Blog Series: Good Governance for Value Creation
Blog Post no.7

Keeping the feedback loop alive: why investor–company dialogue matters.

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Keeping the feedback loop alive: why investor–company dialogue matters.

The relationship between companies and their investors sits at the heart of effective corporate governance. Investors provide capital that enables companies to grow and bear the associated economic risk, while boards are entrusted with setting strategy, overseeing risk and holding management to account on their behalf.

In principle, both parties have objectives that are fully aligned: both seek sustainable, long-term value creation. In practice, however, that alignment is not always realised. Too often, barriers to effective engagement limit understanding, weaken accountability and create unnecessary friction between companies and their owners.

Around the world, the landscape for engagement is evolving in different directions. In some markets, policymakers are encouraging more active investor dialogue, while in others, regulatory changes risk weakening the feedback loop that underpins effective governance, making it all the more important to protect and strengthen meaningful engagement.

Since the global financial crisis, stewardship codes across many markets have been drivers of more and better engagement. We know this can work: companies increasingly recognise that structured dialogue with shareholders can provide valuable insight into investor expectations, risk perceptions and market sentiment. This dialogue matters not only in moments of controversy, but in shaping better outcomes over time. It supports more informed strategic decision-making, strengthens investor confidence and reinforces the foundations for long-term growth. When approached constructively, this dialogue benefits not only the company and its investors but also the broader market ecosystem.

The most effective engagement is sustained, not sporadic. It is typically led by long-term institutional investors with a clear stewardship mandate and works best when it is relationship-based rather than transactional. Regular, open dialogue helps to build trust, deepen understanding of strategy and governance, and address emerging concerns before they escalate into more formal disputes.

Ultimately, meaningful investor–company dialogue is not an optional extra. It is a core component of good governance and a critical driver of long-term value creation.

Why investor–company dialogue matters

1. Leading to better performance

For many companies, the case for dialogue with investors is not only theoretical: in practice, long-term engagement can improve their performance. Studies examining large samples of engagement campaigns have found that successful engagement is associated improvements in performance. Barko, Cremers and Renneboog find that successful ESG engagements are linked to stronger corporate sales growth and measurable stock market outperformance. In their global sample of engagement cases, companies that experienced successful engagement outperformed unsuccessful cases by around 2.7% in risk-adjusted excess returns in the six months following the engagement. The effects were particularly strong where companies initially lagged on ESG metrics: firms in the lowest ESG quartile outperformed matched peers by roughly 7.5% in the year after the engagement concluded. Taken together, this evidence suggests that sustained, well-targeted dialogue can support both improved corporate practices and stronger financial outcomes, reinforcing the role of engagement as a driver of long-term value creation.[1]

2. Strengthening oversight and accountability

Direct communication helps ensure that investors perspectives are heard at the highest level of decision making. Where management teams and board members are receptive to engagement, dialogue can lead to meaningful adjustments in a company's governance practices, risk management, or strategic direction. Dialogue can serve as an early warning system. Concerns raised privately may prompt companies to reassess risks or improve disclosure, for instance, before issues escalate into public disputes, shareholder proposals or voting opposition.

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[1] Barko, T., Cremers, M., & Renneboog, L. (2022). Shareholder Engagement on Environmental, Social, and Governance Performance. *Journal of Business Ethics*, *180*(2), 777–812.

Engagement provides a mechanism for investors to exercise their stewardship responsibilities without immediately resorting to more adversarial tools. Furthermore, a constructive dialogue helps investors make more informed voting decisions, by hearing directly the company's perspective.

3. Supporting better corporate decision-making

Engagement can improve the quality of company decision-making by providing an external expert perspective. Investors may offer useful insights into capital allocation plans, governance practices or the likely reception to strategic initiatives such as acquisitions, restructurings or rights issues. This exchange of perspectives provides a useful feedback loop, surfaces potential concerns early and reduces the risk of misalignment between companies and their investors.

Dialogue is not about investors directing strategy, but about ensuring that companies have a clear sense of investor priorities, concerns and expectations. When used effectively, it becomes a tool for refining decisions rather than challenging authority, helping boards and management teams test assumptions and better anticipate market reactions.

Research increasingly shows that meaningful engagement with investors can function as a strategic asset. Academic evidence suggests that sustained dialogue can contribute to stronger outcomes, with a 2024 study by Starks and Zhou finding that ESG-focused engagement is associated with reduced downside risk[2], and a 2022 study by Mercereau et al. linking active shareholder engagement to improvements in firm valuation[3]. Together, these findings reinforce the idea that structured, constructive dialogue can support more informed decision making and strengthen long-term value creation.

4. Improving market efficiency and price discovery

Regular, structured dialogue contributes to a better functioning market by reducing information asymmetries between companies and investors. While material information must always be disclosed publicly, engagement helps investors better

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[2] Hoepner, A. G. F., Oikonomou, I., Sautner, Z., Starks, L. T., & Zhou, X. Y. (2024), ESG shareholder engagement and downside risk, Review of Finance, 28(2), p. 483–510.

[3] Mercereau, B., Melin, L., & Lugo, M. M. (2022), Creating shareholder value through ESG engagement, Journal of Asset Management, 23, p. 550–566.

understand how the company is run, making it easier to assess a company's prospects. Over time, this supports more accurate pricing of securities, reduces uncertainty and strengthens confidence in market pricing of shares.[4]

Regulation should support, not stifle the dialogue

Regulation should be carefully calibrated so that it supports constructive dialogue rather than discouraging it. Good regulatory frameworks should give investors and companies confidence that constructive dialogue on governance, strategy and long-term value creation can take place within clear and proportionate boundaries. The objective should be to safeguard fairness and transparency without weakening the feedback loop between companies and their long-term investors.

Investor-company dialogue operates within strict legal frameworks. While the details are country specific, there are common themes around the world. Market abuse regimes impose robust obligations on the handling of insider information. If material non-public information is disclosed selectively during engagement, it can create risks related to insider trading and unequal access to information.

To manage this, regulatory frameworks such as the market soundings regime allow certain structured communications to take place when companies are gauging investor interest in potential transactions.

There are also legal considerations around collaboration among investors. In some jurisdictions, coordinated action may raise questions about "acting in concert," which can trigger disclosure requirements or, in takeover contexts, mandatory bid obligations. These constraints require investors to approach collective engagement with caution.

But it's not all about limiting what can be discussed. Regulators are often seeking to clarify that constructive stewardship should not be treated as improper influence. Recent developments in Japan's stewardship framework continue to emphasise "constructive engagement, or purposeful dialogue" as part of investors'

[4] Payne, J. (2024), Market soundings rules: the challenges and opportunities for board–shareholder engagement, in Enriques, L. & Strampelli, G. (eds.), *Board-Shareholder Dialogue: Policy Debate, Legal Constraints and Best Practices*, International Corporate Law and Financial Market Regulation, Cambridge University Press, pp. 555–574.

responsibilities, while Korea's FSC has recently issued statutory interpretations aimed at supporting institutional investors' shareholder activities and clarifying that certain actions, such as requests for better AGM disclosure, treasury stock cancellation, dividend compliance and explanations of executive pay, do not in themselves constitute an attempt to influence corporate management.[5]

Engagement under pressure

The conditions that enable effective investor–company dialogue are undergoing some challenges in some markets.

In the United States, recent amendments to the SEC's beneficial ownership reporting regime under Sections 13(d) and 13(g) have introduced shorter filing deadlines and clarified when investors may lose eligibility to report as passive holders on Schedule 13G. Under updated guidance, engagement that could be interpreted as seeking to influence control or corporate policy may require investors to file a more detailed Schedule 13D. These changes have raised concerns that routine governance discussions could carry additional reporting implications. This has led to a more cautious approach to engagement in the United States and has weakened the informal feedback loop that both investors and companies benefit from.

In the United Kingdom, pressures are of a different character. Some chairs of listed companies have suggested that engagement has become increasingly shaped by standardised voting frameworks and a tick-the-box approach, leaving less room for substantive two-way discussion on strategic matters.6 Concerns have been expressed that structural changes in ownership and more fragmented share registers have further complicated meaningful interaction between boards and investors. Initiatives such as the Investor and Issuers Forum have been launched to strengthen the quality of the dialogue.

[5] FSC Provides Statutory Interpretations To Support Shareholder Activities Of Institutional Investors, Financial Service Commission, Press Release. 06.03.2026.
[6] The State of Stewardship, Tulchan Report, November 2022.

When dialogue should involve the board

While dialogue remains central to stewardship, its effectiveness depends not only on willingness to engage but also on an environment that supports open, candid, and strategic interaction.

Not all investor–company engagement is best conducted through management. While many discussions, particularly on performance or operations, may appropriately be led by executives or investor relations teams, some topics are inherently matters for the board.

Issues such as executive remuneration, CEO succession, board composition and board leadership fall squarely within the board's responsibilities. On these questions, investors are often seeking insight not into day-to-day management, but into how the board is exercising judgement, oversight and accountability. Direct dialogue with the Chair or relevant committee chairs can therefore be important.

In some markets, depending on the local corporate governance traditions, it can be difficult for investors to have access to board members, especially beyond the Chair. In parts of Asia, for example, engagement may still be channelled primarily through management or investor relations rather than through direct access to the board. Enhancing the engagement levels between independent board members and their investors can be a great way to build confidence in companies, and in governance perceptions of whole markets.

The bottom line on investor-company dialogue

Investor-company dialogue strengthens the governance ecosystem by creating a channel for informed, constructive engagement between those who provide capital and those responsible for overseeing its use.

It helps boards and management teams understand investor perspectives, supports better decision making and allows investors to exercise stewardship in a measured way. It also provides a foundation for trust, reducing the likelihood that disagreements escalate into public confrontation. Effective investor–company dialogue is therefore not only a feature of good governance, but also an important enabler of long-term growth, more confident capital allocation and long-term value creation. Where engagement fails, escalation tools remain essential to ensure that governance standards are upheld and that companies remain responsive to investors' concerns.

Case studies

BYD: Collaborative engagement drives strategic change[7]

Background: In 2024, investors raised concerns about Chinese electric vehicle manufacturer BYD's involvement in e-cigarette manufacturing through a subsidiary, warning that the activity could affect its attractiveness to ESG investors. European sustainability fund rules, including ESMA guidance restricting ESG-labelled funds from holding companies linked to tobacco, heightened the financial and reputational risks associated with this exposure. A coalition of investors coordinated through the Asian Corporate Governance Association (ACGA) engaged with the company and communicated how continued involvement could limit access to ESG-aligned capital.

Outcome: Following this engagement, BYD confirmed it would exit the e-cigarette business. Investors involved in the dialogue indicated that the decision was influenced by European ESG regulatory developments and the potential risk of divestment by sustainability-focused funds. The case illustrates how coordinated shareholder engagement, reinforced by regulatory clarity, can support strategic change without the need for confrontation or formal escalation.

Gildan Activewear: The cost of bypassing investor dialogue[8]

Background: In late 2023, Gildan Activewear's board removed founder and long-standing CEO Glenn Chamandy, triggering strong shareholder backlash and activist pressure. The leadership change sparked a prolonged proxy contest between the board and investor-backed candidates seeking governance changes and Chamandy's return.

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[7] BYD Confirmed to Exit E-Cigarette Business Amid ESG Concerns, 2frists, 17.03.2025. https://www.2firsts.com/news/byd-confirmed-to-exit-e-cigarette-business-amid-esg-concerns?utm_source=chatgpt.com#google_vignette

[8] Gildan Spent $77 Million on Proxy Fight Over CEO Chamandy, Bloomberg, 1.08.2024. https://news.bloomberglaw.com/esg/gildan-spent-77-million-on-proxy-fight-over-who-should-be-ceo?utm_source=chatgpt.com

Outcome: After months of public confrontation, shareholders voted in favour of a new board slate, and Chamandy was reinstated as CEO in 2024. The dispute became one of the most expensive proxy fights in Canadian corporate history, with reported costs reaching roughly $77 million. The episode illustrates how the absence of early and transparent dialogue with major shareholders can escalate tensions, leading to costly governance disruption and reputational strain.

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