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Investing in Trust: Social Responsibility and Shareholder Communications

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The question is: Can social responsibility play a role in renewing---and sustaining--- investor confidence?

And my answer is, emphatically: YES!

But with a couple of caveats: Social responsibility can't erase corporate fraud, and there's no simple one-to-one correspondence between corporate virtue and stock price. Nor can trust be restored overnight: Investors are people, and, as we all know, people, once burned are twice shy. But, like people, corporations can prove—over time—that they're responsible, and so—over time—corporate social responsibility can play a positive role in rebuilding investor trust.

Even before this year's crisis of confidence in corporate America, four TRENDS in corporate responsibility were already shaping up—sustainability, business awareness, transparency, and investor savvy.

Over the past decade there's been a persistent public focus on SUSTAINABILITY, which aims for economic development, environmental preservation, and poverty alleviation. Globalization tends to highlight these challenges. As world markets develop, the persistence of social issues turns them into high-profile challenges to countries and to companies. That's what brought nearly 70,000 people to Johannesburg last month for the World Summit on Sustainable Development.

The second and related trend is increasing BUSINESS awareness of these environmental and social concerns. We are seeing an escalating CONVERGENCE of corporate social responsibility and sustainable development. What better evidence of growing business involvement in sustainability than the many business-NGO partnerships that, despite some healthy skepticism and protest, took shape in Johannesburg?

The third trend relative to us as communicators is an all-out war on secrecy, manifest in the current demand for TRANSPARENCY, disclosure and accountability. From protests

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at international meetings in Seattle and Washington, to the evolution of the Global Reporting Initiative (GRI), which provides guidelines for international reporting standards on corporate responsibility, to congressional inquiries, there is an aggressive demand for more information and more accountability from business.

Coupled with this is a fourth trend: a widespread INVESTOR awakening to the ECONOMIC impact of sustainability and social responsibility. Socially screened assets grew by 36 percent from 1999 to 2001, compared with just 22 percent for other “ordinary” investments, according to the Social Investment Forum, which estimates that there are now \$2.3 trillion of socially screened assets under management. What’s more, in the first half of 2002, there was a 3 percent INCREASE in socially responsible funds, versus a 9.5 percent DECREASE for other funds. In fact, investors poured nearly \$13 billion into socially screened funds in the first half of this year, compared with less than \$850 million for the whole of 2001. In Europe, there’s increasing government pressure for companies and pension funds to report on socially responsible investments.

What are the issues and what are companies doing about them?

The persistent issues are human rights, environmental liabilities in general, and resource and energy use in particular. I want to focus on one aspect of energy and environment that has the potential to explode as an investor issue. That is climate change, or global warming.

At Exxon’s annual shareholder meeting this year, a resolution to reduce greenhouse gas emissions garnered 20 percent of the vote. That represents nearly double the shareholder vote that resolutions against apartheid in South Africa got a decade or so ago. What’s more, in that 20 percent vote, Institutional Investor Services, which represents 700 institutional investors, for the first time reversed its policy on global warming to vote against management.

In another sign of investor activism regarding climate change, TIAA-CREF, which manages \$270 billion in assets, this year pledged to consider climate change resolutions on a case-by-case basis and to support more disclosure of information. Finally, CERES (the Coalition for Environmentally Responsible Economies), which launched the Global Reporting Initiative, is starting a new Sustainable Governance program to educate corporate boards on the long-term financial effects of companies’ climate change policies.

What are companies doing?

Many of your companies are well along into social responsibility management, as Tom Higgins of Business for Social Responsibility can attest. Let me confine my remarks to three companies I’ve profiled in my days as a reporter: Sunoco, Baxter, and DuPont.

At SUNOCO, which has no greenhouse gas reduction targets, environmental executives wanted to communicate to the board and top management—in terms they could understand—the importance of cutting emissions. Because energy is the third-biggest cost center for the company, it was likely that management would take note of savings. So the strategy was to talk about energy cost cuts—at the same time, putting the issue of greenhouse gas reductions on the table. Senior management was delighted because, in the decade since 1990, the company reduced energy by 10 percent, saving \$75 million in the year 2000 alone. Carolyn Green, Sunoco’s vice president for environmental affairs, says that, like management, the investor community pays little attention to information on emissions unless it’s in financial terms. So the company could be getting much more mileage from these numbers if they were published in its annual report.

BAXTER International for years has published a so-called “environmental financial statement” that quantifies environmental information in dollars and cents (that is, “costs” versus “savings”). A big advantage for this company is its CEO, Harry Kraemer: As Baxter’s former CFO, he’s a financial whiz, but he’s also committed to sustainability, AND he’s an incessant communicator known for e-mailing everyone at the company and for talking on the phone with Wall Street analysts for at least an hour and a half each quarter. In fact, when Baxter’s earnings for this year’s second quarter came in three percent below analyst estimates (though the company still made a profit), the stock plunged 25 percent in a single day. And here’s how Kraemer responded to analysts: He emphasized, first and foremost, that what would sustain the company financially over the long haul was its VALUES, which are tied to sustainability initiatives. (Full disclosure: I own Baxter stock).

Finally, DUPONT quantifies sustainability results, constructs new metrics, communicates its values to all its stakeholders—all this as part of a larger effort to use new technologies to create new sustainable products and markets in order to ensure long term financial growth. For instance, in launching a new pesticide called Avaunt in West Africa in 2000, DuPont worked with local farmers and communities to develop appropriate packaging and practical methods of distribution. The product has been such a success, that it’s now been launched elsewhere, first in India in 2001 and later in other markets in Africa. While it’s hard to prove numerically, DuPont is convinced that Avaunt caught on because of the company’s field work with local communities. That’s why DuPont proudly tells its story to everyone—including the investment community. The company’s message is that the success of this product is ultimately traceable to DuPont’s VALUES—safety and environmental stewardship, the highest ethical standards, treating people with dignity and being a good member of the community.

These experiences offer insights into the highly complex challenge of COMMUNICATING about social responsibility and the ability to build, or to rebuild and sustain investor trust.

First, familiarity with SUSTAINABILITY is crucial. You well know the investor backlash when a company is linked to child labor, apartheid, and environmental problems. Today the business headlines are full of tales of financial fraud. Tomorrow they could be about global warming or any of the agenda that will now follow the Johannesburg summit. Obviously, each

company must assess its interests and its vulnerabilities. I urge you to study new social responsibility agendas, even as you deal with stakeholders shaken by the business issues. And again, look at global warming as you anticipate investor relations.

Second, assume investors will not only expect government to know more about your financial business, they will also expect you to tell them more. With growing public vigilance will come more demand for disclosure and hence more need for careful and frequent communication on what your company is doing—especially on what it’s doing, both right and wrong, about social and environmental issues.

This wraps around the third area I want to underscore: corporate TRANSPARENCY. When people suspect holes or sense secrets, they fill in the blanks with information they don’t have. Whenever there’s a quantum leap in trust it’s because of more information, not less. And the language around that information is critical, because numbers can be too easily manipulated—and if the public didn’t quite grasp that before the recent stream of corporate scandals, they sure do now! The question is: Who fills in the blanks? Let it be you.

Fourth, it’s going to get more intense. INVESTORS’ social sensibilities will grow more acute as social and environmental problems worsen and as skepticism persists about corporate behavior and its effects. Knowing about emerging sustainability issues—like global warming—understanding how they could affect the company’s long-term financial health (and hence its shareholder value) and looking for ways to express these issues in business terms—all this can go a long way toward communicating with the investor community.

Let me conclude with a brief observation. This shifting investor sentiment is symptomatic of something much deeper. We’re in the midst of a sea change in the capitalist fabric—one agitated by the waves of corporate scandals. The other “isms”—socialism and communism—are all but finished as economic systems. People had been losing confidence in THEM for a long time—mainly because, economically, they just weren’t delivering. But this past year’s economic woes—the global recession, stumbling markets, and, most importantly, the wave of corporate scandals—have shaken confidence in capitalism, too.

Shaken, but not totally shattered. I believe, based in good measure on what I have learned about what companies are doing in their “deal with stakeholders,” that all this upheaval is re-focusing companies and markets—for the better—along more trustworthy economic as well as humane lines that will increasingly support society, the environment and the long-term sustainability of both business and the planet.

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