Divestment? Or shareholder activism?

Debating the best ways to pressure corporations for social good

by G. Jeffrey MacDonald in the January 2, 2019 issue

Activists demonstrate in May 2018. (Sipa via AP Images)

Seeking to leverage influence in capital markets and advance social change on issues from climate change to Palestinian rights, Christian activists often pursue the tool of divestment. But the practical impact of these efforts is uncertain, and some justice advocates argue that shareholder activism is a more effective tool.

Advocates for Palestinians who live under Israeli occupation have in recent years persuaded the United Church of Christ, the United Methodist Church, and the Presbyterian Church (U.S.A.) to withdraw their investments from companies linked to some Israeli operations in the territories. Presbyterians turned to divestment after shareholder activism failed to produce sought-after results from Caterpillar, Motorola, and Hewlett Packard. The PCUSA faulted the companies for engaging in “non-peaceful pursuits” in the Middle East, and its General Assembly voted to divest at its 2014 meeting.

But that vote has made little if any measurable difference. In fact, the PCUSA reportedly still owns shares in at least one of the targeted companies.

“A small scandal at this year’s Presbyterian Church’s General Assembly [involved] several representatives from the Board of Pensions talking about how, while they had been directed to divest from those three companies in the state of Israel, they had not yet done it,” said abby mohaupt, a Presbyterian minister and activist (who prefers that her name be lowercase). “That has opened up this question of: What’s the accountability for following up on things that the denomination has decided to do? That’s a larger question.”

The PCUSA’s $9.6 billion pension fund doesn’t have to sell shares after a divestment vote, explained Rob Fohr, director of faith-based investing and corporate engagement for the PCUSA. The board may retain shares marked for divestment for as long as its money managers see fit, he said, though it cannot buy new shares in those earmarked companies.

“I believe maybe [the Board of Pensions] still owns shares in one—not in all three, but in one of the companies” marked for divestment in the 2014 resolution, Fohr said. He noted he does not speak for the Board of Pensions. A spokesperson for the board did not respond to requests for comment.

The $1.1 billion Presbyterian Foundation has divested in accordance with the 2014 resolution, Fohr said, because its rules (unlike those of the Board of Pensions) require a timely sell-off when the General Assembly calls for divestment.

Activist investors with decades of experience say divestment is no silver bullet. In fact, they see no evidence that divestment as a stand-alone force has ever made a company change its policies.

“It’s one of those high-visibility, low-impact strategies,” said Mark Regier, vice president of stewardship investing at Everence Financial. Activist groups might send out press releases announcing a victory on divestment, but the question is “then what?” he said. “How is the world on day five better?”

The divestment strategy was used most famously as a pressure tactic against South African apartheid in years leading up to the regime’s collapse in 1994. But even in the fight against apartheid, activist investors say, divestment stood on the shoulders of a different tactic: shareholder engagement, which involves staying invested and negotiating for change through the position of a stakeholder.

“This work started in the early 1970s with the Episcopal Church filing the first shareholder resolution with General Motors on South Africa,” said Tim Smith, director of environmental, social, and governance shareholder engagement at Walden Asset Management in Boston. “There are literally hundreds and hundreds of examples of companies that stepped up and did make changes to policies and practices because of investor input.”

Divestment remains a commonly used tactic for activists fed up with corporate policies. Between 2013 and 2016, resolutions to divest of fossil fuel companies won approval at national meetings of the UCC, the Unitarian Universalist Association, the Episcopal Church, and the Evangelical Lutheran Church in America.

Proponents of divestment have been trying to clarify expectations for what the tactic can and cannot be expected to accomplish. For example, divestment of oil and gas companies from the portfolios of the Presbyterian Church (U.S.A.) isn’t going to cause the likes of ExxonMobil to revamp business plans or become less dependent on fossil fuels, according to mohaupt, an organizer of Fossil Free PCUSA, which lobbied unsuccessfully for divestment at the PCUSA’s General Assembly last summer.

“The point isn’t to change the companies,” she said. “What we can do as a moral witness to the world and to our faith in God is to take our money out of the fossil fuel industry and put it into renewable energy. We do that as part of our faith but also in solidarity with communities that are already experiencing climate change.”

Divestment can also reduce financial risk, she added, by ridding a portfolio of energy companies that stand to lose value as the world takes steps to mitigate effects and causes of climate change. Conversely, when the church remains invested in fossil fuels, it profits from an industry that’s endangering vulnerable groups. To divest is to tell those groups, “We’re with you, and we won’t make money off of your suffering,” she said.

Divestment from fossil fuels has become a popular way for Catholic institutions to live into the challenge issued by Pope Francis in *Laudato si'*, his 2015 encyclical on the environment. As of mid-September, 122 Catholic institutions had pledged to step away from fossil fuels by selling off securities, resolving not to invest in the sector, or both, according to the Global Catholic Climate Movement.

Signatories to the pledge are urged to sell all fossil fuel holdings because the movement regards that step as "best for creation." But divestment alone isn't linked to lowering emissions.

"It's easy for organizations to just say, 'let's get out of that,'" Regier said, adding that divestment does nothing to reduce demand for fossil fuels, and companies still get the capital they need from other investors.

"There's just an overblowing of the importance of divestment," he said. "It's more of a marketing approach than a question of, 'How do we adopt the strategies we need to get us where we need to go?'"

Many activist investors believe that the better way to reshape corporate activities is from the inside through shareholder engagement. When denominations, schools, and religious orders own sufficient levels of stock, they can bring resolutions to shareholder meetings for a vote. Such votes are nonbinding; boards and management may ignore them even if a majority of shareholders supports a measure. But pressure mounts when shareholders line up behind a proposal, and companies often comply when shareholder support approaches or exceeds 50 percent.

It's in this domain of shareholder engagement that religious investors claim to be affecting corporate policy, at least to some degree. In the energy sector, for instance, the UUA joined a coalition of investors calling on ExxonMobil to conduct a scenario analysis that forced the company to confront and report on its strategy for managing effects of climate change. The resolution won a majority of shareholders' support.

"Exxon did the report, and they did a pretty careful and meticulous job with it," said Tim Brennan, treasurer for the UUA. "Some environmental groups and investors have been critical of some of the assumptions they used. But my view is that it was a very important report because now we understand how Exxon thinks about the issue."

A similar coalition has been calling on ExxonMobil to distance itself from the conservative American Legislative Exchange Council. When ExxonMobil quit ALEC earlier this year, the move marked another success for the coalition and for shareholder engagement as a tactic, Brennan said.

Perhaps the strongest case for remaining invested in problematic companies comes from activists’ recent experience with the gun industry.

When Dick’s Sporting Goods stopped selling assault rifles and high-capacity magazines earlier this year, the move came on the heels of public outcry after the Parkland High School massacre in February. But another dynamic was also in play: shareholders from the Sisters of Mercy had already been lobbying Dick’s to restrict its firearms merchandise. When the Parkland shooting happened, Dick’s took the step that the nuns and their coalition allies had been advocating and made the policy shift.

In responding to gun violence, denominations have largely diverged from the divestment tactics promoted by other activist investors, including state treasurers of Connecticut and Massachusetts, who have raised the prospect of divesting public pension fund portfolios of gun manufacturers.

In July, the Episcopal Church’s General Convention passed a resolution calling on Episcopal shareholders to pressure gun makers to take specific steps to make their products safer. The strategy involves encouraging Episcopal institutions to buy stock for the purpose of becoming stakeholders who can influence corporate decision makers, according to Diocese of Western Massachusetts bishop Doug Fisher, who sponsored the resolution.

“One of the only paths of real engagement is by going to the gun companies themselves,” Fisher said in an email, adding that such measures have become necessary in the absence of action at federal and state government levels. “In addition to legislative advocacy and participating in actions like boycotts, more and more folks are becoming savvy in their investing strategy.”

Faith-based investors continue to tally milestones which, they say, show they’re making a difference as players with a seat at the table with gun makers. This year, Catholic institutional investors spearheaded successful efforts to get a majority of shareholders to demand that Sturm, Ruger and Co. and American Outdoor Brands (Smith and Wesson) report on their respective steps to improve gun safety. The votes are nonbinding, but they mark signs of mounting pressure, including from major institutions that have followed religious investors' lead.

"Investment has resulted in a corporate commitment from Smith and Wesson," Fisher said. "Shareholders have opened a door—the same door teenagers have been knocking on for months."

Still, divestment continues to resonate with religious investors as a way to send a message to companies seen as acting irresponsibly. Divestment is sometimes part of a multi-pronged approach that includes shareholder engagement by allies seeking social or environmental change. Perhaps both divestment and shareholder engagement are needed, some activists argue, in order to bring public shaming and pragmatism simultaneously to bear.

"You've got to have both," said David Schilling, senior program director for human rights and resources at the Interfaith Center on Corporate Responsibility, which organizes institutional investors for shareholder engagement. "It's not like an either/or situation. . . . Divestment helps to press companies to look at renewables and first to cut their CO2 emissions. It's also important to have some presence in the board room and in the shareholder meetings to keep pressing for that transition and to have it happen in a timely manner. One feeds the other."

A version of this article appears in the print edition under the title "Where your treasure is (or isn't)."