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More Companies Bow to Investors With a Social Cause

Emily Chasan | Apr. 1, 2014

Shareholders are driving changes in corporate policies and disclosures unthinkable a decade ago, on issues ranging from protecting rain forests to human rights. Even the threat of a proxy vote can be enough to bring company executives to the negotiating table.

So far this year, environmental and social issues have accounted for 56% of shareholder proposals, representing a majority for the first time, according to accounting firm Ernst & Young LLP. That is up from about 40% in the previous two years, and means shareholders are increasingly voting on things like greenhouse-gas emissions, political spending and labor rights.

While such proposals usually don't grab the same headlines as changes sought by activist investors, their proponents often are effective at persuading companies to meet them halfway.

The proposals are "really meant to get the attention of the corporate leadership," said Thomas DiNapoli, the New York comptroller who oversees the $160.7 billion New York State Common Retirement Fund. "Profitability that is at a sustainable and responsible level is very, very important to us."

Mr. DiNapoli filed about 65 resolutions this past year, and he often succeeds in getting companies to agree to his requests before they come to a vote.

Last week, he persuaded grocer Safeway Inc. to make products with palm oil produced in ways that don't hurt rain forests. In February, in response to proposals from Mr. DiNapoli and others, AT&T Inc. published its first "transparency report" on requests from the National Security Agency and law-enforcement agencies for customer data and phone records.

In both cases, he withdrew his proposal after the companies agreed to make changes.

Resolutions calling on companies to report their political spending and lobbying efforts are the top two shareholder proposals this year, according to EY's review of some 700 proposals. By contrast, last year's proposals were dominated by traditional corporate-governance topics, such as eliminating staggered terms for directors and appointing independent board chairmen.

More surprising still are the results. Nearly 80% of companies in the S&P 500 index now disclose at least some information about their political-spending policies, according to the Center for Political Accountability, a practice virtually unheard of a decade ago. Some 53% now publish sustainability reports, according to the Governance and Accountability Institute, addressing such matters as their energy efficiency and labor standards.

And, about 22% have human-rights policies, according to the Conference Board, a private research group.

Among the reasons for this year's surge in social and environmental proposals is the strong stock market, which has left shareholders little room for complaints about performance.

"You're not seeing the same sort of push-back on executive compensation this year," said Wendy Hambleton, national director of the Securities and Exchange Commission practice at accounting firm BDO USA LLP.

The shareholders who push for these proposals aren't agitating for higher returns like activists Dan Loeb and Carl Icahn, but rather are long-term investors at pension funds, unions and coalitions of socially conscious shareholders.

For example, the American Federation of State, County and Municipal Employees, a labor union for public employees, has been pressuring dozens of companies to disclose their lobbying activity this year. Ceres, a nonprofit group that advocates sustainable business practices, is helping investors at many companies write environmental resolutions.

As investors win battles at some companies, they hope peer pressure will convince others to follow suit.

On Monday, Exxon Mobil Corp. issued its first carbon risk report, explaining whether changing emissions regulations might move it to abandon high-cost oil and gas reserves. Sustainability-focused investment firm Arjuna Capital had submitted a shareholder resolution seeking that information.

Exxon said it was "confident" that none of its hydrocarbon reserves would become "stranded."

"This is helping set the standard for what companies should be disclosing," said Danielle Fugere, president of As You Sow, a nonprofit group that worked with Arjuna on the resolution. The group is circulating the agreement as an example for other oil companies where it has similar proposals pending, including Consol Energy Inc., Hess Corp., Chevron Corp. and Anadarko Petroleum Corp.

Of course, environmental and social resolutions generally aren't binding and many never make it to a vote. Companies often can exclude them on technicalities, and about 30% are withdrawn after their backers negotiate or reach deals with companies.

Typically, the environmental and social proposals that make it onto the ballot receive about 21% of shareholder votes, compared with 33% for shareholder proposals overall, according to EY.

But even failures can have an impact, especially if investors target an issue that resonates with a company's customers. Activists often cite a 1999 vote to halt sales of wood from old-growth forests at Home Depot Inc. Around 12% of the home-improvement chain's shareholders supported the proposal, but the retailer stopped selling that lumber.

A handful of these resolutions have garnered a majority of votes. Last year, at fertilizer maker CF Industries Holdings Inc., shareholder proposals calling on the company to disclose political contributions and publish a sustainability report each received more than 65% support.

CF Industries initially objected, saying the reports would be costly to produce and "an imprudent consumption of our resources." But it began producing them after the shareholder votes.

CF spokesman Daniel Swenson said the engagement with shareholders has "resulted in valuable feedback" and contributed to the company's decision making. He wouldn't say how much the reports cost to produce.

Shareholder proposals on these issues are expected to gather steam as more companies agree to disclosures. Boston-based Walden Asset Management has submitted several political-spending disclosure proposals to companies this year on behalf of clients.

"We're getting to the point where companies are not just listening to a squeaky shareholder, but doing this because they believe it is a good thing to do for the company," said Timothy Smith, a director at Walden.

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