

To engage or not to engage? Pension fund active ownership of fossil fuel investments

Johannes Kabderian Dreyer , Kristian J. Sund, Casper Lundberg Refstrup and Tobias B. Lauridsen

Abstract

Purpose – In the face of pressure to invest responsibly, pension fund managers must decide whether to remain passive investors, engage or divest their fossil fuel holdings. Factors affecting this decision are not yet fully understood. This study aims to explore the perceptions of pension fund managers of active ownership engagement within fossil fuel investments.

Design/methodology/approach – The authors use a qualitative and inductive approach by conducting semi-structured interviews with decision-makers from pension funds in Denmark that collectively represent approximately 80% of market capitalization. These interviews are complemented by interviews with a global investor network representative, a non-governmental organization and an engagement service provider. These were then transcribed and coded to identify core themes, contingency variables and engagement strategies.

Findings – Interviewees reported that despite external pressure to divest, pension funds in the sample strive to influence fossil fuel companies through active ownership and engagement strategies. They believe that active ownership can create a sustainable impact, assist the pension sector in fulfilling fiduciary obligations and provide financial value by guiding companies towards more sustainable business models. From the interviews, the authors identify four separate active ownership strategies: direct private engagement, direct public engagement, intermediary engagement and coalition engagement. The authors furthermore suggest contingency factors that lead active owners to favour each strategy.

Originality/value – This study contributes to the literature with an inductively derived pension fund engagement model that complements and augments existing models in this area. The model identifies strategic choices and contingency factors that influence the perception of engagement of these funds.

Keywords Active ownership, Pension funds, ESG, Sustainability, Fossil fuels, Engagement model

Paper type Research paper

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Introduction

The recent decade has seen a rise in non-financial investor activism (Cundill *et al.*, 2018; Goranova and Ryan, 2014). Investors in general appear to have become increasingly concerned about the sustainability performance of their portfolios, with mounting evidence that the representative investor will pay a premium for high environmental, social and governance (ESG) performance (Dreyer *et al.*, 2023; Dreyer and Smith, 2024). Member and investor pressure has in turn led institutional investors such as pension funds to incorporate ESG measures into their decision-making processes (Bernard *et al.*, 2023). Such institutional investors must decide whether to act as passive investors or whether to engage and seek to influence managers of those companies as active owners (McNulty and Nordberg, 2016; Semenova and Hassel, 2019; Tilba and McNulty, 2013). In this paper, we seek to answer this question and develop an inductively derived conceptual model of how

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pension funds perceive engagement strategies in fossil fuel companies. Our contribution is to typologize forms of engagement and explore how pension funds select among these, given sustainability pressures and based on the perceptions of pension fund managers.

Early studies on the engagement strategies of institutional investors recognized that these depend largely on the regulatory environment, the size of the investor and the relative size of a particular holding (Ryan and Schneider, 2002). These act as contingencies in determining whether to engage actively or not and whether to do so directly or through coalitions (McNulty and Nordberg, 2016). However, much has changed over the past two decades. There has been growing pressure on pension funds to contribute to promote sustainable corporate practices, especially in the case of the fossil fuels industry. There has also been a growth in professional services specializing in corporate engagement. Furthermore, ESG measurement and reporting have become more standardized (Kacanski *et al.*, 2023). Compared to two decades ago, pension funds now develop more complex strategies to engage with companies, often relying on external service providers and collaborating through coalitions. International evidence suggests that pension funds engage more with climate risk issues and that this engagement varies with fund characteristics and broader national contexts (Christensen *et al.*, 2025). There has thus very recently been a call to update and extend our understanding of strategic contingencies in decisions of active ownership (Aguilera *et al.*, 2025a, 2025b; DesJardine *et al.*, 2023; Sikavica *et al.*, 2020).

In the context of fossil fuel investments in particular, institutional investors face strong pressure to demonstrate sustainability commitments, exposing themselves to ESG controversies. In this type of industry, engagement might be interpreted in different ways. While the effort of funds to use a substantive form of voice to influence oil companies to be more sustainable can be a sign of stewardship (Dimson *et al.*, 2015; Semenova and Hassel, 2019), critics might see ESG engagement of both funds and oil companies as only symbolic (Lyon and Montgomery, 2015; Delmas and Burbano, 2011). In this case, it only protects the investor's legitimacy and reputation without changing outcomes. Especially in controversial sectors, ownership may be seen as inconsistent with sustainability commitments. Pension fund sustainability governance of fossil fuel investments may be symbolic rather than substantive (Westphal and Zajac, 1994; Cho *et al.*, 2015). There is a risk that sustainability talks decouple from organizational action (Hawn and Ioannou, 2016; Khan and Sulaiman, 2021). This discussion also exists in the greenwashing literature, which documents situations in which firms practice selective disclosures and produce an unrealistic positive image of their environmental performance (Marquis *et al.*, 2016; Lyon and Montgomery, 2015). In this paper, rather than measuring outcomes, we investigate governance decisions based on how pension fund managers perceive, justify and choose engagement strategies.

Goranova and Ryan (2014) defined active ownership as shareholder actions aimed at influencing corporate policies and practices. Hirschman's (1970) classical framework suggests three options available to investors: remain passively loyal by holding on to shares, divest from shares to express discontent or voice this discontent through shareholder activism (Goranova and Ryan, 2014; McNulty and Nordberg, 2016; Tilba and McNulty, 2013). Such activism is deliberate and proactive. It includes actions such as voting at shareholder meetings, creating dialogue with management and board members and collaborating with other shareholders or stakeholders (Bernard *et al.*, 2023). Shareholder activism, whether driven by financial, social or other motives, is thus a form of active ownership (Aguilera *et al.*, 2015; Bernard *et al.*, 2023; Judge *et al.*, 2010), and the two are sometimes used synonymously. When the objective is to influence management focus on sustainability, this typically involves addressing ESG issues like climate change, labour policies and executive compensation. Active owners ensure responsible management of these concerns, reflecting corporate impact on stakeholders (Dimson *et al.*, 2015; Gillan and Starks, 2000; Viviers and Mans-Kemp, 2021).

Research on institutional investor behaviour as guardians of good corporate governance is still in the relatively early stages of development (Klettner, 2021; McNulty and Nordberg, 2016), but recent work on active ownership by institutional investors has added more depth to our theoretical understanding of the multiple types of shareholder engagement strategies available to pension funds. Firstly, active ownership can involve simple invest/divest decisions or more active engagement (McNulty and Nordberg, 2016; Tilba and McNulty, 2013). Secondly, active engagement can be proactive, ongoing and long-term or be short-term and reactive to specific incidents, like corruption, environmental incidents, human rights, labour rights, inhumane weapons and weak governance (Hassel and Semenova, 2018). Thirdly, institutional investors can use direct or indirect engagement strategies. Direct engagement involves pension fund trustees or managers actively communicating with company board members or managers, either individually or collectively, to influence corporate decisions. This approach includes formal dialogues, shareholder resolutions and voting at general assemblies (Silvola and Landau, 2021; Roncalli, 2023). Indirect engagement, by contrast, relies on service providers representing investors, ensuring companies align their strategies and ESG practices with sustainability principles (Semenova and Hassel, 2019). Some scholars argue that indirect engagement is particularly effective for smaller investors who lack resources for direct dialogue (Väänänen, 2021; Gordon and Pound, 1993).

Direct engagement gives investors more control but is costly, requiring resources and expertise (Dimson *et al.*, 2015; Grewal *et al.*, 2016). Analogously, indirect engagement lowers costs and increases negotiation power but reduces individual control (Bernard *et al.*, 2023; Gordon and Pound, 1993). Investor coalitions, like Climate Action 100+ (CA100+), are a hybrid form of direct and indirect engagement, combining their strengths to enhance influence on corporate sustainability (Tillotson *et al.*, 2023; Waeger and Mena, 2019). Beyond such general observations, it is necessary to distinguish between different motives or antecedents for engagement, such as financial, governance or sustainability-related motives, as well as between types of institutional investors. Few studies have indeed concerned themselves directly with the question of under what circumstances pension funds prefer one rather than another engagement strategy in the case of sustainability-related engagements.

In this paper, we report the results of a study examining how pension fund managers perceive active ownership and engagement strategies for their holdings in the oil industry. Using an inductive and interpretative approach, we develop a sequential model of engagement for active ownership, identifying strategies and contingencies for shareholder activism. More specifically, we show that the engagement of the pension funds develops through three generic decisions, namely, whether to engage, whether to do so directly or not and whether to rely on private or public voice. These together form four active ownership strategies. We find that key contingencies influencing engagement strategy include firm size, fund resources, perceived internal and external expertise, client sustainability priorities, firm location and perceived likelihood of engagement success. These factors determine passive or active engagement choices. Active engagement in turn occurs through coalitions, direct or indirect strategies. Our model thus extends that of McNulty and Nordberg (2016), describing how pension funds decide on whether to engage directly or indirectly, and use their voice in private or public dialogue when they invest in this major industry.

Institutional active ownership strategies

Although theory on pension fund engagement strategies and their antecedents is limited, existing empirical studies have identified several general antecedents to institutional investor engagement. Firstly and foremost, company performance and company size drive such engagement (Goranova and Ryan, 2014; McNulty and Nordberg, 2016;

[Semenova and Hassel, 2019](#)). Institutional investors will thus prefer to engage with larger companies in their portfolio, especially when there are perceived performance issues. Active ownership and shareholder engagement can enhance shareholder value, especially for underperforming companies, where well-focused engagements regarding strategic, governance and financial issues can yield positive returns for shareholders ([Becht et al., 2009](#)). For example, institutional investors can influence restructuring, board and management composition and remuneration policies in ways that lead to significant shareholder gains, even if such financial gains are not always the primary goal ([Victoravich et al., 2012](#); [Viviers and Mans-Kemp, 2021](#)). They can also influence companies to be more innovative in terms of environmental standards ([Pinkus et al., 2025](#)).

The literature offers more mixed views on whether shareholder activism aimed specifically at environmental issues leads to shareholder value. Most ESG-focused engagements lack materiality, and while they may improve ESG performance ([Dyck et al., 2019](#)), this does not necessarily translate into financial value ([Grewal et al., 2016](#)). When it does, the impact tends to be short-lived ([English et al., 2004](#)) and driven by confounding effects ([Greenwood and Schor, 2009](#); [Nelson, 2006](#)). However, not all evidence supports this view. For example, [Hoepner et al. \(2024\)](#) suggested that active ownership and ESG engagement help companies reduce downside risk, with effectiveness varying by strategy. They find engagement is most impactful on environmental issues. [Dimson et al. \(2015\)](#) analysed the US corporate social responsibility engagement over a 10-year period and found that shareholder activism leads to positive abnormal returns for shareholders.

Sometimes ESG engagement fails to reach its objectives. In this context, divestment is a common strategy where investors sell stocks of companies failing to meet ESG standards ([Ayling and Gunningham, 2017](#); [Sjöström, 2020](#)). This more extreme approach can be used when engagement fails to align company values with investor principles. In sectors like oil and gas, divestment may also reflect an unwillingness to be associated with the negative externalities tied to corporate activities and a wish to limit any associated downside risk ([Nofsinger et al., 2019](#)). Some evidence suggests that divestment increases financial pressure on companies by raising their cost of capital and lowering market valuations ([Dordi and Weber, 2019](#); [Hong and Kacperczyk, 2009](#)). While some studies suggest divestment therefore impacts corporate behaviour, others find its financial effects limited ([Berk and Van Binsbergen, 2025](#); [Fabozzi et al., 2008](#); [Blitz and Fabozzi, 2017](#)). Some argue for a societal cost, whereby institutional divestment simply reduces influence over corporate policies, with ownership shifting to investors less concerned with sustainability ([Gond and Piani, 2013](#); [Louche and Lydenberg, 2017](#)). Arguably, therefore, engagement may be a more effective strategy for influencing corporate behaviour than divestment ([Broccardo et al., 2022](#); [Gollier and Pouget, 2022](#)).

Company size plays a role in motivating institutional investors to engage. Large, listed companies attract institutional investor engagement because of their high visibility, wide social exposure, capacity for change and ability to move ESG issues ([Dimson et al., 2015](#); [Goranova and Ryan, 2014](#); [McNulty and Nordberg, 2016](#); [Semenova and Hassel, 2019](#)). By extension, large companies are more likely to face reputational concerns but are also more likely to have the capacity to react to investor engagement than smaller and less visible companies. This makes them more interesting targets for engagement ([Semenova and Hassel, 2019](#)). Engagement can even have the potential to capture public and media attention ([Goranova and Ryan, 2014](#)), leading to potential reputational benefits to the institutional investors themselves.

Holding size is another antecedent that has been discussed in prior research. Active owners can create more value by targeting companies in which they have large holdings and therefore a higher stake and associated risks to their portfolios ([Goranova and Ryan, 2014](#); [McNulty and Nordberg, 2016](#)). Not only will any financial pay-off from engagement be greater ([Becht et al., 2009](#)), but also ESG-related risks associated with such holdings will be

of greater salience. For example, current ESG-related risks faced by institutional investors in the oil and gas industry may stem from market- and regulatory-induced peak oil demand and fears of stranded assets (Halttunen *et al.*, 2022; Tillotson *et al.*, 2023). Finally, larger and longer-term holdings are associated with more substantial productivity effects (Beetsma *et al.*, 2026). Institutional investors are thus more likely to target companies for which they perceive opportunities to positively influence financial performance, that are large and in which they have large holdings.

Types of engagement

McNulty and Nordberg (2016) suggested that engagement takes place in two ways: privately or publicly. Private engagement is where the investor seeks a dialogue around key issues, seeks information, builds relationships with managers and seeks to change corporate behaviour. Such engagements are often hidden from the public (Becht *et al.*, 2009). Public engagement is more formal and overtly challenging and is thus also more likely to lead to conflicts with managers (McNulty and Nordberg, 2016, p. 353).

Proactive dialogue with companies helps mitigate investment risks (Nofsinger *et al.*, 2019) and promote ESG performance (Broccardo *et al.*, 2022). Silvola and Landau (2021) suggested such dialogue may cover items listed in the general meeting notice or requests for sustainability reports on specific items, like climate-related concerns. Engagement expands beyond these themes when publicly expressed concerns arise about a company's operation. Such concerns could stem from human rights abuses, labour rights violations, environmental issues or corruption. The goal of the engagement then becomes to resolve problems and help companies prevent future issues. Beyond company-specific cases, engagements also tackle sector-wide concerns, including good corporate governance and climate policies.

Roncalli (2023) further classified ESG engagements into ongoing interactions, formal protests and pre-AGM consultations. The first is aimed at educating companies on their ESG policies, collecting information on ESG practices, supporting best practices, identifying ESG risks and understanding ESG challenges. The second is aimed at expressing dissatisfaction with ESG performance, proposing changes and monitoring progress. Finally, consultations prior to the annual general meeting are aimed at discussing motions (resolutions) investors may oppose at annual meetings.

Shareholder engagement through investor alliances has gained traction, enhanced the influence of institutional investors and lowered the cost of engagement by pooling resources. These alliances facilitate dialogues with companies on specific topics (Silvola and Landau, 2021). Pi (2020) identified two key effects: cost-sharing, where investors share activism costs, and information-aggregation, where others gain positive signals about proposals. Investors may also opt to use external service providers to engage with companies. Besides representing the investors in engagements, these providers also offer knowledge of international norms and guidelines for specific themes. Notable examples of such providers are Hermes, ISS and Sustainalytics (Silvola and Landau, 2021).

Shareholder proposals

Shareholders exercise formal power during annual and extraordinary meetings (Silvola and Landau, 2021). However, critical topics of the agenda are often addressed before general meetings, especially in cases of disagreements. Dressler and Mugerman (2023) explored shareholder voting dynamics, revealing that voting power enables opposition to management, even when the vote contradicts those of all other shareholders. Shareholder proposals may be initiated when investors believe the company is not acting in their best interests. Thus, proposals highlight concerns and suggest the company to change operations or policies (Silvola and Landau, 2021). A rise in shareholder proposals has been

attributed to multiple factors such as public interest and societal demand for ESG, growth in institutional ownership and the low approval rates for shareholder proxy proposals on ESG issues (Grewal *et al.*, 2016; Klettner, 2021). Some institutional investors rely on global providers like ISS and Glass Lewis for research and voting guidance (Silvola and Landau, 2021). Such guidance is based on governance principles, local regulations for publicly traded companies and methodologies of service providers.

Many associations and non-governmental organizations (NGOs) monitor voting choices of asset owners (Roncalli, 2023). The UK introduced “Say on Pay” in 2002, mandating a non-binding vote on CEO remuneration at AGMs. Rosati *et al.* (2022) reported increased shareholder dissent on this issue. Inspired by “Say on Pay”, “Say on Climate” proposals emerged, focusing on company climate strategies. Management-led proposals seek shareholder approval, while shareholder proposals typically challenge corporate plans (Roncalli, 2023). Shareholder proposals are thus often seen as a last resort, and only a minority are in fact successful (ISS Governance, 2022). Yet, institutional investors increasingly view voting at AGMs as a fiduciary duty and a way to demonstrate commitment to responsible investing. In general, shareholder proposals remain infrequent, with even fewer reaching a vote. Among Russell 3000 companies, only 555 shareholder resolutions were voted on in 2022 – fewer than 20%. Support rates were under 40% for governance topics and just 29% for environmental and social issues (Roncalli, 2023). Rosati *et al.* (2022) questioned the influence and effectiveness of voting, given the low approval rates. Alternative engagement strategies may be more successful.

Divestment

Divestment, as previously noted, is the ultimate choice when engagement is not seen as a fruitful option. Some critics indeed argue that active ownership is insufficient due to ESG limitations (see e.g. Mobius and Ali, 2021; Ma *et al.*, 2023). They advocate for fossil fuel divestment to mitigate environmental risks and align with net-zero commitments. According to the Global Divestment Commitments Database, as of October 2021, 1,500 institutions pledged to divest from fossil fuels (Roncalli, 2023). Faith-based groups, educational institutions and charitable organizations were the majority of these. Ayling and Gunningham (2017) described the fossil fuel divestment movement as a new form of non-state climate governance, targeting investors alongside states and businesses. They suggest divestment plays a moral and political role in shaping climate norms and policies (Ayling and Gunningham, 2017; Linnenluecke *et al.*, 2015; Gunningham, 2017). However, fossil fuel companies themselves also wield political influence, complicating climate efforts (Tillmann *et al.*, 2015).

Recently, the relevance of simple exclusions in sustainable investments has diminished in favour of active ownership and ESG integration (Silvola and Landau, 2021). A common argument against divestment is that it removes investor influence over company management (Gond and Piani, 2013; Louche and Lydenberg, 2017). Exclusions limit responsible investors to “good” companies, preventing them from transforming underperforming ones (Rivoli, 2003). Furthermore, a key argument of institutional investors against simple divestment is its restriction of the investment universe, reducing diversification and impacting risk-adjusted returns. Thus, simple screening and exclusion strategies might be a last resort, and engagement could be a more effective and cost-efficient strategy to achieve nonfinancial goals (Sjöström, 2020; Solomon *et al.*, 2004; Vandekerckhove *et al.*, 2007).

Real impact

The real impact of simple divestment as a strategy is contestable. Dordi and Weber (2019) showed how major divestment announcements of oil, gas and coal companies can lower

the stock prices of these and increase their expected returns, raising these companies' cost of capital and affecting solvency. [Hong and Kacperczyk \(2009\)](#) found that excluding what they call "sin stocks" increases expected returns (creating what they call a "sin premium"). [Fabozzi et al. \(2008\)](#) similarly found that sin stocks outperformed in 19 out of 21 countries, but controlling for Fama–French factors lowers this effect ([Blitz and Fabozzi, 2017](#)). In fact, [Berk and Van Binsbergen \(2025\)](#) argued that exclusion does not necessarily alter a company's cost of capital at all. They advocate instead for sustainable investors to use voting rights and active ownership over simple divestment strategies. Active engagement strategies probably offer greater influence without compromising investment returns.

Yet, the actual environmental and social impact of engagement strategies remains a controversial question as well. For example, institutional investors have certainly become more conscious about climate risks but might perceive these risks as mainly a financial risk ([Krueger et al., 2020](#)), leading to engagement without real impact commitment. Furthermore, while sustainable investing may lead to spreading good business practices, it is unlikely to be a sufficient replacement for strong policy measures ([Kölbel et al., 2020](#)). Worse, although dialogue and shareholder resolutions can lead to improvements that possibly increase ESG performance ([Dimson et al., 2015](#); [Ruiz-Castillo et al., 2026](#); [Semenova and Hassel, 2019](#)), some argue that they might also postpone or limit more fundamental changes ([Sjöström, 2020](#)). Worse, some scholars find evidence that stewardship mechanisms and ESG governance might lead to symbolic signals that enhance legitimacy without leading to substantive changes ([Westphal and Zajac, 1998](#); [Cho et al., 2015](#)). This becomes even more evident when firms and investors have incentives for greenwashing ([Lyon and Montgomery, 2015](#); [Marquis et al., 2016](#)).

There can no longer be any doubt that actors like pension funds can play a role in pushing companies towards more sustainable practices. But to understand how requires two directions of research. One is to gain a better understanding of the engagement strategies deployed by these actors, and what factors influence the choice of particular strategies. The other research direction is to better understand the real impact of such strategies, but this requires that we first fully understand the engagement strategies themselves. Direct impact mechanisms are contingent on engagement strategies, and there have been recent calls for further research on these ([Marti et al., 2024](#)).

Methodology and data

We focus empirically on a single highly developed pension market and a single target of potentially controversial investments, the fossil fuel industry, to build grounded theory from cases ([Eisenhardt and Graebner, 2007](#)). The Danish pension market is a suitable empirical context due to a high degree of development and transparency in both its regulation, internal management and reporting. According to the Danish Statistical Office, the median 2023 pension savings of Danes aged 18 years or older was DKK 442.565 (equivalent to around US\$65.000), and an inspection of data across age groups reveals a very similar savings pattern to that of the USA, albeit with slightly higher savings in Denmark (but which are also taxed higher on payment). The Danish market is thus not an outlier by any means but quite representative of highly developed pension markets.

According to Articles 158 and 159 in the Danish Financial Business Act, pension funds are obligated to conduct investments that provide pension savers with the highest possible risk-adjusted returns. Achieving this objective requires adequate diversification of investments, both in terms of asset type and individual assets. In addition, pension funds must integrate active ownership strategies into their investment strategy. All 16 officially registered Danish pension funds have fossil fuel investments, although the size of these investments varies significantly. The Danish pension industry has made strong commitments towards achieving a net-zero investment portfolio and has joined several global investor initiatives on climate change. These include the Net-Zero Asset Owner Alliance (NZAOA), Net-Zero

Asset Manager Alliance (NZAMA), Glasgow Financial Alliance for Net Zero (GFANZ), the Institutional Investors Group on Climate Change (IIGCC), Paris-aligned Investment Initiative (PA-II) and the CA100+.

In our study, we targeted seven major Danish pension funds for interviews with key decision-makers, representing around 80% of the Danish pension sector as measured by assets under management. Some are commercial pension funds, others are member-based and one is a single statutory fund. We conducted additional interviews with local representatives from a global investor network, an NGO and a leading engagement service provider. An initial exploratory and untranscribed interview with a pension fund practitioner (I1 in [Table 1](#)) helped us design and test the subsequent semi-structured interview questionnaire. The investor network provides specialist knowledge on best-practice stewardship and offers insights into the key challenges that asset owners face during the engagement process. It is worth noting that all the pension funds we studied are signatories of the investment principles of this network. The NGO is a strong advocate for fossil fuel divestment. Given that several pension funds use a particular global external engagement provider, it was pertinent to incorporate this provider into our analysis as well. This inclusion allowed us to gain a deeper understanding of how service providers engage in dialogues. [Table 1](#) provides an overview of the interviews conducted.

To provide background information on the Danish pension industry, we complemented our analysis with industry reports. These provided a comprehensive summary of the Danish pension industry, including trends, challenges and future prospects. They also contained data on the size and structure of the industry, the investments made by pension funds and the regulatory framework within which they operate. Furthermore, NGO reports provided information on the voting behaviour of Danish pension funds. We use these industry and NGO reports to contextualize the Danish pension industry and reported voting practices. However, they cannot be seen as an opportunity for robust triangulation of all engagement behaviour discussed in the interviews.

As we wished to explore engagement strategies from the perspective of key decision-makers in the pension funds, we adopted an inductive and interpretivist approach to data collection and coding. Interviews were semi-structured, with pension fund interviews focused on six main issues: approach to active ownership, approach to divestment/exclusion of assets, how they secure a voice, approaches to different asset classes (e.g. stocks versus bonds), perceptions of how other pension funds manage active ownership and the future of active ownership.

Interviews were fully transcribed and inductively coded. Interview data were analysed using a classical thematic analysis approach ([Braun and Clarke, 2006](#); [Nowell et al., 2017](#)). We

Table 1 Overview of interviewees and data

<i>Interviewee</i>	<i>Job position</i>	<i>Organisation type</i>	<i>Transcribed data</i>
I1	Active Ownership Specialist	Pension fund (P1)	7,823 words
I2	Senior ESG Analyst	Pension fund (P2)	8,271 words
I3	Head of Active Ownership	Pension fund (P3)	6,602 words
I4	Stewardship Specialist	Investor network	6,529 words
I5	Head of Nordics, CEE and CIS	Investor network	
I6	Head of Responsible Investments	Pension fund (P4)	5,103 words
I7	Senior ESG Analyst	Pension fund (P5)	9,120 words
I8	Director, ESG	Pension fund (P6)	10,077 words
I9	Head of Responsibility	Engagement services	3,829 words
I10	Senior ESG Specialist	Pension fund (P7)	6,831 words
I11	Sustainable Finance Analyst	NGO	7,510 words
		<i>Total:</i>	<i>71,695 words</i>

Source(s): Authors' own work

followed an iterative process of familiarization with transcripts, initial open coding, subsequent theme development and refinement and final model theorization. Consistent with established qualitative methods, first-order informant-centric codes were developed before being abstracted into more theory-near second-order themes, which were then linked. This process enabled close engagement with interviewee accounts while facilitating theoretical insight. All four authors were involved in coding. We did this in two teams of two people. Everyone read and coded transcripts separately and then discussed codes with the other person in their team. The codes and interpretations of each team were compared, and these codes were the basis for identifying factors (contingency variables) associated with different active ownership strategies. These were then illustrated in the final model. Having four coders involved ensured reliability.

Factors identified in at least one pension fund interview are included in our final decision-making model. While our method allows us to identify perceived strategies and factors, it does not directly allow for the identification of tensions and conflicts, nor questions of framing or power distribution between actors, such as fund managers, intermediaries and firm managers. We do not analyse discourse but rather assume that data directly reflects the cognitions of the interviewees. Note that because of the nature of interpretivism and our empirical data that are based on interviews, our study design allows us to analyse perceived reasoning but not observed behaviour, nor the actual outcomes of specific engagement strategies. Thus, it is our aim with our methodology to understand the interpretation and justification of decision-makers for their engagement choices. Furthermore, we cannot state whether ESG engagement of interviewed pension funds is substantive or purely symbolic.

Findings

Some general tendencies emerged during the interviews. Our interviewees in general view active ownership as a way to create sustainable impact, fulfil fiduciary duties and generate financial value by guiding companies in transition paths towards sustainable business models. They prefer engagement over divestment, believing it maintains influence. Despite external pressure to divest from fossil fuels, they focus on reducing CO₂ emissions through active ownership while recognizing the role of regulators, policymakers and NGOs in shaping sustainability standards. Pension funds exercise voting rights, often forming coalitions or using investor networks to amplify influence. All funds in our sample use proxy voting providers to represent them in shareholder meetings. While smaller funds rely on external providers to engage with companies, larger funds also engage directly. Moreover, commercial pension funds usually take a pragmatic approach, supporting management, whereas member-based funds appear more activist in our sample.

We have organized our findings into three sections. Firstly, we discuss the active ownership practices of pension funds and explore their engagement strategies. Next, we examine the impact of external contingency factors on active ownership strategies of pension funds. Finally, we discuss how funds view active ownership as a tool for achieving net-zero emissions. These parts lead to a model of investor engagement presented in [Figures 1 and 2](#).

Indirect engagement

We found that the pension funds in our sample engage with portfolio companies in several different ways. Some engage directly, while others do so indirectly through external service providers that are used as intermediary agents. Many pension funds in our sample combine direct and indirect engagements. External service providers can act as intermediary agents. Typical cited advantages of using such providers include efficiency, specialization, knowledge and enhanced negotiation power. These providers enhance investors' influence, integrating client needs and collaborating with experts to conduct effective engagements.

Figure 1 Engagement decision model: engagement vs non-engagement

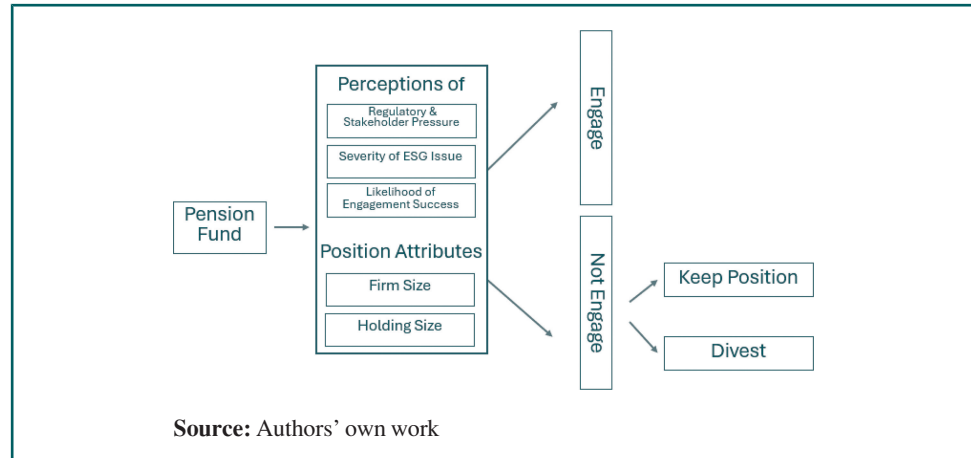
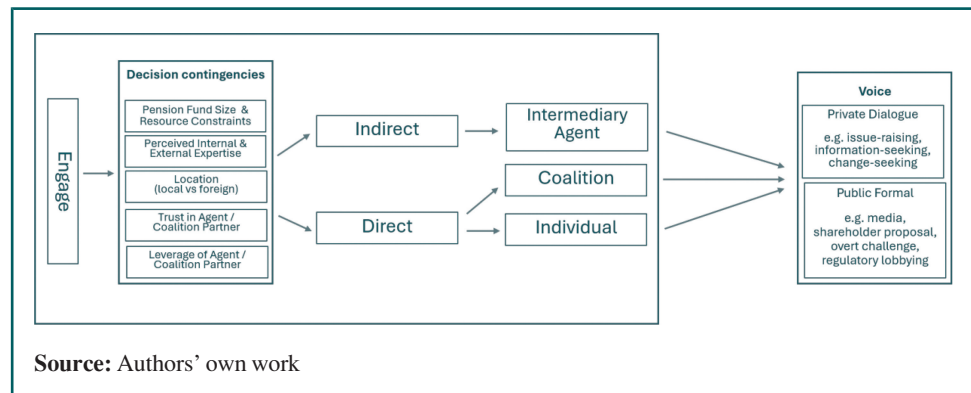


Figure 2 Engagement decision model: engagement form



Service providers also facilitate negotiations through a better understanding of how companies operate, established corporate relationships and structured engagement strategies. This benefits pension funds by increasing their leverage in negotiations, maximizing successful engagement outcomes. The service provider we interviewed described their engagement philosophy, which prioritizes three criteria: collective holding size, severity of issues and the likelihood of success. Larger holdings provide leverage, serious issues can have industry-wide effects, and some engagements have higher chances of achieving positive outcomes than others.

One contingency factor we identified that influences choice of engagement strategy is the cost of engagement. Active ownership requires significant resources because building a direct dialogue typically requires long-term relationship building by dedicated specialist employees. Resource considerations make outsourcing the engagements a practical choice for many pension funds, especially smaller ones. Resource constraints thus act as a key contingency variable in the choice of indirect versus direct engagement. Linked to this is also the perception of internal and external specialized competences and expertise. As one interviewee explained: "If we give a mandate to an external provider, because they are experts in for example emerging markets, then instead of using resources to build that competence, we get someone to do that part" (I10). The importance of trust in the chosen

service provider to ensure that key issues are communicated effectively to their companies was also highlighted. Another interviewee told us that “we trust that they [the service provider] are able to build the relationship they have to build [with oil company managers]” (I2). Such trust reduces the need for control and associated costs.

The various pension funds were keen to emphasize how larger external service providers, with many experts across various ESG areas, provide an engagement capacity that internal pension fund managers could not possibly match. The leverage that the agent can provide allows the pension fund to raise issues, seek information and influence change on a level they could not hope to attain alone. However, the use of these providers as intermediary agents also leads to a trade-off because these service providers in fact work for many customers at the same time who may have different interests. While the individual pension fund thus gains power due to the potential leverage of the agent, they also lose control of how exactly issues are presented to the company being targeted. One interviewee explained to us:

But of course, there are some disadvantages when you have a partner and you have outsourced that part, so you don't have the same 100% control. You really need to be aware of whether they are always on the same page as you. This requires ongoing dialogue, but they also have other clients. So, for example, if we suddenly feel that they are not ambitious enough or if they have clients pushing in another direction, they might suddenly be in a conflict of interest and be unsure about whom to support the most or whom to prioritize. (I6)

Several funds partner with external service providers but go further by simultaneously directly engaging with both Danish and international companies, frequently collaborating with other investors. They thus use a variety of strategies depending on the company targeted. One respondent told us:

Some of it we do ourselves and some is done by [service provider]. Our experience is that [service provider] alone is not enough. They do a good job and reach over 500 companies. Then there's the whole voting process, where we get some advice and then we actually vote ourselves on all the Danish companies. We also handle the dialogue work with the Danish companies ourselves, and then we select some international ones where we say we want to apply extra pressure. (I5)

In general, the pension funds in our sample value external service providers for their ability to act as intermediary agents who enhance their engagement efforts, offering leverage that smaller funds lack. Despite some concerns regarding control, outsourcing at least some engagements is a preferred strategy among member-owned pension funds. This approach grants access to additional expertise and enables engagement with international companies, which would otherwise be too resource-intensive. External service providers thus play a crucial role in strengthening the influence of Danish pension funds in corporate engagements.

Direct engagement

Location appears to play a role in the choice of when to use direct engagement, something that has not previously been highlighted in the relevant literature, to the best of our knowledge. Specifically, half the pension funds in our sample chose to engage directly with some companies and mainly with Danish companies, while only very selectively doing so with non-Danish companies. One respondent told us that as a labour market pension they preferred to analyse specific local labour cases and prioritize themes like employee rights for direct engagement. Where direct engagement is chosen, the funds thus have a desire to take ownership of the dialogue. They suggest that direct engagement provides deeper insights than outsourced services. For example, sustainability risks are better integrated into the investment analysis when handled internally. Both financial and sustainability analyses are thus sometimes based on direct engagement. However, engaging with

companies across an entire investment portfolio is challenging, so the funds in our sample that use direct engagement strategies prioritize dialogue efforts that can lead to the greatest perceived real-world impact.

One way that the pension funds seek to increase their power of influence when engaging directly is to use media presence to amplify their voice. Unlike larger service providers, which need to maintain positive corporate relationships, individual pension funds have more flexibility to exercise shareholder pressure. One interviewee told us:

We have an investment manager who is often in the media. He participates depending on the case and the level at which we meet. There is also our equity manager who can do it, and there are members from my team in the responsibility team, where we have various specialists on different topics. (I5)

One interviewee explained that they target domestic companies that can benefit from ongoing discussions, aligning with the fund's policies and expectations. This is facilitated by informal dialogues with the companies. Some companies even seek fund managers' opinions. Foreign engagements are, however, more constrained, primarily occurring during general meetings due to time and resource limitations. Thematic dialogues are also conducted with select companies, depending on the focus area.

One interviewee explained how they adopt a tripartite strategy for shareholder dialogue, driven by portfolio screenings and alerts from external voting advisors. The first element involves in-house dialogues on ESG and the green transition. The second focuses on dialogue with companies to address specific areas of concern. The third leverages collective investor pressure for greater influence. The chosen strategy thus depends firstly on a screening and then on the contingency factors that will lead to a specific case-by-case choice of direct or indirect engagement with a private or public dialogue.

Shareholder resolutions and voting

Voting on shareholder resolutions is a key tool for active ownership. All pension funds in our sample use proxy voting providers for some shareholder meetings, though their approaches vary. Most rely on proxy advisors alongside internal staff for voting decisions. However, larger funds manage voting more internally due to greater resources and staff capacity. Commercial pension funds tend to support management recommendations, whereas member-based funds appear to adopt a more activist stance. They sometimes vote for climate resolutions proposed by shareholders, including NGOs, even when opposed by company management.

Pension funds can also file shareholder proposals, a method recognized as an effective tool for escalating active ownership, when other forms of engagement fail or companies stop responding. Yet, several interviewees recognized that resolutions can be counterproductive, both in terms of threatening shareholder value and damaging relationships with company management. One told us:

So, of course, the first thing is that it can harm shareholder value if some resolution proposals are passed that are legally too extensive, to put it bluntly. Additionally, we also want to acknowledge the companies that we believe are on the right path, that are already doing something and are sufficiently ambitious. (I2)

Coalitions, networks and global initiatives

Investor coalitions and global initiatives play a role in shaping responsible investment and sustainability efforts. Climate-focused investor groups such as CA100+ and the NZAMA have grown significantly in recent years. Launched in 2017, CA100+ unites over 700 investors managing \$68tn in assets to engage with major greenhouse gas emitters and

push for alignment with the Paris Agreement. Meanwhile, the NZAMA, with 301 signatories managing \$59tn, focuses on aligning investment portfolios with net-zero targets by 2050. CA100+ prioritizes corporate engagement, while the NZAMA promotes best practices among its members.

Danish pension funds actively participate in these initiatives to leverage collective influence and structured engagement frameworks. One interviewee told us that these coalitions help pension funds communicate expectations to companies and reinforce climate commitments. Another noted that collective action is particularly beneficial when engaging large corporations where individual investors have limited leverage. However, interviewees also indicate challenges that include the complexity of dealing with multiple overlapping initiatives. One argued that merging all into a single initiative could improve coordination. This would provide a clearer picture for investors. Another pointed to a “free rider” problem, where investors that do not actively contribute benefit from the others. This places the burden of engagement on more proactive members.

Beyond CA100+ and NZAMA, pension funds in our sample engage with other major climate initiatives, including the GFANZ, the NZAOA, the PA-II and the IIGCC. One pension fund’s CEO holds board positions at IIGCC and GFANZ, strengthening that fund’s role in collaborative engagements. The pension funds in our sample also sometimes collaborate directly with one another, for example, to gather data on unlisted shares. However, competition laws restrict the extent of collaboration, as collective investment decisions could manipulate market prices.

In addition to investor-led coalitions, broader global initiatives influence responsible investment practices. The UN Sustainable Development Goals, the Paris Agreement and the Principles for Responsible Investment (PRI) shape investor expectations and drive sustainability-focused engagement. The UNPRI, established in 2006 with over 2,500 signatories, provides a framework for responsible investment, covering corporate governance, environmental and social challenges and stakeholder participation. A key initiative promoting responsible investment is the adoption of stewardship codes, which provide best-practice guidelines for corporate governance and active ownership. The Danish Stewardship Code, introduced in 2016, addresses shareholder voting, corporate engagement and conflict of interest management (Madsen and Birkmose, 2022). This framework enhances transparency and helps Danish pension funds refine their stewardship efforts.

Guided by the Paris Agreement, all studied pension funds have committed to net-zero emissions. Interviewees emphasized the importance of international principles in determining when to escalate engagement. One noted that these principles help pension funds identify corporate violations and intensify dialogue accordingly. However, while interviewees broadly support global initiatives, some express concerns about conflicting priorities within coalitions. Coalitions include a diverse group of global investors with differing agendas, making consensus difficult. One interviewee told us they use CA100+ benchmarks in dialogues, but tailor engagement priorities based on internal strategies. Despite these challenges, pension funds recognize the value of global initiatives in promoting responsible investment and sustainability. These frameworks provide guidance, transparency and leverage, helping institutional investors navigate complex ESG challenges while holding companies accountable.

Divestment

Our interviewees broadly suggest that active ownership is more effective than divestment in driving sustainable impact. One interviewee argued, for example, that investing in the fossil fuel sector and then engaging with progressive companies within the sector creates more real-world impact than simply divesting. He states, “things don’t change if you don’t get dirt

on your hands" (I6). Several argued that divestment eliminates investor influence, as shareholders lose voting rights at AGMs. On the other hand, one interviewee told us that excluded companies still seek investor approval after such divestment. They excluded a major oil company in 2019, which later approached them to discuss their new climate plans and potential reinvestment. This interviewee perceived that companies aim to maintain good investor relations and will therefore react to divestments. Another mentioned excluding another oil major due to its resistance to implementing sustainability policies and to the Paris Agreement. Other investors who retained their holdings then engaged management and successfully replaced two board members with climate experts. The oil major in question subsequently announced its strategy to achieve CO₂ neutrality. This example illustrates how divestment by a major institutional investor might inspire remaining investors to engage a company.

Almost every interviewee argued at some point in the interviews that the wider financial sector must participate in the fossil fuel industry's green transition. Although several acknowledged that exclusion is warranted when companies ignore necessary changes, they believe that engagement should be the first approach. One interviewee suggested that divestment primarily serves public perception, sending a signal to the public, rather than catalyzing real change. Overall, the consensus is thus that remaining invested as active owners and engaging with companies is the best strategy to influence corporate behaviour.

Some interviewees pointed to the purely financial benefits of active ownership, arguing that remaining invested in fossil fuel companies, many of which are undergoing a transition towards greener energy production, presents significant economic opportunities. The rationale for this seemed to build more on positive examples reinforcing this heuristic than on detailed analysis. For example, one interviewee cited the Danish energy company Ørsted, which shifted from generating mainly fossil fuel revenues to now generating mainly green energy revenues. Had the fund excluded Ørsted earlier, it would have missed out on substantial returns. The same interviewee asserted that companies preparing for the green transition will likely gain the most in the future, though such investments carry risks.

Discussion

The literature on active ownership suggests that it is common for institutional investors to use their influence to reduce negative corporate impact and foster sustainable governance (Goranova and Ryan, 2014; Bernard *et al.*, 2023). This is especially the case for institutional investors (Dimson *et al.*, 2015). Our findings support this notion but refine it in two critical ways. Firstly, we find that in the context of fossil fuels, pension funds perceive engagement also as a sequence of strategic choices, not only as stewardship. This sequence involves the decision of whether to engage at all, whether to engage directly or indirectly and whether to resort to private or public voice. Secondly, our findings suggest that these choices are driven by specific contingencies such as the pension fund manager's perceptions of expertise, resource constraints, firm location, client priorities and expected probability of engagement success. In this sense, we extend earlier work, such as McNulty and Nordberg (2016), by separating engagement strategies into sequential decisions, identifying specific contingency variables and including service providers as structurally important actors rather than peripheral facilitators. We offer our inductively derived conceptual model in Figures 1 and 2. This model reveals in a more explicit way how pension funds describe and justify their strategies of engagement in the context of contemporary sustainability pressures.

Our interviewees describe active ownership as a way to influence corporate transition. On the other hand, we find an indication that engagement is also justified by fiduciary logics, considerations of reputation and perceptions of how effective outcomes are. This points to the discussion in literature of substantive versus symbolic engagement. Prior literature points that stewardship might sometimes serve as a signal of legitimacy in controversial

sectors. It may, however, not work as a mechanism of substantive change (Westphal and Zajac, 1998; Cho *et al.*, 2015; Lyon and Montgomery, 2015; Marquis *et al.*, 2016). In our study, we could not test outcomes in terms of objective impact. Instead, we show, how pension funds choose between strategies of engagement, while they navigate and justify experienced tensions.

Our contribution can also be seen as answer to further recent calls from the literature. For example, Aguilera *et al.* (2025a, 2025b) pointed to the important influence of relevant asset managers that define governance strategies by using stewardship tools and expectations documents. DesJardine *et al.* (2023) and Sikavica *et al.* (2020) defended that stakeholder dynamics and investor identity are important forces that define engagement. Chuah *et al.* (2024) and Denes *et al.* (2017) observed new typologies and hybrid approaches of shareholder activism. We extend such literature by identifying contingency variables and theorizing more completely the decision-making process of pension funds. These not only have to choose between engagement or divestment but also decide on the correct form of engagement given the specific context and contingencies.

To engage or not to engage?

The decision to either engage or not is contingent on several factors as indicated in Figure 1. Firstly, perceived regulatory and stakeholder pressure to engage. In this context, we found, for example, that pension funds closely related to worker unions will feel more pressure to engage on employment-related issues. The role of regulatory and stakeholder pressure has previously been identified in the literature (e.g. Bauer *et al.*, 2025; Viviers and Mans-Kemp, 2021; Väänänen, 2021). Secondly, the perceived severity of the particular issue on which the fund could choose to engage (Semenova and Hassel, 2019). Thirdly, as also indicated by Dyck *et al.* (2019) and Dimson *et al.* (2015), the perceived likelihood of engagement success. A fourth consideration is the size of the company invested in, where pension funds are more likely to target larger players where they relatively own large positions. As discussed in several previous studies, institutional investors tend to concentrate their efforts in engaging with large and highly visible companies, where they own a high stake of shares and, consequently, can exercise more pressure and promote greater impact (Goranova and Ryan, 2014; McNulty and Nordberg, 2016; Semenova and Hassel, 2019). Our findings confirm this. Finally, the holding size is an important factor because larger holdings will have more influence on financial and non-financial impact on the pension fund (e.g. Dimson *et al.*, 2015). There are two basic options available if the pension fund decides not to engage: maintain the position passively or divest. The contingencies collectively indicate that active ownership involves a series of strategic choices involving judgement under competing obligations. When choosing the strategy of engagement, pension funds face trade-offs between fiduciary duty and sustainability impact, as well as between control, expertise, cost and influence.

Three reasons emerged as to why Danish pension funds prefer active ownership over fossil fuel divestment: fiduciary duty, the expectation that transition has a financial upside, and the belief that with ownership continuity, funds preserve influence over corporate strategy. There is a move in the pension industry from the simple exclusion of companies to using their holding rights to influence changes (Silvola and Landau, 2021). Trustees have a fiduciary duty to act in the best interest of beneficiaries and maximize financial returns, a principle rooted in traditional corporate governance literature (Shleifer and Vishny, 1997). This duty can create a potential conflict between financial and nonfinancial performance goals, as pension funds argue that they can best fulfil their fiduciary duty and maximize returns through active ownership and investment in the fossil fuel industry. At the same time, they experience stakeholder pressure to divest. Divestment significantly reduces the investment universe, potentially leading to lower diversification and returns (Vandekerckhove *et al.*, 2007), without necessarily impacting the company's cost of capital (Berk and Van Binsbergen, 2025). While pension funds advocate for engagement over

divestment in the fossil fuel industry, critics argue that active ownership has limitations when applied using ESG concerns (Roncalli, 2023).

Therefore, our findings suggest that pension funds do not consider divestment as an equivalent sustainability tool compared to engagement. Instead, they see these strategies as a consequence of different governance rationales. As observed by Broccardo *et al.* (2022) and Dyck *et al.* (2019), our results point that Danish pension funds in general prefer engagement over divestment, arguing that their engagement efforts are crucial in shaping the sustainability strategies of companies. The interviewees tend to see voice as a more influential strategy because it preserves access and dialogue with companies and keeps the possibility of escalation. Moreover, there is also consistency with Ayling and Gunningham (2017) that suggest that divestment can be a powerful political and moral tool in climate governance, potentially pressuring companies and industries to transition more rapidly. Thus, our contribution here is not to give a verdict to this debate but instead to understand how pension funds justify engagement as the preferred strategy, while they still recognize that divestment can work as a tool for escalation.

The interviews also complement the literature in the understanding of the financial rationale for engagement. While the literature on whether active ownership leads to financial returns is mixed, our findings suggest that pension funds see significant value in companies undergoing major transitions towards sustainable practices. Some argue that these cases can yield substantial financial returns for investors. These findings are consistent with Dimson *et al.* (2015), who conclude that shareholder engagement leads to positive size-adjusted abnormal returns for shareholders.

Moreover, this also finds echo in Hoepner *et al.* (2024), who claim that ESG engagement can reduce downside risk. However, our results also indicate that this financial logic is sometimes framed through managerial judgement and transition narratives rather than *de facto* precise measurements. This is an important empirical explanation of why pension funds remain invested in controversial industries while, at the same time, defending stewardship as financially and socially responsible. On the other hand, fund clients might prefer a divestment strategy from certain industries, such as fossil fuels, leading to a potential difference of views between the beneficiaries and the trustees.

Direct versus indirect engagement strategies

Prior research has examined the financial and sustainability impacts of active ownership (Dimson *et al.*, 2015; Aguilera *et al.*, 2015) and the processes that determine engagement and their effects (Hassel and Semenova, 2018). McNulty and Nordberg (2016) and others called these engagements “voice”. Our results provide a nuanced perspective of how pension funds achieve voice through the selection of multiple strategies of engagement. Figure 2(a) illustrates decision contingencies that affect the choice of form of engagement.

When the pension fund decides to exercise active ownership with engagement, our interviewees indicate that the choice of the form of engagement is driven by a pragmatic assessment of resources, expertise, location and control. The tension between fiduciary and sustainability concerns is in practice navigated rather than necessarily resolved. This finding extends prior work on voice by indicating that the decision is not simply whether to engage but how to configure this engagement according to organizational constraints (McNulty and Nordberg, 2016; Hassel and Semenova, 2018). This configuration can be done either with indirect engagement, through an intermediary agent, or more directly with or without building a coalition (Andersen and Dreyer, 2023). We find that funds tend to engage more directly with local companies than with international ones (see, e.g. Semenova and Hassel, 2019; McNulty and Nordberg, 2016), where this can be mainly done through AGM voting. Moreover, we find that some funds use the media to leverage their

influence (Silvola and Landau, 2021; Roncalli, 2023). Indirect engagement is executed through service providers (Silvola and Landau, 2021) or by participating in coalitions.

Service providers emerge as structurally important actors rather than peripheral facilitators in our model. While service providers tend to increase the reach of pension funds, providing analytical capabilities and expertise and lowering engagement costs, funds might lose control over the engagement. This is particularly the case when service providers represent multiple clients simultaneously. Thus, our findings complement Bernard *et al.* (2023) and Gordon and Pound (1993), showing that indirect engagement not only promotes cost savings but also redistributes influence from pension funds to intermediaries. Commercial pension funds in our sample are more willing to engage through service providers than member-based ones. One explanation could be that indirect engagement is more cost-efficient and that commercial funds have a greater focus on their own costs (Dimson *et al.*, 2015 and Grewal *et al.*, 2016).

Concerning the benefits of direct engagement, interviewees frequently described direct engagement as more feasible and attractive in the case of domestic companies. In this case, pension funds have greater knowledge and easier access to direct dialogue. This finding partly echoes prior work on engagement conditions (McNulty and Nordberg, 2016; Semenova and Hassel, 2019). However, the importance of location appears more explicitly in our interviews. The same is true for the strategic use of media and public visibility, where some pension funds combine dialogue with reputational pressure. This points to complementary uses of private and public voice, thereby nuancing existing typologies of shareholder engagement (Roncalli, 2023; Silvola and Landau, 2021).

Participation in coalitions tends to amplify the influence of pension funds (Gond and Piani, 2013) while also lowering costs of engagement. By collectively leveraging their voting rights and engaging with companies, coalitions can influence corporate behaviour and drive the transition towards sustainability. This is consistent with the findings of Gond and Piani (2013) and Pi (2020). However, our interviewees elaborate that this strategy might lead to coordination frictions and free-riding. Thus, engagement through coalition should not be seen necessarily as a more powerful version of individual engagement.

Two types of voice are illustrated in Figure 2(b), consistent with existing typologies of private and public engagement dialogues (McNulty and Nordberg, 2016; Pi, 2020; Roncalli, 2023). Our interviewees do not see these as mutually exclusive. There is a clear preference for private dialogue, at least to initiate engagement. It preserves access to management, eases collection of information and allows funds to communicate concerns without immediate confrontation. Public voice is viewed as an escalation mechanism. It is used by fund managers when they aim to increase pressure, attract attention or show dissatisfaction. Thus, we add a dynamic nuance to existing typologies: private and public voice are not simply different engagement forms, but instead stages within a broader escalation logic. Pension funds use these selectively depending on the severity of the issue to be raised and their perception on whether companies react to solve this issue.

Implications for impact

While proxy voting and shareholder resolutions are transparent forms of engagement that can be associated directly with corporate action, tracking and assessing the impact of ongoing private dialogues with companies is much more complex. This is a concern raised by prior studies on shareholder engagement effectiveness showing that changes to corporate policy or ESG scores do not necessarily lead to better financial or sustainability outcomes (Grewal *et al.*, 2016; Nelson, 2006; See and Skaggs, 2026). Our interviews are consistent with this point. Respondents often described engagement as meaningful and possibly influential. Yet, they recognize uncertainty regarding whether their strategies lead to material long-term changes in the fossil fuel sector. The argument of Kölbel *et al.* (2020,

p. 554) suggesting that sustainable investing can “diffuse good business practices” but is “unlikely to drive a deeper transformation without additional policy measures” is perfectly consistent with our findings. The interviews suggest that managers of pension funds believe that they are important actors in the sustainable transition. At the same time, they do not see themselves capable of solving the climate challenge only through stewardship. Thus, we conclude that their perceived influence coexists with an awareness of its limits. Investor preferences alone cannot be expected to automatically lead to a green transition (Sund and Dreyer, 2025).

Our findings indicate that Danish pension funds rely on a variety of engagement strategies and voices depending on the targeted company, issue at hand and their perceptions related to a number of contingency variables. They reinforce the argument that pension funds can exert greater influence by remaining engaged, a point also made in prior studies on institutional investor influence (Bernard *et al.*, 2023; Judge *et al.*, 2010; Sjöström, 2020). However, our research design has a limitation to capture only perceived strategic reasoning, not verified outcomes. Thus, it is hard to know whether engagement is in fact more effective than divestment to foster real outcomes. In our sample, pension funds justify engagement as the more influential and financially defensible strategy, even though we must stress that there are natural challenges to verify real-world impacts.

In addition, our results are consistent with and underscore the potential risks associated with simple divestment. Sjöström (2020) defended that although dialogue and shareholder resolutions can lead to improvements that possibly increase ESG performance, they might end up postponing or limiting fundamental changes. A divestment strategy might, on the other hand, depress the stock prices of targeted fossil fuel companies, but there is no proof that this lowers emissions or accelerates the green transition either.

Does investor engagement produce real-world climate outcomes then? Our study cannot directly answer this question, but it helps explain why pension funds insist on engaging despite the uncertainty in outcomes. They claim that there is evidence that the engagement strategy is best to effectively change companies. This goes in line with Kölbel *et al.* (2020) who claimed that direct engagement has the most impact on corporate behaviour, while divestment has a much more limited effect. However, engagement strategies might not always succeed. Institutional investors may be concerned only with financial risk, framing climate change as a systemic “environmental beta” that companies should manage (Christophers, 2019; Krueger *et al.*, 2020). This type of stewardship reasoning has the potential to perpetuate investment in fossil fuels and delay the energy transition. It further creates a dilemma that is confirmed by our findings: pressured to consider climate issues, pension funds remain invested in fossil fuels to cope with fiduciary and societal expectations.

We contribute to this debate by specifying the perceived strategic contingencies behind the choice of engagement strategy. We also discuss the form of this engagement (direct vs indirect, collective and private vs public) and how these variables can influence outcomes. Thereby, our study complements recent calls to study further investor strategies that lead to impact (Alda, 2025; Marti *et al.*, 2024). The evidence from our interviews suggests that effectiveness likely depends not only on whether investors use voice but also on which form of voice they choose, under what conditions and with what level of escalation. Here, shareholders should try to influence companies to be more sustainable by shaping the fields in which these companies are embedded, lobbying for regulatory or reporting changes, for example. More work on measuring the impact of engagements is needed to better differentiate between those strategies that are only based on good intentions and those that are capable of truly fostering the green transition.

Our model directly contributes to the debate on the differentiation between real ESG commitments and greenwashing (Tatomir *et al.*, 2023). Instead of viewing engagement as

either genuine stewardship or symbolic action, we find that it is defined by a sequence of strategic choices. These choices concern whether to engage, how to organize engagement and how voice is exercised (privately or publicly). Contingency factors such as resources, expertise, holding characteristics, stakeholder pressure and perceived likelihood of success influence these strategic choices. In this context, our model indicates why sometimes similar commitments to ESG engagement may be associated with completely different ESG practices. Because our model is based on managers' perceptions and not on outcomes, it does not indicate whether a specific strategy is related to substantive influence or just symbolic responses to specific pressures. However, the model helps us theorize why there is a distance between stated ESG commitments and *de facto* engagement.

Implications for practice and policy

As a direct practical implication, our results suggest that the term active ownership does not imply a single decision, but instead a structured sequence of related choices. It includes a sequence of judgements involving the question of whether to engage, to do this directly or indirectly and whether voice should be kept private or be public. These judgments involve trade-offs that pension fund managers must navigate and an inherent tension between fiduciary and sustainability concerns.

Considering policy and stewardship governance, our findings evidence a growing role of service providers and coalitions. If a significant part of engagement is outsourced or coordinated through collective initiatives, then accountability, consistency and transparency issues become more important. From both a regulatory and research perspective, our findings also indicate the importance of differentiating between substantive stewardship and symbolic ESG commitment. In this context, disclosure policies might only offer limited information on how investors exercise ownership in practice. Monitoring proxy voting behaviour, shareholder resolutions, escalation and engagement activities provides valuable complementary information to that stemming from disclosure regulation.

Finally, we would emphasize that future research could clarify whether the engagement strategies we model with our analysis lead to observable corporate changes and to sustainability impact. To do so, it would be important to combine our type of analysis on the logic of decision-making with real-world analysis of voting records, engagement outcomes and pension fund portfolio choices.

Conclusion

Engagement pressure does not stem only from individual pension fund members but also from other stakeholder groups that have become more aware of the role of institutional investors in influencing companies to reduce CO₂ emissions (Bauer *et al.*, 2025; Viviers and Mans-Kemp, 2021; Väänänen, 2021). In response, some pension funds have shifted their focus towards sustainable investments and net-zero portfolio targets (Bernard *et al.*, 2023). They use various sustainability tools, including ESG integration, corporate engagement (Andersen and Dreyer, 2023; Dimson *et al.*, 2015; Semenova and Hassel, 2019) and ESG risk assessment (Jonsdottir *et al.*, 2022; Väänänen, 2021). Despite such efforts, pension funds continue to face criticism for maintaining stakes in fossil fuel companies (Tillotson *et al.*, 2023). This creates a dilemma for pension fund managers: divest or leverage ownership to influence management decisions towards more sustainable practices? By linking these interview-based findings back to the literature on stewardship, voice, divestment and symbolic versus substantive ESG governance, our study shows that the central issue is not only whether pension funds really engage. It is just as important to understand how they justify and configure strategies of engagement under competing pressures such as fiduciary, reputational and sustainability ones.

Despite external demands for fossil fuel divestment, almost all pension funds in our sample perceive that active ownership is more effective for driving corporate sustainability. This underscores the importance of establishing clear engagement objectives, defining thresholds for escalation and ensuring transparency in stewardship practices. Large funds with extensive resources can sustain direct dialogues, whereas smaller funds often rely on external service providers, raising questions about consistency and effectiveness in engagement outcomes.

We have proposed an inductively derived conceptual engagement model of active ownership, in which engagement involves three separate generic decisions of whether to engage, whether to do so directly or indirectly and whether to do so privately or in public. This conceptual model should not be seen as validated or predictive but instead as illustrating perceptions based on qualitative evidence. We uncovered a range of contingency factors that influence the chosen strategies, offering a structured framework for pension funds to navigate the complexities of sustainable investment. Our research highlights how pension funds strategically use various engagement mechanisms to influence corporate sustainability practices while balancing fiduciary responsibilities.

While we have described a range of contingency factors, we are limited by the nature of a small sample qualitative study. We are also to some extent limited in our ability to be able to state what engagement strategies were adopted by our respondents for all their investments and which were specific to their fossil fuel investments. We thus acknowledge that some of what our interviewees have told us could apply to their engagement in other industries too, and we cannot accurately tell what parts of our engagement model are generalizable. Future research could extend the analysis to other markets, investment target industries and types of institutional investor to verify the generalizability of our findings and perhaps uncover further contingency factors influencing engagement strategies.

Another limitation relates to our interpretivist methodology. It allows us to observe how respondents understand and justify decisions on active ownership but does not allow verification of voting behaviour, engagement outcomes, nor the causal effects of pension fund choices of engagement. Thus, we should see our contribution as a model of perceived strategic reasoning.

Future research could include mixed methods approaches combining qualitative evidence of the perceptions of fund managers and engagement strategies with more objective indicators of stewardship and outcomes. Such indicators could include, for example, records of proxy voting, shareholder resolutions on environmental issues, observable outcomes of engagement and portfolio changes in carbon intensity and reallocation. For example, [Otero González *et al.* \(2026\)](#) combined the behaviour of mutual funds when voting on climate resolutions with different measures of carbon risk and financial performance. Thereby, the authors check whether the stated ESG engagement is connected to real outcomes. Applying such an approach to pension funds could help us conclude whether engagement strategies translate into changes in corporate behaviour and environmental performance. This remains an important area for research. For example, recent evidence suggests that proxy voting is an ineffective strategy for creating ESG integration ([Bernard *et al.*, 2023](#)). In a recent review of literature in this area, [Kölbel *et al.* \(2020\)](#) identified only five empirical studies examining whether engagement is successful, of which two identified an association between shareholder engagement and subsequent ESG ratings ([Barko *et al.*, 2022](#); [Dyck *et al.*, 2019](#)). A more systematic study of how the various engagement strategies we have outlined lead to company-level sustainability or ESG outcomes is a promising avenue for further research.

Another avenue for future research would be a more critical study of discourses in this context. As a somewhat contested industry, fossil fuel investments are surrounded by a

variety of narratives trying to frame impact and justify engagement. A critical discourse analysis of such narratives would provide a more nuanced picture of what is at stake for institutional investors and how they try to justify their engagement decisions. Finally, future research could also aim at exploring the effectiveness of engagement strategies in influencing reporting and regulatory frameworks.

Some might question the relevance of studying ESG engagement at all under a scenario of “Green Climbdown” in the USA (Masters and Temple-West, 2025) and concerns of greenwashing in Europe (Fürer, 2024). We, however, contend that it is precisely in these times that this study becomes most relevant. It is critical to understand how pension funds take engagement decisions exactly in times when sustainability commitments face opposition. Even those pension funds that lower their commitment, or delegate investment decisions to other actors, still influence engagement strategies and often retain stewardship policies. In our engagement model, this type of complexity is taken into consideration because we not only deal with direct engagement but also outsourced and coalition-based approaches.

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