

## **2003 SHAREHOLDER PROXY SEASON OVERVIEW: SOCIAL AND CORPORATE GOVERNANCE RESOLUTION TRENDS**

**A Report from the Investor Responsibility Research Center (IRRC) and the  
Interfaith Center on Corporate Responsibility (ICCR)**

**Released by IRRC, ICCR,  
the Social Investment Forum and CERES**

**February 12, 2003**

### **OVERVIEW**

The 2003 proxy season is on track to be a record year for shareholder advocacy – in terms of the number of resolutions submitted, the number of resolutions likely to come to vote and, likely, the level of shareholder support. **As of February 1<sup>st</sup>, at least 862 shareholder proposals had been filed at the more than 2,000 widely held U.S. companies routinely tracked by the Investor Responsibility Research Center (IRRC), compared with just 802 in all of 2002.**

Fueled by continuing shareholder concern about boardroom scandals, **filings of corporate governance resolutions rose sharply to 625, compared with 529 in all of 2002.** Data from IRRC and the Interfaith Center on Corporate Responsibility (ICCR) show that, **as of early February, at least 237 social and environmental resolutions also had been filed, up slightly from the number at this point last year, with surges in certain types of resolutions, including those related to global warming.** In what is a major trend, the once distinct line between “corporate governance” and “social advocacy” resolutions is being blurred by the increasing collaboration between “traditional” corporate governance shareholder advocates and organized efforts by labor unions, religious investors, and socially responsible investment companies.

### **SOCIAL AND ENVIRONMENTAL RESOLUTIONS IN 2003**

A total of 237 proposals on social issues had been filed by February 1<sup>st</sup> for U.S. companies’ annual meetings in 2003, with another two dozen expected to be filed for companies with meetings in the second half of the year. As a result, **the 2003 proxy season for social shareholder advocates looks to be somewhat more active than the 2002 season.** At this time last year, approximately 225 social advocacy resolutions had been filed, and the year ended with 273 social proposals filed and 147 that came to a vote.

The leading categories for social shareholder advocacy in 2003 are the environment (particularly global warming), where 58 proposals have been filed so far, and global labor standards, with 27 proposals filed. Concerns over healthcare and drug development, equal employment opportunity

(particularly the push for sexual orientation anti-bias policies), and tobacco have inspired numerous resolutions this year. Some of the new issues relate to the global AIDS crisis and sustainability reporting. This year, several religious investors affiliated with ICCR have once again filed proposals at defense contractors concerning their foreign military sales and involvement in space weapons programs.

If last year is an indicator, 2003 could see more unusually high votes for key social proposals. In 2002, average support for social issue proposals climbed to 9.4 percent, the highest level in 10 years<sup>1</sup>. More strikingly, over 14 percent of the proposals voted on got at least 15 percent support, the highest proportion in at least a decade. Proposals that did particularly well in 2002 were those asking companies to expand or report on their fair employment policies or to report on their greenhouse gas emissions.

The year 2002 also produced a first: a social issue proposal opposed by management won majority support. This occurred at CBRL Group (Cracker Barrel), where the New York City pension funds asked the company, as they have for several years, to include in its equal employment opportunity policy a formal provision against discrimination on the basis of employees' sexual orientation. The proposal received 58 percent support, and management said that it would revise its workplace policy in line with shareholders' wishes.

Social advocacy resolution highlights for 2003 include:

### ***ENVIRONMENTAL AND CLIMATE RISK***

**Environmental resolutions totaled 58** as of late-January 2003, compared to about 60 at the same point in 2002. **The most growth was seen in relation to global warming-related resolutions**, which have climbed from the 21 filed last year to 25 so far this year. Religious investors, investment firms specializing in socially responsible investment, public pension funds, and environmental groups have filed the proposals asking a variety of firms to take action on climate change issues.

- **EMBEDDED CLIMATE RISK.** A new resolution asks **ExxonMobil** for a report on "any operating, financial, and reputational risks to the company associated with climate change and explaining how the company will mitigate those risks." Another set of resolutions asks several companies to prepare reports for shareholders "describing the operating, financial and reputational risks to the company associated with past, present, and future greenhouse gas emissions from its operations and products." The resolution is pending at **Caterpillar, ConocoPhillips, Gillette, Marsh & McLennan, Reebok, and Staples**. Walden Asset Management withdrew at Occidental Petroleum after the company agreed to disclose climate-related risks. The Connecticut Retirement Plans and Trust Funds also withdrew the resolution at Cummins after receiving commitments from the company.

---

<sup>1</sup> This average and historical comparison includes a subset of governance proposals that have social implications: resolutions that ask for greater racial and gender diversity on corporate boards, and proposals that seek to link executive pay to measures of corporate social—as well as financial—performance.

- **AUTO MANUFACTURERS.** Proponents had rewarded **Ford** and **General Motors'** 2000 pullout from the Global Climate Coalition (a business organization opposed to mandatory emissions controls) by not filing any climate-related proposals with the companies in 2001 and 2002. Now, though, they say they have not seen enough changes in the companies' policy positions on global warming to allow inaction any longer. New proposals to the two companies for 2003 ask them for annual reporting of emissions from their operations, as well as from the fleets of vehicles they sell. They also ask the companies to set targets to "significantly reduce" emissions from their vehicle fleets by 2012, and again in 2020.
- **UTILITIES' EMISSIONS.** Another new resolution asks several utilities to report on: "the economic risks associated with the company's past, present, and future emissions of carbon dioxide, sulfur dioxide, nitrogen oxide, and mercury emissions; and the economic benefits of committing to substantial reduction of those emissions related to its current business activities." It is pending at **American Electric Power, Cinergy, PG&E, Southern, TXU** and **Xcel Energy**.
- **RENEWABLE ENERGY AND EMISSIONS-RELATED PROPOSALS.** Also pending at **ExxonMobil** is a resolution asking for a report "explaining how the company will respond to rising regulatory, competitive, and public pressure to significantly develop renewable energy sources." A similar proposal is pending at **ChevronTexaco**. Yet another proposal to **ExxonMobil** touches on a similar theme. Filed by individual shareholder Kirk Miller, it asks Exxon's board to "prepare a series of strategic and implementation plans by Sept. 1, 2003, outlining how ExxonMobil will implement significant energy efficiency improvements at all ExxonMobil facilities." A new proposal from the Sierra Club to **Weyerhaeuser** asks the company to list the greenhouse gases it emits, to list the fines it paid under state or federal environmental laws, and to assess the feasibility of getting its timber operations certified as meeting the standards of the Forest Stewardship Council. Religious shareholders have resubmitted a resolution to **General Electric** that asks it to report on emissions from its operations and products, "including steps the company can take to reduce emissions of greenhouse gases substantially...." Another repeat proposal, to **Sprint**, also asks for a report on greenhouse gas emissions from the company's own operations and from its products, and an evaluation of how emissions-reduction could be accomplished. The same resolution was recently withdrawn at **United Technologies**.
- **BANK LENDING AND CLIMATE CHANGE.** Finally, a member of the Rainforest Action Network has again submitted a resolution that raises concerns about **Citigroup's** financing of projects that lead to deforestation and fossil fuel development. The resolved clause requests that the board "move to produce a strategy that positions Citigroup as an environmental leader by meeting or beating the industry's best practices regarding environmental protection including old growth forest protection and climate change." The Rainforest Action Network submitted a somewhat differently worded resolution in 2002 that got 6 percent support.

In addition to the above proposals on climate change, religious investors and social investing firms have filed several proposals questioning the safety of genetically engineered organisms, encouraging greater recycling, or asking for efforts to reduce toxic emissions.

### ***WORKING FOR GLOBAL LABOR STANDARDS***

The ICCR and other shareholder advocates who have filed more than 27 proposals this year largely agree on three basic principles on how corporations can help solve labor problems. They say that corporations should implement codes that include core human and labor rights standards and that apply to company owned and supplier facilities. Independent groups should monitor the codes, they say, and a company's track record in complying with a code should be reported publicly and regularly. The coalition behind this shareholder campaign comprises unions, public pension funds, socially responsible investment funds and religious investors. The eight-year-old campaign, which expanded dramatically in 2001 when New York City's pension funds joined religious and union investors in coordinating the filing of 48 resolutions, can point to some successes. In 2002, proponents persuaded six companies to adopt more stringent codes and four out of the six to pursue third-party monitoring programs.

### ***SEXUAL ORIENTATION ANTI-DISCRIMINATION POLICIES***

Galvanized by the November 2002 majority vote at CBRL, shareholder proponents of sexual orientation anti-bias policies have filed 19 proposals so far for 2003 meetings, up from nine in 2002. New York City pension funds proposed 11 such resolutions for 2003, six of which have already been withdrawn after the funds determined that the companies involved had revised their policies. Resolutions are still pending at **El Paso Energy, Georgia-Pacific, Ingram Micro, J.C. Penney and Reliant**. The withdrawals were at American Electric Power, Duke Energy, Dynegy, Marathon Oil, Mirant and TXU.

In addition, a coalition, including the New York City pension funds, has refiled the proposal at **ExxonMobil**, where it was the company's top-scoring social issue resolution last year. Social investment funds have refiled the same proposal at **ALLTEL** and **Emerson Electric**, and proposed it for the first time at **Caterpillar, Dover, and FedEx**. (Northstar Asset Management withdrew this proposal at MBNA after learning the company had recently revised its EEO policy to include sexual orientation.) The Unitarian Universalists have filed the same proposal at **ConocoPhillips**. Currently, more than 60 percent of the Fortune 500 companies have written policies that prohibit discrimination based on sexual orientation.

### ***BREAKING THROUGH THE 'GLASS CEILING'***

In recent years, U.S. institutional investors and other interested parties have supported disclosure of corporations' equal employment opportunity, nondiscrimination and affirmative action policies, programs and performance. Indeed, the federal bipartisan Glass Ceiling Commission (which looked at the relative dearth of women and blacks in the upper echelons of U.S. companies) issued a unanimous recommendation for increased public disclosure of work force data by race and sex, particularly in senior positions. Religious investors that are members of the Interfaith Center have resubmitted resolutions on the "glass ceiling" – barriers to women's and racial minorities' advancement to senior management positions – to **Bed Bath & Beyond** and **Merck** and proposed one for the first time to **Johnson & Johnson**. The resolutions ask for a report on steps to break the glass ceiling, including: company policies to address leadership development, employee mentoring, work force diversity initiatives and family friendly programs; how executive compensation packages and performance

evaluations integrate company efforts in breaking the glass ceiling; and the top 100 or 1 percent of company wage earners broken down by sex and race. The resolution at Merck was later withdrawn.

### ***FIGHTING THE AIDS PANDEMIC***

In recent years, social shareholder advocates have been paying increasing attention to the intensifying pandemic of HIV/AIDS, tuberculosis, and malaria in developing countries, especially in sub-Saharan Africa. For 2003, religious investors and socially responsible investing groups have devised two types of resolutions in order to draw more attention in the corporate world to the crisis.

- **HEALTH THREATS TO GLOBAL LABOR OPERATIONS.** The first resolution, filed with six companies by ICCR members, is an entirely new shareholder approach to the issue. It asks companies with substantial leverage in the labor markets of sub-Saharan Africa to report on the effect of deadly diseases on the company's operations, as well as on any measures taken in response. The resolution has been proposed to U.S.-based multinationals **Caterpillar, ChevronTexaco, ExxonMobil, Ford Motor Co., and PepsiCo.** The resolution was withdrawn at Colgate-Palmolive, in light of the company's decision to include this information in its sustainability report.
- **PHARMACEUTICAL RESPONSE TO HEALTH PANDEMICS.** The second resolution, also filed with six corporations, asks pharmaceutical companies to "establish and implement standards of response to the health pandemic of HIV/AIDS, TB, and malaria in developing countries, particularly Africa." Religious investors affiliated with ICCR have proposed resolutions to **Bristol-Myers Squibb, Johnson & Johnson, Eli Lilly, Merck, Pfizer, and Wyeth.** In addition, several new proposals (10 total) have been filed this year with pharmaceutical companies to disclose the guidelines they follow for clinical trials abroad, their ethical criteria for patent extension, or their payments and incentives to doctors and pharmacy benefit managers to influence their drug selections.

### **CORPORATE GOVERNANCE SHAREHOLDER RESOLUTIONS IN 2003**

The business scandals of 2002 did not significantly affect the number of proposals submitted last year since most proxy submission deadlines already had passed by the time the most notorious cases came to public attention. But investors' ire was clearly reflected in high support levels during 2002 for virtually all proposals — including several being voted on for the first time. Proponents this year, especially labor union funds, are on a pace to break all records. And with the SEC sensitive about shareholder concerns, it is expected that there will be fewer omissions and more proposals negotiated or voted upon in 2003—and perhaps another record-setting year in voting support.

The total number of governance resolutions is up dramatically this year. **By February 1, there were 625 proposals, compared with 529 for all of 2002.** The focus of proponents has shifted markedly from 2002 to 2003. Last year, resolutions related to traditional anti-takeover and board issues accounted for most governance resolutions— 57 percent of all the proposals submitted. So far **in 2003, executive pay issues are the overwhelming focus, accounting for a remarkable 44 percent of all the governance proposals.** Board-related proposals have dropped sharply, from 30 percent last

year to just 15 percent of those submitted so far in 2003, as proponents apparently take a wait-and-see approach to issues like director independence, which is being addressed by regulatory actions this year.

**This shift in emphasis speaks directly to the increasingly blurred line between traditional corporate governance shareholder resolutions and what is typically thought of as social advocacy.** (Examples here of such “crossover” issues include board diversity and limits on CEO compensation.) Religious investors and labor advocates have surged again with early, coordinated campaigns. Continuing their rise as the predominant institutional investors submitting shareholder resolutions, labor funds account for 45 percent of the proposals currently tracked, compared with 30 percent overall in 2002.

Key corporate governance-related trends for 2003 include:

### ***CEO COMPENSATION***

Resolutions requesting shareholder votes on golden parachute arrangements fared well in 2002. Two, at **Bank of America** and **Norfolk Southern**, received majority votes, and those companies have agreed to adopt the policies requested by the labor fund proponents. But the focus of shareholder proponents this year involves options grants, executive pay caps, and improved social responsibility records of executives.

- **EXPENSING STOCK OPTIONS.** Last year’s campaign to convince companies to expense stock options garnered substantial support – averaging 29.3 percent – at two companies that brought it to a vote (**Clayton Homes** and **SWS Group**). The SEC has reversed its original ruling that the proposal could be omitted on ordinary business grounds, and **an astounding 101 such resolutions have been filed this year**, almost exclusively by labor funds.
- **PERFORMANCE-BASED OPTIONS.** Also put forward in 2003 are proposals asking companies to grant performance-linked stock options. Labor funds have particularly aimed this proposal at companies that have announced they will record an option expense, since that eliminates any accounting disadvantage for performance-based options, which companies have traditionally argued made them unattractive. Proposals to restrict executive pay in some fashion are also up this year, including a new one asking to abolish stock option compensation submitted to: **AOL/TimeWarner, American Express, Amgen, Baker Hughes, Baxter International, Verizon Communications**, and **Wells Fargo**.
- **LINKING EXECUTIVE PAY TO SOCIAL PERFORMANCE.** Resolutions seeking to establish a link between executive pay and social criteria garnered average support of 9.5 percent in 2002, relatively high for a crossover SRI proposal. **Nineteen such proposals have been filed so far for 2003**, including a new one from The Catholic Funds Inc. and other shareholders associated with United for a Fair Economy, asking **Bristol-Myers Squibb, Coca-Cola, EMC, General Electric**, and **Verizon Communications** to review and report on executive compensation. The proposal asks that, at a minimum, the review consider whether shareholder value would be enhanced if the company altered its executive compensation policies to: freeze executive pay during periods of large layoffs; establish a maximum ratio between the highest-paid executive

officer and the lowest-paid employee; and seek shareholder approval for any executive severance payments or executive retirement plans exceeding two times annual salary.

Religious and social investment groups have filed a different proposal for **Alcoa, AOL/TimeWarner, El Paso, Honeywell, J.P. Morgan Chase, and Pfizer**, which asks the companies to report to shareholders comparing the total compensation of top executives and lowest paid workers at home and abroad, concluding whether executive pay is excessive. The proposal may also be submitted to **Cisco Systems**, which has a late meeting.

### ***BOARD COMPOSITION***

- **SEPARATION OF CHAIRMAN AND CEO.** While proposals related to director independence currently lag last year's numbers, **a surge has emerged in resolutions asking companies to separate the positions of chairman and CEO** – 27 have been filed so far, compared with just four for all of 2002. Three of those four were voted on last year, receiving average support of 35.8 percent of votes cast. The 2003 proposals have been submitted primarily by the AFL-CIO and various labor union funds, and some individuals. ICCR also submitted this proposal to **Xcel Energy**.
- **SHAREHOLDER NOMINATIONS FOR BOARDS OF DIRECTORS.** Six proposals asking for “**equal access to the proxy statement,**” to allow shareholder nominations of directors, have been filed by AFSCME, at **ExxonMobil, Bank of New York, Citigroup, Sears - Roebuck, AOL/TimeWarner, and Eastman Kodak**. The proposals submitted to ExxonMobil, Citigroup, and Sears request binding by-law changes.
- **BOARD DIVERSITY.** Fourteen proposals to encourage greater diversity on the board garnered respectable results in 2002 – an average of 21.3 percent support for three of four voted proposals for which results are available, with a high vote of 32.2 percent at **EMC**. At least five others were withdrawn after negotiation (at **Alico, Deere, Dillard's, Polaris Industries, and Unocal**). Along with other board-related proposals, these have dropped off in 2003, with just eight having been filed so far for 2003 (of which seven are pending at **American Power Conversion, Danaher, Gentex, Grant Prideco, Molex, Patterson Dental and WebMD**). The Episcopal Church withdrew its resolution at BJ Services in light of the company's adoption of a written charter for its Nominating and Governance Committee that makes “efforts to ensure that women and persons from minority racial groups are among those it considers for nomination to the Board.”

Other key corporate governance resolution trends for 2003 include:

- **CONSULTING FEES TO AUDITORS.** Last year's sleeper hit asked companies to stop paying consulting fees to their auditors. In the midst of a raft of accounting scandals, this first-time proposal received an impressive average support of 29 percent at 21 companies where it was voted. Since the Sarbanes-Oxley Act specifically banned a number of consulting services by auditors, that proposal has been replaced this year by several variations, typically asking companies to limit in some way the non-audit services that can be provided by their auditors. A total of 15 are currently being tracked (at **Bank of America, Black & Decker, Dynege, ExxonMobil, General Motors,**

**Harley-Davidson, Hewlett-Packard, Huntington Bancshares, Lockheed Martin, NCR, Office Depot, Teradyne, United Technologies, Verizon Communications, and Viacom).**

- **OFFSHORE TAX HAVENS.** A new proposal this year asks several companies that are currently incorporated in offshore tax havens to reincorporate in the U.S. They include **Carnival, Cooper Industries Ltd., Ingersoll-Rand, McDermott International, Schlumberger Ltd., Transocean,** and **Tyco International**, all filed by labor-related funds.
- **MAJORITY VOTE RULES.** As part of its campaign demanding that boards stop ignoring majority shareholder votes, the New York City pension funds have filed proposals asking companies to establish a response procedure at **Gillette, Goodyear Tire & Rubber, Hasbro, Pacificare Health,** and **Wisconsin Energy.** A similar resolution was submitted to **Occidental Petroleum** by an individual.

### **ABOUT THIS REPORT**

This “2003 Shareholder Proxy Season Overview” was prepared by the Investor Responsibility Research Center and the Interfaith Center on Corporate Responsibility.

The Investor Responsibility Research Center (<http://www.irrc.com>) is the world's leading source of impartial, independent research on corporate governance, proxy voting and corporate responsibility issues. IRRC's mission is to provide the highest quality research on companies and shareholders worldwide. Today, in fulfillment of that mission, IRRC provides research, software products and consulting services to over 500 subscribers and clients representing institutional investors, corporations, law firms and other organizations. Founded in 1972, IRRC has more than 80 professional staff members. IRRC offers guidance and advice on proxy voting, enabling clients to make informed, considered decisions that reflect their investment philosophies. IRRC also offers company profile information for portfolio screening and other purposes.

The Interfaith Center on Corporate Responsibility (<http://www.iccr.org>) has been a leader of the corporate social responsibility movement for the last three decades. ICCR is an association of 275 faith-based institutional investors, including national denominations, religious communities, pension funds, endowments, hospital corporations, economic development funds and publishing companies. ICCR and its members press companies to be socially and environmentally responsible. Each year ICCR-member religious institutional investors sponsor over 100 shareholder resolutions on major social and environmental issues. The combined portfolio value of ICCR's member organizations is estimated to be \$110 billion.

In addition to IRRC and ICCR, this report is being issued by the Social Investment Forum and CERES.

The Social Investment Forum (<http://www.socialinvest.org>) is the national trade association for the social investment industry. It is dedicated to promoting the concept, practice, and growth of socially and environmentally responsible investing. The Forum's more than 500 members include financial planners, community banks, mutual fund companies, research companies, foundations, and community

investing institutions. The Shareholder Action Network (SAN) is a project of the Social Investment Forum in cooperation with Coop America. SAN (<http://www.shareholderaction.org>) serves as a clearinghouse of information and analysis to the socially responsible investing community on shareholder advocacy.

CERES (<http://www.ceres.org>) is the leading U.S. coalition of environmental, investor, and advocacy groups working together for a sustainable future. The CERES Coalition is a network of over 80 organizations that includes investors, advisors, and analysts representing over \$300 billion in invested capital.