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## The Impact of Sustainable Investing: A Multidisciplinary Review

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**ABSTRACT** We conduct a multidisciplinary review of how sustainable investing impacts the environment and society. Our review starts from the insight that shareholders can create impact not only through (1) portfolio screening and (2) shareholder engagement (two impact strategies most used by mainstream shareholders) but also through (3) field building (an impact strategy most used by shareholders at the periphery of the financial sector). Based on this framework of three impact strategies, we integrate insights from four disciplines (management, finance, sociology, and ethics/sustainability) to reconstruct how each impact strategy influences corporate sustainability. We identify 15 impact mechanisms through which the impact strategies produce three types of impact: portfolio screening and shareholder engagement mostly create direct impact on companies, while field building creates indirect impact via other shareholders and indirect impact via the institutional context. Our review suggests that shareholder impact emerges gradually as different types of shareholders build on each other's efforts, which we use to outline a research agenda on shareholder impact as a distributed process.

**Keywords:** ESG, socially responsible investing, sustainable investing, shareholder engagement, portfolio screening, impact

### INTRODUCTION

Shareholders have considerable influence on companies in today's 'finance-centered economy' (Davis, 2009b, p. 27). In many instances, shareholders will use their influence to reduce corporate sustainability. Activists hedge funds, for example, have been

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shown to target companies that excel in corporate sustainability (DesJardine et al., 2021) and subsequently hamper the sustainability efforts of those companies (DesJardine and Durand, 2020). Yet, particularly since the 2010s (Eurosif, 2018; GSIA, 2021), shareholders have engaged more in sustainable investing, defined as investment activities that pay close attention to environmental and social issues. A key promise of sustainable investing is that it pressures companies to become more sustainable, and thereby creates a positive impact on the environment and society. For example, shareholders may pressure companies to reduce carbon emissions or address human rights violations in their supply chains.

The mainstreaming of sustainable investing has led to a heated debate about whether sustainable investing can live up to its promise of positively impacting the environment and society (e.g., Power, 2021). Views about the impact of sustainable investing diverge widely. The CEO of BlackRock, Larry Fink, claims that shareholders 'are moving faster than any government and moving faster than all of society' when it comes to pushing sustainability issues (MIT, 2021). In contrast, a former BlackRock executive, Tariq Fancy, describes sustainable investing as a 'dangerous placebo' that prevents actual change (Amaro, 2021). A key way in which researchers can inform the debate on *whether* sustainable investing creates impact is by clarifying *how* it creates impact.

Research on how sustainable investing creates impact, however, is hampered by the widespread assumption that shareholders have only two impact strategies at their disposal: *portfolio screening* and *shareholder engagement* (e.g., Admati and Pfleiderer, 2009; De Angelis et al., 2022; McNulty and Nordberg, 2016; Zerbib, 2022). We define an impact strategy as a general plan of how shareholders can motivate companies to become more sustainable. Portfolio screening is an impact strategy in which shareholders reallocate capital from non-sustainable companies to companies they deem sustainable, while shareholder engagement is an impact strategy in which shareholders interact directly with companies. These two impact strategies are mainly used by mainstream shareholders, such as large banks and major asset managers at the centre of the financial sector. In contrast, shareholders at the periphery of the financial sector, such as religious shareholders or sustainable pension funds, often go beyond portfolio screening or shareholder engagement by raising issues to 'the world at large' (Kinder and Domini, 1997, p. 14) or by working 'at industry levels to set standards and norms' (Burckart and Lydenberg, 2021, p. xi). By assuming that shareholders create impact only through portfolio screening or shareholder engagement, researchers neglect the impact created by shareholders at the periphery of the financial sector. Neglecting their impact is problematic because these shareholders often raise the most radical sustainability demands and thereby keep up the pressure for a rapid transformation toward a more sustainable economy.

This paper offers a broader framework of how shareholders create impact by introducing *field building* as a third impact strategy. We define field building as an impact strategy whereby shareholders try to make companies more sustainable by influencing the fields in which companies are embedded. Shareholders can influence fields by, for example, stigmatizing certain business activities (Ferns et al., 2022) or establishing voluntary reporting standards for companies (MacLeod and Park, 2011). By introducing field building as an impact strategy, we leverage a key insight from management research: companies are embedded in fields that shape corporate sustainability in important ways (Bansal and Roth, 2000; Matten and Moon, 2008;

Schneider et al., 2017). This insight suggests that companies can become more sustainable not only when shareholders change the cost of capital (portfolio screening) or directly pressure companies (shareholder engagement), but also when they change the fields in which companies are embedded (field building). To define each of the three impact strategies and the relationship between them, we draw on – and extend – Hirschman's (1970) influential distinction between 'exit' and 'voice'.

We use our impact strategies framework as the theoretical foundation for a multi-disciplinary and integrative literature review of the impact of sustainable investing. Covering all three impact strategies required a broad sampling approach. We sampled across four disciplines: management, finance, sociology, and ethics/sustainability. Based on our initial sample of 3786 papers that include keywords related to sustainable investing, we identified 69 papers that conceptually or empirically address the impact of sustainable investing. Our inductive analysis of these papers led us to identify 15 impact mechanisms through which the three impact strategies can increase corporate sustainability and thereby benefit the environment and society. We further show that these impact mechanisms produce three types of impact: (1) direct impact on companies, (2) indirect impact via other shareholders, and (3) indirect impact via the institutional context. Portfolio screening and shareholder engagement mainly create direct impact on companies, whereas field building creates the two indirect types of impact.

The overarching insight that emerges from our analysis of the literature is that shareholder impact constitutes a distributed process – that is, shareholder impact emerges gradually as different types of shareholders build on each other's efforts. Existing research clarifies some aspects of shareholder impact as a distributed process. For example, research on indirect impact via other shareholders illuminates how efforts by one shareholder can influence the impact of subsequent shareholders (e.g., Vasi and King, 2012). Other aspects of this interplay remain underexplored, which is why we develop a research agenda on shareholder impact as a distributed process suggesting that future research should (1) analyse the interaction between direct and indirect impact, (2) explain why shareholders use different impact strategies, and (3) reconstruct the limits of specific impact strategies. Future research along these lines will further ground the insight that shareholder impact is not something that mainstream shareholders single-handedly achieve, but something that emerges through the interplay of many different shareholders, including peripheral shareholders.

## THE THREE IMPACT STRATEGIES OF SUSTAINABLE INVESTING

To lay the theoretical foundation for our analysis of the literature, we first extend Hirschman's distinction between 'exit' and 'voice' to derive three impact strategies of sustainable investing. Hirschman (1970) argues that when organizations (e.g., companies) fail to live up to the expectations of their customers or members, these actors can set in motion changes by either exiting the organization (e.g., buying products from other companies) or using their voice (e.g., talking to managers). Hirschman's distinction between 'exit' and 'voice' has been used widely to single out portfolio screening (exit) and shareholder engagement (voice) as the two main impact strategies of sustainable investing (e.g., Kölbel et al., 2020; Zerbib, 2022).

However, there are two limitations to how Hirschman's ideas are used in the context of sustainable investing. The first is that Hirschman's notion of 'exit' only captures situations in which dissatisfied shareholders sell their shares (exit), while ignoring situations in which satisfied shareholders buy shares of companies they deem sustainable (entry). Yet, the more general idea of Hirschman (1970, p. 15) is that an actor 'uses the market' to influence companies, i.e., uses the market as a 'Form of Voice' (Admati and Pfleiderer, 2009, p. 2645). In this paper, we generalize Hirschman's 'exit' into shareholders' *market voice*. A shareholder uses her market voice when she 'quietly expresses her values' (Hudson, 2005, p. 651) by buying *or* selling shares. The second limitation is that Hirschman's 'voice' mixes different things. Hirschman (1970, p. 4) implicitly distinguishes two ways actors can use their voice: they can '[1] express their dissatisfaction directly to management or [2] to some other authority to which management is subordinate or through general protest addressed to anyone who cares to listen' (numbers in brackets added). To clarify these differences, we distinguish between shareholders' *private voice*, which shareholders use to interact with companies in private or semi-private settings, and shareholders' *public voice*, which shareholders use to speak to the various stakeholders in the fields in which companies are embedded (e.g., regulators or the general public).

Identifying the three voices (market, private, and public) that sustainable shareholders can use is helpful because each voice is foundational for a different impact strategy. Market voice is foundational for portfolio screening, private voice for shareholder engagement, and public voice for field building. Figure 1 positions various investment activities within our framework. To start with, when shareholders integrate environmental, social, and governance (ESG) considerations into their valuation models (Heeb et al., 2022), such ESG integration falls under portfolio screening (market voice) because it involves no direct interaction with companies (no private voice) and limited public communication of the screening criteria (limited public voice). Shareholder dialogue – when shareholders meet privately with companies to discuss sustainability issues (Logsdon and Van Buren, 2009) – falls under shareholder engagement (private voice) because such dialogues happen behind closed doors (no public voice) and shareholders may not need many shares to meet with companies (limited market voice; see Wolff et al., 2017). Establishing reporting standards – such as when shareholders help establish guidelines on how companies should disclose carbon emissions (MacLeod and Park, 2011) – falls under field building because shareholders interact with other stakeholders to change the fields in which companies are embedded (public voice), and these interactions do not require trading shares (no market voice) or talking directly to companies (limited private voice).

Our impact strategies framework extends our work beyond prior literature reviews on sustainable investing, which have mainly focused on portfolio screening and shareholder engagement without systematically exploring the impact of field building. Cundill et al. (2018), for example, acknowledge that when shareholders raise media attention to environmental and social issues, this may create an impact that 'extend[s] beyond the target company', but they do not systematically explore this type of impact. Kölbel et al. (2020, p. 558) go one step further by acknowledging that shareholders may create 'indirect impacts', which relates to field building. But their analysis of the literature is hampered because they neither theorize what 'indirect impacts' mean

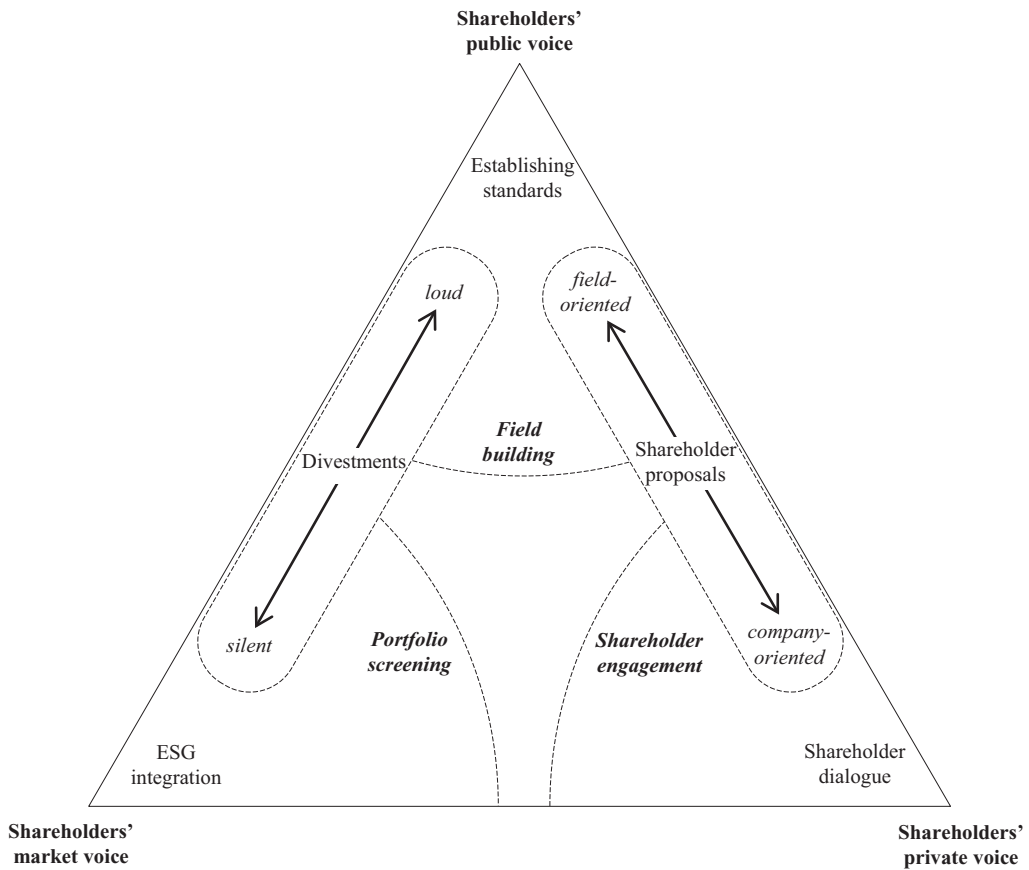


Figure 1. Three voices of shareholders and their associated impact strategies

nor systematically sample within the streams of research that have analysed such impacts. Our impact strategies framework allows us to move beyond prior literature reviews in two ways.

First, our impact strategies framework helps us position field building as a distinct impact strategy at par with portfolio screening and shareholder engagement. While the concept of field building is sometimes used in practice (e.g., Burckart and Lydenberg, 2021), its boundaries remain vague. By linking field building to shareholders' public voice, we provide a theoretically informed foundation for the concept of field building. Under 'field building', we subsume all activities in which shareholders interact with other stakeholders who are active in the fields in which companies are embedded and may thus influence companies. Given the variety of these stakeholders, which include peer companies, policy-makers, the general public, and other shareholders, field building can take different forms, including writing white papers for market participants (Goodman et al., 2014), informing policy-makers (Burckart and Lydenberg, 2021), and interacting with non-governmental organizations to develop voluntary standards (MacLeod and Park, 2011). By covering all three impact strategies, our review examines not only the impact created by mainstream shareholders, such as large banks or asset managers, which

mostly rely on portfolio screening and shareholder engagement, but also more peripheral shareholders, such as religious shareholders or specialized impact funds, which are more active in field building.

Second, our impact strategies framework guards our review of the literature against the widespread tendency to subsume all investment activities under portfolio screening and shareholder engagement. Divestments and shareholder proposals illustrate this point. Scholars and practitioners often assume that all divestments create an impact in the same way: by affecting share prices (market voice). While shareholders' market voice is important when mutual funds quietly 'decarbonize' their portfolios (Rohleder et al., 2022, p. 1), other divestments rely more on shareholders' public voice, including those that are part of larger divestment movements, such as the fossil fuel divestment campaign that involved loud protests at universities and public statements of support issued by prominent figures (Ferns et al., 2022). On the left side of Figure 1, we distinguish between silent (part of portfolio screening) and loud divestments (part of field building). Similarly, most researchers and practitioners associate shareholder proposals exclusively with shareholder engagement (private voice). Yet, while many shareholders use proposals as part of their private interaction with specific companies (Ferraro and Beunza, 2018), some use proposals to raise public attention to certain issues within a field (Sikavica et al., 2020). On the right side of Figure 1, we draw a gradual distinction between company-oriented shareholder proposals that primarily aim to change specific companies (part of shareholder engagement) and field-oriented shareholder proposals that primarily seek to transform fields (part of field building).

## REVIEW METHODS

Recognizing that sustainable shareholders can use three impact strategies, we broadly sample papers and classify them in a theoretically informed way. Integrating insights from various papers allows us to develop a more comprehensive understanding of the impact of sustainable investing (Elsbach and van Knippenberg, 2020; Kunisch et al., 2023; Post et al., 2020).

### Sampling Potentially Relevant Papers

Papers on the impact of sustainable investing, especially those on field building, do not feature consistent keywords. We, therefore, adopted a broad approach by sampling all papers on sustainable investing published in 26 leading journals in management, finance, sociology, and ethics/sustainability. The Online Appendix (Table A1) lists the journals and the papers they cover. We selected the specific journal set by triangulating between various journal rankings and consulting with researchers in finance and sociology. Within these journals, we searched for papers whose title, abstract, or keywords contained the term sustainable investing or one of its synonyms (search terms: *sustainable + invest\**, *responsible + invest\**, *ethical + invest\**, *social + invest\**, *impact + invest\**, and *ESG*) or referred to specific investment activities, such as screening or divesting (search terms: *divest\**, *screening*, *best-in-class*, *exclu\* + invest\**, *exit + voice*, *shareholder engagement*, and *shareholder + activism*). With these broad keywords, we heed that researchers use different labels to denote sustainable investing, such as socially



responsible investing or ESG investing, and that labels have changed over time (see Dumas and Louche, 2016). We gathered papers using the *Web of Science* database whenever possible and resorted to journal websites to cover journals and periods not covered by this database. We covered research in each journal from its inception (the earliest paper that contained our search terms was published in 1975) up to April 2023. This process led us to identify 3786 papers potentially relevant to our review.

We used snowball sampling to identify additional potentially relevant papers (Hiebl, 2023). On the one hand, when reading papers from our initial sample, we systematically looked up references that seemed relevant. On the other hand, while we excluded literature reviews from our sample, we studied ten literature reviews that covered sustainable investing (i.e., Cundill et al., 2018; Cunha et al., 2021; DesJardine et al., 2023c; Eccles and Viviers, 2011; Goranova and Ryan, 2014; Jain and Jamali, 2016; Kölbel et al., 2020; Renneboog et al., 2008; Sjöström, 2008; Velte, 2023) to identify potentially relevant papers. In our snowball sampling, we analysed peer-reviewed papers from all disciplines and journals if their quality seemed comparable to the papers in our initial sample.

### Identifying Relevant Papers

We narrowed the initial sample to papers that empirically or conceptually explore the impact of sustainable investing. Through this process, we identified 69 papers as relevant for our review.

We first assessed whether a paper focuses on ‘impact’. Some papers focus directly on environmental and social outcomes, such as when they document that pressure from sustainable shareholders led to reductions in companies’ carbon emissions. In most cases, however, papers focus on company-level outputs, such as when companies pledge to adopt a human rights policy (Barnett et al., 2020; Wickert, 2021). We included these papers if the authors explain why these company-level outputs benefit the environment and society. For example, we included papers on how sustainable investing increases companies’ corporate social responsibility (CSR) reporting, given that such reporting can set in motion dynamics that eventually benefit the environment and society (Haack et al., 2012), and papers on how sustainable investing affects companies’ cost of capital, given that changes in the cost of capital can influence corporate decisions (Davis, 2009a). We also included papers on how sustainable investing influences factors outside of companies that, in turn, influence companies (*sustainable investing* → *factors outside of companies* → *companies*). Included papers had to clearly examine the first causal link (*sustainable investing* → *factors outside of companies*) but could leave the second causal link (*factors outside of companies* → *companies*) more implicit if it was well established by other research. For example, if a paper shows how sustainable investing stigmatizes certain industries, we included the paper in our sample even if it did not explicitly show how stigmatization influences companies because this link is well-established in prior research (e.g., Vergne, 2012).

We then assessed whether a paper focuses on ‘sustainable investing’. Most papers focus on specific activities (e.g., shareholder dialogue) or specific shareholders (e.g., pension funds). We included papers on specific activities when these activities relate to sustainability (e.g., shareholder dialogue on sustainability). For papers on specific shareholders, we included them when they identify these shareholders as ‘sustainable’, ‘socially

responsible', or 'green' (e.g., sustainable pension funds). We excluded papers that simply show that specific types of shareholders, such as pension funds (Johnson and Greening, 1999) or foreign shareholders (García-Sánchez et al., 2020), positively affect corporate sustainability because it is unclear whether such shareholders consider environmental and social issues, which makes it difficult to describe their effects as an impact of 'sustainable investing'.

We used three further selection criteria. First, we focused on papers that study the impact of sustainable investing on publicly traded companies, while excluding papers on how sustainable investments affect private companies, because impact on private companies is likely to unfold in different ways. Second, our focus on impact led us to exclude papers on how corporate sustainability affects ownership (e.g., Graves and Waddock, 1994) because such papers reverse the causal link we are interested in. Third, we excluded papers on how corporate sustainability reduces the cost of capital (e.g., Cheng et al., 2014) because such research leaves implicit the role of sustainable investing in this pricing effect.

### Identifying Impact Mechanisms and Types of Impact

We first classified the 69 papers in our final sample based on the impact strategy they covered. For papers that analyse specific activities (e.g., shareholder dialogue on sustainability), we classified them based on the framework outlined in Figure 1. We classified papers on divestments and shareholders proposals under field building when they elaborate on how shareholders use them to shake up fields (e.g., to stigmatize the fossil fuel industry or raise attention to environmental and social issues); if papers do not mention shareholders' use of their public voice, we classified them under portfolio screening and shareholder engagement, respectively. For papers that focus on specific shareholders (e.g., sustainable pension funds), we were able to classify them because they all examine the mechanism through which shareholders influence companies, either theoretically (e.g., Yan et al., 2021) or empirically (e.g., Dyck et al., 2019). Two conceptual papers (Hudson, 2005; Rivoli, 2003) covered one impact strategy in passing and another substantively. We classified both papers under the impact strategy they covered substantively. The Online Appendix (Table A2) provides details on each of the 69 papers in our final sample.

We then analysed the mechanisms through which each impact strategy creates impact. We define impact mechanisms as explanations for how specific impact strategies, by interacting with other parts of social reality, can increase corporate sustainability and thereby benefit the environment and society. This definition builds on the idea that social mechanisms explain how the interaction between different parts of social reality produces specific outcomes (Davis and Marquis, 2005). We identified 15 impact mechanisms in our final sample. Each impact mechanism explains how one of the three impact strategies can increase corporate sustainability by interacting with other parts of social reality. We derived the impact mechanisms inductively through discussions among all co-authors. Specifically, at least two co-authors read each paper in the final sample to reduce biases, and the first author read all papers in the final sample to increase consistency.

We then reflected on the type of impact that each impact mechanism produces. We realized that the impact mechanisms have different primary targets (companies, other shareholders, and fields), which led us to distinguish between three types of impact: direct impact on companies, indirect impact via other shareholders, and indirect impact via the institutional context. We allowed for the possibility that papers analyse more than one type of impact, which was the case for three papers.

Table I shows the various analytical approaches researchers use to analyse different impact strategies and types of impact. We found that research in different disciplines focuses on different impact strategies: finance research contributes 50 per cent of all papers on portfolio screening, management research 41 per cent of all papers on shareholder engagement, and ethics/sustainability research 44 per cent of all papers on field building. This pattern retrospectively confirms that multidisciplinary sampling was needed to cover all three impact strategies. The Online Appendix (Figure A1) provides details on how research on the impact of sustainable investing has evolved over time.

## HOW THE THREE IMPACT STRATEGIES INFLUENCE CORPORATE SUSTAINABILITY

We now present how each impact strategy – portfolio screening, shareholder engagement, and field building – influences corporate sustainability, and thereby affects the environment and society. Figure 2 illustrates the 15 impact mechanisms we identified and the three types of impact they create: (1) direct impact on companies, (2) indirect impact via other shareholders, and (3) indirect impact via the institutional context. The five impact mechanisms associated with direct impact on companies show how shareholders can directly influence the sustainability efforts of companies. The five impact mechanisms associated with indirect impact via other shareholders show how shareholders with little direct influence on companies can create impact by mobilizing more powerful shareholders to influence companies. The five impact mechanisms related to indirect impact via the institutional context show how shareholders can transform all the three ‘pillars’ of the institutional context: assumptions, norms, and rules (Scott, 2014, p. 59). Table II provides an overview of how the three impact strategies, through the 15 impact mechanisms, create the three types of impact.

### How Portfolio Screening Influences Corporate Sustainability

We identified four impact mechanisms through which portfolio screening influences corporate sustainability. These impact mechanisms cover all three types of impact.

*Direct impact on companies.* Two impact mechanisms explain how portfolio screening can create direct impact on companies. Both impact mechanisms depart from the assumption that the demand for shares is perfectly elastic (Hudson, 2005; Rivoli, 2003).

The first impact mechanism is *subsidizing sustainable companies*. In their conceptual papers, Mackey et al. (2007) and Pástor et al. (2021) assume that sustainable shareholders are willing to incur lower returns for holding shares of companies they deem

Table I. Coverage of impact strategies and types of impact

	<i>Direct impact on companies</i>	<i>Indirect impact via other shareholders</i>	<i>Indirect impact via the institutional context</i>	<i>Analytical approach</i>
Portfolio screening	10 papers (of which 1 denies impact)	1 paper	1 paper	58% conceptual, 42% quantitative
Shareholder engagement	36 papers (of which 5 deny impact)	4 papers	1 paper	73% quantitative, 17% qualitative, 7% conceptual, 2% mixed
Field building	2 papers (of which 2 deny impact)	8 papers	9 papers	37% qualitative, 32% quantitative, 21% mixed, 11% conceptual
Analytical approach	63% quantitative, 21% conceptual, 15% qualitative, 2% mixed	62% quantitative, 15% mixed, 15% qualitative, 8% conceptual	45% qualitative, 27% quantitative, 18% mixed, 9% conceptual	

*Note:* Three of the 69 papers in our sample cover two types of impact, which is why the numbers add up to 72. Due to rounding, percentages do not always add up to 100%.

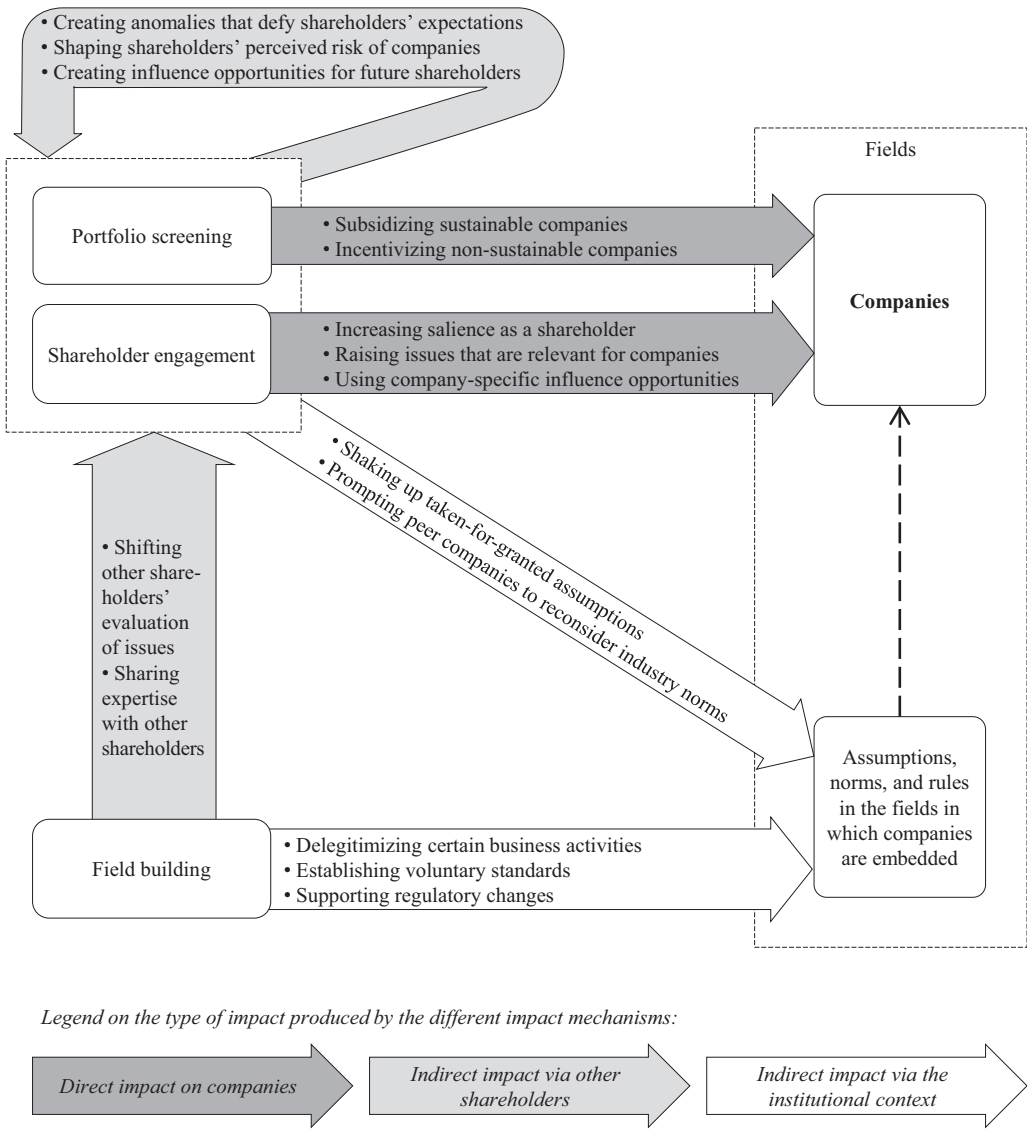


Figure 2. The 15 impact mechanisms and the three types of impact they produce

sustainable, which makes them drive down the cost of capital of sustainable companies and subsidize activities that these companies could otherwise not carry out. What exactly sustainable shareholders subsidize depends on whether CSR activities are a pure loss or cost neutral. In the model of Mackey et al. (2007), CSR activities are a pure loss; sustainable shareholders accept these losses and thereby subsidize costly corporate activities for which there would otherwise be no market. In the model of Pástor et al. (2021), CSR activities are cost-neutral; by accepting lower returns, sustainable shareholders enable sustainable companies to spend more money on new projects than their non-sustainable competitors, which means that sustainable

Table II. Types of impact produced through the 15 impact mechanisms

<i>Impact strategy</i>	<i>Associated impact mechanism</i>	<i>Definition of impact mechanism</i>	<i>Main papers on impact mechanism</i>	<i>Type of impact produced</i>
Portfolio screening	Subsidizing sustainable companies	By accepting lower returns, sustainable shareholders drive down the cost of capital of sustainable companies, thereby subsidizing activities they could otherwise not do	Mackey et al. (2007), Pástor et al. (2021)	Direct impact on companies
	Incentivizing non-sustainable companies	By accepting lower returns, sustainable shareholders increase the share price of sustainable companies, which incentivizes non-sustainable companies to become sustainable	Heinkel et al. (2001), Pástor et al. (2021)	Direct impact on companies
	Creating anomalies that defy shareholders' expectations	When sustainable investing creates anomalies that violate widely shared expectations, other shareholders may conclude something is amiss with existing investment practices	Marti and Gond (2018)	Indirect impact via other shareholders
	Shaking up taken-for-granted assumptions	When even shareholders (of all actors) speak up for sustainability, companies rethink their long-held and often negative assumptions about sustainability	Yan et al. (2021)	Indirect impact via the institutional context

(Continues)

Table II. (Continued)

<i>Impact strategy</i>	<i>Associated impact mechanism</i>	<i>Definition of impact mechanism</i>	<i>Main papers on impact mechanism</i>	<i>Type of impact produced</i>
Shareholder engagement	Increasing salience as a shareholder	Shareholders become salient for companies when they have specific characteristics, form coalitions, or build relationships with companies	Dimson et al. (2015), Ferraro and Beunza (2018), Gifford (2010)	Direct impact on companies
	Raising issues that are relevant for companies	Shareholders are more likely to influence companies when they raise issues backed by a strong business case or embedded in broader societal views	Clark et al. (2017), Gifford (2010), Solomon et al. (2013)	Direct impact on companies
	Using company-specific influence opportunities	Shareholders are more likely to influence companies when companies have a strong CSR track record, face (potential) threats, and have internal allies	Barko et al. (2022), Lee and Lounsbury (2011), Rehbein et al. (2013)	Direct impact on companies
	Shaping shareholders' perceived risk of companies	By raising environmental and social issues around a company, shareholders can increase the degree to which other shareholders perceive this company as risky	Vasi and King (2012), Eesley et al. (2016)	Indirect impact via other shareholders
	Creating influence opportunities for future shareholders	Confrontations with shareholders can set in motion internal dynamics within companies that make companies more responsive to subsequent demands by other shareholders	McDonnell et al. (2015)	Indirect impact via other shareholders
	Prompting peer companies to reconsider industry norms	By problematizing environmental and social issues at one company, shareholders can prompt peer companies to reconsider the norms of the industry in which they operate	Reid and Toffel (2009)	Indirect impact via the institutional context

(Continues)

Table II. (Continued)

<i>Impact strategy</i>	<i>Associated impact mechanism</i>	<i>Definition of impact mechanism</i>	<i>Main papers on impact mechanism</i>	<i>Type of impact produced</i>
Field building	Shifting other shareholders' evaluation of issues Sharing expertise with other shareholders	By publicly and continuously raising an issue, shareholders can influence other shareholders' social evaluation of this issue Shareholders can make private information about companies publicly available, empowering other shareholders to influence companies	Cojoianu et al. (2021), Proffitt and Spicer (2006) MacLeod and Park (2011), Vasudeva (2013)	Indirect impact via other shareholders Indirect impact via other shareholders
	Delegitimizing certain business activities	By publicly problematizing certain business activities, shareholders can influence the degree to which various stakeholders see these activities as legitimate	Ferns et al. (2022), Sikavica et al. (2020)	Indirect impact via the institutional context
	Establishing voluntary standards	By creating shareholder networks or capitalizing on massive assets under management, shareholders can establish voluntary standards for whole industries	Sjöström (2010), Vasudeva (2013)	Indirect impact via the institutional context
	Supporting regulatory changes	By lobbying with policy-makers and regulators, shareholders can foster regulation that internalizes the negative externalities that companies produce	Goodman et al. (2014), Haigh and Hazelton (2004)	Indirect impact via the institutional context



shareholders subsidize the expansion of the market share of sustainable companies. Kumar et al. (2002) provide empirical evidence for this impact mechanism by showing that after Nelson Mandela called for an end to the boycott of companies operating in South Africa, those companies' stock prices and institutional ownership increased. These dynamics suggest that a company's cost of capital decreases once sustainable shareholders start to see the company as sustainable.

The second impact mechanism is *incentivizing non-sustainable companies*. If there is an imbalance between shareholders' demand for sustainable business activities and companies' supply thereof, the high demand will temporarily raise the share price of sustainable companies, which motivates non-sustainable companies to become more sustainable to benefit from their own higher market valuations (De Angelis et al., 2022; Mackey et al., 2007; Pástor et al., 2021; Zerbib, 2022). Heinkel et al. (2001) estimate that sustainable shareholders must control at least 20 per cent of all stock to incentivize non-sustainable companies. Rohleder et al. (2022) provide empirical evidence for this impact mechanism by identifying the 10 per cent of mutual funds in each quarter that most aggressively decarbonized their portfolios by selling shares of heavily carbon-emitting companies. Using event studies, they find that when mutual funds engage in 'decarbonization trades', the stock prices of companies that produce a lot of carbon emissions drop, leading these companies to reduce their emissions. Similarly, Gantchev et al. (2022) document that for companies with many sustainable shareholders, even minor divestments lead to improved environmental and social policies because such companies fear that, without improvements, further divestments will follow.

*Indirect impact via other shareholders.* We identified one impact mechanism through which portfolio screening can create indirect impact via other shareholders: *creating anomalies that defy shareholders' expectations*. Marti and Gond (2018, p. 488) conceptually explore this impact mechanism based on the idea that portfolio screening can create anomalies, which are 'observable events that violate widely shared expectations'. For example, if sustainable shareholders mobilize enough capital, they can maintain a high share price for a company they deem sustainable even if the company loses money (see the previous impact mechanism, *subsidizing sustainable companies*). Other shareholders may see this as 'an anomaly that violates widely shared expectations about what companies must do to gain access to capital' (Marti and Gond, 2018, p. 495), which can lead them to rethink their investment practices.

*Indirect impact via the institutional context.* We identified one impact mechanism through which portfolio screening can create indirect impact via the institutional context: *shaking up taken-for-granted assumptions*. Yan et al. (2021, p. 910) examine this impact mechanism by analysing how the relative size of green investment funds in a country affects the environmental performance of companies in that country, arguing that managers see green funds as a 'cultural anomaly' that 'may signal an upcoming shift in the financial sector'. Anomalies thus matter not only for other shareholders (see the previous impact mechanism, *creating anomalies that defy shareholders' expectations*) but can also transform the institutional context in which companies operate. By analysing the environmental performance of 3706 companies

in 20 countries, Yan et al. (2021, p. 910) show that ‘the mere existence of green investing [in a country] helps challenge corporations’ long-held, taken-for-granted, and often unfavourable assumptions about environmental practices [in that country]’.

### How Shareholder Engagement Influences Corporate Sustainability

We identified six impact mechanisms through which portfolio screening influences corporate sustainability. These impact mechanisms cover all three types of impact.

*Direct impact.* The direct impact of shareholder engagement is the most intensely researched area in our final sample, with 36 of the 69 papers focusing on it (see Table I). This research points to three impact mechanisms through which shareholder engagement can create direct impact on companies.

The first impact mechanism is *increasing salience as a shareholder*. To influence companies, sustainable shareholders must become salient for companies (Gifford, 2010). Our analysis of the literature shows that shareholders become salient when they have specific characteristics, form coalitions, or build relationships with companies.

Several characteristics make shareholders more salient. Companies are more responsive to proposals submitted by institutional shareholders (Bauer et al., 2015; Chen et al., 2020), long-term institutional shareholders (Flammer et al., 2021), shareholders with a reputation to threaten companies (Perrault and Clark, 2016), or geographically close shareholders (Kim et al., 2019). Similarly, shareholder dialogue is more likely to improve corporate sustainability when undertaken by one of the ‘Big Three’ asset managers, namely Blackrock, StateStreet, or Vanguard (Azar et al., 2021), by large pension funds such as TIAA-CREF (Carleton et al., 1998), by institutional shareholders from countries with high environmental norms (Dyck et al., 2019; Ilhan et al., 2023), or by common owners, which are shareholders invested in multiple companies within an industry (DesJardine et al., 2022).

Shareholders can also become salient by forming coalitions. Companies respond more positively when several shareholders jointly submit proposals (Yang et al., 2018) and when shareholders associated with high-status coalitions submit proposals (Perrault and Clark, 2016). Similarly, Dimson et al. (2015) and Barko et al. (2022) find that shareholder dialogue is more successful when shareholders jointly engage with other shareholders, which may be because collaborations allow shareholders to ‘pool together their various sources of power, legitimacy, and urgency’ to become salient (Gond and Piani, 2013, p. 91). Slager et al. (2022) find that collaborative engagements are more likely to succeed when shareholders bring experience and/or local knowledge and that different types of collaborations are needed to influence companies with varying levels of receptivity. Coalitions can also use shareholder voting (Gollier and Pouget, 2022) and involve non-shareholding stakeholders, such as unions (Waring and Edwards, 2008).

Shareholders can further increase their salience by building relationships with companies. Ferraro and Beunza (2018) show that shareholder engagement with a major car manufacturer succeeded because both sides reinterpreted their relationship: although the car manufacturer made no substantive changes early on, the reinterpreted relationship established common ground for more substantive negotiations in later phases. Related research documents that shareholder dialogue is more likely to succeed when

shareholders establish more intensive contact with companies (Barko et al., 2022) and when the dialogue unfolds as deliberative interactions in which shareholders and companies provide reasons for what they ask and show respect for each other (Beccarini et al., 2023). Slager et al. (2023, p. 1) further show that shareholders use three ‘personae’ – that of a diplomat, advocate, and coach – to build relationships with companies and establish ‘relational authority’.

The second impact mechanism is *raising issues that are relevant for companies*. Our analysis of the literature suggests that shareholders can succeed by raising two types of issues. The first includes issues that have a compelling business case. Gifford (2010) finds that shareholder engagements are more likely to succeed if shareholders can back up their demands with a strong business case. To create a business case for an issue, shareholders often focus on risk management, which ‘reinforces rather than challenges the “business case” status quo’ (Solomon et al., 2011, p. 1119). For example, Michelon et al. (2020) show that shareholders increasingly submit proposals that demand CSR disclosure rather than substantive changes in CSR. The second includes issues that are embedded in broader societal views. Companies are more responsive to shareholder proposals that are ‘embedded and influenced by ... broader societal views’ (Clark et al., 2017, p. 1159), such as when shareholder proposals are framed in terms of social justice concerns (Rehbein et al., 2013). This insight may explain why Marquardt and Wiedman (2016) find that socially motivated shareholders have as much influence on companies’ female board representation as financially motivated shareholders, even though the former group demanded a larger share of female board representation.

Research also shows that some shareholders raise issues that are too incremental to change companies in meaningful ways. Solomon et al. (2013, p. 210) find that shareholders look away from discrepancies and refrain from asking tough questions, which can make shareholder dialogue ‘an exercise in role play and mutual “back rubbing”’. Similarly, Bernard et al. (2023) show that investment firms’ voting guidelines are often ignored when voting on CSR proposals, while Heath et al. (2023) uncover that an increase in ownership by sustainable investment funds in a company does not increase the number of CSR proposals that this company receives. The sustainability issues that shareholders raise may be further watered down because companies ignore issues that require costly reorganizations and instead focus on issues that managers can address quickly (Chen et al., 2020), symbolically (David et al., 2007), and with direct control (Li et al., 2021). This ‘double’ business case filtering (first by shareholders, then by companies) helps explain why Alda (2019, p. 1066) finds that UK-based sustainable pension funds have an ‘uneven influence’ on companies, affecting only 13 of 31 ESG indicators.

The third impact mechanism is *using company-specific influence opportunities*. Our review of the literature shows that shareholder engagement is most successful for companies that have a strong CSR track record, face threats, and feature internal allies for shareholders.

Companies with a strong CSR track record respond more positively to shareholder demands than those with weaker records. Shareholder proposals are more successful when companies responded positively in prior years (Bauer et al., 2015) or when they operate in industries with high CSR ratings (Rehbein et al., 2013). Similarly, shareholder dialogue is more likely to succeed if targeted companies have a high CSR rating or if earlier discussions were successful (Barko et al., 2022).

Companies also respond more positively to shareholder demands when they face threats. For example, shareholder dialogue is more successful when companies experience declines in sales (Barko et al., 2022), a high number of lawsuits (Dimson et al., 2015), negative media coverage (Semenova, 2023), or when they operate in industries where stakeholders are highly sensitive to their CSR activities (Desjardine et al., 2022). Large companies are also more responsive to shareholder proposals (Rehbein et al., 2013) and shareholder dialogue (Barko et al., 2022; Ilhan et al., 2023; Semenova and Hassel, 2019) because large companies ‘can potentially incur higher disruption costs and are more dependent on reputation for critical resources’ (Lee and Lounsbury, 2011, pp. 155–56).

Companies are also more receptive to shareholder demands when shareholders have allies inside companies. Ferraro and Beunza (2018, p. 1198) find that an engagement succeeded because the chair of the company’s board was an internal ally who could ‘personally commit [to an engagement] and then extend that commitment to the organization’. Similarly, Gifford (2010) and Waring and Lewer (2004) posit that shareholders can give external support to like-minded corporate managers to move sustainability issues forward internally.

*Indirect impact via other shareholders.* We identified two impact mechanisms through which shareholder engagement can create indirect impact via other shareholders.

The first impact mechanism is *shaping shareholders’ perceived risk of companies*. Vasi and King (2012) explore this impact mechanism by analysing how environmental proposals submitted by religious shareholders influence professional risk analysts who inform shareholders about companies’ risks. While such proposals do not directly affect a company’s stock price, risk analysts perceive them as ‘cues about unobserved market information’ and ‘as a signal of a firm’s potential exposure to costly environmental hazards’ (Vasi and King, 2012, p. 577). When risk analysts assess a company as risky, this negatively affects its stock price. Vasi and King (2012, p. 576) thereby document that ‘activists may indirectly force environmental issues onto the corporate agenda’ by ‘elevating perceptions about the riskiness of a firm’s policies’. Similarly, Eesley et al. (2016) find that protests and boycotts generate more media attention than proposals, while proposals have a more significant effect on shareholders’ perceived risk of companies than protests and boycotts. Yao et al. (2023) show similar dynamics for minority shareholders in China who are often concerned about local pollution: they can improve the environmental performance of companies by creating awareness of environmental risks among more powerful stakeholders, such as the media or analysts.

The second impact mechanism is *creating influence opportunities for future shareholders*. McDonnell et al. (2015) explore this impact mechanism by analysing how environmental and social shareholder proposals influence companies. Initially, companies respond ceremonially to proposals by publishing CSR reports and creating board-level CSR committees. A CSR report, however, draws attention to CSR within companies and a CSR committee ‘empowers directors to act as internal monitors’ (McDonnell et al., 2015, p. 659). Due to these internal changes, companies become more responsive to subsequent proposals. These dynamics show that the influence of shareholder proposals may ‘extend beyond the immediate successes or failures’ of a given proposal

by ‘opening up new inroads of influence’ for future shareholders to submit such proposals (p. 655).

*Indirect impact via the institutional context.* We identified one impact mechanism through which shareholder engagement can create indirect impact via the institutional context: *prompting peer companies to reconsider industry norms*. Reid and Toffel (2009) analyse this impact mechanism by studying how environmental shareholder proposals affect companies’ disclosure of carbon emissions and climate change strategy. They find that proposals influence targeted companies by prompting their managers to reconsider how they see industry norms, i.e., the ‘normal modes of operation’ within an industry (p. 1159). In addition to this direct impact, Reid and Toffel (2009, p. 1157) find that proposals create spillover effects because non-targeted companies interpret a proposal against one company in their industry as challenging current industry norms, prompting them to reconsider their own views of these norms.

### **How Field Building Influences Corporate Sustainability**

We identified five impact mechanisms through which field building influences corporate sustainability. These impact mechanisms cover only the two indirect types of impact.

*Direct impact on companies.* No paper in our sample documents that field building directly impacts companies. In fact, two papers dismiss the idea that divestment campaigns, which constitute efforts to change assumptions and norms within a field, directly impact companies. When analysing how pension fund divestments affected companies that operated in South Africa, Teoh et al. (1999) find that only the first divestment affected the share prices of companies operating in the area, while subsequent divestments had no effect. Similarly, in their formal model, Davies and Van Wesep (2018, p. 564) assume that divestment campaigns may temporarily lower share prices but that this ‘divestment discount is fully reversed’ within one year.

*Indirect impact via the other shareholders.* We identified two impact mechanisms through which field building can create indirect impact via other shareholders.

The first impact mechanism is *shifting other shareholders’ evaluation of issues*. A central goal of divestment campaigns is to exert ‘normative pressure’ (Cojoianu et al., 2021, p. 142) on shareholders that aim ‘to serve the public good, such as pension funds and university endowments’ (Ayling and Gunningham, 2017, p. 135). Cojoianu et al. (2021, p. 146) document this normative pressure by showing that in countries where many shareholders pledged to divest from fossil fuel companies, these companies experienced lower capital inflows. Divestment pledges by non-financial organizations and non-governmental organizations (NGOs) were particularly effective because they ‘catalyse[d] divestment by other major shareholders’ (p. 147). Similarly, Ding et al. (2020, p. 507) find that in countries with more intense Sudan-related divestment campaigns, more shareholders from that country divested from companies with operations in Sudan. Stock prices sunk in quarters during which campaigns were particularly intense, though the effect reversed in the subsequent quarters.

Shareholder proposals can also change other shareholders' evaluation of issues. Proffitt and Spicer (2006, p. 167) find that religious shareholders submitted environmental and social proposals not because they hoped for 'immediate success' in transforming companies but to establish a foundation on which 'subsequent [shareholder] activists, perhaps years in the future, can build upon'. Once religious shareholders had legitimized certain issues, public pension funds and later socially responsible mutual funds started co-filing or sponsoring proposals on these issues, which helped those proposals gain higher voting success. Proffitt and Spicer (2006, p. 178) conclude that religious shareholders 'were the innovators on every topic on which public pension funds later presented proposals'. Similarly, Rehbein et al. (2004, p. 242) find that some shareholders submit proposals to 'solidify relationships ... with other corporate stakeholders who share similar concerns about social issues', which is why these shareholders not only target companies with poor environmental and social performance, but also companies that are particularly visible and progressive.

The second impact mechanism is *sharing expertise with other shareholders*. The Norwegian sovereign wealth fund, for example, conducts site visits to gain 'exclusive information' on how foreign companies deal with environmental and social issues that 'may not be in the news' (Vasudeva, 2013, p. 1668). The fund has shared this information since 2005 by publishing an exclusion list that has been 'widely disseminated through press releases, the fund's website, conferences, and direct interactions with market participants' (p. 1668). Vasudeva (2013, p. 1663) finds that this exclusion list 'has played a key role in professionalizing responsible investments' in Norway because even the largest Norwegian investment firms lagged far behind the sovereign wealth fund in their capability to assess companies. Miglietta et al. (2022) substantiate this insight by showing that the fund's exclusion list has motivated other shareholders to divest, and that this trend has become stronger over time. Relatedly, MacLeod and Park (2011, p. 67) describe shareholder-led initiatives such as the CDP as an 'information depot' that shareholders with limited experience on climate change issues can use to engage with companies. Sharing expertise can therefore become a way to 'persuade, coerce, and socialize other investors' (p. 70).

*Indirect impact via the institutional context.* We identified three impact mechanisms through which field building can create indirect impact via the institutional context.

The first impact mechanism is *delegitimizing certain business activities*. Ferns et al. (2022, p. 1406) show that the fossil fuel divestment movement used analogies to the Apartheid regime and tobacco companies to "'borrow" (stigmatizing) meanings' and to 'make climate change a deeply moral issue' (p. 1397). Similarly, Ayling and Gunningham (2017, pp. 132–33) find that the fossil fuel divestment movement 'is more a moral crusade than an exercise in economic pragmatism', which enabled the movement 'to catalyse public discourse'. Shareholder proposals can also delegitimize certain business activities. Sikavica et al. (2020, p. 1232) find that some shareholders use proposals as a platform 'to shape collective beliefs and challenge the legitimacy of existing frames concerning corporate social behavior' (see the distinction between company-oriented and field-oriented shareholder proposals in Figure 1). Family offices and foundations, for example, file more proposals than other shareholders, which

indicates their ‘commitment to seeking widespread industrial change’, and rarely withdraw proposals, which suggests that they want ‘to fully utilize the proxy process to gain visibility for their social issue’ (pp. 1255–56). In line with these ambitions, the staff and leadership of these shareholders consist ‘of a colorful group of idealists, philanthropists, and social justice and grassroots activists’ (p. 1255).

The second impact mechanism is *establishing voluntary standards*. MacLeod and Park (2011) reconstruct how various shareholders created the Global Reporting Initiative and other initiatives to set sustainability standards for companies. Similarly, Sjöström (2010) shows how shareholders collectively organized to influence the way Internet companies operate in countries that limit freedom of expression on the Internet. The Norwegian sovereign wealth fund’s exclusion list also operates as a voluntary standard for Norwegian companies by inducing them to make more cross-border investments in sustainable companies (Vasudeva, 2013). One interviewee of Vasudeva (2013, p. 1663) explained the influence of the exclusion list by noting that ‘Norwegian firms can no longer afford to invest in foreign firms that violate the fund’s responsible investment principles, for fear of loss of reputation and legitimacy in society’. The Norwegian sovereign wealth fund has also ‘acquired a “standard setting” reputation’ by advising the exchanges in Hong Kong, Singapore, and the USA on their ESG reporting requirements (Vasudeva et al., 2018, p. 1584) and has thereby tilted cross-border acquisitions by Norwegian and Swedish companies toward more sustainable companies.

The third impact mechanism is *supporting regulatory changes*. Many practitioners treat direct influence on companies as a substitute for regulatory interventions by governments. However, according to Haigh and Hazelton (2004, p. 68), a narrow focus on influencing companies can hardly bring about systemic change, which is why these authors argue that shareholders should have ‘collectively lobbied governments to price externalities’. Some shareholders have started to support regulatory changes. For example, when shareholders organized to support freedom of expression on the Internet, one shareholder participated in a congressional hearing (Sjöström, 2010). Similarly, to address power imbalances between supermarket chains and farmers at the sector level, the investment arm of the Church of England spoke with relevant stakeholders, issued a white paper, and engaged with the UK government to support legal changes that could transform competitive dynamics between supermarkets and farmers (Goodman et al., 2014).

## **A RESEARCH AGENDA ON SHAREHOLDER IMPACT AS A DISTRIBUTED PROCESS**

Our multidisciplinary review has identified the mechanisms that underly the impact strategies used by both mainstream and peripheral shareholders, thereby broadening our understanding of shareholder impact. Taken together, the 15 impact mechanisms we identified suggest that shareholder impact constitutes a distributed process. Shareholder impact as a distributed process means that shareholder impact emerges gradually as different types of shareholders build on each other’s efforts.

Understanding shareholder impact as a distributed process points to a less heroic account of shareholder impact: an account in which shareholder impact is not something that large mainstream shareholders single-handedly achieve, but something that emerges through the interplay of different shareholders, including peripheral shareholders. Our analysis of the literature clarifies some aspects of shareholder impact as a distributed process – most importantly, research on indirect impact via other shareholders illuminates how efforts by one shareholder can influence the impact that other shareholders subsequently create. Other aspects of shareholder impact as a distributed process remain underexplored. In what follows, and as summarized in Table III, we propose a three-pronged research agenda on shareholder impact as a distributed process.

### **Analysing the Interaction between Direct and Indirect Impact**

Understanding shareholder impact as a distributed process requires an in-depth analysis of the interaction between different types of impact. A key insight of our review is that shareholders can create three types of impact: (1) direct impact on companies, (2) indirect impact via other shareholders, and (3) indirect impact via the institutional context. Future research could build on this insight to explore how direct and indirect impacts interact. By exploring this interaction, future research can flesh out how efforts by some shareholders influence the efforts of other shareholders.

A first way in which future research can analyse the interaction between direct impact and indirect impact is by examining whether indirect impact makes direct impact more or less effective. For example, based on the idea that radical actors make moderate actors appear more ‘reasonable’ and ‘responsible’ (Haines, 2013, p. 1), future research could examine whether mobilization efforts by radical shareholders (e.g., peripheral shareholders) make it easier for moderate shareholders (e.g., mainstream shareholders) to influence companies through portfolio screening or shareholder engagement. Specifically, future research could explore how divestment campaigns around an issue affect the salience of shareholders that try to create direct impact on the same issue. Future research could also focus on ‘cultural anomalies’ (Hoffman and Jennings, 2011, p. 101) that shareholders create, such as when a divestment campaign contributes to the bankruptcy of a fossil fuel company (Ferns et al., 2022). By comparing success rates of engagement, proposals, or voting before and after these changes, researchers could analyse whether changes in the institutional context contribute to the success of direct impact efforts.

A second way in which future research can analyse the interaction between direct impact and indirect impact is by examining whether successful cases of direct impact make indirect impact more or less likely. Direct impact could influence efforts to create indirect impact because successful cases of direct impact may become ‘demonstration events’ (Rao, 2004, p. 360) that prove that certain types of influence are possible. Successful cases of direct impact could both motivate shareholders to join mobilization efforts and facilitate shareholder-led changes in the institutional context. For example, in 2021, the activist shareholder Engine No. 1 succeeded with its proposal to appoint climate-oriented directors to Exxon’s board in a highly visible



Table III. Three directions for future research

	<i>Interaction between direct and indirect impact</i>	<i>Why shareholders use different impact strategies</i>	<i>Limits of specific impact strategies</i>
Key insight	Three types of impact exist: (1) direct impact on companies, (2) indirect impact via other shareholders, and (3) indirect impact via the institutional context	Shareholders can create impact through three impact strategies: (1) portfolio screening, (2) shareholder engagement, and (3) field building	Research has underexplored how company-internal dynamics affect whether specific impact strategies can influence a company
Broad direction for future research	How do direct and indirect impact interact?	Why do shareholders use different impact strategies?	What are the limits of specific impact strategies?
Specific questions for future research	<ul style="list-style-type: none"> <li>• Does mobilization by radical shareholders around an issue make shareholder dialogue on the same issue more successful?</li> <li>• Do cultural anomalies that shareholders create make companies more responsive to shareholder proposals related to those anomalies?</li> <li>• How do successful cases of direct impact in a company influence subsequent mobilization of the company's shareholders?</li> <li>• How does the willingness of some shareholders to subsidize unprofitable corporate activities influence field-level norms?</li> <li>• How do shareholder platforms (e.g., Principles for Responsible Investment) foster interactions among shareholders that create direct and indirect impacts?</li> </ul>	<ul style="list-style-type: none"> <li>• Does the degree to which asset managers engage in field building depend on the return expectations of their customers?</li> <li>• Do return expectations influence whether shareholders create public attention for their divestments (loud vs. silent divestments)?</li> <li>• Are common owners more willing to engage in field building because they can capture the spillover benefits between companies in their broadly held portfolios?</li> <li>• Does success with one impact strategy transfer across to a shareholder's success with another impact strategy?</li> <li>• Do shareholders learn vicariously through the impact strategies of other shareholders?</li> </ul>	<ul style="list-style-type: none"> <li>• Under what conditions do corporate managers notice screening-induced changes in their companies' cost of capital?</li> <li>• How do companies monitor divestments and how does this inform their strategic decisions?</li> <li>• How do investor relations' activities shape the way companies perceive pressure from sustainable shareholders?</li> <li>• Do conflicts within a company create influence opportunities for sustainable shareholders?</li> <li>• What impact strategies are most likely to fuel corporate greenwashing?</li> </ul>

campaign (DesJardine and Bansal, 2021). Such highly visible and successful cases of direct impact could reinvigorate dormant – perhaps demoralized – shareholders by showing that things that many shareholders deemed impossible are in fact possible. Future research could examine such dynamics from the perspective of inactive shareholders, by studying how they perceive successful cases of direct impact, or from the perspective of mobilizing shareholders, by analysing how they integrate successful cases of direct impact into their own narratives.

### **Explaining why Shareholders Use Different Impact Strategies**

To understand shareholder impact as a distributed process also requires more research on why shareholders use different impact strategies. A key insight of our review is that shareholders can create impact not only through portfolio screening and shareholder engagement, but also through field building. Yet, it remains unclear why different shareholders use different impact strategies because the impact efforts of different types of shareholders have been analysed within different streams of research (for a notable exception, see Sikavica et al., 2020). Finance and strategy scholars have mainly focused on mainstream shareholders, such as large banks and asset managers. In contrast, sociologically-oriented scholars have predominantly studied peripheral shareholders, such as religious shareholders. Future research can overcome this division by developing a comparative understanding of why shareholders use different impact strategies, and thereby map the heterogeneity of sustainable shareholders that underpins shareholder impact as a distributed process.

A first way in which future research can explain why different shareholders use different impact strategies is by exploring differences between the three impact strategies. For example, our review suggests that field building constitutes a positive externality that does not increase shareholder returns. Even if field building would make companies more profitable, the profits would mainly accrue outside of portfolio companies (Sikavica et al., 2020) and outside of the time horizon that is relevant for many shareholders (Proffitt and Spicer, 2006), creating a free-riding problem in which the profits of field building are captured by other and future shareholders rather than those engaged in field building. If a business case can be made for portfolio screening (e.g., Statman, 2000) and shareholder engagement (e.g., Dimson et al., 2015), but not for field building, it may explain why mainstream shareholders focus on the first two and more peripheral shareholders on field building. Given the positive externalities created through field building, future research could explore how third-party actors, such as industry associations (Gond and Piani, 2013) or regulators (Giamporcaro et al., 2020; Giamporcaro et al., 2023; Marti and Scherer, 2016), try to encourage field-building activities.

A second way in which future research can explain why different shareholders use different impact strategies is by focusing on underexplored differences between sustainable shareholders. Prior research has distinguished shareholders based on a few characteristics, such as their trading behaviour (Bushee, 1998) or their beneficiaries (e.g., sovereign wealth funds or pension funds). Future research could explore other differences between shareholders. For example, only six papers in our final

sample (i.e., Azar et al., 2021; Bernard et al., 2023; Li et al., 2021; Marquardt and Wiedman, 2016; Proffitt and Spicer, 2006; Yao et al., 2023) focus on voting even though voting results could help researchers understand how shareholders think and act and why they use different impact strategies. Furthermore, since common owners are well positioned to capture the spillover benefits between companies (DesJardine et al., 2022), future research could explore whether mainstream shareholders are more willing to engage in field building when they have higher levels of common ownership. More research is also needed to explore whether political ideology influences the degree to which sustainable shareholders engage in field building (DesJardine et al., 2023b). We furthermore see potential for qualitative research within investment firms to explore how organizational ideas and practices, such as the degree to which shareholders are interested in ‘double materiality’ (Garst et al., 2022, p. 67), shape which impact strategy these shareholders use or how shareholders combine different impact strategies.

### **Reconstructing the Limits of Specific Impact Strategies**

Understanding shareholder impact as a distributed process also requires clarity on the limits of different impact strategies. By delineating the limits of each impact strategy, we can better reconstruct how different impact strategies build on each other to create impact through a distributed process. A key insight of our review is that most papers neglect how dynamics within companies affect whether impact strategies can increase corporate sustainability (for a related argument about the ‘corporate opportunity structure for shareholder activism’, see DesJardine et al., 2023a). Few papers in our final sample account for company-internal dynamics, such as managerial perceptions of issues (e.g., Reid and Toffel, 2009) or internal power struggles (e.g., McDonnell et al., 2015). We see potential for research on company-internal dynamics, especially in terms of how company-internal dynamics influence whether a specific impact strategy succeeds in making companies more sustainable.

A first way in which future research can reconstruct the limits of specific impact strategies is by focusing on the cognition of corporate managers (Cyert and March, 1963; Ocasio, 1997). For example, when portfolio screening affects companies’ cost of capital, corporate managers can make sense of these changes in different ways. Research on the impact of portfolio screening assumes that corporate managers can attribute screening-related changes in the cost of capital to changes in shareholders’ preferences (e.g., Pástor et al., 2021). Yet, this assumption becomes problematic to the extent that managers are boundedly rational. Future research could explore how and when corporate managers take note of screening-related changes in their companies’ cost of capital. Given that no paper in our final sample has analysed investor relations departments, we see particular promise in research on how investor relations practices shape the way managers perceive screening-related changes in their cost of capital. Researchers could also explore how stock market reactions to sustainability-related news (see Flammer, 2013) affect subsequent sustainability initiatives, based on the idea that companies only expand their sustainability efforts if stock markets reacted favourably to their prior efforts. Such research may find that managers in some

companies pay little attention to changes in their cost of capital, which would help delineate the limits of portfolio screening as an impact strategy.

A second way in which future research can reconstruct the limits of specific impact strategies is by examining what types of company-internal changes different impact strategies set in motion. Particularly in research on shareholder engagement, researchers often analyse ‘success’ in a binary way, such as by focusing on whether companies implement changes that shareholders demanded in shareholder dialogue (e.g., Dimson et al., 2015) or whether companies reach a settlement with shareholders that submit proposals (e.g., Bauer et al., 2015). By doing so, researchers fail to take into account that some shareholder demands are more substantive than others. Future research could start to measure how substantive demands are by comparing different demands to understand whether new demands go beyond prior demands, or by benchmarking demands against some societal standards so they could identify whether demands bring up new issues or merely recap widely accepted norms. Research along these lines could help illuminate whether different impact strategies create different types of changes in companies: some shareholder-induced changes will be fundamental, such as changes in a company’s ‘CSR character’ (Basu and Palazzo, 2008, p. 122), whereas other changes may be more ceremonial, such as changes in company’s sustainability reporting (Hahn et al., 2023).

## CONCLUSION

Our multidisciplinary review integrates and advances knowledge of how sustainable investing creates impact. By identifying 15 impact mechanisms, we have consolidated what is known about how three impact strategies – portfolio screening, shareholder engagement, and field building – influence corporate sustainability. We have also outlined a research agenda for future research on shareholder impact as a distributed process. We hope that by consolidating knowledge and inspiring future research, our literature review helps ensure that sustainable investing lives up to its promise of benefiting the environment and society.

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