Shareholder resolutions seen as increasing in influence

WASHINGTON – Despite the threat that the Securities and Exchange Commission will limit the future use of shareholder resolutions, a top official of Christian Brothers Investment Services said he expects the use of such resolutions to continue and to gain support in 2008.

During a Nov. 14 conference call with reporters, John Wilson, director of socially responsible marketing for New York-based Christian Brothers Investment Services, said 2007 saw “an increase in effectiveness on behalf of shareholder advocacy.”

Even though only one stockholder resolution actually captured a majority, he added, the minority vote in other instances was so strong that the targeted corporations adjusted their policies.

Among successes Mr. Wilson cited were:

– Pharmaceutical giant Abbot Laboratories lowered the price of a critical AIDS drug around the world.

– Coca-Cola is implementing a human rights policy and monitoring its affiliates’ conduct worldwide.

– The Dillard’s department store chain invited Christian Brothers to a dialogue to discuss sustainability issues after a shareholder resolution collected 46 percent of the vote. The resolution said that “investors increasingly seek disclosure of companies’ environmental and social practices,” and that sustainability refers to such practices that “meet present needs without impairing” future generations’ ability to meet their own needs.

– An ExxonMobil shareholder resolution on global warming received 31 percent of the votes cast.
Mr. Wilson expects another victory should Cisco Systems, the computer maker, adopt a so-called "say on pay" resolution for CEO compensation. Mr. Wilson added that "say on pay" – which, though nonbinding, would give shareholders a chance to discuss and advise on CEO compensation – will be a main focus in many shareholder resolutions in 2008.

Christian Brothers Investment Services manages about $4.3 billion in assets from 1,000 different Catholic institutions. It strives to integrate faith-based values into the investment process through a disciplined approach to socially responsible investing that includes principled purchasing, community investment, and such "active ownership" strategies as proxy voting, dialogues and shareholder resolutions.

Mr. Wilson told reporters the situation in the Darfur region of Sudan and predatory lending would also be the subjects of Christian Brothers' shareholder resolutions.

While past Darfur-related shareholder resolutions focused on divestment from Sudan, Mr. Wilson said he expects shareholder resolutions in 2008 to be used more to put pressure on publicly traded U.S. companies doing business in the country to act responsibly.

He added that he believes less progress would be made from shareholder resolutions than by behind-the-scenes dialogues between shareholder advocates and company officials.

Regarding the predatory lending issue, much has been made in recent years at stockholder meetings of firms that engaged in risky home loans, those made to borrowers who do not qualify for the best market interest rates because of a bad credit history.

“Wealth, unlike energy, can be destroyed. I don’t know if it can be created,” Mr. Wilson said.

The risky mortgages “had a short-term benefit to those (banks) who were able to sell their loans (to other institutions). If they were able to sell it to somebody else, they were able to make a profit. They took that risk off their own balance sheets,” he added.

“It was the mortgage originators who made the money,” he said. “The long-term impact has become clear and it has impacted their business.”

Mr. Wilson said 2008 will more likely focus on firms that do payday lending, where borrowers are saddled with annualized interest rates of 400 percent and above to borrow money just to make ends meet. “They need to roll over the original loan and pay another interest charge, and turn over a large percentage of their paycheck to the lender just to finance the interest charge for loans,” Mr. Wilson said.

With stockholder resolutions that fail year after year to gain majorities, is it better to retain the same language year after year to bolster support, or to tweak it? “It’s a tactical tweaking,” Mr. Wilson said.

On the issue of climate change, “we would ask very basic things of companies – a report on greenhouse gas emissions,” for example, he said. When firms have shown a willingness to “address our issues,” Mr. Wilson added, “the resolutions have gotten a bit more ambitious.”

In the case of Dillard’s, where a stockholder resolution on sustainability got 46 percent of the vote this year, he said Christian Brothers would keep the language unchanged to “demonstrate to the company that support for the issue is broad and it’s consistent.”

But for resolutions that don’t get anywhere near 46 percent, the future is less certain. The SEC has floated proposals that would require either an organization have a minimum ownership level of stock to offer a resolution, or the resolution to get a minimum percentage of votes to be offered the next year if it doesn’t pass the first time around.

“There was some talk (during a Nov. 14 Senate Finance Committee hearing) about raising the threshold (for offering resolutions), but it was unclear what that threshold would be,” said Frank D. Haines, a Christian Brothers Investment Service vice president and chief investment officer, speaking on the conference call.

“I think the tug of war is really between the business community, which really doesn’t want to put up with resolutions, and the shareholder community,” he said.