

## **Churches light the path to shareholder engagement**

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***The declaration by Goldman Sachs chief executive Lloyd Blankfein in late 2009 that he was doing God's work was perhaps at odds with most people's understanding of banking.***

Unlike other investors, however, churches are naturally attuned to the post-crisis clamour about ethics and good governance. They also have an unrivalled reach, which has left them well placed to act as an example when it comes to shareholder engagement.

Bill Seddon, chief executive of the Central Finance Board of the Methodist Church, which invests £1bn of assets on behalf of clergymen and others, said: "Multinational companies have global reach and governments don't, but the church, as they say, 'has branches everywhere'."

Churches have found their voice on issues beyond anti-tobacco, alcohol, pornography and arms concerns to include broader environmental and social impacts of business.

The Church Investors Group – comprising more 30 denominations from the UK and Ireland with combined assets of £12bn – has been a central voice in urging BP to implement improved safety procedures, following the Deepwater Horizon spill in the Gulf of Mexico.

### ***Climate change***

Its other recent engagements include discussions with Anglo American, EDF, FirstGroup, HSBC, M&S, Nestlé, Shell, Scottish & Southern Energy, Unilever, United Utilities, and Vodafone.

Church investors have also been more proactive than others on climate change. The CFB is engaging with Smith & Nephew, Cookson, Halfords and Taylor Wimpey over failures to participate in the Carbon Disclosure Project. It is also pressing Tesco over its policies on sustainability, emissions and waste reduction.

The churches' moral stance means they will also engage in more controversial areas. For example, they have been outspoken over the sale of Israeli settlement produce.

The Ecumenical Council for Corporate Responsibility, a voluntary coalition of church-based investors and ethical asset managers, is engaging on the issue with companies including Sainsbury, The Co-operative and Marks & Spencer. The CFB has recently initiated discussions with Veolia and Alstom over their involvement with a rail project in Jerusalem.

While such examples suggest that church engagement is high, measuring its impact on company behaviour is an inexact science. Miles Litvinoff, co-ordinator at the ECCR, says: "Focused engagement can and does influence company performance, albeit usually in an incremental fashion." Engagement is a long-term process of persuasion in which "quick wins" are rare.

While the Church of England's divestment from mining company Vedanta in February last year over human rights concerns attracted considerable attention, church investors stress the "nuclear option" is a last resort, and rarely productive in terms of influencing behaviour.

John Reynolds, chairman of the Church of England Ethical Investment Advisory Group, said the group actively engages with between 50 to 100 companies a year, adding he has only encountered one company in the past six years unwilling to have a formal discussion.

He said: “Our experience is that companies do listen and do change. Vedanta is instructive in the sense of what we can do, but we don’t start a public debate at the same time as initiating a private discussion.”

While the private nature of such engagement makes it difficult to assess the contribution made by investors in influencing companies, some notable recent successes have been recorded.

Shell’s decision to link senior pay to sustainability indicators, and to publish country-specific environmental impacts assessments online, is – says ECCR – in part the result of years of advocacy in the area, including ECCR’s February 2010 report Shell in the Niger Delta.

### ***Victories***

However, in a sign of the to-and-fro nature of engagement, ECCR also said in March that Shell had sent it “a detailed scientific rebuttal of long-standing community and NGO claims that gas flaring in the Niger Delta harms human health”, a key area on which ECCR was engaging with the company.

The church’s moral authority also gives it leverage with companies in which it has no shareholding – following meetings with the CIG, BSKyB, for example, closed its pornography channels.

Despite such victories, church investors’ scope for successful engagement remains limited on several fronts, notably the area of pay and bonuses.

While the CIG has been vocal on the subject of executive remuneration, publishing a report last year on the matter, it is questionable how much impact its recommendations have had on influencing City pay as yet, in particular the notion that “investors should discourage companies from seeking to compete with one another through levels of executive remuneration, recognising the disadvantages of motivating senior executives primarily through concern for their personal wealth”.