



# The Impact of Equity Engagement

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**EVALUATING THE IMPACT OF SHAREHOLDER  
ENGAGEMENT IN PUBLIC EQUITY INVESTING**

NOVEMBER 2014

**IE2 INITIATIVE**

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# Executive Summary

Over the last decade, growing numbers of investors have become increasingly concerned with the environmental and social impact of their investments across asset classes. This trend has recently been driven by new waves of “impact investors” proactively seeking measurable social and environmental impact in addition to financial returns, and by “responsible investors” making commitments to engage on environmental, social, and governance (ESG) issues through initiatives such as the United Nations-backed Principles for Responsible Investment (PRI). At the same time, engaged shareholders have had long-standing experience using “the power of the proxy” and their voices as investors to hold companies accountable for the impacts they have on employees, stakeholders, communities, and ecosystems.

While investor interest in shareholder engagement has grown, our understanding of the impacts associated with engagement activities remains largely anecdotal.

In 2012, an important study on Total Portfolio Activation provided a new conceptual and analytical framework for investors to pursue environmental and social impact across all asset classes commonly found in a diversified investment portfolio. Building upon the insights of Total Portfolio Activation, the **Impact of Equity Engagement (IE2) initiative** seeks to deepen our understanding of the nature of impact

in one specific asset class—public equities—where investors’ engagement activities have generated meaningful social and environmental impacts.

Given the large social and environmental footprints of publicly traded corporations and the persistently high allocation to public equities in most investor portfolios, public equity investing presents a major opportunity for impact investing. Yet impact investing, as currently practiced, has concentrated primarily on small-scale direct investments in private equity and debt, where many investors perceive that social and environmental impact can be more readily observed than in publicly traded companies where ownership is intermediated, diluted, and diffused through secondary capital markets.

Indeed, the nature of impact within public equity investing remains poorly understood and insufficiently documented. Because of this, many investors may be overlooking readily available opportunities for generating impact within their existing investment portfolios.

To address these misperceptions and missed opportunities, the IE2 initiative is developing a more rigorous framework for documenting the impact of engagement within the public equity asset class.

Over the past several decades, shareholders have engaged with public companies in a variety of



ways, ranging from activities involving relatively little effort, such as casting a proxy vote on a shareholder resolution or signing onto a letter, to multi-year, multifaceted strategies involving dialogue, investigative reports, and organized campaigns.

The IE2 initiative classifies engagement activities into four major categories:

- The **proxy process**, which allows shareholders to engage with a company on their operations through shareholder resolution filing and proxy voting.
- **Dialogue** with companies, which often but not always follows a shareholder resolution. An investor can initiate a direct dialogue by meeting with one or more companies, either individually or in coordination with other investors or civil society.
- Engagement on **policy** issues, such as seeking mandatory disclosure from the SEC on board diversity, political spending, and other issues. Investors may also send comment letters on proposed rules and regulations, produce a benchmarking report, or help shape industry regulation to promote better ESG practices.
- **Assertive action** by the investor, including taking legal action or becoming involved in campaigns, such as a divestment or public press campaign.

Although widely practiced, these engagement activities are not tracked in consistent ways. Few investors have robust internal systems for monitoring and measuring the progress of their engagements, and then analyzing the results of their efforts systematically. Although some investor networks and databases keep track of shareholder resolutions and proxy votes, few track engagements that involve civil society coalitions and escalated engagement over time—

which the literature of the field shows to be some of the most highly effective forms of engagement. Even more significantly, few investors have any consistent way of documenting or measuring the impact of their engagement activities on long-term social and environmental outcomes.

The IE2 initiative therefore proposes a new reporting framework that would not only standardize and facilitate reporting of shareholder engagement activities, but also provide additional functionality for those who wish to:

- Report on individual and collaborative engagements to the PRI;
- Publish public reports on their websites or for their clients, donors, or stakeholders;
- Analyze their own engagement activity to identify which factors and activities are most effective in changing companies' behavior; or,
- Promote academic and industry research on shareholder engagement by contributing to an anonymized, cloud-based database that would compile information from multiple investors, in order to help identify best practices and understand what maximizes investor leverage.

With initial support from philanthropy and engaged investors, this new reporting framework can help investors track and report on the impact of their own engagements – and, eventually, to identify and analyze industry-wide best practices for impactful engagement. As these investors increasingly seek to achieve “Total Portfolio Activation”—integrating environmental, social, and governance outcomes across all asset classes—shareholder engagement with public equities will become an increasingly important piece of the total portfolio puzzle.

# I. Introduction

**F**or decades, shareholders concerned with the social and environmental impact of their investments have actively engaged with corporations held in their portfolios. Successful investor engagements can foster changes in corporate policies and practices that produce meaningful impacts on employees, stakeholders, communities, and ecosystems touched by corporations, but few investors comprehensively document the impact of these engagements. However, two separate movements within the investment community are focusing increasing attention on the social and environmental impact of investor engagement. On one hand, a group of self-identified “impact investors,” associated with organizations such as the Global Impact Investing Network (GIIN), pursue measurable social and environmental impact, in addition to financial returns, as a central part of their investment process. Although many impact investors currently focus their efforts on small-scale direct investments in private equity and debt, increasing numbers of investors, inspired by “total portfolio” approaches to impact investing, seek opportunities for impact across asset classes.<sup>1</sup>

At the same time, a growing number of global investors associated with the United Nations-backed Principles for Responsible Investment (PRI) have committed to become more engaged investors on environmental, social, and

governance (ESG) issues. More than 1,250 signatories to the PRI, with global assets under management of approximately \$45 trillion, are now required to report on their activities as engaged investors each year and to document whether companies make changes to their ESG policies and practices in response to investors’ engagements. Although the PRI encourages investors to report on their engagement activities, it remains difficult to understand whether and how social and environmental impact results from this reported engagement activity.<sup>2</sup>

Despite the many challenges that arise when trying to track and measure the impact of engagement, publicly traded corporations clearly have large environmental, social, and governance footprints that imprint themselves across the global economy. For many investors with diversified investment portfolios, public equities also continue to constitute the largest asset class within their asset allocation. Consequently, listed equities present a major arena of opportunity both for impact investors seeking tangible social and environmental impact and for sustainable and responsible investors committing to become more engaged asset owners on ESG issues.

Recognizing this opportunity, a group of engaged investors and stakeholders came together to explore how the impact of engagement activities in public equity investing could be documented



and evaluated. Following an initial convening in Boston in December 2013, the group formalized a multi-stakeholder initiative known as the Impact of Equity Engagement (IE2). In the year since the convening, the coordinating research team at Croatan Institute analyzed the universe of engagement activities and developed an initial engagement reporting framework in close consultation with the initiative's steering committee and numerous other experts, practitioners, and stakeholders. This paper provides a report on the initiative's preliminary findings during its first phase of activity. The study is based on primary and secondary research as well as interviews with approximately two dozen stakeholders—

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*The pursuit of impact is different in every asset class, from public and private equity to fixed income to real assets.*

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including representatives from sustainable and responsible investment firms, institutional investors, foundations, research groups, NGOs, and investor networks. This paper provides background on the genesis of the initiative and its relationship to other complementary efforts in the field. Based on our research and analysis, we outline a comprehensive taxonomy of the most commonly used shareholder engagement activities, ranging from shareholder resolutions and the proxy process, to dialoguing with companies and intervening in public policy, to more assertive actions such as litigation and campaigning. Through a historical analysis of the emergence of shareholder engagement over the last five decades, a literature review, and numerous case studies from the field, we isolate key elements that make for effective engagements. Finally, the paper presents the

reporting framework and the associated analytical toolkit that is emerging from it, which provide the foundation for a much deeper and more coherent understanding of the complex nature of impact that engagement with publicly traded companies can stimulate.

## From Total Portfolio Activation to the Impact of Equity Engagement

The IE2 initiative builds upon insights drawn from earlier work on “Total Portfolio Activation” (TPA), a framework for creating social and environmental impact across asset classes. The TPA framework identified four related areas of activity where opportunities for impact could be pursued across all asset classes in a diversified portfolio: investment selection, active ownership, networks and coalitions, and policy activities. It also provided a structured process for identifying an investor's impact opportunity set across asset classes and then re-allocating its investments to higher impact opportunities. Figure 1, next page, highlights how a hypothetical investment portfolio could be analyzed and re-allocated using the TPA framework.

Although Total Portfolio Activation provides an impact investing framework that explicitly extends across asset classes, the pursuit of impact is by no means the same in every asset class. Within each of several asset classes commonly found in a diversified portfolio, including cash and cash equivalents, fixed income, public and private equity, and real assets, we consequently analyzed the relative role of various activities in creating impact opportunities. In public equities, for example, we found that networked engagement through active shareownership and coalition building with stakeholders delivered more tangible impact than investment decision-making in isolation, though all four areas of activity are certainly relevant. Case studies of investors such as the Oneida Trust, the

Dominican Sisters of Hope, Tides, and the Equity Foundation repeatedly reinforced this analysis. The IE2 initiative therefore builds upon this basic insight, providing an organized effort to explore more deeply and empirically the impact of engagement in the public equity asset class.

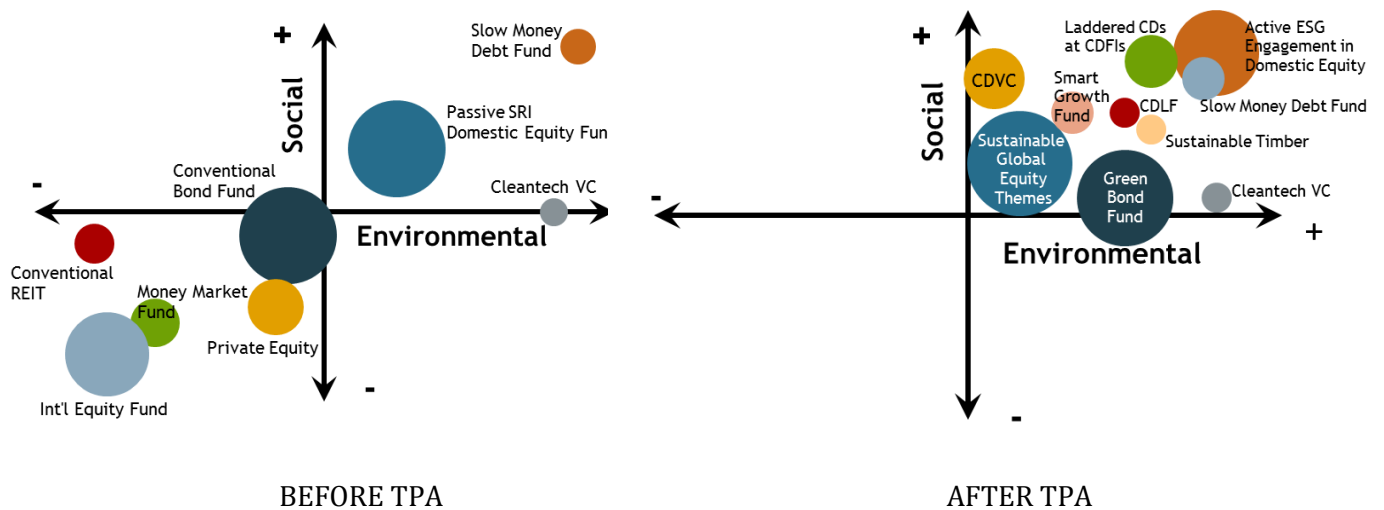
During our consultation process, we also engaged with numerous public equity investors using thematic sustainability strategies, investing in clean technology, women’s empowerment, or workplace issues. These investors stressed the role of ESG research, analysis, and the ultimate

sustainability-themed public equity investing. For the time being, though, the IE2 initiative has focused on isolating factors that contribute to changes in corporate policies and practice in more readily observable forms: those that arise from engagement.

## Defining Shareholder Engagement

According to the PRI, public equity engagement is “the process through which investors use their influence to encourage companies they invest in to improve their management of ESG issues.”

Figure 1. Total Portfolio Activation Map, Before and After



*In the Total Portfolio Activation exercise, investors can transition their portfolio of investments across asset classes to better reflect their ESG impact priorities. This includes moving investment funds out of low-impact and negative impact public equity holdings, and into higher impact investments, including what is labeled here as Active ESG Engagement in Domestic Equity. Note: Circle size represents assets invested.*

*Source: Humphreys, Solomon, and Electriss, “Total Portfolio Activation.”*

buy, hold, and sell decisions as potentially high-impact areas of activity. While a case can be made that investment decision-making can lead to positive impacts in the marketplace, the diffuse nature of ownership in the secondary markets makes the already challenging question of impact attribution even more difficult. We welcome the opportunity to work with others in the future to investigate more fully the impact of

Investors can use a number of different strategies to engage with companies; we have identified four broad forms of engagement: participation in the “proxy process” of filing shareholder resolutions and casting proxy votes, dialogue with companies, public policy initiatives, and more assertive actions. (See Figure 2, and for a full inventory, Appendix 1.) The tools shareholders use range from activities involving

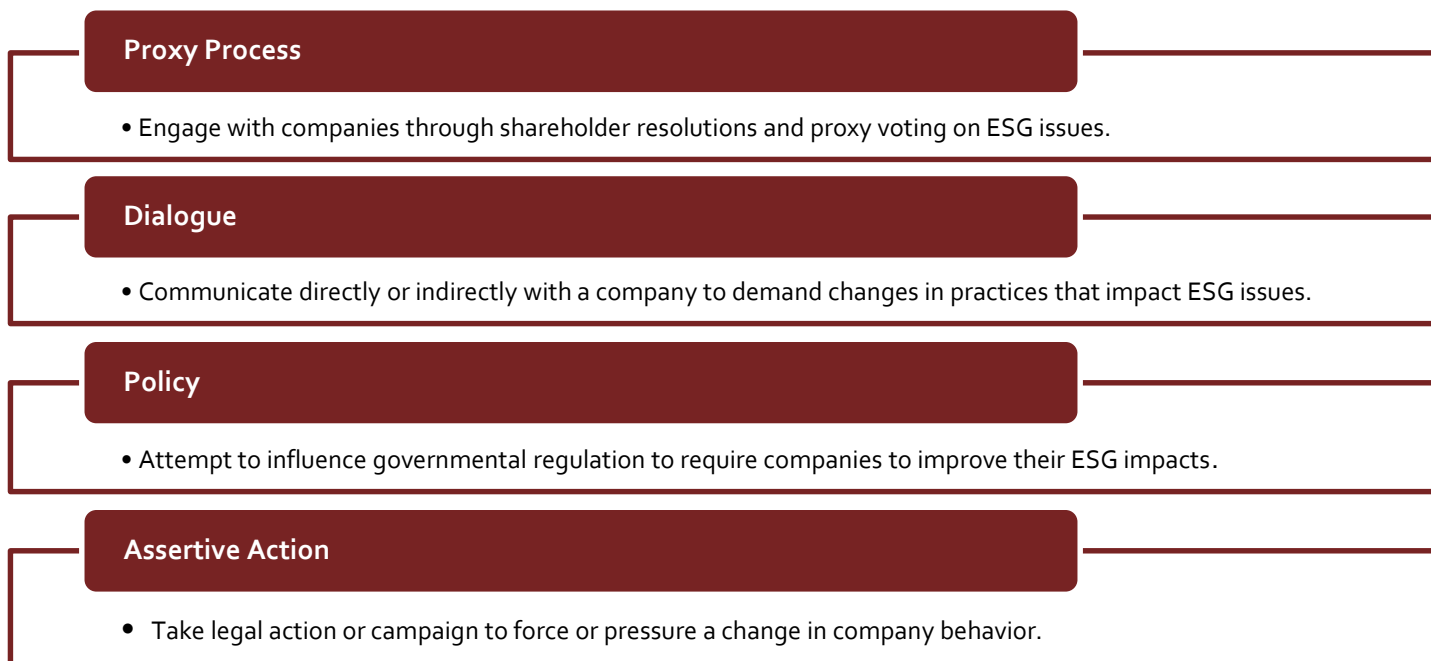
relatively little effort on the part of the investor, such as signing onto a letter, to multi-year, multifaceted strategies involving initiating dialogues, writing reports, or organizing campaigns and initiatives.

One of the most common types of engagement, particularly in the United States, is through the **proxy process**, which allows shareholders to engage with a company on its policies, operations, and transparency. There are two related forms of this type of engagement: shareholder resolution filing and proxy voting. A shareholder resolution is a proposal submitted to a company to be voted on by all shareholders at the annual shareholder meeting. Shareholder resolutions typically ask for positive changes in corporate ESG disclosure, policies, and practices. Corporate management also presents resolutions which often relate to the governance of the corporation, such as board composition, capital structure, and auditing. Shareholders then vote on resolutions through proxy voting. Investment advisers who exercise voting authority over their

client proxies have a fiduciary duty, and are thus required by the Securities and Exchange Commission (SEC), to adopt policies and procedures for voting proxies in their clients' interests.<sup>3</sup> Many of these organizations publish their proxy voting guidelines and disclose their voting record online. Shareholder resolutions and proxy voting are two of the most common activities that investors track as part of their engagement strategy, and are often used as part of a larger campaign to achieve maximum impact.

A second form of engagement involves **dialogue** with companies. An investor can initiate a direct dialogue by meeting with one or more companies, either individually or in coordination with other investors or civil society. Dialogues, especially when combined with other types of engagement, can be particularly powerful in motivating a company to change its practices, as demonstrated in the case study on investor dialogue with Colgate-Palmolive on climate change (see case study, page 5).<sup>4</sup>

Figure 2. Categories of Shareholder Engagement Activities



Dialogue also provides an opportunity for investors to engage with a company even if they do not hold shares, whether they exercise their

investor voice prior to purchasing shares or after selling shares and communicating their concerns to the company.<sup>5</sup>

A third major category involves engaging on **policy** issues. Investors have sought mandatory disclosure requirements on board diversity, political spending, executive pay, and conflict minerals, among other issues. Investors may also send comment letters on proposed rules and regulations, produce a benchmarking report, or help shape industry regulation to promote better ESG practices.

Engaged investors have repeatedly used their unique voices to support political change led by civil society coalitions or legislators. For example, investor coalitions can weigh in on federal environmental policy that affect companies and sectors in which they invest, as when members of the Investor Network on Climate Risk (INCR), a project of Ceres, successfully pushed the US Congress for a short-term extension to the Production Tax Credit for wind energy in 2012.

Similarly, in November 2011, Trillium Asset Management and Calvert Investments, along with 68 other employers, co-signed an amicus brief in support of *Gill v. Office of Personnel Management*, a court case filed by Gay & Lesbian Advocates & Defenders to challenge section three of the Defense of Marriage Act (DOMA), which discriminated against same-sex couples seeking access to federal benefits such as Social Security.

The investors' amicus brief described the burdens that DOMA placed on businesses forced to treat their employees with same-sex

## Case Study 1. Investor Dialogue Leads to GHG Emissions Reduction

Greenhouse gas emissions have been the topic of numerous shareholder engagements over the past several years, often leading to increased disclosure by companies of their emissions and other sustainability metrics. The CDP, formerly known as the Carbon Disclosure Project, has catalyzed many of these engagements. While disclosure is an important step toward sustainability, investors are increasingly asking companies to set emissions reduction targets—a specific percentage reduction in greenhouse gas emissions compared to a baseline year.

In May 2014, Colgate-Palmolive announced its second generation climate goals. Colgate had already been actively addressing its environmental impact, analyzing its footprint and reducing energy use and carbon emissions for several years. CDP has recognized Colgate several times for its advanced work on carbon disclosure. In setting its new climate goals, Colgate engaged with several stakeholder groups and Walden Asset Management. Walden and the stakeholders advocated that Colgate consider setting greenhouse gas reduction goals rooted in climate science. After an extensive dialogue involving in-person meetings with experts, sharing of information, ideas, and challenges, Colgate set its new quantitative goals for reducing its emissions. They have committed to reducing carbon emissions on an absolute basis by 25 percent compared to 2002 by 2020, and by 50 percent by 2050. These goals are in line with the Intergovernmental Panel on Climate Change and will help Colgate achieve its goal of limiting the effects of climate change.

Companies frequently hesitate to acknowledge that an engagement with an investor was a motivator for shaping a new policy, making it challenging at times to attribute impact to specific engagements. However in this case, Colgate explicitly acknowledged the important influence of outside stakeholders in its annual sustainability report. Sustained dialogue by long-term investors can be a powerful tool to encourage a company to change its policies or practices. On-going dialogue will be needed to ensure that Colgate ultimately meets its emissions reduction commitments.

## Case Study 2. Public Policy and Multi-Stakeholder Engagement on Forced Labor in Uzbek Cotton Industry

A multi-stakeholder initiative consisting of SRI investors, NGOs, and the United Nations has been using a variety of public policy strategies to tackle the issue of forced and child labor in Uzbekistan. Every fall, the Uzbek government forces over a million citizens to work in the cotton fields, shutting down schools and public offices, and subjecting workers to quotas and police force, to ensure that the work gets done. The government had also barred international monitoring groups, including the International Labor Organization (ILO), from observing these activities; independent activists who have tried to monitor the practices have been detained and imprisoned.

In 2008, As You Sow began a letter writing campaign with investors and other NGOs asking American publicly-traded companies if they knew where their cotton was being sourced from; this led to meetings with government officials, corporations, investors and NGOs at the State Department and the Gap. These actions, along with boycotts, resulted in the Uzbek government ratifying two ILO Conventions which would end the worst forms of child labor, although the government then proceeded to ignore these laws.

On the policy side, Calvert Investments has been working with the State Department and Department of Labor on this topic, and has co-written press releases and participated in webinars and gatherings to draw attention to this issue. The firm is also a member of the Cotton Campaign, whose members include Boston Common Asset Management, Human Rights Watch, the International Labor Rights Forum, Responsible Sourcing Network, ILO, UN Committee on the Rights of the Child, and the UN Human Rights Council. Together members have pressured the Uzbek government to work with the ILO and to begin to improve its practices. In June 2013, the Campaign wrote a letter to John Kerry, requesting that the ILO be allowed to monitor within the country, and also asking that the US government remind companies operating in Uzbekistan to remember their due diligence responsibilities.

Corporations and industry associations have largely been cooperative in this process, both by publicly voicing their opposition to forced labor and by participating in multi-stakeholder forums. However, the challenge has been to ensure that Uzbek cotton is not in their supply chains, since traceability is an issue. Still, more than 160 companies have signed the Cotton Pledge, committing to take actions to ensure that no forced labor is being used in their supply chain, and to “not knowingly source Uzbek cotton for the manufacturing of any of [their] products.”

Although the situation is dire, it appears that some steps have been made by the Uzbek government. In 2013, it responded by allowing the ILO to monitor the fall harvest and by significantly reducing the number of children under the age of sixteen who are forced to pick cotton. This year, the government has said that no one under eighteen will be allowed to work; the ILO cited 49 cases of children under 18 working in the cotton fields, down from 53 in 2013. However, forced labor by adults is continuing, with teachers, public employees, and other citizens struggling to meet the 3.3 million tons quota. In June 2014, Uzbekistan was placed in Tier 3 of the annual Trafficking in Persons Report due to its egregious labor violations; this classification is reserved for governments who refuse to take the minimal steps to combat human trafficking, and carries the potential for sanctions.

The international campaign against forced labor in Uzbek cotton fields provides a case study of industry, investors, and NGOs working to fight human rights violations. It also exemplifies the challenges around using corporate engagement to change government policy.



spouses disadvantageously from other married workers.<sup>6</sup> Two years later, the US Supreme Court ruled that DOMA's third section was indeed unconstitutional. Although the investors' amicus brief was only one part of a much larger social and political movement that pushed the federal government to recognize same-sex marriages, it exemplifies how investors can contribute their voice to a chorus of coalitions in civil society.

Three additional examples of multi-stakeholder policy campaigns can be found in this report. The first details the struggle to tackle forced and child labor issues in the Uzbek cotton industry (page 6).<sup>7</sup> The second details issues surrounding palm oil (page 28). The third discusses the campaign to incorporate a shareholder advisory vote on executive compensation for public companies into the 2010 *Dodd-Frank Wall Street Reform and Consumer Protection Act* (page 29).<sup>8</sup>

Lastly, investors can take what we term "**assertive action**" to press for change in corporate practices, including litigation, pursuing a seat on the Board of Directors, or leading or becoming involved in divestment or public press campaigns. The case study on women's representation on boards (across) provides one example of a public campaign for diversity in corporate governance.<sup>9</sup>

Divestment is a more controversial tactic which may be used as part of a broader toolkit of engagement activities. One of the most well-known examples is the divestment campaign against South

### Case Study 3. A Public Campaign for Women's Representation on Boards

Pax World Investments and Calvert Investments have employed multiple tools in their advocacy to encourage women's representation in corporate leadership among public companies. While both firms have engaged on issues of board diversity through filing shareholder resolutions and dialogues, this case study highlights the combined power of Pax's use of "assertive action"—a public campaign—and Calvert's development of reporting metrics to address gender inequality in the corporate world.

In 2004, Calvert partnered with the United National Development Fund for Women to launch the Calvert Women's Principles, a code of conduct which provides companies with indicators to assess their performance around issues of gender equality, including the appointment of women to management and board positions. Together with Pax and the UNPRI, Calvert has also encouraged companies to endorse the UN-developed Women's Empowerment Principles (WEP), a successor to the Calvert Women's Principles, which now have over 815 signatories to the CEO Statement of Support.

In 2010, the same year that the WEP was launched, Pax began the Say No to All Male Boards Campaign, encouraging investors to vote "no" on all-male board of director slates. Working with a coalition of other money managers and institutional investors, Pax developed letters and sample proxy voting guidelines for individual and institutional investors to send to companies with no women, or fewer than two women, on the board slate. As part of the campaign, Pax CEO Joe Keefe published an op-ed with Jackie Zehner in the Huffington Post in 2011 entitled "Saying 'No' to All-Male Corporate Boards." In the op-ed, Keefe and Zehner advocate that individual as well as institutional investors "withhold support for all-male director slates, or instruct whoever is voting our proxies to withhold such support"—to vote "no" on board slates that fail to include at least one woman.

Through a combination of these individual measures, these firms have been able to demonstrate their impact. Since 2010, Pax World has withheld support from over 800 slates of board nominees due to insufficient gender diversity. Pax World registers its concerns with companies through a follow-up letter explaining the reason for its opposition and urges them to embrace gender diversity on their board. Following Calvert's proposals on board diversity, forty-two women have been added to corporate boards. Additionally, according to Calvert's *Examining the Cracks in the Ceiling* report, the number of S&P 100 companies with three or more women or minorities on the board of directors increased from 67 in 2010 to 71 in 2012, and 30 companies added at least one woman director during the same time period.



Africa's Apartheid government in the 1970s-90s. Churches and students began pressuring US companies with operations in South Africa in the 1960s and '70s, as race riots, boycotts, and protests in South Africa increased. Socially responsible investors and public pension funds joined the calls for action, requesting in part that companies sign onto the Sullivan Principles, which called on companies to adopt "racially neutral policies in South African operations."<sup>10</sup> In the 1980s, the US government began pushing a series of boycotts, embargoes and sanctions against the government of South Africa, culminating in the Comprehensive Anti-Apartheid Act in 1986, which banned new investment in South Africa. By the end of 1988, more than 150 universities had at least partially divested, over 200 US companies had left South Africa, US direct investment had declined from \$2.3 billion in 1982 to \$1.3 billion, the value of the South African currency had decreased significantly, and inflation was in the double digits.<sup>11</sup>

Some researchers have questioned the level of impact that divestment campaigns truly had on the South African government, noting that divestment did not affect South African financial markets.<sup>12</sup> Yet the South African divestment campaign was not aimed at generating narrow financial impacts; instead, its objective was to increase public awareness of Apartheid, stigmatizing companies that partnered with the Apartheid government.<sup>13</sup> While the impact of this type of investor engagement may be difficult to measure, this particular divestment campaign clearly affected corporate behavior at the time. It also provided a model for future investor engagements around issues such as fair hiring in Northern Ireland, public health concerns related to tobacco, the genocide in Darfur, Sudan, and today's divestment campaigns against companies involved in fossil-fuel extraction or profiting from Israeli human rights violations in the Palestinian

territories. Although some observers view divestment as antithetical to engagement, many investors see it as an escalated step in a longer campaign of engagement. (See the case study of the Presbyterian Church's decision to divest from companies where dialogue proved unproductive, on page 20.) Divesting from a company need not mean that an investor abandons opportunities to engage with it. Indeed, as highlighted in the case of the Equity Foundation in "Total Portfolio Activation," investors continued to dialogue with Target over its corporate giving to anti-gay groups even after they had sold their shares in the company. Once Target ultimately changed its policy, it returned to the investors' buy list.

Additionally, the ongoing campaign for divestment from fossil fuel companies, which has grown rapidly in the past four years, provides an example of how divestment can work within broader shareholder engagement campaigns to move an industry. Though started primarily by student organizers focused on university endowments, the campaign has grown to encompass faith institutions, foundations, cities and states, other non-profit endowments, and individual investors. Although some environmental activists see divestment as an alternative to engagement, many investors see fossil-fuel divestment as one piece of a broader strategy to confront climate change. As the Carbon Tracker Initiative recently put it, "true engagement needs the pressure created by divestment. Engagement without divestment is like a criminal legal system without a police force."<sup>14</sup> The fossil fuel industry is taking note and going on the defensive, suggesting that they see the campaign for fossil-fuel divestment as a major threat to their businesses.<sup>15</sup>

## Structure of the Report

The next section, **Investor Engagement as a Strategy for Social and Environmental Impact**,

presents the initial findings of the IE2 initiative drawn from consultation interviews as well as primary and secondary source research. It reviews the history of shareholder advocacy for positive social, environmental, and governance outcomes, and the work that has been done to study the impact of public equity engagement. Based on this research, we argue that two features of investor engagement with publicly traded companies appear to generate the highest impacts: 1) collaboration and coordination with stakeholders in civil society and 2) escalation and sustained engagement over time.

The following section, **A New Reporting Framework for Equity Engagement**, reviews existing approaches to tracking shareholder advocacy and highlights their limitations for impact analysis. We then present a new reporting framework for investors to track the progress of their engagements and to analyze their potential

for impact. The IE2 Reporting Framework’s design responds to our research findings. It takes into account the full range of engagement opportunities across the taxonomy we have created and it helps investors to isolate key features of their engagements in order to see more clearly the ingredients of their impact.

Sidebars throughout this report highlight recent case studies, which exemplify a range of different types of engagements, on a variety of environmental, social, and corporate governance issues. These case studies are meant to demonstrate examples of engagements that would be included in the IE2 Reporting Framework, and also serve to demonstrate the potential that engagements have to create change within companies and to create tangible impacts for employees, stakeholders, communities, and the ecosystems affected by corporate policies and practices.

Figure 3. Taxonomy of Engagement Activities



\* See Appendix 1 for a more detailed breakdown of the taxonomy, particularly for proxy voting and shareholder resolution filing.

## II. Investor Engagement as a Strategy for Social and Environmental Impact

First used as a tool of social movement activists, shareholder engagement grew to prominence in the United States in the middle of the 20<sup>th</sup> century. Although it has been taken up by many investors as one of many tools of sustainable and responsible investing, some argue that shareholder engagement remains most impactful when situated within grassroots movements and stakeholder-led corporate campaigns.<sup>16</sup>

Prior to the 1970s, through a process approved and overseen by the Securities and Exchange Commission, shareholder resolutions and proxy votes were traditionally used to address corporate governance matters. Yet in the spring of 1970, civil society organizations for the first time recognized, and acted on, the idea that public corporations could be held accountable to their shareholders for environmental and social policies. Environmental and anti-Vietnam War activists flooded the shareholder meetings of Commonwealth Edison and BankAmerica Corporation, among others, speaking directly to company executives against their corporate policies. The same season, a consumer advocacy group called the Campaign to Make General Motors Responsible, led by public interest

lawyers and referred to as Campaign GM, proposed nine shareholder resolutions to GM.<sup>17</sup> Campaign GM relied on the twelve shares of GM stock owned by a partner nonprofit to file the resolutions.<sup>18</sup>

Although the SEC ruled that only two of the nine shareholder resolutions were required to be included in the management proxy statement—and although each of the two received fewer than three percent of the votes cast—Campaign GM attracted national media attention to the lack of diversity on GM’s corporate board, and the company’s resistance to automobile safety and air pollution legislation. According to Donald Schwartz, Campaign GM opened up questions about “what issues can be submitted to shareholders, the role of the modern corporation in society, what is required of our institutional investors.”<sup>19</sup> It also brought about a new era of advocacy, as more campaigns took advantage of the proxy process to put pressure on public corporations.

Through the 1970s, activists used shareholder engagement as a tool to influence corporate behavior on matters as varied as labor rights, product safety, and environmental conservation. Their campaigns demonstrated that shareholder engagement can have real impact. In 1976, led by

the vision of union staffer Ray Rogers, the Amalgamated Clothing and Textile Workers Union (ACTWU) launched a campaign against the massive anti-union textile manufacturer J.P. Stevens.<sup>20</sup> Deciding that traditional labor tactics like boycotts and strikes wouldn't be effective against J.P. Stevens, Rogers decided to target the corporation's 1977 shareholder meeting.

Hundreds of union supporters used stock proxies to crowd inside the annual shareholders meeting, and 4,000 more protested outside.<sup>21</sup> Rogers continued to use shareholder power to oust two anti-union members of the J.P. Stevens board of directors, eventually gaining a collective bargaining agreement for more than 3,000 workers at ten textile factories in the South. The ACTWU's fight against J.P. Stevens—often considered the first true “corporate campaign”—demonstrated that shareholder processes could be used as an effective tool for workers organizing against an anti-union employer.

### Shareholder Engagement as an Effective Tool for Corporate Accountability

Although they called on institutional investors for their proxy votes, the early activists using shareholder advocacy to advance social and environmental goals were not themselves investors. Investor networks including the Interfaith Center on Corporate Responsibility (ICCR) and the Investor Responsibility Research Center grew out of these social movements to focus investor attention on the power of shareholder engagement around social and environmental issues. More recently, with the rise of sustainable and responsible investing, an increasing number of asset managers and asset owners have begun adopting the tools of shareholder engagement for environmental and social issues, as well as corporate governance concerns. As the US SIF Foundation's 2012 *Report*

*on Sustainable and Responsible Investing Trends in the United States* notes, “A few decades ago, the prevailing view among large investors was that they should support the position of portfolio company management, and that if they actually felt moved to vote against management, they should consider selling their shares. This view has evolved over time.”<sup>22</sup>

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*Engaged investors have had significant impacts on environmental, social, and corporate governance practices—not only of individual companies, but also of entire industries and sectors.*

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Indeed, over the past two decades, engaged investors have had significant impacts on environmental, social, and corporate governance practices—not only of individual companies, but also of entire industries and sectors. We explore four examples below where coalitions of investors have positively impacted industry practices on environmental and labor standards of apparel supply chain sourcing, on non-discrimination policies inclusive of LGBTQ (lesbian, gay, bisexual, trans, and queer) workers, on toxins with implications for environmental health, and on conflict minerals. These examples highlight engagement strategies used across our taxonomy, and many involve combining multiple activities from the proxy process, dialogue, policy, and assertive action, as part of broader campaigns seeking changes in multiple companies, within an industry, and across sectors.

## **Apparel Supply Chain**

For over 30 years, investors have engaged with their portfolio companies around supply chain issues—ranging from labor conditions for workers at apparel and electronics factories to environmental sustainability of agricultural industry sourcing. Starting in the 1990s, investors played a key role in campaigns to push large apparel retailers including Nike, Gap, and Adidas to address working conditions at sweatshop factories in their supply chains and to encourage greater worker empowerment in workplaces.<sup>23</sup>

Starting in the early 1990s, investigative journalists published a number of exposés designed to highlight abhorrent working conditions at factories producing garments for large American apparel brands.<sup>24</sup> Investors and investor networks including US SIF (formerly the Social Investment Forum) and ICCR worked in coalition with unions and civil society groups in countries like Indonesia, Thailand, and Lesotho, as well as the United States.<sup>25</sup> Shareholders used annual shareholder meetings as forums to interrogate executives of Nike, Gap, Disney, Walmart, and Kohls about the labor conditions in their supply chain factories.<sup>26</sup> Investors submitted a number of shareholder resolutions asking for corporate social responsibility reports on labor conditions and asking for commitments to improve working conditions.<sup>27</sup> These efforts led to public commitments by many of these companies to require manufacturer codes of conduct around labor issues, marking a significant change in the globalized garment industry.

These commitments have not marked the end of investor action around supply-chain sustainability.<sup>28</sup> Faith-based investors, in particular, have begun to focus on slavery and human trafficking in public companies' supply chains.<sup>29</sup> In June 2014, the European Social

Investment Forum (Eurosif) published a report on the continued importance to investors of inquiry into supply chain and procurement sustainability of public companies.<sup>30</sup> Additionally, investors continue to join in coalition with civil society and worker-led organizations to address workers' rights in supply chains. (For more on these ongoing engagements, see the case study on the Coalition of Immokalee Workers, page 14, and the Bangladesh Fire and Building Safety accord, page 22).<sup>31</sup>

## **Non-Discrimination Policies Inclusive of LGBTQ Workers**

Another place where investor engagement has led to impact in a number of publicly listed companies across sectors is the expansion of corporate equal employment opportunity policies to include LGBTQ employees. Dialogue and shareholder proposals have focused on nondiscrimination policies based on sexual orientation, or more recently, on gender identity and expression. This campaign began in 1993, when the New York City Employees Retirement System filed a shareholder proposal requesting that Cracker Barrel address sexual orientation discrimination. The pension fund continued to re-file annually until 2003, when the resolution received 58-percent support and Cracker Barrel finally agreed to amend its policy. According to the US SIF Foundation's 2003 *Report on Sustainable and Responsible Investing Trends in the United States*, "this resolution is the first social issue proposal opposed by management in US shareholder history to receive majority support."<sup>32</sup>

Since this initial proposal, engaged investors have filed more than 200 nondiscrimination resolutions, leading to changes at more than 175 companies. Moreover, as Shelley Alpern, the Director of Social Research and Advocacy at Clean Yield Asset Management, has noted, "both anecdotal and documented evidence indicates



that additional companies have changed their policies simply in response to inquiries from shareholders.”<sup>33</sup> In fact, corporate America has acted much faster than state governments: 91 percent of Fortune 500 companies now provide protections based on sexual orientation, compared with 21 states and the District of Columbia. In 2002, three years before shareholders began extending their resolutions to include protections around “gender identity and expression,” only three percent of Fortune 500 companies had nondiscrimination policies around this issue. Today, that percentage has risen to 61 percent, while only 17 states and the District of Columbia offer the same protections.<sup>34</sup>

### *Toxic Chemicals in the Marketplace*

The Investor Environmental Health Network (IEHN), a group of investors working in collaboration with environmental NGOs, played an important role in pressuring numerous public corporations to change practices around industrial chemical use between 2005 and 2007. Focusing on public companies with large “toxic footprints”—including those producing products that contained toxic chemicals, like lead, mercury, and potential carcinogens—the investor members of IEHN utilized shareholder resolutions, letters to companies, proxy voting



*Members of the Coalition of Immokalee Workers and their consumer allies protest outside of Wendy's annual shareholder meeting in May 2014. Photo credit Coalition of Immokalee Workers.*



## Case Study 4. Investor Engagement with Food Retailers on Tomato Picker Wages and Working Conditions

Since 2001, the Coalition of Immokalee Workers (CIW), a worker-based human rights organization in Immokalee, Florida that is internationally recognized for its achievements in the fields of corporate social responsibility, community organizing, and countering human trafficking, and consumers nationwide have waged the Campaign for Fair Food (CFF) to improve working conditions and wages for tomato pickers in Florida and beyond. The Campaign asks large tomato purchasers—including fast food companies, food service corporations, and supermarket chains—to sign on to the Fair Food Program. The Fair Food Program, a unique farmworker- and consumer-driven initiative, consists of a wage increase supported by a price premium paid by corporate purchasers of Florida tomatoes, and a human-rights-based Code of Conduct, applicable throughout the Florida tomato industry.

The CFF began with a four-year boycott against Taco Bell (owned by Yum! Brands) in April 2001. Since then, the CIW has joined with faith leaders, students, and allies to bring twelve companies into the Fair Food Program. The CIW and its consumer allies have employed diverse tactics, including direct actions such as fasts, picket lines, and marches. However, a key part of their organizing has included a focus on the shareholder meetings of the public companies they target.

Investors including Walden Asset Management, Trillium Asset Management, and members of the ICCR have filed resolutions asking for companies to report on labor conditions in their supply chain, to adopt ILO standards, or to sign on to the Fair Food Program. According to Noelle Damico, a senior fellow at the National Economic and Social Rights Initiative who has worked with the CIW for over 10 years, “Since 2003, as investors have lodged various shareholder resolutions, we have always paired them with two things: we have people inside from the CIW and its consumer allies speaking directly to investors, [and] a public action outside, or nearby, the shareholder meeting.”

Union pension funds and religious organizations are among investors who have signed over proxies to CIW and allies to enable them to address executives and shareholders at companies' annual meetings. According to Damico, “It’s an opportunity for farmworkers at the bottom of the supply chain to speak to people at the top and for shareholders to hear from consumers.”

This shareholder work has been successful. The Yum! Brands Resolution garnered over 30 percent of shareholder votes in 2003 and 2004 and led to direct responses by company executives to the workers' asks: for example, at the 2004 Yum! Brands shareholder meeting, CEO David Novak told a representative of the CIW that they had a “willingness to work toward solutions” to ending the CIW Taco Bell boycott. One year later, following further increase in consumer action throughout the year, Taco Bell signed a Fair Food Agreement, and two years after that, Yum! Brands announced at its shareholders meeting that it would extend the Fair Food Agreement to five of its other brands, including KFC and Pizza Hut.

Investors have worked closely with the CIW to support their campaigns—and this collaboration has effected true impact on the ground. According to Damico, “What’s key is that our partners in the investor community work hand in hand with the workers themselves so that the resolution that’s put together is on target for moving the campaign forward... First you have to find out, does the CIW want a shareholder resolution? Is it strategic? What other investor actions could be helpful?” By utilizing shareholder tactics where they are most strategic in a worker-led campaign, institutional investors and money managers have been able to achieve true impact.

Currently, the Campaign for Fair Food is targeting Wendy’s and Kroger. Shareholder resolutions and actions at public companies' annual general meetings continue to be an important tactic for the CIW. Twelve companies have signed on to the Fair Food Program, which has dramatically improved wages and working conditions for tens of thousands of farmworkers in Florida.

guidelines, and public policy advocacy around safer corporate chemical policies.

In particular, during the 2005, 2006, and 2007 proxy seasons, members of the IEHN filed 43 resolutions at 27 public companies.<sup>35</sup> They received commitments for new initiatives on reducing toxic chemicals in products or packaging from companies including Whole Foods, Walmart, ConAgra, Becton Dickinson, Sears Holdings, Apple, and Johnson & Johnson.<sup>36</sup> As Jonas Kron wrote in a 2007 report, “While generally citing various reasons for adopting more health-protective policies (often including consumer pressure), companies who acted after the 2006 proxy seasons often acknowledged the role of shareholder dialogue in advancing toxic issues to the forefront of management’s attention.”<sup>37</sup> Today, IEHN has expanded its work on toxic chemicals to focus more deeply on the environmental health implications of hydraulic fracturing for natural gas and oil.

### **Conflict in Mineral Supply Chains**

More recently, investor action on extractive industries in conflict zones has produced important changes in how companies involved in mining do business. The 2010 *Dodd-Frank Wall Street Reform and Consumer Protection Act* (known as “Dodd-Frank”) included a provision that requires publicly traded companies to prove, through reports or audits, that they are not purchasing minerals from sources that are helping to fund regional conflicts, such as in the Democratic Republic of the Congo. In 2009-2010, prior to Dodd-Frank, numerous investors engaged directly with companies on the topic of conflict minerals, as Canon acknowledged in its 2012 sustainability report. However, following the passage of this law, investors began submitting comments to the SEC regarding the rule-making process around this issue. To demonstrate support for the law, a multi-

stakeholder initiative that included investors, NGOs, and Fortune 500 companies such as Ford, AMD, and Dell sent four letters to the SEC recommending “transparency and accountability in mineral supply chains.”<sup>38</sup> The final ruling was issued in August 2012, passing 3-2; however, in October the Chamber of Commerce brought a suit against the Commission which challenged the ruling.<sup>39</sup> In response, an investor letter with nearly 50 signatures was sent to the SEC asking the Commission to enact the new regulations “without delay,” and in July 2013, the ruling was upheld.<sup>40</sup> According to PwC, over half of all SEC issuers will be affected by this ruling, and private companies are likely to follow the standard as well.<sup>41</sup> Investors consequently played a key role in helping to diminish the role that extractive industries and the mineral trade may play in stoking regional conflict and instability in war-torn regions like central Africa.

Over the last thirty years, engaged investors have entered into thousands of engagements like these with public companies around environmental, social, and governance issues. In the process, they have obtained hundreds of verbal or written commitments to improve practices that directly affect people and places that fall within companies’ footprints. Although it can be challenging to attribute the impact of shareholder engagement in precise, measurable ways, these examples nonetheless highlight how concerted investor actions around issues such as supply chain sourcing and labor conditions, non-discrimination against LGBTQ employees, toxic chemicals, and conflict mineral sourcing have had significant and identifiable impacts across sectors and industries.

### **Tracking Shareholder Engagement**

Shareholder resolutions and proxy voting remain some of the most visible ways in which institutional investors and asset managers

participate in shareholder engagement. Because of their discrete nature and the increasing public data now available on the proxy process, shareholder resolutions can readily be tracked and quantified. Indeed, several groups, such as As You Sow, FundVotes.com, ICCR, IEHN, INCR, MSCI's Institutional Shareholder Services (ISS), Sustainable Investments Institute, and the US SIF Foundation, as well as other proxy advisory firms, provide regular reports on the scale and scope of shareholder activity in the proxy process.

For over 15 years, the US SIF Foundation, the nonprofit research arm of the Forum for Sustainable and Responsible Investment, has tracked broad trends in shareholder advocacy around environmental and social issues. Over time, US SIF Foundation's biennial "SRI Trends Report" has expanded the scope of its research around shareholder advocacy to include the leading types of shareholder proposals and proponents. It also includes case studies and examples of successful environmental, social, and governance-related resolutions. The quantitative data measure straightforward, visible outputs of the process, such as the numbers of proponents and their assets under management and the number of resolutions, their withdrawal rates, and the average votes they received. Although the case studies provide exemplary success stories, the proxy trends data do not ultimately reflect whether any changes or impacts occurred as a result of the proxy process.

Since the release of its 2004 paper "Unlocking the Power of the Proxy," As You Sow, in collaboration with groups such as Rockefeller Philanthropy Advisors, the Sustainable Investment Institute (SI<sup>2</sup>), and ProxyImpact, has published a valuable annual *Proxy Preview* that details each of the social and environmental shareholder resolutions filed each proxy season, giving shareholders important background information, historical

context, and resources to help investors to cast their proxies in support of ESG resolutions.<sup>42</sup>

Many investor networks provide more focused data on their members' engagement activities. ICCR, an investor network of faith-based investors and a leading resource for shareholder proponents around social and environmental issues, maintains an online database of its membership's current shareholder resolutions, informed by its own model of investor engagement.<sup>43</sup> Ceres, which organizes the Investor Network on Climate Risk (INCR), similarly tracks resolutions filed by INCR members on sustainability or climate-related issues.<sup>44</sup> IEHN regularly reports on the outcomes of its members' resolutions on toxins and environmental health concerns.

One of the most analytical efforts to evaluate investors' proxy voting is provided by ProxyDemocracy.org. The site compiles publicly available data on shareholder resolutions and proxy votes, primarily by mutual funds, as well as privately reported data from a selection of engaged investors. It also calculates an "activism footprint" for investors based on the proportion of their proxy votes cast against management's recommendation, measured along four axes of issues that commonly arise on the proxy ballot: director elections, executive compensation, corporate governance, and corporate impact (which includes most social and environmental resolutions).

Shareholder resolutions, and proxy voting on resolutions, certainly provide an important method of shareholder engagement around environmental, social, and governance issues. As You Sow's Conrad MacKerron has highlighted that "most companies strive to maintain good relations with their investors, because minority or even minimal votes can often influence a company."<sup>45</sup> He goes on to write that "achieving a

majority vote is still rarely a realistic goal in this category. But the higher the vote count, the more pressure is placed on management to resolve a particular issue. While a vote of 8% to 12% on a social issue may seem to be small, it is often sufficient to bring about real change.”<sup>46</sup> In a 2012 paper, Ceres reported, “Over the past three years, 230 sustainability-focused resolutions were filed by investors in Ceres’ network... Nearly half, or 110 resolutions, were withdrawn by investors after the companies agreed to address their issues of concern.”<sup>47</sup>

The proxy process alone, however, may not deliver the impact that engaged investors often seek. In his 2005 book *The Challenge to Power: Money, Investing and Democracy*, activist and socially responsible fund manager John Harrington noted, “No matter how good the personal relationship is between shareholders (individual or institutional) and corporate management’s representatives, the fact remains that resolutions are advisory only and mostly ignored by management.”<sup>48</sup> Even winning a majority of shareholder proposal may not necessarily translate into a change in corporate policies by itself because the resolutions are not legally binding on the company. And for publicly traded companies domiciled outside of the US regulatory framework, the proxy process is often an even weaker process for shareholder input.

Increasingly, shareholder proponents therefore engage in substantial dialogue with the company. Some do this before their resolutions go to a vote and withdraw the resolution upon reaching an agreement. One interviewee told us that “companies have become more interested in engagement instead of fighting resolutions on their ballot every year,” and thus are willing to have conversations with shareholders about social and environmental issues. Often the prospect of a shareholder resolution can convince a company to engage in dialogue with an investor

around ESG issues in order to avoid the public scrutiny that accompanies the proxy ballot. Investors may find that initiating or filing a resolution may result in engagement through dialogue with a company which was not willing to dialogue prior to the threat of the resolution.

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*“What’s key is that our partners in the investor community work hand in hand with the workers themselves so that the resolution that’s put together is on target for moving the campaign forward.”*

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Other investors dialogue routinely without turning to the proxy process. Although dialogues are an important way in which investors pursue impact, the details of these dialogues—including who attended them, what commitments were secured, and what follow-up was done—are rarely tracked alongside data on shareholder resolutions. Indeed, many are subject to confidentiality agreements between investors and the companies, making their impacts even more difficult to assess.

### What Factors Make for Impactful Shareholder Engagement?

In 2004, Steve Waygood wrote that unlike the extensive literature on the effective nature of investor activism around corporate governance, “there is not yet a body of academic literature analyzing whether Investor Advocacy Influence on the corporate responsibility agenda can be effective.”<sup>49</sup> Yet in the past ten years, a growing literature found in academic, civil society, and industry publications has begun to investigate the impact of investor engagement on corporate ESG performance. There is certainly no certified

recipe for impactful shareholder engagement. Yet existing literature and historical case studies suggest some of the most significant factors in ensuring that an investor involved in shareholder advocacy will have a social or environmental impact. In particular, impactful engagement seems to be characterized by 1) **collaboration**, not only with other investors but also with grassroots campaigns and civil society stakeholders; and 2) **escalation**, or deepening engagement over time.

The analysis of what makes engagement impactful requires additional study, including data of the sort that anonymized reports via the IE2 Reporting Framework could provide. However, the literature seems to agree that largely qualitative factors like collaboration and escalation play an important part in impactful engagement. This literature is important to our study, because other existing reporting mechanisms do not account for these aspects of shareholder engagement.

For their paper on “Active Ownership,” the recipients of the 2012 Moskowitz Prize for research in Socially Responsible Investing awarded by the Berkeley-Haas Center for Responsible Business, Elroy Dimson, Oguzhan Karakas, and Xi Li performed quantitative analysis on a data set of shareholder engagements made by a large institutional investor around environmental, social, and governance issues over a ten-year period.<sup>50</sup> They conclude that shareholder engagement on issues of corporate social responsibility—including social and environmental issues, and issues of corporate governance—is most effective when conducted in collaboration with other investors and stakeholders, and when it involved repeated instances of engagement with the same company.<sup>51</sup> Dimson, Karakas, and Li classify collaborations as “hard collaboration”—conducted in partnership with other asset

owners, civil society organizations, and individuals—and “soft collaborations”—in which the investor benefits passively from other investor initiatives. They find “cooperating with hard collaborators leads to higher success rate than with soft collaborators,” and that engagements that involve collaboration, repeated engagement, and focus on one particular issue are statistically more likely to be successful than other engagements. In particular, engaged investors often escalate, or deepen their engagement with a company over time.<sup>52</sup> The case study on “Assertive Action for Human Rights in Israel/Palestine” describes the Presbyterian Church (USA)’s deepening engagement process with Caterpillar over its involvement in human rights violations, starting with collaborative letters, escalating to shareholder resolutions and dialogues, and culminating in divestment (page 20).<sup>53</sup>

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*Shareholder engagement on issues of corporate social responsibility is most effective when conducted in collaboration with other investors and stakeholders.*

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It is important to note the strength of collaboration in shareholder engagement. This can include collaboration between multiple shareholders—for example, investor networks like INCR, IEHN, ICCR, and the PRI organize like-minded investors to take collective action on ESG issues. Others have suggested that successful shareholder advocacy is also often characterized by collaboration with non-investor actors. A 2013 paper by US SIF on the impact of sustainable and responsible investing notes, “Investors can influence companies and hold them to account for the labor and human rights violations,



environmental degradation, and other negative impacts that communities might experience due to company operations,” especially when collaborating with community and worker organizations.<sup>54</sup> That paper briefly highlights the involvement of investors in civil society coalitions that have supported the campaign of the Coalition of Immokalee Workers. The case study on the Coalition of Immokalee Workers’ Campaign for Fair Food further explores how investors have worked in coalition with workers and consumers to impact the quality of life of tomato pickers in Immokalee, Florida (page 14).

Based on case studies on shareholder engagement by three money managers, Calvert, Insight, and Hermes, James Gifford conducted a qualitative investigation of “which factors

contribute to shareholder influence in improving the environmental, social and corporate governance (ESG) performance of investee companies.”<sup>55</sup> He concluded that coalition building was one of the most important factors in shareholder engagement, followed by the values of managers, strong business case, intensity of reputation, and actions that affect the reputation of companies.<sup>56</sup>

Gifford writes that collaborations with stakeholders like NGOs and labor unions “can be an effective way of increasing the normative power, societal legitimacy and urgency of an investor request.” While the investor can put a unique type of pressure on a company to improve corporate practices or policies, Gifford notes, other stakeholders can engage in activities



*Tim Smith of Walden Asset Management speaks at a rally demanding the SEC mandate disclosure of political spending. Photo credit Antonia Peronace, ApolloPolitical.com.*



## Case Study 5. Assertive Action for Human Rights in Israel/Palestine

A number of religious investors, including the Presbyterian Church (USA), United Methodist Church, and Roman Catholic organizations, have engaged with companies on their involvement in military occupation in Israel/Palestine. In particular, these investors expressed concerns with Caterpillar, an American company that contracts with the Israeli military to provide heavy equipment used in home demolitions and the construction of settlements that have been declared illegal under international law.

After over a decade of escalating engagement, the Presbyterian Church (USA) decided to divest its funds from three companies where they deemed engagement unproductive. This case study demonstrates how public divestment can be used as a tool of assertive action in a long-term engagement strategy.

The PC(USA) started to focus on Caterpillar after an Israeli Caterpillar-brand armored bulldozer ran over and killed an American named Rachel Corrie in Gaza as she was standing with other peace activists in opposition to demolitions of Palestinian homes. In 2007, PC(USA)'s Committee on Mission Responsibility Through Investment (MRTI) joined other religious investors in filing a shareholder resolution for consideration at the 2008 Caterpillar meeting requesting that the Board of Directors review the company's human rights policies, with respect to its involvement in violence in occupied territory. The investors withdrew the resolution in exchange for a dialogue, which multiple participants deemed unproductive: Caterpillar refused to take any responsibility for its equipment being used in human rights violations.

At the 2010 shareholder meeting, another resolution asking Caterpillar to make its human rights policy align with international humanitarian law garnered 24.9 percent of the proxy vote. Following this, the PC(USA) cosigned a letter with eight other religious investors to the Chairman; a year later, it sent its own letter to the new CEO and resubmitted the previous letter. None of these inquiries received a response. Religious investors continued to sponsor shareholder resolutions asking Caterpillar to revisit its human rights policies, receiving over 25 percent support each year. In response, on April 22, 2013, Caterpillar wrote to PC(USA) and other investors that Caterpillar found no need to revise its company's policy. This work was supported by civil society organizations in Israel/Palestine and the US.

PC(USA) engaged in similar processes with Motorola Solutions and Hewlett-Packard, two other companies implicated in Israeli human rights abuses in Palestine. In 2014, the PC(USA) MRTI group issued a report that noted, "After several years of corporate engagement by MRTI and its interfaith partners, utilizing all the tools available to investors (correspondence, dialogues, proxy voting and filing shareholder resolutions), three corporations, Caterpillar, Hewlett-Packard and Motorola Solutions, remain entrenched in their involvement in non-peaceful pursuits, and regrettably show no inclination to change their behavior. In fact, if anything, these three corporations have deepened their non-peaceful involvement."

In response, the General Assembly of the Presbyterian Church decided to divest the funds of the Presbyterian Foundation and pensions from Caterpillar and the other two companies. This divestment, done publicly, generated media coverage in dozens of outlets, including the *New York Times*.

In this case study, the Presbyterian Church used multiple tactics, including shareholder resolutions, in-person meetings, and letters to demand that Caterpillar change its human rights policy. They did this over the course of a decade and in collaboration with other investors and with civil society organizations. While other investors continue to engage with Caterpillar over the human rights implications of its activities in Israel/Palestine, after ten years of engagement with no change in policy, PC(USA) decided to take assertive action and publicly divest to put public pressure on Caterpillar.

including “successful lobbying for regulation, or... coordinating consumer boycotts that may affect the company’s sales.”<sup>57</sup> Similarly, Harrington argues for long-term coalitions of organizations and individuals that include shareholders “to provide a truly countervailing power against corporate management. From such a broad coalition of stakeholders comes a longer-term solution for developing more sustainable financial growth and security for investors.”<sup>58</sup> The case study on investor action in the Accord on Fire and Building Safety in Bangladesh, page 22, provides one example of effective investor action in collaboration with grassroots and civil society organizations.<sup>59</sup>

Indeed, the literature on shareholder advocacy suggests that investors can contribute substantially to civil society or grassroots campaigns. In her paper on “SRI Engagement,” Cassandra Higgs writes that “investors add weight and credibility to issues that have been raised with companies by NGOs.”<sup>60</sup> The importance of situating investor action in coalition with other stakeholder campaigns remains a theme in the literature on shareholder advocacy.

## Disclosure as a Milestone on the Way to Impact

In certain cases, engagement activities around corporate disclosure, such as requesting a sustainability report or the reporting of greenhouse gas emissions, may be seen as part of a progression of activities which over time impact company operations or behavior. The initial milestone might be to reach a critical mass of companies willing to publicly disclose information about their practices; this is followed by a request that companies report what they plan to do to improve their practices, and finally by finding leaders within the sector who are willing to make changes and push others to

follow their lead. Ideally, this results in a “race to the top,” as companies compete with each other to be the most attractive to investors and consumers. Pressing companies on disclosure is also a way to draw attention to an issue, which can be an important first step towards actual change. For example, requesting sustainability reports, which require companies to report on material ESG risks, may be a stepping stone toward getting the market to value these issues.

An example of a successful transition from disclosure to meaningful action can be seen in the work of CDP, formerly known as the Carbon Disclosure Project. This voluntary initiative began with CDP asking companies to measure and report their greenhouse gas emissions. Next, the nonprofit asked them to assess the risks and opportunities that their businesses faced from climate change. These requests have provided CDP with the largest self-reported database on corporate climate change information to-date. Being able to see which companies are the heaviest emitters and whose climate change risks are the highest has allowed CDP to take the next step of convincing companies to take more aggressive steps on emissions reductions.

The information gleaned by CDP has become useful to investors; by requesting transparency and standardized information, the CDP allows investors to make apples-to-apples comparisons of corporate risks and opportunities around climate change. They are also able to cite the data when filing shareholder resolutions requesting sustainability reporting. Investors are able to support the initiative by becoming signatories and sending letters to companies requesting their participation in CDP’s surveys.

Recently, CDP has begun reporting its findings and the annual reductions in emissions that the surveys have observed. To date, over 3,000 companies now disclose their greenhouse gas

emissions, as well as climate change and water management strategies. According to their report in 2012, CDP and investors focused on 300 companies in 17 high-emitting industries. The network sent letters requesting that these companies publicly disclose their year-to-year emissions reductions targets, as well as their expenditure on capital and company profitability.

Of the 241 who responded, 73% of these set targets to reduce emissions. CDP found that companies who reported emissions reductions activities also reported positive returns on their investments that were well above the cost of capital needed to make these reductions.<sup>61</sup> This type of result demonstrates the value that disclosure has not only to investors interested in assessing risk, but also to companies themselves

### Case Study 6. A Worker-Led Campaign: Accord on Fire and Building Safety in Bangladesh

In 2010, trade unions and workers' rights groups in Bangladesh and around the world began organizing a codified set of Health and Safety Action Points for international companies buying garments produced in Bangladeshi factories. Following the devastating collapse of the Rana Plaza factory building on April 24, 2013, which killed over 1,100 workers, this coalition put together a new *Accord on Fire and Building Safety* in Bangladesh and asked international unions and companies to sign by May 15<sup>th</sup>. The *Accord* addresses problems that have led to preventable factory disasters in the past decade in Bangladesh, including provisions for independent safety inspectors, health and safety training for workers with trade union involvement, and buyer support for safety upgrades and renovations.

In the United States, trade unions and workers' rights groups organized campaigns targeting US-based clothing companies that purchased products from Bangladeshi factories to sign on to the *Accord*. For example, United Students Against Sweatshops staged campaigns on over 30 campuses, pressuring universities to only use college-logo brands that had signed the *Accord*. Other labor groups staged picket lines outside of Gap, North Face, and Adidas stores across the United States.

The movement for more rigorous factory safety in Bangladesh has for years been led by local and international worker organizations like the National Garment Workers Federation, Bangladesh Garment & Industrial Workers Federation, Bangladesh Independent Garment Worker Union Federation, and the Bangladesh Center for Worker Solidarity. The US-based campaign targeting American companies buying from Bangladeshi factories involved a broad coalition of student organizations, labor unions, and other civil society groups. Yet a group of investors recognized that their engagement with these companies could provide particular leverage. These engaged investors effectively used two sign-on letters to put additional pressure on publicly-traded American companies to join the *Accord*.

On May 16<sup>th</sup>, 2013, a group of investors led by Boston Common Asset Management, Domini Social Investments, the Interfaith Center on Corporate Responsibility, the Missionary Oblates of Mary Immaculate, and Trillium Asset Management released a letter asking 27 relevant companies that they held to join the *Accord*. The 123 investor signatories of the letter, with over \$1.2 trillion in assets under management, included religious institutional investors, responsible investment coalitions, and money managers.

Additionally, investors led by Boston Common engaged directly with Adidas, Inditex, Li & Fung, and Nike, asking them to sign the *Accord*. Following this engagement and additional pressure from workers' rights groups, Adidas signed on to the *Accord*.

In this case study, engaged investors did not initiate or even lead the campaign asking American companies to sign on to the *Accord*. However, by buttressing the efforts of grassroots organizations and labor unions in Bangladesh and their international NGO partners, engaged investors contributed towards the goal of sustainable and substantive change in working conditions for Bangladeshi factory workers. Engaged investors utilized their unique position to pressure public companies to sign on to an established workplace safety accord.

as they work to improve their operations and minimize their ESG impacts.

Disclosure around political spending is another example of a strategic multistage approach to engagement. The 2010 *Citizens United v. Federal Election Commission* Supreme Court decision resulted in the ability of corporations to spend unlimited amounts of money in the political sphere. Additionally, this meant companies could provide money to 501(c)4 non-profit organizations without having to disclose. Many investors are concerned about the effects of this decision, both in terms of the political power it provides to companies with deep pockets, and also because the lack of disclosure can pose a risk to portfolios, as corporations may fund candidates whose stances are in opposition to the best interests of shareholders.

As a result, a coalition of investors, led largely by the nonprofit Center for Political Accountability (CPA), has been leading a campaign for greater disclosure. According to its website, “CPA is the only group to directly engage companies to improve disclosure and oversight of their political spending.”<sup>62</sup> As a result of this work, “almost 70 percent of companies in the top echelons of the S&P 500 are now disclosing political spending made directly to candidates, parties and committees.”<sup>63</sup> However, CPA has been able to take this even further, by requesting that companies disclose their indirect political spending to trade associations and nonprofits such as the US Chamber of Commerce and American Legislative Exchange Council (ALEC). Currently, nearly 50 percent of companies in the S&P 500 are disclosing on this front as well.<sup>64</sup>

One way to see the impact that the CPA’s effort has had is through the response of groups such as the US Chamber of Commerce. In October 2013, the Chamber, along with the Business Roundtable and the National Association of Manufacturers,

circulated a letter which charged CPA with initiating a “campaign to quiet American business” and included a list of “tools for responding to activists” who were pushing for disclosure.<sup>65</sup> The fact that these powerful organizations felt compelled to respond to the actions of CPA and its allies demonstrates their effectiveness in changing corporate attitudes and behavior.

Thanks to the work of CPA and other grassroots organizations, this issue has also drawn the attention of the American public more broadly. Harvard Law professor Lucian Bebchuk submitted a petition to the SEC proposing that it force companies to disclose their political spending to shareholders. It has now received over one million comments, the highest number of comments for a petition to-date.<sup>66</sup>

Investor engagement for sustainability reporting or other disclosure, on its own, may seem toothless. However, investors often frame their resolutions to include a disclosure request because of the need to conform to complicated SEC rules, and framing resolved clauses as a disclosure request will often garner more support from institutional investors. Combined with the non-binding nature of the proposals, this may create an appearance of “weak” demands, but such is the tradeoff for obtaining space on the proxy ballot and commanding management’s attention. When utilized as part of a long-term strategy of engagement designed to make social or environmental impact, disclosure can be an important and strategic milestone.

# III. A New Reporting Framework for Equity Engagement

Thus far, efforts to document the ultimate impact of engaged public equity investing have remained largely anecdotal. For example, in an August 2013 paper entitled “Impact of Sustainable and Responsible Investing,” US SIF described the impact that shareholder engagement strategies can have on publicly traded companies, highlighting numerous compelling examples, from Trillium Asset Management and As You Sow’s work on Massey Energy sustainability performance, to a multi-investor collaboration that led to Gap improving working conditions in over 300 factories, to the Say on Pay campaign (see case study on page 29).<sup>67,68</sup> Meanwhile, those who do try to measure levels of shareholder engagement focus mostly on the quantitative data related to proxy voting and shareholder resolutions. Such efforts can describe trends in shareholder engagement, but capture very little about impact. By only measuring ESG engagement through tracking of resolutions and proxy votes, existing resources do not capture the full extent of the impact of equity engagement and the full range of tools used by shareholder proponents. Simply filing large numbers of shareholder resolutions

does not necessarily mean that one investor has more social or environmental impact than another—an investor that joins in one collaborative effort that utilizes multiple tactics in long-term engagement around a particular issue may have more impact than another investor that files dozens of shareholder resolutions but does not follow up with any companies.

The IE2 reporting framework aims to situate shareholder resolutions and proxy votes within the broader spectrum of engagement activities and within the broader field of impact measurement that has emerged over the last decade.

## Impact Metrics and Ratings of Companies and Managers

The trend of responsible and impact investing is shifting from principles-based systems towards metric-based systems.<sup>69</sup> The field of impact measurement is incredibly active, with over 150 tools, methods and best practices available at the Foundation Center/McKinsey Tools and Resources for Assessing Social Impact (TRASI) database.<sup>70</sup>



The GIIN, dedicated to increasing the scale and effectiveness of impact investing through outreach, has developed the Impact Reporting and Investment Standards (IRIS), which has a very detailed library of standardized social, environmental, and financial performance indicators meant to apply across sectors and regions. These metrics are used to evaluate the companies in which one is invested; however IRIS is not a reporting framework or database.<sup>71</sup> Rather, it provides a standardized list of metrics to refer to when developing a report so that definitions can be consistent across years and companies. None of these cataloged metrics appear related specifically to the role of investors in listed equities, or to the strategies of investor engagement. Many of the metrics outlined in IRIS overlap with the metric definitions in the Global Reporting Initiative (GRI), a widely used global framework for standardized reporting on ESG sustainability performance. Organizations can select the relevant metrics from the IRIS library to set up an individualized framework of performance objectives and sector-specific sustainability metrics. Partner sets of metrics have been developed by industry experts and groups using the IRIS metric sets for specific impact measurement fields, such as land conservation, sustainable agriculture, microfinance, and health. Thus, the IRIS metrics can be used to track performance of the companies being engaged with, and their improvement over time, but do not yet have the capability to measure the engagement pursued by investors and its resulting impact. However, these metrics may be useful for aligning our new framework with other impact investing rating systems, such as the Global Impact Investing Ratings System (GIIRS).

The GIIRS Index, run by B Lab, is a transparent and comprehensive ESG impact rating system for both companies and funds, built using a selection of IRIS metrics and the B Analytics platform.<sup>72</sup> It

is primarily designed for rating companies who are looking for impact investment capital. Fund impact ratings combine an assessment of the fund manager (10 percent of the rating) and the combined scores of the companies within the fund's portfolio (90 percent of the rating). There are investment management companies which have been impact-rated by GIIRS, some of which engage regularly in active ownership activities. However, among the metrics, there is no consideration for the specific features of different

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*Simply filing large numbers of shareholder resolutions does not necessarily mean that one investor has more social or environmental impact than another.*

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asset classes, nor any discussion of investor engagement and its impact. Therefore the potential impact of the asset managers' engagement activities is not being included in their overall impact rating.

Alternatively, the GRI reporting framework is designed to provide a standardized way for companies to report on their sustainability activities and performance, promoting transparency and disclosure by organizations. While stakeholder inclusiveness is a major principle for GRI reporting, it focuses on companies engaging with their employees, shareholders and suppliers. GRI is not geared toward reporting on the engagement of owners or managers of public equity investments with those companies on ESG issues.<sup>73</sup> Both the GRI and GIIRS frameworks can be used to track the change in ESG performance at the company level. However, they are not able to track the impact of public equity investors' engagement activities.



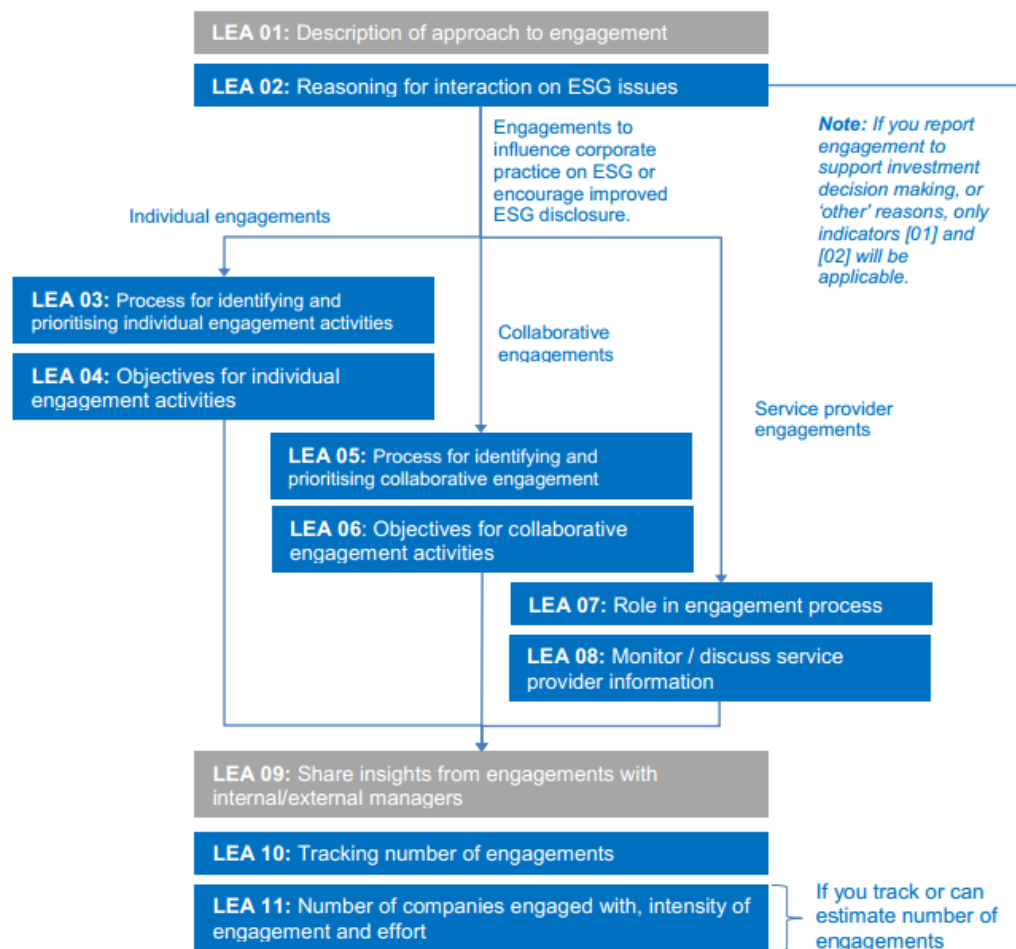
## Existing Reports for Equity Engagement and their Limitations

The best effort to obtain investor data on engagement is that of the PRI, which has pioneered an annual reporting framework for its signatories. All signatories submit yearly reports to the PRI on their responsible investment activities, which it aggregates for its Annual Progress Report.<sup>74</sup> Starting in 2013, signatories have been required to publicly disclose some mandatory data and encouraged to voluntarily disclose other data, which the PRI publishes online as a “Transparency Report.”<sup>75</sup> Additionally, as of the 2013/2014 reporting cycle, every PRI

signatory is required to use the new reporting framework, which requires self-reporting of both quantitative and qualitative data points (see Figure 4).

The PRI reporting framework asks signatories to discuss both quantitative and qualitative information about their public equity engagement (categorized as “Listed Equity Active Ownership,” or LEA.)<sup>76</sup> Specifically, one question asks for the number of engagements, and another asks for the number of engagements that resulted in companies that changed or committed to change as a result of engagement.<sup>77</sup> In the explanatory notes for the LEA section, the PRI

Figure 4. PRI Reporting Framework on Listed Equity Active Ownership



Source: PRI

reporting framework describes how signatories should approach the question on “outcomes” of engagement. The guidance reads, “Describe the changes, if any, in corporate practice that resulted from the voting decision.”<sup>78</sup>

The PRI reporting framework also asks for qualitative information on public equity engagement. There are questions about what types of engagement the investor used, including methods such as dialogue, proxy voting, or confrontation; about reasons for engagement; about monitoring, evaluation, and reporting processes of engagements; and about the investor’s prioritization processes in terms of deciding what to engage on. Finally, the reporting framework has room for investors to report three or more examples of their engagements, such as successful shareholder resolutions.

However, the PRI reporting framework does not account for many of the factors that the literature has identified as important to impactful shareholder engagement, specifically the full spectrum of collaboration and the importance of escalation, discussed above. The PRI framework defines “collaborative engagements” as those that the “investor conducts jointly with other investors,” whether through informal associations or through an organized investor network.<sup>79</sup> This definition of “collaboration” does not account for coordination with grassroots campaigns or civil society organizations. Additionally, the PRI reporting framework has no concrete way to report on repeated engagements around the same issue or on investor persistence over time.

## Measuring the Impact of Engagement

Given this gap between today’s limited data on engagement and the actual determinants of successful investor engagements with publicly traded companies, the IE2 Reporting Framework aims to provide a more comprehensive system

for documenting and analyzing investor engagements and their ultimate environmental and social outcomes.

The reporting framework aims to be:

- A space that allows investors to define what they are doing and tell their own stories.
- A place to model and highlight elements of good engagement – to identify what practices are likely to lead to successful change in the company’s behavior.
- A standardized reporting format for comparing activities and performance between engagements by theme and company, and eventually across investors.
- A way to understand how engagement can be most effective, and how investors can maximize leverage.

At the same time, the new reporting framework will help investors monitor the progress of their engagements. In consultation interviews, institutional investors and money managers alike noted that tracking shareholder engagements is difficult for investors. One interviewee told us their firm’s process was “ad-hoc and haphazard”; another noted that “figuring out a process to track and measure even the few dozen companies we engage with is challenging.” These investors indicated interest in an internal tool that would help them better demonstrate impact in quantifiable, rather than anecdotal, ways.

The preliminary framework will remain private and unscored during its initial development.

## Case Study 7. Multi-stakeholder Engagement on Palm Oil

Investors and consumers have been growing increasingly concerned about the effect that palm oil plantations are having on the planet's climate, forests, and biodiversity. As the demand for palm oil has been increasing by 8 percent per year, the rate of land clearance—often via burning—to make room for expanding palm oil plantations has risen sharply. Clearing land to grow palm oil has resulted in not only the destruction of carbon rich rainforests, primarily in Indonesia and Malaysia, but also of peatlands. Peat is able to store 18-28 times the amount of carbon that forests do, so the drainage of them is even more harmful to the atmosphere as this carbon is released. The Roundtable on Sustainable Palm Oil (RSPO) was created in 2004 in an attempt to bring accountability to the palm oil supply chain, but because it is entirely voluntary, has a poor track record of enforcement, and is dominated by the palm oil industry, many stakeholders were concerned about its efficacy.

Recognizing the risks associated with palm oil production, investors pressed companies to take direct responsibility for upholding strong environmental and social standards in their palm oil supply chains. In the fall of 2013, Green Century Capital Management raised concerns on Kellogg's quarterly earnings call about the company's recently announced partnership with Wilmar—the world's largest palm oil trader, who, despite being an RSPO member since 2005, was also ranked the least sustainable company in the world by Newsweek in 2011 and 2012. Green Century pressed Kellogg's CEO about how the company would protect its brand and reputation against the controversial activities of its supply chain partner. A Bloomberg reporter picked up on Green Century's question, writing an article that drew public attention to the issue and elevate concerns about unsustainable palm oil production with Kellogg's senior management. Unsatisfied with Kellogg's response, Green Century proceeded to file a shareholder proposal pressing Kellogg's to adopt stronger safeguards for verifying that its suppliers were upholding sustainable practices for producing palm oil. During discussions and negotiations with Green Century, Kellogg's was also in discussions with Wilmar about shareholder and public concerns around deforestation.

At the same time, Green Century also launched a letter writing campaign with over forty other institutional investors urging key companies in the palm oil supply chain, including Wilmar, to move beyond the RSPO guidelines and “adopt policies that would ensure palm oil development does not contribute to deforestation, development on peatlands, or human rights violations.” This pressure, along with the help of Glenn Hurowitz, a negotiator from the consulting firm Climate Advisers who flew to Singapore to speak with the company, led to meaningful results: on December 5, 2013, Wilmar announced its “No Deforestation, No Peat, No Exploitation Policy,” which applies across Wilmar's entire supply chain, and went into effect immediately. Wilmar controls 45 percent of global palm oil trade: due to the size of the company, this new policy “will eliminate more than 1.5Gt of CO<sub>2</sub> emissions between now and 2020” if fully implemented, according to Climate Advisers, the equivalent of what Central and South America emit annually. Shortly after Wilmar's announcement, Kellogg's announced its own palm oil sourcing commitment in response to the shareholder proposal issued by Green Century, requiring all of its suppliers to provide palm oil independently verified as “protecting forests, peatlands and human rights” by December 2015. In the company's official announcement, Kellogg's quotes Green Century and recognizes their role in developing the new policy. Since these initial commitments, more than a dozen major food and beverage companies, traders and grocery store chains have followed suit in a “race to the top,” with pledges to source 100 percent fully traceable, responsibly produced palm oil. As of the most recent count, more than 60 percent of the global palm oil supply is now covered by deforestation-free policies.

As demonstrated in this case, coordinated pressure from key stakeholders—including investors, the media and other companies—can prompt a company to respond and shift its practices. It also makes clear that engagement milestones achieved with one company can snowball into impact across an entire industry.

## Case Study 8. From Shareholder Engagement to Public Policy: Investors Push for Say on Pay

In the first decade of the 2000s, stakeholders and investors alike focused attention on executive compensation packages at large public companies. As the disparity between executive and worker pay at large public companies continued to grow, risky corporate behavior was attributed in part to excessive pay practices and incentives.

A number of investors took action to add new checks on executive compensation at US public companies. In particular, the American Federation of State, County and Municipal Employees (AFSCME), Employees Pension Plan and Walden Asset Management, a division of Boston Trust & Investment Management Company, led a multi-year engagement around executive compensation that helped precipitate significant national policy change. This case study highlights the history of the Say on Pay campaign and the relationship between shareholder engagement and public policy.

In 2006, AFSCME filed experimental shareholder resolutions with Sun Microsystems, Sara Lee, Countrywide Mortgage, Home Depot, and US Bancorp asking for a “Say on Pay”—an advisory shareholder vote on executive compensation practices, already legally mandated in the United Kingdom. According to a history of Say on Pay published by AASBCR, an organization of AT&T Ameritech and SBC Retirees that filed multiple Say on Pay resolutions with AT&T, the average support on these early resolutions was over 42%. Between 2007 and 2009, a coalition of over 70 institutional and individual shareholders filed resolutions at more than 100 US corporations asking for a shareholder Say on Pay. Votes on these resolutions were very strong; many were over 35 percent. Following the 2009 shareholder meeting season, nine companies agreed to voluntarily adopt Say on Pay—and by 2010, dozens of companies had voluntarily adopted Say on Pay.

This shareholder action helped precipitate policy action. In 2007, US Representative Barney Frank introduced legislation to make Say on Pay votes an SEC requirement for all public companies. According to Timothy Smith, the Director of ESG Shareholder Engagement at Walden, the goal of the Say on Pay shareholder resolutions was “both to encourage individual companies to adopt Say on Pay, but also to show the SEC and Congress strong investor support for Say on Pay.” Walden and AFSCME also helped convene a Working Group on the Advisory Vote on Executive Pay Disclosure, where investors and companies together discussed how a Say on Pay requirement might be implemented in US markets. The Working Group held two Roundtables, attended by over 100 company representatives, lawyers, compensation experts, and investors.

In 2007, Representative Frank convened Congressional hearings on Say and Pay, and invited investors to testify and participate. Finally, on July 21, 2010, Congress passed the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, which included language requiring a “say on pay” vote on executive compensation for all public companies at least once every three years, along with a shareholder advisory vote on the frequency of say on pay votes.

Early adopters may use it on an individual basis solely for the purpose of tracking engagements. However, following the model of similar frameworks, this tool can evolve into a powerful analytical tool for comparing investors across the field. For example, the GRI initially created its reporting framework to encourage companies to integrate sustainability into their operations without scoring. After several years of reporting, GRI organizational stakeholder have begun scoring companies along the GRI reporting framework. Similarly, we envision the engagement reporting framework becoming a quantitative tool that could measure the relative impacts of different listed equity investments in a portfolio.

Naturally, there remain many aspects of engagement that cannot be measured, so any framework to document the impact of equity engagement must acknowledge the inherent limitations of purely quantifiable impact metrics. Nevertheless, many aspects are readily measurable such as progress towards goals, types of issues addressed, the kinds of engagements

used, and the data used to hold companies accountable for their commitments.

The proposed reporting framework strives to standardize and facilitate reporting of shareholder engagement activities.

**Development of Reporting Framework**

The IE2 engagement reporting framework (ERF) was developed through many iterations, combining feedback from the steering committee and a lengthy consultation process with stakeholders and experts in the field. The framework has been developed in document form, and will be initially implemented in spreadsheet format. The model framework represents how an online database would function, adding value by allowing the user to cross reference the reported data. The framework design can be found in Appendix 3.

The framework has three levels: the overarching engagement issue, specific engagement activities, and the details of each activity (Figure 5). Each level is composed of detailed questions about

*Figure 5. Overview of IE2 Reporting Framework*





Figure 6. Top Tier of IE2 Reporting Framework



both quantitative and qualitative aspects of an investor’s engagements. The first tier, overarching engagement, gathers information on the engagement theme or issue: environmental, social, or governance; and a specific category, such as pollution, human rights, or board diversity. Issues can be cross-listed, or “tagged,” with additional themes if appropriate—for example, engagement around palm oil often touches both the social issue of land rights and the environmental issues of conservation and climate change. The ability to “tag” an engagement with multiple

themes reflects the complexity of many engagement issues and allows the framework to be interactive and dynamic. Users can then enter information about the general engagement issue at the highest level, including other activity happening around the issue, the leaders of the effort, and how they are coordinating with others (Figure 6).

At the second tier, users add specific engagement activities they have done or plan to do around the issue, selecting activities from the engagement taxonomy described above and detailed in Appendix 1. Investors then answer questions about the timeframe of the activity: when it was started; whether it is ongoing, completed, abandoned, or planned for the future; and the duration of the activity.

The third tier of the reporting framework contains specific details on each activity, including the investor’s role, milestones that

indicate progress, and the ultimate objective of the engagement. Users have the option to add multiple milestones, depending on the nature of the activity. These milestones allow users to tailor their tracking system to their specific engagements, as not all activities can be measured in the same way. Some activities are complex and have multiple objectives, and therefore multiple milestones, while others may be very straightforward. Each milestone can be accompanied by quantitative and qualitative data to track progress. Lastly, the ultimate objective reflects the goal of the overall engagement activity; like the milestones, users can upload data used to track their progress.

Ultimately, the responses to all of these questions will populate fields in an internal database that the company will use to keep track of their engagements.

The research team has designed the framework to function as a complement to the PRI reporting framework for listed equity active engagement, both by creating a place to report out on all the aspects of engagement that are not included in the PRI—for example, op-eds, testimony, soliciting votes from other shareholders, and benchmarking—and also by helping investors complete the PRI Transparency Report. As we learned through the consultation process, many investors have experienced difficulty and frustration with completing the new annual PRI Transparency Report, which asks signatories to tabulate and quantify different types of engagements, in a way that frequently does not line up with how investors track their own engagements. After careful review of the PRI reporting framework, the IE2 reporting framework was designed to calculate several of the answers to the PRI questions. For example, the PRI asks users to enter the number of engagements with an Environmental (E), Social (S), or Governance (G) focus. Many investors do

not necessarily keep track of the number of each type of engagement, and currently estimate this number manually. Based on data from the top tier—the overall engagement issue—the IE2 reporting framework would assign an E, S, or G from the user’s selection and tags, and can easily tally the total number for each category, including crossover issues. Similarly, the database can tally numbers of individual and collaborative engagements for the PRI based on the user’s selection of their role in an activity within this database.

Additionally, many investors provide public updates on their engagements. In order to facilitate this kind of transparency, the framework will allow each level to be made public or kept private, depending on the nature of the information contained. For example, an investor may want to generate a report on all of the different engagement issues they are involved in, but would like to keep certain details on the specific activities private.

Once implemented, we envision users will be able to access and review their engagement history and plans by searching by theme, company they engage with, engagement activity, and milestones. The proposed database could readily

provide statistics about their track record, and perhaps could be linked to some a live feed on an organization’s website, among other uses. Users could perform analytics on the output to identify strengths and weaknesses of their engagements. For example, the database could provide a “heat map” to demonstrate an investor’s range across issue areas and engagement activities. The following example (Figures 7 and 8) shows a fairly large SRI money manager who uses a number of engagement activities across a range of environmental, social, and governance issues. To view more examples comparing different types of investors, please see Appendix 4.

In Figure 9, we use a mosaic plot to show the engagement activities of the investor by activity category (identified on the left-most column, and by color), and by ESG focus (identified across the top). Here, the same investor is more involved in environmental and social issues than in governance ones, as shown by the width of the columns. They are also very actively involved in the proxy process, somewhat active in dialogue, and conduct very few policy or assertive action-type engagements, as shown by the height of the sub-rectangles within each column. Figure 10 shows the same information, but goes one step

Figure 7. Mapping Engagement Themes

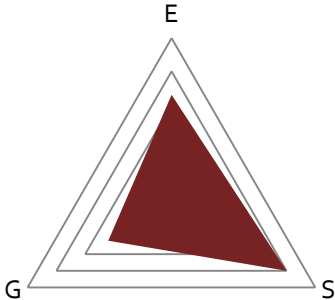


Figure 8. Mapping Engagement Activities

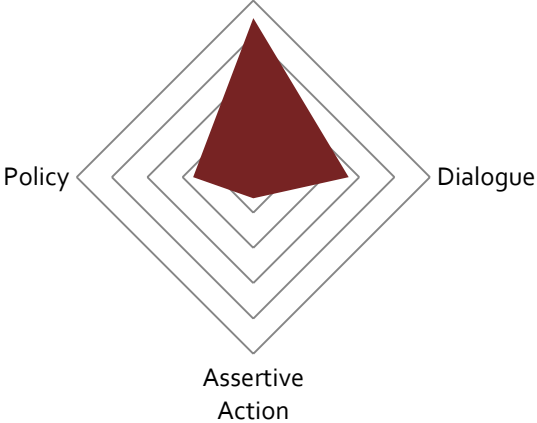


Figure 9. Investor's Engagements by Themes and Activity Areas

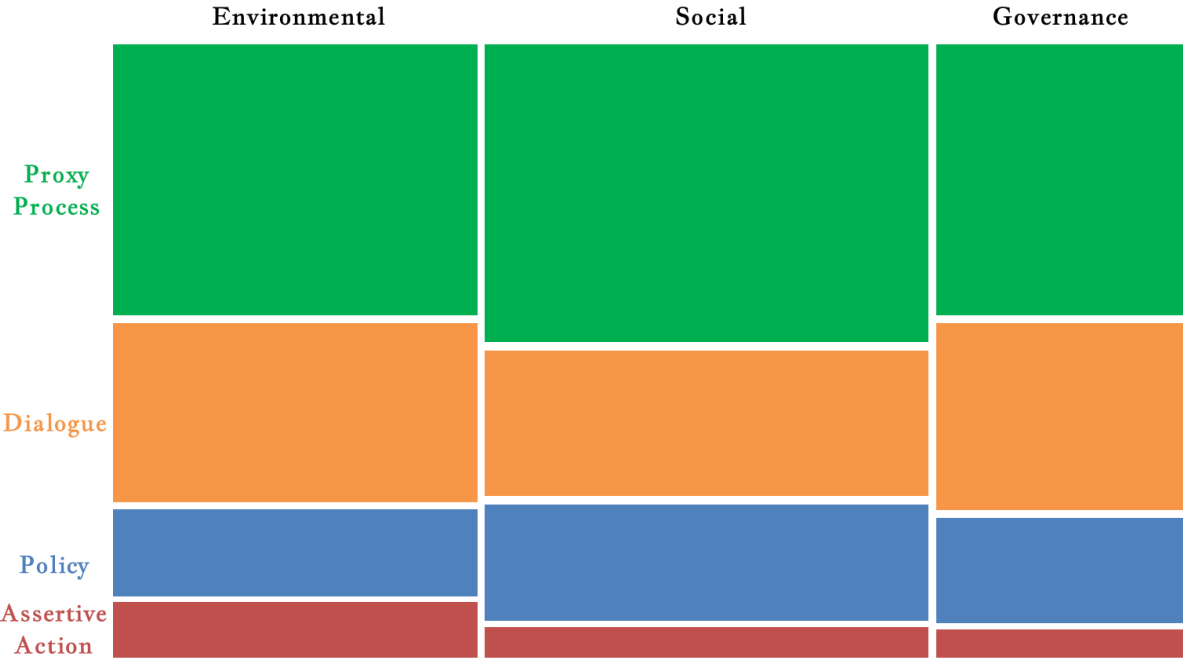
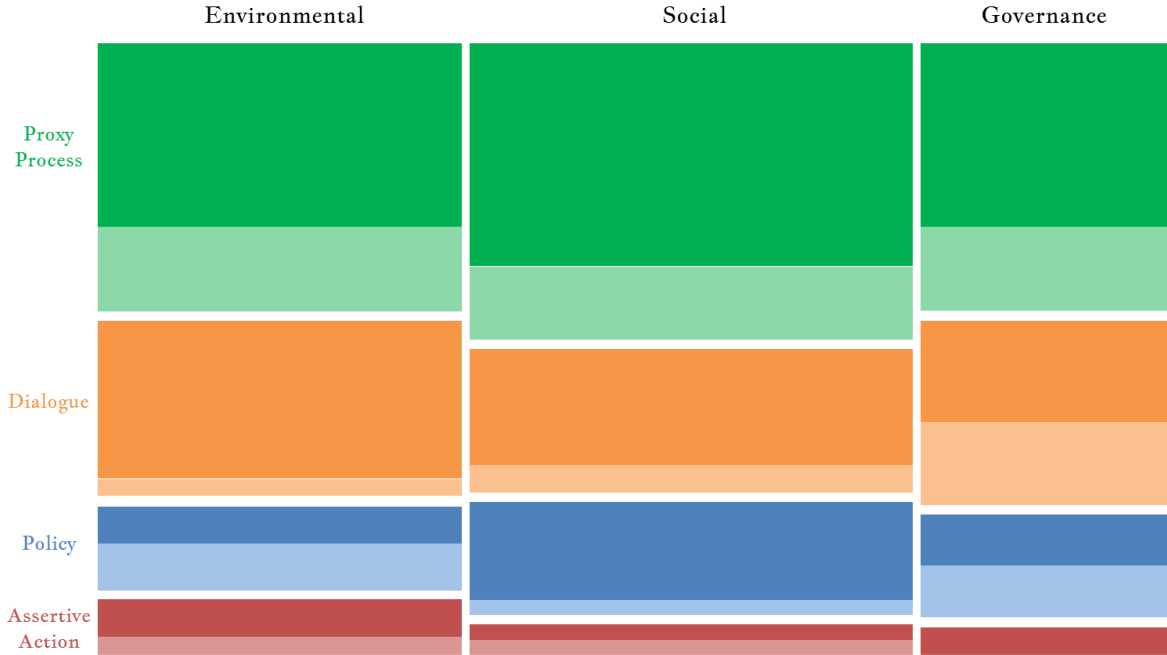


Figure 10. Impact of the Investor's Engagements by Themes and Activity Areas



Note: The darker section indicates "successful" engagements.

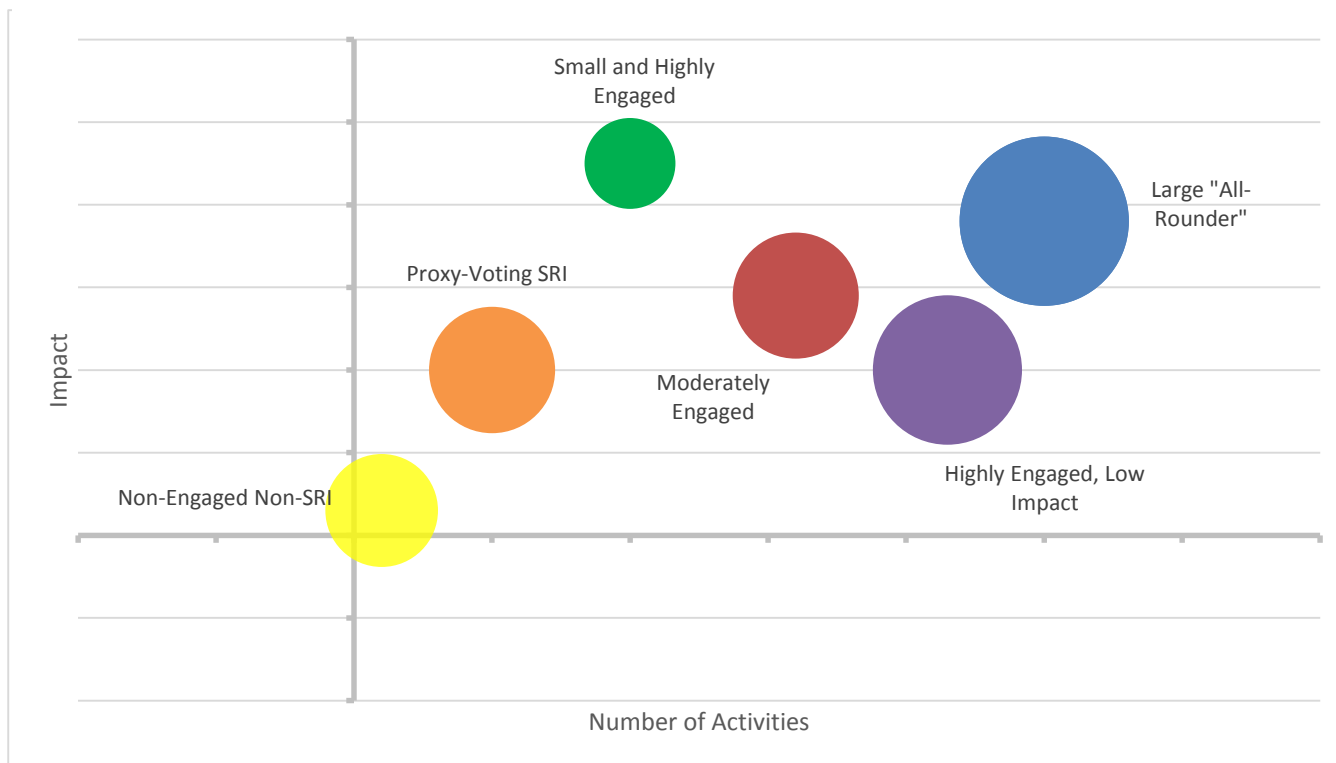
further by demonstrating the impact of these activities, by reporting “successful” actions in a darker color, and “unsuccessful” actions in a lighter shade of the same color. This distinction is still notional, as the success or impact of engagement actions is still part of the work to be done in the next phase of the IE2 initiative. However, this could be a useful output for internal and eventually external use. For example, while the bulk of this investor’s activity is within the proxy process category, it has a high proportion of impactful actions in both dialogues and in the more limited social policy work that it does. By demonstrating impact in this way, investors can show the quality, as well as the quantity of engagements in which they are involved.

Another interesting function that merits future exploration is an implementation of the framework as a cloud-based database. This database could aggregate engagement and impact information from individual investors into an anonymized dataset, in order to help identify best

practices and analyze the overall equity engagement space. Such a dataset could provide insight into what types of engagement are most likely to lead to impactful change at the company level and at the sector level. Investors could also choose to make certain engagement activities public (i.e., non-anonymous), allowing more precise analytical comparisons between investors.

The scatterplot in Figure 11 demonstrates one way that this aggregate data could be used. Here we show investors of various asset size (indicated by the size of the bubbles) and compare them by both the number of activities within a particular engagement as well as the impact that they have. The activities would be weighted by the degree of involvement—for example, an investor who took a leadership role on a company dialogue would be weighted more heavily than one who signed onto an investor letter—and would also take into consideration how many different types of engagement

Figure 11. Comparing the Impact of Engagement across Investors



activities have been conducted in a particular engagement. Impact would be determined based on the metrics provided in the framework around achieved milestones. In the example shown here, the Highly Engaged, Low Impact firm ranks high on the number of activities it has conducted, but its impact is lower than the Small and Highly Engaged investor, who has taken part in fewer activities but has been extremely effective in achieving impact for those it chose to participate in.

### Next Steps for the IE2 Framework

The framework outlined in this report will be implemented in a flat spreadsheet model and tested by a selection of IE2 initiative partners, who have committed to track all activities on one or more overarching engagement themes. After a period of six months to a year, we will review their use of the tool and gather feedback to further increase the tool's efficacy. The data gathered will also be inspected to make some

preliminary analyses of the engagement activities and milestones recorded, in order to develop the most useful reporting tools.

Opportunities for collaboration and harmonization with existing metrics and frameworks will be explored in more detail, including the GIIN's IRIS metrics library, B Lab's B Analytics, and the PRI Reporting Framework.

After revising and finalizing the IE2 reporting framework through a stakeholder consultation process, a database developer will be brought in to design a secure web-based software solution. The IE2 reporting framework will be marketed to public equity investors.

This new framework will not create more impact through engagement in and of itself. However, by creating a way to document, track, and quantify, where possible, the impact of engagements, we hope to improve investors' future efforts by maximizing their impact opportunities.



# IV. Conclusion

**I**nstitutional investors and money managers interested in engendering positive environmental and social impact—from impact investors to PRI signatories—have begun considering shareholder engagement with public equities as an important tool of socially responsible investing. Indeed, historical analysis and case studies demonstrate that shareholder engagement, which includes the proxy process, direct dialogue with portfolio companies, public policy work, and assertive action, is a key way for investors to leverage their public equity holdings for ESG impact.

Some investor networks and nonprofit groups track ESG shareholder resolutions and proxy votes, and the PRI now requires all signatories to report out on collaborative and individual equity engagement activities. However, these reporting frameworks have no way to account for collaboration with non-investor stakeholders, or milestones achieved in the process of escalating engagement over time. Our analysis demonstrates that these qualitative factors may be some of the most important aspects in successful engagement.

The Impact of Equity Engagement initiative proposes a new reporting framework for public equity engagement that strives to account for these qualitative, as well as quantitative, aspects. The IE2 Reporting Framework provides a powerful tool to document the impact of shareholder engagement on environmental, social, and corporate governance outcomes. With initial support from philanthropy and engaged investors, this new reporting framework can help investors track and report on the impact of their own engagements—and, eventually, through an anonymized data set, will identify and analyze industry-wide best practices for impactful engagement. As investors increasingly pursue Total Portfolio Activation—integrating environmental, social, and governance performance and impact across all asset classes—shareholder engagement in listed equities will be an important piece of the total portfolio puzzle.

# Endnotes

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# Appendices

## Appendix 1: Engagement Taxonomy

### Proxy Process

#### *Proxy Voting*

- Cast proxy votes in favor of environmental, social and governance shareholder resolutions
- Develop proxy voting guidelines to support environmental, social and governance shareholder resolutions
- Create guidelines for other investors
- Disclose your proxy votes online
- Advertise your intention to cast proxy votes in favor of ESG resolutions ahead of annual meetings
- Write a letter to a company explaining your vote and urging a Yes/No vote on shareholder resolutions

#### *Shareholder Resolution Filing*

- File or co-file shareholder resolutions to ask for positive changes in corporate ESG disclosure, policies and practices
- Engage with proxy advisory firms, such as ISS and Glass Lewis, regarding upcoming shareholder resolutions in order to encourage their support
- Post a non-exempt solicitation on the SEC's EDGAR site
- Lend shares/proxies
  - Provide your proxy to someone else
  - Use your proxy to bring other stakeholders to the annual meeting
- Participate in Floor Resolution
  - Pose a resolution on the floor
  - Move a floor vote, ideally with advanced notice to other shareholders of intention to do so
- Borrow shares to get called on during the meeting and pose your question to the board

### Dialogue

- Direct dialogue/meeting with companies
  - Dialogue between individual investor and companies
  - Join fellow shareholders in dialoguing with companies
  - Dialogue through investor networks
  - Dialogue through multi-stakeholder engagements with companies and civil society
  - Multi-company/multi-investor conversations.

- Reach out and identify multi-stakeholder dialogues, at the initiation of the company
- Act as the catalyst/honest broker in conversations between a company and an NGO or more confrontational investor
- Participate in multi-stakeholder initiatives
  - Lead or co-lead an initiative
  - Be actively involved in initiative
  - Lend your name to an initiative (eg, sign on to letters, provide sponsorship or financial support)
- Take collective action/campaign with other investors
  - Use public pressure on companies through media
  - Write op-eds, letters to the editor
  - Blog on own site or others'
  - Produce reports
- Coordinate with civil society
- Exercise investor voice without holding shares
  - Engage with companies prior to purchasing shares
  - Engage with companies whose shares aren't held
  - Exit: Sell and communicate concerns to the company

### Policy

*Note that many of these strategies can apply to both government policy and industry policy (IFC, UN, etc)*

- Send comment letters on proposed rules/regulations
- Comment/engage on SEC rules
- Ask companies to be a public voice for a policy
- Submit public testimony
- Submit Amicus briefs
- Produce reports which identify best practices/benchmarking for policymakers
- Encourage regulatory bodies to codify best ESG practices, and to set up metrics and measure
- Help shape industry regulation to promote better ESG practices
- Write public policy opinion editorials and reports

### Assertive Action

- Legal Action
  - Participate in 10B-5 lawsuit
- Pursue a seat on the board
- Use public press campaigns
- Participate in organized divestment campaigns
- Organize divestment campaigns

## Appendix 2: Engagement Themes

### Environmental

- Climate Change and Greenhouse Gas Emissions
- Environment & Health
  - Toxics
  - Pollution
  - Food Safety
- Sustainable Agriculture
  - GMOs
  - Water
  - Deforestation (palm,
  - Palm Oil
- Sustainability Reporting
- Wood products
  - FSC Certification
  - Logging
- Product waste
  - Recycling
  - Waste treatment
  - Manufacturing
- Water
  - Pollution
  - Conservation
- Animal Welfare
  - Product testing
  - Entertainment
  - Factory farming
- Energy
  - Fracking
  - Renewables
  - Oil Sands
  - Offshore Drilling

### Social

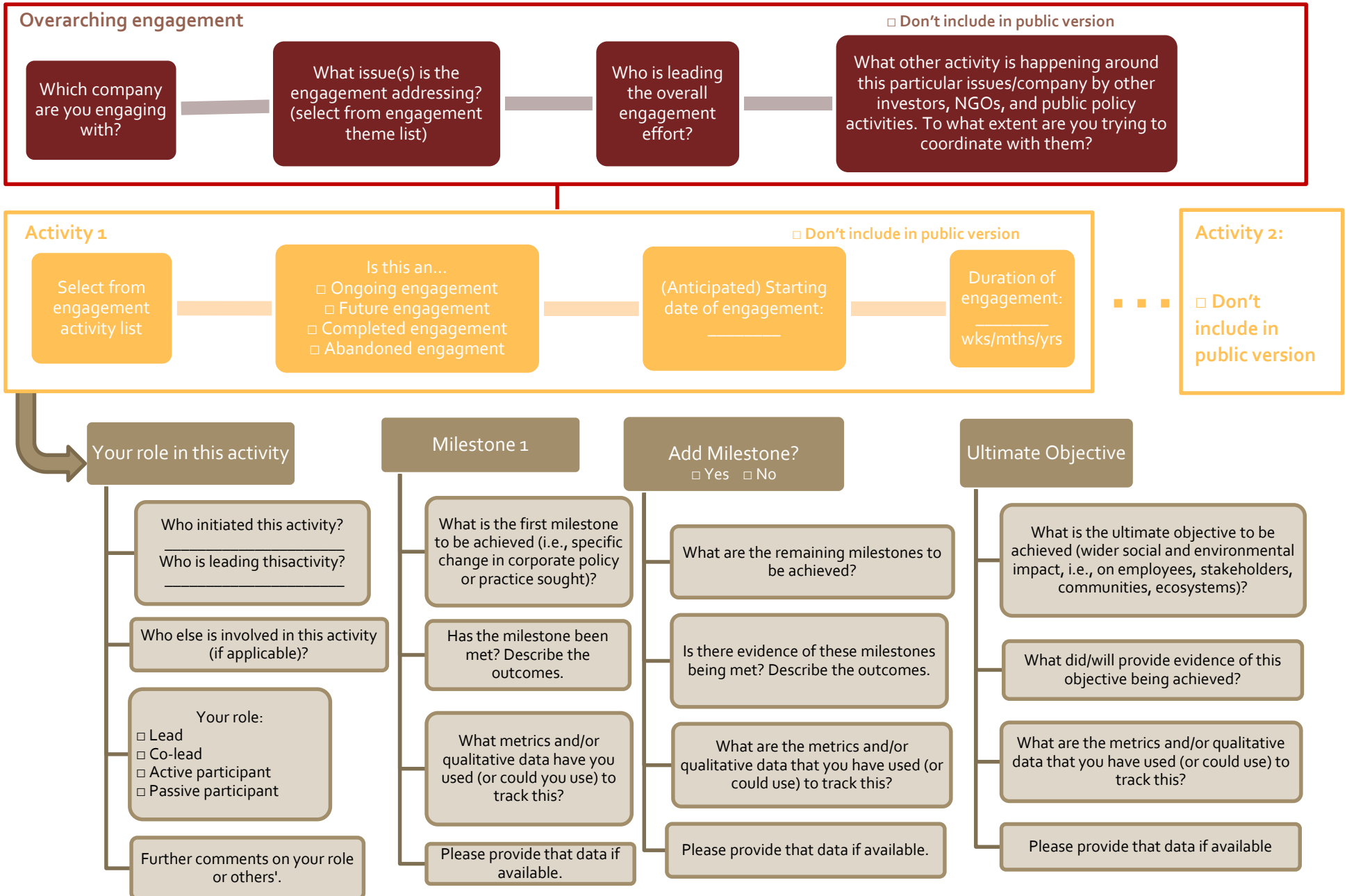
- EEO
  - LGBTQ non-discrimination
  - Board diversity
  - Women's equality
- Finance and Banking
  - Pay-day loans
  - Predatory lending
- Labor Issues (non-EEO)
  - Child labor
  - Labor and employment
  - Workplace practices
  - Workplace safety
  - Card-check agreement
- Healthcare
  - Access to medicine
- Human Rights
  - Human trafficking
  - Indigenous People's Rights
  - Human Right to Water
- Fair Trade
- Supply Chain
- Conflict Minerals
- Media
  - Net neutrality
  - Data privacy and surveillance
- Peace & Social Justice
- Emerging Markets Disclosure Project

### Corporate Governance

- Executive Pay
- Board Issues
  - Diversity
  - Director nomination process
- Disclosure
- Political Contributions and lobbying
- Tax Policy Principles
- Shareholder engagement
  - In-person shareholder meetings
  - Proxy voting policies



## Appendix 3: Engagement Reporting Framework



## Appendix 4: Additional Charts and Visuals

This appendix demonstrates the different ways to visually represent companies' engagement activities using data that would be collected in the IE2 Reporting Framework.

Three hypothetical investors are profiled to show the range of engagement issues and activities. The profiles, below, are followed by the corresponding charts for each company. We walk the reader through a series of radar charts and mosaic plots for each of the investor types, followed by a comparison of three stacked bar charts which display the same information in another format. Finally, we include the Investor Map of Equity Engagement, a tool to potentially help map the impact of one's equity investments based on engagement activity.

### **Investor A Profile:**

Investor A is well known in the SRI space, as they have been a lead on many large multi-stakeholder campaigns. They are consistently engaging with various companies on all different issues, from palm oil to worker safety to executive compensation. They also use a variety of techniques in their engagements, including the usual shareholder resolution filing and proxy voting, and they almost always combine these practices with a dialogue or letter to the company. They have published numerous reports in an attempt to influence policy at the highest level, and have even participated in several lawsuits, most recently targeting a company that was dumping toxic waste in large waterway.

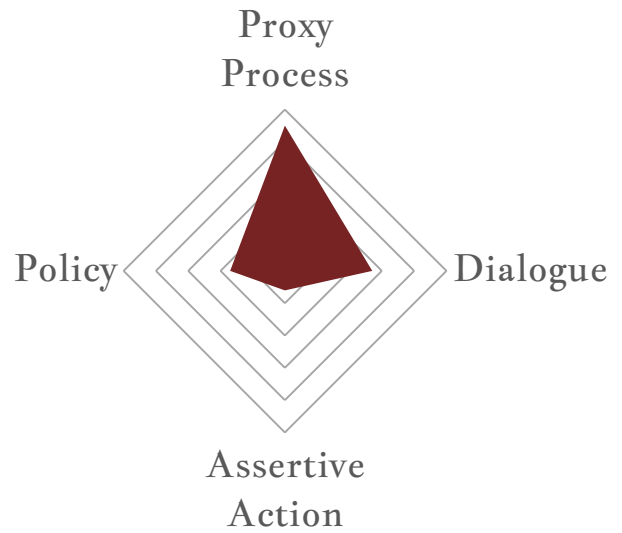
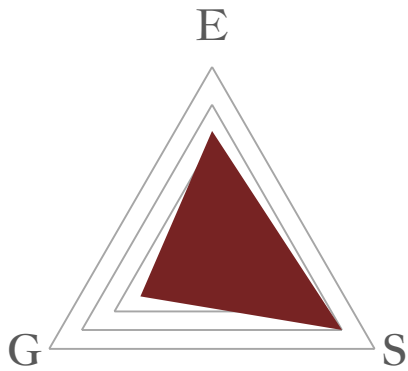
### **Investor B Profile:**

Investor B has been involved in shareholder engagement for quite some time. As a company, they focus almost exclusively on governance issues, as this is something their shareholders care about. They are known for their aggressive techniques, but supplement their campaigns by consistently filing shareholder resolutions and voting proxies every year, as well as engaging in dialogues with prioritized companies.

### **Investor C Profile:**

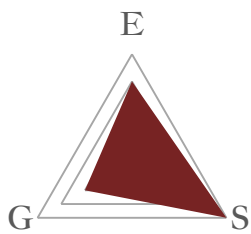
Investor C has is new to the SRI space, deciding only recently to become involved after realizing that many of their competitors are already quite active in the space. While they have proxy voted in years past, they recently passed a new proxy voting policy that incorporates their support of ESG issues. They also filed a handful of shareholder resolutions, mostly in coordination with other investors. They are in the process of developing their capacity to engage in other ways, such as influencing policy or taking legal action, but these plans have not come to fruition yet.

**Investor A: Large SRI Investor**

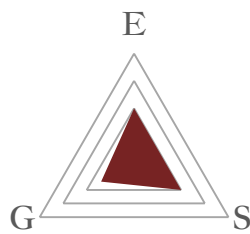


These radar charts show the amount of activity this investor has across issue areas and activity types. The four smaller radar charts, below, break-down the distribution of issue areas in each of the four activity categories. This large SRI money manager is engaged across E, S, and G issues, and most of its activities involve the proxy process, though it also employs other methods such as policy, dialogue, and some assertive action.

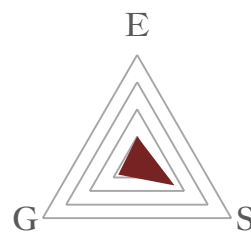
Proxy Process



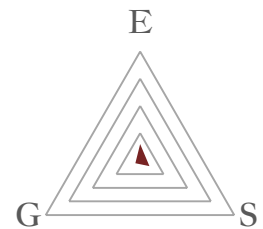
Dialogue



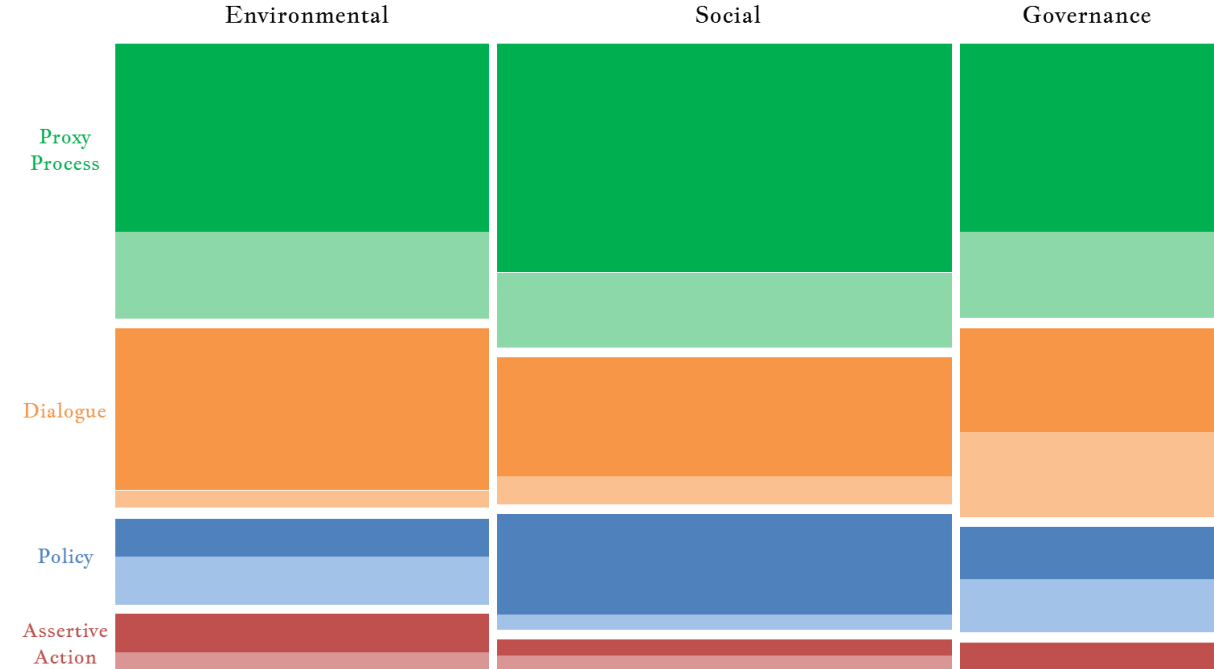
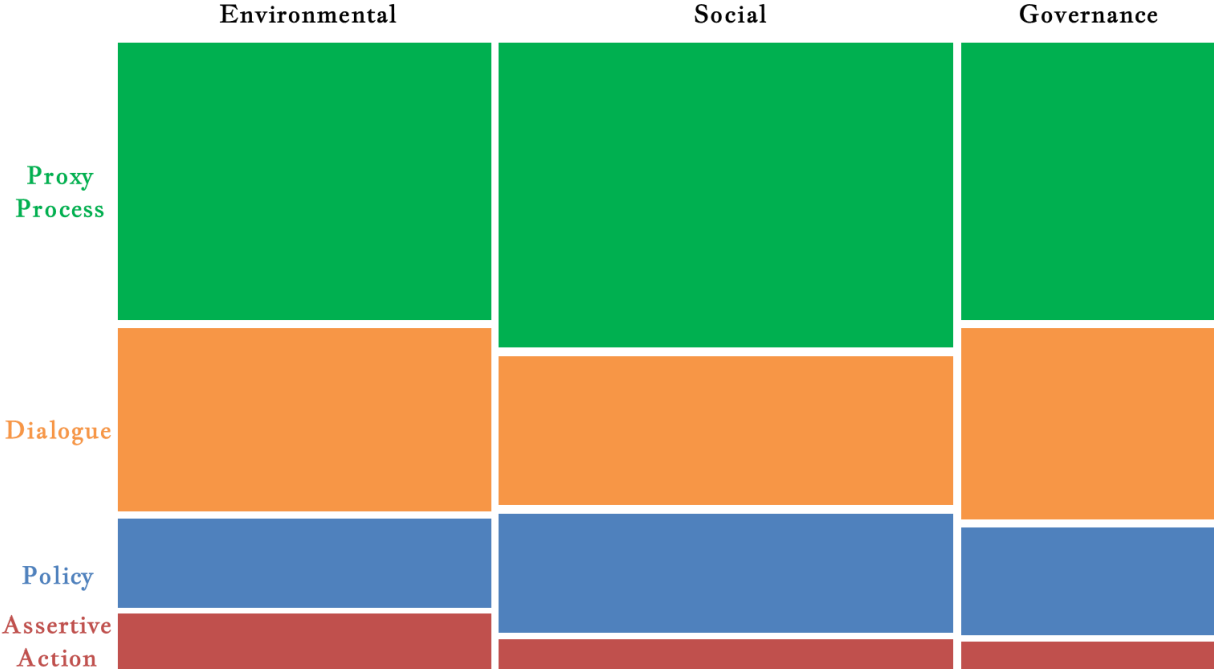
Policy



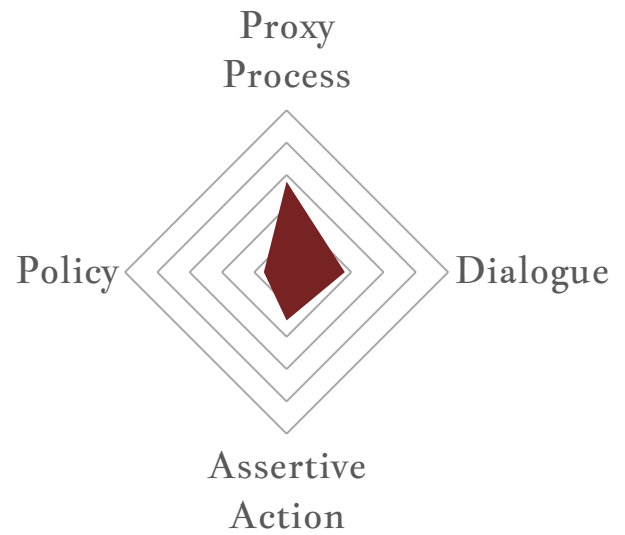
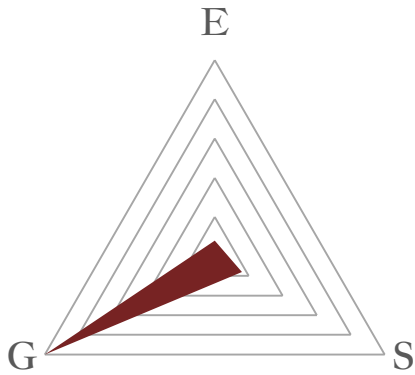
Assertive Action



The two mosaic charts below show the proportion of this investor’s activities in each issue area and engagement activity category. The second mosaic chart shows the breakdown of “successful” and “unsuccessful” activities, with the darker shade representing the proportion of “successful” activities.

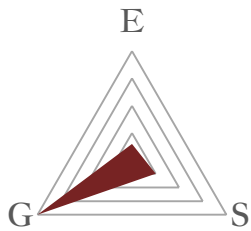


**Investor B: Small, governance activist**

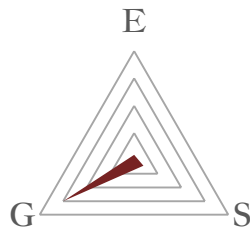


These radar charts show the amount of activity this investor has across issue areas and activity types. The four smaller radar charts, below, break-down the distribution of issue areas in each of the four activity categories. This small governance activist engages almost entirely on governance issues, but employs the entire spectrum of engagement activities.

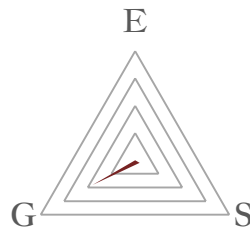
Proxy Process



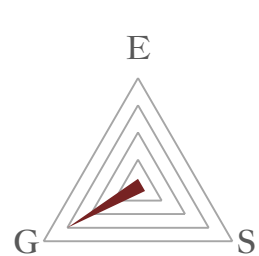
Dialogue



Policy

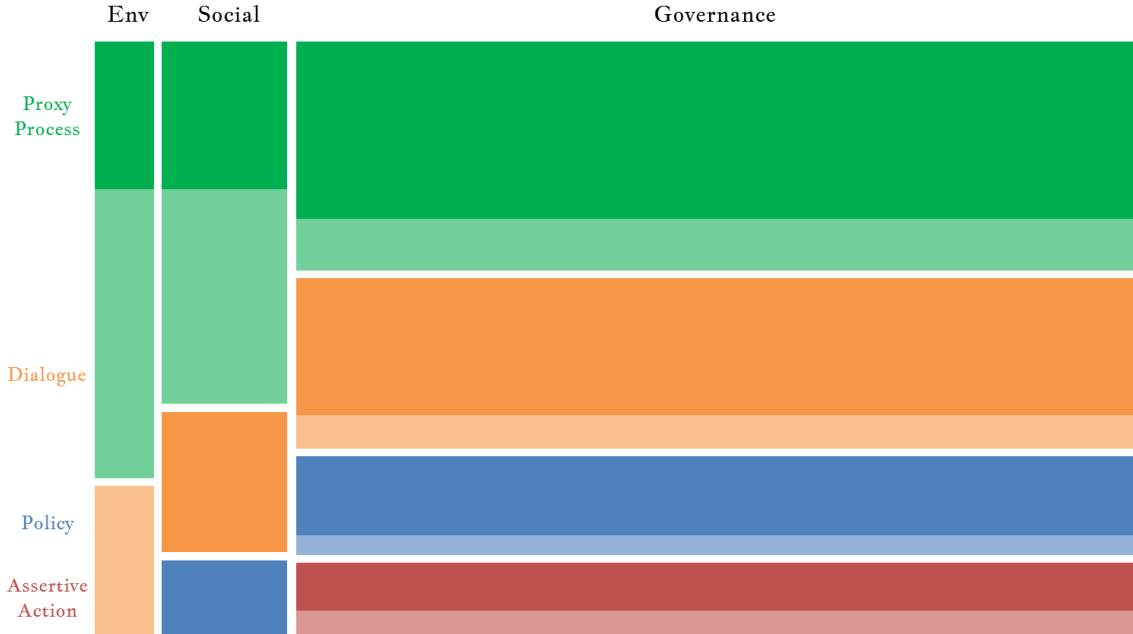
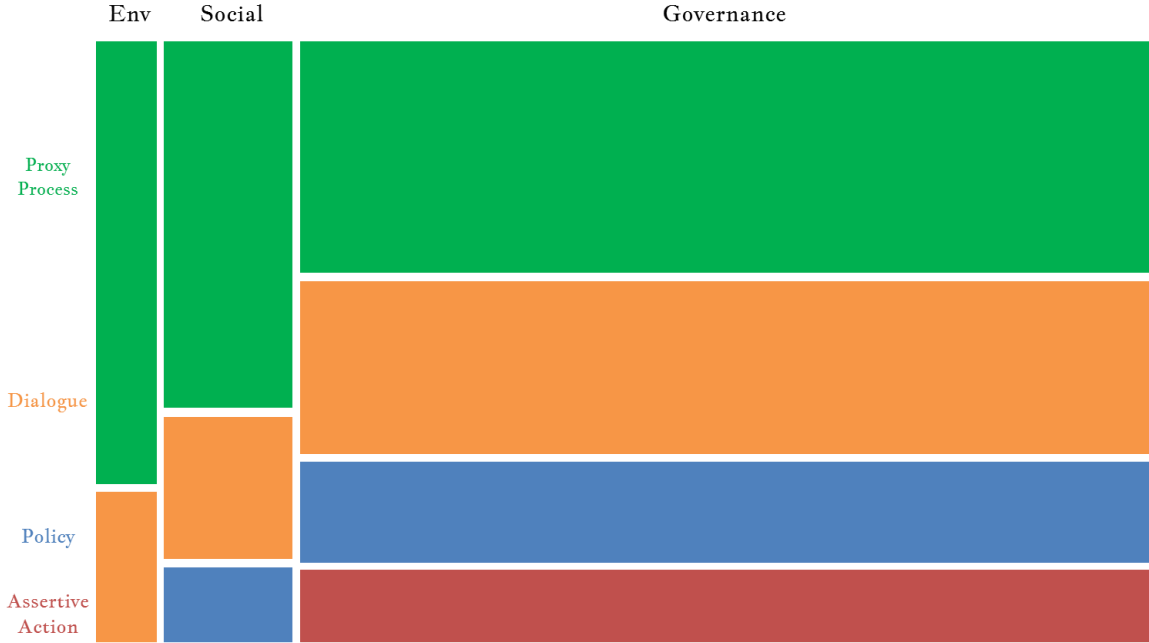


Assertive Action

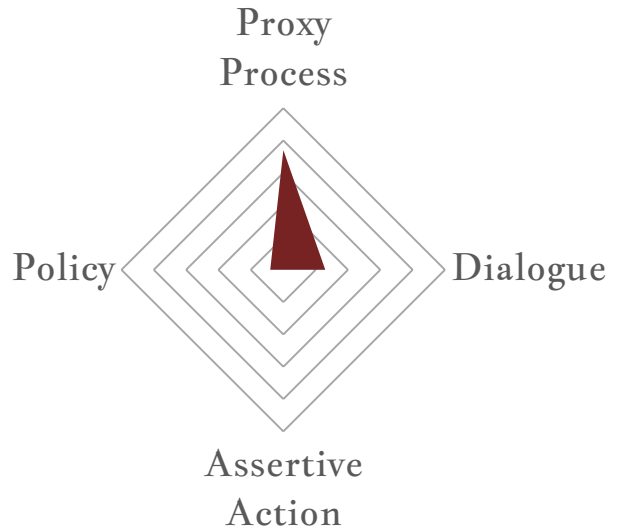
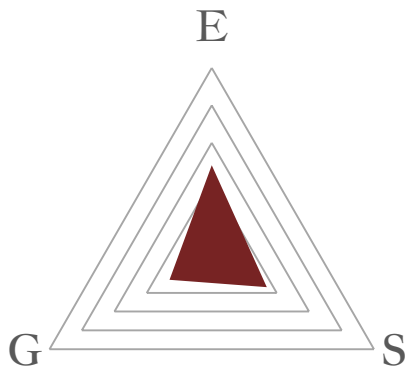




The two mosaic charts below show the proportion of this investor’s activities in each issue area and engagement activity category. The second mosaic chart shows the breakdown of “successful” and “unsuccessful” activities, with the darker shade representing the proportion of “successful” activities.

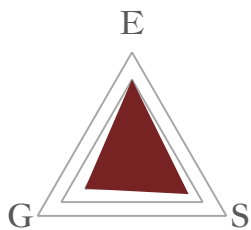


*Investor C: Medium sized, low engagement investor*

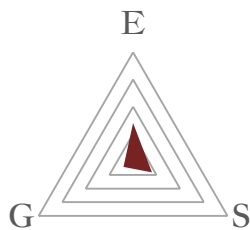


These radar charts show the amount of activity this investor has across issue areas and activity types. The four smaller radar charts, below, break-down the distribution of issue areas in each of the four activity categories. This medium-sized investor has a low level of engagement. The vast majority of the engagements it has completed were using the proxy process, with a very small amount of dialogues and policy actions, and no assertive actions were taken.

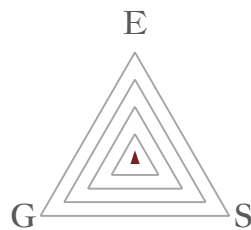
Proxy Process



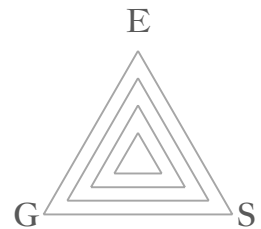
Dialogue



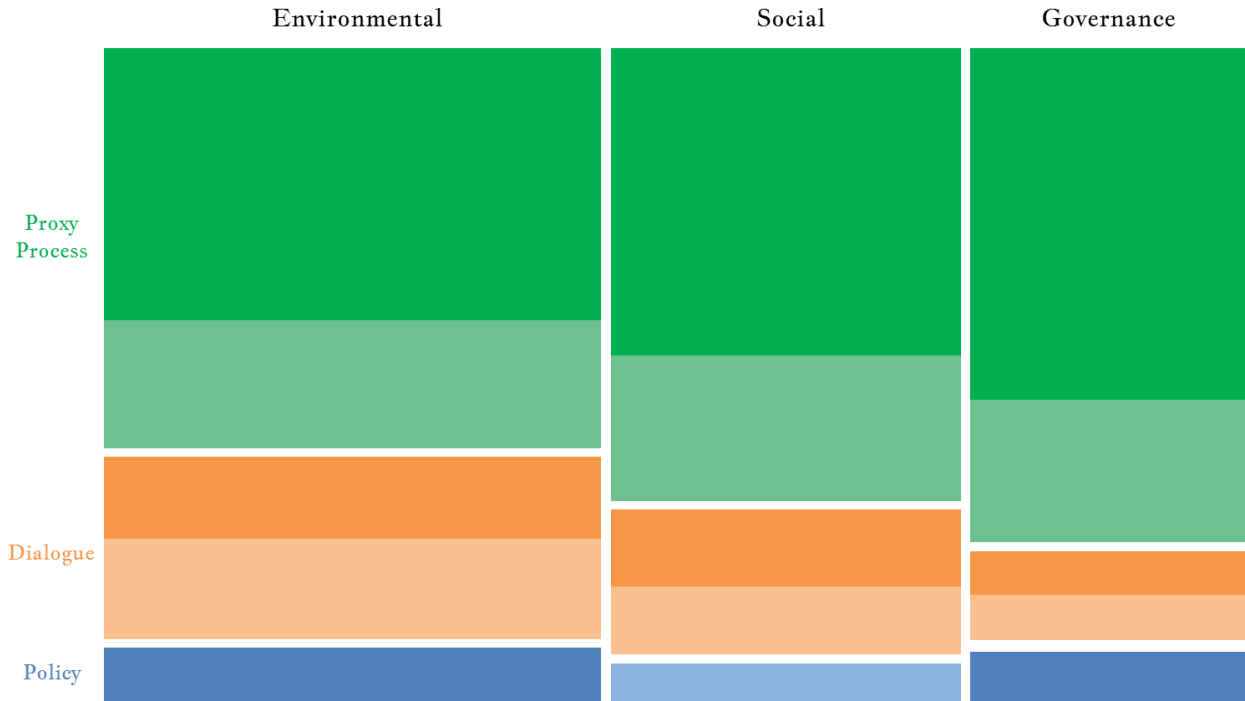
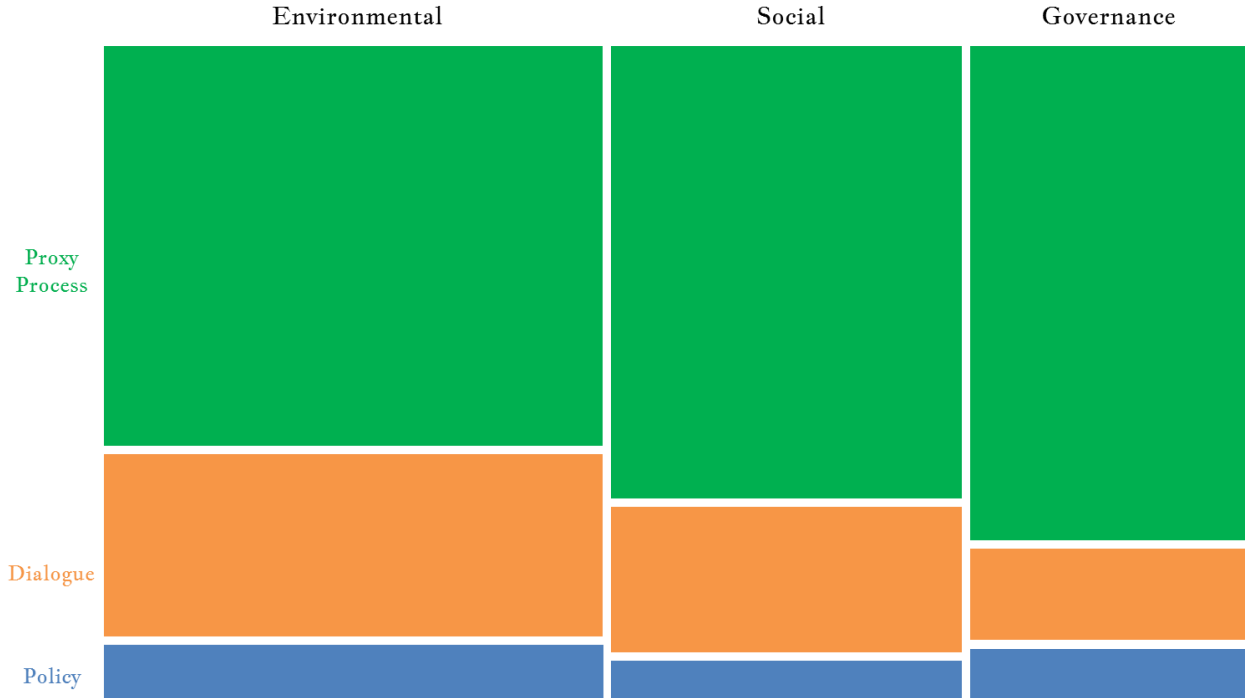
Policy



Assertive Action

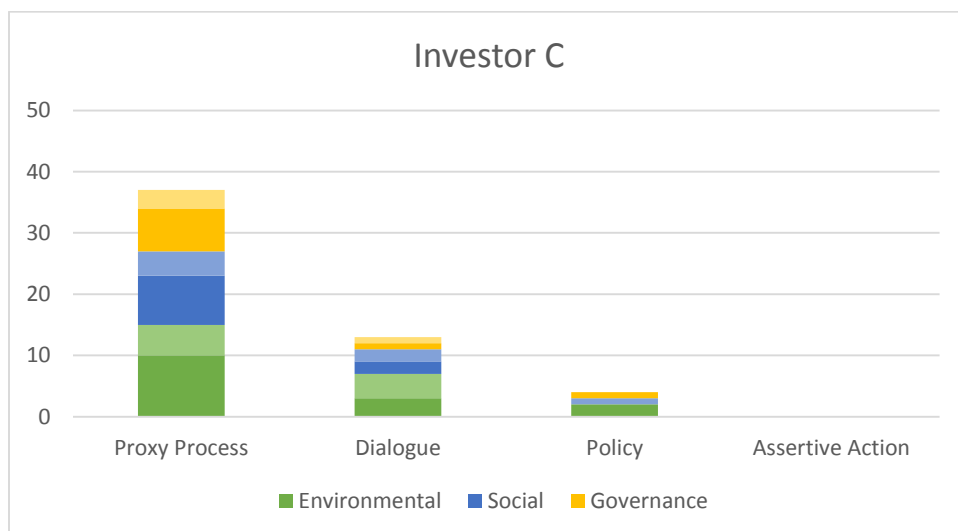
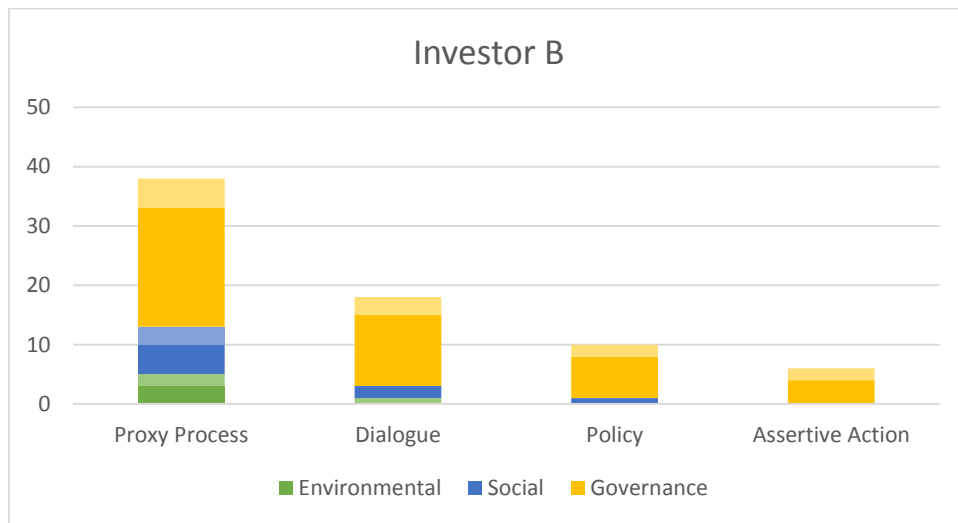
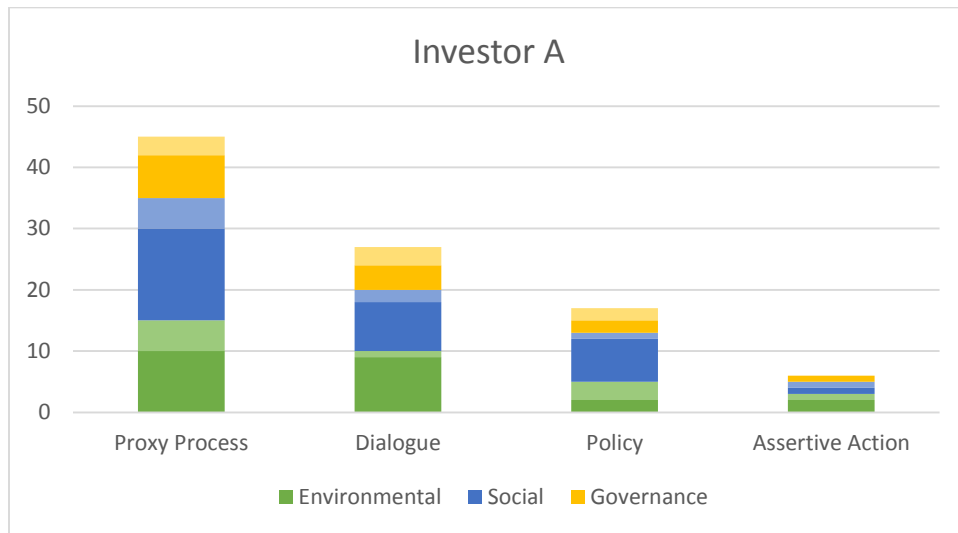


The two mosaic charts below show the proportion of this investor’s activities in each issue area and engagement activity category. The second mosaic chart shows the breakdown of “successful” and “unsuccessful” activities, with the darker shade representing the proportion of “successful” activities.



### Comparison of Three Investors

The same information as a stacked bar chart, where darker colors represent “successful” engagements:



## Investor Map of Equity Engagement Impact

This last chart shows a potential output of the IE2 framework from hypothetical anonymized, aggregated data. The X-axis shows the number of engagement activities, while the Y-axis shows a weighted “impact” score that would account for the type of engagement, whether the investor played a leading role, and other factors that determine an engagement’s impact. The bubble size indicates the assets of the investor. The investors shown here are hypothetical investors, to demonstrate the range of information that could be generated with the further development of the IE2 framework. For example, the large blue bubble represents an investor similar to Investor A, which focuses on many issues and has a lot of impact. The green bubble is similar to Investor B, an investor which is highly engaged and focuses on a narrower range of issues. The orange bubble represents an investor like Investor C, which focuses its low number of engagements almost entirely on proxy-voting.

