WORLD·WATCH

Volume 18, Number 5 | Vision for a Sustainable World | September/October 2005

THE EVOLVING CORPORATION

THE ROLE OF STAKE-HOLDERS

BY ERIK ASSADOURIAN

PART 2 OF A SERIES

Excerpted from the September/October 2005 WORLD WATCH magazine

THE EVOLVING CORPORATION

THE ROLE OF STAKEHOLDERS

BY ERIK ASSADOURIAN

PART 2 OF A SERIES

In April, JPMorgan Chase, the third-largest bank holding company in the United States, announced that it would adopt a comprehensive environmental policy. The policy will improve its own internal practices, such as reducing greenhouse gas emissions and increasing use of recycled paper. More importantly, it will also create strict criteria to guide JPMorgan Chase's lending decisions. Now the bank will take into consideration environmental impacts (as laid out in the Equator Principles) when evaluating loan requests of over $10 million from the mining, forestry, oil, and gas industries, as well as all other loans of over $50 million. Moreover, it will no longer finance projects in environmentally sensitive ecosystems and will encourage clients that emit large amounts of greenhouse gases to design plans to reduce or offset emissions.

JPMorgan Chase is actually the third U.S. bank to "green" its lending practices, following on the heels of America's two largest, Citigroup and Bank of America. It's no coincidence that the three largest U.S. banks—collectively holding assets of almost $4 trillion—have made such sweeping changes recently. The changes follow years of aggressive efforts by nongovernmental organizations (NGOs), investors, and activists.

Stakeholders, including NGOs, investors, and activists, as well as communities, labor, and consumers, are playing an increasingly important role in improving corporate behavior. Some NGOs are using tactics of direct confrontation. Others have been working for years to create partnerships with companies in order to help them green their production, often in ways that actually save them money. As well, the investor community is taking an increasingly active role in encouraging corporations to consider not just the next quarter's earnings but also the long-term financial risks of failing to address broader social and environmental issues. Together, these are proving key strategies in compelling corporations to internalize the environmental and social costs that are often ignored in the mad race for profit.

INCITING A RACE TO THE TOP

Corporate managers face many daily pressures, and improving social and environmental records (often in ways that don't directly enhance the bottom line) is not generally their highest priority—until their corporations suddenly become the targets of bad publicity from a coordinated group of activists. With corporations spending a half trillion dollars each year to create positive images through advertising, a sudden storm of negative publicity from the actions of thousands of coordinated activists can swiftly raise environmental issues to the top of managers' action-item lists.

This fear of public shaming—and the connected loss of profit and stock value—are what makes these "corporate campaigns" so successful. Unlike traditional campaigns against companies, such as boycotts, labor strikes, and litigation (which remain important but often have limited objectives), corporate campaigns treat the targeted company more as a lever of change than as an end in itself. When a coalition of NGOs and investors led by the Rainforest Action Network (RAN) targeted Citigroup, the goal was to reduce overall exploitation of natural resources. But RAN didn't target mining and logging companies—which are not in the public eye and depend on continued extraction to survive—pouncing instead on the financial institutions that capitalize the mining and logging companies. Unlike them, banks spend billions to maintain strong brands and customer bases. These assets are essential, and thus exploitable vulnerabilities. And exploit RAN did. In 2000, RAN asked Citigroup to adopt a green lending policy. While the company initially refused, after more than three years of protests, shareholder actions, and other irritating tactics, Citigroup finally recognized that lending to unsustainable industries would be more costly than profitable, while not lending to them would be worth its weight in free advertising.

Once Citigroup yielded, its antagonistic relationship with RAN evolved into a collaboration to ensure adherence to its new standards—a partnership that provided much free publicity to Citigroup. Meanwhile, RAN quietly drafted a letter to Bank of America asking managers to adopt a similar policy. Bank of America, having witnessed the disruption that committed activists can cause by chaining themselves to bank doors, quickly realized that it was better to join the ranks of ecofriendly banks. Bank of America's capitulation then left JPMorgan Chase as the next target, and it soon followed suit.

RAN's strategic choices—including effective partnering with investors and corporate insiders, sequentially targeting intermediary companies, and providing the companies with easy ways to cooperate—have leveraged its successes. For example, after Home Depot yielded to RAN's demand to change its wood-buying practices in August 1999, it only took a month for Lowes (the second-largest do-it-yourself, or DIY, store) to agree to a similar policy. Within nine months, eight of the ten largest DIY stores had developed similar policies.

Block print by Sam Hundley

This "rank 'em and spank 'em" strategy—in which one company after the next is brought to the negotiating table—has proved to be incredibly effective. Already, it has changed the practices of banks and DIY stores, as well as office supply stores and computer retailers. Now it's being applied to cosmetics companies, coffee vendors, jewelry stores, and even a well-known lingerie retailer.

Today, just the fear of these campaigns (or desire for good publicity) can trigger change. In 2004, the mining reform organization Earthworks launched its "No Dirty Gold" campaign. While the goal is to reform gold mining practices—which create, on average, 20 tons of waste for every gold ring produced—the campaign's target is not the mining industry, but companies that can easily change their gold-buying practices and are in the public's eye, such as world-famous jeweler Tiffany's, school ring retailer Josten's, and Wal-Mart, the largest jewelry retailer in the country. Almost immediately after the campaign started, Tiffany's published an open letter to the U.S. Forest Service in *The Washington Post* in which it criticized the building of a mine in a pristine wilderness area in Montana and used the example to highlight the urgent need for mining reforms—a first for a major jewelry company.

Beyond merely defensive reactions, these campaigns can sometimes lead to real leadership. Nike, originally the target of a sweeping sweatshop campaign because of the abysmal conditions in its overseas factories, is now leading the apparel industry in sector-wide reform to increase transparency and improve labor standards. And Staples, another target of a corporate campaign, is now part of a coalition of businesses helping to design a comprehensive paper-purchasing guideline that it hopes corporations around the world will adopt.

INVESTING FOR CHANGE

Along with the activist community, corporate campaigns usually involve another important stakeholder: investors. In the United States, corporate law requires companies to consider above all the interests of shareholders. Generally this has led to the fixation on short-term profit, but as shareholders recognize that the lasting value of their investments depend on how companies address long-term risks like climate change and toxic chemical releases, shareholders are becoming a powerful force for change. More investors—from mutual fund companies to big institutional investors like the California Public Employees' Retirement System (CalPERS)—are increasingly engaging with companies to encourage them to adopt policies that address long-term risks.

In corporate campaigns, activists use negative publicity to drag corporations to the negotiating table. But investors, as the owners of those corporations, have the right to "dialogue" with management, express their concerns, and ask the corporation to take action. Just putting issues on the table is sometimes enough to trigger a response. In 2002, Calvert Asset Management Company, a socially responsible investment

Block print by Sam Hundley

(SRI) mutual fund, sent letters to 154 corporations listed in their Calvert Social Index that had no women or minority members on their boards of directors, and asked them to consider diversifying as they hired new board members. Since then, 48 of these companies have added at least one minority member or woman to their boards and another 39 have adopted language that promotes increased diversity.

But when asking politely doesn't work, shareholders and investors can turn up the heat with shareholder resolutions. As owners of corporations, shareholders have power to influence company policies through board elections and by filing resolutions that offer specific policy changes. While resolutions are non-binding, companies often agree to policy changes in order to maintain positive relationships with shareholders and avoid bad publicity. Indeed, the most successful resolutions are not those that actually come to a vote (since most shares are held by non-voting institutions, and resolutions are non-binding anyway), but the ones withdrawn by filers after management agrees to act on the issue.

In 2004, according to the Investor Responsibility Research Center, investors filed 350 resolutions regarding social or environmental issues with U.S. companies, 17 percent more than the previous year. Of these, investors withdrew 87 after companies agreed to address issues ranging from animal welfare and climate change to political contributions and global labor standards.

Perhaps the most impressive investor initiative was a recent show of force this past May at the United Nations. Hundreds of major investors, collectively controlling assets of $3.2 trillion ($600 billion more than the total funds invested globally in actual SRI funds), gathered at the UN to discuss how to press companies to address climate change and its associated financial risks. At the end of the day, this "Investor Network on Climate Risk" pledged not only to invest $1 billion in clean energy companies but to step up pressure on companies to disclose their climate impacts and how they are dealing with them.

Concerned investors can influence corporate behavior directly (by demanding policy changes) and more subtly (by selective investing). However, to become an even more effective force for change, socially responsible investing will have to go mainstream. Although most major investors, such as universities and pension funds, do not consider social responsibility criteria when choosing investments, in some countries this is starting to change. In the United Kingdom, for example, pension funds have been required since 2000 to disclose the extent to which their investment portfolios take into account environmental and social concerns—a law that has triggered similar initiatives in the Netherlands, Belgium, Switzerland, Sweden, Germany, and France. These simple law changes have started to mainstream SRI in Europe and could greatly enhance investors' role in improving corporate behavior.

In the short term, the power of SRI continues to come from shareholder advocacy. But as more dollars, euros, yen, and yuan are directed towards sustainable companies, this will pressure unsustainable companies to improve their records in order to compete for capital, in turn helping to transform the role of the corporation in society.

SUPPORTING THE PROACTIVE

While many NGOs and investors are confronting corporations, other NGOs are proactively seeking out corporations to help them improve their social and environmental records—as well as their bottom lines. In 2000, Environmental Defense approached FedEx with an offer to help reduce the emissions of its delivery fleet. After realizing that this would provide a triple win—cost savings, good publicity, and reduced pollution—FedEx agreed. By the end of 2002, a new hybrid truck design was selected and 18 prototypes were put into service in Sacramento, New York City, Tampa, and Washington, D.C. Seventy-five more trucks are to be launched this year. Because each truck reduces emissions of soot by 96 percent and nitrogen oxides by 65 percent (and improves fuel efficiency by 57 percent), FedEx's introduction of these vehicles into its 30,000-strong fleet will have considerable environmental benefits. Moreover, the benefits don't stop at FedEx. As Elizabeth Strucken of Environmental Defense points out, "This project is serving as a catalyst for the entire shipping industry to convert their fleets."

World Resources Institute (WRI) is another environmental organization that is helping corporations to improve environmental records while reducing costs. One of its programs, Climate Northeast, has brought together 10 companies in the northeastern United States to help them collaborate in reducing greenhouse gas emissions, and save money in the process.

General Electric—the ninth largest company in the world in 2004—is one of these companies, and has tracked its emissions for two years. In May, it went a step farther and developed a comprehensive plan to reduce its climate impacts. GE plans to produce diesel-electric hybrid locomotives and more efficient jet engines and double its investments in green technology research over the next five years to an annual $1.5 billion. It has also promised to reduce its own greenhouse gas emissions by 1 percent by 2012 (even as it plans to grow significantly during that time). The company is now working with WRI to create a plan to achieve these emission reductions.

With GE's massive assets, its "ecomagination" program will give a significant boost to efforts to slow climate change, not to mention GE's bottom line, as the company is a major producer of wind turbines, locomotives, and jet engines. Moreover, the positive publicity that GE will get from such a high profile initiative will help to counter the years of attacks it has endured at the hands of activists for being one of the largest corporate polluters in the United States. GE is responsible for about 100 Superfund sites, the most badly polluted toxic waste sites in the country, including the country's largest: a 320-kilometer stretch of the Hudson River contaminated with PCBs the company dumped throughout the mid-1900s.

GE is not the first company to recognize the benefits of proactively working with NGOs rather than waiting until it is attacked by them. In the 1990s, Chiquita Banana suffered through a bout of terrible publicity for labor and environmental practices, plus a labor strike and the havoc of Hurricane Mitch. The company realized that it needed to rebuild its brand, and sought out a partnership with Rainforest Alliance, an NGO that worked with Chiquita to certify the health, labor, and environmental practices on the company's farms. By 2002, all of Chiquita's farms, covering 25,000 hectares, were certified by Rainforest Alliance, as were 75 percent of the bananas sold by the company in Europe and the United States.

In short, more corporate managers are reading the proverbial writing on the wall. Corporations really have only two options: seek out genuine partnerships with stakeholders for support as they work towards being more sustainable, or wait until stakeholders come knocking on their doors, brandishing picket signs and shareholder resolutions, and demanding immediate and sometimes difficult change. The benefits of the first course, with all the positive publicity and frequent financial rewards it brings, far outweigh the benefits of waiting for the hammer to fall, which in today's globalized world can shatter a brand almost overnight. Indeed, Coca-Cola is currently experiencing this first-hand as articles proliferate worldwide about Indian activists attacking Coca-Cola for its draining of community aquifers and for allowing high levels of pesticides in its soft drinks.

To avoid facing the same conflict that the Nikes, Nestlés, Citigroups, and Coca-Colas of the world have experienced, corporations are starting to protect their brands by more proactively addressing looming social and environmental threats. Yet the speed of this transition will depend on the continued efforts of stakeholders to make sure that corporations "get it," that is, understand that their long-term financial success depends not just on pursuing the bottom line, but on doing so in a socially and environmentally responsible way.

Erik Assadourian *is a Staff Researcher at Worldwatch and co-director of* State of the World 2006. *The third article in this series will explore corporations that are leading the way towards a sustainable economy.*

For more information about issues raised in this story, visit **www.worldwatch.org/ww/corporations/**.