

Shareholder Advocacy: David vs. Goliath Replayed Hundreds of Times Every Year

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Few investors think of themselves as part owners of large multinational companies, but many of us are. We may work with an investment advisor who helps us invest our money in portfolios of stocks or mutual funds, or we might contribute to a 401(k) plan that owns stock or stock funds.

The idea that a small shareholder can influence the behavior of a behemoth corporation may seem like an idealistic pipe dream, but all shareholders have the right to have their voices heard in the corporate boardroom. Think of it as democracy in action in corporate America.

Shareholder Advocacy Basics

Shareholders exerting influence on corporations is known as shareholder advocacy. It is simply a process of effectively and persuasively communicating with corporate management, other stakeholders, policy makers, and customers. There are several ways in which this communication takes place.



Proxy Voting. Shareholders of publicly traded corporations may vote on resolutions presented at the annual general meeting. They may attend, but most choose to vote “by proxy,” via mail, phone, or online. Proposals are placed on the ballot by management or by share-

holders. Management proposals typically cover “routine” items, such as electing directors and approving auditors. Shareholder resolutions often cover environment, social, and governance matters.

Many investors delegate proxy voting responsibil-

ity to an investment advisor or mutual fund. If you do, find out how proxies will be voted on your behalf. Mutual funds are now required to disclose to their clients how they vote each proxy. Some institutions, including First Affirmative, have developed [proxy voting guidelines](#) that focus on key issues of corporate

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First Affirmative: Committed to Shareholder Advocacy

First Affirmative clients are concerned with good corporate governance, ethical corporate behavior, and the impact corporations have on healthy societies and the natural environment. Our advocacy efforts support these concerns.

We have published [proxy voting guidelines](#) that guide our shareholder resolutions and proxy votes. We often participate in letter writing campaigns which address environmental, social, and governance issues within companies. We also selectively participate in efforts to shape public policy.

We co-file resolutions with other investment managers and investor groups addressing issues of concern to our clients. We maintain memberships or affiliations with other advocacy groups such as the [Social Investment Forum](#), [Ceres](#), [The Carbon Disclosure Project](#), [Green America](#), and the [United Nations Principles for Responsible Investing](#).

On occasion, we bring issues to the attention of our network advisors and clients, offering them the opportunity to participate through petitions or letter writing.

Look for advocacy updates in our quarterly newsletter, [Affirmative Thinking](#). For more information about First Affirmative shareholder advocacy activities, contact your network advisor.

governance and social responsibility.

Many investment managers, including large institutional and mutual fund managers, go along with company management, or don't vote at all. An un-cast ballot is automatically voted in favor of the management recommendation, effectively stacking the deck in favor of management.

Voting your proxy is important! However, reading through complex proxy documents and voting shares can seem an overwhelming chore. Many shareholders throw out the materials in frustration, thus giving their vote to management.

Individual stock owners may feel that their vote could not possibly make a difference, but it is estimated that individuals own around 30% of all stock shares, representing a significant voting bloc. There are now several websites available to help individuals understand proxy issues and vote their stock and mutual fund shares effectively. [Proxy Democracy](#), [Shareowners.org](#), and [MoxyVote](#) provide shareholders with access to information on how like-minded investment managers, non-profit organizations, and unions plan to vote. These sites offer proxy voting support and opportunities for getting involved directly in issues by teaming up with other activist groups.



Dialogue. Shareholder advocacy starts with the most human of approaches—a conversation! Corporations seem unapproachable, but they are made up of people, after all. Dialogue avoids the confrontational approach of shareholder resolutions, and many corporations see the wisdom of working with shareholders to improve policies and procedures. Investment managers representing large blocks of stock can have significant influence. Management will often meet in person to negotiate, particularly if investor concerns are shown to affect financial or reputational performance.

Rules for Filing Shareholder Resolutions

According to the U.S. Securities and Exchange Commission (SEC), shareowners holding at least \$2,000 in stock for a minimum of one year prior to the company's annual submission deadline may introduce a shareholder resolution. The shares must be held until the annual meeting has taken place. The SEC has rules against proposals on personal grievance issues, operations constituting less than 5% of revenue, and matters pertaining to "ordinary business." Company management has the right to petition the SEC to exclude proposals; they often use the ordinary business exclusion to do just that. The filers of a shareholder resolution are allowed to present counter arguments. If the SEC agrees with the shareholders, the resolution must be included. The resolution also needs to receive a certain percentage of votes in order to be included in the following year's proxy vote: 3% in the first year, 6% in the second year, and 10% every year thereafter.

Shareholder Resolutions. When dialogue fails, it's time to bring concerns to the shareholders. Most shareholders have the right to put resolutions on the company ballot. Shareholder resolutions can address any issue that can adversely impact the long-term well being of the company, its stakeholders, communities, and the planet. Resolutions may also propose changes to company practices or policies.

Unfortunately, virtually all shareholder resolutions are non-binding, meaning that companies can choose to ignore the direction provided by shareholders. However, companies recognize the consequences of ignoring shareholder input, so non-binding resolutions—especially when they represent a large percentage of the vote—can be a powerful tool in the process of changing corporate behavior.

Divestment. When all else fails, investors may sell their shares. This technique has been used to help stop companies from doing business with repressive governments, such as in South Africa in the 1980s and, more recently, in Burma and Sudan. Divesting means

losing your voice as a shareholder, so in order to be most effective, divestment needs to be accompanied by publicity that brings pressure to bear on the company and encourages others to divest.

Public Policy Engagement

The behavior of corporations is governed by many rules formulated by government bodies and agencies. Public policy makers at all levels have a tremendous impact on the development and enforcement of environmental regulations and the establishment of long-term public policy objectives. Advocates work to advance public policies that support their goals. Campaigns include letters, petitions, position papers making specific recommendations, and face-to-face conversations with legislators and government agency personnel.

Public policy engagement is a long-term commitment, as policy makers hear many competing voices—corporations, business trade organizations, non-profits, and the public—all advocating for different policies. Elections change the political landscape and alter priorities set by government agencies, sometimes very quickly.

An example of successful public policy engagement that had a direct effect on shareholder rights was a recent campaign to reverse the SEC position on “risk evaluation” shareholder resolutions. The SEC had routinely disallowed resolutions that asked companies to address the risks associated with significant social and environmental issues. This prevented shareholders from even asking companies to address these issues and allowed companies to avoid disclosing relevant information about risks to financial and reputational health. The SEC was persuaded to change course and now shareholders can file resolutions asking for management to disclose risks to the company associated with a broad range of issues—from climate change to human rights to health care.

Coalitions Can Make All the Difference

A single shareholder can indeed feel like “David”

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SEC Approves New Disclosure Rules for 2010 Proxy Season

In December, 2009, the SEC approved [new proxy disclosure rules](#) to “help investors make more informed voting decisions” (effective February 28, 2010).

While the new rules will likely result in more lengthy proxy statements, shareholders may find that for some companies the information provides new insight into how corporate boards function. Companies will now have to provide additional background information on directors, and disclose the experience, qualifications, attributes or skills that qualify a particular individual to serve on the board. In addition, a company will have to disclose the board leadership structure it has chosen and the reasons that structure is appropriate, disclose its consideration of diversity in the director selection process, and describe the board’s role in risk oversight.

Other changes relate to disclosure about the relationship of employee compensation policies and practices to risk management, stock and option grants to executives and directors, and potential conflicts of interests of compensation consultants. The new rules also require companies to report the voting results from shareholder meetings four days after the meeting in a Form 8-K filing.

Source: *PROXY Governance Spotlight*, December 16, 2009

A Majority Vote for Shareholders!

A 2009 resolution filed with power company IdaCorp requested that the company establish greenhouse gas emission reduction goals and report on its plans to meet them. The resolution won 52% of the vote. This vote marked the first time that a climate change resolution won a majority vote in the U.S. According to Laura Berry, Executive Director of ICCR, “What we’re seeing today is an extraordinary synergy between consumers, policy makers, and institutional investors. There seems to be a new coalescing of purpose to build a more just and sustainable society.”

when faced with a “Goliath” multinational corporation. Forming a coalition can increase the impact of a shareholder proposal and improve the chances of success. Coalitions bring together the legal, technical, and communication expertise necessary for a successful campaign.

These formal coalitions establish priorities, coordinate letter writing campaigns, file resolutions at targeted companies, and manage campaign publicity. The Advocacy and Public Policy Group of the [Social Investment Forum](#), [The Interfaith Center On Corporate Responsibility](#) (ICCR), and [Ceres](#) have differing priorities and memberships, but all focus on corporate sustainability by demanding accountability, disclosure, and continuous improvement of environmental and social performance. The [Investor Environmental Health Network](#) encourages companies to reduce and eliminate toxic chemicals in their products.

What Does Success Look Like?

Shareholder advocates used to feel like the proverbial voice in the wilderness; but today, more in-

vestors are evolving from passive holders of stock to determined shareholder activists. There is growing awareness that public companies have not been accountable to shareholders. Short-term desire for quick profits is endangering the long-term viability of many companies and the global community in which they operate. The recent mass failure of banks due to lax lending practices, weak corporate governance, and weak regulatory oversight illustrates the problem.

Corporations are becoming more responsive to shareholder demands. In 2009, a record 722 requests for action were gathered in the ICCR activism database. From those requests emerged 390 resolutions that were ultimately filed by ICCR members; the rest led to meaningful dialogues with companies. In 332 cases, company management took decisive enough action that it was not necessary to file a resolution.

Moving Into the Mainstream

Particularly gratifying for long-time shareholder advocates are the votes from mainstream investors in favor of shareholder resolutions rather than with company management. The majority of shareholder resolutions dealing with corporate governance issues, such as executive compensation, received more than 40% of shareholder votes last year. Some resolutions are even garnering a majority of votes. Collectively, the voices of shareholder advocates are becoming a powerful force for positive change.

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Glossary of Terms

Divestment. Selling all shares of stock owned.

Management Proposals. Items placed on the ballot by company management for a vote by shareholders.

Proxy Voting. A vote that is cast while the person voting is physically absent. Used by shareholders who are unable to attend the annual shareholder’s meeting.

Securities and Exchange Commission (SEC). An independent U.S. government agency that holds primary responsibility for enforcing federal securities laws and regulating the securities industry, stock and options exchanges, and other electronic securities markets.

Shareholder Advocacy (Activism). Actions taken by shareholders designed to influence the behavior of corporations in which they own stock.

Shareholder Resolutions. Proposals submitted by shareholders for a vote at the company’s annual meeting.

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