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## Corporate social responsibility gains more traction

*The current proxy season is giving hope to social and environmental shareholder activists they will eventually prevail on management to adopt their resolutions.*

Those favoring socially and environmentally sound policies are winning historically high levels of support. While they're non-binding, increasing support for them puts pressure on managers to respond.

Votes above 40 percent in favor of such resolutions nearly doubled from last year according to the Corporate Social Responsibility Program at As You Sow, a non-profit. In 2000, there were none above 40 percent.

"This is the strongest year ever for social/environmental resolutions," said Michael Passoff, senior program director at As You Sow. Another indicator of the growth in support is that there were only six votes above 20 percent in 2000 and 88 above it in 2010.

"The last decade has seen a tremendous shift in how investors perceive potential financial liabilities from social and environmental issues," Passoff explained.

There were 360 social resolutions filed, and 170 went to a vote. Passoff predicted that this year will likely end with 400-plus resolutions filed and 200 voted on.

The vast majority of those voted on surpassed the SEC requirement that they win a minimum level of growing support (at least 3 percent in the first year of a resolution's submission, 6 percent in the second, and 10 percent the third) to be re-filed the following year. And two did get majority votes: a sustainability vote received 60 percent and a greenhouse gas reduction resolution received 52 percent, said Passoff.

"It is quite simply, the strongest, for new environmental resolutions ever," said Passoff.

What's fueling support? "More people understand these issues and for investors that equates with understanding the financial consequences of environmentally damaging practices," said Passoff.

Financial liability is real. Look no further than BP and the huge drop in its stock and suspension of dividends resulting from the Gulf oil spill. Then too, he added, "Shareholder advocates have learned to make better arguments identifying financial risk from corporate environmental practices."

Given their non-binding status, what difference do the votes make? Passoff has observed companies responding in some way to a vote above 10 percent, and higher votes often getting bigger or faster responses. The reason for that is failure to take action runs the more significant risk of escalating the issue into a broader governance concern, because many investors begin to withhold from directors when they have ignored

majority votes, added Michael "PJ" Pryce-Jones, senior research analyst with Proxy Governance, a proxy advisory company.

The issue goes beyond social responsibility itself, in Passoff's view. "How a company deals with environmental risk, especially on climate issues, is becoming a quick litmus test for how shareholders perceive [management's ability to] address other complex issues," he explained.

Passoff's recommendations for corporations: Talk to the shareholders who raise the issue. Resolutions are generally filed when a company fails to provide answers or respond to questions from shareholders. Seek solutions. Full or transitional options often exist.

Lastly, said Passoff, don't confuse the message and the messenger. Though most environmental resolutions are filed by religious, institutional investors, SRIs and pension funds, the votes show that environmental resolutions are now being strongly supported by mainstream investors. "Votes that get 20, 30 and 40 percent - represent serious shareholder concern about the issue," he added.

Companies who resist the movement are fighting a rear-guard action, according to Timothy Smith, senior vice president in the Environment, Social & Governance Group at Walden Asset Management. "Companies that aren't yet convinced or are hostile about ESG issues, are out of sync," Smith said. "The genie isn't going back in the bottle."