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Turning Up The Heat

ESG issues have received much broader shareholder attention this year on ballots and behind the scenes.

By Jerilyn Klein Bier

Investors have thrown record-breaking weight behind environmental and social issues during the 2011 proxy season which wraps up in a couple of weeks.

Three shareholder proposals captured majority support from investors, doubling the number that have broken the 50% threshold over the past three decades, notes Michael Passoff, CEO of Proxy Impact, a new proxy voting service that's based on environmental, social and governance (ESG) guidelines.

The votes tipped the scale at 54% for an oil refinery safety resolution filed by the AFL-CIO with Tesoro Corp., 53% for a political spending disclosure proposal filed by the New York City pension funds with Sprint Nextel, and just below 53% for a coal combustion waste report resolution filed by the School Sisters of Notre Dame with Ameren Corp.

Passoff expects a sustainability reporting proposal filed by Walden Asset Management for Layne Christensen Company to receive an unprecedented 95% of shareholder votes on June 9 because both management and the shareholders of the drilling company – which is involved with water resources, mineral exploration and energy – are officially for it.

“The trend of mainstream support for ESG considerations is a sea-change of how investors view traditional risk factors,” says Passoff, who notes that several years ago single digit results were common for environmental and social issues.

Investors are also pushing for increased transparency and accountability regarding hydraulic fracturing operations, a.k.a. fracking. More than 49% of shareholders supported such a proposal for Energen Corp. Fracking resolutions filed this year by environmental and social advocacy nonprofit **As You Sow** with ExxonMobil and Chevron received strong support too (28% and 40%, respectively).

“This (fracking) would not even have been a topic of discussion four years ago,” says Passoff who is also a senior strategist with **As You Sow** and co-author of Proxy Preview 2011, a collaboration of **As You Sow**, the Sustainable Investments Institute (Si2) and Proxy Impact.

Although proxy resolutions are non-binding, companies often take steps when they receive more than 10% of the shareholder vote, he has observed.

This year, 386 environmental and social resolutions have been filed, says Passoff, citing the latest Si2 figures. The environment and sustainability combined accounted for 37% of the 359 resolutions filed as of February, followed by political spending at 23%, according to Si2 data cited in Proxy Preview 2011.

The biggest stories, though, are often the resolutions that are avoided or withdrawn because of corporate dialogues occurring behind the scenes, say Passoff and Andrew Behar, CEO of **As You Sow**. Such dialogues “represent some of the most productive and cooperative relationships between shareholders and management on controversial issues,” says Passoff.

“Shareholders are finding their voice and management is listening,” says Behar, who notes that companies are often more likely to get into negotiations when they see a vote is coming.

As You Sow withdrew its 2011 resolution with Yum! Brands, parent to fast-food chains KFC and Taco Bell, after the company agreed to stop purchasing BPA-coated cash register tape and to engage in future dialogue regarding nano-materials used in packaging and pesticides. It also withdrew its 2011 resolutions with Public Service Enterprise Group (PSEG) and Entergy Corp. on the financial risks of coal, and with Anadarka Petroleum Corp. on natural gas development.

Five to ten years ago, it wasn't unusual for members of the Interfaith Center on Corporate Responsibility (ICCR) to file 300 to 400 resolutions in a given year. This year they filed 179. “The dynamics of the process is actually changing. Companies are inviting us to the table without shareholder resolutions,” says ICCR executive director Laura Berry.

Berry is pleased to see this year that more corporations started to address board diversity (required under the Dodd-Frank Act) and that more investors voted for annual advisory votes for executive compensation and for better accountability regarding political spending.

She'd like to see a more robust response from the financial services industry regarding loan servicing and foreclosure practices. Companies have implied that they're trying to do a better job. “We'd like to see what better looks like,” she says.