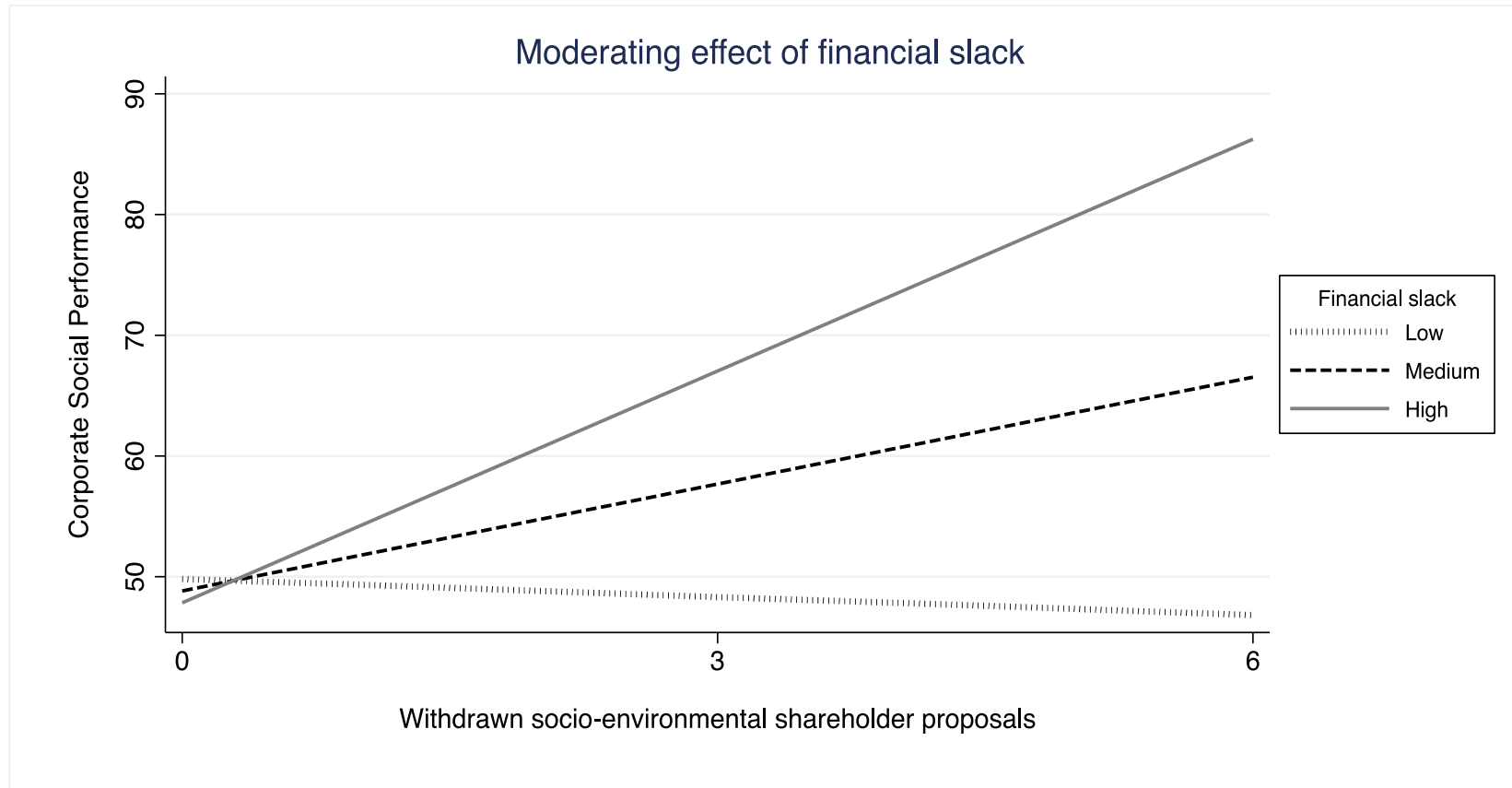


# What is the role of the board?





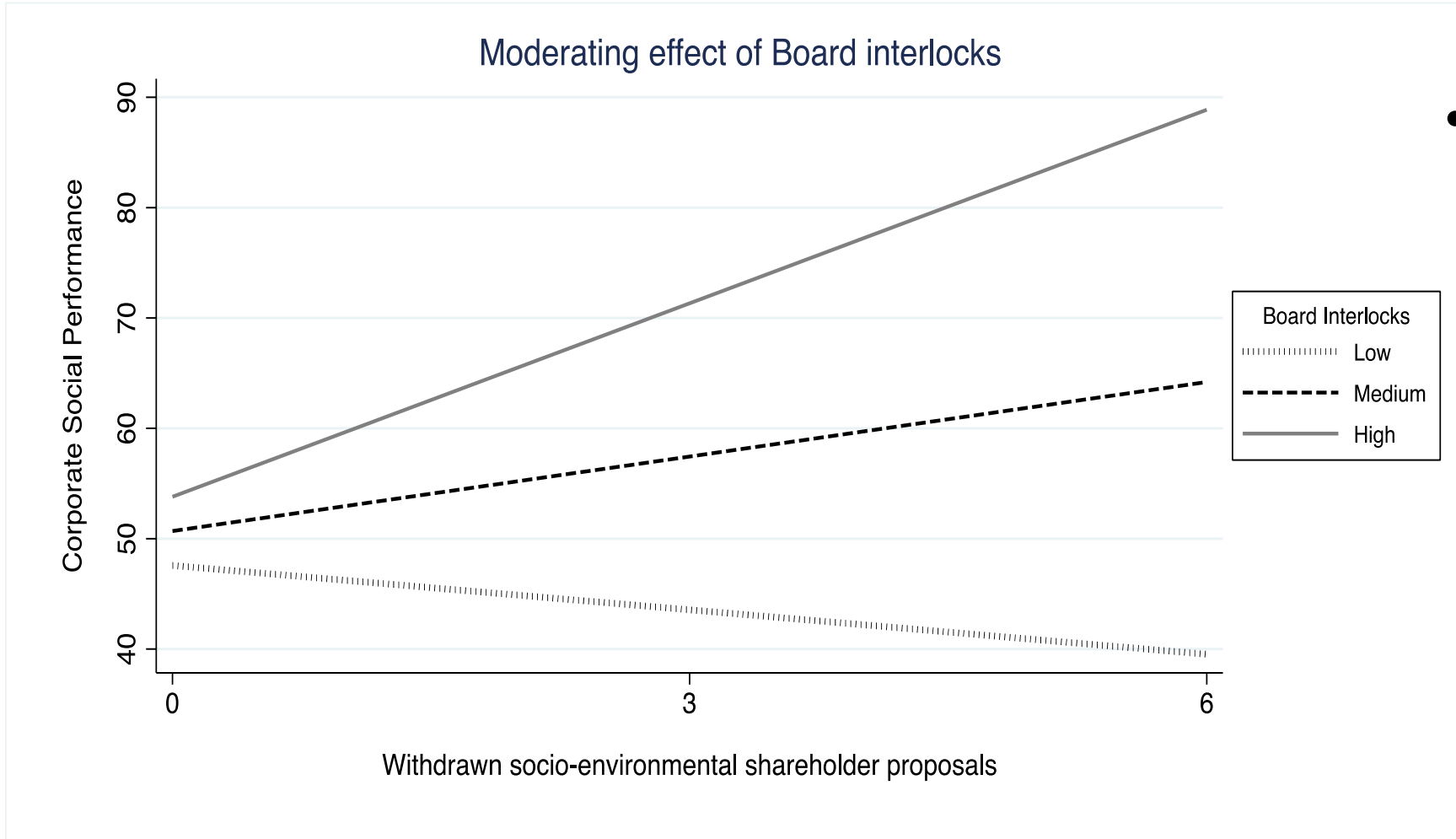
# What is the role of the board?



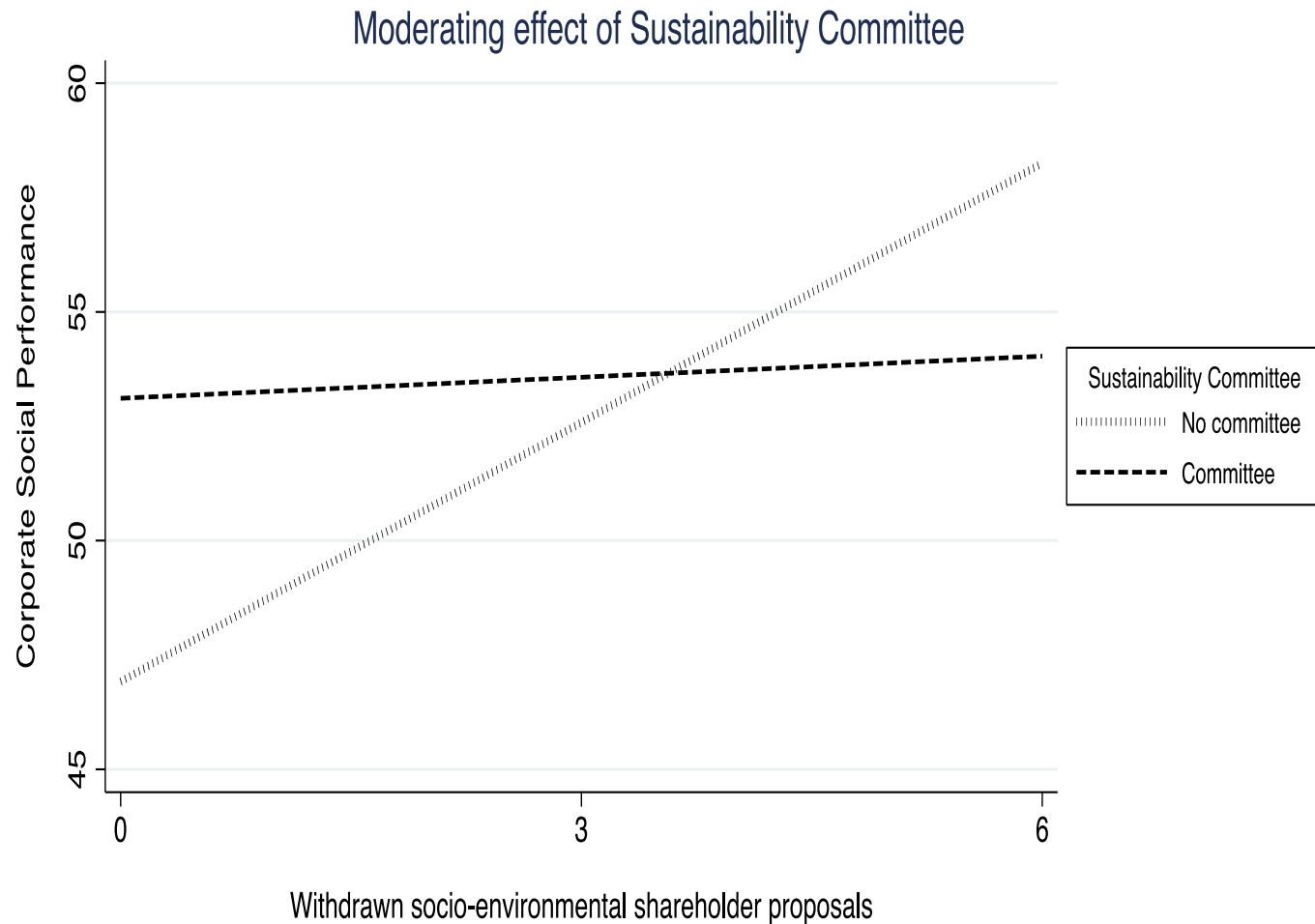
- **High financial slack strengthens the positive relationship**

# What is the role of the board?

- **High social capital strengthens the positive relationship**
- **(Low social capital weakens)**



# What is the role of the board?

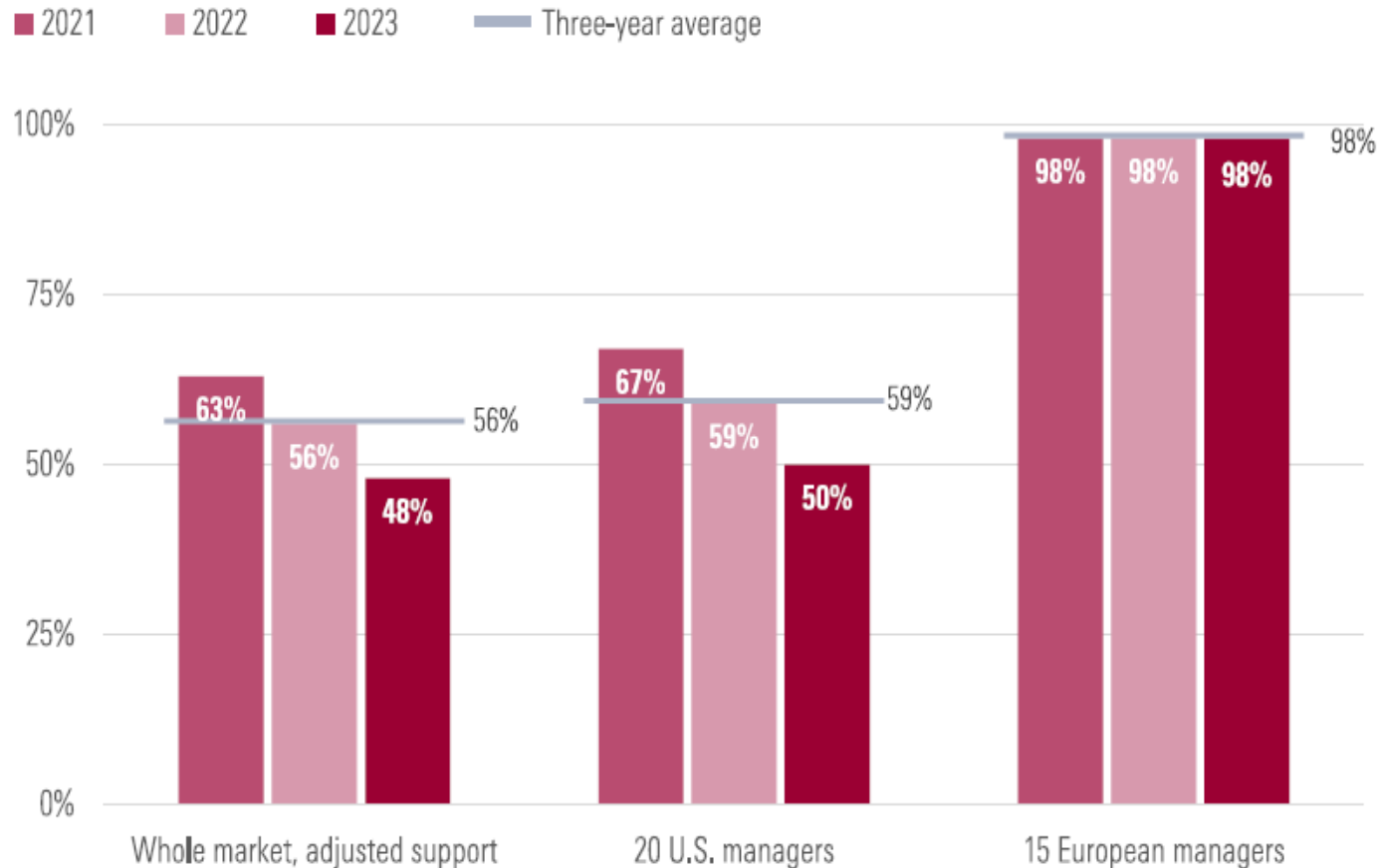


- **Boards without sustainability committees strengthen the positive relationship**

# To close. Where are we today?

## Average Support for Key ESG Resolutions: U.S. and European Managers

Resolutions Voted at U.S. Companies, 2021–23 Proxy Years

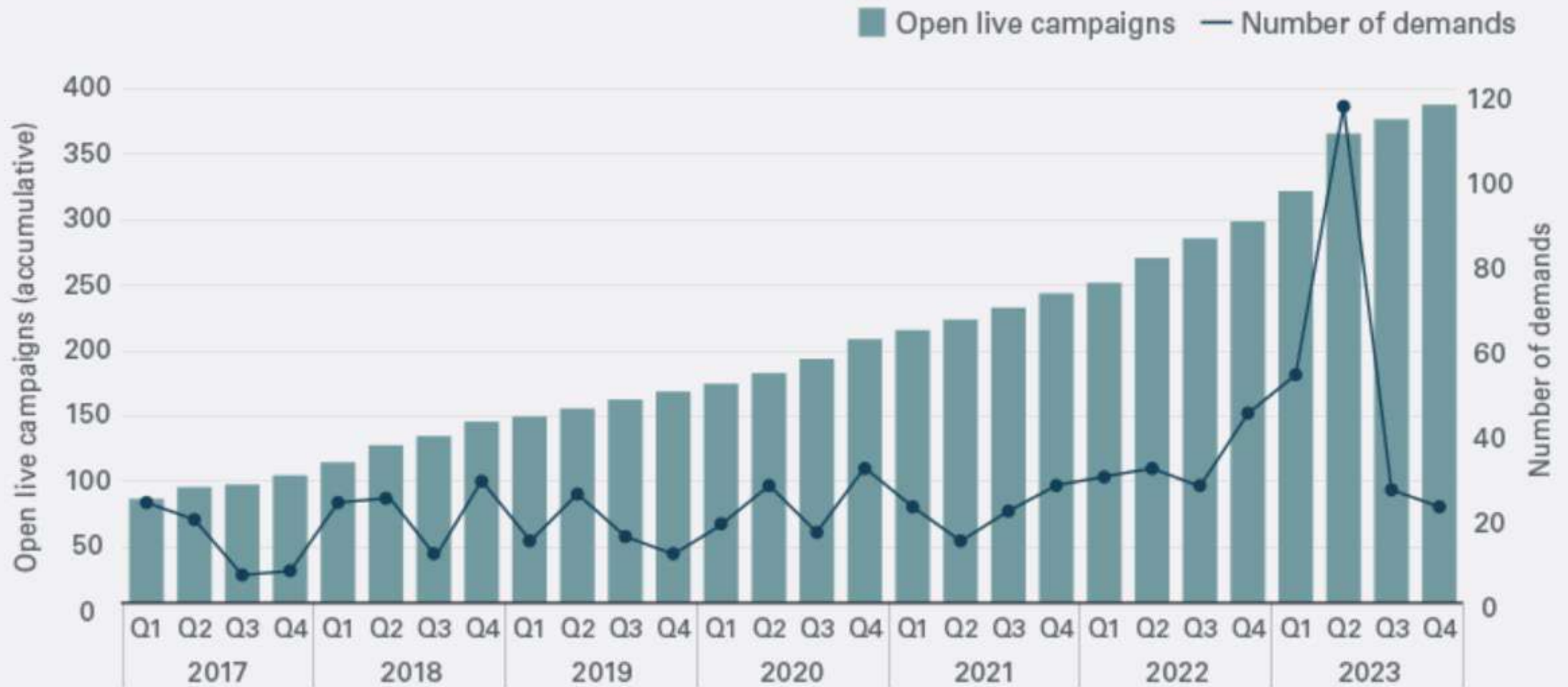


- Large contrast btw the US and Europe
- Large US Asset Managers (including BlackRock and Vanguard) have pulled back their support for ESG Proposals

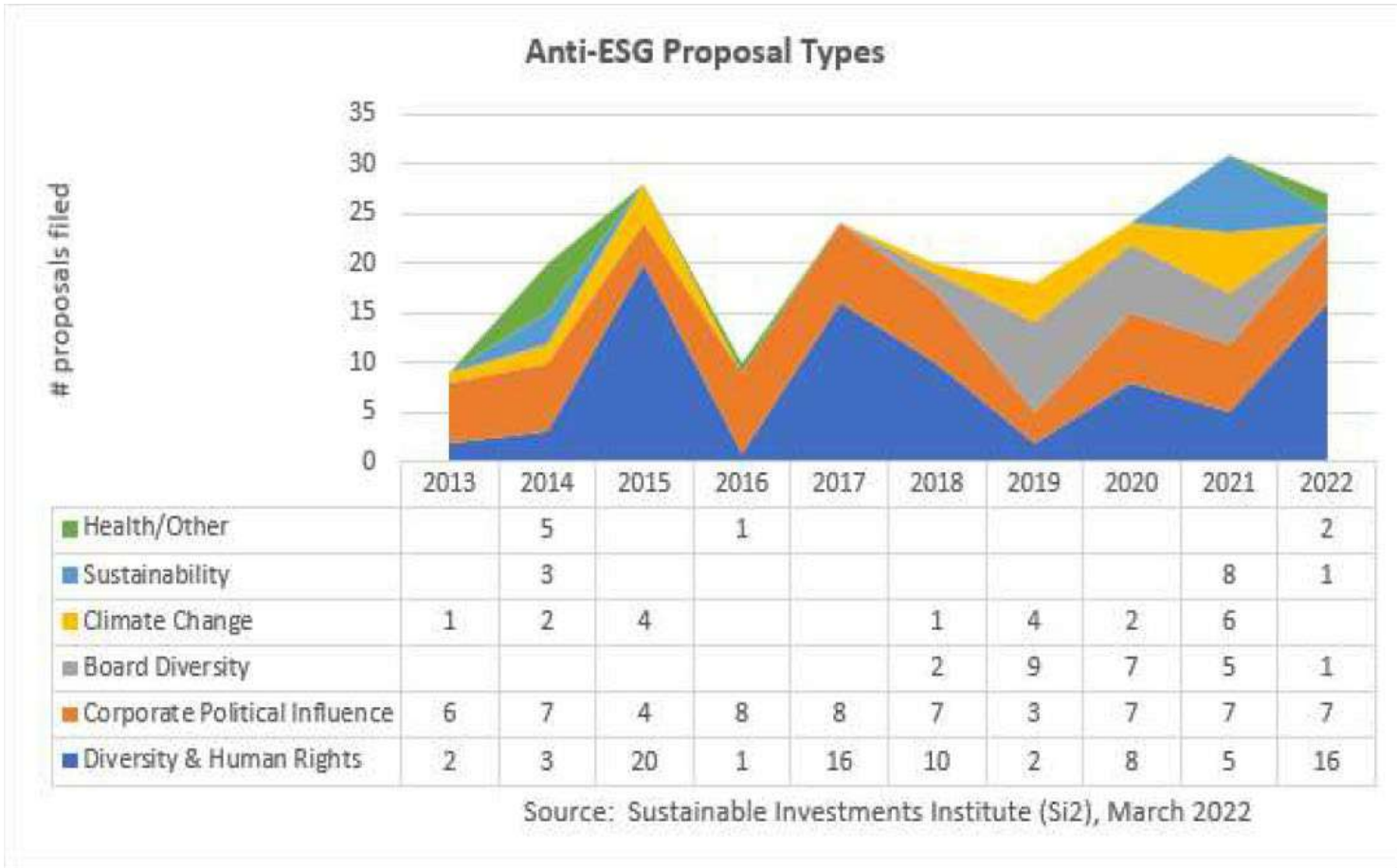
	2021	2022	2023
BlackRock	68	48	37
Vanguard	51	22	9

Source: Morningstar proxy-voting database, asset managers' stewardship disclosures, SEC filings. Data as of Jan. 2, 2024. Note: Chart shows data for proxy years ended June 30. Averages of U.S. and European managers are the equal-weighted arithmetic mean for each period.

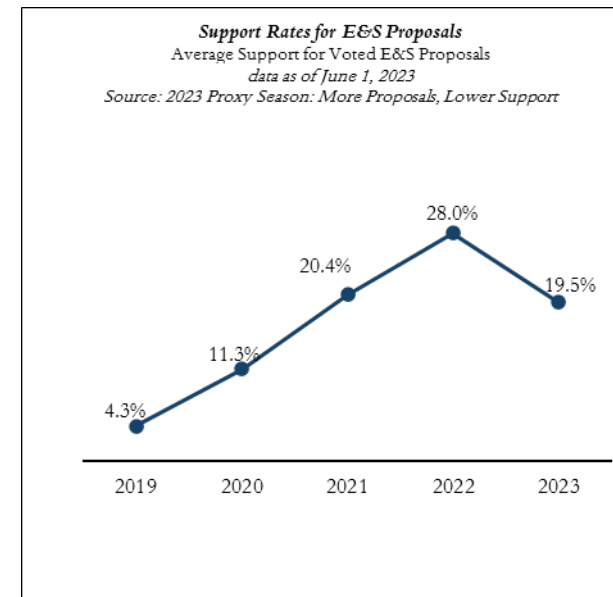
## Activism Is on the Increase in Europe



# The Rise of Anti-ESG Proposals



- National Center for Public Policy Research (NCPPr)
- National Legal and Policy Center (NLPC)



# Invisible Activism: Opening the Black Box



## Workers' Rights Assessment

- A shareholder proposal asking workers' rights assessment won 52% support
- 2024: "Biggest ESG campaign: SOC demands three directors
- Yet, early March 2024, SOC ended its campaign after Starbucks committed to collaborating with worker unions to provide employees with collective bargaining rights... SOC is watching!
- March 15, 2024: rejected NLPC shareholder proposal to disclose details on human rights policies and discrimination against "non-diverse" groups, targeting the company's ambitious growth plans in China.



**STRATEGIC  
ORGANIZING  
CENTER**



# Invisible Activism: Opening the Black Box



ARJUNA  CAPITAL

Manchester, MA



**ExxonMobil takes legal  
hammer to climate  
shareholder groups**

Oil supermajor's case against Follow This and Arjuna Capital grabs attention of corporate America

- Follow This, a Dutch climate activist group, controls shares worth about US \$4000 launched a proposal to accelerate greenhouse-gas reductions with targets and timelines
- Jan 22, 2024: Exxon “had enough” ... and filed a lawsuit alleging their climate petition breached US securities rules.



Thank you!!

Ruth V. Aguilera

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