

# LEVERAGING THE POWER OF THE PROXY

*Catholic Health Care Systems Are Using Stock Holdings to Push for Corporate Accountability*

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For a number of years, many Catholic health care systems have sought to align their investment decision-making processes with their institutions' underlying mission and social goals. To achieve a balance of financial and social objectives, many of these systems' financial managers have encouraged their investment managers to utilize portfolio screening strategies consistent with their organizations' social missions and investment policies and with the mandates of the church. Moreover, an increasing number of health systems have begun to leverage their holdings by creating comprehensive proxy voting programs and engaging in shareholder activism, not only to push for greater corporate accountability, but to protect the value of their own investments. Lawsuits over alleged discrimination, high-profile controversies, and inadequate environmental controls can have a significant impact on a company's bottom line, and thus on shareholder value.

Today Catholic health care systems are increasingly using the tools of socially responsible investing (SRI)—screening, shareholder advocacy, and community investing—to push for greater corporate accountability and advance mission.

Interest in SRI tactics was on the rise even before the corporate scandals and collapses of 2001-2002. The modern SRI movement, the roots of which are in the movement to curtail corporate investment in South African firms during the *apartheid* era, has experienced considerable growth over the past two decades. According to the Social Investment Forum, by 2001 one out of every \$8 was invested through the use of social criteria—an estimated \$2.34 trillion in assets.<sup>1</sup> Catholic health care systems, along with other religious organizations, mutual funds, foundations, and a number of public pension

funds, have buoyed the movement through their attempts to incorporate values in the investment process and have worked to ensure that all risks—including financial, labor, environmental, and reputational risks—are effectively managed by the companies in which they invest.

## 2003 PROXY SEASON

For many years, the leaders of Catholic health care organizations and their colleagues at the Interfaith Center on Corporate Responsibility have played a key role in engaging companies in dialogue and submitting shareholder proposals on a range of corporate social responsibility issues. In the interests of marrying organizational mission with activism and reducing their own costs, Catholic health care organizations have tended in recent years to mobilize their annual activism campaigns around core health issues, such as affordable prescription drugs and tobacco-related concerns. Health-related proposals put forth by Catholic health care organizations were voted on during the 2003 proxy season at a number of large U.S. companies, including Merck & Co.; ExxonMobil Corp.; Eastman Chemical Co.; R. J. Reynolds Tobacco Holdings, Inc.; and Oxford Health Plans, Inc. In addition to filing health-related proposals, Catholic health care organizations sponsored or cosponsored proposals related to other issues in line with the teachings of the Catholic Church, namely the support of international labor standards, environmental reporting, and control of military weapons. See Table, p. 37, for a description of these initiatives.

It is important to note that shareholder proposals on social issues usually receive relatively low levels of support since corporate management often recommends opposing the proposals. However, since proposals are often used as a tool to continue dialogue with a corporation, success is



often registered by receiving a sufficient number of votes to enable those who sponsored such a proposal to file it again at the next annual general meeting. The Securities and Exchange Commission (SEC) requires of the proposal a minimum level of support of 3 percent in the first year, 6 percent in the second year, and 10 percent in the third and each subsequent year. Clearing these hurdles is not the only measure of success, however. Even seemingly low levels of support are often sufficient to raise awareness among a company's top executives and result in increased disclosure of information about the issue in question, sensitivity to its societal impact, or action on it.

The corporate scandals of recent years have only served to reinforce the importance of the

need for corporate transparency and accountability that shareholder activists have long championed. This increased attention from the media and Wall Street has contributed to a number of notable successes during the 2003 proxy season, including a steep increase in the percentage of shareholders supporting proposals sponsored by the socially responsible investment community. In 2003, votes on 14 different resolutions registered support in excess of 20 percent support. Among these were Unocal (to adopt a code of conduct: 32.8%), EMC (to increase board diversity: 32.17%), and ExxonMobil (to increase investment in renewable energy: 20.19%). The current public focus on corporate governance and reforms proposed by the New York Stock

### Some 2002 Proxy Proposals Submitted by Catholic Systems

Target Company	Proposal	System	Sponsor/ cosponsor	Percent support
Bristol-Myers Squibb	Report on drug pricing policy	CHI; CH; TH	Cosponsor	3.55
Chevron Texaco	Adopt a nontoxic chemicals policy	CHW	Primary sponsor	5.4
Hartford Financial Services	Divest from tobacco equities	SJH; CH	Primary sponsor	4.61
Johnson & Johnson	Adopt drug pricing policy	CHI; CHW; CH; TH	Cosponsor	2.99
Loews	Disclose smoking hazards in package inserts	CHI; TH	Cosponsors	3.98
Philip Morris	Disclose smoking hazards in package inserts	CHI; SJH	Cosponsors	4.95
Schering-Plough	Report on drug-pricing policy	CHI; CHW; CH	Cosponsors	4.68
Sears, Roebuck & Co.	Amend and monitor corporate code of conduct—ILO Standards	SJH	Cosponsor	9.35
YUM Brands Inc. (formerly Tricon Global Restaurants)	Prohibit smoking in company facilities	CH; SJH	Cosponsors	15.36
UST Corporation	Disclose smoking hazards in package inserts	CHI	Primary sponsor	4.56
United Technologies	Report on space-based weapons	TH	Cosponsor	4.24

**CHI** = Catholic Health Initiatives, Denver; **TH** = Trinity Health, Novi, MI; **CH** = Christus Health, Irving, TX; **CHW** = Catholic Healthcare West, San Francisco; **SJH** = St. Joseph Health System, Orange, CA

Sources: Institutional Shareholder Services, "SIRS 2003 Proxy Season Review," February 2003, and "SIRS Social Proxy Bulletins," Spring 2003; and the Interfaith Center on Corporate Responsibility, The Proxy Resolutions Book, January 2003.



Exchange and the SEC have also had an impact on the proxy voting policies of many socially responsible investors; such investors are now amending their policies to require greater board and auditor independence.

## OPPORTUNITIES AND RESPONSIBILITIES

Catholic health care organizations have used their stock holdings to affect corporate policy on core social responsibility issues, but they have before them a great opportunity to extend and deepen these efforts. Currently, a significant number of organizations have already developed comprehensive voting programs and activism programs. However, other organizations either have not begun to vote their proxies or have simply delegated this task to their investment managers. When Catholic health care organizations fail to vote their proxies in support of proposals filed by other Catholic health care organizations, they are unwittingly working at cross-purposes. Similarly, when an organization's *operations* work to provide high-quality health care and serve communities, but its *investments* support companies that may produce harmful products, increase health costs, and harm the communities they serve—then the ultimate success of the organization's primary goal is inevitably undermined.

In recent years, regulatory agencies, common law, and self-regulatory standards have come to emphasize a fiduciary's responsibility to exercise stock ownership rights—specifically a fiduciary shareholder's responsibility to analyze and vote all proxies and, where appropriate, to participate in corporate dialogue and sponsor shareholder proposals. Active share ownership is required especially when an institution's holdings are restricted to stock indexes, preventing the institution from selling out of individual stocks that may be problematic. Although institutions screen their portfolios for a number of key issues, such as tobacco and weapons, they may overlook holdings in companies with significant pollution or labor concerns. Proxy voting offers an effective complement to screening programs and offers the opportunity to continue to own a stock for activism purposes.

To begin the process of aligning their investments with their values, many Catholic health care systems have developed a set of proxy voting guidelines and simply voted their proxies. Once the proxy voting program is up and running, these organizations have begun to cosponsor resolutions filed by other health care systems or socially responsible investors and to participate in dialogue campaigns. Catholic health care organizations have justified their participation in shareholder advocacy objectives by stressing the

importance of stewardship and the goal of improving public health. Colleen Scanlon, senior vice president for advocacy, Catholic Health Initiatives (CHI), Denver, notes:

It's the practice of CHI to utilize its financial resources to emphasize human dignity, social justice, and the promotion of healthy communities. As a socially responsible steward, CHI not only refrains from investing in companies whose products, services, or actions are contrary to our mission, but also participates in direct community investments and shareholder activism. Such efforts allow CHI the opportunity to advance its advocacy priorities and to go on record on important health and social issues.

According to Donna Meyer, PhD, director, community health services, Christus Health, Irving, TX:

By attacking issues dealing with smoking and tobacco-related products, as well as others seeking drug price restraint within pharmaceuticals, on many different levels and by joining with other socially responsible organizations that share the same values, we can make an effective impact on the behavior of the companies that are directly or indirectly involved in these businesses and encourage them to work with us to create healthier community environments.

Sr. Susan Vickers, RSM, director, advocacy, Catholic Healthcare West, San Francisco, notes that

Our socially responsible investment program is one of the most successful examples where we have integrated our mission into our business operations. Having an investment program that includes exclusive and inclusive social screens, shareholder activism strategies that embrace both company dialogues and proxy voting, as well as a wonderfully successful community development investment program, gives Catholic Healthcare West a real opportunity to have a broader influence on community health issues both here and around the globe.

## GETTING STARTED

A successful socially responsible investment program begins with comprehensive and up-to-date investment and proxy voting policies. Your organization may already have established policies; the first step in the process is to establish whether these policies are sufficiently aligned with your



organization's mission and, if it is not, to make any necessary revisions. If your organization does not have an existing formal investment or proxy voting policy, the organization's investment committee can begin discussions regarding which core values should be reflected in these policy documents. One good starting point for these discussions is the *Socially Responsible Investment*

*Guidelines* developed by the U.S. Conference of Catholic Bishops (available at [www.usccb.org/financial/srig.htm](http://www.usccb.org/financial/srig.htm)).<sup>2</sup> In addition, the policies of other leading Catholic health care systems can serve as useful references, particularly with respect to understanding how those organizations have incorporated the USCCB's recommendations and leading corporate governance concerns into their own guidelines. Building a policy consistent with those of other Catholic health care systems can help to strengthen the ministry's position on key health care and Catholic investment issues.

Investment consultants and proxy advisory service firms can also assist you during the policy development process by providing policy templates and information regarding recent trends in socially responsible investing and corporate governance. An increasing number of investment management firms are also becoming more attuned to the specific screening and proxy voting needs of Catholic institutions and have developed appropriate procedures and policies that may be of assistance to your organization in establishing a new program.

There are a number of different options for the implementation of investment and voting policies.

**Engage Investment Managers** New policies can be provided to the company's investment managers for incorporation as part of the overall management procedures for your accounts. If you choose this option, it is critical that your organization have a procedure in place with which it can assess the managers' compliance with the policies, either through quarterly reporting or annual portfolio audits.

**Handle Proxy Process In-House** A second option is for the organization to exercise the voting proxy process itself. The organization will need to appoint

# The USCCB's

## *Socially Responsible*

## *Investment Guidelines*

### is a good starting point.

holdings are voted collectively according to your own proxy voting policy, minimizing the possibility that individual managers would vote differently on the same agenda item.

In choosing an option, you'll want to consider a number of factors, including staffing concerns, the size of the portfolio, whether the holdings are domestic or global, and the level of control that the organization intends to retain over the process.

#### LOOKING AHEAD

The current focus on accountability offers an opportunity for Catholic health care organizations to draw greater attention to core issues they have been raising for years. Leveraging investments as a group is an effective bargaining tool during the corporate dialogue process. The more Catholic health care organizations participate in proxy voting, the more they will strengthen levels of support for key proposals, thereby focusing the attention of corporate executives on key social responsibility issues. Working together, Catholic organizations can both protect the long-term value of their investments and ensure that those investments are in line with the core objectives of providing quality health care and promoting healthy communities. □

a dedicated staff member to review and cast proxy votes on its behalf. This option is generally restricted to those organizations with smaller portfolios containing mainly U.S. equities due to workload issues.

**Outsource Research and Vote Execution** A third option is to outsource the proxy voting research and vote execution to a proxy advisory service. Under this option, all of your organization's

#### NOTES

1. Social Investment Forum, *2001 Report on Socially Responsible Investing Trends in the United States*, November 28, 2001. The Social Investment Forum can be found at [www.socialinvest.org/](http://www.socialinvest.org/).
2. U.S. Conference of Catholic Bishops, "Socially Responsible Investment Guidelines," *Origins*, November 28, 1991.

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