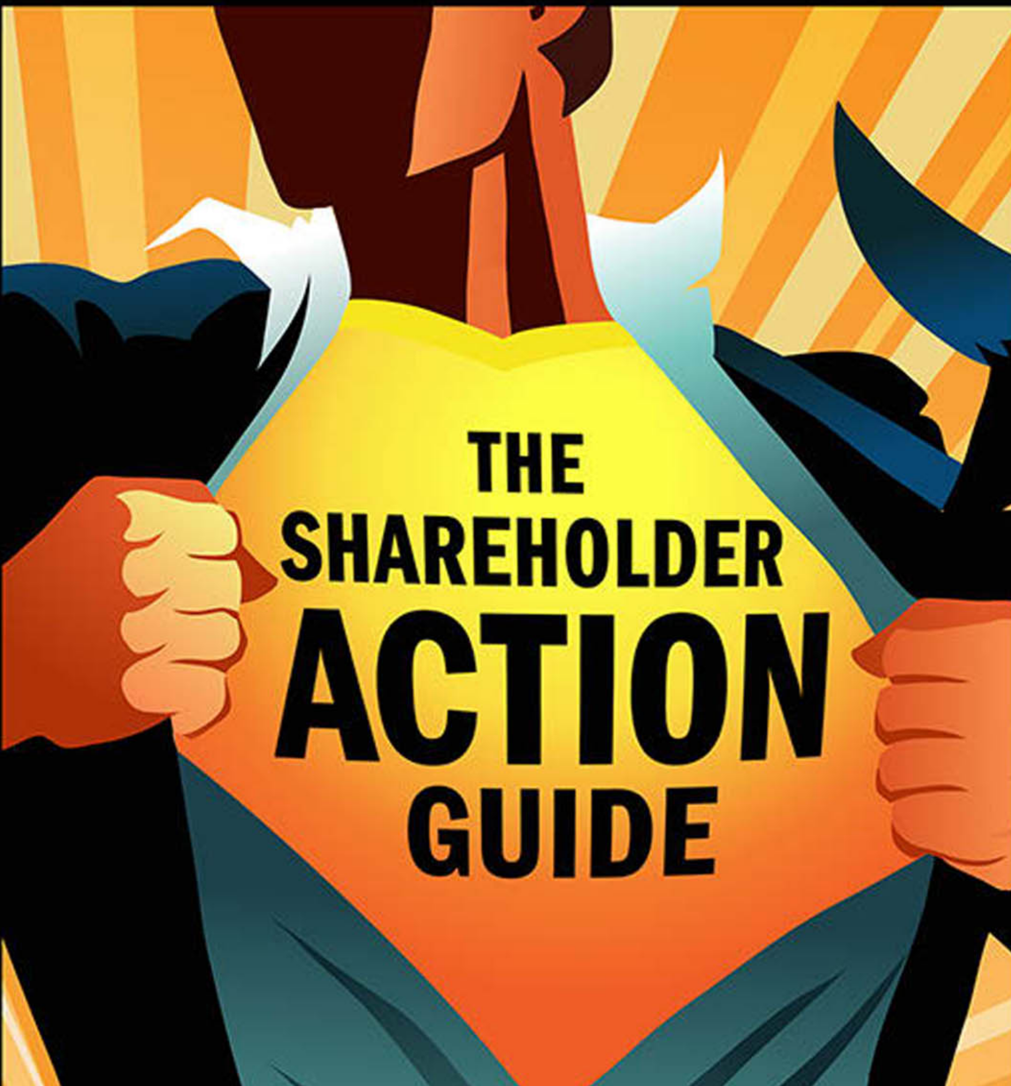

THE SHAREHOLDER ACTION GUIDE

Unleash Your Hidden Powers to Hold Corporations Accountable

ANDREW BEHAR
CEO of As You Sow

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Berrett–Koehler Publishers, Inc.

a BK Currents book

The Shareholder Action Guide

Berrett-Koehler Publishers, Inc.
1333 Broadway, Suite 1000
Oakland, CA 94612-1921
Tel: (510) 817-2277, Fax: (510) 817-2278
www.bkconnection.com

Ordering information for print editions
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First Edition
Paperback print edition ISBN 978-1-62656-845-7
PDF e-book ISBN 978-1-62656-846-4
IDPF e-book ISBN 978-1-62656-847-1

2016-1

Cover Design: Susan Malikowski/DesignLeaf Studio. Cover Image: VasjaKomen. Author Image: Sarah Sackner. Book Production: Adept Content Solutions.

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"Yes, the planet got destroyed, but for a beautiful moment in time we created a lot of value for shareholders."

CONTENTS

FOREWORD

by Thomas Van Dyck, As You Sow Founder and Board Chair

In 1992, I founded the As You Sow Foundation based on the Biblical reference that a person reaps what they sow. The original mission was to hold corporations accountable for compliance with a unique California law (Proposition 65) requiring warning labels on products with toxic or carcinogenic ingredients. We donated the winnings from these lawsuits to fund grassroots activist groups. In 1997, after struggling with various ways to make shareholder advocacy more effective inside of a financial services institution, I decided there could be numerous benefits to doing it in a nonprofit setting and created a second program at As You Sow, the Corporate Social Responsibility Program, to pursue shareholder advocacy.

Pressing companies as investors in a nonprofit setting allowed my team to work with a wide range of stakeholders. With the leadership of Program Director Conrad MacKerron and Associate Director Michael Passoff, we brought new sophistication to Environment Social and Governance (ESG)–issue shareholder advocacy, doing extensive research into the economic impacts of target issues to develop a business case for investors in promoting proposals. We developed an active "get out the vote" solicitation campaign that was uncommon for ESG proposals.

We were joined by visionary foundation leaders and their brilliant boards: Tim Smith and the amazing religious orders of Interfaith Center for Corporate Responsibility, John Powers and The Educational Foundation of America, Adelaide Gomer and the Park Foundation, and Ellen Dorsey and the Wallace Global Foundation, who were all early adopters of having 100 percent of their money in alignment with their values.

We have partnered with leading groups including Divest-Invest Philanthropy, Rainforest Action Network, Greenpeace, Headwaters Forest Coalition, and Ruckus Society to work on issues around saving old-growth forests, recycling electronic waste, and creating codes of conduct to stop the use of sweatshops combining campaigning, organizing, and investing to create a powerful nexus pushing for change.

As You Sow's Corporate Social Responsibility Program, which started out as an experiment 20 years ago, has developed into a widely respected player in the shareholder advocacy community. I am excited and proud of what we have accomplished, featuring a staff of incredible leaders: Conrad MacKerron, Danielle Fugere, and Patricia Jurewicz. Thank you all for your brilliance and your tireless commitment to speak truth to power.

In the *Shareholder Action Guide*, Andrew Behar tells inspiring stories of leaders from the sustainable investment, religious and labor communities who have skillfully utilized their power as investors to stand up to corporations to improve how they treat people and the planet. Wherever we have had a victory, we have never been alone. Always, the work of a multitude of organizations and strategies has made the shift. The inspiring campaigns profiled in these pages have helped to advance shareholder advocacy to the point where it is a highly effective strategy to complement legislation, litigation, and grassroots activism as a key tool for social change. We have been honored to be on this journey with so many leaders. I hope you'll join the movement.

INTRODUCTION

You Have More Power Than You Think

The world is out of balance. Modern society is faced with enormous challenges—the highest levels of income disparity in modern times; abusive labor conditions; toxins in our water supply; pollution of air, sea, and land; climate change threatening our future; and rampant corruption. The big question is, who's in control?

The answer is corporations. Taken in aggregate, corporate power is greater than that of governments, religions, and civil society. Corporations are the most powerful entities on the planet, and in the United States they now have rights as "people" to make unlimited political contributions to gain even more influence.

Yet, these same publicly traded corporations are, by design, beholden to their shareholders, people like you and me. We have the power to change these companies. We are the owners. In fact an estimated 48 percent of adult Americans[1] or approximately 91 million people have some ownership stake in public companies either as part of a fund or in individual stocks.

However, the vast majority of us abdicate our power or are simply not aware that we possess it in the first place.

While you may believe that there is nothing that you can do, the exact opposite is true. One individual can make enormous change. And by teaming up with other like-minded investors, you can magnify your impact. You have rights and much more influence than you think to help the corporations that you have ownership in become responsible to their employees, customers, communities, and the planet. By doing so, they can also become more profitable.

As an owner of even one share of stock, you have the right to vote on critical issues, elect the board of directors, and weigh in on CEO pay at nearly every annual meeting through your proxy, which is the company's ballot of issues for shareholders to vote on.

You can take direct action by engaging corporate managers and executives. If it's a US company and you own as little as $2,000 in stock for one year, you can file a shareholder resolution asking for disclosure or a shift in corporate behavior on environmental, social, and governance policies.

As the owner of shares in mutual funds or exchange-traded funds or a contributor to a pension fund, you have rights to lobby your fund managers to demand that they vote and engage the companies that they own on your behalf.

At many companies, if you are part of a coalition of investors owning three percent of the stock for three years, you recently gained the right to nominate a board candidate of your choosing that the company must place on the annual proxy for a shareholder vote.

If change is not happening fast enough or in a credible way, you can make a powerful public statement by divesting your holdings. This sends the message that these companies are not acting in the best interest of long term shareholders, are creating significant financial risk, or are causing unacceptable harm to people or the environment.

You may have heard the term *shareholder activism* before. It can refer to at least two kinds of corporate engagement, with very different motivations and outcomes. Often shareholder activism refers to a major shareholder or group of shareholders seeking to use its influence solely for its own economic gain by using the proxy process to change management or board members, or for a hostile takeover of a company. Examples of this kind of shareholder campaign include AOL's takeover of Time Warner or Carl Icahn's attempt to take over Clorox.[2] That's not what this book is about.

We prefer to call the process of positive engagement on environmental, social, and governance (ESG) issues *shareholder advocacy*. The intent is to use the power of share ownership to improve the company's reputation and long-term financial success by enhancing ESG practices and policies. These actions are seen as a collaboration with the company, not an intent to intimidate or take over the company. To make things a bit more complicated, though, it's also true that some of the governance or *G* in ESG can focus more on economic than social performance, as when a large pension fund seeks votes on CEO pay or to try to replace an underperforming board member. Both activism and advocacy can overlap in the use of a tactic, but the intent and outcome are very different.

The *Shareholder Action Guide* offers practical ways to help you unleash your hidden powers to hold publicly traded corporations accountable. Shareholder advocates interviewed in these pages have forced the tobacco giant RJR to cease marketing Camel cigarettes to children, been instrumental in halting the clear-cutting of old-growth forests, worked to end abusive labor practices, pushed fracking companies to disclose the harmful environmental impact of their practices, and gotten rid of under-qualified corporate board members, to name just a few of their accomplishments.

This book provides the tools and knowledge to become an empowered shareholder and push for these kinds of changes yourself. It instructs how to enlist allies and advocates to fight for the changes you desire and how to use new tools to assist you as you peer through the veils of obfuscation that mask corporate policies and action.

The challenge is great; US-based corporations comprising the Fortune 500 earn tens of trillions in gross revenues each year. In the United States, there are about 3,700 companies actively traded on the New York Stock Exchange and NASDAQ.[3] Along with all that money comes tremendous political power.

Shareholders not only have strength in numbers, but the legal right and the moral obligation to exert their influence. We have had this right since the 1930s and used it successfully thousands of times. Today we have resources at our fingertips that, even a few years ago, were available only to elite financial managers. The online research tools detailed in this book give us the ability to know what holdings are embedded in our retirement funds and learn about corporate assets, officers, and their actions (and inactions) with unprecedented ease. Social media platforms give us the ability to communicate instantly on a global scale at virtually no cost. Together, these tools give us the power to band together as never before and bring about positive and lasting change.

We have entered an era in which shareholders can and must shoulder their responsibility and unleash their power. This is no time to sit back helplessly and say, "But there is nothing I can do." Now is the time to join the global movement of shareholder advocates and take action to shape the world into the just and sustainable future that we desire.

CHAPTER 1

Who Let the Dog Out?

If your dog escaped from your yard and rampaged around the neighborhood, knocking garbage cans into the street, your neighbor would probably show up at your door, and you would, of course, accept responsibility and clean up the mess, scold your dog, and fix the fence.

OWNERSHIP IMPLIES RESPONSIBILITY

What about your investments? Perhaps, like 91 million Americans, you own stocks directly in companies or funds that are composed of dozens, hundreds, or even thousands of stocks. Are you responsible for the behavior of these companies?

If a company that you own causes an oil spill that does damage (like your dog did in the neighborhood), would you feel that this is your responsibility? Or would you think,

Figure 2: Are you responsible for your dog's actions? *Photo used with permission of the author.*

"That's for management and the board to deal with." Do you give it a second thought? Do you even track the activities of the companies that you own?

Although the corporation shields investors from direct legal liability, moral responsibility is another story: Do you want a company that you've invested in—and that is benefitting you financially—to act in ways that are contrary to your values? In addition, can you use your influence as a shareowner to help your company become more profitable and have a positive impact on society by adopting policies that enhance its image, increase employee retention, and reduce risk from liability?

> Supreme Court Justice Louis Brandeis stated the matter succinctly, "There is no such thing to my mind . . . as an innocent stockholder. He may be innocent in fact, but socially he cannot be held innocent. He accepts the benefits of the system. It is his business and his obligation to see that those who represent him carry out a policy which is consistent with public welfare."[4]

THEORY OF CHANGE

For our society to be sustainable—that is, to provide sustenance and continuity for all people and ecosystems for generations to come—we must first acknowledge that today we are out of balance and need to find a way to change.

Over the past century corporate power has become the most dominant force on the planet. Of the 150 largest economic entities in the world, 87 are corporations—that's 58 percent.[5] This concentration of resources gives corporations power and influence over their employees, communities, and the governments in which they operate. This lopsided power relationship means that corporations can disregard the impact that their activities have on the rest of society. They can commit human rights abuses and choose to pollute low-income and minority communities near their plants. They can manipulate political power to their financial advantage. They can choose to ignore dire warnings of global catastrophe caused by their activities. If local governments intervene, the corporation can shift their activities to the other side of the globe or alter the government.

According to US Senator Elizabeth Warren (D-Mass.),

> **Corporate criminals routinely escape meaningful prosecution for their misconduct. In a single year, in case after case, across many sectors of the economy, federal agencies caught big companies breaking the law—defrauding taxpayers, covering up deadly safety problems, even precipitating the financial collapse in 2008—and let them off the hook with barely a slap on the wrist. Often, companies paid meager fines, which some will try to write off as a tax deduction.**[6]

What the executives who head corporations cannot do is ignore the people who own their companies. They work for the shareholders. While shareholders indeed have enormous power, most still care primarily about maximizing profit. However, a growing number are choosing to leverage their power to improve the environmental, social, and governance ESG practices of the public companies they hold for the dual purpose of maintaining long-term profitability and positively impacting society and the planet. Once motivated, shareholders can become the single most powerful force for creating positive, lasting change in corporate behavior.

It is critical for corporate leaders to address the impact of their policies and actions. By ignoring this impact they are creating risk for their customers, employees, shareholders, and themselves. Ultimately, companies that measure their success not just in terms of the next quarterly statement, but in years and decades, will be better able to evaluate and reduce their long-term risk. Shareholders have a responsibility to work with corporations to undertake this broader risk analysis, make this information available, and make sure that decisions are made that benefit their own long-term profitability as well as humanity and the planet.

A LOT OF McCUPS

To use a concrete example, let's say that it's early 2011 and you own $2,000 worth of McDonald's stock. Every morning before work, you go through the drive-in and get an Egg McMuffin, hash browns, and a McCafe caramel mocha latte.

At work, you finish your coffee and, since the polystyrene foam cup is not recyclable, toss it in the garbage can—its first stop on the way to the landfill. You recall that McDonald's got rid of the foam clamshell years ago—in 1990,[7] in fact—and wonder why they're still using cups made of the same material. Foam keeps the coffee warm, and it's probably cheap to manufacture, but isn't foam made of polystyrene, a petroleum-based plastic? Doesn't it last forever, just crumbling into smaller and smaller bits that are ingested by birds and fish? Hasn't the styrene used to make the cups been cited as a possible carcinogen?

The next morning at McD's you ask if they have any other types of cups—maybe one that doesn't break down into harmful particles of resin and can be more easily recycled? They tell you no, that's it.

Later that day, you do a little research and learn that for their 68 million daily customers, McDonald's is using foam cups at 35,000 restaurants in 118 countries! You also see that they have no recycling program (other than for cooking oil), and you do the math.[8] It comes to about 770 million foam cups per year in the United States.

The next day, rather than go through the drive-through window, you go into the restaurant and ask some of the other customers if they think it would be a good idea for McDonald's to switch to a more environmentally friendly coffee cup. Several of them like the idea. You bring this information to the manager, who says she'd like to switch, but it's a franchise, and she must buy her supplies from McDonald's. What power does she have?

You leave discouraged. As you drive to the office, it seems like every other person on the road is sipping from a foam cup. Throughout the day, you can't stop thinking about those billions of cups strewn across the beaches of the world. You calculate that the

Great Pacific Garbage Patch, which consists of small bits of plastic suspended throughout the water column[9] now estimated to be twice the size of Texas, just keeps getting bigger. Finally, you had heard that the World Economic Forum predicted that there will be more plastic than fish, by weight, in the world's oceans by 2050![10]

The following morning you wake up with a brilliant idea: maybe you can get all of the owners of McDonald's stock, like you, to vote on the idea of switching to a greener coffee cup. Like you, the other shareholders probably believe McDonald's is a company destined to grow over the years. All those cups going to the landfills bother you and present a risk to the company. Also, as a shareholder, you feel it's bad for the company brand to be associated with this toxic mess, because if people knew what was happening, that could drive the value of your shares down. Using foam cups when something better is available also shows that management is not thinking about the big picture, and you can't help wondering what else they're not considering.

But almost as soon as the idea to ask the company to use a more environmentally friendly cup occurs to you, you dismiss it. How would you get in touch with all the owners of the stock? And who would listen to your proposal, anyway? After all, you own just $2,000 worth of stock, and the company is worth more than $115 billion.[11]

The fact is, you're in luck. As the owner of even $2,000 worth of stock that you have held for a year, you have the right to submit a shareholder resolution, which by law, if properly written, the corporation is obligated to put to a vote of all of its shareholders on the company's shareholder proxy or ballot at their annual meeting.

This is exactly what happened in 2011 at As You Sow, the nonprofit organization that I lead.

After a dialogue asking McDonald's to fix the problem went nowhere, we filed a shareholder resolution, asking the company to replace polystyrene cups with more environmentally beneficial ones. Our mission is to increase environmental and social corporate responsibility and engage companies on critical issues. These engagements often lead to filing a shareholder resolution, one of the strategies we employ to motivate corporations to act more responsibly.

Led by our Senior Vice President, Conrad MacKerron, who specializes in issues of sustainability and waste, we felt that McDonald's needed just such a push. The company had switched away from polystyrene clamshells in 1990,[12] so they clearly understood how switching to a less harmful cup could improve their sustainability and enhance their brand.

McDonald's had never faced a shareholder resolution about this issue, and that was the game changer. The resolution came up for a vote and was approved by 29 percent of the shareholders.

Voting on shareholder resolutions is different than a standard political vote. If you were running for mayor and got only 29 percent of the vote, you'd likely consider it a failure. But think how a publically traded company would react to a hedge fund or a single shareholder who owned 29 percent of its stock. Such a person would likely be on their board and have enormous clout. Also the vote was a nonbinding recommendation to the company. The fact that a large minority of its shareholders voted in favor of moving away from harmful materials and avoiding the risks associated with it sent an important message to the company.

The vote brought McDonald's management to the table for discussions, yet over the course of a year, they still had not taken any real action, so the resolution was filed again. This time, however, the shareholder action got more attention because of a successful campaign in California led by Clean Water Action, the SurfRider Foundation,[13] and other local groups. The effort cosponsored groundbreaking legislation and helped support grassroots leaders to pass 65 local ordinances to ban polystyrene in restaurants.[14] The California effort gained significant national press attention, and combined with shareholder pressure, was enough that McDonald's agreed to a pilot program, swapping out foam for recyclable cups in 2,000 West coast locations. In exchange the resolution was withdrawn because the company "indicated its intent to take several positive, substantive steps in response to our concerns about use of polystyrene foam-based beverage cups and lack of a comprehensive recycling policy for on-site beverage and food containers."

The pilot was a huge success with customers and in the press. A year later the program was rolled out to all 14,000 US stores. It also set a goal to reduce food and packaging waste by 50 percent in several top markets by 2020 that will require increased recycling efforts. McDonald's periodically reports the results of its ongoing efforts to reduce packaging waste and the deployment of more environmentally responsible materials. It has a significant incentive to expand and improve its packaging stewardship programs, actions that are perceived positively by both shareholders and the public. Additionally, the positive brand image has huge value for the company—a win for McDonald's, its shareholders, and the planet.

This is just one example of how active shareholders can step forward to present an opportunity for a company to shift a policy or adopt a better business plan and then lead an industry. Often it is a shift that management may not be considering but that will ultimately benefit the company in many ways. At the same time, shareholders, employees, and other stakeholders enjoy increased share value, and the environment gets a break, too.

THE POWER OF THE PROXY

You may be a novice investor, or you may be vastly experienced, but in all probability you aren't really aware of the power you have as a shareholder. I wasn't aware myself until I was introduced to my current job. Shareholders can have significant impact on the behavior of huge corporations on issues as diverse as human rights, diversity in the workplace and the board, carbon emissions, and much more. Shareholders have the right to engage corporate management—sometimes escalating to the filing of shareholder resolutions, which is one of the many tools available to investors who wish to promote more environmentally and socially responsible behavior on the part of companies in which they invest.

DOES ENGAGEMENT HARM CORPORATE PERFORMANCE?

There are simple ways that every investor can directly impact and shape their investments to align with their values. You may be surprised to learn that the corporations that are more responsive to their shareholders and enact more positive ESG policies have improved performance. In fact, according to a Deutsche Bank Group report[15] that looked at "more than 100 academic studies of sustainable investing around the world and then closely examined and categorized 56 research papers as well as two literature reviews and four meta studies," the often-held assumption that sustainable investing yields "mixed results" is not accurate. In fact, the report shows that "Corporate Social Responsibility and most importantly, Environmental, Social, and Governance" (ESG) factors are correlated with superior risk-adjusted returns." Furthermore, they state that 89 percent of the studies show that companies with high ESG ratings exhibit market outperformance and that "SRI fund returns show neutral or mixed results."

This finding is backed up by research from TIAA-CREF[16] that reports, "A TIAA-CREF analysis of leading SRI equity indexes over the long-term found no statistical difference in returns compared to broad market benchmarks, suggesting the absence of any systematic performance penalty."

In addition, the California Public Employee Retirement System (CalPERS), the largest pension fund in the United States, has found that when it engages with companies in its portfolio, it sees increased returns. "Approximately 188 companies selected by the Pension Fund publicly and privately since 1987 on average outperformed the Russell 1000 by 14.4 percent over the five years after CalPERS began engagement, commonly referred to as the "CalPERS Effect."The companies lagged the index by nearly 39 percent in the three years prior to CalPERS involvement.[17]

Finally, a June 2015 survey by the Certified Financial Analyst Institute[18] (CFA) indicated that 73 percent of portfolio managers and research analysts take ESG issues into account in making

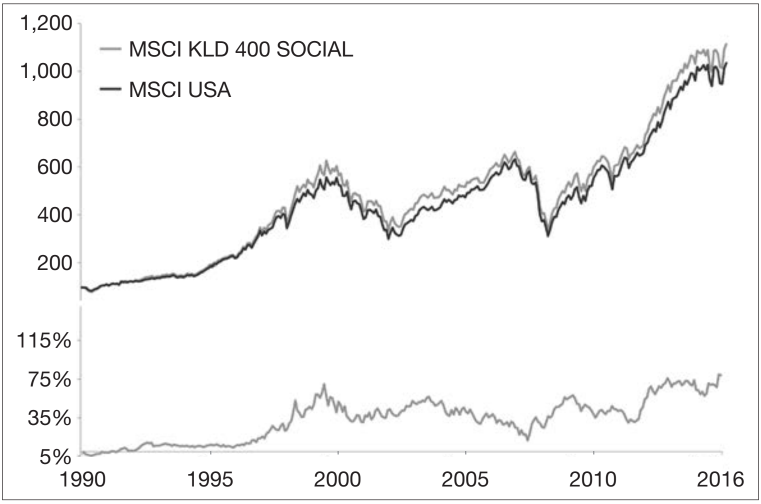

Figure 3: The responsible investing index with the longest track record, the MSCI KLD 400 Social index,[19] started in 1990 as the Domini 400 Social Index. It is one of the first SRI indexes and has outperformed the S&P 500 index since its inception. If you had invested $1 million in 1990, you would have made $10 million in the S&P and $11 million in the MSCI KLD 400. *Source: MSCI. Reprinted with permission. MSCI retains all other rights, title, and interest in and to the work.*

investment decisions, with governance being the most common concern.

This should not be a surprise. Companies that are less engaged with their shareholders are less open to new ideas and may not perceive risks. After all, a better management team—more aware of the impacts of corporate policy—will make better decisions and long-term investments to optimize efficiency and reduce risk. These attitudes at the board and management levels translate into long-term sustainable growth and become woven into the DNA of the corporation.

DISCREDIT WHERE DISCREDIT IS DUE

In 1970, economist Milton Friedman's essay, "The Social Responsibility of Business Is to Increase Its Profits" argued that business basically had no responsibility other than to maximize profits for shareholders. However, the demonstrated success of socially screened investing and the emergence of corporate social responsibility initiatives have discredited Friedman's view.

Now, many Fortune 500 executives enthusiastically endorse the notion of corporate social responsibility (CSR) as part of a company's obligation to all stakeholders, including customers, employees, investors, and advocates, as well as something that pays its way. All of these activities can be evaluated by performance indicators, including reduced operating costs, enhanced brand image, increased sales and productivity, employee retention, and reduced regulatory costs and oversight. Some of the strategies and practices include:

- A commitment to diversity in hiring employees and barring discrimination
- Treating employees as assets rather than costs[20]
- Creating high performance workplaces that integrate the views of line employees into the decision-making processes
- Adoption of performance goals that go beyond compliance with environmental rules to promote measures to reduce ecological footprints, such as the United Nations Principles for Responsible Investment (UNPRI[21]) and the CERES Principles[22]
- Advanced resource productivity, focused on the use of natural resources in a more productive, efficient, and profitable fashion like maximizing recycled content and product and packaging recycling
- Responsibility for the conditions under which goods are produced down the entire supply chain and by contract employees domestically or abroad
- Transparent reporting on greenhouse gas emission, water use, and carbon footprint

INVESTOR CLOUT

The power to effect these meaningful changes in corporate behavior starts with voting your proxies, which a majority of shareowners either don't do or leave to proxy voting services. If they do not vote, their votes are given to management. It's as though investors are citizens and aren't aware that they have the right to go to the ballot box to choose their elected officials.

However, through voting proxies, engaging with corporations, and initiating proxy votes about critical issues, investors can—and have—significantly influenced corporate behavior on issues ranging from lesbian, gay, bisexual, and transgender (LGBT) rights, board diversity, fair labor, and protecting the environment to corporate governance, hiring practices, animal rights, and many other issues.

The truth is, the dog slipped under the fence a long time ago. It's time to bring it to heel.

CHAPTER 2

How Ordinary Investors Can Bring Real Change to Big Problems

Have you ever called a major corporation to correct a problem? Once you've navigated the endless phone tree and listened to a symphony's worth of scratchy hold music, you're finally connected to a representative who, with studied empathy, asks how she can help. This alone feels like a victory. With luck, they'll correct the problem, and, although there are periods of aggravation during your quest, you hang up, satisfied. As far as it goes, the system works.

However, exactly who do you email about slave labor used in the manufacture of your cell phone? Who do you call if you're distressed because your donut contains nanoparticles that are small enough to penetrate the blood-brain barrier? How do you find out if your hamburger comes from a steer raised on a concentrated feedlot where it is fed antibiotics? What's Big Agriculture's 800 number so you can ask farmers to stop using genetically modified organisms (GMOs)? How do you air your concerns about excessive CEO pay, lack of diversity in the workplace, packaging that is destroying the ocean ecosystems, toxic dumping on the poorest minority groups, the risks of fracking, or the decimation of the rainforests?

Many companies' operational details and supply chain, if publicly known, would change the way their customers view their brands. Advocates are not creating the risky behavior; the corporations are doing this themselves through lax policies and short-term thinking. Advocates bring the information to the public's attention through a variety of means. If this results in customers deciding to buy products from a company with mindful policies over one that appears to not care, then let the market decide.

A NEW ERA IN SHAREHOLDER ADVOCACY

Now imagine that your concern is something as huge as systematic racial discrimination that isn't even in the United States but 6,000 miles away in South Africa, and it's 1971, before the advent of the Internet, let alone social media. The system you oppose is called *apartheid*, and it is as entrenched in South Africa as the greed and racism of those who instituted it when they colonized this region of the world. What can you do?

This was the situation when attorney Paul Neuhauser and the Episcopal Society for Cultural Racial Unity (ESCRU) decided they had to take action. The South African government had already ignored stiff sanctions and embargoes imposed by the United Nations. Protests around the world were beginning to coalesce into what would become a powerful global divestment movement. However, Neuhauser believed he could do something to force rapid change.

ESCRU's mission was to fight segregation in the United States. Neuhauser focused on the apartheid problem because it was his goal to bring the organization's investment portfolio into line with its mission—and Neuhauser had a novel way to do it. ESCRU owned shares in General Motors, which was the largest employer of blacks in South Africa. Neuhauser believed that by operating in South Africa, GM was tacitly endorsing apartheid. Of course, ESCRU could have simply sold the shares it owned and thereby distanced itself from GM's practices. But selling those shares would have had little impact on the corporation, which was, after all, the largest car manufacturer in the world, with operations on every continent except Antarctica.

Despite ESCRU's relatively small ownership stake, Neuhauser realized he could use it as leverage to compel GM to change. On behalf of ESCRU he filed a shareholder resolution, asking GM to end discriminatory practices at its South African operations.

Shareholder resolutions have been allowed by the Securities and Exchange Commission since the 1930s, but until Neuhauser's filing, they had, for the most part, been employed by large investors in arcane matters of corporate governance. By filing a shareholder resolution pertaining to a social concern, Neuhauser was perhaps the first of what have come to be known as shareholder advocates.

FUROR IN THE BOARDROOM

Pioneering actions are not always celebrated, and that was especially true in the case of ESCRU's shareholder resolution, which caused a furor in the GM boardroom. Many contentious negotiations proceeded from there, as GM begged for the resolution to be withdrawn. But Neuhauser and ESCRU stood firm.

Ultimately, the company adopted what were known as the Sullivan Principles,[23] created by Reverend Leon Sullivan, a Baptist minister, civil rights leader, and social advocate who was the first African American on GM's board. The Sullivan Principles were workplace rules that specified policies such as equal pay for equal work, increasing the number of blacks and nonwhites in management and supervisory positions, and the elimination of discriminatory workplace practices such as segregation of restrooms, eating areas, and drinking fountains. If these actions did not bring about the end of apartheid in ten years, Sullivan called for all companies doing business in South Africa to divest their operations in the country. These principles became a blueprint for ending apartheid.

FOLLOW THE LEADER

Then, perhaps feeling shamed by comparison with GM's actions, other large American corporations doing business in South

Africa, including Goodyear and Ford, also adopted the Sullivan Principles. Although neither GM nor the other companies ceased operations in South Africa, the changes they made struck a major blow against apartheid because within South Africa, there was now an example of a nonsegregated workplace. The modern era of shareholder advocacy was born, and in concert with global social protests, the growing divestment movement, and the courage of the South African people, change would come. Most often, lasting impact is accomplished through the coordination of shareholder advocacy and ongoing social efforts. The two work together—two tools in the social change tool box.

That was decades ago, but the impact of this shareholder resolution can still be felt. Since 1971, the scope of issues that have been addressed by shareholder resolutions—broadly falling under the umbrella of environmental, social, and governance (ESG) issues—has greatly expanded. Shareholder advocates have successfully brought about changes in a vast number of industries.

We'll get into all of the details of how to file a shareholder resolution later on, but for now, it's important to know that resolutions are, in general, nonbinding, or, to use the legal term, *precatory*, which is a request to a corporation's board of directors to take certain action.

At first glance, it may seem that a request like this wouldn't carry much weight with a corporate board. However, as Neuhauser's resolution with GM showed, that request can challenge a board with a compelling moral or financial choice. When thoughtful people come together to identify and address a problem, solutions are often found. This is the essence of why shareholder advocates work to enlist the corporations that are often most responsible for the problem.

Though paraphrased and grossly simplified, some examples of shareholder resolutions could be boiled down to requests such as:

- Please write a report showing the potential negative impact to our corporate brand to be associated with using slave labor in the manufacture of our products.

- Please tell all shareholders how our company's capital is being spent on political lobbying and how this may create potential brand risk.
- Please write a report showing how it would reduce potential shareholder risk if our company took action to stop the dumping of thousands of tons of electronic waste into landfills.
- Please identify better ways to source our products than destroying the rainforests for lumber and paper, and quantify how making this change will increase our brand reputation and, therefore, our competiveness.
- Please explain to shareholders why we are spending billions of dollars exploring and drilling for oil when the reserves already on our balance sheet will most likely be stranded, and this activity contributes to climate change.

Questions like these are drafted into 500-word shareholder resolutions and presented to all investors in a company for a vote at the annual meeting. They can become the hot topic of debate in the media. Customers and employees soon associate the brand with the issue. You can see that management and the board are under enormous pressure to respond and take action. That is the power that you have as a shareholder to bring these ideas forth and hold corporations accountable.

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