CAPTURING THE POWER OF THE PROXY

Catholic Healthcare Organizations Can Use Their Investments to Promote Social Justice

BY TIMOTHY SMITH

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U.S. Catholic healthcare organizations have tens of billions of dollars invested in the stock of companies, large and small. In recent years, the money managers hired by those organizations to oversee their investments have increasingly tried to do so in ways consistent with the organizations' missions. They are instructed to consider moral and social issues along with performance and investment goals.

Many money managers were instructed not to invest healthcare funds in tobacco companies, for example. It would be incongruous for a healthcare organization—which deals every day with diseases caused by smoking—to own stock in Phillip Morris or Loews. Therefore, many such organizations have a "no buy" list of companies that violate the healthcare organizations' social policies. Fortunately for Catholic healthcare, this kind of investing often turns out to be intelligent as well as moral. The evidence to date indicates no financial penalty for investing in an ethically responsible manner by screening out objectionable companies.

THE POWER OF THE PROXY

But avoiding morally dubious investments is not the only way conscientious investors can communicate their values to corporations. The proxy is an effective tool for encouraging corporations to change questionable policies and practices. A number of Catholic healthcare systems—Mercy Health Services, Farmington Hills, MI; Christus Health, Houston; St. Joseph Health System, Orange, CA; Catholic Healthcare West, San Francisco; Catholic Health Initiatives, Denver; and Catholic Health East, Newtown Square, PA—use their power as investors to raise concerns and propose social responsibility resolutions at companies' annual meetings.

It works like this: Any investor can file a 500-word shareholder resolution to be voted on at the meeting. Such a filing may itself prompt dialogue among the company's managers and lead to a change in company policy. Even if the dialogue does not bring the hoped-for change, the issue will be put on the company's proxy ballot and sent to shareholders for a vote.

SENDING A MESSAGE ON DRUG PRICING

This spring a number of major pharmaceutical companies will have on their agendas a resolution about drug pricing. The resolution—sponsored by a variety of religious investors, including Catholic healthcare systems—highlights the fact that the high price of pharmaceuticals especially affects the elderly, the uninsured, and the poor. In addition, the resolution notes that the cost of these drugs is frequently much less in Canada and Mexico than in the United States.

The resolution asks each company to "implement a policy of price restraint on pharmaceutical products" and "report on changes in policies and pricing procedures." It has been filed with 10 companies: Abbott, American Home Products, Bristol-Myers Squibb, Pfizer, Warner Lambert, Eli Lilly, Schering Plough, Johnson & Johnson, Merck, and Pharmacia-Upjohn. Most of these companies will probably agree to discuss the price issue with the resolution's sponsors.

In 1993-95, pharmaceutical representatives argued in private discussions and public dialogue at stockholder meetings that high prices were necessary to cover research expenses for new drugs. Congressional pressure was building at the time, however, and in the end many companies agreed to limit their price increases to the rate of the cost of living. Then, once the pressure was off, drug prices began to climb again.

It is vitally important for Catholic healthcare systems owning pharmaceutical stock to vote their proxies in favor of the new shareholder initiative on price policy. Without explicit instructions, the systems' money managers will vote with the corporation's board and *against* the resolution. The message sent to corporate management will be that the current price of drugs is fine. To make sure that their position is represented, Catholic healthcare systems that own stock in these pharmaceutical companies should do one of two things:

- Instruct their money managers to vote for the resolution
- Cast their proxies for the resolution themselves

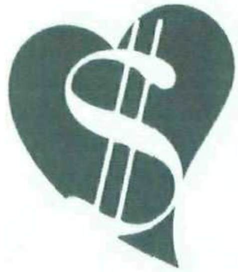
This spring, voting proxies can affect drug pricing.

PVCs and Sweatshops

Last year Mercy Health Services, Farmington Hills, MI, filed a shareholder resolution asking Baxter International to quit using polyvinyl chloride (PVC) plastics in the manufacture of medical products. When incinerated, these products—intravenous tubes, blood bags, gloves, and others—create dioxin, a known carcinogen (see Leonard Weber, "Medical Waste and Healthcare Ethics," p. 26). Baxter agreed to phase out PVCs, as did Universal Health Services. Tyco Healthcare Group and Cardinal Health, two other manufacturers of medical products, have now gotten similar resolutions from Catholic healthcare organizations.

"Sweatshops" have also attracted the attention of Catholic investors. The sweatshop phenomenon has occurred as U.S. companies have shifted their manufacturing operations to Latin America or Asia to take advantage of the low wages there. These companies often argue that the wages they pay in such countries are locally competitive and above the minimum set by the host government. Even so, they are poverty wages. And a factory that pays poverty wages is still a sweatshop.

In the past five years, representatives of religious organizations have met with the leaders of dozens of such companies, urging them to ensure that their products are manufactured in plants free of child labor, unfair labor practices, and exploitative working conditions. The bright spotlight of public attention has persuaded many companies to disclose previously private information about their labor practices, support independent monitoring programs of their operations, and adopt codes of conduct. Religious investors have also pressed companies to promise to pay their employees a fair, living wage. But actually getting them to do so has proven to be a tough challenge. The right of employees to feed their families too often finishes a distant second to the drive for profits. Therefore, religious investors will keep knocking at the doors of Wal-Mart, Nike, General Electric, Ford, and others to urge them to pay a fair, decent, living wage wherever they do business.



Making Shareholder Votes Count

The votes of Catholic healthcare organizations owning stock in corporations are also needed on these issues on year 2000 proxy statements:

- Diversity
- Protecting the environment
- Global warming
- Human rights

This year religious investors, working with other socially concerned investors, have filed more than 150 shareholder resolutions on numerous issues with more than 110 corporations. It is vital that Catholic healthcare organizations use their investments to "capture the power of the proxy" and use it in the causes of improved health and social justice.

THE INTERFAITH CENTER ON CORPORATE RESPONSIBILITY

Created in 1970, the Interfaith Center on Corporate Responsibility (ICCR) is a coalition of 275 Protestant, Catholic, and Jewish institutional investors, including religious denominations, dioceses, religious communities, healthcare organizations, pension funds, and foundations. ICCR members use their investment portfolios—an estimated $100 billion—to change unjust or harmful corporate policies and work for peace, economic justice, and stewardship of the earth.

The ICCR coordinates shareholder advocacy for religious investors. It publishes the *Corporate Examiner* ($50 a year) and the *Proxy Book* ($30 a year), which contains a list of companies in which ICCR members have investments and the texts of members' shareholder resolutions.

For more information contact Diane Bratcher, the ICCR's director of communications, at 212-870-2296; fax 212-870-2023; e-mail dbratcher@iccr.org. ICCR resolutions are posted on the Web at www.socialfunds.com in the advocacy section.