11. Activist investors versus Big Oil: how should ExxonMobil and British Petroleum respond?

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Typically, activist investors use their power to challenge 'inefficient' management to focus on shareholder returns. But what happens when activist investors push firms to act in more socially oriented ways? This case study contrasts two activist campaigns targeting Big Oil. In one, Arjuna Capital targeted Exxon (pushing it to adopt more ambitious climate targets). In the other, Bluebell Capital targeted British Petroleum (BP) (demanding it to water down its climate goals and exploit current high oil prices).

The case addresses an enduring debate – what is the purpose of the firm? Is it to generate profits for shareholders within the confines of the law (Milton Friedman's famous proposition)? Or does it have obligations to wider society? The issues explored in this case include:

- How should the management of Big Oil companies balance demands from activist investors who are pushing for socially oriented change, and those focused on profit maximisation?
- Is it management's responsibility to maximise shareholder returns in the short term or should they pursue a long-term transition towards a low-carbon business model (at the expense of current shareholders)?
- How can companies and activist investors use legal remedies in pursuit of their positions?
- Do capital markets in their current form allow for a change in the business model of carbon-intensive industries?

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Guidance on how to write a case analysis can be found in Chapter 1, 'Business cases: what are they, why do we use them and how should you go about doing a case analysis?'.

A teaching note for this case is available to bona fide educators. To request a copy please email r.m.campbell@lse.ac.uk

Introduction

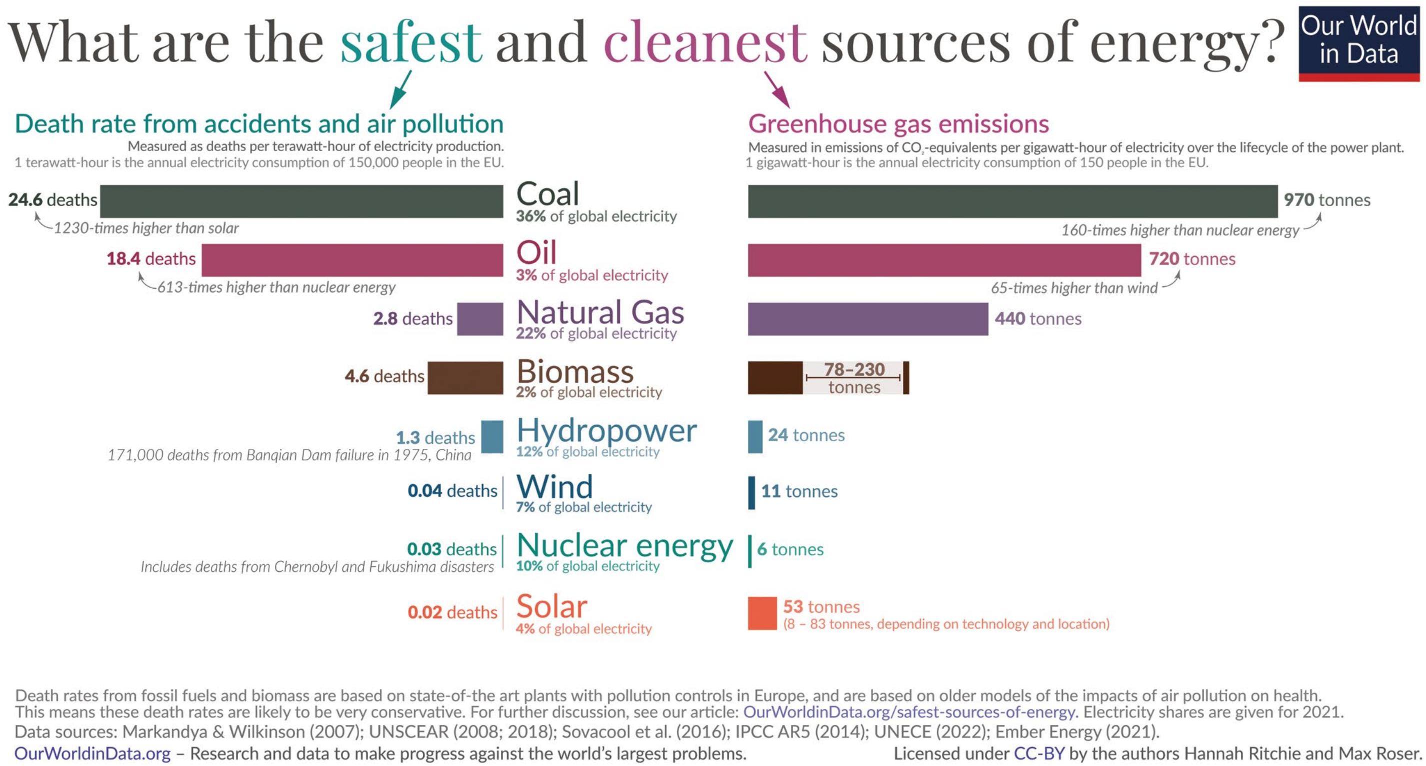
2022 was a record year in the oil and gas industry. Russia's invasion of Ukraine saw oil prices peak to in excess of $100 a barrel. The Big Oil companies Exxon-Mobil (Exxon), Chevron, Shell, BP, TotalEnergies and Equinor made a total of $219 billion in profits in 2022 – more than double the previous year's profits – and distributed more than $110 billion in dividends and share repurchases to its investors. At the same time, global greenhouse gas emissions reached an all-time high in 2022 and the energy sector is responsible for about three-quarters of these emissions.[1] Among all energy sources, oil is the second-largest source of both greenhouse gas (GHG) emissions and pollution-related deaths, surpassed only by coal (see Figure 11.1). As climate experts continue to warn about the potential consequences of global warming, the oil industry is a key focus of most energy transition discussions.

Shareholders of Big Oil companies are divided in their reaction to these trends. While some activist investors demanded an increase in investment into oil and gas to profit from the favourable macroeconomic environment, others proposed a shift towards more climate-conscious investments, such as renewable energy and hydrogen. How should the management of Big Oil companies respond? Is it the responsibility of management to maximise shareholder returns in the short term or should they pursue a long-term transition towards a low-carbon business model at the expense of current shareholders? Do the public markets in their current form possess the patience to support a change in the business model of carbon-intensive energy industries?

Oil markets

Oil prices are determined by global supply and demand, and economic growth is the primary driver of crude oil prices. Contrary to initial expectations, the oil market quickly picked up from its post-Covid slump in 2021 and is projected to continuously grow until 2028. Following the outbreak of war in Ukraine, prices of oil and gas surged in 2022. Oil companies such as BP, Shell, Exxon and Chevron realised record profits and many announced share buybacks. In 2023, total oil demand, measured in million barrels per day (mbd), stood at 102 mbd and is now expected to grow until 2028, peaking at 106 mbd, a higher demand outlook than some experts and executives expected before the Covid-19 pandemic and the war in Ukraine.

Figure 11.1: Global GHG emissions of the oil industry



Source: Ritchie, H. (2020) 'What are the safest and cleanest sources of energy?', OurWorldInData.org, https://ourworldindata.org/safest-sources-of-energy licensed under CC-BY by the authors Hannah Ritchie and Max Roser

Oil is a key input to various end-products, such as food, transportation and construction, playing a fundamental role in the day-to-day lives of consumers and businesses worldwide. First, drilling operations extract crude oil and natural gas. Once transported into oil refineries, the crude oil is refined into products with both industrial and end-consumer uses. These products include diesel, gasoline, kerosene, jet fuel, asphalt, lubricants and chemical reagents used in pesticides, plastics and pharmaceuticals. Oil markets are structured along these supply chain stages and divided into upstream, midstream and downstream segments. Upstream production includes exploration, drilling and extraction of crude oil. The oil companies dominating this space are national oil companies like Saudi Aramco and the so-called 'Big Oil' companies including BP, Exxon, Shell and others. Midstream activities are concerned with oil storage and transportation while downstream production refers to oil refining, product distribution and other activities closer to the end consumer. Large players in the downstream segment include Marathon Petroleum Corporation and Phillips 66. Most of the Big Oil companies are integrated across segments, operating from upstream exploration and production to downstream spheres with convenience fuels.

In the EU, about half of crude oil is used in road transport, 13 per cent for industrial non-energy use, around 9 per cent and 8 per cent for water and air transport respectively, with the rest being divided into residential, energy, and other sectors.[2] Global consumption follows a similar pattern. Driven by the increasing demand for crude oil, the International Energy Agency projected 2023 global upstream oil and gas investments to reach their highest level since 2015, growing an estimated 11 per cent to $528 billion, compared with $474 billion in 2022.[3] Some companies are eager to take advantage of the strong demand until 2028 by increasing investment in oil and gas. However, from 2028 onwards, oil demand is expected to decrease due to increased efficiency, regulation and rising sales of EVs. Consequently, other oil companies are instead looking to reduce their investment in oil and gas. Both strategies have met with considerable backlash from activist shareholders.

Shareholder activism

Shareholder activism is not new. Over 400 years ago, angry shareholders accused the managers of the Dutch East India Company of neglecting their interests. But it remains controversial. Supporters of shareholder activism argue that it is a vital part of a functioning capital market, challenging inefficient management and shaking up underperforming firms. Its detractors argue that it is a way for (some) shareholders to enrich themselves and that it fosters destructive short-term decisions.

Typically, shareholder activists purchase a minority equity stake in a public company (anywhere from 1 per cent to 10 per cent) and demand a change in the company's governance, strategy or operations. Common demands include divesting from an unprofitable division, changes in capital structure, increased dividend payments, replacing a CEO, cost-cutting or demanding a share buy-back. The activists usually pursue this through proxy battles, publicity campaigns, negotiations with the management or shareholder resolutions. Shareholder resolutions are non-binding proposals to the board, presented to all shareholders and voted on during the company's annual general meeting. Some of the most well-known activist investors are Carl Icahn, Daniel Loeb from Third Point, Bill Ackman from Pershing Square and Nelson Peltz from Train Partners.

Increasingly, shareholder activism has been used as a tool to push beyond financial shareholder returns towards socially oriented goals. The shareholder activism landscape is thus shifting away from purely profit-focused campaigns, and Big Oil companies can face very different activist demands. While Exxon was confronted with a shareholder resolution demanding more ambitious climate targets, BP's climate strategy was deemed too ambitious by a different activist group, who wanted BP to abandon its climate goals and instead exploit the high oil prices and demand.

Case A: Exxon and Arjuna Capital

Darren W. Woods had served as the chief executive officer of Exxon since 2017 and had faced several activist shareholder campaigns, some of which successfully initiated change and, in the case of Engine No.1, had even resulted in board seats. However, the activist campaign launched by Arjuna Capital in 2022 would mark a dramatic shift. Arjuna Capital had repeatedly submitted proposals demanding that Exxon step up its medium-term emission reductions. Exxon was getting increasingly frustrated by what they saw as a misuse of the system by professional activists who had publicly stated that they did not care about shareholder value. In February 2024, Exxon filed a lawsuit against Arjuna Capital. The lawsuit was dismissed but sparked a public backlash and it quickly turned into a broader debate about shareholder rights. Woods was now wondering, was the litigation against one of their own shareholders a step too far? Should he give in to his critics or convince his board to continue to fight Arjuna Capital and refile the case? If his responsibility was to maximise profits for his shareholders, how should he react if short- and long-term profitability seemed to be in conflict? What if not all shareholders agreed on what their interests are? To whom was he ultimately responsible?

The company: Exxon

Exxon is an American oil and gas company and the largest descendant of Rockefeller's Standard Oil company, which was broken up in 1911. Exxon operates in four key segments: upstream, energy products, chemical products and speciality products. The upstream segment explores, drills and supplies crude oil and gas from all over the world, generating $23.6 billion in profits and 3738 thousand barrels per day in 2023. The energy products segment is an integrated business operating in refining, transportation, trading and end-consumer supply of oil and petroleum products through its Esso, Exxon, and Mobil branded petrol (gas) stations. This segment yielded $12 billion in net income in 2023. The chemicals and speciality products divisions generated in total around $4.8 billion in net income in 2023. Low-carbon solutions were included in the corporate overhead costs as they were not mature enough to be included in a standalone division.

In 2011, Exxon was the largest company in the world. But it was to face a difficult decade. Lower crude oil prices on global markets, increased pressure to transition away from hydrocarbons, and fears that reaching 'peak oil' would soon decrease production, all hit its share price. In 2014 Exxon's share price was $103 per share, declining to around $70 per share in 2019. In March 2020, the market plummeted over fears about Covid-19 lockdowns, and the global pandemic sent Exxon's share price to a record low of $33 per share. As lockdowns were introduced, the demand for oil dried up, turning the price of oil negative for a brief time in April 2020 when sellers paid buyers to get oil off their hands. With the price of oil at historic lows, regulatory pressures to decrease carbon emissions and the increasing appeal of asset-light technological companies, asset-heavy oil companies like Exxon were seen as unattractive investments. Yet by 2023, the market had rebounded. Exxon's share price climbed to a high of $120 and the company reported $335 billion in revenues and $36 billion in net income for FY23. Exxon was once again one of the largest companies in the world.

An early warning: Engine No. 1's Exxon campaign

Arjuna Capital was not Exxon's first brush with environmental, social and governance (ESG)-focused activism. In May 2021, with a mere 0.02 per cent stake in Exxon, the small activist fund Engine No. 1 launched a campaign titled 'Reenergize Exxon', demanding change. On the website reenergize-exxon.com, the activist fund stated:

> Over the last 10 years, ExxonMobil's total shareholder return, including dividends, has been negative (15) per cent, versus +271 per cent for the S&P 500. Exxon's deteriorating financial strength has caused the market to question the reliability of its dividend in recent years. Last year for the first time in decades ExxonMobil failed to increase its dividend, and its CEO said, 'The beauty of the dividend is that it is flexible.[4]

Engine No. 1 had four key demands:

1. Refresh the board with independent directors with transformative energy experience.

2. Impose greater capital allocation discipline.
3. Implement a strategic plan for sustainable value creation, including an investment into clean energy which would help the company diversify.
4. Overhaul management compensation, especially the salary of CEO Darren Woods who took $75 million in the previous four years despite underperformance.

Despite their small stake (too small to require disclosure), the activists convinced large Exxon shareholders such as BlackRock and Vanguard to grant Engine No. 1 three board seats – a truly remarkable feat for an activist this size taking on a $400 billion company. However, not long after this campaign, Exxon faced another activist shareholder concerned with its climate strategy – Arjuna Capital.

The activist: Arjuna Capital

The activist fund Arjuna Capital was founded in 2013 by Natasha Lamb and Furnum Brown with the mission to provide investors with competitive financial returns and promote a healthier, more sustainable and more just economy. Its mission statement specifies:

> As an investment firm focused on sustainability, we understand that social justice, environmental responsibility, and economic vitality are all 'bottom line' issues. We are convinced that investing in a more equitable, environmentally responsible economy is simply smarter long-term investing to secure your wealth and the prosperity of future generations.[5]

To achieve this, Arjuna Capital typically purchased small stakes in companies and introduced shareholder resolutions, demanding additional disclosures from the management and proposing alternative strategies. Between 2013 and 2016, Arjuna Capital asked Occidental Petroleum three times to 'review the Company's policies, actions and plans to measure, disclose, mitigate, and set quantitative reduction targets for methane emissions and flaring resulting from all operations under the company's financial or operational control'.[6] In 2019, it pressed Chevron and Exxon to '[describe] how the Company could adapt its business model to align with a decarbonising economy'.[7] In 2020, it pressed Comcast to assess 'the effectiveness of the company's workplace sexual harassment policies, including the results of a comprehensive, independent audit/investigation, analysis of policies and practices, and commitments to create a safe, inclusive work environment.'[8] In 2022, it sent proposals to Twitter to nominate a human rights expert to its board, to Wells Fargo and Alphabet to report on their board diversity, and dozens of resolutions trying to persuade various companies to report on differential pay by gender and race.

An unprecedented fight: Exxon and Arjuna Capital

In 2022, Arjuna Capital, in cooperation with the climate non-profit 'Follow This', filed an official motion for Exxon to disclose 'how the company could alter its business model to yield profits within the limits of a 1.5-degree Celsius global temperature rise by substantially reducing its dependence on fossil fuels.'[9] In the same year, Arjuna Capital also asked Exxon to reduce their Scope 3 emissions. This motion received 27 per cent of the shareholder votes and was therefore rejected. It filed the same motion a year later and received 10 per cent of the votes (see Exhibit 1).

On 21 January 2024, however, Exxon took an unexpected step. The company filed a lawsuit against Arjuna Capital, arguing that professional activists were abusing the proposal process (see Exhibit 2). In a statement on their website, Exxon justified the lawsuit as follows:

> Repeatedly submitting proposals that investors overwhelmingly reject is not in the interests of investors or a working shareholder proposal system. We have a responsibility to call attention to the misuse of proposals by professional activist groups who have publicly stated they do not care about growing shareholder value while they pursue their own agendas. We hope to continue the dialogue on these issues.'[10]

Under the US Securities and Exchange Commission ('SEC'), public companies can request to omit shareholder proposals from presentation and voting during the annual general meeting. Potential grounds to request this exclusion include 'micromanaging' the board by interfering with the ordinary business operations, substantially duplicating another shareholder proposal or resubmission of earlier proposals.

While Exxon claimed that it valued the rights of shareholders to submit proposals, it criticised an increasing 'abuse of the shareholder-access system'.[11] Exxon claimed that from 2022 onwards, the SEC increasingly rejected companies' requests for omission of shareholder proposals and created 'a system that's not serving the best interests of investors' where their rights 'are increasingly being infringed by activists masquerading as shareholders'.[12] To set a precedent and push the SEC to change its decision-making on shareholder proposals, Exxon upheld its lawsuit even after Arjuna Capital withdrew its shareholder proposal. However, the lawsuit sparked a backlash from some of the biggest investors. Nicolai Tangen, CEO of the $1.6 trillion Norway Wealth Fund, which owns a $6.2 billion stake in Exxon, said 'It's a worrisome development. We think it's very aggressive and we are concerned about the implications for shareholders rights.'[13] CalPERS, the $484 billion pension fund with a $1 billion stake in Exxon, expressed their concern in a letter and voted against all of Exxon's board nominations. In the letter, CalPERS said 'If ExxonMobil succeeds in silencing voices and upending the rules of shareholder democracy, what other subjects will the leaders of any company make off limits?'[14]

The response: Darren Woods weighs his options

On 17 June 2024, the responsible US District Court Judge dismissed Exxon's lawsuit, stating that Arjuna Capital had already withdrawn its proposal and pledged to not submit similar resolutions in future, thus Exxon's claim was no longer valid. Since the case was dismissed without prejudice, however, Exxon can decide to continue its mission and refile charges.

As Darren Woods was reading the statements from important investors such as CalPERS, he was thinking about whether the lawsuit against Arjuna Capital might have been too aggressive. Yet, he was concerned about how activist investors might influence his business in the future, should Exxon not continue with its lawsuit. He felt unsettled about the whole situation. How was he supposed to balance the conflicting views of the shareholders? Up until now, the share price of Exxon seemed to have done relatively well; however, was this a long-term strategy?

Case B: BP and Bluebell Capital

BP found itself in a battle with very different activist shareholders. While Exxon was being pressed to step up its commitment to climate change, BP was confronted with demands that it drop its climate targets and focus on its rather lacklustre financial performance.

Murray Auchincloss had replaced Bernard Looney as CEO of BP in 2023 and soon found himself in a tough position. He was expected to deliver an ambitious decarbonisation strategy while under scrutiny from Bluebell Capital, an activist shareholder, who was vocal in its demand for greater returns to shareholders. In May 2024, BP had announced earnings that had missed analysts' expectations. 'We remain committed to our strategy', he told the analysts, 'we just have to be pragmatic. We need to deliver the returns we promised to the market, otherwise, we won't move projects forward.'[15] Would it really be possible to remain committed to their decarbonisation strategy and still maintain healthy shareholder returns?

The company: BP

BP is a British FTSE 100 company, founded in 1909 and with more than 80 thousand employees. In 2023, it recorded revenues of $210 billion and a profit of $13.8 billion. It operates in three key segments: gas and low-carbon energy; oil production and operation; and customers and products. In 2022, gas and low-carbon energy generated close to $6 billion in profits, focusing on the production of natural gas, trading of natural gas, and low-carbon sources (solar, wind and hydrogen). Oil production and operation focused on upstream oil production of crude oil and yielded $6.8 billion in profit in 2022. Lastly, the customers and products division, which included consumer-facing activities such as convenience fuels, biofuels, and aviation fuels, brought $5 billion in profits to the company in 2022.

Despite the strong post-Covid run in the oil markets, BP's share price had not performed as well as that of Chevron, Exxon, and Shell, trading at around 11 times its earnings as opposed to the 14 times of Chevron and Exxon or 13 times for Shell. Since 2022, BP's return to shareholders has not been on par with its competitors and many investors were becoming frustrated, attributing the valuation gap to BP's ambitious decarbonisation strategy which, some investors believed, prevented BP from taking advantage of the favourable market conditions in the oil and gas market.

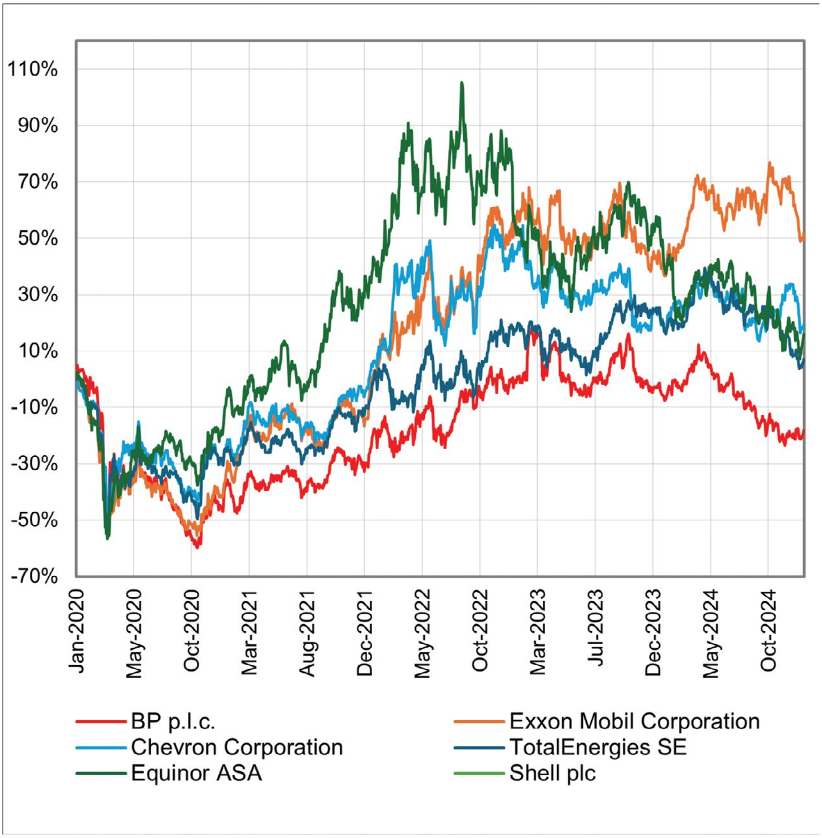
From British Petroleum to Beyond Petroleum and back

In 1997, John Browne, then CEO of BP, gave a speech at Stanford Graduate Business School on the subject of the global environment. He spoke about 'discernible human influence on the climate', the 'link between the concentration of carbon dioxide and the increase in temperature,' and a 'need for action and solutions.'[16] For an executive of an oil company, this was an unprecedented statement and BP was one of the first oil companies to acknowledge the impact of hydrocarbons on the global climate. The speech marked a shift in BP's strategy and from then onwards, BP would stand for 'Beyond Petroleum', said John Browne.

When global oil demand was weak in 2020, BP announced the aim to be net zero by 2050. This was an ambitious target that required a 50 per cent reduction in the carbon intensity of BP's products by 2050 or sooner and an increase in the proportion of investment into the non-oil and gas business over time. The promise would mean a reduction of CO_2 eq. by 35–40 per cent by 2030. Bernard Looney, BP's CEO in 2020, commented on the shift: 'The world's carbon budget is finite and running out fast; we need a rapid transition to net zero. We all want energy that is reliable and affordable, but that is no longer enough. It must also be cleaner.'[17]

The 2020 announcement marked the biggest strategic overhaul in the energy giant's history – transitioning from the oil and gas business to being an integrated energy company. BP expected to slash its oil and gas production by 40 per cent in the coming decade and planned greater investment into wind and solar power. No other major oil company announced such a steep reduction in their current main source of profit. According to the strategy, by 2025, BP would dedicate 20 per cent of its capital to its 'transition business', that is investments outside of oil and gas, far more than its competitors. The company also planned to dispose of $25 billion in assets by 2025, having recently sold off its petrochemical business to Ineos Ltd for $5 billion. Following this ambitious announcement, some investors remained sceptical, especially given that the target returns from low-carbon energy business were 8–10 per cent compared with industry targets of around 15 per cent for oil and gas investments. BP's share price remained stuck near a 25-year low and had underperformed its rivals (see Figure 11.2). Nonetheless, BP quickly moved from words to action. In 2020, it paid $1.1 billion for a stake in US wind farms and

Figure 11.2: Relative share prices of Big Oil companies (2020–2024)

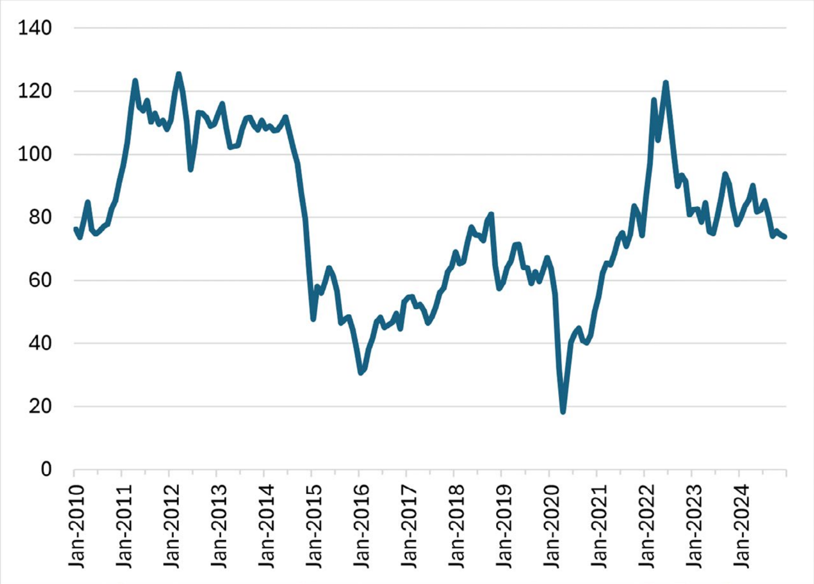


Source: Authors' analysis on the basis of data from Google Finance. Percentage change of share prices from 01.01.2020. Retrieved from: https://www.google.com/finance/

continued to build out its renewables portfolio. It also made investments in EV charging, hydrogen solutions, bioenergy fuels, carbon capture and other low-carbon solutions. By 2022, the total transition growth investment totalled $4.9 billion, around 30 per cent of the group's total investment that year.

However, ambitious energy decarbonisation targets came under scrutiny when oil markets recovered from the pandemic and as the war in Ukraine continued. Energy prices were continuously high with Brent Crude at around $83 per barrel in February 2023 (see Figure 11.3). On 7 February 2023, then-CEO Bernard Looney backtracked on the ambitious announcement made in 2020 and decreased the decarbonisation targets. BP announced that it would now aim for a 25 per cent reduction of CO_2 eq. by 2030, instead of the initially envisioned 40 per cent. To justify the reverse in strategy, Looney explained that today's governments and societies were expecting companies such as BP to invest in the energy system.

Figure 11.3: Brent Crude Oil spot price in US$ (2010–2024)



Source: Authors' analysis on the basis of data from the International Energy Agency.. https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=RBRTE&f=M

BP's announcements mirrored broader developments in the fossil fuel industry. When BP initially declared its climate strategy in 2020, the oil prices were about half of the 2023 levels. By the time Looney course-corrected in 2023, the profitability of the fossil fuel industry had increased drastically. Following the announcement that emission targets would be lowered and BP posting a record profit, the stock price jumped from 478p per share on 6 February to 560p per share on 10 February. Despite the share price improvement, not all shareholders were satisfied. On 4 October 2023, Bluebell Capital, an activist hedge fund, disclosed its stake in BP and demanded greater shareholder returns, arguing that BP's shares were at least 50 per cent undervalued.

The activist: Bluebell Capital

Bluebell Capital is a London-based activist hedge fund with around $130 million in total assets under management. It was founded in 2019 by Italian ex-investment bankers Guiseppe Bivona and Marco Taricco, and despite its small size has led activist campaigns against corporate heavyweights such as Danone, Glencore, Bayer and BlackRock. In its campaigns, Bluebell focused first and foremost on shareholder returns and avoided ideologically motivated strategies. In 2021 for example, Bluebell mounted a campaign against Danone's CEO Emmanuel Faber, one of the most vocal champions for ESG and purpose-driven capitalism in global business. Bluebell's Marco Tarrico commented 'We never criticised [the Environmental and Social goals], how can we criticise these things? But it can't come at the expense of shareholder returns. The first duty of a public company is to remunerate shareholders.'[18] Some of Bluebell's campaigns were aligned with ESG goals, as long as these ultimately led to greater shareholder returns. For example, in 2023 it asked Glencore, one of the largest mining and commodity trading companies, to dispose of its thermal coal business and instead take advantage of the growing market of transition metals required for achieving climate goals.

In its letter to BP, Bluebell claimed to be a 'passionate environmentalist', but also a 'realist who understands the power of capital markets'.[19] The activist investor criticised BP's strategy, low targeted returns, flawed assumptions on the demand side, and its failure to deliver shareholder returns. Bluebell viewed BP's plan to expand into the fiercely competitive renewables industry as risky and irrational, claiming that BP had no competitive advantage, track record or experience to succeed and highlighting the typically significantly lower target returns of renewables investments (8–10 per cent) compared to oil and gas (≈15 per cent). Additionally, the activist investor argued that while global oil demand was still rising, BP's divestment from fossil fuels assets would have no positive net effect on climate as it would only transfer assets into the hands of less climate-conscious companies. Bluebell explained that since the oil and gas segment contributed towards 70 per cent of BP's earnings before interest, taxes, depreciation and amortisation (EBITDA), a divestment from this sector would be incompatible with the generation of shareholder value. Lastly, Bluebell pointed out the already low total shareholder returns which, since Looney's appointment in 2020, fell behind the rest of Big Oil. Over Looney's tenure, BP's total shareholder returns stood at only 32 per cent compared to 45 per cent for Shell, 72 per cent for Total Energies, 79 per cent for Chevron, and 135 per cent for Exxon. Bluebell capital argued that its low returns were directly attributable to BP's environmental strategy.

The response: Murray Auchincloss deliberates his strategy

While Bluebell welcomed the revision of BP's climate goals, it sent a letter to the management proposing further changes to the company's strategy including annual investments in oil and gas of $1.5bn, the removal of BP's medium-term emission targets and the revision of its 2050 net zero goal (see Exhibit 3).

Murray Auchincloss was weighing his options after the disappointing earnings call on 7 May 2024. Should he double down on the decarbonisation strategy of BP and continue pursuing net zero by 2050, hoping to beat its rivals in the long term? Or should he give in to the pressure from Bluebell Capital and backtrack on the climate promises to maximise profits in the next years? What was Auchincloss ultimately responsible for: generating the most value for current shareholders or should he also consider responsibilities towards the climate and the long-term preservation of the company?

Preparing the case

In preparing the case analysis you might like to consider the following questions:

1. Is Big Oil in a lose-lose situation, when it comes to shareholder demands? How should the management of Big Oil companies balance the conflicting interests of investors who are pushing for socially oriented change against those focused on profit maximisation?
2. Are managers responsible for maximising shareholder returns in the short term or should they focus on creating sustainable value, potentially at the expense of current shareholders?
3. Should Exxon appeal the judge's decision and move forward with its lawsuit against Arjuna Capital? Was it right to sue its shareholders in the first place?
4. How should BP respond to the demands of Bluebell Capital? Does giving in to Bluebell's demands and scaling back its climate commitments then risk an ESG-focused activist campaign such as that at Exxon?
5. Do today's capital markets dictate shareholder primacy or are managers able to adapt business models based on stakeholder interests?

Exhibits

Exhibit 1: excerpt from Arjuna Capital's shareholder proposal

At Exxon's Annual General Meeting in May 2023, Arjuna Capital, together with the non-profit Follow This, presented its shareholder resolution. The proposal explains their concerns and outlines demands for Exxon's strategy.

> We believe that ExxonMobil could lead and thrive in the energy transition by meeting the increasing demand for energy services while reducing GHG emissions to levels consistent with the global intergovernmental consensus specified by the Paris Accord.
>
> Setting a Paris-aligned medium-term target covering Scope 3 is paramount, because the medium-term is decisive for the Company and the Paris Accord and because Scope 3 accounts for around 90% of total Scope 1, 2 and 3 emissions.
>
> ExxonMobil is one of the few oil majors that has not set Scope 3 targets (at the time of filing this proposal).
>
> ...
>
> We, the shareholders, understand this support to be our fiduciary duty to secure the long-term interest of the Company and to protect

> all our assets in the global economy from devastating climate change; limiting global warming is essential to risk management and responsible stewardship of the economy.
>
> ...
>
> Changes in demand are as critical as changes in supply, but customers can only change sufficiently when key system players like ExxonMobil offer alternative energy sources at scale. By investing in alternatives, a global integrated energy company like ExxonMobil could decrease emissions without ultimately shrinking business.
>
> It is in the Company's and its shareholders' best interest to pursue the opportunities the energy transition presents; this will also preempt risks of losing access to capital markets, policy interventions, litigation, liability for the costs of climate change, disruptive innovation, and stranded assets.

Source: ExxonMobil (2023) 'Notice of 2023 Annual Meeting and Proxy Statement', https://ir.exxonmobil.com/node/34696/html#toc429320_23

Exhibit 2: excerpt from Exxon's complaint in the federal district court for the Northern District of Texas

On 21 January 2024, Exxon filed a complaint in the federal district court for the Northern District of Texas against Arjuna Capital. The complaint sets out Exxon's position on Arjuna's campaign and its criticism of the shareholder proposal system more broadly.

> 1. Most shareholders invest in companies to help the companies grow and see a return on their investment. But Arjuna and Follow This are not like most shareholders. Driven by an extreme agenda, … They (or their clients) become shareholders solely to campaign for change through shareholder proposals that are calculated to diminish the company's existing business.
> 2. Arjuna and Follow This are aided in their efforts by a flawed shareholder proposal and proxy voting process that does not serve investors' interests and has become ripe for abuse by activists with minimal shares and no interest in growing long-term shareholder value.
>
> ...

11. The 2024 Proposal does not seek to improve ExxonMobil's economic performance or create shareholder value. Like the previous proposals, it is designed instead to serve Arjuna's and Follow This's agenda to "shrink" the very company in which they are investing by constraining and micromanaging ExxonMobil's ordinary business operations.

...

13. This sweeping intrusion into ExxonMobil's ordinary business operations is designed to substitute Defendants' preferences for the judgment of ExxonMobil's management and board in determining how best to operate the company in an efficient and environmentally-conscious way.
14. Defendants should not be permitted to continue to misuse the shareholder proposal rules to submit a proposal that interferes with ExxonMobil's ordinary business operations and when close to 90% of voting shareholders rejected the 2023 Proposal.

Source: ExxonMobil (2024) 'Complaint in the United States District Court for the Northern District of Texas Fort Worth Division'. https://perma.cc/TJK9-8XM7

Exhibit 3: excerpt from Bluebell's letter to BP

On 4 October 2023, shortly after the resignation of Bernard Looney as CEO of BP, Bluebell Capital sent a letter to the company's management. The letter outlined Bluebell's criticism of the BP strategy and how it would 'destroy' shareholder value. Bluebell asked BP to implement the following six corrective actions:

1. remove its medium-term Scope 3 targets and qualify its 2050 target (Net-Zero) as a target to be reached 'in line with Society'
2. realign supply to demand revising upward BP's oil and gas production target, to ~2.5 mmboed by 2030 (versus current target of 2.0 mmboed)
3. increase investment in oil and gas by ~$1.5bn p.a. (2023–2030) and reduce cumulative investment in Bioenergy, Hydrogen and Renewables & Power by ~60% (2023–2030), the majority of which will be financed by halting investment in Renewables & Power
4. increase cash to be returned to shareholders by a cumulative ~$16bn (~$2.0bn p.a., 2023–2030) to be sure it is better deployed also in support of the energy transition

5. enhance disclosure on businesses outside core oil and gas (Convenience and EV Charging, Hydrogen) and more broadly on investment hurdles
6. strengthen the Board of Directors, adding the necessary capabilities to oversee large capital deployment in areas which are not BP's core business and have BlackRock's non independent director Pamela Daley removed from BP's Board.

Source: Bluebell Capital (2023). Letter to BP. Retrieved from: https://perma.cc/YST9-F6FJ

Further reading

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