PROXY VOTING AND THE MISSION OF THE CHURCH

(Produced by Peace & Justice Ministries, January 2000)

In 1971, the Episcopal Church filed the first social issue shareholder resolution—with General Motors on the issue of its involvement in South Africa—by a religious institution. In the twenty-nine years since, the Social Responsibility in Investments (SRI) Committee has coordinated the national church's shareholder activism work. In addition to filing shareholder resolutions with corporations in which it holds stock on issues of social import, the SRI Committee also periodically revises the national church's proxy voting guidelines. (Proxies provide information about matters to be voted on by shareholders at corporate annual meetings; voting proxies is the primary way in which shareholders participate in corporate governance.) Issues addressed in DFMS-filed resolutions include environmental responsibility, equal employment opportunity, fair lending policies and practices, human rights standards, and wage levels paid to foreign employees of U.S. corporations. The SRI Committee's work—which is reviewed and approved annually by Executive Council—is an important part of the church's social and economic witness.

A survey of dioceses done by the SRI Committee in 1996 indicated that less than 20 percent vote their proxies on social issues. The SRI Committee wants to encourage more dioceses to participate in the work done by the Episcopal Church and other socially concerned investors by voting their proxies. To this end, the SRI Committee has prepared this pamphlet of information, which includes:

- *a description of the proxy process and a rationale for voting proxies;*
- *an article from the Spring 1995 Business & Society Review on socially responsible investing; and*
- *the national church's proxy voting guidelines.*

The Social Responsibility in Investments Committee is happy to provide any additional information or assistance to a diocese or parish that wants to start voting its proxies. The staff consultant for the SRI Committee—Harry Van Buren—can be contacted through Peace & Justice Ministries (800.334.7626) at the Episcopal Church Center.

The proxy process

Individuals and institutions that hold common stock in corporations participate most often in the governance of corporations by voting their shares in elections of boards of directors. Because most shareholders do not attend annual meetings, corporations publish proxy statements and mail out proxy cards to all of their shareholders. When a shareholder returns a proxy card to a company, the company votes those shares in accordance with the shareholder's wishes.

Most corporate proxy statements deal with matters related to (1) elections of members of the board of directors, (2) selection of an independent auditing firm, and sometimes (3) methods for compensating corporate executives. In any given year, about 250 shareholder resolutions are filed with U.S. corporations that seek changes in their social policies and practices. In 1998, the Episcopal Church filed such resolutions with 14 of the companies in which it holds common stock. These resolutions addressed a variety of topics, including:

- endorsement of the CERES Principles on environmental responsibility, the most comprehensive set of environmental principles (which include public reporting) currently in use;
- (for banks) adoption an overall fair lending policy of achieving at least the industry level of mortgage lending to each major disadvantaged group (for example, low-income persons);
- development of a set of ethical criteria for military contracting activities;
- creation of a set of contract supplier standards that ensure that the company does not do business

with suppliers that mistreat their employees or pay starvation-level wages;

- providing a report on the company's equal employment opportunity programs and performance (see the resolution on equal employment opportunity at the end of this section of the pamphlet, provided as an example of a social issue shareholder resolution); and
- ensuring that women and people of color are among those considered for nomination to the board of directors.

Each of these issues—often referred to as "social issues"—involves matters of justice and fairness. But social issues are also financial issues: the company that discriminates in employment or harms the environment may also suffer (as will its shareholders) financially. Voting proxies on social issues therefore is an important means of communicating with corporate managers about issues of social and financial import.

The Episcopal Church, through the advice of the Social Responsibility in Investments (SRI) Committee and the approval of Executive Council —makes decisions each fall about what resolutions to file. All resolutions (and proxy voting recommendations) are made in accordance with church policy as promulgated in General Convention and Executive Council resolutions. (Many other organizations, including members of the Interfaith Center on Corporate Responsibility, follow a similar cycle.) Most shareholder resolutions are filed in November and December. Many resolutions lead to dialogue between the company and the proponents of the resolution; in most years, for example, the Episcopal Church withdraws two-thirds of the resolutions it files after successful dialogue with the company yields an agreement on the social issue in question. Provided the resolution meets criteria established by the U.S. Securities and Exchange Commission, any resolution not withdrawn will appear on the company's annual proxy statement. Shareholders then will vote—either in person or by mail—on the resolution. Social issue resolutions do not generally achieve a majority of the votes cast, but if a resolution receives a sufficient percentage of votes (three percent in the first year, six percent in the second year, and ten percent thereafter) it can be resubmitted. The ability to resubmit a resolution is important because it maintains pressure on a company; in many cases, dialogue only begins after a resolution has been voted on for one or more years.

Why vote your proxies?

There are several reasons to vote your diocese's or parish's proxies. Voting proxies:

- is an important exercise of fiduciary responsibility (including voting for members of boards of directors, in addition to voting on social issue shareholder resolutions);
- supports the social witness of the Episcopal Church, other religious institutions, and other socially concerned investors; and
- is an important part of your diocese's or parish's social witness.

Although social issue shareholder resolutions account for a small portion of the total number of items on all proxy statements you receive, voting on these items is important. To make voting on these items easier, the SRI Committee developed a set of proxy voting guidelines for the social issue shareholder resolutions currently being filed. All of the proxy voting recommendations are directly tied to Executive Council and/or General Convention policy statements. If your diocese or parish has an investment committee, a first step might be to share the national church's proxy voting guidelines with it; a diocese or parish might use this document as a starting point or devise its own set of guidelines.

The SRI Committee offers this information as a starting point for Episcopal institutions that do not currently vote their proxies. The committee and the Peace & Justice Ministries staff is ready to help any diocese or parish interested in voting its proxies.

EQUAL EMPLOYMENT REPORT RESOLUTION

We believe there is a strong need for corporate commitment to equal employment opportunity. We also believe a clear policy opposing all forms of discrimination is a sign of a socially responsible company. Because a substandard equal employment record leaves a company open to expensive legal action, poor employee morale, and even the loss of certain types of business, we believe it is in the company's and shareholders' interests to have information on our company's equal employment record available.

One of the country's largest institutional investors, the California Public Employees' Retirement System, includes workplace guidelines as part of its corporate performance criteria. The Department of Labor's Glass Ceiling Commission has recently conducted studies with the help of a number of corporations and in 1994 held public hearings to ascertain the status of equality and diversity in Corporate America

As a major employer we are in a position to take the lead in ensuring that employees receive fair employment opportunities. We believe a report containing the basic information requested in the resolution keeps the issue high on the agenda of top management and the Board of Directors, and also reaffirms our public commitment to equal employment opportunity and programs responsive to the concerns of all employees. Publicizing our standards is helpful to our investors and the companies with which we do business.

We are requesting that EEO information already gathered for the purpose of complying with government regulations be made available to company shareholders upon request. The format of the report requested is not the central question. Many companies openly release their EEO-1 information in annual reports or public interest booklets. Different companies use different styles in telling their stories to shareholders. Capital Cities/American Broadcasting Company, Bristol-Meyers-Squibb, and Travelers produced a substantial magazine-style report. Campbell Soup produced a straightforward four-page report. We feel this request is fair and reasonable.

RESOLVED: The shareholders request the Board of Directors prepare a report at reasonable cost on the issues described below by August 2000. This report, which may omit confidential information, shall be available to shareholders and employees.

1. A chart identifying employees according to their race and sex in each of the nine major Equal Employment Opportunity Commission-defined job categories for 1996, 1997, and 1998, listing either numbers or percentages in each category.
2. A summary description of any affirmative action policies and programs to improve performance, including job categories where women and minorities are underutilized.
3. A description of any policies and programs oriented specifically toward increasing the number of managers who are qualified females and/or who belong to ethnic minority groups.
4. A description of how our company publicizes its affirmative action policies and programs to merchandise suppliers and service providers.
5. A description of any policies and programs directing the purchase of goods and services to minority- and/or female-owned business enterprises.

BUSINESS ETHICS FOR THE NEW MILLENNIUM

by Harry Van Buren

Equal employment opportunity. Sustainable economic development. Environmental accountability. Business ethics. Corporate social responsibility. All of these phrases, which entered the American business vernacular in the past 20 years, seem unremarkable and not controversial. Who now would oppose business ethics? Most company officials would agree without hesitation that wherever the company operates it should obey the law and observe basic business standards set by its board of directors. But the concept that a company has responsibilities—beyond mere legal compliance—for the society, environment, and communities in which it operates is still a major challenge for most companies.

Though practitioners, scholars, and theologians have toiled in the area of business ethics for many years, ethical analysis is still not routinely integrated into business decision making and corporate social and environmental responsibility analysis is even less salient. Too many business people are unclear about the precise meaning of a term like business ethics and the value of institutionalized business ethics or social responsibility programs. Too often business people do not perceive a clear connection between social and financial performance.

In ever-growing numbers, conscientious investors—including religious institutional investors, state and city pension funds, private pension funds, unions, foundations, socially responsible money managers, and individual investors—believe that corporate social responsibility and ethical business policies require more than legal compliance. With collective investments of $90 billion (as of 1999), religious investors link social and environmental responsibility and business ethics with corporate financial performance. Put succinctly, they believe social issues have financial significance and financial issues have social consequences. For nearly 30 years religious investors have pressed corporations to make social and environmental considerations part of their business decision making. They have used their leverage as shareholders to engage corporate managers in dialogue about major social and environmental issues.

What motivates religious investors to pressure corporations on social issues? Their world view connects present actions with future outcomes in service to a vision of a sustainable, prosperous, and just world. This view includes the belief that investment decisions help bring that vision to fruition. Religious investors also share a fundamental belief of the corporate social responsibility movement: that investments should foster peace, economic and political justice, a safe environment, and prosperity for the whole of society over both the short and long terms.

Although corporations can and should contribute to social well-being for its own sake, a just and peaceful society also serves the business sector's interests. Few corporations can be profitable in the long run in a world without social, political, and economic justice. In the same vein, religious investors believe that their investments and the companies in which they invest must not only provide significant earnings to shareholders but also must do so in ways that contribute to a cleaner, safer world for our children and grandchildren.

I propose that corporate social and environmental responsibility be the foundation for business ethics in the new millennium. By holding corporations accountable for their actions, we can build the social and economic justice that is necessary for a healthy, prosperous, and peaceful society.

Ethics, economics, and investment choices

Whether investment choices made through the application of social criteria are financially successful or not, socially concerned investors believe that certain principles must guide a community seeking prosperity, sustainable development, justice, and peace:

- A just society cannot countenance employment discrimination.

- Employees deserve a living wage and safe working conditions.
- The environment is a resource to be protected, not taken from future generations.
- Products that kill or maim should not be sold.
- Government repression of democracy, workers, unions, and citizens does not create an appropriate environment for business.

Investment strategies

Since the early 1970s, conscientious investors have sought to invest funds in ways that are consistent with their social and moral philosophies. Basically they have used three strategies:

1. Screening portfolios. The most common goal of religious investors who screen their portfolios has been to avoid investing in or profiting from unethical corporate behavior. Expressed another way, they have attempted to deprive socially and environmentally irresponsible companies of capital. Strategies include:
    - Avoiding investments in companies whose business activities or products are contrary to one's moral beliefs. Many investors, for example, will not invest in companies that produce alcohol, tobacco, or nuclear weapons.
    - Divesting portfolios of companies engaged in morally questionable behavior. Many investors sold shares during the 1980s in companies doing business in apartheid South Africa.

These "clean portfolio" strategies, however, sometimes deprive investors of the influence stockholders have over corporate behavior.

2. Affirmative investing. Investing in companies whose products and/or social and environmental performance manifest a high degree of social responsibility.
3. Investor activism. Socially conscious shareholders use their leverage as owners to challenge companies to improve their social and/or environmental performance. Activist investor strategies include:
    - Voting stock based on social and environmental considerations, which is the most widely practiced of these strategies. Activist investors instruct their brokers and managers on how to vote their proxies or vote proxies themselves. In addition, a few investors have instituted proxy-voting practices like voting against boards of directors that do not include women or people from minority racial or ethnic groups.
    - Sponsoring shareholder resolutions for consideration by fellow co-owners is the best known of these activist strategies. Religious investors are the most active sponsors of resolutions on corporate social and environmental responsibility.

Less visible strategies have included letter writing, dialogue with corporate officials, and public demonstrations.

Financial success important

Socially responsible investors would be concerned about these issues whether or not they had any capital at stake. But because they are investors as well as activists, they are also concerned with financial returns. Endowments and pension funds, for example, have fiduciary responsibilities that cannot be fulfilled unless their investments are financially successful. The mission of socially responsible investing is not to seek or accept a lower rate of return, but rather to invest prudently while ensuring that investment choices are consistent with social goals.

Recent evidence suggests what such investors have believed all along: Companies with strong social records perform better financially in the long run than those that behave irresponsibly. Social investing is therefore not only ethically aware, it is also financially responsible. In both the short and long terms, corporate ethical behavior helps (and unethical behavior ultimately threatens) financial results. Pension funds and endowment investments must prepare for the world of retirees and institutions 60 or 70 years from now. Such future planning includes not only provisions for sufficient funds so that institutions and pensioners can survive from the return on their investments, but also a clean, peaceful, and prosperous world in which the organizations will operate and the pensioners will live.

Social issues have financial consequences

Research into employee and environmental issues demonstrates that ethical and social considerations do matter financially. Socially concerned investors believe that employment issues involve both justice and economic efficiency concerns. Simply put, it is morally wrong to discriminate against a particular group in employment. Since employees are also a company's most important resource, it is in a company's interest to recruit and promote the most qualified employees that it can, regardless of their race, creed, sex, national origin, age, marital status, or sexual orientation. To the extent that applying non-economic criteria to employment decisions is an obstacle to recruiting and promoting the most qualified employees, discrimination is financially irresponsible. Not surprisingly, investors who want to protect their investments also promote corporate commitments to nondiscriminatory employment policies.

A recent study by the Gordon Group for the California Public Employees Retirement System (CALPERS) shows a connection between employment practices and financial performance, finding a strong correlation between corporate workplace practices and management effectiveness. Policies that encourage training at all levels of the organization and ensure equal employment opportunity improve a company's financial performance. The Gordon Group report also noted that financial market participants agree about the importance of good workplace policies: High-performance workplace companies appear to have higher price-to-book ratios than do industry peers.

Social investors believe that they have both a moral and fiduciary duty to monitor a company's employment policies and to insist that the company both implement nondiscrimination safeguards and ensure that employees are trained and promoted on the basis of ability rather than on non-economic criteria.

This understanding of the importance of workplace policies to corporate financial performance is gaining adherents among other investors. For example, CalPERS will utilize the Gordon Group study findings in annual performance reviews of the companies in its portfolio. Dr. William D. Crist, president of the CalPERS board of administration, has said "We are confident that considering workplace policies as a variable in our analysis of company performance will enhance our corporate governance program."

Environmental stewardship

Environmental issues also help demonstrate how short-term decisions and long-term consequences are connected. Socially responsible investors who understand environmental policies to be crucial business issues have been at the forefront of this movement. They have been pressing companies on these issues for years because they believe environmental stewardship is fundamental to the creation of a just society.

Dumping toxic materials illegally, emitting pollutants, and despoiling land and water all have grievous consequences for present and future generations. Now that growing numbers of consumers are making green buying choices as a way to express their desire for a clean environment, environmental irresponsibility is costly. Exxon, for example, received thousands of cut-up credit cards in a protest over the Valdez oil spill—indicating the dangers in taking such concerns lightly. Unquestionably, environmental activism is here to stay.

But there is also a growing convergence of social and financial (both regulatory and legal) costs associated with poor environmental policies. Significant costs associated with environmentally unsound processes include disposal fees, lawsuits alleging damage from pollution, difficulty in locating disposal sites and regulatory fines, to name but a few costs that are likely to increase in the future. Investors are, therefore, pressing companies to address environmental issues proactively rather than reactively. Proactive environmental policies reduce waste, costs, and liabilities and make for smoother, more effective management of a company's operations. Companies like Sun, General Motors, and Polaroid have heard this message and are responding with actions such as endorsement of the CERES Principles and the accompanying pledge to improve the company's environmental performance continually.

Beyond bribery and conflicts of interest

Many businesses developed codes of conduct in the 1980s, a decade during which numerous ethical scandals became public. These codes most commonly focused on three areas: bribery and other questionable payments (although some 1970s statements addressed this issue), entertainment expenses and the use of expense accounts, and conflicts of interest (including insider trading). Though all three issues pose ethical questions for the company and its employees, these are primarily internal operational issues. External concerns, such as a business' way of relating to other stakeholders (communities and vendors), environmental policies, and marketing practices, were rarely mentioned in these early codes of conduct.

Early codes also emphasized compliance with legal regulations and negative sanctions for code violations, and were conceived essentially in negative terms (what shouldn't be done). Early concepts of business ethics failed to consider the positive elements of ethics and social responsibility. There was little recognition that corporations had duties and responsibilities other than maximizing profits. Few companies understood at this point how ethics could make a positive contribution to both the company's and society's welfare.

As consumers and investors demand better social performance from corporate America, managers also are responding with more creative ethics policies and some are even including performance standards in executive compensation reviews. In recent years a small but growing group of companies, realizing the importance of good corporate citizenship, began describing the roles and expectations of executives in positive terms. Levi Strauss, Reebok, Phillips-Van Heusen, BankAmerica, Sun Company, and General Motors, for example, have developed a variety of company codes addressing standards for suppliers, lending criteria, the environment, and other issues. Though these are strong signals of change in corporate culture, there is still much work to be done to press corporations to improve their behavior and become more responsive to their workers and host communities.

The limits of self-interest

As much as socially responsible investors believe the goals of social and financial performance to be consistent, it would be naive to claim that responsible self-interest alone will encourage companies to act ethically. Without government regulation and consumer or investor activism, businesses might not have sufficient incentives to be socially responsive and responsible.

There may be differences between what is good for an individual firm and what is good for society, for example. A firm may make more short-term profit by discharging toxic waste into the environment, but everyone else is worse off. Leveling the playing field—setting standards that distribute the costs and obligations of doing business among all enterprises—helps ensure that no firm can transfer its costs of production to society. This is called the "externalities problem" in economics.

Corporations enjoy "limited liability"—their owners cannot be held liable for more than their total amount of investment. This is one reason that incorporation of a business enterprise is so attractive. Partnerships and sole proprietors, for example, have unlimited liability; the personal assets of owners can be seized to satisfy claims against the business. But with the limitation of corporate liability comes a *quid pro quo*: Because the corporation is chartered by the state, many believe it has an obligation to act in the public interest. Without this expectation, corporations could conceivably transfer their costs of production to society without limit.

Views of time make a difference

Perhaps the crux of the tension between corporate social performance and financial performance is conflicting views of time. Businesses, for good or ill, have a relatively-limited time horizon. A long-range business plan may cover 5 or 10 years. Of course, uncertainty increases the longer one gazes into the future. But it is fair to say that the business sector's view of time often devalues the future. Pollution controls, for example, have an immediate financial effect on a company—but the future benefits are uncertain and accrue to the entire society, not just to the business.

Socially concerned investors, on the other hand, view time in more dynamic terms. They connect current actions and future results and see companies as important players in society whose activities can help or harm other participants in society (and also affect the business sector's future health). They also understand that the goal of an economy is not to maximize wealth for a few but rather to maximize societal well-being for all.

To summarize, long-term considerations should be important considerations in business planning. The legal structure of limited-liability corporations is meant to ensure that the enterprise continues in perpetuity (subject to market conditions). It is only appropriate that corporations created to exist for a long time should be concerned about the future.

In the view of socially concerned investors, just policies enhance shareholder value directly in the short term. Such investors also recognize the value of promoting business policies whose effects will be felt in the future—or policies that will benefit the whole of society even if the corporation suffers a minor loss of profit. By paying a living wage, by respecting the environment, and by selling safe and effective products businesses can, in the short and long terms, positively affect a society at the same time as they enhance shareholder value.

For individual investors and fiduciaries, earning a good rate of return is crucial. Members of the socially responsible investment movement believe that it is possible to do so while investing funds in a way that promotes corporate social and environmental responsibility. For socially responsible investors this translates into investing in responsible, farsighted companies and encouraging all companies to be socially aware. Many corporate policy areas such as equal employment opportunity that might be labeled "socially responsible" are also likely to enhance shareholder value and benefit society.

Both individuals and institutions are finding creative ways to make investment decisions that are consistent with their values while earning an appropriate return. Ethical investors, in concern with other activists, can help build more just economic and political systems that form the foundation for future prosperity. In the years to come, socially responsible investors will continue to put forth a vision of justice and to invest in ways that will move society closer toward this goal. We invite others to join us.

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PROXY VOTING GUIDELINES

Social Responsibility in Investments Committee/Treasurer/DFMS

January 1998 version (first created in July 1995)

The Episcopal Church's proxy voting and shareholder advocacy activities are guided by Executive Council and General Convention resolutions. The SRI Committee, as a part of Peace and Justice Ministries, is responsible for "study [ing] the social implications of the church's investments, recommend [ing] appropriate action for the church in this field, and carry[ing] out actions authorized by the Executive Council" (*Charter of the Committee on Social Responsibility in Investments*).

It is therefore important that the Committee on Social Responsibility in Investments (hereafter referred to as "SRI Committee") continually update its proxy voting and shareholder advocacy guidelines as new social issue shareholder resolutions and church social witness statements arise. The proxy voting and shareholder advocacy guidelines described in this document cannot define how the Church will respond to every conceivable situation or shareholder resolution. The SRI Committee will use these guidelines (1) to help it make recommendations to Executive Council about how the Treasurer should vote the Church's shares and (2) to determine when a corporation's policies and practices merit the initiation of dialogue or the filing of a resolution.

Recommendations by the SRI Committee to Executive Council about proxy voting will be done in accordance with these guidelines. Recommendations to Council about dialogues and/or shareholder resolutions will also be made in accord with these guidelines, with consideration also given to the Church's priorities and the importance of the issue, the conduct of the company(ies) in question, the work load and expertise of staff members, and our work with other faith partners.

It has been the long-standing practice of the Episcopal Church to have as few prohibitions/screens on its portfolios as possible (the only extant screen is on tobacco manufacturers; Executive Council, 6/90). Rather than screen out companies or industries, the Church has chosen to use its prerogatives as a shareholder in corporations to press for social change. Selling stock removes the leverage that shareholders, through the resolution process, can wield. Throughout the last twenty-nine years, the Episcopal Church has been a leader in shareholder activism; the current paucity of absolute screens allows the Church the flexibility needed to use its resources to bring about greater justice.

ISSUE AREAS

Corporate governance *(from the policy passed by Executive Council - 2/97)*

It is recognized that while corporate governance issues are important, the amount of time needed to cast informed votes needs to be considered. The Treasurer will therefore vote on behalf of the DFMS for or against issues that require a minimum of effort and research while abstaining on issues that are more complex (for example, options for senior managers).

Corporate governance processes should be open, with the ultimate purpose of defending shareholder interests. Corporate governance processes that ensure open discussion of issues, hold directors and officers accountable for their actions, and secure the right of shareholders to be represented by directors who will act in their interest, will therefore be supported.

The DFMS will therefore vote in favor of resolutions that

- end staggered boards;
- institute confidential shareholder voting;
- eliminate golden parachutes for directors and officers of companies in the case of takeover;
- seek to establish an independent nominating committee to find suitable candidates for the Board;
- propose that a majority of directors should be independent (not otherwise affiliated with or benefiting from the company);

- end retirement plans for directors;
- allow the company to opt out of anti-takeover provisions in state securities law;
- seek to review executive compensation, including resolutions that propose the linking of executive compensation with corporate social performance;
- separate the positions of chairman and CEO; and
- require shareholder approval for poison pills and other anti-takeover provisions.

The DFMS will therefore vote against resolutions that

- seek to exempt directors and officers from liability for negligence;
- favor or establish staggered boards; and
- create golden parachutes for directors and officers; and create retirement plans for directors.

The Treasurer will vote "abstain" on other corporate governance resolutions. In general, the Church will not engage in dialogue or file resolutions with companies on corporate governance issues unless a social issue is involved (for example, linking social criteria to executive compensation).

Environmental issues

The Episcopal Church has long been concerned about environmental issues. Socially responsible investors like this denomination have been at the forefront of efforts to hold corporations accountable for the environmental consequences of their actions. We will support resolutions that

- ask companies to endorse or report on adherence to the CERES Principles (EC-11/93), the best recognized and most accepted set of environmental guidelines for corporate activities;
- request the disclosure of environmental information, including potential liabilities, Superfund sites, particular pollutants, and policies for community notification;
- seek to connect executive compensation to environmental performance; and
- call upon companies to consider the effects of global warming on their businesses, and also to report on how their activities have an impact on global warming (EC-l1/89).

All companies can improve their environmental performance. We anticipate working with a few companies for long periods of time on issues related to environmental stewardship, disengaging only when the company has taken steps to become more environmentally responsible.

Equality in organizations

The Episcopal Church has issued a variety of statements on both equal employment opportunity and affirmative action in the past two decades (GC-82, GC-85, 1994 Pastoral Letter on Racism, EC-11/95), which reflect its commitment to ending racism and sexism in all sectors of society. The Episcopal Church has also stated in its social witness policies that discrimination on the basis of sexual orientation, in addition to race and sex, in employment is wrong and must be opposed (GC-82). The 1994 General Convention resolution on the Pastoral Letter calls everyone to "seek to transform a socio-economic system that drives many into poverty, alienation, despair, and violence." As a justice issue, discrimination (whether in employment or in determining membership on the Board of Directors) is unthinkable in a civilized society and contrary to God's will. As an investment issue, companies that do not hire and promote the best-qualified individuals available harm shareholders by not using the full range of talents available to them. Shareholder activist institutions like the Episcopal Church have thus called companies to adopt employment policies and practices that enhance both justice and shareholder value.

Additionally, the most recent General Convention (GC-97, A-035a) passed a policy statement opposing the negative use of images of indigenous peoples or members of racial minority groups in advertising or products. This issue is receiving increasing attention from shareholder activists and reflects a concern that all societies should be rid of images that demean and degrade members of their communities.

As a shareholder and a religious institution concerned about equality in organizations, the Episcopal Church will support resolutions that

- ask companies to disclose EEO (equal employment opportunity) data or other information connected to fair employment practices;
- call for more inclusive boards of directors (including requests to appoint independent nominating committees);
- request a review of equal employment opportunity policies and procedures;
- call upon companies to adopt statements and policies of non-discrimination on the basis of sexual orientation; and
- seek to end the use of negative images of indigenous peoples or members of racial minority groups.

We will engage in dialogue with companies that have poor EEO records or reputations and will generally ask for information about their policies and practices before proceeding with a resolution. We will file a resolution if the company is unwilling to release EEO information or adopt a policy on board inclusiveness, or if we think that its policies and practices are discriminatory. We will disengage from dialogue when the company releases the requested information or adopts the requested policies (as appropriate).

Fair lending and the responsible use of capital

Financial capital, when distributed fairly and properly used, can benefit individuals and communities. Unfortunately, inequities in capital distribution exist: low-income individuals often find it difficult to get credit, poor citizens and their countries suffer from crushing debt burdens, and loans are made to projects that harm communities or the environment. Church communities have a role to play in encouraging capital providers to make credit decisions that are both fair and responsible. To this end, the Episcopal Church will support resolutions

- asking lenders to adopt equal credit opportunity/fair lending policies for all subsidiaries and to improve their [ending performances to major disadvantaged groups (EC-l1/95);
- requesting that appropriate development guidelines be created (GC-82; GC-94, D-029a);
- requesting that banks write off loans made to LDCs (GC-94, D-029a, GC-97, D-015a); and
- requesting a report on the effects of structural adjustment programs vis-a-vis loan repayment and the welfare of people in LDCs (GC-94, D-029a; EC-6/96).

The Episcopal Church will engage in dialogue or file resolutions with companies whose policies and behavior in these areas is lacking and disengage when their policies and practices change.

International operations

The Episcopal Church filed the first social responsibility shareholder resolution, addressing South Africa operations, in 1971. Since then, the international operations of corporations have been of great concern to the Church. It is important that economic activity by corporations strengthen communities, promote social and economic justice, and protect creation. Further, human rights must be protected by corporations whether the countries in which they operate do or not.

The Church will therefore support resolutions asking companies

- to endorse and follow codes of conduct that protect human rights, indigenous communities, religious freedom, and the environment (for example, see resolutions on the South Africa Code of Conduct [EC-11/94] and the MacBride Principles [EC-11/94]) and to examine their criteria for operating in countries where human rights cannot be assured;
- to cease operations in the police state of Burma (GC-94, D-020a);
- to conduct market-basket surveys to determine if the wages paid to employees are sufficient to support a family (see the Living Wage resolution (GC-97, D-082a); although the resolution addresses domestic wage scales, the reasoning can be applied easily to international contexts); and
- to adopt international vendor and supplier standards that ensure fair treatment of employees who

work for vendors (see above rationales for other international operations resolutions).

We will engage in dialogue with companies with poor records of respecting human rights or paying fair wages (whether in their own operations or when doing business with reprobate suppliers) and disengage from dialogue when the company either provides the information requested or changes its operating policies and practices.

Militarism

The Episcopal Church has long been concerned about the effects of arms sales and production. Funds spent on armaments displace spending on human needs (GC-94, A-104a, D-019a). Foreign military sales and technology transfers can be geographically destabilizing. There is a need, in short, for considerable ethical reflection about the conduct of arms manufacture and sales by companies in this industry. The Episcopal Church will therefore support shareholder resolutions

- asking companies to adopt ethical criteria for arms manufactures and sales;
- requesting a report about foreign military sales;
- requesting a report on military contracts offsets; and
- calling for a study of military conversion possibilities that would reduce dependence on military contracts.

Rather than divest from companies that manufacture military goods, the Church will seek to engage these companies in dialogue in the hope of incrementally moving them toward greater ethical reflection. Quite obviously, such relationships with these companies will be for the long term.

Specific products and services

Both the process by which a product or service is made and sold and the product itself are of concern to socially concerned investors. As people of faith, we are greatly concerned about products like alcohol and tobacco that can negatively affect physical health, the delivery of health-care services to people who need them, television portrayals of sex and violence that can affect mental health, and responsible marketing practices for products like infant formula. The Episcopal Church will support resolutions

- calling for the responsible sale and marketing of alcohol products (GC-91);
- encouraging restraint in drug price increases (GC-91);
- asking health care companies to review the quality of care they give patients (GC-94, A-057a);
- requesting that companies adhere to the World Health Organization's International Code of Marketing for Breast-Milk Substitutes (EC-4/82);
- calling for (1) smoke-free environments and (2) smoke-free portfolios for companies that sell products like life insurance and health care (EC-6/90); and
- asking for studies and reports on the effects of violence on television, and for more information in rating systems (GC-94, D-005a).

The Episcopal Church will engage in dialogue or file resolutions with companies whose behavior in these areas is lacking and will disengage when policies and practices are changed by such companies.

These revised guidelines are subject to change, revision, and additions as the Executive Council or future General Conventions continue to promulgate church policies.