

How NGOs can develop effective campaign tactics to influence corporate behaviour through investment

A company's shareholders may include (directly or indirectly) individuals that support a NGO's campaigns. For example, their money can be invested in listed companies through mutual funds or pension funds that invest in companies. NGOs may therefore want to think about how to motivate their supporters to put pressure on investment houses to seek corporate change. Equally NGOs may have their own funds and may want to make sure that their money doesn't conflict with their mission or campaigns.

Any investor may use different techniques – they may choose to screen out (avoid) investments in certain companies, they may want to engage with companies by investing in them and then working with them for change, or they may seek investments in particular types of companies or sectors (positive screening). An investor may use a combination of these, or additionally seek to change regulation or government policy on an issue.

In November 2011 representatives from a number of development-focussed NGOs attended a forum organised by the EIRIS Foundation, held under Chatham House Rule, exploring how NGOs can work with investors.

This brief guide includes tips from that forum's participants when thinking about how NGOs can influence companies, either through their own investments, or through motivating their supporters to use their investments to change corporate behaviour.

There is no right or wrong way, but here are some thoughts on what others have found works well in the past.

How Should a Civil-Society Organisation Interact with City Investors?

- Many NGOs are hesitant about interacting with investors. Charity staff and trustees can often have mixed views about interacting with the City. Some may see corporates as all 'bad' and may hold the view that NGOs shouldn't enter into dialogue with companies at all; some may be scared of interacting with the world of finance; and some may feel unconfident, as it may not be an area of strength. Getting internal and external senior stakeholders to discuss the opportunities and any concerns may help to demystify and provide the potential for mutual opportunity.
- NGOs may also suffer from tension between those internally who see companies as potential sources of funding and those who see them as a way to have the greatest impact on an issue through engagement. NGOs may need to ask themselves "*How can we work with the private sector, including the financial sector, to give the greatest impact we need?*"
- From the outside, the City may look monolithic, but there are many different people who work in its different institutions, and therefore different ways of

- working with them. Don't treat the City as the 'other'. Look at City institutions as potential allies. There may be people in these institutions that belong to your NGO. Try to avoid falling into the trap of 'us versus them'. The best campaigns apply to all, whether you're a supporter, investor or corporate.
- Some parts of the City might be more interested / receptive to your campaign than others. Aim to work with those who share objectives, as well as having tougher conversations with others who don't.
 - The City may dislike having a 'conversation' in public, but equally it may be a way for your voice to be heard and have a big impact on an issue.
 - It might be worth starting by looking at those on your NGO's board and who they may have links to. Can your NGO look at them as more than just potential donors?
 - Access – Reputation in the NGO world may not immediately translate into reputation in the financial world. Sometimes NGOs may have to demonstrate credibility, perhaps by using connections through organisations when engaging (such as FairPensions, for example).
 - It is also worth bearing in mind that you may need to make judgement calls at many stages. Your allies on one campaign may inadvertently bring links to those who may not have been allies in previous campaigns. You may need to think about this.

Working with Investors For Maximum Impact

NGOs' Role - Agents of Change

- NGOs can create risk for companies and investors.
- What is 'risk'? Some think about 'risk' only in terms of when something actually goes wrong, others think about preventative measures. Long-term investors are likely to be interpreting 'risk' in term of prevention and therefore interested in dialogue with NGOs and companies on key risk issues. Typically long-term investors, such as pension funds, are unlikely to divest investments, but instead are more likely to engage with a company to create any needed change in behaviour.
- NGOs should show 'two faces': they can work with investors, but also campaign more absolutely.
- NGO campaigns may be based on fear or hope. Aspirational campaigns can be motivating e.g. listed companies are keen to be included in the FTSE4Good index, and thereby work towards meeting criteria requirements.
- Only certain companies are susceptible to reputational risk. Institutional investors offer another layer of influence for those companies that are not as open to reputational risk.
- For a given NGO campaign, NGOs may want to consider how money and influence flows to a company / region and then target these sources. This could be done by sector.
- Realistically, NGOs can't continuously campaign on the same thing endlessly, but by using different mechanisms (such as institutional investors, company AGMs etc, supporter campaigns) they can effectively put pressure on companies.

NGOs Working Together

- There may be a need for greater sharing of best practice between NGOs in order to be 'positive deviants'.
- See if there are other NGOs (or other organisations) working on similar issues to yours. Join together to pool resources, leading to an even bigger public campaign. NGOs need to be seen to be working together on issues – through collaboration they can often get further.
- However, some NGOs may often feel they work together well, but compete to fundraise.

What Language Works Well With Investors?

- Couch language for investors in sophisticated and informed terms.
- **Fiduciary Duty** – it is good to speak to investors about fiduciary duty. Investors (and directors of corporates, or trustees) can't be seen to be doing things against the interests of the organisation to whom they owe a duty. The definition of fiduciary duty is muddled – there is a need for regulation on definition, however, government steering may open or close the definition.¹
- **Materiality** – it is hard for investors to justify doing something that materially harms the organisation they owe a duty towards. Equally, materiality may be the threshold at which an issue becomes a key risk issue and it could affect the investors' long-term risks, so they are keen to hear about it.
- **Business Case and Risk** – explain your campaign to investors in terms of a business case and risk to their investments in the long-term. To miss key risks can be serious and lead to financial catastrophe. NGOs need to create a mandate for the investor to take action.
- **You Don't Have to Solve It All** - You don't need to prove definitely whether something is a positive or negative, just argue your case and provide information so that an investor can defend your view to others.
- **Credibility** - Investors are trained and are analytically-minded. If a NGO campaign is based on bogus evidence, they won't be keen to listen.
- **Watertight Facts** - NGOs need to be watertight on facts.
- **Question any Discrepancies** – Don't be scared to question, point out discrepancies, misunderstandings or contrary view points.
- **Clearly Explain to Your Supporters** - If you're also engaging your supporters on a campaign issue, you may need to think about using different language for them and for investors. It can be challenging to hold discussions on an area with investors, and at same time conduct a public campaign. Time, effort and capacity may be spent on translating investment-related language into public messages. Some NGOs may question whether adopting a language of finance also creates a tension for them as an organisation.
- When having a conversation with your supporters, you may need to help them understand about the role of their money in the financial world. Draw it to supporters' attention – *"How can you take control of this and use your*

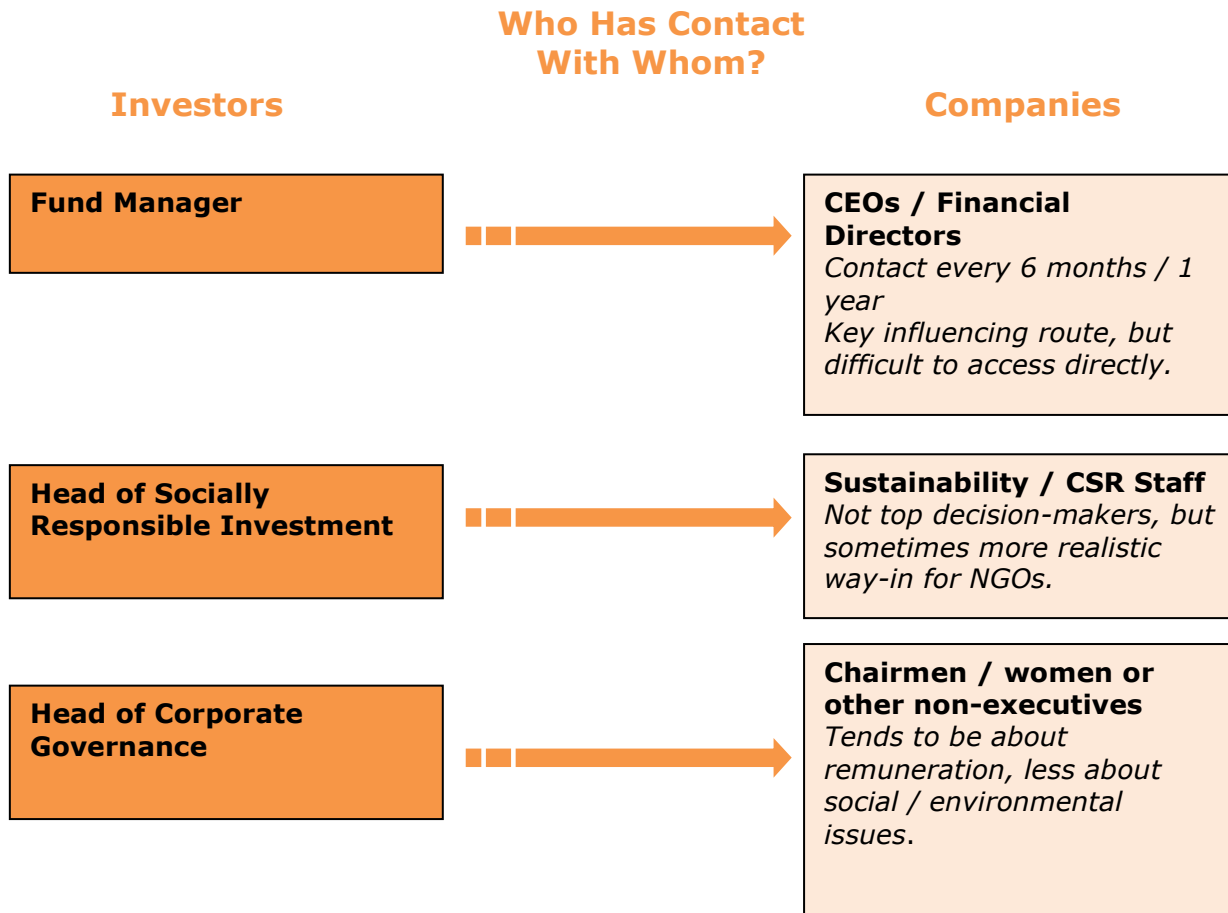
¹ See FairPensions report *Protecting Our Best Interests: Rediscovering Fiduciary Duty*, March 2011
<http://www.fairpensions.org.uk/rediscovering-fiduciary-duty>

*money for issues you feel strongly about?*² Explore this to avoid unnecessary emotional or reputational risks.

- **Some Areas Easier to Talk About** - Some NGOs find it easier to talk about the environment than equality, or social justice. This may be because some areas are easier to convert into financial metrics. Look at how others have explained similar complex issues for guidance.

Who Has Contact With Whom In Investors and Companies?

- Many big companies are listed in London. UK charity supporters are amongst those who invest in these (either directly, or indirectly through pension funds that track the index), giving UK NGOs a competitive advantage to influence them.
- Well-directed NGO and investor campaigns can have a big impact. Getting a number of people to write letters to investors in a well-directed way has impact; NGOs could write to each of the access points in the chart below, to really capture the attention of investors and corporates.



² You may be interested in the website www.youethicalmoney.org, a free consumer resource on ethical and green finance. It includes information about why to invest responsibly, and templates for campaigning to banks and other financial institutions.

How Do You Know Who Invests In Whom?

- It is tricky to know who exactly invests in whom.
- NGOs can use Bloomberg shareholder lists to estimate, or there is also the online campaigning tool Avaaz through which one can identify pension providers.³ However, as shareholdings may change quickly, this can be a scattered approach and there is a potential risk of sending letters to the wrong people.
- NGOs can use a company's shareholder register to determine who is an investor. However, sometimes shares are held in nominated accounts (so it is difficult to find out identity).
- Currently, if there is a holding of 3% or more by a particular investor, a UK company whose shares are traded on particular markets will declare this in its annual report.
- Investment and unit trusts are required to release information on their top ten holdings.
- You can also get a company's articles from Companies House. The articles might include a phrase that states that if an investor owns more than a certain amount in a company, the investor is entitled to have a director on the company's board and thereby you may be able to work out who might be an investor. However, finding this out can take time and money.

Who Do You Target? Do You Need to Know Who Invests in Whom?

- Even if you don't know exactly, letters can be written to investors which start with: "*If you are an investor in [x]...*"
- Most large asset managers invest in FTSE companies. Note that there is a difference between active and passive investors. More active managers have an investment focus, but many still have some element of 'tracker' (passively tracking funds in an index).
- A NGO is very unlikely to convince a passive investment fund not to invest in a company. Instead they will use engagement to improve corporate behaviour. NGOs could identify who the large passive investors are and target them on this basis.
- How many asset owners (e.g. charities, pension funds) are there asking their fund managers the questions you want to be raised?
- Is the investor (asset manager or asset owner) you are targeting a signatory to the **UN-backed Principles for Responsible Investment**?⁴ If yes, ask them if they are meeting these principles and link to your NGO campaign. The Principles for Responsible Investment Clearinghouse contains a wealth of current engagements with which investors are already involved.⁵
- Is the investor a signatory to the **UK Financial Reporting Council Stewardship Code**?⁶ Link to this and its emphasis on engagement when referring to your NGO campaign.
- Testing a campaign issue with leading responsible investors might be a good starting point for NGOs, to see how best to take forward.

³ www.avaaz.org/en/

⁴ www.unpri.org/signatories/

⁵ www.unpri.org/collaborations/

⁶ <http://www.frc.org.uk/corporate/stewardshipstatements.cfm>

After Conversations and Letters, What Next?

- Make sure investor analysts are equipped with tough questions for other investors and corporates.
- If you have a specific campaign theme, you might want to consider running workshops for investor networks around specific issues.
- In the UK there is the option of a shareholder resolution, forcing a company to publicly discuss the issue at an AGM. In the US shareholder resolutions are more common.
- There are examples of those who have successfully run campaigns involving shareholder resolutions, such as the recent campaign coordinated by FairPensions involving shareholder resolutions asking BP and Shell to publish details of the environmental, social and financial risks associated with their tar sands projects.⁷ However, creating shareholder resolutions can require a lot of resources and time and therefore are often perceived as an 'end option'. A certain number of shareholders can table a resolution to bring an issue to an AGM. If you have investor analyst contacts, you might want to ask their help in drafting the resolution. The resolution needs to be a serious request for a company to take a serious look at an issue. A NGO campaign would need to gather support for the resolution in order to ensure that the resolution appears important.
- An AGM is a big public event, with opportunity for coverage and media. It doesn't necessarily matter whether the resolution is passed or not (as to do so might require a huge number of votes), but to have appeared to be an issue worthy of serious concern, be significant, led by credible voices. A small proportion of votes can capture the attention of the company and media.

Does the Current Context Offer Greater Opportunity?

- Growing interest in emerging market investment opportunities may offer another opportunity to connect with investors.
- The current economic financial context should not necessarily reduce interest in sustainability, but audiences may be more polarised in these circumstances. It is questionable whether there are ever 'good' times and 'bad' times. Ten years ago, it was more difficult to leverage investors on responsible investment issues.
- The Rio+20 United Nations Conference on Sustainable Development in June 2012 offers an opportunity. For example, Aviva Investors has submitted a call-to-action to the United Nation member states to *'commit to develop a Convention that mandates company boards to consider sustainability issues, and to integrate those issues that they consider to be material within the reporting cycle, in their Annual Report and Accounts – or explain why if they do not. We are also looking for effective mechanisms for investors to hold companies to account on the quality of their disclosures, including for instance, an advisory vote at the AGM.'*⁸

⁷ <http://www.fairpensions.org.uk/tarsands/update>

⁸ See Aviva Investors submission to the Rio+20 United Nations Conference on Sustainable Development <http://www.uncsd2012.org/rio20/index.php?page=view&nr=377&type=510&menu=20&template=529&sr=Investment>

- NGOs could also explore the possibility of a campaign to ask investors to raise the bar on particular issues. For example, campaigning that certain companies within a given sector (e.g. overseas-based mining companies), listed on London Stock Exchange, need to meet minimum disclosure criteria.

How Do You Measure a Campaign's Success?

- Measuring the 'success' of a NGO campaign with investors doesn't necessarily have to be achievement of the full original aims of the campaign, although aiming for that is ideal. 'Success' could be interpreted in different ways:
 - How many people know of the issue?
 - Are they better equipped to ask questions?
 - Have companies changed their actions around the issues? Have their operations changed for the better? Would any regulatory change be needed to effect your campaign in totality?
 - Have companies changed in how they talk about this issue and report on it?

The need to demonstrate impact sometimes can unnecessarily deter NGOs from taking action with investors. When aiming to create systemic change, remember that demonstrating impact in the short term can be tricky.

- Outcomes might include:
 - Top-level recommendations describing obstacles for institutional investors in meeting fiduciary duty.
 - How to incentivise those managing money.
 - Encouraging improved transparency from companies on the issues in the campaign.
 - Encouraging improved disclosure by investors for pension holders.
 - Convincing and integrating senior level people from within your NGO into the campaign, so that they come into contact with other senior level people.
- Results of this interaction:
 - A NGO identifies key people involved in the issue.
 - A NGO gathers City-persons/ investors to be advisers and 'sounding-boards' in the future.
 - A NGO better understands how investors function.
 - The indirect value of contacting senior level people in the finance world, informing them of your NGO's views and work.
 - By taking part / leading a campaign, NGOs get a better understanding of levers that they can use.
- At the end of a campaign, try to keep the discussion going so that the issues don't disappear.

How to Develop Your Own Responsible Investment Policy

The Charity Commission has recently issued updated guidance on charities and investment matters, *CC14 - Charities and Investment Matters: A guide for trustees*.⁹ The EIRIS Foundation welcomes the creation of one set of guidance that covers environmental, social and governance (ESG) risk, and ethical and responsible investment, for better ease of use by charities investing. Charity trustees interested in exploring responsible investment will be keen to read the section referring to consideration of ESG risk on page 15, which includes ESG risk as one of numerous main risks associated with investment and ways that it can be managed. In addition, there is also a section on 'programme-related investment', as well as 'mixed motive investment', defined as one which trustees make on the basis that it has elements of both financial investment and programme related investment.

Charities may find the toolkit *Socially Responsible Investment: A practical introduction for charity trustees* useful, available from the Charitysri website.¹⁰

- There could be a potential reputation risk to charities if they don't think about conflicts between their investments and their mission.
- NGOs could consider choosing a fund manager to screen out companies based on a NGO's given criteria. NGOs should let fund managers justify what they can / or cannot do for your NGO. Ask lots of questions – it's a campaign to your own fund manager.
- Certain issues, which if not managed well, may affect value (see CC14 referred to above and reference to ESG risk management).
- If you are interested in responsible investment, things to ask shortlisted fund managers might be:
 - Are they signed up to the Principles for Responsible Investment (PRI)?¹¹
 - Do they report to the PRI? Can they show you their report to the PRI?
 - Can they demonstrate what they say they've done and what was the result?
 - How could they help you reflect your campaigns through your missions?
- A NGO may also want to include details of its criteria (issues etc.) in the appointment document for any chosen fund manager.
- A NGO may be invested in a company that a NGO's mission disagrees with, but a NGO may be doing this to engage for change in corporate behaviour. However, it is important to be aware if this is the case, making sure that you / your fund manager have discussed related issues.
- NGO staff can ask management questions about how your NGO invests. A NGO's staff can also ask their bank about issues.
- Be seen to be at the front on these issues; be ahead of peers who are not.

⁹ <http://www.charitycommission.gov.uk/Library/guidance/cc14text.pdf>

¹⁰ <http://www.charitysri.org/> and *Socially Responsible Investment: A practical introduction for charity trustees*, December 2011

¹¹ Principles for Responsible Investment www.unpri.org