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Erasmus Platform for Sustainable Value Creation

Committed shareholders: Pathways to long-term alignment

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October 2019

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1 Abstract

Shareholders have a great influence on companies, also in terms of societal performance. In the transition to a sustainable economy, companies and institutional investors are increasingly adopting the goal of long-term value creation, which integrates financial, social and environmental value. But how can institutional investors, as committed shareholders, support sustainable companies most efficiently and work jointly on the long-term agenda? The committed shareholder project is threefold. First, establish the facts on institutional shareholdings in companies. Second, identify dilemmas for investors and companies, and third, explore pathways for long-term-alignment between investors and companies.

In our previous studies, characteristics for the Dutch corporate market and barriers to long-term value creation for companies are identified by surveying various asset managers and company managers. We identified several interrelated obstacles that investors and company management face: benchmark orientation, short-termism, lack of alignment in the investment chain, lack of integrated thinking, lack of standardisation of sustainability criteria, and the current perception of geographical risk exposure. In this paper, we expand on these findings and search for practicable solutions. The goal is to find an appropriate model that enables management of companies to engage in long-term value creation with support and trust of its investors, while keeping market discipline of management.

2 Introduction

Managers often want to initiate projects that create value in the long-term. Allowing these projects may foster sustainable development, accelerate the energy transition, and/or mature the circular economy. By contrast, constraining corporate management from such investments may limit the development of long-term value creation. In practice many managers do not feel comfortable engaging in such projects due to lack of shareholder support. Why is this the case? And how can we encourage managers to execute long-term projects? This paper aims to provide answers to these questions. In order to present the barriers and solutions to long-term value creation this paper is divided into three parts:

- Part I: Problem statement
- Part II: Main models
- Part III: Assessment of models

Different pathways to align investors' and companies' interests in the long term are investigated and assessed on feasibility. The paper seeks to describe concrete and practicable models to overcome barriers to long-term value creation in the Dutch corporate sector.

3 Part I: Problem statement

An increasing number of public companies would like to pursue long-term value creation. Nonetheless, the public nature of these companies complicates this matter. Managers have to report to shareholders and ensure their wishes are met.

Classical finance theory supports the idea that managers only have one goal: to increase shareholder value[1]. This paradigm is also known as shareholder's value maximisation. In this sense, managers are constrained by shareholder directives and are, thus, subject to investors' limitations. In a previous paper by Tupitcyna (2018) the main dilemmas of Dutch institutional investors are identified.

These dilemmas form barriers towards long-term value creation for publicly listed Dutch companies. In an ideal setting, management and shareholders have aligned preferences regarding the future and sustainable development, resulting in a long-term trustworthy relation. Unfortunately, most often this is not the case. The main obstacles towards this ideal setting for long-term value creation fall, ultimately, into six categories.

The wide increase in passive investing in recent years introduced the notion of *benchmarking*. Benchmark orientation concerns the comparison between an asset-managers' performance and the performance of a passive fund, for instance a market- or segment-tracking index. Dutch asset-managers are also subject to this and are evaluated against some kind of benchmark. Underperformance poses significant career risks for investment managers, leading many of them to retreat to passive or quasi-passive strategies. This cautious behaviour contributes to the growth of passive investing with very small stakes in all companies in the market portfolio. As stated by Tupitcyna (2018):

> *"The prevalence of efficient market thinking has led to an environment where relative performance matters more than absolute performance. In that sense, concentrated portfolios clash with the prevailing mindset because they introduce (by definition) a larger tracking error than the passive portfolio."*

Hence, due to benchmark orientation institutional investors tend to become more passive players, forming a threat to long-term sustainable development. Furthermore, investors want to maintain geographical diversification. In an analysis of Dutch AEX companies, however, it appears that exposure of these companies to the Dutch economy is only about 10 percent (Schoenmaker & Carfi, 2019).

[1] See Friedman's (1962) *Capitalism and Freedom*.

Closely related to benchmarking is the current focus on *short-term performance* and the accompanied *frequent performance evaluations*. Asset managers are encouraged to generate returns in the short-term because of frequent benchmarking. It makes it nearly impossible to invest in companies for the long run when a group of shareholders demand returns on a monthly, quarterly or yearly basis. This circumstance of "short-termism" makes the current system fundamentally incompatible with long-term value creation.

Underlying the benchmark orientation problem is the *mismatch of alignment* along the investment chain. Asset owners might invest their money in certain institutions and expect a certain amount of financial return which asset managers seek to pursue. Hence, even if asset managers have long-term vision, they are still depending on the ultimate asset owner's view. As recognised by Tupitcyna (2018), the appetite for sustainability-focused portfolio is growing, but their performance is still evaluated according to conventional performance measures.

In this sense, both underperformance and outperformance – relative to any benchmark – makes asset owners suspicious. To fully align beliefs between asset owners and managers both parties should have clear understanding of what the goals are, how the long-term investment approach functions, and decide on alternative metrics to measure true performance.

Within institutional investor institutions there is lack of integrated thinking. Although financial institutions hire an increasing number of "ESG professionals", often their view is not shared throughout the whole organisation. Whereas these ESG experts engage with companies on sustainability matters, portfolio managers often still seek to maximise short-term financial returns. This indicates that ESG-thinking is not always integrated into investment matters. Besides, portfolio managers engage with companies more often where they may prioritise financial matters over ESG topics. Finally, due to this dualistic approach confusion may arise about the investor's priorities.

Contributing to the complexity of long-term value creation and sustainability development is the multifaceted nature of sustainability (Tupitcyna, 2018). It is difficult to define and quantify sustainability, leading to a lack of standardisation across the industry. Typically, investors are sceptic about the available sustainability/ESG data for several reasons. For instance, sustainability rating agencies use company reported data, which allows for 'greenwashing'[2]. Besides, rating agencies may be biased towards large firms as these tend to report extensively on sustainability matters. Often, similar to credit rating agencies, sustainability agencies are also financed by large enterprises potentially creating a conflict of interest. Another set of challenges arise because sustainability is built upon multiple pillars which may demand trade-offs along the way. Finally, material sustainability issues are repeatedly industry- or company specific. This requires in-

[2] Greenwashing is pretending to be more 'green' than in reality, see Laufer (2003).

depth understanding of the investor for this company to be investable/engageable (Tupitcyna, 2018; Schoenmaker & Schramade, 2019).

Table 1 provides an overview of each of the barriers towards long-term value creation as acknowledged by Tupitcyna (2018). Expanding on these findings, this paper is a follow-up paper by selecting and explaining various models that may offer a solution to each one of these problems and enabling long-term value creation. The key feature that reappears throughout the paper is committed shareholding. This refers to socially responsible (equity) investors that pursue long-term value creation by building long-term and trustworthy relations with management and other investors. The way in which committed shareholding is reached differs for each proposed model in this paper but, ultimately, strives for the same goal: unlocking long-term value creation.

TABLE 1: LTVC CHALLENGES AND EXPLANATION.

Challenge	Explanation
Benchmark orientation	Asset managers groomed in the neoclassical theory of finance rely on passive investing with a strong benchmark orientation and geographic allocation.
Short-term performance evaluation and incentives	Frequent performance evaluation and short-term incentives for asset managers result in the pursuit of short-term performance.
Lack of alignment within investment chains	Asset managers can be long-term oriented only if their clients (asset owners) are long-term oriented.
Lack of integrated thinking	The investment decision making is decoupled from ESG. PMs and ESG professionals have different views on the same subject.
Lack of sustainability standards	Companies do not always report on material issues; the ESG ratings are biased. Many SDGs are not considered investable at present.

3.1 Research question

- Which investment model fosters selection of, investment in, and (coordinated) engagement with companies that pursue long-term value creation?
- Which mechanisms can strengthen commitment between institutional investors and companies on long-term strategy?

Various models and mechanisms will be presented with their strengths and weaknesses. The most promising model and mechanisms will discussed with executives of leading Dutch companies and institutional investors in November 2019.

4 Part II: Main models

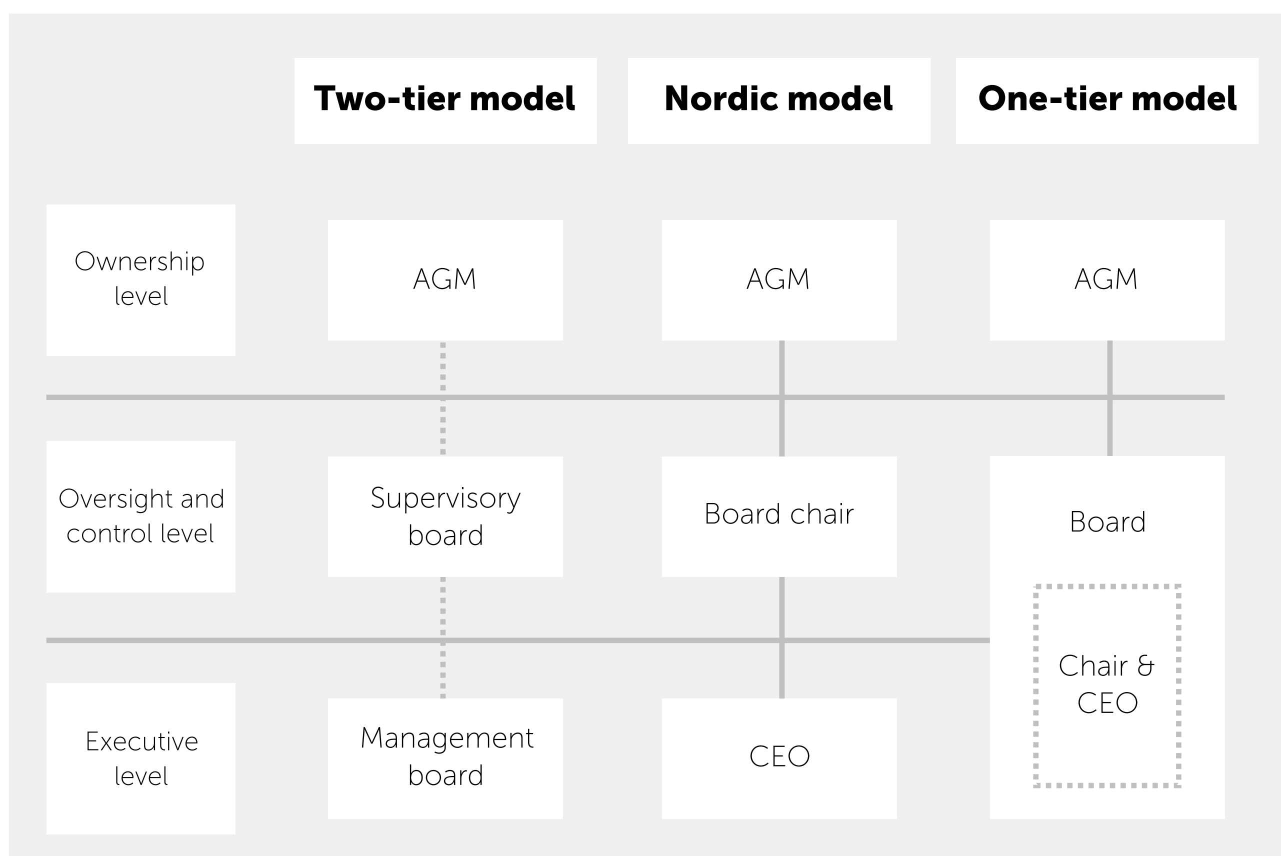
This section presents a comprehensive outlay of the models. The Swedish model of nomination committees is discussed first, then the coordinated engagement model, and finally the privileged shareholder model. In these discussions the focus is laid on the role of shareholders, in particular institutional investors, and their role in long-term value creation. Each model approaches the problem differently but, ultimately, pursues the same goal of engagement on long-term value creation.

4.1 Nomination committees

4.1.1. The Swedish corporate governance model

The Swedish have an alternative corporate governance structure than the prominent one-tier or two-tiers board models. Potentially, the Nordic model, and in particular its nomination committees, offers solutions to overcome the barriers to long-term value creation. Figure 1 presents an overview of the three corporate governance structures.

FIGURE 1. OVERVIEW OF THE CORPORATE GOVERNANCE STRUCTURES IN EUROPE. SOURCE: IFC



In the two-tier model, there is a distinction between executive and non-executive directors. The non-executive directors are elected at the annual general meeting for shareholders and their role is to hire and supervise the management (i.e. executive directors). On the opposite, there is the one-tier model, in which executive and non-executive directors form one unified board and are both nominated at the AGM. In the Nordic model, the board of directors is chosen at the AGM and contains in principle only non-executive directors. Typically, one member of the board also occupies a management function (often the CEO). On its turn the board of directors pick a company CEO and oversees that the company acts in the interest of the shareholders. In each model, the board (or *boards* in the two-tier model) have an important function in directing the company. So, the selection and recruitment procedure of the board is a highly important subject.

In Sweden a special committee is designed to oversee and direct the selection and recruitment procedure: the nomination committee ("NC"). The most important function of the committee has to fulfil is to select representative and independent board members that ensure shareholder interests and follow agreed corporate strategy. The composition of the NC is vital for ensuring representativeness of each shareholder (Kuijpers, 2011). One critical aspect of the NC is discussing the company's long-term strategy with current management. In these engagements the constituents[3] discuss the long-term strategy with company management. The set-up of NCs promotes long-term investment and cooperation through the focus on the planning, execution and supervision of the long-term objectives.

In general, the NC consists of representatives of the largest 2 to 4 shareholders, possibly a representative for minority shareholders, and a current member of the board. Apart from representing shareholders, the member should be independent of the firm or the board. Annually the members of the committee are selected at the annual general meeting ("AGM"). The constituents should clarify which party they represent. Once the NC is set, various tasks await them. The series of tasks comprises of collecting relevant and accurate information about the business and strategy in order to determine core requirements for the new board. Besides, various meetings are held between the NC and management to elaborate on the long-term vision. Expanding on this information, the committee can either propose to prolong current board members or select and introduce new candidates at the AGM.

Minority shareholders, if not represented in the committee, are assured that the board selection procedures are transparent and fair. Moreover, every shareholder is able to put forth recommendations to the committee, independent from the number of shares it holds. While the NC pre-selects the board of directors and, in doing so, can influence the course of the firm, the AGM has the final say on board

[3] The constituents of the NC are shareholders representatives. Also termed as "members".

appointments. The ultimate goal is selecting an independent board of directors that advocate the long-term strategy as discussed between management and the NC (i.e. shareholder representatives).

4.1.2. Corporate governance in the Netherlands

Similar to the Swedish model of selecting and appointing the board of directors, in the Dutch system the shareholders, ultimately, decide the composition of the board at listed firms. Nevertheless, the corporate governance systems in Sweden and the Netherlands differ tremendously. First of all, under the Dutch corporate governance system, firms can choose to either practise a one-tier or a two-tier board. But also, in terms of board selection procedures the systems differ (Kuijpers, 2011).

Where in Sweden an independent commission (i.e. the nomination committee) tracks and recruits fresh board members, in the Netherlands this is mainly the task of the current board members. In this connection, the current board has great influence in the composition of the new one, which potentially result in biased selection (Kuijpers, 2011). Although the board of directors is assisted by the selection- and appointment commission, who are selected at the AGM and do preparative work, shareholders do not have any direct influence in the selection process for the new board. This is contrary to the Swedish model, where shareholders are represented in the nomination committee.

The approval of the nominated board is often not a fully independent decision though. Declining the proposed board or board member (as legally only one person has to be nominated) might have several undesirable consequences. To elaborate, a new selection procedure has to be started, another AGM has to be organised, and it may give rise to tension between on one side the current board and management and on the other side (parts of) shareholders. Moreover, due to the public character of AGMs, the decline of a nominee can cause commotion around the firm.

Apart from dialogue with the current board, direct influence on the nomination of board members by Dutch shareholders can only be exercised via the so-called 'agenderingsrecht' (i.e. the right to add agenda points). However, usage of this right in order to nominate board members remains very limited. This can either indicate that Dutch shareholders are very passive, or that large shareholders preferable use dialogue to propose suitable nominees. Besides, sometimes the board nominates an individual proposed by one or multiple shareholders as a consequence of financial transactions or other agreements. For instance, in the case of TomTom and Janivo Holding in 2009 thanks to a capital injection (Kuijpers, 2011).

In summary, under the Dutch corporate governance model the board of directors (in principle: the supervisory board) is mainly recruited by the previous board. Shareholders can vote in favour or against them, but the latter may result in

negative consequences. The shareholders only have indirect influence in the nomination process. The amount of direct power they have is limited and only little exercised. Moreover, the board is commonly assigned for a period of four years, opposed to one year in Sweden.

4.1.3. Applying Swedish principles in the Netherlands

Having expounded on both the Swedish as well as the Dutch selection procedures for the board of directors, we investigate whether the Swedish practice is desirable for the Dutch system. In doing so, we focus particularly on long-term value creation.

Referred to earlier, in current Dutch routine the board is often recruited via the alleged '*old boys network*'. Nonetheless, efforts made by the Dutch Corporate Governance Code to change the composition of the board appear to be hollow because it is hard to find appropriate candidates outside of the firms' network. If shareholders, however, are allowed to intervene in the recruitment process the network widens considerably. Hence, opening up to shareholders' opinion and knowledge might positively affect the diversity in the board (Kuijpers, 2011). Another aspect as argued by Kuijpers (2011) and possibly more important for the course of this paper, is that nomination committees promote **investor engagement**. In Sweden, involvement in nomination committees is increasingly viewed as responsible behaviour of large shareholders. Additionally, nomination committees instigate mutual conversations between shareholders of a company (both shareholders placed in and out of nomination committee) on a regular basis (instead of conversations only when an important corporate event, like a take-over, comes up). As such, large shareholders are not able to 'free ride' on others' efforts to develop strong corporate governance.

Besides, the growing involvement of long-term institutional shareholders can serve as **disciplinary function** to effectively combat short-termism of certain shareholder groups (Kuijpers, 2011). In that way, committed institutional shareholders seek to satisfy their fiduciary duty to carefully and wisely handle their funds. Usually, this entails sustainable and long-term returns.

Committed shareholding is most effective when multiple institutional investors of a firm are willing to co-operate, i.e. **collective engagement** (Kuijpers, 2011). In particular for companies of which their shares are widely dispersed, which is common for large Dutch enterprises[4]. The biggest obstacle in this regard is that various investors have to actively talk and share opinions and information with one another. Simultaneously, these investors are each other's competitors. Apart from competitive barriers, also juridical barriers exist to shareholder co-operation[5]. Hence, such potential pitfalls should be considered when pursuing nomination committees.

[4] See: AEX Institutional Ownership Report 2018.

[5] For instance: 'acting in concert' laws.

Nomination committees may also solve another problem. Many large shareholders of Dutch listed corporations are foreign institutional investors. Often such investors are not familiar with the corporate governance system applied in the Netherlands. This does not incentivise foreign investors to get involved with Dutch corporate governance. Surely by placing these shareholders in the nomination committee they can get accustomed to the Dutch structure and develop commitment (Kuijpers, 2011).

4.1.4. Appropriateness

The objective of this paper is to identify models and paradigms that could overcome the barriers to sustainable financing. The following question arises: *does the Swedish corporate governance model create opportunities for long-term value creation in the Netherlands?* The short answer is yes.

Clarified earlier, NC's can be viewed as mechanisms where large shareholders are able to take responsibility. Often, large shareholders are institutional investors with long-term investment goals. To discipline short-termism of others, these institutions – if settled in the NC – can choose a board of directors representing these values and discuss long-term objectives. This way, the course of a firm can be altered, and sustainable, long-term goals are pursued.

Besides of taking responsibility and adhering to one's fiduciary duty, NC's also promote investor engagement as large investors take actively part in long-term strategy discussions and recruiting new board members. Although a position in nomination committees can be declined, it potentially delivers additional success, which provides an incentive to participate in it.

Finally, as the nomination committee consists of representatives of the few largest shareholders, representatives of the minority, and an agent of the current board, it will enhance collective engagement. These representatives have to discuss and set common goals in order to find and select suitable board members. In doing so, long-term goals are more easily pursued.

A combination of these three aspects result in, here referred to as, **committed shareholding**. For large Dutch enterprises, this could lead to long-term goals set jointly by high-end management and committed shareholders. Therefore, the answer to the question raised above is, again, yes.

4.2 Coordinated engagement

4.2.1. Shareholder (ESG) activism

Institutional investors can play a huge rule in the corporate governance of companies, which, consequently can result in (financial) benefits for the shareholders (Shleifer & Vishny, 1997; Gompers, Ishii, & Metrick, 2003; Bebchuk,

Cohen, & Ferrell, 2009). Shareholder activism refers to either engagements of the investor with the company, exercising one's voting right on proposals or initiating a proposal (Dimson, Karakaş, & Li, 2015). Through this kind of activism, shareholders have the opportunity to steer a company in directions that are in line with their preferences. Traditionally, these practices have been focussed on issues related to interests of shareholders only (Dimson, Karakaş, & Li, 2015).

Nonetheless, Hawley and Williams (2000a; 2000b) recognise that institutional investors have multiple roles and that their fudiciary duty should not only be the generation of short-term financial returns, but instead to take into account long-term implications[6]. Hence, not only shareholders' interest should be considered, but also other stakeholders' interests. This gave rise to shareholder activism on environmental, social, or governmental ("ESG") issues to which Dimson et al. (2015) refer as ESG activism. Illustrations of ESG activism are provided by shareholder advocacy group *As You Sow,* who, for instance, lodged a proposal asking McDonald's Corporation for the issuance of environmentally friendly foam cups in 2011. Two years later McDonald's announced it would substitute all foam cups by paper cups (As You Sow, 2013).

4.2.2. Coordinated engagements

The success rate of shareholder activism depends on various factors. One type of engagement that is found to be particularly effective are coordinated engagements (Dimson, Karakas, & Li, 2018). Instead of initiatives conducted by a single shareholder, coordinated engagements refer to collaborative actions undertaken by a consortium of shareholders. As shown in Dimson et al. (2015), collaboration between shareholders and/or other stakeholders improves the success rate of the engagement significantly, especially for ESG engagements. Fundamental to this higher success is the louder voice and larger voting power of the group of investors once their resources and influences are pooled together (Dimson, Karakas, & Li, 2018). Another benefit is the improved engagement efficiency because of bundled knowledge. Expertise of each of the investors can be consulted and research costs can be shared. This particularly allows smaller investors to participate in active ownership as they would not be able to afford engagement by themselves. Moreover, the risk attained to activism is also shared collectively. If the engagement fails, you will not be the only one who pays the price. While one of the investors typically leads the discussion with company management (the so-called lead investor or lead activist), coordinated engagement requires collective agreement of investors on objectives and their implementation. Considering the increasing importance of long-term agendas for institutional investors, coordinated engagements is an attractive opportunity for shareholder activism and improvement of long-term development.

[6] Institutional investors so large that it carries responsibility to multiple stakeholders is also referred to as universal ownership.

Nonetheless, some challenges of coordinate engagement are still open. Dimson et al. (2018) identify three key challenges. First, the free-rider problem which refers to the scenario where only the activists bear the costs, while the benefits are shared among all shareholders. Second, the coordination of such engagements takes much time and effort. Many investors or shareholders face different objectives and interests. Moreover, different parties may have different cultural and national backgrounds. These two factors can lengthen the process of reaching agreement and engagement. As a consequence of this delay the effectiveness of the engagement may decrease on time-sensitive issues. Finally, there may be legal and regulatory constraints for acting in concert (similar to the juridical barriers as mentioned earlier for the NC's).

4.2.3. Effective coordinated engagements

Understandably, the challenges revealed earlier might retain activists from actual action. An effective way of dealing with these problems is to have a third-party coordinator, for instance the PRI Collaboration Platform[7], that oversee the coordination (Dimson, Karakas, & Li, 2018). Another aspect that Dimson et al. (2018) highlight is the impact of lead activists, i.e. the activists that initiate the action[8]. Ultimately, an effectively coordinated group of institutional investors can develop long-term objectives which provides necessary commitment mechanisms and reduces the free-rider problem.

A third-party coordinator can take on various forms. The world's largest platform for coordinated engagements is the PRI Collaboration Platform on which investors can post proposals and find supporters for their cause. These proposals vary in terms of format, type of engagement, and complexity. Some proposals may only request for co-signing letters, while others demand participation in engagements and bring significant costs (Dimson, Karakas, & Li, 2018). Subsequently, the PRI may endeavour a coordinating role where it provides administrative services, solicited advice, and organises (virtual) meetings. However, the platform can also be used for direct collaboration only, bypassing PRI coordination.

Engagement coordinated by the PRI as a third party provides several benefits. The costs of the collective ESG action are substantially reduced as a result of in-house expertise on ESG issues by PRI and reduction of the free-rider problem. An engagement structure with one or more lead investors with a large base of supporting investors that provide limited resources as a fixed fee seems to be responsible for the latter. All signatories to PRI pay a fixed (small) fee with which the PRI pays for coordination and research costs. This way the costs are, ultimately, borne by every signatory instead of a limited number of activists.

[7] On commencement in 2005 it was named: PRI Clearinghouse.

[8] Similar to *wolf-pack activism*, but often that term is used in the context of hedge funds (Dimson, Karakas, & Li, 2018)

Moreover, PRI experts are continuously engaged with local authorities and are, therefore, able to provide clarification on legislative issues.

To illustrate how the PRI platform facilitates coordinated engagement, Piani (2013) describes how the typical coordinated engagement begins:

> *"Typically, engagement begins when one or more investors identifies an issue or specific ESG risk relating to a particular company or sector and does some initial research to determine whether there is a business case for the company to take steps to respond. The investor may then decide they'd like to engage, and perhaps reach out to colleagues and peers to gauge interest in engaging collaboratively."*

Apparent from this excerpt should be the ease of initiating a coordinated engagement. After this early phase process, it allows the lead activists to engage with target management to discuss long-term goals and implementation.

In a comprehensive study by Dimson et al. (2018) the general characteristics of such engagements on ESG are mapped. A first observation is that most coordinated engagements are in the manufacturing, infrastructure, and wholesale/retail sector, i.e. emission-intensive industries. Possibly, these industries offer most room for improvement. While you do not have to be signatory to the PRI principles to use their platform, most of the activists are (or become within 1 year after initiating an engagement). As demonstration that the activists consist of big players in the financial industry: the total assets-under-management of PRI signatories end-2018 is approximately $89,6 trillion (UNPRI, 2018).

For an investor to become an activist (either supportive or leading) one principal factor is location. If an investor is located in the same country as the target it is easier to become involved in the engagement, because of shared cultural background, shared corporate governance practices and better access (board members of large companies and institutional investors often know each other). This reasoning also applies to investors from similar regions (i.e. continent) indicating that the underlying culture and language, rather than geographical distance, are likely to create this incentive (Dimson, Karakas, & Li, 2018). The geographical exposure report shows that institutional investors can take higher stakes in Dutch AEX companies without increasing their exposure to the Dutch economy, as only about 10 percent of their revenues comes from the Netherlands (Schoenmaker & Carfi, 2019).

In a more specific context, Dimson et al. (2018) seek for determinants of becoming a lead investor (i.e. the initiator of the coordinated engagement). Lead investors have to most prominent role in the action and have to commit significant time and resources compared to supporting activists. As such, lead investors are still prone to a certain degree of the free-rider problem. This finding

potentially explains why lead investors have often higher holdings in the target (i.e. reduced free-riding).

Factors determining the success of coordinated engagements include target size, company phase (growth vs. value), the presence of large, long-term orientated institutional investors, and the presence of a lead investor. In this regard, the larger a firm seems to be, the less likely a successful engagement is, possibly due to limited voting power in larger companies. A high market-to-book ratio (i.e. growth firm) also seems to decrease likelihood of success. Potentially growth firms have limited capacity to adopt costly ESG changes. The presence of a large institutional investor, however, improves the success ratio (Dimson, Karakas, & Li, 2018). Moreover, the presence of a lead activist also enhances success probabilities, which is even stronger when the action is backed by an influential group of activists (numerous, larger AUM, or higher shareholding). In particular, the AUM of the lead investor is also positively related to success. This indicates that a larger investor (in terms of AUM) may have more influence on the outcome, possibly thanks to additional voice power.

Also contributing to engagament success is when the process includes a foreign and influential (large AUM/holding) activist. Underlying this success is the conjecture that having foreign activists on board might enlarge the scope and impact of the engagement. Moreover, if lead activists are from the same country as the target, success is also deemed higher. Local expertise and knowledge of the lead activist might explain this. Finally, Dimson et al. (2018) argue that the more numerous investment managers engage, opposed to asset owners, the more likely success is. Influential investment managers have incentive and expertise to force change.

Hence, the most effective coordinated engagement structure is to *"appoint a local lead with high influence, and to have influential foreign supporting investors"* (Dimson, Karakas, & Li, 2018). The early evidence suggests that coordinated engagement among institutional investors contributes to long-term value creation (as measured by improved ESG performance after the engagement).

In table 2 below institutional investors are ranked based upon the number of engagements in which they participated on the PRI platform. In table 3 institutional investors are ranked based on times acting as lead activist. A remarkable observation is that the largest asset managers (Blackrock, Vanguard, and State Street) have participated in zero engagements. However, possibly such large investors prefer to engage companies by themselves and have the means to afford this (Dimson, Karakas, & Li, 2018). On the other hand, it may reflect passive investing by the "Big Three". In a paper by Bolton et al. (2019) institutional investor engagement preferences are analysed. With regards to Blackrock and Vanguard they find that they are active on this front in the United States. However, opposed to the coordinated ESG engagements as studied by Dimson et al. (2018) they are found to be "center-right". In other words, they support money enhancing

engagements rather than sustainable ones. This finding might also explain the low number of engagements via the PRI platform.

TABLE 2: MOST IMPORTANT INSTITUTIONAL INVESTORS BASED ON THEIR NUMBER OF PARTICIPATED ENGAGEMENTS AND ENGAGEMENTS AS LEAD ACTIVIST. IM DENOTES INVESTMENT MANAGER, AO DENOTES ASSET OWNER, AND SP DENOTES SERVICE PROVIDER. SOURCE: DIMSON ET AL. (2018).

Panel A: Institutional investor ranked by total number of engagements participated					
Investor name	**Headquarter Country**	**Category**	**AUM ($B)**	**Num. of engagements participated**	**Num. of engagements led**
Aviva Investors	United Kingdom	IM	438.2	1,018	12
Boston Common Asset Mgt.	United States	IM	2.2	978	141
Robeco	Netherlands	IM	146.2	908	86
Amundi	France	IM	1158.7	898	20
NI LGO	United Kingdom	AO	7.4	867	0
Candriam Investor Group	Luxembourg	IM	109.1	857	0
CPPIB	Canada	AO	210.1	832	13
MN	Netherlands	IM	131.9	809	97
The Cooperative Asset Mgt.	United Kingdom	IM	2.7	803	56
NZ Superannuation Fund	New Zealand	AO	23.2	799	0

Panel B: Institutional investor ranked by number of engagements led					
Investor name	**Headquarter Country**	**Category**	**AUM ($B)**	**Num. of engagements participated**	**Num. of engagements led**
APG Asset Mgt.	Netherlands	IM	523.1	318	185
Hermes investment Mgt.	United Kingdom	IM	34.3	306	182

Hermes Equity Ownership Services	United Kingdom	SP		228	182
Boston Common Asset Mgt.	United States	IM	2.2	978	141
PGGM Investments	Netherlands	IM	220.3	624	124
ACTIAM	Netherlands	IM	58.6	719	101
Martin Currie Investment Mgt.	United Kingdom	IM	14.4	40	98
MN	Netherlands	IM	131.9	809	97
Threadneedle Asset Management Ltd	United Kingdom	IM	129.7	417	96
BMO Global Asset Management	Canada	IM	237.0	542	87

4.2.4. Outcomes of coordinated engagements

Coordinated engagements offer great opportunity for collaboration between multiple investors and company management. Apart from analysing the engagement characteristics, Dimson et al. (2018) review the effects of coordinated engagements on ESG issues on financial, ESG and holding dimensions.

In terms of financial consequences, successful engagements seem to improve return on assets ("ROA") significantly in the second and third year after the engagement start date. Conceivably, it takes some time (i.e. on average two years) to complete an engagement project. Hence, the delay of ROA improvement. Sales, on the other hand, seem to significantly improve directly after engagement. These trends do not hold for unsuccessful engagements. Improving revenue and profitability, thus, seem to be the result of successful coordinated engagement. Significant effects on stock returns and stock volatility seem to be non-existent (Dimson, Karakas, & Li, 2018). Shareholders also seem to value successful engagement, possibly due to improving accounting numbers. On average, Dimson et al. (2018) find a 6% increase in annual abnormal returns after engagement initiation for successful engagements with a leader. In absence of a lead investor, however, no changes in stock performance are documented. Hence, successful coordinated engagements seem to be value-enhancing for shareholders in presence of lead investors.

With regard to ESG performance, specific ESG related issues (i.e. the reason why the engagement was initiated) are resolved as a result of the coordinated engagement. This suggests an improvement in ESG performance. This improvement, however, is not documented in (overall) ESG ratings in the following years after initial engagement. ESG ratings for target companies do not indicate significant improvement. However, there are many limitations of using ratings to measure ESG performance.[9]

With concerns to the holdings of various parties Dimson et al. (2018) find the following. Lead activists seem to increase their holding significantly after successful engagement, but not after unsuccessful ones. Possibly, this could be a result of lead activists who use their increased stake as a bargaining chip to achieve success. Another explanation could be that the lead activists built a valuable, long-horizon relationship with company management and increased its holdings because of additional trust.

In short, successful engagements seem to improve profitability in the medium-to-long run. Thereby, the increase in holdings of lead activists suggests that these investors are universal owners with long-term holdings and high ownership.

4.2.5. Appropriateness

Considering the goal of this paper, we again coin the question whether the coordinated engagement model could be appropriate for long-term value creation. To respond to this question, we first go broadly over the key features of this model.

Shareholder activism can be an efficient way to change a company's business-as-usual ("BAU") strategy. Activism is particularly effective when applied according to the coordinated engagement model as proposed by Dimson et al. (2018). This type of engagement would have the following characteristics. First, there should be one or more lead activists that (via a third-party coordinator) propose their amendment after having identified structural industry or company specific issues. Preferably, this lead activist is from the same country as the target company and has a significant stake, in order to improve efficiency and success. Supporting activists are, preferably, other large domestic investors as well as influential foreign investors to maximise impact. This group of activists can engage with company management in order to establish long-term objectives and oversee the implementation. Having achieved success, of which factors include stock volatility and company stage (i.e. growth vs. value), Dimson et al. (2018) take note of an increase in target holdings by the lead investor(s). This confirms their commitment.

[9] Houf (2018) sums up a few problems with using ratings as ESG measure. These include the problematic lack of standardization, lack of transparence, lack of legally binding measures to ESG reporting and the incentive for greenwashing.

Therefore, in response to the question, coordinated engagements offer the opportunity to build a long-lasting relationship between companies and investors. In this sense, institutional investors should display the intention to commit oneself for the longer term while keeping market discipline; the opportunity to sell or reduce one's stake during continuous underperformance. Ultimately, this leads to long-term value creation.

In the Dutch context, Eumedion, the Dutch governance platform, facilitates coordinated engagement. Eumedion works with the model of lead members and opt-in members, whereby the lead member leads the dialogue with a company. As part of this dialogue, a meeting ahead of the Annual General Meeting (AGM) can take place, often on particular issues. The Eumedion members also coordinate their stance at the AGM itself. Eumedion lists its priorities in an annual letter. Many companies were responsive to Eumedion's request for incorporating a comprehensive overview of the long-term value creation model of the company in the annual report (Eumedion, 2019).

4.3 Privileged shareholder

4.3.1. Free choice of corporate form

The third model is the privileged shareholder model. The underlying premise for this model is that companies should be able to pick their own corporate form and that, when this condition is satisfied, companies should pick a structure that serves *all* shareholders. Instead of adhering to a classical corporate governance structure, this freedom incentivises multiple shareholder groups to embrace long-term value creation using certain (earned) privileges.

4.3.2. Priviliged shareholders

In some countries there are experimental structures used to promote long-term investing (Edmans & Holderness, 2017). For instance, in 2014 in France the 'Florange law' passed. This law provides shares that are registered for more than two years double voting rights. In Italy similar efforts were undertaking. In Bolton and Samama's (2013) conceptual draft of additional privileges for long-term shareholders they refer to such shares as "loyalty shares". Loyalty and commitment of shareholders may allow company management to shift emphasis from satisfying short-term shareholders to protecting and creating value for all stakeholders in the long-run after vision alignment with such investors (The Purposeful Company Steering Group, 2017). Hence, the traditional shareholder value maximisation paradigm might be replaced by the stakeholder theory.

4.3.3. The potential of blockholders

An essential part of company value creation depends on the company's relation with its shareholders. In a simple scenario where only one shareholder would exist, it would be easy to negotiate, discuss and align management and

shareholders' interest. In practice, however, large public firms have thousands, if not millions, of shareholders. This leads to the belief that companies have diffuse ownership. However, as argued by Edmans and Holderness (2017) companies that would have total diffuse ownership would most likely not survive and they highlight the importance of large shareholders, i.e. blockholders.

The first note on blockholders by Edmans and Holderness (2017) is that virtually all public corporations in all countries have blockholders despite ownership dispersion. Blockholders have the opportunity to implement major changes in companies. Alternatively, other activist investors that lack votes could seek support of blockholders in order to make their case. Although much literature has studied the effects of "blockholding" on corporations, no clear definition or threshold exists when a party is a blockholder. Our goal is not to give a precise definition here, but to review what blockholders can mean for long-term value creation. If blockholders seek to intervene with company management, they have limited options. Having a large stake in a firm does not necessarily indicate a majority. Hence, blockholders cannot simply implement changes without collecting votes from other shareholders, possibly leading to a proxy fight. In other words, blockholders cannot implement changes directly. However, they can exercise power via the so-called "channel of exit" (Edmans & Holderness, 2017). In this case blockholders can sell their shares to drive down the stock price, punishing the manager ex-post and, thus, inducing value maximisation ex-ante. In a survey by Edmans and Holderness (2017) they find that blockholder action mainly results in engagement in discussions with top management, voting against management, engaging in discussion with the board outside of management, proposal of specific actions to management, and aggressively questioning management.

The most common blockholder action is found to be discussion with top management. Especially this observation allows for value creation. As stated in The Purposeful Company Policy Report (2017) blockholders are *"able to act as anchor owners who lend stability to companies and their executives who are otherwise buffeted by short-term pressures".* Hence, blockholders promote corporate value creation for stakeholders. This possibly offers management the opportunity to create a long-run partner which allows them to focus on long-term returns rather than short-term pressure. In order to make this work, an incentive scheme should be implemented according to Shin (2018) who states that:

> *"As a practical enforcement mechanism to make shareholders to think and behave in terms of sustainable value creation and value extraction, I suggest that the regulatory authorities allow differentiated voting rights that favour long-term shareholders."*

After implementation management should first talk with blockholders to set long-term strategy and objectives and discuss its implementation. Blockholders that seek long-term returns are rewarded in several ways. First, they are granted additional privileges (e.g. voting rights). Second, having aligned preferences with company management leads to additional knowledge on corporate behaviour as

it is familiar with company strategy and objectives. Third, the blockholder is able to better manage expectations of future financial performance as it knows where the company is going.

Company management is also rewarded in multiple ways. First, to a certain extent they are relieved of financial pressure from short-term investors. This allows the company to focus on creating value in the long run for all stakeholders. Second, it gives management reassurance that it is protected against other financial pressures (e.g. hostile take-overs) as the strengthened power of the blockholder can protect them.

In short, the privileged shareholder model implies that companies should be able to pick their own governance model in which they are allowed to reward (i.e. grant privileges to) long-term investors. In practice, these investors will most likely be blockholders with which management can partner in order to set a long-term strategy providing benefits to both parties (and other stakeholders).

4.3.4. Appropriateness

Again, we examine whether the privileged shareholder model would be appropriate to create long-term value. This model vows for new ways of corporate forms as discussed in The Purposeful Company Policy Report (2017). This allows companies to create incentives for institutional investors to focus on long-term goals and move away from short-termism. Consequently, these investors are able to rationalise large stakes in such companies to the asset owners. Large stakes and long intended holding periods, namely, lead to special privileges which may convince short-termist owners to engage with such a strategy.

Having carved a path to incentivise investors to focus on long-term goals, management and blockholders can set a long-term strategy and discuss its implementation. As long as there is well enough performance, the privileged shareholder model allows for long-term value creation.

In the Dutch context, Eumedion is not in favour of loyalty dividend or voting rights (Eumedion, 2010). On the positive side, these mechanisms increase commitment and loyalty dividend in particular compensates for the extra costs of committed shareholdings. But loyalty dividend or voting rights complicate the valuation of shares and may reduce the liquidity of shares (when many shareholders become committed shareholders). Moreover, it violates the proportionality principle, which argues that voting or dividend should be proportional to a shareholder's holding.

5 Part III: Assessment of models

In this section we discuss and evaluate the models on various criteria. Dutch investors recognise six key challenges to long-term value creation and the models we proposed might overcome these. However, each of the three models brings it owns features and attributes. It seems, therefore, only logical to assess the appropriateness of each model on each of these challenges. Moreover, as we explore pathways to long-term value creation for Dutch companies, we also need to consider the feasibility and likelihood of success of each model under Dutch law and regulation. Hence, we added a seventh criteria: Dutch applicability.

5.1 Evaluation matrix

In table 3 below the evaluation matrix is exhibited. The models are judged on a scale that ranges from --- to +++, where --- represents the worst score and +++ the best. A score of +/- indicates that we expect no noteworthy effect. In the section below, we briefly justify the scores.

TABLE 3: ASSESSMENT OF MODELS.

	Nomination committee	Coordinated engagement	Privileged shareholder
Overcoming benchmark orientation	++	+	+++
Defeat short-termism	++	+	++
Improvement of alignment in the investment chain	++	++	+++
Dialogue between investors and company	+++	+	++
Improvement of integrated thinking	+	++	+/-

Improvement of sustainability standards	+	+	+/-
Dutch applicability	+/-	++	-

5.2 Justification of scores

5.2.1. Overcoming benchmark orientation

Benchmark orientation refers to the challenge that investors face due to performance comparison with passive funds (i.e. benchmarks). Relative underperformance leads to career risks for asset managers which has a precautious effect on their investment decisions, boosting passive investing. In order to accomplish long-term value creation passive investing has to be transformed into active management portfolio's with active involvement in the invested companies.

The nomination committee allows great opportunities in this sense. Large shareholders receive an invitation for the NC, permitting the investor to heavily influence company strategy and board composition. Such an invitation does not require many efforts of the investor. Instead, if they accept, they will only have to pick a representative for their stake. Consequently, this representative is able to negotiate with company management about long-term objectives and their implementation. This model requires limited efforts from institutional investors, while simultaneously stimulating active engagement. Hence, the nomination committee model is able to overcome the benchmark orientation challenges and scores a double plus.

Coordinated engagements, however, require in general more effort of investors, particularly the lead investors. Leading activists (and to a lesser extent support activists) are involved in meetings and conferences in which expertise and knowledge are shared in order to solve a particular (sustainable-related) issue at a target firm. These time-consuming and knowledge-sharing processes might frighten institutional investors away. Nevertheless, if correctly executed coordinated engagement implies investors moving away from benchmark orientation as they are actively involved with companies in their portfolio. Yet, considering the loose organisation of this model we score it with a single plus.

In the third model, that of privileged shareholders, shareholders are granted additional bonusses if they pledge long-term involvement. In doing so, they will also engage in many time-consuming activities with company management in order to determine long-term goals. However, these activities are rewarded with direct compensation (i.e. more voting rights). This aspect potentially incentivises

investors to engage in these activities and to be actively involved with the company for long-term. Hence, the privileged shareholder model scores a triple plus.

5.2.2. Defeat short-termism

Asset manager's performance is frequently evaluated, often against a benchmark. If they performed good, they might receive a bonus, if they performed bad, they might be penalized. Hence, investing in the long run may not such an attractive option for institutional investors. The three models we proposed might beat this challenge.

The nomination committee model received a double plus. This model is able to overcome short-termism as institutional investors are allowed to be involved in long-term corporate strategy for little costs. Although, a representative for the shareholder (who is aware of shareholder long-term goals) will have to put efforts into discussions with company management, it may lead to outstanding long-term gains for all parties involved. In the short run, however, the effect will be limited. Hence, the expectation is that investors that are part of the NC will effectively look at long-term performance rather than short-term.

Coordinated engagements on sustainability issues generally are focussed on long-term improvement. As empirically shown by Dimson et al. (2018) ESG-related goals are met, and financial performance also improves in the medium-to-long run. Logically, these companies will therefore be evaluated for their long-term performance. However, there may be another incentive for institutional investors to actively engage in coordinated engagements, namely the short-term returns. Also shown in the study of Dimson et al. (2018), successful engagement lead to positive abnormal returns after completion. If asset managers are aware of such market reactions, they may engage in active ownership because of short-termism rather than for long-term value creation. Hence, only a single plus is given.

The privileged shareholder model allows for long-term value creation as both parties are stimulated to cooperate for a long period of time. Management has security about who the company's owners are, allowing them to invest in long-term sustainable projects. Simultaneously, investors are able to gain long-term returns *plus* additional voting rights. If institutional investors want to receive these benefits, they cannot pursue the short-term requirements. Hence, these investors may shift away from short-term evaluations. Therefore, the privileged shareholder model is well-suited to beat short-termism and is it granted a double plus.

5.2.3. Improvement of alignment in investment chain

The mismatch along the investment chain denotes the differences in opinion between asset owners and managers. Asset managers may realise the important of long-term value creation, but they have to adhere to asset owners' wishes. If the owner requires a certain (short-term) return which is not met, managers can

face a threat of assets moving out of their fund. In order to completely establish long-term value creation, the views along the whole investment chain must be aligned (i.e. company, asset manager, and asset owner) (Schoenmaker & Schramade, 2019).

Taking place in nomination committee's empowers asset managers/institutional investors to influence corporate strategy and execution. Explaining long-term goals and returns (not only financial but also sustainable ones) to asset owners, supported by additional influence in the underlying company, may convince owners that long-term investing offers great opportunities. Therefore, NC's are likely to mitigate the mismatch of alignment along the investment chain.

Similarly, coordinated engagements may lead to progressive results in terms of alignment along the investment chain. Rationalising engagement of institutional investors on certain issues in combination with the outcomes of such engagements possibly aligns the view of owners and managers.

The privileged shareholder model offers comparable results, possibly even stronger. This may be a result of an actual bonus scheme to long-term investors (i.e. the additional voting power). Instead of only influencing the company via discussions and agreements it now receives stronger voting power. In this sense it could persuade asset owners to support long-term investments and move away from short-term objectives fiercer than the other two models.

5.2.4. DIalogue between investors and company

Dialogue between investors and the investee company allows for a strategic discussion about a company's long-term value creation. Nomination committees have a scheduled annual dialogue of investors and the investee company on the company's long-term strategy. This is a one on one dialogue with the company. Based on this dialogue, the nomination committee nominates directors who can best execute the company's strategy. Nomination committees score a triple plus because of the regular and intense dialogue.

In the coordinated engagement model, there is scope for dialogue with investee companies. If that happens, it is on specific issues (e.g. remuneration) on an ad-hoc basis. Hence, the coordinated engagement model scores a single plus. Finally, the privileged shareholder model strengthens the (long-term) relationship between investors and the company but does not lead to regularly scheduled meetings. It therefore scores a double plus.

5.2.5. Improvement of integrated thinking

Improvement of integrated thinking refers to alignment of vision internally within financial institutions. Often, various parties within the same organisation have different views on the sustainability matters. The ESG expert, for example, might have a very positive and long-term perspective, whereas the asset manager may

experience short-term return as more important. The three models proposed here may improve the amount of integrated thinking within financial institutions.

Nomination committees only improve this challenge to a certain degree. If a large shareholder is invited to take place in such a committee, this institution will have to select a representative. This representative has to discuss with various factions within the financial institution it is representing about what their objectives are in order to pursue a corresponding strategy. These discussions open up debate for long-term objectives which may align in-firm views.

Coordinated engagements surpass this effect by explicitly needing expertise of different employees within the financial institutions. Coordinated engagement does not only stimulate investors to cooperate but also the employees within these firms. For instance, a coordinated engagement on an ESG issue involves different people from the committed companies, such as experts on the topic, account managers, and management. In-firm cooperation in order to improve effectiveness of the engagement allows for great alignment.

The privileged shareholder model may not necessarily improve alignment between different departments. If investment managers are incentivized by the additional benefits the company receives, there is no need to discuss long-term strategy or other material concerns as the managers only needs to keep ownership until a certain length. On the other hand, if the managers recognize the benefits of both the bonus voting rights and the potential value of long-term alignment with company management, they might invite other departments (e.g. ESG experts) to join long-term strategy negotiations.

5.2.6. Improvement of sustainability standards

Another challenge, as recognised by Dutch institutional investors, seem to be a lack of sustainability standards. It is hard to directly measure sustainability outcomes and ESG ratings also have some limitations.

NC's are able to improve the lack of standardisation if the investors within this committee intensify cooperation. Cooperation between multiple (large) institutional investors may lead to new, creative and innovative ways of measuring sustainability. Multiple investors will then be responsible for the time-consuming and costly process of standard development. In the same line of reasoning, coordinated engagements can lead to new standards concerning sustainability. Hence, both models score positive.

The privileged shareholder model promotes cooperation between various investors to a lesser extent than the other two models. Therefore, it becomes less likely new standards or measurement practices will be developed.

5.2.7. Dutch applicability

In practice the three model differ in terms of feasibility of application. The implementation of nomination committees does not require large corporate governance structure adaptations. In the end the decision to appoint the board is still taken by the shareholders at the AGM. However, the recruitment process is now "outsourced" to a special committee. An obstacle in this regard is that current Dutch boards have to relinquish part of their control. But if investors are convinced about the effectiveness of NC's they could possibly force a governance change that includes nomination committees. Yet, there potentially there are barriers to convincing shareholders, such as red flags (e.g. for acting-in-concert laws) or low current engagement levels.

Coordinated engagements, on the other hand, are very suitable in the Netherlands. No governance adjustment is required, and much history exists in this area (e.g. Eumedion). Hence, the ease of convincing investors to either take on a leading- or supporting role in coordinated engagements is likely to be high. Especially since successful engagements are found to be both on a sustainable as well as financial front attractive, it may encourage investors to step up in engagements.

The privileged shareholder model is least feasible to implement in the Netherlands. It is an experimental development which requires approval of numerous parties. For instance, a company must dare to make such a proposal while is possibly repels some investors. Moreover, the introduction of this model may lead to protests by institutional investors who believe it threats foreign investments. The Italy-domain is good example of this where the government prohibited "loyalty shares" after pressure from international institutional investors who claimed it would favour controlling shareholders and punish minorities (Sanderson, 2015). Although this contradicts the point made in this model that a controlling block can be value-enhancing in the long-run, compared to a dispersed situation, (passive) institutional may not recognise this.

6 Conclusion

Many companies recognise the importance of transitioning to a sustainable economy and seek to adopt the goal of long-term value creation. Besides, financial value, long-term value creation also considers environmental- and social value (Schoenmaker & Schramade, 2019). However, in general institutional investors struggle to invest with similar beliefs for various reasons. In an earlier report of this series Tupitcyna (2018) mapped these barriers for Dutch institutional investor market. These investor dilemmas include benchmark orientation, short-term performance evaluation and incentivisation, lack of alignment within investment chains, lack of integrated thinking, and lack of sustainability standards. Additionally, Schoenmaker and Carfi (2019) show that traditional investor paradigms might limit geographical clustering because investors feel that they need to be internationally diversified rather than invest locally. Nevertheless, the findings indicate that investing in a portfolio of large Dutch companies (listed on the AEX) leads to an exposure of only 10 per cent to the Dutch economy, 30 per cent to the rest of Europe, and 60 per cent to the rest of the world.

This paper expands on these challenges and discusses how to overcome them, attracting institutional investors interests. The main goal of overcoming the above mentioned issued to promote committed shareholding, where large investors display the intention for long-holding periods while keeping market discipline. In this scenario, companies will feel more comfortable to engage in long-term, and sustainable projects. In order to get there, three models are proposed in this paper that possible all lead to committed shareholding in their own manner. First, the nomination committee model, second, the coordinated engagement model, and third the privileged shareholder model.

Nomination committees ensure discussion between a company's largest shareholders and management. Not only do nomination committee select possible, replacing candidates for the new management board, they also oversee and discuss the establishment of a long-term strategy. Coordinated engagements administer active dialogue between company management and other personnel and the investor collective bundled via a collaborative platform (e.g. PRI collaboration platform, Eumedion). The privileged shareholder model pursues committed shareholding by rewarding investors for longer holding periods by for example additional voting rights.

Each of these models is thoroughly scrutinised and their potential to overcome the identified barriers to long-term value creation is discussed. All three models are, for instance, able to overcome traditional benchmark orientation and short-termism, and are able to smoothen alignment along the investment chain. However, on other criteria, for example integrated thinking within the firm, the models might have varying effects. One of the most important criteria is the Dutch

applicability, or the degree to which we can expect that such a model can be successfully implemented in the Dutch economy, which displays most diverging results. Where, the privileged shareholder model can expect much resistance and the nomination committee model might lead to uncomfortable investors and management, the coordinated engagement model seems most appropriate.

Moreover, a suitable platform for such collaborations already exists (Eumedion) and there is global evidence of the effectiveness of coordinated engagements. Hence, Dutch investors may be most willing to further explore coordinated engagements. Nevertheless, the nomination committee model offers an interesting feature with its focus on an annual structured discussion of a company's long-term strategy. That is, ultimately, more important for long-term value creation than an annual discussion of topical (short-term) issues.
Hence, all models provide individual pros and cons but, ultimately, strive to incentivise institutional investors for committed shareholding. The key takeaway of this paper is not to provide an all-encompassing answer to the endeavour of long-term value creation, but rather to exploit possibilities and open up discussion.

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