USING INVESTMENTS TO WORK FOR COMMUNITY HEALTH

Socially Responsible Investment Programs Help Carry a Faith-Based Message

BY DONNA MEYER, PhD, FACHE; & CATHERINE ROWAN

For years now, many Catholic health care systems have conducted robust socially responsible investment programs out of the belief that such programs are an integral part of their mission. The leaders of these systems understand that, although the elements of population health are complex and varied, human rights and social justice are integral elements. The mission or vision statements of their systems express a strong commitment to improving the health of the communities they serve. System leaders understand that socially responsible investing is essential to advancing community health.

Socially responsible investing has been defined in various ways, but most observers believe that it embraces four components:

- *Social screening* is refraining from making investments that are antithetical to one's values or contrary to health improvement.
- *Shareholder advocacy* is monitoring the social and ethical performance of companies in which investments have been made and encouraging and assisting them to make improvements.


Dr. Meyer, who is based in Houston, is senior system director, community health, CHRISTUS Health, Dallas. Ms. Rowan, based in Bronx, NY, is a socially responsible investment consultant for Trinity Health, Novi, Mich. They both serve on the board of directors of the Interfaith Center on Corporate Responsibility, New York City.

- *Proxy voting* is taking an ethical stance on issues brought up before shareholders at annual meetings.
- *Community investing* involves seeking out and investing in activities in underserved communities that may have difficulty attracting funds in the regular capital markets.

Earlier *Health Progress* articles have dealt with components of socially responsible investing. See, for example, Francis Coleman, "A New Paradigm for Investment Screening" (March-April 2000, pp. 26-27), on social screens; and Joseph Henzlik and Suzanne Fallender, "Leveraging the Power of the Proxy" (July-August 2003, pp. 36-39), about voting on shareholder proposals. Perhaps one day another *Health Progress* writer will address community investing. In this article, however, we will limit ourselves to a discussion of shareholder advocacy.

WHAT IS BEING DONE?

Effective faith-based investor advocacy didn't begin yesterday. Students of history will recall that one reason for the eventual fall of the apartheid regime in South Africa was a shareholder resolution filed in 1971 by the U.S. Episcopal Church. The resolution, filed with General Motors, asked the automaker to pull out of that country. Few faith-based investor advocacy efforts have that kind of impact. But, day in and day out, progress is made. Through socially responsible management of their stock portfolios, a number of Catholic health care systems have helped change corporations' social and environmental performances.

For example, Catholic health care systems, along with other like-minded investors, have called for corporate social responsibility in public health. These efforts have resulted in:

- Adoption of ethical marketing codes by infant formula makers

- A reduced impact of tobacco on society
- Increased transparency in political spending by major pharmaceutical companies
- The generic production of patented antiretroviral drugs, which has increased access to these needed medicines in low- and middle-income countries suffering from the HIV/AIDS pandemic

As a result of ongoing conversations with several health care systems, a major pharmaceutical company adopted, as part of its strategic plan, the goal of increasing access to (and the affordability of) its products by the indigent, disadvantaged, and working poor.

Leaders of health care systems also have met with leaders of multinational corporations to discuss their responses to global health needs. For example, a large brewer has extensive operations in the areas served by one of these systems. Recently, the brewer expanded significantly in Asia. The health care system's representatives used the expansion as an opportunity to meet with representatives from the brewer, sharing information with the latter about the status of HIV/AIDS in the expansion areas, about the impact the disease has on workers and markets, and about how other companies have benefited both themselves and communities by working to combat the problem.

Acting as responsible investors, health care organizations have had positive results in their work on a wide range of issues.

Access to Care Some health care systems are using their influence as shareholders to contribute to the national dialogue on health care reform. They are currently part of efforts to encourage large corporations, first, to improve their lower-wage workers' access to affordable, high-quality health care coverage, and, second, to become involved in the public debate to expand access to coverage in general. One major retailer has taken steps to reduce the waiting period—from two years to six months—that part-time employees must wait before becoming eligible for health insurance.

Tobacco Some health care systems have been involved in shareholder efforts to reduce the marketing and support of tobacco products, as well as to reduce smoking. For example, they have convinced several life and health insurance companies to remove tobacco companies from their investment portfolios. One system got major retail pharmacy chains to agree to stop picturing cigarettes and children's toys next to each other in their weekly advertising circulars.

Another tobacco-related issue is the depiction of smoking in movies rated G, PG, and PG-13. Several studies have shown that youths are more likely to try smoking after being exposed to smoking in movies and on TV. Catholic health care systems are pressing the parent companies of major movie studios to either eliminate tobacco images from their films altogether (unless the films portray an historical figure who really smoked) or give them an R rating.

The Environment Environmental issues are another focus of shareholder advocacy. For almost half a century, a number of Catholic health care systems have worked with private companies to promote an ecologically sustainable health care industry. Incineration of medical waste, use of mercury thermometers, and use of the plastic polyvinyl chloride (PVC) were initial issues of concern. Involvement in this issue by health care shareholders led to a major manufacturer agreeing to explore and develop alternatives to products containing PVC. Currently, health care systems are calling on producers of health care equipment to find alternatives to such toxins as brominated flame retardants and to use safer chemicals in the manufacture of their products.

One of the most notable recent achievements in the environmental area occurred in 2003 when a Catholic system obtained agreement from one of the world's largest corporations to assess, report and reduce greenhouse gas emissions in its products and operations worldwide.

One of the most notable recent achievements in the environmental area occurred in 2003 when a Catholic system obtained agreement from one of the world's largest corporations to assess, report and reduce greenhouse gas emissions in its products and operations worldwide. The company gave credit to this system publicly for being the impetus behind its new initiative.

Violence Responding to violence in our society as a public health issue is also a part of shareholder advocacy work. The marketing to children of violent entertainment—particularly in certain popular video games—is of great concern. Research has demonstrated that the playing by children and youth of violent video games can increase the likelihood of aggressive behavior in them. The more violent the games and the more time spent playing them, the more likely the aggressive behavior.

One health care system has worked with other faith-based investors to obtain agreements from major electronic retailers to, first, develop policies and practices that make it more difficult for minors to purchase violent video games, and, second, to educate parents about video game content. One such company discontinued the sale of a game that rewarded players for killing police officers.

Housing Catholic health care systems have long been involved in efforts to preserve affordable housing in the United States. As shareholders, they have called on financial institutions to strengthen their community reinvestment programs in underserved communities. In one case, shareholders obtained an agreement from a bank to set goals for lending to low-income and minority populations in 20 of its major markets and to report annually on its progress in lending to these groups. The same bank also enhanced its underwriting policies and procedures guiding due diligence in the sub prime loans market.

Governance In recent years, health care systems have taken governance issues, such as diversity and pay disparity, to companies. One system, having urged a large insurer to diversify its board of directors, has watched the company during the past two years add its first woman and first African-American directors. Health care systems have joined with other socially responsible investors in a successful effort to increase disclosure of executive compensation through U.S. Securities and Exchange Commission (SEC) requirements.

How Is This Done?

Beginning perhaps as early as the 1960s, changes in technology, economic thinking, and political thinking opened the doors to an unprecedented flow of capital and goods across national borders. This process of interaction and integration among people, governments, and corporations—usually called "globalization"—is driven by international trade and investment and has resulted in great increases in wealth. Of the world's 100 largest economies, more than a third are transnational corporations.[1]

Unfortunately, increases in the wealth derived from globalization have not been distributed evenly. And various abuses of the environment and of human rights, as well as other problems, also result from globalization. Moreover, the national regulatory agencies that have traditionally smoothed the rough edges of corporate activities find that they can no longer do so because they lack the authority and resources.

Faith-based investors in several countries have found themselves called to fill this gap by monitoring and engaging the companies in which they had invested and acting as advocates for justice. The U.S. Catholic bishops' 1986 message, *Economic Justice for All: Pastoral Letter on Catholic Teaching and the U.S. Economy* (see **Box**), was one of those calls. But it quickly became clear that making serious progress in this area would require the work of many hands working together. In the United States, this realization led to the founding in 1972 of the Interfaith Center for Corporate Responsibility (ICCR). The founding members were the National Ministries of the American Baptist Churches; the Disciples of Christ; the Episcopal Church; the National Council of Churches; the Presbyterian Church, USA; the United Church of Christ; and the Board of Global Ministries of the United Methodist Church (see **Box**, p. 57).

The issues addressed by the ICCR are determined by various working groups in which its members choose to participate. Working groups change over time, but those currently active deal with corporate governance, environmental jus-

THE BISHOPS ON CHURCH INVESTMENTS

Individual Christians who are shareholders and those responsible within church institutions that own stocks in U.S. corporations must see to it that the invested funds are used responsibly. Although it is a moral and legal fiduciary responsibility of the trustees to ensure an adequate return on investment for the support of the work of the Church, their stewardship embraces broader moral concerns. As part owners, they must cooperate in shaping the policies of those companies through dialogue with management, through votes at corporate meetings, thhrough the introduction of resolutions, and through participation in investment decisions. We praise the efforts of dioceses and other religious and ecumenical bodies that work together toward these goals. We also praise efforts to develop alternative investment policies, especially those which suport enterprises that promote economic development in depressed communities and which help the Church respond to local and regional needs. When the decision to divest seems unavoidable, it should be done after prudent examination and with a clear explanation of the motives.

—U.S. Conference of Catholic Bishops, *Economic Justice for All: Pastoral Letter on Catholic Social Teaching and the U.S. Economy*, Washington, DC, 1986, para. 354.

tice, global warming, water and food, access to capital, contract suppliers, promoting human rights, militarism and violence, and access to health care. Individual ICCR members can also take on issues that happen to be beyond the working groups' scope.

The working groups themselves decide which matters they will pursue. Their criteria are:

- Is the issue important as a social justice concern?
- Do ICCR members have policies that mandate action?
- Can the action make a difference?
- Would it be irresponsible not to act?
- Is there a mechanism—sometimes described as a "corporate handle"—that might be used to trigger a change in corporate conduct?

Under SEC rules, a shareholder may file with the company a nonbinding resolution to be voted on at the annual meeting of shareholders. To do this, the shareholder must have owned stock worth at least $2,000 for at least one year; certain rules concerning the resolution's format and content also apply.

The shareholder resolution does several things. It formally and forcefully brings the issue to the company's attention. It also brings the issue to the attention of a much wider audience, including other shareholders, other stakeholders, and, often, the public.

In some instances, the shareholder resolution prompts immediate action by the company, in which case the resolution is withdrawn. In many, perhaps most, other instances, the company will try to conduct a dialogue with the proponents of the issue involved. Then, if the proponents believe that the dialogue will eventually produce the changes they seek, they commonly withdraw the proposal. If neither of these events should occur, the proposal is voted on. SEC rules require that at least 3 percent of the shareholders must support the proposal in order for it to be brought back in the following year's annual meeting; this threshold increases to 6 percent in the second year and 9 percent in the third.

According to the ICCR's *2007 Proxy Voting Guide*, members filed 312 shareholder resolutions with 207 companies for meetings scheduled this year. As one can imagine, given the wide range of working groups involved, these resolutions dealt with a great variety of issues. Among those involving health care were the following:

- Eight major companies were asked to report to shareholders on the implications of rising health care expenses and how the companies planned to address this public policy issue without compromising the health and productivity of their workforces.
- Eight proposals dealt with aspects of tobacco commerce or use.
- Four proposals dealt with transparency concerning the political contributions of pharmaceutical companies.

As noted, dialogue with corporate managers—often resulting from the filing of a shareholder resolution—is the ICCR member's other major

THE INTERFAITH CENTER FOR CORPORATE RESPONSIBILITY

The ICCR is a 30-year-old international coalition of 275 faith-based institutional investors, including denominations, religious communities, pension funds, health care corporations, foundations, and dioceses that together have combined portfolios worth an estimated $100 billion. As responsible stewards, these investors merge social values with investment decisions, believing that they must achieve an acceptable return that is more than financial in nature. ICCR members use investments to change unjust or harmful corporate policies. They work for peace, economic justice, and stewardship of the Earth.

In addition to seeking solid financial returns, ICCR members examine the companies in their portfolios for their social and environmental performances. Rather than simply sell the stock they hold in companies whose policies or practices are harmful to people or the environment, ICCR members press those companies to change. They use their investments to attempt to raise concerns at the highest level of corporate decision making.

ICCR members use the power of persuasion backed by economic pressure from consumers and investors to hold corporations accountable. They sponsor shareholder resolutions; meet with management; screen their investments; divest stock; conduct public hearings and investigations; publish special reports; and sponsor such actions as prayer vigils, letter-writing campaigns, and consumer boycotts.

For more information, contact the Interfaith Center for Corporate Responsibility at www.iccr.org.

tool. But much informal dialogue also takes place simply as part of the continuing relationship between the company and ICCR members.

Indeed, maintaining communication and other relationships with a variety of stakeholders has in recent years become one of the marks of the socially responsible company. In this connection, the not-for-profit Global Reporting Initiative publishes what have become widely accepted guidelines that companies around the world use to report publicly on their economic, social, and environmental performances.

A Community Benefit Activity

All faith-based health care systems, whatever their denomination or faith background, have investment portfolios. Most, if not all, of the religious sponsors of these systems also have documents similar to the Catholic bishops' pastoral letter *Economic Justice for All*.

Managing a system's investment portfolio in accordance with its sponsor's religious teachings can not only help the system advance religious objectives but also improve community health. Because this is so, a system that manages investments in this way should include this activity in its annual report as a community benefit activity (see **Box**). ■

NOTE

1. The number varies according to the person asked. Sarah Anderson and John Cavanagh of the liberal Institute for Policy Studies says that 51 of the world's largest economic entities are corporations (www.ips-dc.org/downloads/top_200.pdf). The free-market economist Johan Norberg puts the number at 37 (www.johannorberg.net /?page=articles&articleid=67).

SOCIALLY RESPONSIBLE INVESTING IS A COMMUNITY BENEFIT

The negative consequences that human rights violations have on health are today widely studied and understood in public health circles. Not-for-profit health care systems with socially responsible investment programs should include the costs of those programs in their community benefit reports as a form of advocacy.

Future editions of CHA's and VHA's *Guide for Planning and Reporting Community Benefit* will recommend that such systems report the costs associated with advocacy for social justice and human rights, including dues, grants, or gifts to organizations that support social justice. Costs associated with normal investment activities should never be included. Below is the proposed addition to the guide's "Advocacy" section:

Advocacy for Social Justice and Human Rights

These count:

- Dues, grants, and gifts to organizations that support social justice (such as NETWORK)
- Costs associated with advocating for social justice, environmental responsibility, and human rights (such as fair treatment of workers) through investments as a shareholder including:
- Dues to organizations such as the Interfaith Center for Corporate Responsibility
- Consultant fees
- Staff time

These do not count:

- Normal investing costs (only additional costs specifically related to socially responsible investing should count as community benefit.)

JOURNAL OF THE CATHOLIC HEALTH ASSOCIATION OF THE UNITED STATES www.chausa.org

HEALTH PROGRESS®

Reprinted from *Health Progress*, November-December 2007