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Boosting knowledge & trust for a sustainable business

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Boosting knowledge & trust for a sustainable business

June 30th and July 1st 2022

Referred Electronic Conference Proceedings

Full Papers

edited by

Sandro Castaldo - Marta Ugolini - Gianmario Verona

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To the reader,

this volume contains the full papers of the Sinergie-SIMA 2022 Management Conference, hosted by the University of Bocconi of Milan on June 30th and July 1st 2022.

The resource-based view (RBV) has been one of the most cited streams of research in the management literature. This theory has been one of the few theories completely developed within the management disciplines. Since the initial pioneering research in the 80s and 90s, the study of knowledge- and trust-based resources has interested many theoretical and empirical works concerning many issues: company strategies, mergers and acquisitions, alliances and partnerships, organization and HR, innovation, marketing, consumer behavior, channel relationships, entrepreneurship, internationalization, and more. Today the post-pandemic world presents new challenges for managers, organizations, and researchers on which a deeper understanding of knowledge- and trust-based resources can help and shed a new light.

Sustainability and a fast digital transformation are nowadays considered key goals for many companies, managers, public organizations, and governments under the umbrella of EU Next Generation Recovery Plan. The real challenge now is to enhance and leverage the intangible resources heritage - namely knowledge and trust - to get a more sustainable, inclusive and digital world and, as a consequence, for building a better society. In this perspective, also the long-term goals of the firm and its finalism have to be totally re-shaped.

Sinergie Italian Journal of Management dedicated a special issue to this topic more than 20 years ago and many scholars have studied and deepened this multi-faced topic with original approaches in our community.

The Sinergie-SIMA 2022 Management Conference was a great occasion to discuss about the research efforts of our research community on knowledge and trust, also to find new ways to interpreter the future economic and social environment to face the post-pandemic challenges.

The Conference call for papers gave the opportunity to submit either an *extended abstract* or a *full paper*. Overall, the editorial staff received 135 *extended abstracts* and 60 *full papers*.

For the *extended abstracts*, the evaluation of the submissions was carried out by the Conference Chairs and the Scientific Committee, on the basis of their consistency with the Conference topic and/or with management studies, according to SIMA Thematic Groups. The clarity and (even potential) relevance of the contributions were evaluated, as well.

Fort the *full papers*, the evaluation followed the peer review process, with a double-blind review performed by two referees - university lecturers, expert about the topic - selected among SIMA and the community of Sinergie members.

In detail, the referees applied the following criteria to evaluate the submissions:
- clarity of the research aims,
- accuracy of the methodological approach,
- consistency of the contents with the Conference topic/tracks and/or with management studies,
- contribution in terms of originality/innovativeness,
- relevance in relation to the Conference topic/tracks and/or with management studies,
- clarity of communication,
- significance of the bibliographical basis.

The *peer review* process resulted in full acceptance, acceptance with revisions or rejection of the submissions. In the case of disagreement among reviewers' evaluations, the decision was taken by the Conference Chairs. Each work was then sent back to the Authors together with the referees' reports to make the revisions suggested by the referees.

The evaluation process ended with the acceptance of 30 *full papers* and 121 *extended abstracts*, which were published in two distinct volumes.

All the *full papers* published in this volume were presented and discussed during the Conference and published online on the web portal of Sinergie-SIMA Management Conference (***https://www.sijmsima.it/***).

While thanking all the Authors, Chairs and participants, we hope that this volume will contribute to advance knowledge about the boosting knowledge and trust for a sustainable business.

The Conference Chairs

Sandro Castaldo, Marta Ugolini, and Gianmario Verona

SUMMARY

From myopic to focused engagement: An explorative perspective on Italian pension funds

SALVATORE ESPOSITO DE FALCO[*] NICOLA CUCARI[•]
SERGIO CARBONARA[♠] DOMENICO SARDANELLI[**]

Abstract

Framing of the research. *This paper focuses on shareholder engagement as the core SRI strategy among institutional investors.*

Purpose of the paper. *Since engagement is the preferred tool for European institutional investors, our aim was to investigate what determines (the lack of) engagement by pension funds, deepening the main critical issues and discussing possible factors that would improve ESG engagement for other pension funds.*

Methodology. *The study is based on a structured survey administered to a sample of pension funds. Principal component analysis was used to compute factor indexes concerning the perceived benefits and hindering motivations of shareholder engagement, the impact of which on engagement propensity was then tested through OLS regression.*

Results. *Based on our results, we defined a conceptual framework and affirmed that a virtuous path seems to emerge along which the approaches to engagement are shifting from negative factors that hinder engagement to positive aspects that create benefits. This means a shift from* "*myopic*" *to* "*focused engagement*"*, and this scenario provides a new relevant role for the pension funds in influencing the strategies and behaviours of investee companies in the long term.*

Research limitations. *Since our study focuses on contractual pension funds, future studies could enlarge the scope of analysis to include other types of institutional investors.*

Managerial implications. *This research aims to enable pension funds to account for the difficulties that they face in engagement processes and encourage a change in their behaviour through the implementation of possible adequate solutions.*

Originality of the paper. *Notably, to the best of our knowledge, no previous studies analyse the experience of pension funds in relation to this specific topic. Therefore, this study could be a real novelty in the Italian context.*

Keywords: *Engagement; ESG; Shareholder Engagement; Institutional Investors; Pension Fund*

[*] Full Professor of *Management* - Sapienza University of Roma
e-mail: salvatore.espositodefalco@uniroma1.it

[•] Researcher of *Management* - Sapienza University of Roma
e-mail: nicola.cucari@uniroma1.it

[♠] Frontis Governance - Roma
e-mail: s.carbonara@frontisgovernance.com

[**] Postdoc - Sapienza University of Rome
e-mail: domenico.sardanelli@uniroma1.it

1. Introduction

Pension funds have become significant owners of corporations (Hamilton and Eriksson, 2011; Clark and Hebb, 2004, 2005; Skerrett, 2018), and they are among the institutional investors that are most concerned about corporate sustainability and responsible investment (Alda, 2019; Pucheta-Martínez and López-Zamora, 2019). According to Sievänen *et al.* (2013), pension funds' responsible investment is a means to advance corporate social responsibility (CSR), and engagement is regarded as an efficient way to promote CSR (Clark and Hebb, 2005). However, according to Calza *et al.* (2016), the orientation towards proactive environmental, social and governance (ESG) strategies varies among institutional investors. For example, Sievänen *et al.* (2013) find that especially the legal origin of the country, ownership of the pension fund and fund size-related variables are associated with pension funds' responsible investment.

According to the UN Principles for Responsible Investment, a large number of institutions have endorsed these investing principles, thereby declaring that CSR is an essential part of their due diligence process and matters for their investment decisions. Consequently, socially responsible investment is widely understood as the integration of ESG factors into investment processes and decision making. Socially responsible investing (SRI) can be implemented by strategies such as exclusion, integration of ESG criteria, engagement or impact investing. Following other studies (Wagemans *et al.*, 2018), this paper focuses on engagement as the core SRI strategy among institutional investors who want to discuss ESG concerns without publicizing them (Solomon *et al.*, 2004; Vandekerckhove *et al.*, 2007). While most of the research on SRI focuses on the relationship between SRI and financial returns (Capelle-Blancard and Monjon, 2012; Derwall *et al.*, 2011; Renneboog *et al.*, 2008) or on certain SRI strategies, particularly shareholder voting (Monks *et al.*, 2004; Sparkes and Cowton, 2004) and screening and exclusion (Aslaksen and Synnestvedt, 2003; Haigh and Hazelton, 2004), only a few studies analyse engagement and its application (Barko *et al.*, 2021; Bauer *et al.*, 2013; Dimson *et al.*, 2015; Ferraro and Beunza, 2018).

Thus, there is little knowledge on shareholder engagement's causes, processes and consequences. In addition, the existing studies cover data and viewpoints of some institutional investors and asset managers, particularly when studying the effectiveness of engagement, but not from the perspective of pension funds (Alma, 2019; López-Ruiz and Grande-Gascón, 2021). Indeed, most of the previous literature considers institutional investors as a homogeneous group, while the behaviour, investment objectives, time horizon and clientele may differ widely among institutional investors, with different categories existing (Hoskisson *et al.*, 2002). In this framework, very few studies analyse the role of pension funds in engagement practices (Alda, 2019; Hamilton and Eriksson, 2011; Sievänen *et al.*, 2017; Wagemans *et al.*, 2018), although the literature mentions that pension funds are important institutional activist investors (Del Guercio and Hawkins, 1999; Jan de Graaf and Haigh, 2011). To fill this gap, the research question that guides our paper is as follows:

RQ: *What are the benefits and the hindering motivations of shareholder engagement in ESG?*

To answer this research question, we have chosen the Italian market as the focus of the study for various reasons. First, the literature on institutional investors in Italy is scant. Notably, to the best of our knowledge, no studies analyse the experience of pension funds in relation to this specific topic. Therefore, this study could be a real novelty in the Italian context. Second, the Italian pension funds (IPFs) collectively could have the potential to be one of the most influential Italian institutional investors. According to the latest data, the total assets under management reached 197.9 billion euros (6.7 per cent more than in 2019), representing 12 per cent of the Italian GDP and 4.1 per cent of households' financial assets (Covip, 2020). Third, given the economic weight of the assets managed and their political and social importance (due to their fiduciary duty towards their policyholders), IPFs can influence and participate actively in an investee company's decisions, and the literature shows the importance of the activism of this type of institutional investors (Clark and Hebb, 2004; Gillan and Starks, 2000). Finally, the Italian pension fund industry is relatively new, supplementary pension schemes being regulated by the Italian legislation from 2005. IPFs have only recently approached SRIs, and only a few of them have undertaken engagement activities. Thus, studying their approach to active ownership is useful to gain a better understanding of the development of such practices and possible measures to support them.

Therefore, the paper investigates the main issues that prevent IPFs from being active owners and which possible benefits and solutions IPFs could adopt to play their fiduciary role. In this way, shareholder engagement is a way to support companies in promoting sustainability-based behaviour, and the concept of engagement myopia is provided to underline that the path towards shared sustainability behaviour of pension funds is facing a turning point. Indeed, strategies inspired by ESG logic have highlighted that top-down approaches leading to definite guidelines for promoting sustainability-based decisions and behaviour are no longer effective. A new approach is required in which the focus is on bottom-up involvement, participation and accountability.

The remainder of this paper is organized as follows. In section 2, we present the theoretical background for our paper. In section 3, we describe our empirical methods, while in section 4 we show our empirical results. Section 5 discusses the paper and provides concluding remarks.

2. Theoretical background

2.1 The role and importance of pension funds: a focus on ESG engagement issues

The influence of today's massive pension funds is being felt in every capital market in the world; consequently, some authors argue that the fifth stage of capitalism is dominated by pension funds (Clark, 2000; Clark and Hebb, 2004; Monks, 2001). According to Clark and Hebb (2004, p.164), they are beginning to use their influence to increase transparency and accountability and to raise social and environmental standards of corporate behaviour.

In addition, an active role of pension funds could have an effect on the growth of the economy (Bripi and Giorgiantonio, 2010). Albeit sometimes reporting contrasting results (see, for example, Davis, 2004; Hu, 2006), the literature states that pension funds can contribute to the development of financial markets through various channels: i) professional asset allocation, which promotes international portfolio diversification; ii) the longer-term horizon of pension funds (compared with other institutional investors), which reduces the term premium; and iii) the professional management of pension savings, which reduces the risk premium (Walker and Leffort, 2002).

The positive impact of pension funds on financial markets and economic growth also depends on their internal governance structure (Bripi and Giorgiantonio, 2010) and their fiduciary duty. Therefore, in recent years, there have been several new laws in Europe aimed at improving governance and consequently the possibility of being active and aware investors. Indeed, investors' activism has been promoted by some recent legislation (the Shareholder Rights Directive II,[1] hereinafter "SRD II", and the IORP II Directive[2]), and these laws have created new challenges for pension funds, such as paying more attention to disclosure, good governance and ESG engagement, seeking changes in the investable universe to meet the ESG standards, new investment methodologies and the integration of ESG criteria into investment strategies. Consequently, long-term ESG standards are appropriate concerns for pension funds to ensure long-term returns to members and therefore fulfil rather than detract from their fiduciary duty. Specifically, SRD II requires institutional investors, including pension funds, to develop and disclose their approach to shareholder engagement publicly or explain why they have chosen not to do so. Thus, pension funds should develop and publicly disclose an engagement policy describing how they integrate shareholder engagement into their investment strategy as well as which different engagement

[1] Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement

[2] Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision

activities they choose to carry out and in what manner. Shareholder engagement by pension funds could take various forms, in escalation, that is, through letters/calls, voting at annual general meetings, engaging in informal negotiations with the management and so on. In any case, there is limited knowledge about how pension funds choose between shareholder engagement and other methods of changing corporate ESG behaviour relative to their portfolio firms (Hamilton and Eriksson, 2011) and about ESG engagement (Wagemans *et al.*, 2017). Indeed, while the development of ESG criteria, based on rankings and assessments, pushes corporations toward the adoption of ESG management processes and the implementation of (new) sustainability strategies (Engle *et al.*, 2019), there is little research on why and how institutional investors (and pension funds) adopt policies that are favourable to ESG issues.

ESG factors are a major driver of direct shareholder engagement because shareholders are concerned about negative ESG exposures, which imply substantial legal, reputational, operational and financial risks (Hoepner *et al.*, 2018). For example, according to Bauer *et al.* (2014), institutional investors frequently use engagement tactics to influence and change the firms in which they invest. According to Wagemans *et al.* (2018), pension funds use engagement especially in cases in which environmental management or sustainability generally adds shareholder value. This is because, generally speaking, institutional investors couple their interest in short-term returns with an interest in long-term ones as the prosperity of the investee company and the ESG engagement fit into this approach (Gond *et al.*, 2018; Wagemans *et al.*, 2018). In addition, Barko *et al.* (2021) find that firms with a good ESG track record prior to engagement are more likely to comply with the activists' requests. Firms that did not care much about ESG issues continue to do so as they seem reluctant to adopt investors' suggestions.

Therefore, ESG engagement is a great opportunity to create both financial and non-financial value for the investee companies, and more pension funds now state that they consider ESG factors in their selection process. According to Lachance and Stroehle (2021, p. 17), engagement can enhance "investment decisions, communicate concerns, and foster relationships and constructive conversations with companies about their ESG strategies". They have a strong preference for identifying and addressing ESG-related downside risks (Sautner and Starks, 2021). According to Alda (2021), the SRI integration phenomenon is especially expanded among pension funds due to their pro-social behaviour, long-term investment nature, management of large retirement savings or high political profile.

2.2 An investor's perspective on shareholder engagement

The new European laws encourage institutional investors to "be active owners and incorporate ESG issues into ownership policies and practices", which indicates the need for responsibility at the levels of both strategy and practice. Regarding strategy, some authors identify specific behaviour of pensions funds. For example, Tilba and McNulty (2013) find that a very small number of well-resourced and internally managed pension funds exhibit engaged ownership behaviour. In their recent work, Johnston *et al.* (2021) find three forms of engagement behaviour (termed agency, trusteeship and ownership) and investigate whether the current regime promotes or discourages them. However, commitment to general principles is usually much easier to achieve at the strategic level than in daily operations (Epstein and Roy, 2001), and this is particularly relevant to pension funds (Scholtens, 2006; Sievänen *et al.*, 2017). Consequently, from the perspective of pension funds, engagement activities with investee companies might be associated with both benefits and potential negativities that hinder their adoption.

One of the perceived benefits of shareholder engagement might be the possibility for investors to have positive effects on financial performance in the long term (Elsenhuber and Skenderasi, 2020). Among the perceived negatives might be inexperience and the high cost of engagement activities. Therefore, many factors could determine the effectiveness of engagement in stimulating ESG performance among investees. For example, Wagemans *et al.* (2018) find that engagement can be more effective when pension funds focus on specific themes, target companies that are open to engagement and seek collaboration with societal and policy actors. According to Allen *et al.* (2012) and Gifford (2012) and in line with shareholder salience, legitimacy, power and urgency are the primary factors. However, beyond these, it is possible identify other factors (Tab. 1).

Tab. 1: List of factors that determine the effectiveness of engagement

Factor(s)	***Author(s)***
The openness and stance of the investee towards engagement	Wagemans *et al.* (2018)
The positions and interests of internal stakeholders in relation to CSR issues	
Urgency in relation to the internal processes and deadlines within an investee organization	
The type of contact and the selection of companies for engagement	
The form in which engagement occurs	
The connection between financial materiality and ESG performance	
The (cultural) proximity	Bauer *et al.* (2017)
The duration and intensity of engagement	Cucari *et al.* (2019); Ferraro and Beunza (2014)
The receptivity of the engaged companies	
The openness of companies	
The ownership of companies	
Personal interactions	Wolff *et al.* (2017)
Contact person	
Engagement theme	
Communication type	
Voting right	
Reputation and financial risks	Hamilton and Eriksson (2011)

Source: our elaboration

Various theoretical speculations can be developed at this stage about the engagement of pension funds. First, fiduciary duty requires pension fund decision makers to act prudently and thereby instructs them to avoid uncertainties (Hoepner *et al.*, 2011). Hence, a lack of guidance usually leads to a status quo bias in pension fund decision making.

The second issue to consider is the interpretation of the recent directives by pension funds and, depending on how the main objective of *encouragement of long-term shareholder engagement* is understood, whether legal or ethical compliance is to be preferred. In this case, an important factor is the existence of dependencies, in terms of either power or legitimacy (Hamilton and Eriksson, 2011). Power dependencies arise from the strength of the link between the fund and the investee company, while legitimacy dependencies concern the influence deriving from the credibility of the fund.

A third interesting point worthy of exploration is the impact of engagement in the operations of pension funds. For pension funds, it seems that being able to list a wide range of engagement is more important than its actual outcome (Wagemans *et al.*, 2018). Hence, a fuller investigation of pension fund engagement is needed to assess the extent to which this oversight is being exercised.

Finally, the fourth issue to consider is the value and nature of engagement. For instance, a collective engagement could save time and reduce costs in that the collective organization coordinates the actions of its members and acts like a unique large investor.

3. Methodology

3.1 Research design and sampling

The primary data were acquired from direct contact with the directors or chairperson of pension funds associated with Assofondipensione. Surveying key figures within organizations and companies is a well-established method to gain information about shared beliefs and potential decisions as well as organizational practices (Chatterjee *et al.*, 1992). Assofondipensione is a non-profit association, established in September 2003 on the initiative of the Italian employers' federation Confindustria and the largest Italian trade unions, namely CGL, CISL and UIL, with the aim of representing the interests of 33 contractual pension funds.

All contractual pension funds were asked about the benefits and the hindering motivations of shareholder engagement during a workshop organized by Assofondipensione. A structured survey was also conducted regarding the knowledge of SRD II, the activities of pension funds with regard to engagement and the role of external actors (i.e., asset managers). It was answered by 22 pension funds, which represent about the 68% of all contractual pension funds.

Relevant independent and dependent measures were collected through this questionnaire. After reducing the dimensionality of the independent variables through principal component analysis, we conducted an OLS regression to test the impact of the perceived benefits and two types of hindering motivations on engagement propensity.

3.2 Variable operationalization

We employed a structured questionnaire with closed questions, preserving homogeneity in the data collection and allowing the quantitative treatment of the variables. Propensity for engagement, the dependent variable, was measured on a single 6-point Likert scale from null propensity to maximum propensity. Although it seems likely that numerous factors might influence the "propensity to engagement", it should be noted at this point that, because of the limited research on this topic, we used a perception variable. Given that the propensity for engagement is intrinsically subjective since it belongs to a subject (e.g., a manager or a business owner), we deemed it appropriate to adopt the survey instrument to collect information about all the independent variables of our study (Annunziata *et al.*, 2018). Consequently, the degree of propensity is limited to the sensitivity of the survey questions and the subjective evaluations of the interviewed persons.

The questions about perceived benefits and hindering motivations of shareholder engagement (i.e., the independent variables) were designed considering the relevant literature presented previously. They consist of two sets of items measuring, respectively, the perceived benefits and the hindering factors of shareholder engagement on a six-point Likert scale ranging from 0 to 5. The potential benefits that respondents were asked to evaluate were:

- Improving the fund's risk management and investment strategy (riskmng)
- Allowing the fund to communicate its mission and approach to investments (communication)
- Increasing issuers' transparency in managing both financial and non-financial risks (proactive)
- Increasing the funds' transparency and enhancing the dialogue with the funds' subscribers (transparency)

As for the factors hindering engagement, the respondents had to rate the following items:

- High costs (cost)
- Small share (small share)
- Potential reputational repercussions (reputational risk)
- Lack of internal resources (internal resources)
- Complexity of the process (complexity)
- Inconsistency with the fund's goals (inconsistency)
- Inexperience (inexperience)
- Unfavourable culture of the context (environmental cultural)

As shown in the next section, the number of independent variables was reduced through principal component analysis, which resulted in three final factors, one concerning the perceived benefits of engagement and the other two concerning two types of hindering motivations of engagement.

3.3 Principal component analysis

The collection of survey data was intended to serve the purpose of analysing the motivations driving shareholders' propensity to engage with the management. To test concurrently their impact on engagement propensity, the items concerning perceived benefits and hindering motivations of shareholder engagement were first synthesized into fewer dimensions through principal component analysis (PCA; Jackson, 1991), conducted with IBM SPSS Statistics 23.

In fact, with a large set of variables, it is often the case that there are many pair-wise correlations between the variables. PCA can then be employed to reduce a large number of variables into a smaller number of factors while at the same time minimizing the information loss (Joliffe and Cadima, 2016). The resulting factors are linear combinations of the input variables and are orthogonal among each other. Given its properties, PCA is useful from both a statistical and a theoretical point of view. With regard to the former point, PCA avoids multi-collinearity issues when several potentially correlated independent variables are entered into a regression model together. However, it also enables the researchers to inspect the underlying semantic structure of a set of indicators and to check for the existence of latent constructs condensing the observable variables and reflecting meaningful theoretical concepts.

Therefore, as the first step, we ran PCA on all the items measuring the benefits and hindering motivations to verify the underlying factor structure (Tab. 2). The initial eigenvalues and the scree plot were used to determine the approximate number of principal components (i.e., factors) that could be extracted. This first analysis revealed that four eigenvalues were greater than 1, corresponding to as many factors. However, given its low associated eigenvalue (1.068) and the odd pattern of factor loadings across the input variables, the fourth component was dropped from the analysis.

Tab. 2: PCA - Components extracted

Component	**Initial Eigenvalues**			**Rotation Sums of Squared Loadings**		
	Total	**% of Variance**	**Cumulative %**	**Total**	**% of Variance**	**Cumulative %**
1	4.727	39.394	39.394	3.008	25.068	25.068
2	2.529	21.078	60.472	2.864	23.869	48.936
3	1.615	13.457	73.930	2.860	23.835	72.771
4	1.068	8.901	82.830	1.207	10.059	82.830
5	.685	5.709	88.540			
6	.381	3.177	91.717			
7	.354	2.951	94.668			
8	.206	1.715	96.383			
9	.171	1.422	97.805			
10	.152	1.263	99.068			
11	.081	.678	99.746			
12	.030	.254	100.000			

Source: our elaboration

In addition, to ease the interpretation of the final factors, we adopted the varimax rotation method to the extracted principal components. This method consists of rotating the axes corresponding to the components, with no loss of total variance over the four extracted components (Jolliffe and Cadima, 2016). As shown in Table 3, the initial set of indicators could be represented in three dimensions. The items concerning the perceived benefits associated with shareholder engagement had high factor loadings on the first component. Instead, motivations hindering shareholder engagement revealed two underlying dimensions, one related to resource availability and the other to reputational risk. Considered together, these three factors explain 72.7% of the total variance (Tab. 2).

Tab. 3: Rotated component matrix

	Component			
	1	2	3	4
benefit_riskmng	.909	-.132	.091	-.245
benefit_comm	.756	-.164	-.243	.404
benefit_proactive	.940	-.021	-.094	-.119
benefit_transparency	.725	-.141	-.293	.430
negativefactor_cost	-.039	.035	.862	.118
negativefactor_small share	-.030	.266	.355	.802
negativefactor_reputationalrisk	-.213	.795	-.118	.238
negativefactor_internalresources	-.259	.275	.793	-.120
negativefactor_complexity	-.114	.204	.896	.227
negativefactor_inconsistency	-.138	.901	.198	.054
negativefactor_inexperience	.198	.689	.522	-.028
negativefactor_environmentalculture	-.117	.832	.267	-.006

Source: our elaboration

Once the factor structure had been assessed, we could then compute the factor indexes by running the PCA separately on each of the groups of indicators and retaining the factor scores of the underlying latent dimensions in new variables. Three final indexes resulted from this procedure: the first - *benefit* - included the items concerning the benefit of shareholder engagement, the second - *reputational* - was related to the alignment with the fund's image (reputational risk, inconsistency and environmental cultural), while the third - *cost* - concerned the resource burdens of shareholder engagement (costs, internal resources and complexity). Two of the input variables (small share and inexperience) were dismissed from further analyses given their low factor loadings on any of the first three components extracted.

4. Results and Discussion

The three latent factors obtained by PCA were then employed as independent variables in a regression model examining their impact on engagement propensity. The results are shown in Table 4.

Tab. 4: Regression coefficients

	B	Std Error	Beta	t	Sig.
(Constant)	3.500	.158		22.148	.000
Benefit	.848	.173	.770	4.909	.000
Reputational	-.167	.178	-.151	-.937	.361
Cost	.219	.178	.198	1.231	.234

Source: our elaboration

The results of the OLS regression analysis, with engagement propensity as the dependent variable, suggest that only the engagement-related benefits have a significant effect, affecting engagement propensity positively. Instead, the hindering factors' effects are not statistically significant. Therefore, it seems that, even if pension funds' managers are aware of the motivations that might prevent them from actively engaging investee companies, they do not seem to be actively affected by these factors in their propensity actually to start engagement actions. The value of the coefficient of determination ($R^2 = .61$) indicates good fitting of the observed values to the model, so, overall, the independent variables explain around 60% of the variation in the response variable.

These results support further exploration of the potential complex causal links between positive and negative aspects and engagement. For example, they may provide support for initiatives to reverse historical trends regarding these topics and adjust the internal structure of pension funds. In terms of research development, this study suggests potential benefits from integrating a conceptual framework and areas of research interest such as engagement, active ownership and voting. Therefore, based on these results, we can affirm that a virtuous path seems to emerge in which the approaches to engagement are shifting from negative aspects that hinder the engagement to positive aspects that create benefits.

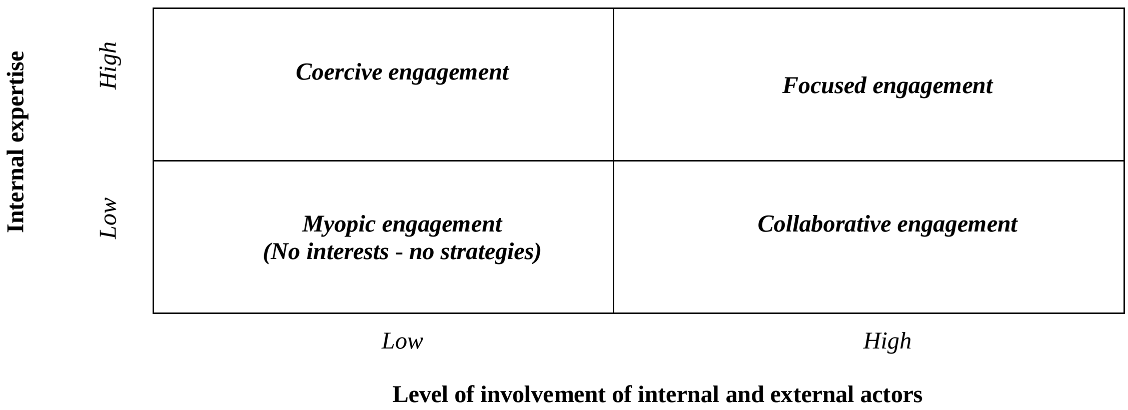
Specifically, it is possible to state, according to the directors involved in the workshop, that the change in the approaches to engagement has been characterized by two main variables:

i) Education aimed at improving internal expertise;
ii) Involvement of the entire structure of the organization, aiming for the effective participation of all levels of decision makers (board, finance committee and director).

Combining these two variables, we propose a conceptual framework to define four different approaches to engagement. This is summarized in Figure 1:

- Engagement myopia (no interest - no strategies). In such a configuration, the topic of engagement is completely underestimated so that there is no interest in promoting strategies for the definition of sustainability-based approaches and strategies.
- Coercive engagement. In this configuration, pension funds are forced by regulatory requirements to define sustainability in ESG guidelines and practices of engagement. However, the scarce involvement of actors, who are more concerned about complying with regulations, may not lead to an awareness of the benefits of engagement at all company levels;
- Collaborative engagement. Such a configuration emerges as a result of an intensive level of involvement between internal and external actors. Thanks to the adoption and spread of ESG practices, all pension funds have increased their attention to the ESG domain. However, a lack of internal expertise could lead to "blind reliance" on initiatives by other actors that have greater knowledge and awareness of engagement activities;
- Focused engagement. In this configuration, attention to engagement is real and depends more on participation and expectations, specifically defined internally. This scenario provides a new relevant role for the pension funds in influencing the strategies and behaviours of investee companies in the long term. Only in this latter scenario is it possible to image a real departure from engagement myopia.

Fig. 1: Conceptual framework of pension funds' shareholder engagement



Source: our elaboration

With regard to the conceptual framework and statistical results, we are confident in affirming that we are witnessing a transition of pension funds' organizational culture from a myopic approach to more focused engagement. Indeed, it seems that only positive motivations are effectively driving up shareholders' engagement, while concerns and negative motivations are not able to restrain pension funds' propensity. This might reflect the fact that the involvement in and attention to ESG issues of pension funds' decision makers has implicitly increased over time, leading them to abandon the "myopic engagement" configuration.

Furthermore, this leads to positive expectations about pension funds' future approach to engagement since, under the impetus of perceived benefits, they might be induced to define ESG-based procedures and guidelines, taking the final step towards "aware engagement". After all, "*engagement is the neutral term, which can vary in intensity*" (Winter, 2011, p. 12). Indeed, it is only this latter configuration that couples the interest in and procedural rules of implementation of shareholder engagement. Thus, we can distinguish three stages of engagement. The first one is *formal*, in which the engagement activity is seen as mere compliance - the legal approach - with a standard and takes the form of formal and non-substantial adherence to the SRD II directive. The second one is *accidental*, occurring when pension funds implement engagement activities aimed at responding to contingent situations of temporary difficulty. The last stage is *focused engagement,* characterized by a high intensity of engagement, in which the pension funds fully understand the contribution that stewardship can provide to the investment made and consequently the activity is structural or not limited in time and/or to a specific situation.

Therefore, reflecting on the four scenarios reported in Figure 1, various propositions can be developed. First, we suggest that IPFs have to shift from "myopic engagement" to "focused engagement". We define myopic engagement, referring to marketing myopia (Levitt, 1960), as the view of engagement as an end in itself: the idea that engagement is enough to be a responsible investor. In other words, similar to the new concept of marketing myopia (Smith *et al.*, 2010), the pensions funds have an overly narrow definition of engagement and its benefits, and this leads to their failure to recognize the changed societal context that necessitates the addressing of multiple aims. We advocate a more sophisticated understanding of engagement that takes into consideration a wider set of stakeholders who are concerned about a company's social and environmental impacts. Attention to all stakeholders beyond the members of pension funds could lead to the development of a materiality analysis. Different guidelines (i.e. the AccountAbility1000 Accountability Principle Standard and Global Reporting Initiative) require materiality analysis to determine the relevance and significance of an issue to an organization and its stakeholders (Formisano *et al.*, 2018; Torelli *et al.*, 2020). To the best of our knowledge, a materiality analysis that aims to determine material and relevant issues systematically in accordance with stakeholder needs has not been undertaken for Italian pensions funds, except for the Espero pension fund. We believe it is necessary to be aware of what the ESG risks are, quantify them and take the most efficient actions to reduce them through engagement, always with a view to balancing the risks and benefits. This leads to "focused engagement".

Second, collaboration could be the best strategy for pension funds as, through the establishment of associations, it is possible to share skills and resources. As shown by Doidge *et al.* (2019), through collective action, members can better serve their common interests to improve firms' governance compared with the outcome arising from individual, unorganized actions. However, it is necessary to avoid using collective engagement as a shortcut to demonstrate compliance with the new rules without internal awareness. The positive effects of this type of engagement are realized only if the fund actively participates and follows the initiative in all its phases. Pension funds need to adopt the "4 Cs" of collective engagement:

- commonality of purpose: a clear and shared understanding of the issues to be engaged (and the rationale behind the work) can avoid disagreements between group members in the later stages of the process;
- coordination: matching the group's resources to the reach of the initiative sets the stage for success; a third-party coordinator can facilitate the group's work;
- clarity: sharing and clarity of the "ground rules" - for example what information can be made public - helps to build trust and avoid communication problems;
- competence: the involvement of investor representatives with a similar level of competence, knowledge, seniority and expertise with respect to the issues.

Third, drafting an ESG engagement policy according to a "coercive approach" is not enough to benefit from the engagement (Cucari *et al.*, 2020). This activity should be accompanied by an accurate and continuous training activity and a high level of involvement of the actors (internal and external), allowing the development of internal skills capable of effectively supporting the monitoring of risks related to sustainability and conscious and active participation in engagement initiatives. Only by developing a "culture of engagement" or "culture of active ownership" can the pension funds benefit from the positive effects of engagement. This is to say that engagement is a function of a fund's internal culture. If culture arises from shared learning to solve the problems of external adaptation and internal integration, its qualities of dynamism and continuous evolution emerge clearly. Thus, the conception of culture as something static and stable is overcome by a much more fluid and progressive vision. The actual external context also requires pension funds, as well as companies, to be antifragile.

5. Conclusions

In this paper, we tried to complement the literature on shareholder engagement by investigating the determinants of pension funds' engagement. Since engagement is the preferred tool for European institutional investors, our aim was to investigate what determines (the lack of) engagement by pension funds, deepening the main critical issues and identifying possible factors that would improve ESG engagement for other pension funds. To this extent, we relied on the experience of contractual pension funds, members of Assofondipensione.

This paper aimed to make three important contributions. First, despite a large amount of research into several problematic aspects of the governance structure of Italian pension funds (Bripi and Giorgiantonio, 2010), there is little knowledge on the causes, processes and consequences of engagement. Based on our statistical results and conceptual framework, we propose a solution to pension funds' engagement myopia. The current literature shows a lack of activism by Italian pension funds, and this research aimed to prompt pension funds to account for the difficulties that they face and to promote a change in their behaviour through the implementation of possible adequate solutions.

Second, pension funds need to apply engagement in collective forms to develop internal experiences and skills that allow them to reach the fourth level of engagement, focused engagement. In addition, Italian contractual pension funds usually share the same ESG principles and forms of engagement ("soft engagement" through constructive private dialogue and, in some cases, voting at annual general meetings). IPFs may therefore develop cooperative engagement strategies, sharing the same guidelines and external advisors, and speak with investee companies as unique large investors instead of multiple small shareholders. In this way, they may substantially enhance their influence and awareness, significantly reducing the individual costs at the same time. In this regard, this research aimed to provide an incentive for Italian PFs in taking this substantially unexplored route and become a pillar of Italian corporate activism.

Third, similarly to other studies (Johnston *et al.*, 2021), in which three broad patterns of behaviour of institutional investors are proposed, our paper contributes to the understanding of the approach (or behaviour) of pension funds (Tilba and McNulty, 2013). Indeed, our conceptual framework extends beyond a dyadic focus on engagement, as "yes or no", respectively, to attend to a broader examination of the approaches to engagement and the positive or negative aspects involved in the processes. In this way, we highlight investors' view of engagement as part of their fiduciary duty, and consequently it could add value to the investment strategy.

The present study includes some limitations. Firstly, the sample size can be expanded in future research to enhance the precision of the estimates and corroborate our results. Secondly, despite the novelty of the use of the perception variable for the propensity for engagement, additional research examining other situational factors that may be related to these perceptions seems warranted. Indeed, due to the complex nature of the concept of engagement, to reveal the other factors that influence the propensity, qualitative studies should be encouraged. Thirdly, since our study focuses on pension funds, future studies could enlarge the scope of analysis to include other types of institutional investors or the perspective of companies (Ciappei *et al.*, 2022). These other actors might in fact behave differently with regard to engagement and be motivated by different types of factors.

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