



Shareholder Resolutions Advance Social, Environmental and Corporate Governance Issues

Advisory shareholder resolutions are crucial tools for encouraging U.S. companies to address key environmental, social, and corporate governance (ESG) issues. By filing shareholder resolutions, which may then proceed to a vote by all investors of the company, shareholders bring important issues to the attention of company management, often winning media attention and educating the public as well. Moreover, resolutions need not come to a vote to be effective. The process of filing often prompts productive discussion and agreements between the filers and management that enable the filers to withdraw their resolutions.

In 2007 and 2008, members and allies of the Social Investment Forum, a national non-profit organization providing research and education on socially responsible investing, filed approximately 300 shareholder resolutions annually on social and environmental issues for consideration at U.S. companies' annual meetings. Included in this group were resolutions asking firms for better disclosure and oversight of their political contributions and activities. Other recent social and environmental resolutions have addressed equal employment opportunity, climate change, global labor standards, and environmental management and reporting. Many of the sponsors were religious investors, mutual funds and investment managers focused on ESG investing, state and city pension funds, trade union funds, foundations and non-profit organizations. The Interfaith Center on Corporate Responsibility (ICCR) and the Ceres coalition played a major role in coordinating many of these resolutions.

In addition, investors have been increasingly active in filing resolutions questioning companies on their governance structures and practices, particularly those involving board composition, executive pay and responsiveness to shareholders. Investors were particularly active in the last few years in the growing "Say on Pay" movement.

Votes on ESG issues have been growing in the last five years as major investors take their proxy voting responsibilities seriously. Several resolutions on governance issues regularly receive votes over 50 percent.

Below are examples of the impact of the shareholder resolution process on social, environmental, and corporate governance issues.

1) SOCIAL POLICY:

Shareholder resolutions have motivated companies to address global labor standards, equal employment opportunity, human rights norms and global health pandemics. Just a few examples make the point.

- In recent years, shareholders, including public pension funds and socially responsible investment firms, have been able to withdraw dozens of resolutions asking companies to pledge not to discriminate against employees based on their sexual orientation when the companies have agreed to expand their non-discrimination policies to include this guarantee.

- SIF member Walden Asset Management was able to withdraw a shareholder resolution it had filed in 2007 at Hershey when the company agreed to establish a code of labor standards for its suppliers. Hershey also agreed to work with two organizations—Verite and Business for Social Responsibility—to assess its suppliers on their compliance with this code. Walden had been concerned about reports of child labor and other labor abuses at cocoa plantations in West Africa that supply Hershey and other chocolate manufacturers.
- In 2007 and 2008, faith-based investors have highlighted the global scourge of tourism based on the sexual exploitation of children. These investors have been able to withdraw the shareholder resolutions they have filed at a number of hotel chains when these companies have agreed to develop policies to help prevent the exploitation of minors in their facilities.
- In 2006, shareholders achieved a significant victory when Wal-Mart agreed to substantially expand its diversity reporting, including posting to its website its entire EEO-1 form, the statistical report large employers are required to file annually with the U.S. government. Socially responsible investment firms and religious investors had been proposing a resolution for several years asking the company to release its EEO-1 data, and support for it had risen steadily, from 11.3 percent of the shares voted in 2002 to 18.8 percent in 2005.
- After advocacy and dialogue with concerned investors, Nike and Gap Inc. published reports in 2005 documenting labor conditions in their vendors' factories abroad. Gap's comprehensive rating system on factory compliance paved the way for Nike and a coalition of computer manufacturers to scale up their efforts on codes of conduct and implementation.
- ICCR members successfully won management backing in 2004 for a resolution asking Coca-Cola Co. to report on the impact that HIV/AIDS was having on its African operations. Shareholders, aided by management's endorsement of the proposal, backed the proposal with a historic vote of more than 97 percent. Coca-Cola's HIV/AIDS initiative immediately generated pressure on its leading competitor PepsiCo, which quickly agreed to develop a similar program.

2) SUSTAINABILITY & ENVIRONMENT

Concern over climate change, and how companies prepare for the geophysical, regulatory and litigation risks it poses, forms a closely watched category of shareholder proposals. Institutions and individuals filed 50 proposals in 2008, and 43 the year before (up from 30 proposals in 2006) asking U.S. companies to institute energy efficiency measures, to report to shareholders on their climate change strategies to reduce greenhouse gas emissions, or to develop renewable sources of energy. In addition, in recent years, shareholders have asked firms to review the broad sustainability of their operations, not only in terms of their environmental impact, but also in how they deal with labor and community issues. The following is a short list of milestones in these areas.

- In 2003, American Electric Power received a resolution from the State of Connecticut asking it to consider the economic risk of its carbon dioxide and other emissions. It won the support of 27 percent of the shares voted, one of the highest for a climate-related proposal at that time. The next year, American Electric Power had a subcommittee of its board focus on climate change.
- Since American Electric Power issued its report on climate change, many other companies have followed suit after shareholders have filed resolutions on climate change risks. In 2007, for example, SIF member Domini Social Investments was able to withdraw a resolution at EOG Resources to reduce its greenhouse gas

emissions when the company agreed to determine its current emissions level and to have its board consider its progress on climate issues annually. Similarly, Calvert Group, another SIF member, won commitments from Bemis and Tera-dyne to report on how climate change would affect their operations.

- SIF member Green Century Capital Management raised concerns about the safety of the chemical Bisphenol A and other suspected endocrine disrupters in a resolution filed for Whole Foods Market's 2006 annual meeting. After dialogue with Green Century and just prior to a vote on the resolution, the company announced that it would remove baby bottles and other products that contain BPA from its shelves as part of a new corporate policy to minimize customers' exposure to hormone-disrupting chemicals.
- In 2007, a resolution from SIF member Christian Brothers Investment Services asking Dillard's to report on sustainability issues was supported by more than 46 percent of the shares voted. Later that year, Dillard's posted to its Web site a detailed labor and human rights policy in which it endorsed all the International Labor Organization's core conventions and pledged to monitor its entire supply chain using independent organizations. When CBIS approached the company in 2008 about sustainability reporting, the company agreed to report by its 2009 annual meeting on the results of its factory audits and the actions it has taken to correct any violations to its labor standards.
- In 2007, shareholder advocates of corporate sustainability reporting were able to withdraw proposals at 19 firms, reports SIF member RiskMetrics Group, when those firms agreed to report on their sustainability initiatives.
- In 2005, Dell and Hewlett Packard agreed to the first recycling take-back programs in the computer industry. This was spurred by dialogue with SIF members As You Sow Foundation and Calvert.

3) POLITICAL CONTRIBUTIONS

A major category of shareholder proposals in recent years has been requests to companies to issue reports and guidelines on their political contributions. Concerned shareholders want companies to exercise proper oversight to ensure these payments serve the best interests of the firms and their shareholders and will not harm their reputations. The campaign has been led by the Center for Political Accountability (CPA), a SIF member, with the support of an investor coalition that includes pension funds, labor unions, environmental groups and socially responsible investment managers.

- Since the start of this shareholder campaign in 2004, the CPA and its allies have persuaded 52 large companies, including 35 in the S&P 100, to disclose and require board oversight of their political spending with corporate funds.
- Along with its partners, the CPA engaged 66 companies on political disclosure in 2008, 21 of which agreed to political disclosure. In the 2007 proxy season, the CPA added 18 new companies.
- Shareholder support for the Center's political disclosure resolution grew in the 2008 proxy season. The resolution garnered the support of 38.7 percent of the shares voted at Valero, 38 percent at CVS Caremark, 37 percent at Wyeth, 31.9 percent at AT&T (more than twice last year's vote), 29 percent at ConocoPhillips, and 27.6 percent at Exxon Mobil. The average vote for the resolution moved up to 25 percent. It started at 9.1 percent in 2004, the first season proxy season when the resolution was filed.

4) EXECUTIVE PAY AND OTHER CORPORATE GOVERNANCE ISSUES

Investors including Social Investment Forum members have sought to ensure that corporate boards are effective and responsive to shareholders, and that executive pay is formulated so as to encourage companies to grow sustainably. In 2006, a coalition of institutional and individual investors with combined assets of more than \$1 trillion joined forces to urge companies to adopt an advisory vote on executive compensation, also known as “Say on Pay,” a common practice in British corporate governance. Many investors want an official channel for shareholders to express their concerns to corporate boards about huge pay packages that seem unrelated to financial performance. The shareholder campaign received a boost when the Securities and Exchange Commission required that corporate proxy statements, beginning in 2007, provide full disclosure of the details and total value of compensation packages. Some highlights of this campaign are detailed below.

- In 2006, investors filed resolutions requesting Say on Pay at more than 60 companies. The number of resolutions rose to nearly 100 in 2008.
- In the first two years of the campaign, Say on Pay received more than 50 percent support at ten companies and votes in the 40-50 percent range at most other companies, with average votes hovering around 43 percent.
- In 2007-08 AFLAC, Blockbuster, Tech Data, HR Block and Verizon announced they were adopting an Advisory Vote, while SIF members TIAA-CREF and Risk Metrics both held votes on Say on Pay.
- Also in 2007, Walden Asset Management, AFSCME and Pfizer created a Working Group for investors and companies to discuss the issue of the Advisory Vote on executive compensation.

In addition, SIF members have encouraged companies to diversify their boards.

- In 2006 and 2007, shareholders filed resolutions calling on several companies to add women or members of ethnic minorities to their boards or to change their nominating charter language to include diversity as an important criterion during board member searches.
- Several firms that shareholders engaged directly, such as Danaher, Markel, and Cheesecake Factory, have added female or minority board members. Others, such as Panera Bread, Plains Exploration and Production, and Roper Industries, agreed to amend their nominating committee charter language and thereby institutionalize diversity as a factor in seeking board candidates.

A Critical Tool for Socially Responsible Investing: In sum, the filing of advisory shareholder resolutions is a critical tool in socially responsible investing. According to the Social Investment Forum’s 2007 *Report on Socially Responsible Investing Trends in the United States*, 185 U.S.-based institutional investors, money managers and mutual funds with \$723 billion in total assets have filed or co-filed shareholder resolutions on social, environmental and certain corporate governance issues in recent years. These investors recognize that good corporate governance, corporate responsibility and societal concerns are valid parts of investment decisions. They seek not only to enhance companies’ profitability over the long term, but also to improve corporations’ impact on the environment and society. For 40 years, shareholders, the courts and lawmakers have insisted that the Securities and Exchange Commission uphold the right of investors to file advisory resolutions that alert corporate managements to significant risks and public policy issues.