

# Climate Changes as Firms Heed Investors on Social Issues

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The largest U.S. companies are beginning to pay heed to the demands of investors focused on environmental and social issues, a shift for shareholders long relegated to the sidelines.

Oreo cookie maker [Mondelez International](#) Inc. last year said all its wrappers would be recyclable by 2025. The move came four years after Parnassus Investments, a small San Francisco-based money manager, and other investors began pushing Mondelez to assess the environmental impact of its packaging.

At first, shareholders' entreaties went nowhere. Then in May, months before Mondelez announced its move, the snacking giant told Parnassus during a private meeting that it would be pleased with the company's response.

Corporate-governance advisers say more boards are acquiescing to shareholder demands that they improve disclosures on topics ranging from greenhouse-gas emissions to gender pay disparities—a kind of private-sector oversight sometimes dubbed “private ordering.”

It is difficult to measure the effect of closed-door conversations between shareholders and companies. Boards often argue that the changes they agree to, or similar ones, were already under way, even absent shareholder pressure.

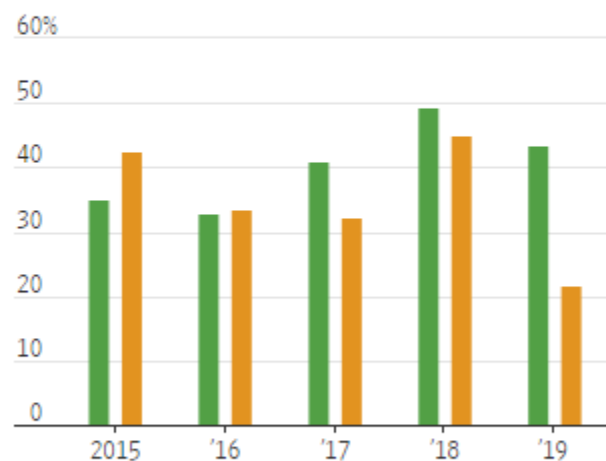
Plenty of companies still push back against [shareholder proposals](#), and most environmental and social proposals that do go to a vote are opposed by management and fail to gather majority support. But there are signs that companies are becoming more responsive to investor demands before annual meetings, especially as consumers engage more on environmental and social topics.

One key metric: the number of shareholder proposals withdrawn before a vote, typically indicating management and the sponsoring shareholder came to terms. About 49% of environment-related

## Pulling Punches

Percent of shareholder resolutions withdrawn before a vote.

■ Environmental ■ Social



Note: 2019 figures as of April 22

Source: ISS Analytics

shareholder proposals were withdrawn last year, compared with 33% two years prior, according to ISS Analytics, the data arm of proxy-advisory firm Institutional Shareholder Services. Roughly 45% of shareholder proposals related to social issues, including income inequality, political-spending disclosure and animal testing, were withdrawn last year, up from 34% two years earlier, ISS said.

The number of socially focused shareholder proposals has declined in recent years, while the number of environmentally focused resolutions has stayed relatively consistent.

Earlier this year, after [Verizon Communications](#) Inc. vowed to generate or buy renewable energy equal to half of its total yearly electricity consumption by 2025, an environmentally focused shareholder withdrew a proposal it had filed in late 2018 calling for Verizon to report on ways to increase its reliance on renewable energy.

“Verizon made these socially responsible commitments as part of our normal business planning process, prior to proxy season,” a spokesman said.

Changes made by major companies amid campaigns by shareholders in recent years span water management, greenhouse-gas emission, workplace culture and data-privacy policies and practices.

“The goal is to reach an agreement where you withdraw the proposal and get policies in place,” said Bruce Freed, president of the Center for Political Accountability. The nonpartisan nonprofit organization has spent 15 years pushing companies to improve political-spending disclosure, often by helping shareholders sponsor proxy proposals. “If you can’t reach an agreement, your goal is a strong vote, because a strong vote sends a message to management.”

Shareholder victories are the result of a confluence of events, corporate-governance advisers say. For one, investors and executives are focusing more on climate change as [its effects on business and the economy](#) become clearer.

Big investors, including public pension funds [and index-fund managers](#) like [BlackRock](#) Inc. and Vanguard Group, are also devoting more attention to social and environmental issues, making the threat of an embarrassing vote against management more likely.

Also, more money is [flowing into funds](#) focused on environmental, social and governance matters. There were \$11.6 trillion in assets overseen by U.S. money managers who consider ESG criteria at the start of last year, up from \$8.1 trillion in 2016, according to the most recent biennial report from US SIF, the forum for sustainable and responsible investment.

The resolution process often takes time. The pressure on Mondelez about recyclable packaging dates back to at least 2014. In addition to its talks with Parnassus, Mondelez has also faced investor proposals on packaging from shareholder-advocacy group As You Sow. A Mondelez spokesman said the company has long been committed to sustainability—including for packaging, waste and recyclability—and has found feedback from all types of investors to be supportive of these efforts.

The Center for Political Accountability’s push for better political-spending disclosure started in 2003. Proposals to improve political-spending transparency made up the biggest single category

of shareholder proposals among S&P 500 companies from 2005 through 2018, partly prompted by [the Supreme Court's 2010 Citizens United](#) decision that ended longstanding limits on corporate political spending. Such proposals accounted for 626 of 5,092 in all, [according to an analysis](#) by researchers at Harvard and Tel Aviv universities.

During the same period, shareholder support for political-spending proposals in annual-meeting votes quadrupled to an average of 29.7% in 2018 from 7.3% in 2005, the researchers found.

This year, the center and its investor partners have secured agreements to improve disclosure with 12 S&P 500 companies, including Mondelez, industrial conglomerate [General Electric](#) Co. and insurer [Chubb](#) Ltd. Agreements with 10 companies over the previous two years included one with [Alphabet](#) Inc., Google's parent company.

Mr. Freed, the center's co-founder, credits his group's success in part to its approach. Instead of pushing the societal benefits of political transparency, he has emphasized the risks that poor disclosure can create for companies in an era when social media can spread controversy in hours.

Taking a numbers-based approach to pressing for change is crucial for investors, whatever the issue, said Tracy Stewart, senior corporate-governance analyst for the Florida State Board of Administration, which managed nearly \$194 billion in state pension funds and other assets at the end of 2018.

"We really approach it from a financial bottom-line," Ms. Stewart said. "We're not going to go out of our way to wag our finger." Successful campaigns, she said, benefit from the combination of investors' efforts and public concern over key social or environmental issues.

Tesla published [its first sustainability report](#) in April after investors including Trillium Asset Management pressed it to do so. Allan Pearce, a member of Trillium's shareholder advisory team, said Trillium has [withdrawn its latest shareholder proposal](#) calling for the report.

A spokesman for Tesla said the company had been discussing such a report internally and had started planning to do so before the discussions with Trillium.