



## Sustainability hits the mainstream

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### Shareholder proposals on social and environmental issues reaches record high

These days it seems like it is getting harder and harder for issuers to discuss their performance without CSR issues cropping up. Just look at the 350-plus social proposals - resolutions calling for greater disclosure of corporate policies regarding social and environmental issues - shareholders filed before April 1.

[As You Sow](#), a nonprofit group advocating corporate accountability, has compiled these social proposals, all filed on or before March 31, into its recently released report '[Proxy Preview 2010](#)'. Although primarily intended to assist socially minded investors vote their shares, 'Proxy Preview' provides issuers with some interesting insight into the extent of shareholder interest in and breadth of their campaigns on this front.

In addition to cataloging who filed social resolutions and at which companies, the publication also examines the growing level of support these types of proposals have received over the past ten years; and as Michael Passoff, the report's author and As You Sow's senior program director of the social corporate responsibility program, points out, one thing is clear: 'We're not on the outside anymore. Social resolutions are becoming mainstream.'

According to the report, between 2000 and 2009 the average number of votes social proposals received has more than doubled. Last year, one third of the resolutions garnered at least 20 percent of votes cast and the past few years have seen a spike in the number of proposals garnering 30 percent or more shareholder support. As the number of resolutions filed and the level of support keeps increasing, 'correspondingly, more companies are willing to participate in dialogue to avoid a proxy fight so more shareholder resolutions are withdrawn,' Passoff explains.

As most companies are already aware, executive compensation, particularly say-on-pay, is again a dominating issue this proxy season. But, as Passoff points out, what is different this year compared to 2009, is a marked expansion in the topics addressed. There is a new twist on pay-for-performance, asking issuers link executive compensation to sustainability performance results. When it comes disclosing and explaining the pay disparity between the top executives and the lowest-paid employees, this year investors are now asking companies to include health-care benefits.

Furthermore, TARP recipients are receiving ‘a whole new set of questions related to executive compensation that go above and beyond say-on-pay,’ Passoff says. ‘Because of their accountability to the tax payer, there are more questions about derivatives, incentive awards, non-deductible pay, retirement packages, etc.’

On the environmental front, Passoff notes that ‘non-climate issues, issues focused more on environmental impacts than climate are making a big comeback this year.’ Passoff attributes this to the recent SEC decision to permit shareholders to ask about financial risks related to environmental issues. Not that climate change has been ignored: investors have filed nearly 95 proposals calling for greater disclosure of the business risks associated with changing global temperatures.

The spotlight on climate change seems to have helped revitalize conservative activist groups. ‘Conservative shareholder activists are back this year,’ Passoff says, ‘with almost all resolutions about climate change or charitable contributions.’

One topic notably quiet this year is sexual orientation non-discrimination. Although shareholders continue to file resolutions on this front, as Passoff says, ‘For the first time in at least a decade, the number of sexual orientation bias resolutions has gone down - a good sign for the effectiveness of the campaign.’

Passoff has also noticed, over the past few years, shareholders taking a new approach to social resolutions. ‘For the first time we are seeing social resolutions asking for changes in bylaws,’ he says, ‘Shareholder proposals are advisory in nature, but if you ask for a bylaw change it is automatically binding. This shows a change in attitudes.’ Often these bylaw change requests involve adding new committees to the board or institutionalizing board oversight of various issues.

Regardless of the number of social proposals an issuer has received, Passoff recommends that all companies keep an eye on what is going on. ‘Social investors are on the cutting edge. They are aware of what is going to be affecting industries and marketplaces often before companies themselves do. They are a useful bellwether for issues to pay attention to.’