

Dialogue: A Powerful Shareholder Strategy

Joshua Marks

Four decades ago, the socially responsible investing (SRI) movement began with dialogue. By calling on companies to not do business in South Africa because of the government's policy of apartheid, a group of concerned investors helped spur a movement of shareholders who regularly demand that companies put people and the planet on par with profit.

Today, investor coalitions and institutional investors, such as socially responsible mutual funds and pension funds, use their deep pockets and strong standing to communicate directly with corporations about social and environmental issues, through methods such as open letters and face-to-face meetings with management.

This year, shareholders engaged in dialogues with companies on issues as diverse as divesting from military-ruled Burma (Myanmar) and eliminating bisphenol-A from consumer products.



Why Dialogue Works

These investor groups are able to get access to corporate management for dialogues because they have a huge amount of capital behind them. In fact, 55 US institutional investors representing a total of \$740 billion in assets used that considerable economic clout to dialogue with corporate managers from 2008 through the first half of 2010, according to the Social Investment Forum's *2010 Report on Socially Responsible Investing Trends in the United States*.

"As we've been engaging in corporate dialogues for nearly 40 years, [we are able to convene] effective, face-to-face discussions with management that bear fruit in the form of meaningful reform," says Laura Berry, executive director of the Interfaith Center on Corporate Responsibility (ICCR), a coalition of faith-based institutional investors.

So while shareholder resolutions may get the lion's share of media attention, it is often dialogue (in which all parties know the next step is likely a shareholder resolution) that gets the job done.

"Because we understand ensuring a good return and safeguarding the health of the planet and its inhabitants aren't mutually exclusive goals, we propose realistic solutions that are often adopted in dialogues that make further actions, such as filing shareholder resolutions, unnecessary," says Berry. "For that reason, corporate dialogues are generally our preferred and first course of action."

Below are highlights of recent dialoguing successes and ongoing challenges.

Human Rights/Discrimination

Three years of investor dialogue, led by Trillium Asset Management, Domini Social Investments, Boston Common Asset Management, and the Interfaith Center on Corporate Responsibility, convinced a Toyota affiliate this year to fully divest from a joint venture with the Burmese (Myanmarese) military regime. The regime has been accused of human rights violations by the United Nations and global human rights organizations, including the absence of an independent judiciary, Internet restrictions, forced labor, human trafficking, child labor, and sexual violence.

In August, these investors received a letter from Toyota North America stating that its trading arm Toyota Tsusho Corp. had sold its stake in the venture in Burma.

On the home front, after seven months of dialogue, NorthStar Asset Management scored a major victory by getting package delivery giant FedEx to provide domestic partner health benefits to same-sex couples by 2012.

Health and Safety

The chemical bisphenol-A (BPA), a likely hormone disruptor, has become a big concern among investors. Canada recently declared it a toxin and banned its use. In the absence of a US federal response to regulating the chemical used to line metal food and beverage containers, investors are taking action.

Investment advisory firm Green Century Capital Management and **As You Sow**, a nonprofit working to increase corporate accountability, have been dialoguing with companies about using BPA in products and packaging for years. To speed up improvements, these investors released two well-publicized reports grading companies on their progress in phasing out BPA—one in April 2009, and the latest this past November.

“We believe companies may face financial risks from the presence of BPA in product packaging and should act quickly to eliminate the chemical to help protect shareholder value and preserve company reputations,” write Green Century and **As You Sow** in the new report.

In the 2009 report, agriprocesssing giant ConAgra (which owns Chef Boyardee, Hunts, and Healthy Choice) received a D - grade, and HainCelestial (which owns Health Valley, Earth’s Best, and Westbrae Natural) led the pack with a not-so-impressive C-. Thanks in part to investor dialogues and the bad publicity from the report, both companies received an A grade in the 2010 report for introducing BPA-free packaging for some of their products and committing to a timeline for phasing out BPA altogether.

The BP Oil Catastrophe

Following the most recent environmental catastrophe along the Gulf Coast, 58 global investors and government entities managing \$2.5 trillion in assets sent letters—often the first step in initiating a dialogue—to 27 major oil and gas companies in August pressing them to disclose information on spill prevention and response plans for deepwater drilling operations around the world.

The investors—which were led by Ceres (co-founded by Green America, which holds a seat on its board) and included the New York State Comptroller, the Florida State Board of Administration, and the UK-based Local Authority Pension Fund Authority Forum—sent a second letter to 26 insurance companies asking them if they are going to reassess their exposure to offshore oil and gas operations and if they will change their underwriting criteria to take increased safety risks into account.

Peyton Fleming, Ceres’ senior director of strategic communications, tells the *Green American* that so far they have received responses from at least a dozen oil companies and a number of insurance companies. Ceres is currently evaluating the responses and will soon release the information to the public.

Also in response to the BP oil spill, shareholder activists will be engaging in dialogues with oil companies asking for very specific disclosures on health and safety practices, says Sanford Lewis, a lawyer who provides legal support for shareholder advocates such as the Investor Environmental Health Network.

Look for concerned investors to be asking oil companies for more details on drilling practices in the near future. “For example,” says Lewis, “[federally] documented violations that are severe or health threatening and orders to close facilities, withdraw products, suspend production are not necessarily disclosed now. They should be.”

By advocating for safer schools and looking for Earth-friendly school supplies for your children, you’ll not only help to protect their health, but you’ll also teach them to be stewards of the environment.

Climate Change

Sometimes a public policy issue comes up that would so fundamentally alter the investing landscape that socially responsible investors take a public stand. This was the case recently in California when climate activists scored a big victory by defeating Proposition 23—a ballot measure bankrolled by out-of-state oil companies that would have gutted the state's landmark climate change law.

In October, a group of 68 major investors managing \$415 billion in assets, delivered a joint written statement to the media as part of a public campaign opposing Prop. 23. The statement, whose signatories include Domini and Pax World Funds, said the measure would “negatively affect job growth, economic competitiveness, private investment, energy price savings and stability, and air pollution and public health.”

Green America is leading a campaign aimed at shareholders and consumers to get Southern Company—one of the top five utility polluters in the world—to curb its emissions by increasing its investments in clean energy and energy efficiency and shutting down their dirtiest coal-fired power plants.

Political Disclosure

Socially responsible investors are fighting back against the 2010 US Supreme Court *Citizens United v. Federal Election Commission* ruling. The decision, in a nutshell, allows corporations to contribute unlimited amounts of money to political campaigns. The immediate consequences are reflected in the recent midterm elections, which were the most expensive ever in American history.

Corporate giants such as Target, Best Buy, 3M, and Pentair faced shareholder backlash in the form of a public pressure campaign and proposals filed by Walden, Trillium, and Calvert after the Minnesota based companies gave large donations to MN Forward, which was created after the *Citizens United* ruling to funnel corporate contributions to extreme candidates such as climate change denier and anti gay gubernatorial nominee Tom Emmer.

“Companies may be legally allowed to make donations, but they are still going to face a lot of pressure from investors and customers to show that the money being spent really does enhance shareholder value. And if it leads to boycotts and bad publicity, that's not good for shareholder value,” says Annie C. Logue, author of *Socially Responsible Investing for Dummies*.

It wasn't all doom and gloom this year as socially responsible investors claimed a major victory by reaching the point where half of the corporations on the S&P 500 have agreed—through dialogue and shareholder resolutions—to disclose their political contributions. Microsoft, Time Warner, and Starbucks are some of the high-profile companies that have committed to fiscal transparency. But according to Bruce F. Freed, president of the nonprofit, nonpartisan Center for Political Accountability, some companies have been resistant to disclosure, including JP Morgan Chase, Goldman Sachs, Wells Fargo, Citigroup, and AT&T, and investors will keep the pressure on these big political spenders.

“*Citizens United* has made it much more difficult to regulate political donations legislatively, so it makes the corporate governance route that much more important,” says Freed.

Proven Investor Power

As these examples demonstrate, dialogue is a proven method that continues to get results by harnessing the collective power of socially responsible investors. Dialoguing is just one strategy that experienced investor coalitions employ on a case-by-case basis, along with filing shareholder resolutions and divesting, to change corporate conduct for the better.