Incident-Driven ESG Engagement*

Hao Liang , Yongheng Sun , Mandy Tham

Lee Kong Chian School of Business, Singapore Management University

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Abstract

Using proprietary engagement records from a large European asset management company, we study how ESG shocks shape institutional monitoring. We find that salient negative incidents are a powerful trigger for engagement, as they deteriorate public sentiment, heighten investors' reputational concerns, and reveal new information about previously hidden ESG weaknesses. Investors respond not only to incidents involving focal firms but also to incidents at peer firms, consistent with both reactive monitoring of revealed ESG risks and preemptive monitoring based on shared risk signals within the competitive environment. Incident-driven engagement is more informed and consequential: it mitigates subsequent sentiment deterioration, reduces future ESG incidents, attenuates declines in institutional ownership, and contributes to higher firm value. Finally, more intensive engagement is significantly more likely to succeed. Overall, our research speaks to the fundamental question of how engagement is initiated and underscores its role as an effective channel of external corporate governance.

Keywords: Shareholder engagement; institutional investors; ESG incidents; ESG sentiment; firm value.

JEL classifications: G34, G23, G14, M14, Q56

Email addresses: hliang@smu.edu.sg (H. Liang), yh.sun.2023@pbs.smu.edu.sg (Y. Sun), mandytham@smu.edu.sg (M. Tham). We are grateful to Frank Weikai Li and Tianhao Yao for helpful comments. This research was supported by the ASEAN Business Research Initiative (ABRI) under Grant No. G17C20457.

1 Introduction

In recent years, institutional investors have been increasingly expected to promote sustainable practices and hold firms accountable for environmental, social, and governance (ESG) failures. One key channel for institutional investors to influence the ESG practices of portfolio firms is engagement (Krueger et al., 2020; Broccardo et al., 2022; Kahn et al., 2023), which refers to a set of actions taken to influence corporate behavior, typically involving private dialogues, meetings, and other forms of communications. Yet engagement appears to be highly selective, involving only a small subset of portfolio firms. [1] These patterns raise a natural question: How does engagement happen, and what triggers engagement?

In this research, we argue that ESG incidents, defined as salient, negative, and publicly observable events revealing failures in a firm's ESG practices, are a key trigger of engagement decisions. Such events can alter the engagement calculus through several channels. First, incidents can worsen public sentiment and put investors under pressure to respond (Aggarwal et al., 2024). Second, they can generate reputational concerns that motivate asset managers to demonstrate active stewardship to sustainability-oriented asset owners (Hartzmark and Sussman, 2019; Liang et al., 2022; Duevski et al., 2024). Third, ESG incidents can serve as informational shocks that reveal hidden ESG risks and prompt more intensive monitoring (Krüger, 2015; Yun, 2024; Derrien et al., 2024b; Duan et al., 2024; Houston et al., 2024; Bisetti et al., 2024). Moreover, investors may respond not only to a firm's own incidents but also to those of its competitive peers. While own incidents reflect reactive monitoring of revealed firm-specific risks, peer incidents may induce preemptive engagement if investors interpret them as signals of shared risks within the same competitive environment.

To test these hypotheses, we use a proprietary dataset of detailed ESG engagement records from a large European asset manager and construct a monthly panel of the asset manager's portfolio firms. The asset manager operates globally and has a long history of integrating ESG considerations into its investment practices. From June 2010 to March 2023, the asset manager recorded 1,802 engagements involving 1,220 firms worldwide. This setting allows us to observe engagement decisions within the investor's actual investment universe and to relate them to firm-level ESG incidents, public ESG sentiment, and subsequent firm outcomes.

We begin by examining whether ESG incidents involving portfolio firms trigger engagement.

[1] For example, Heath et al. (2024) find that 11 major institutional investors engage, on average, with about 12% of their portfolio firms each year. In the ESG context, Dimson et al. (2015) document roughly 196 engagements per year by one asset manager, while Hoepner et al. (2024) report about 103 per year for another. Derrien et al. (2024a) show that BlackRock targeted only 11% of its portfolio firms for climate-related engagement in 2020.

We find that firms' own ESG incidents significantly increase the likelihood of engagement. In terms of economic magnitude, the effect of ESG incidents is non-trivial and ranks second only to firm size after controlling for industry-by-month and country-by-month fixed effects. The main results remain after controlling for firm ESG ratings, indicating that ESG incidents are not merely a proxy for ESG ratings. The findings are also robust to the inclusion of firm fixed effects, suggesting that, even within the same firm, investors are more likely to engage following periods with more incidents.

We then show that investors' monitoring extends beyond focal firms to their competitive peers. ESG incidents involving peer firms significantly increase the likelihood of engagement with a focal portfolio firm, even after controlling for the firm's own incidents. In contrast, incidents involving other entities with a direct economic link to the focal firm, such as suppliers, customers, or strategic partners, do not exhibit additional effects beyond those of the firm's own incidents, suggesting that the results are unlikely to be driven solely by firms' interconnectedness exposure. The effect of peer incidents is also economically meaningful, with a magnitude comparable to that of standard firm characteristics such as the market-to-book ratio and ROA. These results are likewise robust to firm fixed effects. Overall, the evidence suggests that investors interpret peer incidents as informative signals of shared ESG risks within an industry and respond in a preemptive manner, rather than merely reacting to realized firm-level failures.

Next, we examine the mechanisms underlying these engagement responses. We begin with the public sentiment channel. Using a novel high-frequency ESG sentiment measure from FactSet Truvalue SASB Scores, which applies machine learning and natural language processing to daily ESG-related reports, we track sentiment changes around incident dates. We find that ESG incidents are, on average, followed by sharp declines in public sentiment, and that engagement responses are significantly stronger when incidents are accompanied by negative sentiment reactions. This pattern suggests that incident-induced sentiment deterioration plays an important role in triggering engagement.

We then turn to the reputational channel. If engagement reflects investors' reputational concerns, responses should be stronger when the reputational costs of ESG scandals are higher. Consistent with this idea, we find that the asset manager is more likely to respond to incidents involving larger and more visible firms, which attract greater public attention. Moreover, using hand-collected data on the public observability of engagements, we show that successful engagements are more likely to be publicly referenced following incident exposure, further supporting the role of reputational concerns.

Finally, we test the informational updating channel by examining whether incidents trigger stronger responses when they are more likely to reveal unexpected ESG risks. Because ESG incidents are salient negative events, they should constitute a larger informational shock for firms that are previously perceived to have strong ESG performance, where the incident contrasts more sharply with prior perceptions. Consistent with this interpretation, we find that the asset manager is more likely to engage high-ESG firms following incidents, suggesting that incidents prompt belief updating and intensified monitoring.

The effectiveness of engagement by active investors, especially asset owners and asset managers, is of broad economic and academic interest. However, assessing its effectiveness is challenging due to the endogenous choice of engagement, which may obscure its true impact. Building on our finding that engagement is largely triggered by ESG incidents, we use incidents as shocks for engagement and examine its consequences in this setting. Because our analysis suggests that ESG incidents contain useful information about firms' hidden ESG weaknesses, engagement that follows such events should be more informed and targeted. Focusing on post-incident engagement therefore also allows us to evaluate whether engagement, when prompted by newly revealed ESG risks, is more effective in inducing subsequent corporate changes.

We examine these effects by regressing changes in corporate outcomes, defined as the average in future periods relative to the average in prior periods, on engagement indicators interacted with prior incidents. We analyze both firms' own incidents and peer firm incidents. To obtain a cleaner benchmark for comparison, we use never-engaged firms as the control group. The results show that incident-driven engagement mitigates the subsequent deterioration in ESG sentiment and reduces future ESG incidents at the focal firm. We further find that engagement attenuates the decline in institutional ownership following firms' own incidents, suggesting that active monitoring helps stabilize investor support in the aftermath of ESG failures. Moreover, incident-driven engagement is positively associated with firm value. Overall, these findings indicate that engagement in response to ESG incidents is indeed more effective in inducing meaningful corporate changes. The results also suggest that engagement is both reactive and forward looking. Engagement following a firm's own incidents helps repair the damage after ESG failures, whereas engagement following peer incidents is more preventive and helps firms manage future ESG risks. Both types of engagement help improve firm value.

Finally, leveraging detailed engagement-level information, we examine whether engagement approaches matter. We find that more intensive, meeting-based approaches are significantly more likely to succeed, whereas less intensive, letter-based approaches are less likely to succeed.

These results highlight that not only the timing but also the form and intensity of engagement matter for achieving engagement success.

2 Related Literature

Our research is most related to literature on shareholder engagement concerning ESG issues. We speak to the fundamental question of how engagement happens. Current research found that the targeted firms often differ from non-targeted firms in features such as size, ownership structure, stakes of focal investors, financial performance, discretionary spending, capital structure, and ESG profiles (Dimson et al., 2015; Barko et al., 2022; Derrien et al., 2024a; Azar et al., 2021). While these factors explain cross-sectional variation in engagement, we show that salient ESG shocks are a major trigger of engagement, with explanatory power stronger than most documented firm attributes. Importantly, investors respond not only to incidents at their portfolio firms but also preemptively to incidents involving competitive peers. We further document that sentiment deterioration, reputational concerns, and informational updating serve as key mechanisms behind these engagement responses.

We also contribute to research on engagement outcomes. The seminal work by Dimson et al. (2015) shows that engagement is associated with positive market reactions and subsequent improvements in financial performance, institutional ownership, and corporate governance. Later studies find that engagement improves ESG performance (Barko et al., 2022; Becht et al., 2023), reduces downside risk (Hoepner et al., 2024), stimulates corporate climate initiatives (Derrien et al., 2024a), and is associated with lower carbon emissions (Azar et al., 2021). Bauer et al. (2023) highlight that engagement targeting financially material issues are more likely to succeed and bring about positive financial outcomes. Dimson et al. (2025) study coordinated engagement and highlight the crucial role of a team leader in driving success. We exploit incidents involving both focal firms and their competitive peers as shocks to engagement and examine engagement effectiveness in this setting. We provide novel evidence that engagement following incidents mitigates subsequent sentiment deterioration and reduce future incidents. Also, our results suggest that incident-driven engagement works better, highlighting the role of external shocks in inducing more informed and consequential governance. In addition, we provide new evidence that the form and intensity of engagement approaches matter for achieving success.

Finally, our research is related to the growing literature on the various consequences of ESG incidents. Prior studies document that such incidents are associated with negative market reac-

tions (Krüger, 2015; Yun, 2024), downward revisions of earnings forecasts by financial analysts (Derrien et al., 2024b), and lower demand from customers (Duan et al., 2024; Houston et al., 2024). Firms also adjust their operations after experiencing such events by increasing investment in reputation-repairing activities (Akey et al., 2024), appointing directors with charitable backgrounds (Gertsberg et al., 2024), adjusting managerial compensation (Kuang et al., 2025), or increasing communications with the public on social media (Pu et al., 2024). While this stream of research highlights the implications of ESG incidents for market prices, analyst forecasts, consumer demand, and corporate strategies, our study shows that such events also affect institutional investors' monitoring behavior and engagement effectiveness, thereby providing new evidence on the role of ESG incidents in shaping external governance.

3 Data and Sample

3.1 Engagement Data

The engagement data come from the internal records of a major European asset management company. The firm has a long-standing commitment to sustainable investing, with approximately 75% of its assets under management being ESG-aligned or in sustainable strategies. The asset manager practices active ownership to promote sustainable business conduct among portfolio firms through direct engagement, proxy voting, and exclusion policies.

The asset manager conducts engagements on behalf of all its funds. The engagement dataset offers comprehensive and detailed records of its engagement activities from June 2010 to March 2023. Over this period, the asset manager recorded 1,802 engagements involving 1,220 firms worldwide. Each engagement record contains detailed information such as the target firm, relevant ESG issues, main objectives, initiation date, collaboration status, and engagement outcome. Each engagement typically consists of a series of actions that may span several years. For each action, the dataset records the date and the specific engagement approach used (meeting, letter, site visit, etc.). It also records the personnel contacted within the target firm throughout the whole process.

Figure 1 presents the number of engagements by year, disaggregated by ESG category. Most engagements occurred after 2016, although few occurred in 2017. Governance engagements represent the largest share, while environmental and social engagements have increased in recent years. Figure 2(a) shows that the asset manager most frequently engages with firms in the Materials, Energy, and Capital Goods sectors. According to Figure 2(b), while the asset man-

ager engages firms globally, the majority of engagements are concentrated in the United States, followed by Japan, Sweden, and Germany. Table A.2 illustrates the thematic focus of ESG engagements. Governance remains the most common category, followed by environmental and social issues. The asset manager places particular emphasis on four main topics: Good Governance, Climate, Human Rights, and Biodiversity. At a more granular level, the most frequently addressed sub-topics include transparency, greenhouse gas (GHG) emissions, and human rights.

Panel A of Table 1 summarizes other engagement characteristics. Approximately 42% of engagements are conducted internally by the asset manager, and around 36% turned out to be successful.[2] On average, each engagement comprises 1.42 actions. The average duration between the creation of an engagement and its last recorded action is about 15 months. In terms of engagement approaches, written communication is the most frequently used, with letters involved in 45% of cases and emails in 14%. Another common approach is digital meetings, which account for 21% of engagements. Direct approaches such as meetings (3%) and phone calls (4%) are less prevalent. Although the data on personnel contacted are rather incomplete, they indicate that a range of company representatives are involved, most frequently investor relations (3%) and CEOs (3%).

The original engagement dataset contains an internally generated ID for each firm and provides a mapping table between these firm IDs and ISINs. Since our analysis relies heavily on the FactSet database, we use the FactSet security identifier (*fsym_id*) as the primary identifier for the engagement data. To enable this, we rely on a one-to-one linking table between ISINs and *fsym_id*s from FactSet. Using this table, we identify all possible *fsym_id*s associated with each firm ID via its ISINs. With this approach, 152 engagement observations could not be automatically matched to any *fsym_id*. For the remaining unmatched cases, a research assistant manually identified the corresponding *fsym_id* by searching firm names in the FactSet universe. Matched results from these two sources are combined together. We retain only those *fsym_id*s designated as the primary security ID by FactSet and manually ensure that each firm is linked to a single *fsym_id*. Through this whole process, we successfully identify *fsym_id*s for 1,137 unique firms (93.2%) involved in 1,713 engagement cases (95.1%).

[2]In fact, 41.68% of the observations have missing values in the engagement result field. Among the non-missing observations, 36.40% are classified as successful, 3.55% as neutral, 8.82% as "None," and 9.54% as unsuccessful.

3.2 ESG Incident

We obtain data on ESG incidents from RepRisk, a data provider that tracks ESG-related incidents. RepRisk screens a broad range of public sources in 23 languages on a daily basis to identify such incidents. It covers over 290,000 public and private companies globally and starts from 2007. Each incident is categorized into environmental, social, governance, or cross-cutting issues, and further classified into 28 specific ESG topics. This allows us to construct firm-level measures of ESG incident frequency. A more detailed description of the dataset is provided in Derrien et al. (2024b).

3.3 ESG Sentiment

We use ESG sentiment data from the FactSet Truvalue SASB Scores dataset. It leverages machine learning and natural language processing to assess the semantic content of millions of third-party media articles related to firms' ESG practices on a daily basis and covers both positive and negative events. As such, the data offers a comprehensive view of firm ESG behavior from an external perspective. Compared to measures based on self-reported information, the reliance on third-party sources enhances objectivity. Focusing on the semantic analysis of external texts, the Truvalue methodology helps mitigate the well-documented inconsistency across ESG ratings from different providers (Berg et al., 2022). The high-frequency nature of the data also allows us to track real-time changes in firms' ESG performance.

Truvalue provides two types of sentiment scores. The *Pulse* score is a short-term measure that reflects real-time reactions to new events and updates instantaneously as new information emerges. The *Insight* is a smoothed version of the *Pulse* score, designed to capture longer-term ESG sentiment. Both scores are reported for each of the 26 ESG issues defined by SASB. In addition, the dataset provides an overall score that reflects sentiment on all 26 issues, and a "material overall score" that reflects sentiment on ESG issues considered financially material to a firm's industry by SASB. Both the *Pulse* score and the *Insight* score range from 0 to 100, with 50 indicating neutral sentiment, values above 50 indicating positive sentiment, and values below 50 indicating negative sentiment. The dataset starts from 2007 and covers a broad range of public and private firms globally. The Truvalue data also provides the number of ESG-related articles for each firm over a trailing window of twelve months, which we use to measure a firm's media exposure.

3.4 Business Relationships

Information on firms' business relationships is obtained from the FactSet Revere Supply Chain Relationships database. This dataset classifies inter-firm business relationships into four categories—competitors, suppliers, customers, and strategic partners—and provides detailed information on these links. The relationship data are collected from public sources, including annual filings, investor presentations, and press releases. The database covers business relationships for approximately 65,000 firms worldwide, with the earliest relationships dating back to 2003.

3.5 Stock Return

Monthly returns of global stocks are provided by Jensen et al. (2023).[3] The authors calculate returns using CRSP stock return data and Compustat stock price data, with all prices converted to USD using exchange rates from Compustat. Following the authors' suggestion, we retain only primary securities, common stocks, and stocks listed on major exchanges, with a preference for CRSP-based returns. Market returns are computed as the value-weighted average of all securities in each country, with firm market values winsorized at the NYSE 80th percentile.

3.6 Other Data

Firm financial data are obtained from Compustat. ESG ratings are from Refinitiv, which is now named LSEG. Instituional ownership data are obtained from the FactSet Ownership database. It also reports the list of institutional holders and their positions in each security at the end of each quarter. We use this data to aggregate the asset manager's holdings in individual securities on a quarterly basis.

3.7 Sample

Our analysis is based on the asset manager's portfolio firms at the end of each month, obtained from the FactSet fund holdings API. We first identify all funds covered by FactSet that are either managed by the asset manager, list the asset manager in the fund family name, or include the asset manager's name in the fund name, yielding 608 unique funds. We then retrieve monthly holdings for these funds. To remain consistent with period of the engagement data, we retain data from June 2010 to March 2023. Among those holdings, we retain only those classified as

[3]The dataset is available on WRDS via the "Global Stock Returns and Characteristics" query form. It is also accessible at: https://jkpfactors.com/factor-returns. We thank the authors for generously sharing their data.

equities. The final holding list contains 7,336 unique securities in total, with an average of 2,612 unique securities held at the end of each month. After dropping observations without a valid ISIN, the final monthly portfolio dataset contains 401,712 firm-month observations.

We then merge this sample with monthly indicators of engagement, firm financial and ESG rating data from the previous year, ownership data as of the end of the previous quarter, and counts of ESG incidents occurring within the past three months. We exclude observations with missing or abnormal values in key variables. The final regression sample contains 216,179 observations, covering 3,987 firms.

Panel B of Table 1 presents summary statistics for the key regression variables. Engagement occurs rarely, with only 0.5% observations being engaged. On average, the sample firms experience 0.57 ESG incidents within a three-month window. When disaggregated by ESG category, firms experience an average of 0.20 environmental incidents, 0.31 social incidents, and 0.26 governance incidents. Institutional investors hold 53% of firm shares on average, whereas the focal asset manager has a relatively small stake in its portfolio firms, with an average ownership of 0.31%.

4 Engagement Determinants

4.1 Method

To investigate the effects of ESG incidents on engagement decisions, we estimate the following regression model:

$$Engagement_{i,t} = \beta_0 + \beta_1 \cdot Incident\ Number_{i,t} + \boldsymbol{\beta}_2 \cdot \boldsymbol{X}_{i,t-1} + \lambda_{j,t} + \eta_{c,t} + \varepsilon_{i,t}, \tag{1}$$

in which i indicates firms, t indicates year-months, j indicates industries, and c indicates countries. The dependent variable, $Engagement_{i,t}$, is a dummy that equals to 1 if firm i was engaged in month t, and 0 otherwise.

The key independent variable, $Incident\ Number_{i,t}$, measures incident exposure. In our main analysis, we construct two related measures. The first captures firms' own incident exposure, defined as the total number of ESG incidents involving the focal firm over the past three months. The second captures competitor incident exposure, defined as the average number of ESG incidents over the past three months across all valid competitors identified at the end of each

month. For both measures, we take the logarithm of the incident count plus one. When identifying incidents in the RepRisk dataset, we only consider firms with a valid ISIN and assign a value of zero in months with no recorded incidents. In the robustness analysis, we apply the same construction to derive analogous measures for customer, supplier, and partner incidents.

$\boldsymbol{X}_{i,t-1}$ is a set of control variables measured in the previous period of month t. Due to differences in data frequency, the timing of these variables varies. Specifically, *Size*, *Market-to-Book Ratio*, *Sales Growth*, *ROA*, *Leverage*, *Cash Holdings*, *Capital Expenditure*, and *Refinitiv ESG Score* are measured at the last year of month t, while *Institutional Ownership* and *Asset Manager Ownership* are measured at the last quarter of month t. Detailed definitions of all control variables are provided in Appendix A. We include industry-by-month fixed effects ($\lambda_{j,t}$) and country-by-month fixed effects ($\eta_{c,t}$) throughout our analysis. These fixed effects allow for comparisons among firms within the same industry or the same country at a given point in time. They also control for time-varying industry- or country-specific shocks that may simultaneously affect ESG incidents and engagement decisions. Industries are defined at the industry group level of the Global Industry Classification Standard (GICS). All continuous variables except stock returns are winsorized at the 1% and 99% levels. Standard errors are clustered at the firm level.

4.2 Results

4.2.1 Firms' Own Incidents

We first investigate the effects of firms' own incidents on engagement decisions. Panel A of Table 2 presents the regression results. Column (1) shows that ESG incidents significantly increase the likelihood of engagement. Columns (2) to (4) present subsample analyses by engagement type and show that incidents in each ESG category are positively associated with the likelihood of the corresponding type of engagement. The estimates also suggest economically meaningful effects. In Column (1), a one-standard-deviation increase in the number of ESG incidents over the past three months (0.74) raises the probability of engagement by approximately 0.26 percentage points (p.p.), or about 52% of the sample mean (0.50 p.p.). However, we note that the analysis is based on a linear probability model, which allows for the inclusion of multiple fixed effects but may yield predicted probabilities outside the [0,1] range. In addition, the estimated level of economic significance may vary with the number of matched control firms per engagement, making direct interpretation less straightforward. To better assess the relative importance

of ESG incidents, we benchmark its effect against other covariates.

The benchmarking results in Table A.3 continue to indicate that ESG incidents are among the most powerful predictors of engagement. Column (1) shows that their economic significance ranks just below firm size (79%). Other variables with notably strong effects include asset manager ownership (34%), leverage (23%), market-to-book ratio (22%), capital expenditure (12%), and ROA (10%), whereas cash holdings, sales growth, institutional ownership, and ESG rating have relatively modest effects. Column (2) to (4) further suggest a non-trivial effect for each kind of environmental, social, and governance incidents. Specifically, environmental incidents rank first in importance among all variables considered; social incidents rank second, following only firm size; and governance incidents rank third, below firm size and asset manager ownership.

Overall, the results suggest that incidents involving focal firms are a major trigger for engagement. With industry-by-month and country-by-month fixed effects, and given that the analysis is restricted to the asset manager's portfolio firms, the empirical design closely mirrors the asset manager's actual screening decision. The findings imply that, within a given month and conditional on firms operating in the same country or industry, the asset manager is more likely to engage firms that have experienced more incidents in the recent period.

4.2.2 Peer Firm Incidents

While investors may engage a firm in response to incidents involving the focal firm, they may also engage when incidents occur at its competitive peers, if such events signal risks that are common within the competitive environment. To examine this possibility, we analyze how peer firms' incidents affect the likelihood of engagement toward a focal firm in Panel B of Table 2. Column (1) shows that ESG incidents at competitors indeed trigger engagement, even after controlling for the firm's own incidents. Columns (2) to (4) decompose the analysis into environmental, social, and governance domains. The results indicate that while environmental and social incidents at competitors significantly increase the likelihood of engagement, the effect of governance incidents is not statistically significant. This pattern suggests that investors may perceive environmental and social incidents as reflecting risks shared across firms within the same competitive environment, while viewing governance issues as more firm-specific and idiosyncratic.

The effects of competitor incidents are also economically meaningful. For example, Column (1) suggests that a one-standard-deviation increase in competitor ESG incidents (0.9) raises the

probability of engagement by 0.07 p.p., which is about 15% of the sample mean. In Panel B of Table A.3, we similarly benchmark this effect against other covariates. The magnitude of the competitor-incident effect is comparable to that of standard financial characteristics such as the market-to-book ratio (19%), ROA (18%), capital expenditure (15%), and institutional ownership (13%). Columns (2) to (4) further show that, when decomposed by ESG category, environmental and social incidents have substantially larger effects than governance incidents.

Since we control for firms' own incidents, investors' responses to competitor incidents appear to be largely preemptive in nature. These results therefore suggest that, beyond reactive engagement following incidents at focal firms, investors also engage preemptively in response to incidents affecting competitors, particularly for environmental and social issues.

4.3 Robustness

4.3.1 Controlling for ESG Performance

A particular concern is that our results may be confounded by firms' past ESG performance. Firms with weaker historical ESG profiles are more likely to experience incidents, and the asset manager may simply be targeting such firms based on their track record rather than on the incidents themselves. In this case, the observed correlation between ESG incidents and engagement could largely reflect past ESG performance. We argue, however, that ESG incidents have distinct implications for engagement that are not fully captured by conventional ESG performance measures. ESG ratings from major providers update infrequently and mainly reflect historical information, whereas incidents can arise suddenly and may reveal weaknesses even in firms with high ESG ratings. To account for this, we include firm ESG ratings in all specifications, and our results show that ESG incidents continue to play a significant role in explaining engagement decisions, highlighting their unique role in driving engagement decisions.

4.3.2 Incidents Involving Other Business Partners

To further validate that the results on competitor incidents reflect economically meaningful effects rather than artifacts of broader business networks, we conduct an additional robustness test that examines ESG incidents involving other economically linked firms. We consider three types of relationships covered by FactSet Revere: suppliers, customers, and strategic partners. If our baseline competitor-incident results were mainly driven by omitted factors related to a firm's interconnectedness exposure, we would expect to observe similar effects for incidents involving

these other relationship types. However, as shown in Table 3, after controlling for a firm's own incidents, we find no significant effects of supplier, customer, or partner incidents on engagement. This absence of effects suggests that the competitor-incident results are economically meaningful rather than spurious.

The results also highlight an important distinction between competitors and other value-chain or risk-sharing partners. Incidents at competitor firms may signal issues that are common within the same competitive environment and therefore informative about risks faced by the focal firm, even in the absence of direct economic ties. In contrast, suppliers, customers, and partners are linked to the focal firm through explicit economic relationships. As a result, incidents involving these firms are more likely to overlap with or be subsumed by the firm's own incidents, and therefore provide limited additional information beyond what is already captured by controls for firm's own incidents.

4.3.3 Firm Fixed Effects

We do not include firm fixed effects in the baseline specification because doing so would substantially reduce within-firm variation, particularly given that engagement is a relatively rare event. Instead, we include industry-by-month and country-by-month fixed effects to compare firms within the same industry and country at a given point in time. This specification also more closely mirrors the asset manager's decision process when selecting engagement targets within a contemporaneous opportunity set. Nevertheless, as a robustness check, we re-estimate the model including firm and month fixed effects. Table A.4 reports the results. The coefficients on both firms' own incidents and competitor incidents remain positive and statistically significant, indicating that even within the same firm over time, the investor is more likely to engage following a higher incidence of ESG events, either at the focal firm or among its competitors.

4.4 Mechanism

4.4.1 Public Sentiment

When incidents occur, the resulting deterioration in public sentiment may be an important mechanism that creates pressure for investors to take action. To verify this channel, we use a novel, high-frequency ESG sentiment data from the FactSet Truvalue SASB Scores dataset to examine the sentiment change around incident dates. We rely on the *Pulse* score, a real-time measure of the semantic content of external information about a firm's ESG practices

generated through machine learning and natural language processing applied to daily third-party information. We focus on the overall measure of ESG dimensions that are deemed financially material to each firm's industry by SASB, referred to as the *Material Pulse Score*.

We next plot the average *Material Pulse Score* of firms experiencing ESG incidents over a window from 60 days before to 60 days after the incident date. As a benchmark, we replicate the analysis using pseudo event dates that are randomly assigned between January 1, 2007 and December 31, 2023. After merging RepRisk incident data with FactSet ESG sentiment data, the final sample contains 135,147 unique incidents across 9,448 firms, corresponding to 277,381 firm-incident events. Figure 3 shows a significant decline in ESG sentiment around actual incident dates, whereas no such decline appears around pseudo event dates, indicating that incidents are indeed accompanied by deteriorating public sentiment.

To further validate the sentiment channel, we examine whether sentiment dynamics shape how the asset manager responds to incidents. If sentiment deterioration is one underlying force driving engagement, incidents accompanied by a decline in sentiment should have a stronger effect on engagement decisions than those without such a decline. To test this, we classify incidents into two groups based on whether they are associated with an observed drop in sentiment. Based on the patterns in Figure 3, we measure sentiment change using the *Material Pulse Score* from three days before to three days after the incident date. We then aggregate the number of incidents in each category, include both measures in the regression analysis, and formally test whether their effects differ.

Panel A of Table 4 reports the results for firms' own incidents. Column (1) shows that while both types of incidents increase the probability of engagement, incidents accompanied by a sentiment decline have a significantly stronger effect. Panel B presents the results for competitor incidents. Only competitor incidents associated with a sentiment drop significantly predict engagement, whereas those without a sentiment decline do not. The difference between the two effects is also statistically significant. Together, these findings suggest that negative sentiment surrounding incidents is an important catalyst for engagement.

4.4.2 Reputational Concerns

Incidents may also put investors' own ESG reputation at stake, prompting them to engage with firms to signal their stewardship and ESG responsibility. If reputational concerns are a driving force, the asset manager should respond more strongly to incidents at firms that are highly visible to the public, where potential reputational damage is greater. To test this hypothesis, we conduct

heterogeneity analyses based on two proxies for firm visibility: firm size and media exposure. For media exposure, we use data on the number of ESG-related media reports referencing each firm provided in the FactSet Truvalue SASB Scores database. To mitigate concerns that article volume may be mechanically correlated with recent ESG incidents, we calculate the average number of annual articles for each firm from 2007 to 2022. We then interact the number of ESG incidents with each visibility proxy. We expect the interaction terms to be significantly positive.

Panel A of Table 4 presents the results for firm own incidents. Column (2) indicates that the asset manager is indeed more likely to engage with larger firms following ESG incidents. Notably, Derrien et al. (2024b) find that the negative impact of ESG incidents on firm value is more pronounced among smaller firms. This suggests that the observed heterogeneity is unlikely to be solely driven by differences in financial risk, but is instead more consistent with the reputational concern explanation. Column (3) further suggests that the asset manager is more responsive to ESG incidents at firms with greater media exposure. Panel B shows that a similar pattern holds for the asset manager's response to competitor incidents.

To provide further evidence on reputational considerations, we analyze how the asset manager discloses its engagement activities. In the absence of regulatory requirements to disclose engagement records, any public disclosure is voluntary and may serve as a means of managing public relations and signaling responsible investment practices. If ESG incidents trigger engagement because they place the asset manager's reputation at stake, the asset manager should be more willing to publicly reference its engagement efforts following such incidents.

To examine this hypothesis, we hand-collect information on whether each engagement record is publicly observable online. Among the 1,802 engagement records in our sample, only 148 can be traced to public references. This pattern suggests that, consistent with prior literature, most engagement activities take place behind the scenes and only a small subset is observable in public sources (McCahery et al., 2016; Krueger et al., 2020; Becht et al., 2009).

We then estimate a regression model at the engagement-case level. The dependent variable is an indicator for whether the engagement can be publicly observed. The key independent variable is the number of ESG incidents preceding the engagement, interacted with an indicator for whether the engagement was tagged as successful, recognizing that success itself may affect the asset manager's propensity to publicize engagement outcomes. We restrict the sample to engagements classified as either successful or unsuccessful. In addition to firm-level control variables, we include a set of engagement-specific controls, including indicators for ESG categories, engagement approaches, management involvement at the target firm, and internal engagement.

Table 5 reports the regression results. Columns (1) to (3) examine the effects of firms' own incidents. Column (1) confirms our conjecture that the asset manager is more likely to publicly mention successful engagements that are preceded by a greater number of ESG incidents. Because environmental and social issues tend to receive greater public attention, reputational concerns may be more pronounced for incidents related to environmental or social (E/S) issues than for those related to governance issues. We therefore decompose incidents into E/S and governance categories in Columns (2) and (3). The results indicate that the effect is driven primarily by environmental and social incidents, while governance incidents do not exhibit a statistically significant effect.

Columns (4) to (6) of Table 5 replicate the analysis for competitor incidents. We find no evidence that competitor incidents significantly affect the asset manager's propensity to publicly disclose successful engagement. One possible explanation is that, although the asset manager responds to competitor incidents, such engagement is primarily preventive in nature, aimed at mitigating the risk of future incidents at the focal firm that could ultimately threaten the asset manager's reputation. In contrast, public disclosure of engagement appears to serve mainly as a remedial response to reputational damage arising from incidents at the focal firm itself. Taken together, these results provide supportive evidence that reputational concerns are an important motivation underlying the asset manager's engagement decisions.

4.4.3 Informational Updating

Finally, ESG incidents may trigger engagement by revealing new information about firms' underlying ESG weaknesses. If this mechanism is at work, the response should be stronger when incidents are more informative. Such informativeness should be higher for firms that were previously perceived to have strong ESG performance, as incidents involving these firms constitute a larger negative surprise and lead to a sharper update in investors' beliefs about the firms' ESG performance. We use two measures of prior ESG perceptions. The first is the *Refinitiv ESG Score*, which primarily reflects firm-reported information. The second is the *Material Insight Score* from the FactSet Truvalue SASB dataset, a smoothed version of the high-frequency *Pulse* score. It captures longer-term ESG sentiment based on external information sources. We then interact the number of ESG incidents with either the *Refinitiv ESG Score* from the fiscal year prior to engagement or the *Material Insight Score* measured twelve months before the engagement.

Columns (4) and (5) of Table 4 report the results. Panel A presents the findings for firms'

own incidents. We find that the asset manager is indeed more likely to engage with firms that were previously perceived to have stronger ESG performance, regardless of whether ESG performance is measured using firm-reported disclosures or external assessments. Panel B shows a similar pattern for the asset manager's response to competitor incidents. Taken together, these results provide supporting evidence that ESG incidents trigger engagement also by revealing new information about firms' underlying ESG performance.

5 Engagement Outcomes

In this section, we examine the consequences of engagement. Building on the previous analysis, we use ESG incidents as shocks that trigger engagement and study the effects of engagement in this setting. Because incidents may reveal firms' ESG weaknesses, focusing on engagement following incidents also allows us to assess whether such engagement is more informed and therefore more effective in inducing corporate changes.

5.1 Method

To investigate the consequences of engagement, we estimate the following regression model to compare changes in firm outcomes between engaged and non-engaged firms:

$$\begin{aligned} \Delta Outcome_{i,t} = \beta_0 &+ \beta_1 \cdot Engagement_{i,t} \times Incident\ Number_{i,t} \\ &+ \beta_2 \cdot Engagement_{i,t} + \beta_3 \cdot Incident\ Number_{i,t} \\ &+ \boldsymbol{\beta}_4 \cdot \boldsymbol{X}_{i,t-1} + \lambda_j + \eta_c + \gamma_t + \varepsilon_{i,t} \end{aligned} \tag{2}$$

in which i indicates firms, t indicates year-months, j indicates industries, and c indicates countries. To obtain a cleaner benchmark for comparison, we restrict the control group to firms that are never engaged. The dependent variable is defined as the change in various firm outcomes over different future horizons, relative to their average level in previous periods. The key variable of interest is the interaction between engagement and the number of incidents, which captures whether engagement following greater incident exposure is associated with differential outcome changes. We include the same set of control variables as in Equation (1), along with industry, country, and year-month fixed effects to absorb systematic differences across industries, countries, and time. All continuous variables except stock returns are winsorized at the 1% and 99%

levels. Standard errors are clustered at the firm level.

5.2 Public Sentiment

Since our findings suggest that incident-induced deterioration in public sentiment is an important trigger of engagement, we examine whether engagement helps restore public sentiment in the aftermath of such incidents. We focus on the *Material Insight Score*, which captures a longer-term assessment of firms' performance on financially material ESG issues. The dependent variable is the proportional change in the *Insight Score* at the end of one, two, and three months following month t, as well as their average, relative to the average score over the three months preceding month t. The key variable of interest is the interaction between engagement and the number of incidents associated with a sentiment decline.

Table 6 reports the results. Columns (1) to (4) focus on firms' own incidents. We find that incidents accompanied by a sentiment decline are associated with persistent deterioration in subsequent ESG sentiment. However, this negative effect is significantly attenuated when firms are engaged following such incidents. Columns (5) to (8) turn to peer firm incidents. The results show that engagement following peer incidents is also associated with subsequent improvements in sentiment, suggesting that such preemptive engagement is also effective in improving the public perception of the engaged firms. Overall, the evidence indicates that engagement helps mitigate sentiment deterioration and improve firms' public image over time.

5.3 Future Incidents

Given the incident-driven nature of engagement, another natural follow-up question is whether such engagement is effective in reducing future incidents. We analyze this issue in Column (1) and (4) of Table 7. The dependent variable is the proportional change in the average number of incidents in a three-month window over the next twelve months, relative to the firm's average number of incidents in a three-month window over the past twelve months as of month t. The key variable of interest is engagement interacted with the number of incidents. Column (1) focuses on firms' own incidents, while Column (4) examines incidents involving peer firms.

Panel A analyzes ESG engagement and subsequent changes in ESG incidents. Columns (1) shows that engagement preceded by a larger number of a firm's own incidents is associated with a reduction in future incidents. Columns (4) further indicates that engagement following competitor incidents is also effective in preventing subsequent incidents at the focal firm. In addition, competitor incidents positively predict future incidents at the focal firm, suggesting

that such incidents reveal underlying risks faced by firms operating in the same competitive environment and rationalize the asset manager's preemptive response. Panels B and C separately examine E/S incidents and governance incidents, respectively, and show that the mitigating effects of engagement on future incidents hold across both domains.

Taken together, these findings indicate that engagement is effective in curbing future incidents. Moreover, both firms' own incidents and competitor incidents appear to help investors identify where potential ESG weaknesses lie and to better target engagement efforts, making engagement following incidents more informed.

5.4 Institutional Ownership

In addition to engagement, ESG scandals may also induce divestitures by a broader set of institutions (Gantchev et al., 2022; Schmidt et al., 2024). In this context, engagement can act as a signal of commitment by responsible investors to promote corporate change, potentially mitigating investor exits. We examine this issue in Columns (2) and (5) of Table 7. The dependent variable is the proportional change in the average level of institutional ownership at quarter-end over the next four quarters, relative to the average quarter-end institutional ownership over the previous four quarters. The key variable of interest is the interaction between engagement and the number of incidents. Column (2) focuses on firms' own incidents, while Column (5) examines incidents involving peer firms.

Panel A presents the results for aggregate ESG engagement. Column (2) shows that firms' own incidents are associated with a decline in institutional ownership, but this decline is significantly attenuated when engagement occurs. In contrast, Column (5) indicates that engagement following competitor incidents does not have a statistically significant effect on subsequent changes in institutional ownership. Panels B and C, which separately examine E/S engagement and governance engagement, reveal similar patterns. Overall, the results suggest that reactive engagement helps mitigate investor exits following realized scandals at the focal firm, whereas preemptive engagement triggered by peer incidents does not appear to significantly affect subsequent institutional ownership.

5.5 Buy-and-hold Abnormal Returns

We finally examine whether engagement efforts translate into firm value by analyzing buy-and-hold abnormal returns (BHAR) following engagement. We focus on long-term performance rather than conducting an event study around the engagement date for two reasons. First, many

engagements are conducted privately and may not be immediately observable to the market. Second, engagements typically involve a series of actions that take place over a long period of time. Therefore, their impact is more likely to be reflected in long-run stock performance.

$$BHAR[1M,\ 12M]_{i,t} = \prod_{k=1}^{12}(1 + R_{i,t+k}) - \prod_{k=1}^{12}(1 + R_{m,t+k}) \tag{3}$$

BHAR is calculated as the compounded stock return over a given horizon minus the compounded market return over the same period, as shown in the equation above, where $R_{i,t}$ denotes the return of stock i in month t, and $R_{m,t}$ represents the market return in month t. By further controlling for a range of firm characteristics, we mitigate concerns that differences in stock performance between engaged and non-engaged firms are simply driven by the asset manager's propensity to engage with firms that are more or less likely to perform well. By focusing only on firms within the asset manager's portfolio, we mitigate concerns that differences in stock returns or other firm outcomes simply reflect the asset manager's stock selection.

We analyze the effects of engagement on BHAR in Columns (3) and (6) of Table 7. The dependent variable is the twelve-month ahead BHAR, and the key independent variable is the interaction between engagement and the number of incidents. Column (3) focuses on firms' own incidents, while Column (6) examines incidents involving peer firms. Panel A reports results for aggregate ESG engagement, and Panels B and C separately analyze E/S engagement and governance engagement.

Column (3) shows that the interaction between engagement and incidents is positive but statistically insignificant, suggesting no strong evidence that aggregate ESG engagement following incidents improves firm value. However, once we disaggregate by ESG domains, a more nuanced pattern emerges. Incident-driven engagement on environmental and social issues is associated with significantly higher subsequent abnormal returns. In contrast, the value-improving effects of governance engagement are mainly concentrated in non-incident-driven cases. Column (6) reveals a similar pattern for engagement following peer firm incidents.

Overall, these findings suggest that the value implications of engagement are heterogeneous across ESG domains and contexts. In particular, the value-enhancing effects of E/S engagement appear to be stronger when engagement is triggered by ESG shocks, whereas governance engagement seems to rely more on investors' internal assessment. This could be because investors have particularly strong incentives to conduct high-quality internal research on governance issues, whereas they are relatively less incentivized to do so for E/S issues, making external incident

signals more informative in guiding engagement.

6 Engagement Approach

Finally, we leverage the detailed engagement information to examine whether engagement approaches matter for engagement success. We estimate regressions at the engagement-case level, where the dependent variable is an indicator for whether an engagement is tagged as successful. We restrict the sample to engagement records classified as either successful or unsuccessful. The key independent variables are indicators for different engagement approaches. Since many approaches occur infrequently, we group similar approaches into three categories: (1) meeting-related approaches, including meetings, conferences, site visits, phone calls, shareholder voting, digital meetings, shareholder resolutions, shareholder questions, and shareholder dialogue; (2) letter-related approaches, including letters and emails; and (3) other approaches, including those categorized as "other" or missing. We apply a similar classification to management involvement, distinguishing between senior management (CEO, CFO, board members, and senior management) and junior management (e.g., CSR, investor relations, compliance, operations, sustainability departments, human resources, and finance and accounting).

Table 8 reports the results. From Columns (1) to (4), we first include indicators for meeting- and letter-based approaches, and then progressively add engagement-level and firm-level controls. We include industry, country, and year-month fixed effects across all specifications. The results show that meeting-related approaches, which capture more intensive and resource-intensive engagement efforts, are consistently associated with a higher probability of success. In contrast, letter-related approaches, which are less intensive, are less likely to lead to successful outcomes. Among the control variables, environmental engagement is less likely to be successful, while internal engagement is more likely to succeed. In addition, engagement is more likely to be successful when the asset manager holds a larger ownership stake in the focal firm, consistent with greater control rights and bargaining power. Taken together, these results highlight that both the intensity of engagement and the investor's influence play an important role in determining engagement success.

7 Conclusion

This paper studies how ESG shocks shape institutional monitoring. Using proprieraty engagement records from a large asset management company, we show that ESG incidents are a central

trigger of engagement decisions. When benchmarked against a wide set of firm characteristics, incident exposure is among the most important predictors of engagement. Importantly, investors respond not only to incidents involving focal portfolio firms but also to incidents involving peer firms, suggesting that investors interpret ESG incidents as informative signals about broader risk exposures within a competitive environment and engage in a preemptive manner.

We provide evidence on the mechanisms underlying this pattern. First, ESG incidents are associated with sharp declines in public ESG sentiment, and engagement responses are significantly stronger when incidents are accompanied by negative sentiment reactions, indicating that incident-induced sentiment deterioration plays an important rolw in triggering engagement. Second, we document that reputational considerations also matter: investors are more responsive to incidents at more visible firms and are more likely to publicly reference successful engagements following incident exposure. Third, the response to incidents is stronger for firms with higher prior ESG perceptions, consistent with an informational updating channel in which incidents reveal previously unobserved ESG weaknesses.

We further show that incident-driven engagement is associated with economically meaningful consequences. Engagement following incidents mitigates the subsequent deterioration in ESG sentiment and is associated with a reduction in future ESG incidents at the focal firm. In addition, engagement attenuates the decline in institutional ownership following incidents, suggesting that active monitoring may help stabilize investor support in the aftermath of negative ESG events. Finally, we find that engagement following incidents contribute to better firm value. We also find that how to engage matters: engagement in a more intense manner is more likely to achieve success.

Overall, this study shows that ESG incidents play a central role in shaping when and how institutional investors engage with firms. We move beyond firm characteristics as static predictors of engagement and demonstrate that salient ESG shocks, including those affecting competitive peers, serve as key triggers of both reactive and preemptive monitoring. By leveraging these shocks, we provide evidence that incident-driven engagement is more informed and consequential. Our findings further highlight that engagement effectiveness depends not only on timing but also on the form and intensity of engagement approaches. Taken together, the results position ESG incidents as an important catalyst of external governance and show how they inform institutional monitoring.

One potential limitation of our setting is generalizability, as our analysis focuses on a single asset manager with a pronounced ESG orientation. However, the growing scale of responsible

investment suggests that the focal asset manager may be representing a broader and broader segment of the investment community. For example, the number of signatories to the Principles of Responsible Investment reached 5,345 as of 31 March 2024, collectively managing USD 128.4 trillion in assets.[4] As of August 2025, over 600 investors have joined Climate Action 100+, a collaborative initiative to engage systemically important emitters. Moreover, leading global asset managers, such as BlackRock, now routinely publish stewardship reports detailing their engagement priorities and activities, including various ESG topics.[5] These trends indicate that the findings we document are likely to extend to a broadening set of institutional investors.

[4]Source: PRI Annual Report 2024

[5]See, for example, BlackRock Investment Stewardship

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8 Figures

Figure 1: Number of Engagements by Year

This figure plots the number of engagement records initiated each year, disaggregated by environmental, social, and governance categories.

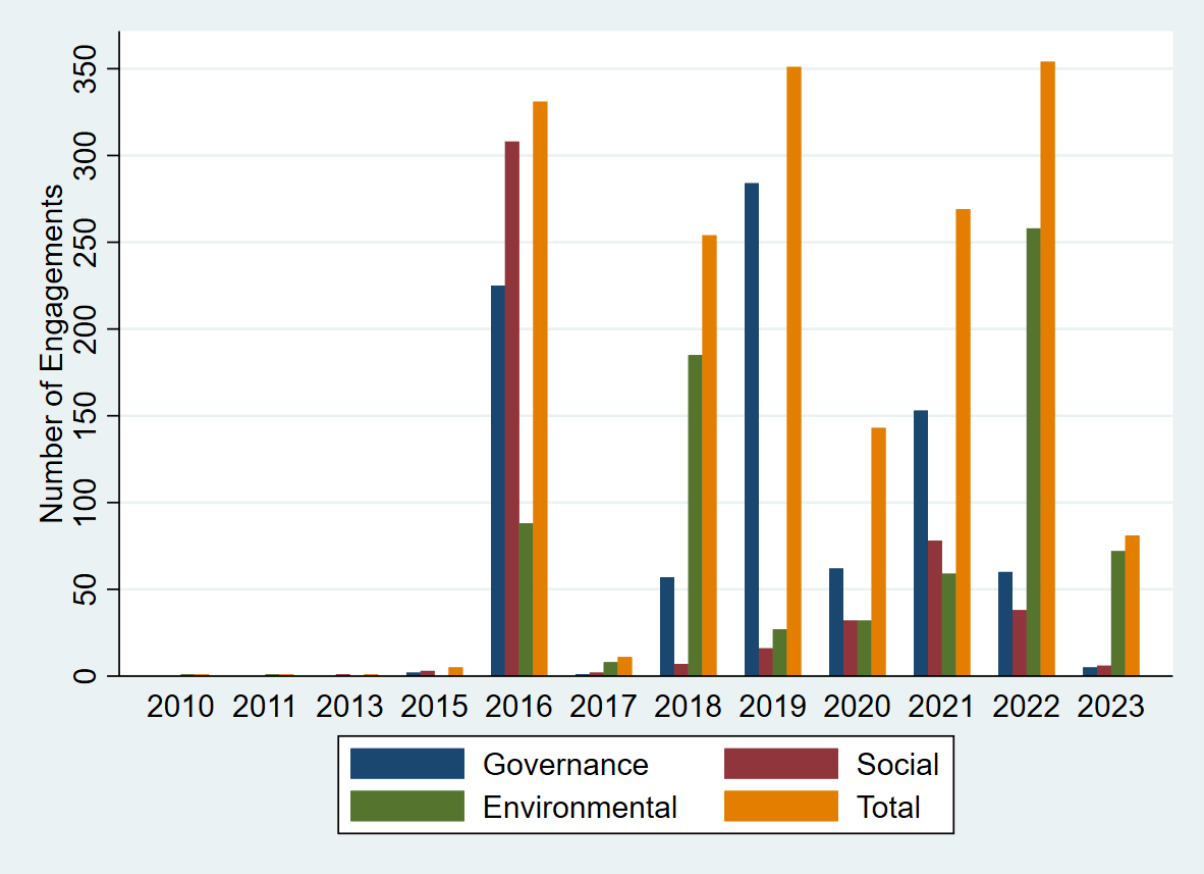
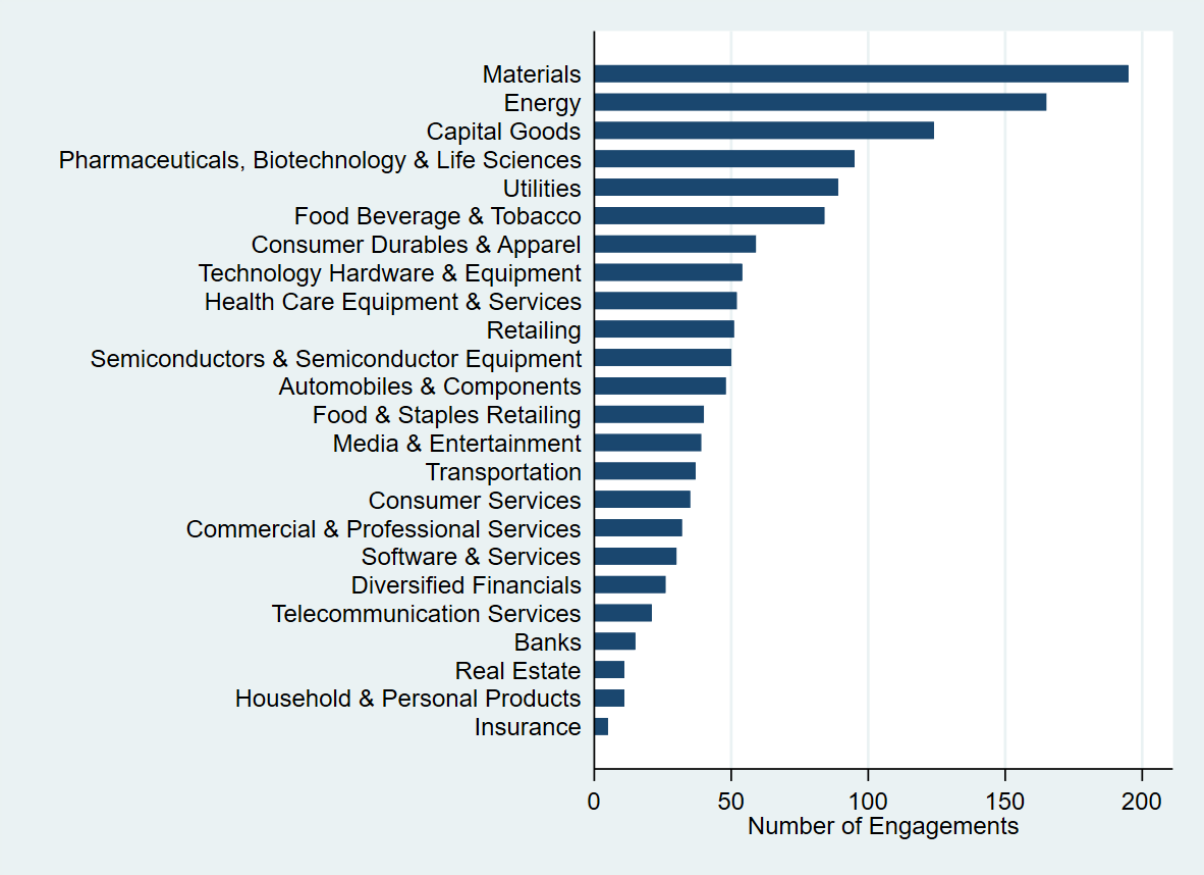
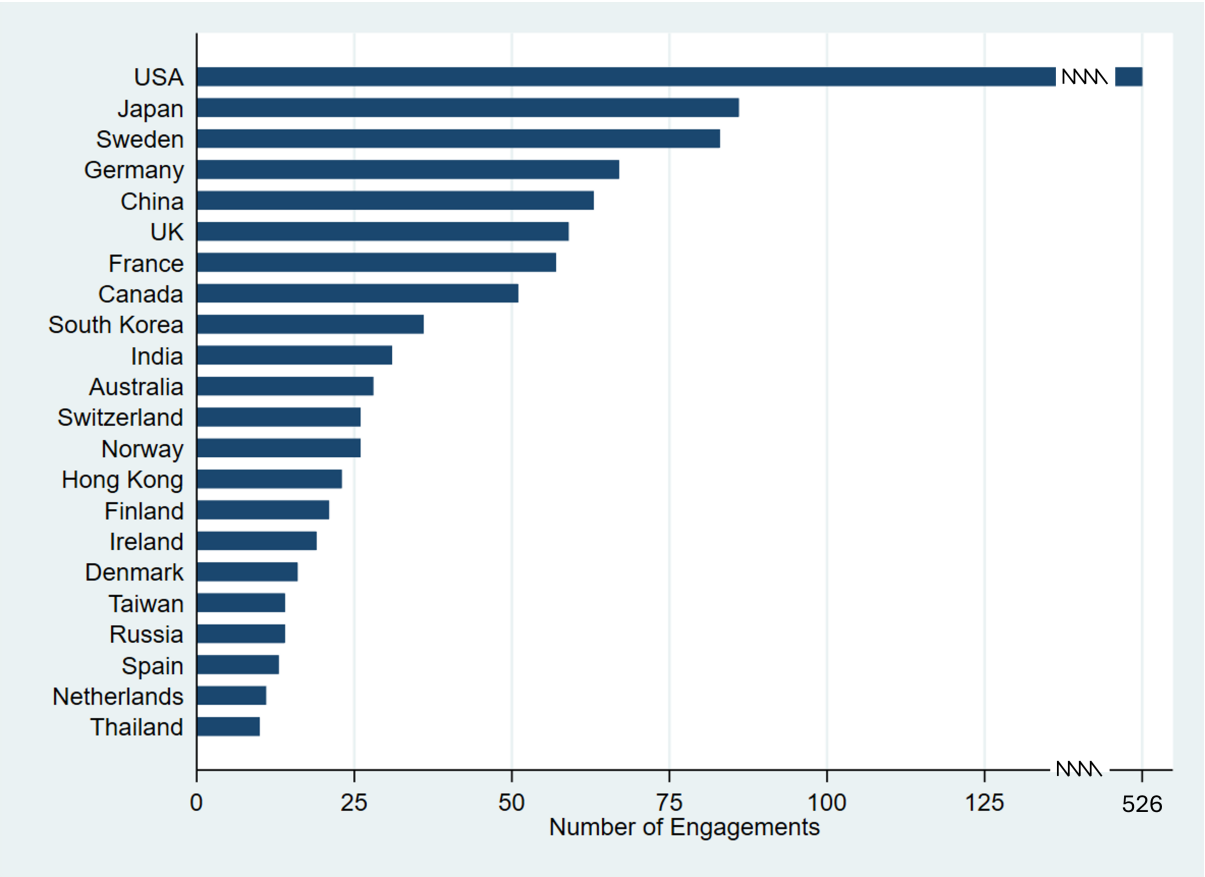


Figure 2: Number of Engagements by Industry and Country/Region

This figure shows the number of engagement records by industries and countries. Subfigure (a) shows the number of engagement records by GICS industry group. Subfigure (b) shows the number of engagement records by headquarters country or region, including only those with at least 10 engagements.



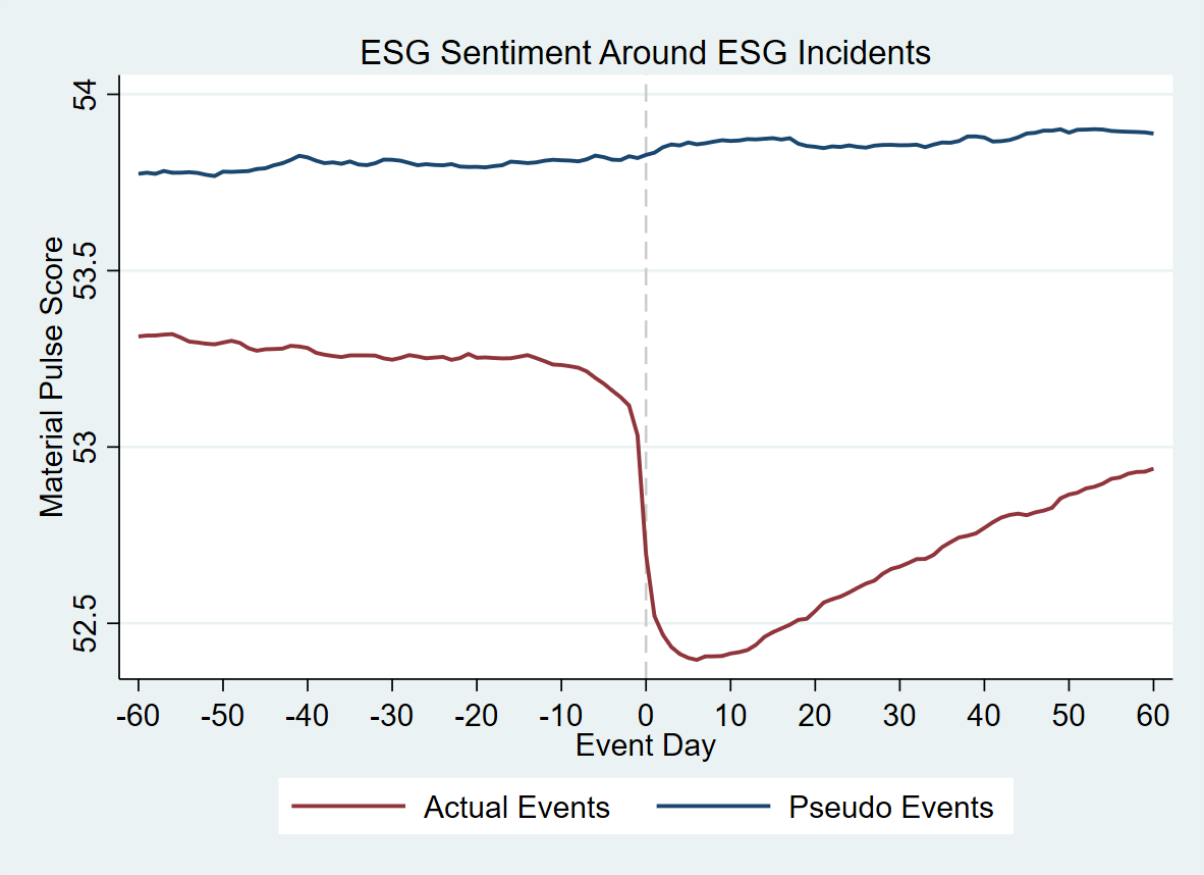
(a) Number of Engagements by Industry (GICS2)



(b) Number of Engagements by Country or Region

Figure 3: ESG Sentiment Around ESG Incidents

This figure shows the average material pulse score of sample firms around ESG incidents, covering event days -60 to +60, with day 0 indicating the incident date. The red line represents actual incidents, while the blue line depicts scores around randomly assigned pseudo-event dates.



9 Tables

Table 1: Summary Statistics

This table reports summary statistics. Panel A reports key characteristics of engagement records. *Internal* is a dummy variable equal to one if the engagement was conducted solely by the asset manager, and zero if conducted collaboratively with other institutions. *Successful* equals one if the engagement was recorded as successful, and zero if recorded as neutral, none, unsuccessful, or missing. *Number of Engagement Actions* denotes the total number of follow-up actions taken after the engagement was initiated. *Months btw. Creation & Last Action* is the number of months between the creation of the engagement and its final recorded action. *Approach: [Type]* and *Contact: [Type]* are indicators for whether the specified approach or contact category was involved throughout the engagement. Panel B reports the summary statistics of key regression variables. Detailed variable definitions are provided in Appendix A.

Panel A: Engagement Data

	count	mean	sd	p25	p50	p75	min	max
Internal	1,802	0.4245	0.49	0.00	0.00	1.00	0.00	1.00
Successful	1,802	0.3640	0.48	0.00	0.00	1.00	0.00	1.00
Number of Engagement Actions	1,802	1.4218	1.08	1.00	1.00	2.00	0.00	14.00
Months btw. Creation & Last Action	1,541	14.5198	20.65	0.00	3.00	20.00	0.00	117.00
Approach: Meeting	1,802	0.0294	0.17	0.00	0.00	0.00	0.00	1.00
Approach: Conference	1,802	0.0011	0.03	0.00	0.00	0.00	0.00	1.00
Approach: Site visit	1,802	0.0022	0.05	0.00	0.00	0.00	0.00	1.00
Approach: Phone call	1,802	0.0361	0.19	0.00	0.00	0.00	0.00	1.00
Approach: Letter	1,802	0.4534	0.50	0.00	0.00	1.00	0.00	1.00
Approach: E-mail	1,802	0.1382	0.35	0.00	0.00	0.00	0.00	1.00
Approach: Shareholder voting	1,802	0.0017	0.04	0.00	0.00	0.00	0.00	1.00
Approach: Digital meeting	1,802	0.2075	0.41	0.00	0.00	0.00	0.00	1.00
Approach: Shareholder resolution	1,802	0.0017	0.04	0.00	0.00	0.00	0.00	1.00
Approach: Other	1,802	0.2281	0.42	0.00	0.00	0.00	0.00	1.00
Contact: CEO	1,802	0.0255	0.16	0.00	0.00	0.00	0.00	1.00
Contact: CFO	1,802	0.0028	0.05	0.00	0.00	0.00	0.00	1.00
Contact: CSR	1,802	0.0050	0.07	0.00	0.00	0.00	0.00	1.00
Contact: IR	1,802	0.0333	0.18	0.00	0.00	0.00	0.00	1.00
Contact: Board	1,802	0.0039	0.06	0.00	0.00	0.00	0.00	1.00
Contact: Senior management	1,802	0.0044	0.07	0.00	0.00	0.00	0.00	1.00
Contact: Operational management	1,802	0.0006	0.02	0.00	0.00	0.00	0.00	1.00
Contact: Sustainability dept.	1,802	0.0094	0.10	0.00	0.00	0.00	0.00	1.00
Contact: Human Resources	1,802	0.0006	0.02	0.00	0.00	0.00	0.00	1.00
Contact: Corporate secretary	1,802	0.0017	0.04	0.00	0.00	0.00	0.00	1.00

Table 1: Summary Statistics (continued)

Panel B: Key Regression Variables

	count	mean	sd	p25	p50	p75	min	max
Engage: ESG	216,179	0.0050	0.07	0.00	0.00	0.00	0.00	1.00
Engage: Environmental	216,134	0.0019	0.04	0.00	0.00	0.00	0.00	1.00
Engage: Social	216,134	0.0013	0.04	0.00	0.00	0.00	0.00	1.00
Engage: Governance	216,134	0.0026	0.05	0.00	0.00	0.00	0.00	1.00
Ln Own Incident: ESG	216,179	0.4522	0.74	0.00	0.00	0.69	0.00	3.22
Ln Own Incident: Environmental	216,179	0.1794	0.45	0.00	0.00	0.00	0.00	2.20
Ln Own Incident: Social	216,179	0.2726	0.56	0.00	0.00	0.00	0.00	2.48
Ln Own Incident: Governance	216,179	0.2291	0.50	0.00	0.00	0.00	0.00	2.40
Ln Competitor Incident: ESG	89,069	1.1177	0.90	0.37	0.97	1.70	0.00	3.55
Ln Competitor Incident: Environmental	89,069	0.4542	0.57	0.00	0.23	0.69	0.00	2.55
Ln Competitor Incident: Social	89,069	0.7305	0.72	0.13	0.54	1.12	0.00	2.96
Ln Competitor Incident: Governance	89,069	0.6637	0.66	0.08	0.48	1.08	0.00	2.65
Ln Customer Incident: ESG	97,474	1.4003	1.01	0.56	1.39	2.14	0.00	3.81
Ln Customer Incident: Environmental	97,474	0.6360	0.72	0.00	0.41	1.03	0.00	2.94
Ln Customer Incident: Social	97,474	0.9123	0.80	0.10	0.81	1.44	0.00	3.10
Ln Customer Incident: Governance	97,474	0.8324	0.73	0.00	0.71	1.35	0.00	2.83
Ln Supplier Incident: ESG	88,033	1.3699	1.14	0.29	1.25	2.20	0.00	4.18
Ln Supplier Incident: Environmental	88,033	0.5836	0.73	0.00	0.29	0.94	0.00	3.01
Ln Supplier Incident: Social	88,033	0.9493	0.95	0.00	0.69	1.58	0.00	3.64
Ln Supplier Incident: Governance	88,033	0.8579	0.86	0.00	0.69	1.41	0.00	3.15
Ln Partner Incident: ESG	121,409	1.0821	0.96	0.00	0.94	1.79	0.00	3.54
Ln Partner Incident: Environmental	121,409	0.5251	0.68	0.00	0.22	0.85	0.00	2.65
Ln Partner Incident: Social	121,409	0.7092	0.75	0.00	0.51	1.19	0.00	2.93
Ln Partner Incident: Governance	121,409	0.6562	0.72	0.00	0.45	1.10	0.00	2.77
Ln Own Incident : ΔSentiment < 0	216,179	0.1937	0.51	0.00	0.00	0.00	0.00	2.56
Ln Own Incident : ΔSentiment ≥ 0	216,179	0.3446	0.61	0.00	0.00	0.69	0.00	2.64
Ln Competitor Incident : ΔSentiment < 0	89,069	0.6719	0.73	0.00	0.41	1.10	0.00	2.87
Ln Competitor Incident : ΔSentiment ≥ 0	89,069	0.8260	0.72	0.22	0.69	1.25	0.00	2.91
Size	216,179	9.1192	1.49	8.12	9.04	10.05	5.55	13.19
Market-to-book	216,179	4.1275	5.64	1.42	2.40	4.31	0.42	39.64
Sales Growth	216,179	0.0917	0.21	-0.00	0.06	0.15	-0.42	1.09
ROA	216,179	0.1244	0.08	0.08	0.11	0.16	-0.07	0.40
Leverage	216,179	0.3748	0.22	0.21	0.37	0.53	0.00	0.90
Cash Holding	216,179	0.1397	0.13	0.04	0.10	0.19	0.00	0.65
Capital Expenditure	216,179	0.0409	0.04	0.01	0.03	0.06	0.00	0.19
Institutional Own.	216,179	0.5342	0.30	0.26	0.50	0.83	0.05	1.00
Asset Manager Own.	216,179	0.0031	0.01	0.00	0.00	0.00	0.00	0.05
Refinitiv ESG Score	216,179	0.5356	0.20	0.39	0.55	0.69	0.08	0.89
ΔTV Insight: Material_1M	124,722	0.0053	0.08	-0.03	0.00	0.04	-0.21	0.32
ΔTV Insight: Material_2M	124,568	0.0083	0.10	-0.04	0.00	0.05	-0.26	0.42
ΔTV Insight: Material_3M	124,396	0.0116	0.12	-0.04	0.00	0.06	-0.31	0.52
ΔTV Insight: Material_Mean	124,392	0.0085	0.10	-0.04	0.00	0.05	-0.26	0.41
ΔOwn Incident: ESG	63,306	0.0550	1.19	-0.80	-0.18	0.40	-1.00	5.33
ΔOwn Incident: E/S	46,618	-0.0402	1.14	-1.00	-0.33	0.25	-1.00	5.00
ΔOwn Incident: Gov	40,864	-0.1478	1.10	-1.00	-0.50	0.00	-1.00	5.00
ΔInstitutional Own.	118,055	0.0299	0.14	-0.03	0.01	0.08	-0.37	0.59
BHAR [1M, 12M]	132,436	-0.0110	0.32	-0.20	-0.03	0.14	-1.34	6.69

Table 2: ESG Incidents and Engagement: Main Results

This table reports the effects of ESG incidents on engagement probability. The dependent variable is a dummy that equals 1 if a firm was engaged in a given month and 0 otherwise, multiplied by 100. Panel A reports the effects of firm own incidents. *Ln Own Incidents: ESG* is the logarithm of one plus the number of ESG incidents within the past three months. *Ln Own Incidents: Environmental*, *Ln Own Incidents: Social*, and *Ln Own Incidents: Governance* are the logarithm of one plus the number of environmental, social, and governance incidents within the past three months, respectively. Panel B reports the effects of comptitor incidnets. *Ln Competitor Incidents: ESG* is defined as the logarithm of one plus the average number of ESG incidents over the past three months across the firm's competitors. *Ln Competitor Incidents: Environmental*, *Ln Competitor Incidents: Social*, and *Ln Competitor Incidents: Governance* are defined as the logarithm of one plus the average number of environmental, social, and governance incidents, respectively, over the past three months across the firm's competitors. Control variables include *Size*, *Market-to-book*, *Sales Growth*, *ROA*, *Leverage*, *Cash Holding*, *Capital Expenditure*, *Institutional Own.*, *Asset Manager Own.*, and *Refinitiv ESG Score*. In Panel B, we additionally control for the number of the firm's own incidents in the corresponding ESG category. See Appendix A for definitions of other variables. Column (1) examines ESG engagement in aggregate. Columns (2) focuses on environmental engagements, Columns (3) examines social engagements, and Columns (4) analyzes governance engagements. Standard errors clustered at the firm level are reported in parentheses. * p<.10; ** p<.05; *** p<.01.

Panel A: Firm Own Incidents

	Any Kinds	Environ.	Social	Govern.
	(1)	(2)	(3)	(4)
Ln Own Incident: ESG	0.352***			
	(0.035)			
Ln Own Incident: Environmental		0.366***		
		(0.038)		
Ln Own Incident: Social			0.157***	
			(0.022)	
Ln Own Incident: Governance				0.206***
				(0.040)
Industry × Month FE	✓	✓	✓	✓
Country × Month FE	✓	✓	✓	✓
Control Variables	Yes	Yes	Yes	Yes
Observations	214,928	214,883	214,883	214,883
R^2	0.17	0.18	0.23	0.18

Table 2: ESG Incidents and Engagement: Main Results (continued)

Panel B: Competitor Incidents

	Any Kinds	Environ.	Social	Govern.
	(1)	(2)	(3)	(4)
Ln Competitor Incident: ESG	0.082***			
	(0.030)			
Ln Competitor Incident: Environmental		0.085**		
		(0.035)		
Ln Competitor Incident: Social			0.052***	
			(0.019)	
Ln Competitor Incident: Governance				0.053
				(0.032)
Industry × Month FE	✓	✓	✓	✓
Country × Month FE	✓	✓	✓	✓
Control Variables	Yes	Yes	Yes	Yes
Own Incidents	Yes	Yes	Yes	Yes
Observations	87,425	87,404	87,404	87,404
R^2	0.21	0.23	0.30	0.22

Table 3: Other Business Partner Incidents and Engagement

This table reports the effects of ESG incidents involving suppliers, customers, and stratigic partners on engagement probability. The dependent variable is a dummy that equals 1 if a firm was engaged in a given month and 0 otherwise, multiplied by 100. Panel A reports the effects of supplier incidents. *Ln Supplier Incidents: ESG* is defined as the logarithm of one plus the average number of ESG incidents over the past three months across the firm's suppliers. *Ln Supplier Incidents: Environmental*, *Ln Supplier Incidents: Social*, and *Ln Supplier Incidents: Governance* are defined as the logarithm of one plus the average number of environmental, social, and governance incidents, respectively, over the past three months across the firm's suppliers. Panel B reports the effects of customer incidents. *Ln Customer Incidents: ESG* is defined as the logarithm of one plus the average number of ESG incidents over the past three months across the firm's customers. *Ln Customer Incidents: Environmental*, *Ln Customer Incidents: Social*, and *Ln Customer Incidents: Governance* are defined as the logarithm of one plus the average number of environmental, social, and governance incidents, respectively, over the past three months across the firm's customers. Panel C reports the effects of stratigic partner incidents. *Ln Partner Incidents: ESG* is defined as the logarithm of one plus the average number of ESG incidents over the past three months across the firm's strategic partners. *Ln Partner Incidents: Environmental*, *Ln Partner Incidents: Social*, and *Ln Partner Incidents: Governance* are defined as the logarithm of one plus the average number of environmental, social, and governance incidents, respectively, over the past three months across the firm's strategic partners. Control variables include *Size*, *Market-to-book*, *Sales Growth*, *ROA*, *Leverage*, *Cash Holding*, *Capital Expenditure*, *Institutional Own.*, *Asset Manager Own.*, and *Refinitiv ESG Score*. We additionally control for the number of a firm's own incidents in the corresponding ESG category. See Appendix A for variable definitions. Column (1) examines ESG engagement in aggregate. Columns (2) focuses on environmental engagements, Columns (3) examines social engagements, and Columns (4) analyzes governance engagements. Standard errors clustered at the firm level are reported in parentheses. * p<.10; ** p<.05; *** p<.01.

Panel A: Supplier Incidents

	Any Kinds	Environ.	Social	Govern.
	(1)	(2)	(3)	(4)
Ln Supplier Incident: ESG	-0.049*			
	(0.026)			
Ln Supplier Incident: Environmental		-0.027		
		(0.027)		
Ln Supplier Incident: Social			-0.009	
			(0.013)	
Ln Supplier Incident: Governance				-0.032
				(0.025)
Industry × Month FE	✓	✓	✓	✓
Country × Month FE	✓	✓	✓	✓
Control Variables	Yes	Yes	Yes	Yes
Own Incidents	Yes	Yes	Yes	Yes
Observations	86,465	86,442	86,442	86,442
R^2	0.23	0.24	0.31	0.23

Table 3: Other Business Partner Incidents and Engagement (continued)

Panel B: Customer Incidents

	Any Kinds	Environ.	Social	Govern.
	(1)	(2)	(3)	(4)
Ln Customer Incident: ESG	0.004			
	(0.025)			
Ln Customer Incident: Environmental		-0.005		
		(0.024)		
Ln Customer Incident: Social			-0.025	
			(0.015)	
Ln Customer Incident: Governance				0.009
				(0.026)
Industry × Month FE	✓	✓	✓	✓
Country × Month FE	✓	✓	✓	✓
Control Variables	Yes	Yes	Yes	Yes
Own Incidents	Yes	Yes	Yes	Yes
Observations	95,934	95,913	95,913	95,913
R^2	0.22	0.24	0.30	0.22

Panel C: Partner Incidents

	Any Kinds	Environ.	Social	Govern.
	(1)	(2)	(3)	(4)
Ln Partner Incident: ESG	-0.008			
	(0.024)			
Ln Partner Incident: Environmental		0.035		
		(0.023)		
Ln Partner Incident: Social			-0.009	
			(0.015)	
Ln Partner Incident: Governance				-0.028
				(0.024)
Industry × Month FE	✓	✓	✓	✓
Country × Month FE	✓	✓	✓	✓
Control Variables	Yes	Yes	Yes	Yes
Own Incidents	Yes	Yes	Yes	Yes
Observations	119,812	119,783	119,783	119,783
R^2	0.20	0.22	0.27	0.21

Table 4: ESG Incidents and Engagement: Heterogeneity

This table reports the heterogeneous effects of ESG incidents on the probability of engagement across incident and firm characteristics. The dependent variable is a dummy equal to 1 if a firm is engaged in a given month and 0 otherwise, multiplied by 100. Panel A reports the results for firms' own incidents. *Ln Own Incident:* Δ*Sentiment* < 0 and *Ln Own Incident:* Δ*Sentiment* ≥ 0 are the logarithm of one plus the number of ESG incidents over the past three months that are associated with a decline or a non-decline in ESG sentiment, respectively. ESG sentiment is measured using the *Material Pulse Score* from the FactSet Truvalue SASB Scores dataset. Panel B reports the results for competitor incidents. *Ln Competitor Incident:* Δ*Sentiment* < 0 and *Ln Competitor Incident:* Δ*Sentiment* ≥ 0 are defined as the logarithm of one plus the average number of ESG incidents over the past three months across the firm's competitors that are associated with a decline or a non-decline in ESG sentiment, respectively. In Panel B, we additionally control for the number of the firm's own ESG incidents. *Ln Article Number* is the logarithm of one plus the average annual number of ESG-related media articles referencing the firm over 2007–2022. *Refinitiv ESG Score* is the ESG score provided by Refinitiv. *TV Material Insight* is the material Insight score from the FactSet Truvalue SASB Scores dataset. Control variables include *Size*, *Market-to-book*, *Sales Growth*, *ROA*, *Leverage*, *Cash Holding*, *Capital Expenditure*, *Institutional Own.*, *Asset Manager Own.*, and *Refinitiv ESG Score*. See Appendix A for variable definitions. Standard errors clustered at the firm level are reported in parentheses.

Panel A: Firm Own Incidents

	(1)	(2)	(3)	(4)	(5)
Ln Own Incident : ΔSentiment < 0	0.357***				
	(0.055)				
Ln Own Incident : ΔSentiment ≥ 0	0.206***				
	(0.042)				
Ln Own Incident: ESG $\times$ Size		0.089***			
		(0.025)			
Ln Own Incident: ESG $\times$ Ln Article Number			0.104***		
			(0.018)		
Ln Own Incident: ESG $\times$ Refinitiv ESG Score				0.944***	
				(0.159)	
Ln Own Incident: ESG $\times$ TV Material Insight					0.004*
					(0.002)
Industry $\times$ Month FE	✓	✓	✓	✓	✓
Country $\times$ Month FE	✓	✓	✓	✓	✓
Control Variables	Yes	Yes	Yes	Yes	Yes
Coef. Diff	0.151				
F-statistics	3.578				
p-value	0.059				
Observations	214,928	214,928	214,320	214,928	189,683
R^2	0.17	0.17	0.17	0.17	0.18

Table 4: ESG Incidents and Engagement: Heterogeneity (continued)

Panel B: Competitor Incidents

	(1)	(2)	(3)	(4)	(5)
Ln Competitor Incident : ΔSentiment < 0	0.221***				
	(0.081)				
Ln Competitor Incident : ΔSentiment ≥ 0	-0.102				
	(0.082)				
Ln Competitor Incident: ESG $\times$ Size		0.043*			
		(0.024)			
Ln Competitor Incident: ESG $\times$ Ln Article Number			0.059***		
			(0.021)		
Ln Competitor Incident: ESG $\times$ Refinitiv ESG Score				0.530***	
				(0.176)	
Ln Competitor Incident: ESG $\times$ TV Material Insight					0.004**
					(0.002)
Industry $\times$ Month FE	✓	✓	✓	✓	✓
Country $\times$ Month FE	✓	✓	✓	✓	✓
Control Variables	Yes	Yes	Yes	Yes	Yes
Own Incidents	Yes	Yes	Yes	Yes	Yes
Coef. Diff	0.323				
F-statistics	4.179				
p-value	0.041				
Observations	87,425	87,425	87,254	87,425	81,669
R^2	0.21	0.21	0.21	0.21	0.22

Table 5: Incidents and the Tendency to Publicize Engagement

This table reports the effects of ESG incidents on the likelihood that engagement is publicly observable. The dependent variable is a dummy equal to 1 if an engagement case is publicly observable and 0 otherwise. The unit of observation is the engagement case. *Ln Own Incident: ESG*, *Ln Own Incident: E/S*, and *Ln Own Incident: Governance* are defined as the logarithm of one plus the number of ESG, environmental and social, and governance incidents, respectively, over the three months preceding the engagement. *Ln Competitor Incident: ESG*, *Ln Competitor Incident: E/S*, and *Ln Competitor Incident: Governance* are defined as the logarithm of one plus the average number of incidents over the past three months across the firm's competitors in the corresponding ESG category. *Success* is a dummy equal to 1 if the engagement is tagged as successful and 0 otherwise. Control variables include *Size*, *Market-to-book*, *Sales Growth*, *ROA*, *Leverage*, *Cash Holding*, *Capital Expenditure*, *Institutional Own.*, *Asset Manager Own.*, and *Refinitiv ESG Score*. See Appendix A for variable definitions. Engagement features include indicators for engagement approaches, ESG categories, management involvement, and collaboration status. Standard errors clustered at the firm level are reported in parentheses. Columns (1) to (3) focus on firms' own incidents, while Columns (4) to (6) focus on competitor incidents.

	Publicized					
	(1)	(2)	(3)	(4)	(5)	(6)
Ln Own Incident: ESG × Success	0.028**					
	(0.014)					
Ln Own Incident: E/S × Success		0.044***				
		(0.017)				
Ln Own Incident: Governance × Success			0.024			
			(0.017)			
Ln Competitor Incident: ESG × Success				-0.017		
				(0.027)		
Ln Competitor Incident: E/S × Success					-0.003	
					(0.030)	
Ln Competitor Incident: Governance × Success						-0.027
						(0.036)
Ln Own Incident: ESG	-0.032**					
	(0.013)					
Ln Own Incident: E/S		-0.035**				
		(0.014)				
Ln Own Incident: Governance			-0.038**			
			(0.017)			
Ln Competitor Incident: ESG				-0.006		
				(0.023)		
Ln Competitor Incident: E/S					-0.018	
					(0.027)	
Ln Competitor Incident: Governance						-0.010
						(0.027)
Success	0.018	0.015	0.031	0.080	0.059	0.076
	(0.023)	(0.023)	(0.022)	(0.055)	(0.052)	(0.051)
Industry FE	✓	✓	✓	✓	✓	✓
Country FE	✓	✓	✓	✓	✓	✓
Month FE	✓	✓	✓	✓	✓	✓
Control Variables	Yes	Yes	Yes	Yes	Yes	Yes
Engagement Features	Yes	Yes	Yes	Yes	Yes	Yes
Observations	539	539	539	240	240	240
R^2	0.66	0.66	0.66	0.79	0.79	0.79

Table 6: Engagement and ESG Sentiment

This table reports the effects of ESG engagement on subsequent ESG sentiment. The dependent variables in Columns (1)–(4) are the percentage changes in the *Material Insight Score* from the FactSet Truvalue SASB Scores dataset measured at the end of one, two, and three months following month *t*, as well as their average, relative to the average score over the three months preceding month *t*. Columns (5)–(8) use the same outcome measures but focus on competitor-related incident exposure. *Engage: ESG* is a dummy equal to 1 if the firm is engaged in a given month and 0 otherwise. *Ln Own Incident:* Δ*Sentiment* < 0 is defined as the logarithm of one plus the number of the firm's own ESG incidents over the past three months that are associated with a decline in ESG sentiment. *Ln Competitor Incident:* Δ*Sentiment* < 0 is defined as the logarithm of one plus the average number of ESG incidents over the past three months across the firm's competitors that are associated with a decline in ESG sentiment. Control variables include *Size*, *Market-to-book*, *Sales Growth*, *ROA*, *Leverage*, *Cash Holding*, *Capital Expenditure*, *Institutional Own.*, *Asset Manager Own.*, and *Refinitiv ESG Score*. See Appendix A for variable definitions. Standard errors clustered at the firm level are reported in parentheses. * p<.10; ** p<.05; *** p<.01.

	ΔTV Insight: Material				ΔTV Insight: Material			
	(1) 1M	(2) 2M	(3) 3M	(4) Mean	(5) 1M	(6) 2M	(7) 3M	(8) Mean
Engage: ESG × Ln Own Incident : ΔSentiment < 0	0.009***	0.011***	0.012***	0.010***				
	(0.003)	(0.003)	(0.004)	(0.003)				
Engage: ESG × Ln Competitor Incident : ΔSentiment < 0					0.011***	0.013***	0.013**	0.012***
					(0.004)	(0.004)	(0.005)	(0.004)
Engage: ESG	-0.002	-0.000	0.001	-0.000	-0.012**	-0.011*	-0.011	-0.011*
	(0.003)	(0.004)	(0.004)	(0.004)	(0.005)	(0.006)	(0.008)	(0.006)
Ln Own Incident : ΔSentiment < 0	-0.017***	-0.020***	-0.023***	-0.020***	-0.016***	-0.020***	-0.023***	-0.020***
	(0.001)	(0.002)	(0.002)	(0.002)	(0.002)	(0.003)	(0.003)	(0.003)
Ln Competitor Incident : ΔSentiment < 0					-0.000	-0.000	-0.001	-0.001
					(0.001)	(0.001)	(0.002)	(0.001)
Industry FE	✓	✓	✓	✓	✓	✓	✓	✓
Country FE	✓	✓	✓	✓	✓	✓	✓	✓
Month FE	✓	✓	✓	✓	✓	✓	✓	✓
Control Variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	124,720	124,566	124,394	124,390	52,049	51,976	51,897	51,895
R^2	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.02

Table 7: Engagement Outcomes

This table reports the effects of ESG engagement on subsequent firm outcomes. The dependent variables are Δ*Own Incidents*, Δ*Institutional Ownership*, and buy-and-hold abnormal returns over the subsequent twelve months (*BHAR [1M, 12M]*). Δ*Own Incidents* is defined as the proportional change in the average number of ESG incidents in non-overlapping three-month windows over the next twelve months, relative to the corresponding average over the twelve months preceding month *t*. Δ*Institutional Ownership* is defined as the proportional change in the average quarter-end institutional ownership over the four quarters following month *t*, relative to the average over the four quarters preceding month *t*. *BHAR [1M, 12M]* is the buy-and-hold abnormal return from month *t+1* to *t+12* relative to the market return over the same period. *Engage: ESG*, *Engage: E/S*, and *Engage: Gov* are dummies equal to 1 if the firm is engaged on ESG, environmental and social, or governance issues, respectively, in a given month and 0 otherwise. *Ln Own Incidents: ESG*, *Ln Own Incidents: E/S*, and *Ln Own Incidents: Gov* are defined as the logarithm of one plus the number of incidents in the corresponding category over the past three months. *Ln Competitor Incidents: ESG*, *Ln Competitor Incidents: E/S*, and *Ln Competitor Incidents: Gov* are defined as the logarithm of one plus the average number of incidents over the past three months across the firm's competitors in the corresponding category. Columns (1)–(3) examine outcomes in relation to firms' own incidents, while Columns (4)–(6) examine outcomes in relation to competitor incidents. Panel A reports results for ESG engagement in aggregate, Panel B for environmental and social (E/S) engagement, and Panel C for governance engagement. Control variables include *Size*, *Market-to-book*, *Sales Growth*, *ROA*, *Leverage*, *Cash Holding*, *Capital Expenditure*, *Institutional Own.*, *Asset Manager Own.*, and *Refinitiv ESG Score*. See Appendix A for variable definitions. Standard errors clustered at the firm level are reported in parentheses. * p<.10; ** p<.05; *** p<.01.

Panel A: ESG

	Panel A.1: Own Incidents			Panel A.2: Competitor Incidents		
	(1) ΔOwn Incident: ESG	(2) ΔInstitutional Own.	(3) BHAR [1M, 12M]	(4) ΔOwn Incident: ESG	(5) ΔInstitutional Own.	(6) BHAR [1M, 12M]
Engage: ESG × Ln Own Incident: ESG	-0.163***	0.017***	0.011			
	(0.046)	(0.005)	(0.013)			
Engage: ESG × Ln Competitor Incident: ESG				-0.224***	-0.001	0.021
				(0.062)	(0.007)	(0.018)
Engage: ESG	0.182**	-0.004	0.027	0.372***	0.013	0.007
	(0.081)	(0.006)	(0.018)	(0.126)	(0.012)	(0.026)
Ln Own Incident: ESG	-0.256***	-0.004*	-0.007	-0.285***	-0.004	-0.003
	(0.017)	(0.002)	(0.005)	(0.024)	(0.003)	(0.008)
Ln Competitor Incident: ESG				0.108***	-0.001	-0.004
				(0.026)	(0.003)	(0.006)
Industry FE	✓	✓	✓	✓	✓	✓
Country FE	✓	✓	✓	✓	✓	✓
Month FE	✓	✓	✓	✓	✓	✓
Control Variables	Yes	Yes	Yes	Yes	Yes	Yes
Observations	63,305	118,053	132,433	26,034	46,338	52,266
R^2	0.07	0.10	0.02	0.10	0.08	0.03

Table 7 Engagement Outcomes (continued)

Panel B: E/S

	Panel B.1: Own Incidents			Panel B.2: Competitor Incidents		
	(1) ΔOwn Incident: E/S	(2) ΔInstitutional Own.	(3) BHAR [1M, 12M]	(4) ΔOwn Incident: E/S	(5) ΔInstitutional Own.	(6) BHAR [1M, 12M]
Engage: E/S × Ln Own Incident: E/S	-0.467***	0.013*	0.049**			
	(0.080)	(0.007)	(0.022)			
Engage: E/S × Ln Competitor Incident: E/S				-0.390***	-0.006	0.045*
				(0.090)	(0.010)	(0.027)
Engage: E/S	0.547***	0.008	-0.012	0.590***	0.025	-0.020
	(0.119)	(0.008)	(0.022)	(0.165)	(0.015)	(0.035)
Ln Own Incident: E/S	-0.201***	-0.003	-0.004	-0.296***	-0.005	-0.000
	(0.021)	(0.003)	(0.006)	(0.030)	(0.004)	(0.009)
Ln Competitor Incident: E/S				0.104***	-0.000	-0.005
				(0.038)	(0.003)	(0.007)
Industry FE	✓	✓	✓	✓	✓	✓
Country FE	✓	✓	✓	✓	✓	✓
Month FE	✓	✓	✓	✓	✓	✓
Control Variables	Yes	Yes	Yes	Yes	Yes	Yes
Observations	46,353	117,664	132,031	18,706	46,148	52,062
R^2	0.09	0.10	0.02	0.13	0.08	0.03

Panel C: Governance

	Panel C.1: Own Incidents			Panel C.2: Competitor Incidents		
	(1) ΔOwn Incident: Gov	(2) ΔInstitutional Own.	(3) BHAR [1M, 12M]	(4) ΔOwn Incident: Gov	(5) ΔInstitutional Own.	(6) BHAR [1M, 12M]
Engage: Gov × Ln Own Incident: Gov	-0.352***	0.016**	-0.024			
	(0.104)	(0.008)	(0.030)			
Engage: Gov × Ln Competitor Incident: Gov				-0.237**	-0.008	0.019
				(0.101)	(0.009)	(0.032)
Engage: Gov	0.385***	-0.004	0.071**	0.426**	0.015	0.032
	(0.139)	(0.007)	(0.029)	(0.165)	(0.013)	(0.031)
Ln Own Incident: Gov	-0.149***	-0.005	-0.007	-0.156***	-0.004	-0.003
	(0.023)	(0.003)	(0.006)	(0.031)	(0.005)	(0.011)
Ln Competitor Incident: Gov				0.077**	-0.002	-0.002
				(0.034)	(0.003)	(0.007)
Industry FE	✓	✓	✓	✓	✓	✓
Country FE	✓	✓	✓	✓	✓	✓
Month FE	✓	✓	✓	✓	✓	✓
Control Variables	Yes	Yes	Yes	Yes	Yes	Yes
Observations	40,570	117,747	131,947	17,146	46,189	52,054
R^2	0.10	0.10	0.02	0.13	0.08	0.03

Table 8: Engagement Approach and Success

This table reports the effects of engagement approaches on the likelihood of engagement success. The unit of observation is the engagement case. The dependent variable, *Successful*, is a dummy equal to 1 if an engagement is tagged as successful and 0 if it is tagged as unsuccessful. The sample is restricted to engagements classified as either successful or unsuccessful. *Any Approach: Meeting-related* is a dummy equal to 1 if the engagement involves at least one meeting-related approach, including meetings, conferences, site visits, phone calls, shareholder dialogue, voting, resolutions, or other direct interactions. *Any Approach: Letter-related* is a dummy equal to 1 if the engagement involves letters or emails. *Category: E* and *Category: S* are dummies indicating whether the engagement primarily targets environmental or social issues, respectively, with governance as the omitted category. *Contact: Senior* is a dummy equal to 1 if the engagement involves senior management (e.g., CEO, CFO, board, or senior executives). *Internal* is a dummy equal to 1 if the engagement is conducted internally rather than collaboratively. See Appendix A for definitions of other variables. Standard errors clustered at the firm level are reported in parentheses. * p<.10; ** p<.05; *** p<.01.

	Successful			
	(1)	(2)	(3)	(4)
Any Approach: Meeting-related	0.148***	0.152***	0.111**	0.104*
	(0.049)	(0.050)	(0.053)	(0.054)
Any Approach: Letter-related	-0.144***	-0.141***	-0.149***	-0.148***
	(0.042)	(0.041)	(0.040)	(0.042)
Category: E		-0.124**	-0.164**	-0.156**
		(0.062)	(0.065)	(0.068)
Category: S		0.097	0.051	0.082
		(0.099)	(0.105)	(0.106)
Contact: Senior			0.045	0.053
			(0.126)	(0.117)
Internal			0.168*	0.194**
			(0.092)	(0.090)
Size				0.021
				(0.026)
Market-to-book				-0.001
				(0.003)
Sales Growth				0.171**
				(0.085)
ROA				0.042
				(0.258)
Leverage				0.045
				(0.100)
Cash Holding				-0.025
				(0.138)
Capital Expenditure				-0.122
				(0.513)
Institutional Own.				0.017
				(0.124)
Asset Manager Own.				5.753**
				(2.391)
Refinitiv ESG Score				0.061
				(0.134)
Ln Own Incident: ESG				-0.022
				(0.024)
Industry FE	✓	✓	✓	✓
Country FE	✓	✓	✓	✓
Month FE	✓	✓	✓	✓
Observations	539	539	539	539
R^2	0.51	0.52	0.52	0.53

A Variable Definition

Table A.1: Variable Definitions

Variable	Definition
Engage: [*type*]	Dummy for engamenet that equals 1 if a firm was engaged on [*type*] issues at a given month and 0 otherwise. *type* $\in$ {ESG, Environmental, Social, Governance, E/S}.
Ln Own Incidents: [*type*]	ln(1 + Number of [*type*] incidents involving the focal firm over the past three months). *type* $\in$ {ESG, Environmental, Social, Governance, E/S}.
Ln Competitor Incidents: [*type*]	ln(1 + Average number of [*type*] incidents involving competitors of the focal firm over the past three months). *type* $\in$ {ESG, Environmental, Social, Governance, E/S}.
Ln Customer Incidents: [*type*]	ln(1 + Average number of [*type*] incidents involving customers of the focal firm over the past three months). *type* $\in$ {ESG, Environmental, Social, Governance, E/S}.
Ln Supplier Incidents: [*type*]	ln(1 + Average number of [*type*] incidents involving suppliers of the focal firm over the past three months). *type* $\in$ {ESG, Environmental, Social, Governance, E/S}.
Ln Partner Incidents: [*type*]	ln(1 + Average number of [*type*] incidents involving strategic partners of the focal firm over the past three months). *type* $\in$ {ESG, Environmental, Social, Governance, E/S}.
Ln Own Incident: ΔSentiment < 0	ln(1 + Number of ESG incidents with a negative sentiment involving the focal firm change over the past three months). Sentiment change is measured as the material *Pulse* score from FactSet Truvalue SASB Scores three days after the incident date minus the score three days before the incident date.
Ln Own Incident: ΔSentiment ≥ 0	ln(1 + Number of ESG incidents with a non-negative sentiment change involving the focal firm over the past three months). Sentiment change is measured as the material *Pulse* score from FactSet Truvalue SASB Scores three days after the incident date minus the score three days before the incident date.
Ln Competitor Incident: ΔSentiment < 0	ln(1 + Average number of ESG incidents with a negative sentiment change involving competitors of the focal firm over the past three months). Sentiment change is measured as the material *Pulse* score from FactSet Truvalue SASB Scores three days after the incident date minus the score three days before the incident date.

Continued on next page

Table A.1: Variable Definitions (continued)

Variable	Definition
Ln Competitor Incident: ΔSentiment ≥ 0	ln(1 + Average number of ESG incidents with a non-negative sentiment change involving competitors of the focal firm over the past three months). Sentiment change is measured as the material *Pulse* score from FactSet Truvalue SASB Scores three days after the incident date minus the score three days before the incident date.
Size	ln(1 + Total assets (USD)).
Market-to-book	$\frac{\text{Market Capitalization}}{\text{Total Common/Ordinary Equity}}$.
Sales Growth	$\frac{\text{Sales}_t}{\text{Sales}_{t-1}}$.
ROA	$\frac{\text{EBITDA}}{\text{Total Assets}}$.
Leverage	$\frac{\text{Debt in Current Liabilities+Total Long-term Debt}}{\text{Debt in Current Liabilities+Total Long-term Debt+Total Common/Ordinary Equity}}$.
Cash Holding	$\frac{\text{Cash and Short-Term Investments}}{\text{Total Assets}}$.
Capital Expenditure	$\frac{\text{Capital Expenditures}}{\text{Total Assets}}$.
Institutional Own.	Institutional ownership.
Asset Manager Own.	Ownership by the asset manager.
Refinitiv ESG Score	ESG score from Refinitiv divided by 100.
TV Material Insight	Material *Insight* score from FactSet Truvalue SASB Scores.
Ln Article Number	ln(1 + Average annual number of ESG articles received by the firm between 2007 and 2022)
BHAR [1M, 12M]	$\prod_{k=1}^{12}(1+R_{i,t+k}) - \prod_{k=1}^{12}(1+R_{m,t+k})$, where $Ret_{i,t}$ is the return of stock i in month t, and $Ret_{m,t}$ is the market return in month t.
ΔTV Insight: Material_TM	$\frac{\text{TV Insight: Material}_T - \sum_{t=-3}^{-1}\text{TV Insight: Material}_t/3}{\sum_{t=-3}^{-1}\text{TV Insight: Material}_t/3}$, where *TV Insight: Material*$_t$ refers to material *Insight* score from FactSet Truvalue SASB Scores at the end of month t relative to the current month. $T = 1, 2, 3$.
ΔTV Insight: Material_Mean	$\frac{\sum_{t=1}^{3}\text{TV Insight: Material}_t/3 - \sum_{t=-3}^{-1}\text{TV Insight: Material}_t/3}{\sum_{t=-3}^{-1}\text{TV Insight: Material}_t/3}$, where *TV Insight: Material*$_t$ refers to material *Insight* score from FactSet Truvalue SASB Scores at the end of month t relative to the current month.
ΔOwn Incidents:[type]	$\frac{\sum_{t=1}^{12}\text{Own Incidents:[type]}_t/12 - \sum_{t=-12}^{-1}\text{Own Incidents:[type]}_t/12}{\sum_{t=-12}^{-1}\text{Own Incidents:[type]}_t/12}$, where Own Incidents:[type]$_t$ refers to the number of [*type*] incidents involving the focal firm in month t relative to the current month. *type* $\in$ {ESG, Environmental, Social, Governance, E/S}.
ΔInstitutional Own.	$\frac{\sum_{t=1}^{12}\text{Institutional Own.}_t/12 - \sum_{t=-12}^{-1}\text{Institutional Own.}_t/12}{\sum_{t=-12}^{-1}\text{Institutional Own.}_t/12}$, where *Institutional Own.*$_t$ refers to institutional ownership at the end of month t relative to the current month.

B Engagement Data Details

Table A.2: Engagements by ESG Categories, Topics, and Sub-topics

This table reports the number of engagement records by ESG category, topic, and sub-topic. One engagement may correspond to multiple categories, topics, or sub-topics. In such cases, the engagement is counted separately under each relevant category, topic, or sub-topic.

Panel A: Number of Engagements by ESG Categories

Category	Environmental	Social	Governance
#	731	491	849

Panel B: Number of Engagements by Topics

Topic	Biodiversity	Climate	Human Rights	Good Governance	Theme
#	106	637	381	655	83

Panel C: Number of Engagements by Sub-topics

Sub-topic	#	Sub-topic	#	Sub-topic	#
Air and GHG Emissions	416	Deforestation	20	Covid-19 Response	3
Transparency	394	Sustainable Business Model	20	Fast Fashion	3
Human Rights Due Diligence	227	Community Impact	16	Lobbying	3
Environmental Pollution	139	Energy Management	12	Product Quality & Safety	2
Diversity	113	Artic Drilling	11	Gambling	2
Water	105	Biodiversity	11	Animal Welfare	2
Health & Safety	96	AML	9	Myanmar	2
Pharma	84	Data Privacy	8	Gender Pay Gap	1
Waste Management	83	Impact Reporting	6	Executive Remuneration	1
Tax	76	Russia	6	Anti-Competitive Behaviour	1
Human Rights	53	Cyber Security	6	Supply Chain	1
Business Ethics	44	Water and waste management	6	Arctic Drilling	1
Labour Rights	36	Sustainable Production	6	Plastics	1
TCFD	36	Natural Resource Management	6	Circularity	1
Transparency/Materiality Feedback	23	Corruption	5		
Net Zero Target	23	Alternative proteins	4		

C Economic Significance

Table A.3: ESG Incidents and Engagement: Economic Significance

The table reports the economic significance of each variable, based on the estimates from Table 2. Economic significance is calculated as the estimated coefficient multiplied by the standard deviation of the variable, divided by the mean value of engagement. See Appendix A for variable definitions. Columns (1) and (5) consider ESG engagements in aggregate. Columns (2) and (6) focus on environmental engagements, Columns (3) and (7) on social engagements, and Columns (4) and (8) on governance engagements.

	Panel A: Own Incidents				Panel B: Competitor Incidents			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Any Kinds	Environ.	Social	Govern.	Any Kinds	Environ.	Social	Govern.
Ln Own Incident: ESG	52.42%				42.08%			
Ln Competitor Incident: ESG					14.91%			
Ln Own Incident: Environmental		88.09%				79.68%		
Ln Competitor Incident: Environmental						26.15%		
Ln Own Incident: Social			65.61%				51.69%	
Ln Competitor Incident: Social							27.83%	
Ln Own Incident: Governance				39.98%				36.31%
Ln Competitor Incident: Governance								13.44%
Size	79.12%	54.89%	74.04%	107.94%	86.76%	47.15%	79.87%	124.64%
Market-to-book	21.51%	9.95%	14.84%	31.44%	18.68%	9.95%	0.42%	30.79%
Sales Growth	8.53%	12.86%	8.36%	5.19%	9.72%	12.64%	9.85%	10.09%
ROA	10.03%	6.84%	15.47%	18.11%	18.41%	6.83%	18.02%	30.05%
Leverage	-23.18%	-10.61%	-18.80%	-32.97%	-29.31%	-6.09%	-24.78%	-46.35%
Cash Holding	3.10%	-7.55%	19.18%	11.83%	4.11%	-8.80%	13.41%	14.43%
Capital Expenditure	11.58%	2.33%	23.79%	20.30%	15.34%	2.65%	29.96%	29.52%
Institutional Own.	4.15%	3.07%	17.20%	2.75%	-13.41%	-8.52%	15.31%	-17.87%
Asset Manager Own.	34.44%	18.54%	14.01%	46.21%	44.66%	11.09%	32.71%	63.17%
Refinitiv ESG Score	0.06%	2.23%	3.08%	2.82%	9.08%	-2.72%	5.40%	20.84%

D Robustness: Firm Fixed Effects

Table A.4: ESG Incidents and Engagement: Robustness

	Engagement	
	(1)	(2)
Ln Own Incident: ESG	0.196***	0.152**
	(0.044)	(0.072)
Ln Competitor Incident: ESG		0.104*
		(0.058)
Firm FE	✓	✓
Month FE	✓	✓
Control Variables	Yes	Yes
Observations	216,138	89,026
R^2	0.08	0.09

E Engagement Outcome: ICC

Table A.5: Engagement Outcome: ICC

Panel A: ESG

	ΔICC_GLS				ΔICC_GLS			
	(1) 3M	(2) 6M	(3) 9M	(4) 12M	(5) 3M	(6) 6M	(7) 9M	(8) 12M
Engage: ESG × Ln Own Incident: ESG	0.001	-0.003	-0.007	-0.008				
	(0.008)	(0.010)	(0.011)	(0.011)				
Engage: ESG × Ln Competitor Incident: ESG					-0.003	0.000	-0.005	-0.006
					(0.010)	(0.013)	(0.016)	(0.017)
Engage: ESG	-0.006	-0.003	-0.008	0.007	0.016	-0.001	0.001	0.019
	(0.009)	(0.013)	(0.015)	(0.015)	(0.016)	(0.022)	(0.029)	(0.031)
Ln Own Incident: ESG	0.006**	0.008**	0.007	0.007	0.008*	0.007	0.006	0.007
	(0.003)	(0.003)	(0.004)	(0.005)	(0.004)	(0.006)	(0.007)	(0.008)
Ln Competitor Incident: ESG					-0.003	-0.004	-0.002	-0.001
					(0.003)	(0.004)	(0.005)	(0.006)
Industry FE	✓	✓	✓	✓	✓	✓	✓	✓
Country FE	✓	✓	✓	✓	✓	✓	✓	✓
Month FE	✓	✓	✓	✓	✓	✓	✓	✓
Control Variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	108,494	104,502	100,503	96,570	44,182	42,552	40,892	39,233
R^2	0.20	0.21	0.22	0.22	0.22	0.22	0.23	0.23

Panel B: E/S

	ΔICC_GLS				ΔICC_GLS			
	(1) 3M	(2) 6M	(3) 9M	(4) 12M	(5) 3M	(6) 6M	(7) 9M	(8) 12M
Engage: E/S × Ln Own Incident: E/S	0.008	-0.008	-0.005	-0.029				
	(0.012)	(0.017)	(0.020)	(0.020)				
Engage: E/S × Ln Competitor Incident: E/S					-0.015	-0.024	-0.038	-0.037
					(0.014)	(0.020)	(0.025)	(0.025)
Engage: E/S	-0.020	0.000	-0.014	0.022	0.014	0.014	0.033	0.052
	(0.013)	(0.018)	(0.022)	(0.023)	(0.021)	(0.030)	(0.039)	(0.043)
Ln Own Incident: E/S	0.004	0.005	0.004	0.006	0.005	0.004	-0.001	0.002
	(0.003)	(0.004)	(0.005)	(0.005)	(0.005)	(0.006)	(0.008)	(0.009)
Ln Competitor Incident: E/S					-0.001	-0.002	0.001	0.003
					(0.004)	(0.005)	(0.006)	(0.007)
Industry FE	✓	✓	✓	✓	✓	✓	✓	✓
Country FE	✓	✓	✓	✓	✓	✓	✓	✓
Month FE	✓	✓	✓	✓	✓	✓	✓	✓
Control Variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	108,144	104,164	100,187	96,256	44,003	42,381	40,735	39,077
R^2	0.20	0.21	0.22	0.22	0.22	0.22	0.23	0.23

Panel C: Governance

	ΔICC_GLS				ΔICC_GLS			
	(1) 3M	(2) 6M	(3) 9M	(4) 12M	(5) 3M	(6) 6M	(7) 9M	(8) 12M
Engage: Gov × Ln Own Incident: Gov	0.009	0.002	0.007	0.012				
	(0.015)	(0.016)	(0.018)	(0.018)				
Engage: Gov × Ln Competitor Incident: Gov					-0.004	-0.006	0.005	0.007
					(0.014)	(0.019)	(0.021)	(0.022)
Engage: Gov	-0.002	-0.022	-0.026	-0.013	0.022	-0.012	-0.030	-0.012
	(0.011)	(0.014)	(0.016)	(0.016)	(0.016)	(0.023)	(0.026)	(0.027)
Ln Own Incident: Gov	0.009**	0.010**	0.010*	0.005	0.011*	0.013	0.013	0.011
	(0.004)	(0.005)	(0.006)	(0.006)	(0.006)	(0.008)	(0.010)	(0.011)
Ln Competitor Incident: Gov					-0.004	-0.004	-0.003	-0.002
					(0.004)	(0.005)	(0.007)	(0.008)
Industry FE	✓	✓	✓	✓	✓	✓	✓	✓
Country FE	✓	✓	✓	✓	✓	✓	✓	✓
Month FE	✓	✓	✓	✓	✓	✓	✓	✓
Control Variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	108,091	104,156	100,201	96,287	44,006	42,404	40,754	39,104
R^2	0.20	0.21	0.22	0.22	0.22	0.23	0.23	0.23