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A STRATEGIC RESPONSE TO INVESTOR ACTIVISM

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HOW CAN A CORPORATE EXECUTIVE BALANCE SOCIAL AND ECONOMIC PRESSURES WHEN SOCIAL ACTIVISTS AND CORPORATE INVESTORS ARE THE SAME PEOPLE? THIS is the quandary Amoco Corporation faced when investors repeatedly filed proxy resolutions requesting adoption of the Valdez Principles, ten environmental principles developed by the Coalition for Environmentally Responsible Economies (CERES). The author describes the evolution of the relationship between CERES and Amoco. He shows how Amoco responded strategically to investor activism with corporate activism. He also discusses the three factors determining a company's response to investor activism: the firm's culture, the power and influence of the group filing the resolution, and the political climate in which the resolution is filed. Ultimately, responding to investor activism becomes an important aspect of integrating political strategy into competitive strategy.

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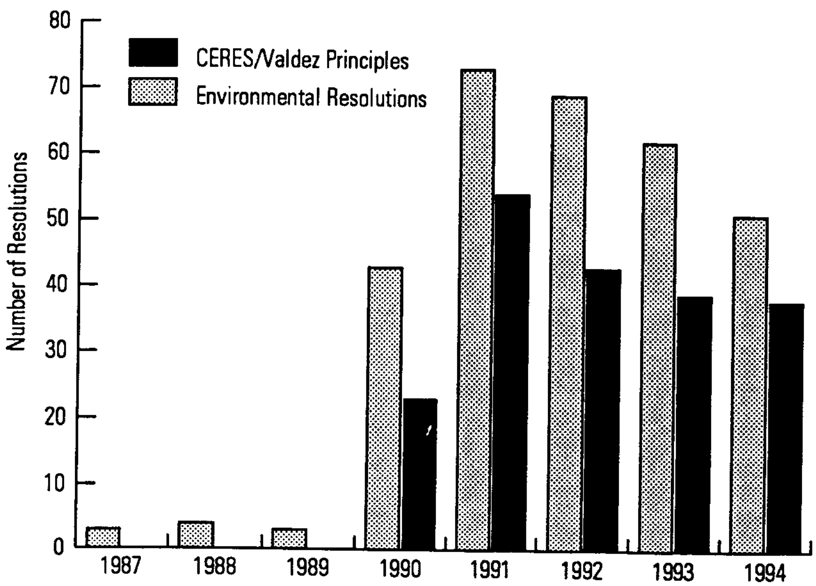
Social activists have long attempted to redefine corporations' objectives to include "social responsibility." Yet most economists would argue that a corporate executive's primary social responsibility is to make a profit for the corporation's owners, not to appease social activists' demands. In Milton Friedman's words, any manager who would put the activists' interests ahead of the shareholders' would be practicing "pure and unadulterated socialism."[1] William Meckling and Michael Jensen wrote, "The term 'social responsibility' has the advantage, from the standpoint of its proponents, that it disguises what they really have in mind: namely, that managers should deliberately take actions which adversely affect investors in order to bestow benefits on other individuals."[2] Such blunt comments leave no room for doubt about who the legitimate stakeholder is in directing corporate policy — the corporate investor. But what are executives to do when the social activist and the corporate investor are, in fact, the same?

This quandary has confronted many corporate executives in their annual shareholder meetings. For example, from 1990 to 1992, Amoco faced repeated shareholder resolutions to sign the Valdez Principles, ten environmental principles developed by the Coalition for Environmentally Responsible Economies (CERES). This particular case is intriguing because of Amoco's strategic response to defend itself from an "undesirable and unwarranted intrusion into corporate affairs." Equally intriguing is why Amoco, and not one of the many other oil companies that faced identical resolutions, responded as it did. An analysis of the social and political dynamics both before and after Amoco's actions lends critical insight into the nature of investor activism, helping to explain the corporation's behavior in this specific context and the dynamics of shareholder resolutions in general.

Roots of the Amoco Case

Since 1970, activists have filed socially oriented shareholder resolutions. In its first implementation, the Project on Corporate Responsibility (PCR) successfully convinced the Securities & Exchange Commission (SEC) that it should force General Motors to include two socially oriented shareholder resolutions in the proxy statement mailed to the corporation's 1.3 million owners. The first resolution requested that management expand the board

Figure 1 Investor-Initiated Environmental Resolutions



of directors to twenty-six to accommodate three additional members who would represent some missing constituencies. To fill the new slots, the PCR nominated a consumer advocate, a black Democratic National Committeeman from the District of Columbia, and a Nobel prize-winning biologist and environmentalist. The second resolution asked GM to create a committee for corporate responsibility whose members would be chosen by three representatives, one each from the board, PCR, and the United Auto Workers Union. GM responded to "Campaign GM" (as PCR called it) with a half-million dollar defensive campaign of direct shareholder mailings and newspaper advertisements detailing the company's progress in automobile safety, air pollution control, mass transit, plant safety, and social welfare.[3] In the end, Campaign GM yielded meager results. It won a major victory in gaining SEC endorsement, thereby opening up the annual shareholder meeting to future social activism, but it was unable to gain the support of GM's large institutional investors, so the resolutions were doomed to failure.

David Vogel, who has studied activist pressures, has concluded that the changes corporations adopt in their wake have been marginal procedural adjustments, rather than substantive changes.[4] However, the more significant impact of shareholder resolutions, he argues, lies in the area of public policy. Private political pressures have often become ways to inject new issues into the political process and discuss and revive old ones. Vogel writes, "The extent to which demands addressed to the corporation anticipate the substance of subsequent government regulations of business is indeed striking."[5] In fact, PCR's choice of GM as a target was not so much for something the company had done or not done, but because of its size and prestige. Such a high-visibility target drew national attention and facilitated political debate on PCR's social agenda.

More than twenty-five years later, socially oriented shareholder resolutions remain a viable tactic for social activists. The New York-based Interfaith Center on Corporate Responsibility (ICCR) reports that its members sponsored 202 socially oriented shareholder resolutions to 138 companies in 1994.[6] These dealt with a broad range of issues like militarism, labor and occupational health, equality, corporate philanthropy, executive compensation, corporate governance, energy, international, urban, and rural debt, and the subject of this case, the environment. Although there have been environmental proxy resolutions since 1970, their frequency increased significantly in 1989 when CERES formulated the Valdez Principles. In 1990, forty-two environmental resolutions were filed, an increase from only four the year before (see Figure 1). Of these, roughly 54 percent were proposals to sign the Valdez Principles. Other resolutions dealt with such issues as the establishment of an environmental policy committee, revised health and safety policy, toxic wastes in ethnic and minority communities, controlling carbon dioxide emissions, and eliminating the use of specific compounds.

In the Amoco case that follows, I describe how the organized investor movement began, how its pressure effected change in environmental management within Amoco, and what strategy Amoco chose to respond to pressure. While it is important to understand something about Amoco in order to understand its response, it is also crucial to consider two additional factors:

1. What was CERES? Why was it able to gain corporate executives' attention in effecting change? How has the process of direct corporate intervention changed CERES's goals and perspectives?
2. What was the political climate in Washington that may have validated CERES's position? What was the political climate in the oil industry?

Surprisingly, Amoco found its actions to be in direct competition with those of an industry rival, Sun Oil

Company. In an overlapping arena between environmental management and public relations, the timing and actions of one had an impact on the actions of the other. In the end, Amoco stayed its course and used this opportunity to direct industrywide change, developing a response that it hopes will yield a strategic advantage in future policy and market developments.

The content for this case study came from personal interviews and a review of internal records at both Amoco and CERES. I interviewed representatives of Amoco at corporate headquarters in Chicago, Illinois, during February and March 1994. I also interviewed Joan Bavaria, cochair of CERES and president of Franklin Research & Development Corporation at her Boston, Massachusetts, office on 8 June 1994. Amoco requested that I not use employees' names and not identify its internal records specifically. The company has not, however, exercised editorial control over the dissemination or presentation of this material.

CERES's Origins

In June 1988, the Social Investment Forum, a collection of socially oriented investment groups, began to develop criteria by which investors could judge the adequacy of a corporation's environmental practices in order to direct resources and capital toward those that behaved responsibly. The idea of investor-initiated corporate social principles or environmental investing was not new. The Sullivan Principles, which used investor resolutions to convince companies to discontinue operations and cut ties (such as licensing and franchise agreements) with South Africa, had been in existence since 1977. Similarly, the McBride Principles coerced companies, through investor resolutions, to endorse a nondiscrimination code to create equal opportunity for Catholics in Northern Ireland. The idea of using environmental concerns to guide investor decisions emerged in the mid-1980s, with the creation of several environmental investment funds, such as those offered by Oppenheimer Global, Fidelity, Freedom, Merrill Lynch, New Alternative, Progressive, Calvert, and Pax. While most of these funds were designed to capture the growth potential of waste services companies (such as Waste Management Inc.), some acted as social investment funds, attempting to direct capital and resources toward responsible companies. CERES, however, was the first attempt to merge the two movements.

The impetus for CERES grew from a period of changes in both the investor and environmental movements. Apartheid in South Africa was beginning to be resolved, freeing up a great deal of social investors' energy, and the environmental issue was heating up in the wake of the Bhopal disaster and growing debate over ozone depletion and global warming. The precipitating event necessary to crystallize the idea occurred on 24 March 1989, when the Exxon Valdez oil tanker ran aground off Prince William Sound, spilling 10.8 million gallons of crude oil from Alaska's North Slope. According to CERES organizers, it was not the specific characteristics of the spill that caused their response. It was both the timing and social context in which the incident occurred. Bavaria commented, "Valdez was really a matter of convenience. It was a tragedy that moved a cause. The environment as an investor issue really started in 1981. It was in the early part of 1988 that things really heated up when we had Bhopal, dirty beaches, and the big media press. . . . We were really a reflection of changes going on within the environment."

CERES began as a collaboration between socially responsible investors (SRIs), such as the members of the ICCR, and representatives of several prominent environmental organizations. The groups noted that their objectives had converged over time. According to an early CERES mission statement, "In the most narrow sense, SRI advisers are concerned that environmentally unsound practices will undermine the economic health of corporations and therefore reduce the risk-adjusted return of investments in that firm. Simultaneously, environmental groups are looking for ways to convince corporations of the necessity of environmentally sound behavior."

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At CERES's first meeting on 14 April 1989 were representatives from the Sierra Club, the Audubon Society, Environmental Economics, the National Wildlife Federation, World Resources Institute, the Global Tomorrow Coalition, First American Financial Co-Operative, Hambrecht and Quist Venture Partners, and the Social Investment Forum Board. Later meetings included representatives from the U.S. Public Interest Research Groups, the United Nations Environment Program, the United Nations Center on Transnational Corporations, the New York City Comptroller's Office, the Council of Economic Priorities, McKinsey & Company, Commonwealth Capital Partners, Overseas Private Investment Corporation, and the Industrial Union Department of the AFL-CIO.

According to the minutes from that meeting, CERES's mission was "to coordinate an investment response to the environmental crisis from the private sector." The founding goals were "to guide the allocation of capital, influence corporate behavior, and create public support for environmentally sound policies." Its methods would be that of "a resource center. Its job is to gather data, bring different people together with the goal of deciding upon strategies and catalyzing joint action, then act as a clearing house for the skills and information required to make those actions succeed." The organization's role and capabilities seemed clear to its founders — CERES would be a catalyst, not creating a new corporate mind-set, but facilitating its emergence based on a movement already in motion. An early internal memo stated, "Because the SRI community knows that its major impact is as a catalyst and model, CERES will always seek to reach out and link up with potential allies and seize every opportunity for public education."

CERES's first step was to create a set of corporate environmental principles. However, reaching consensus with such a disparate group proved difficult. According to Bavaria:

The environmental groups helped us put together the principles in the summer of 1989. Getting these groups to align was very difficult. For example, the National Wildlife Federation membership overlaps about 75 percent with the National Rifle Association. This kept them from agreeing on certain restrictions on resource use that other groups such as Sierra were pushing. There was no business input in the original design. At the original drafting, there was no way we could have gotten the environmentalists and industry at the same table.

On 7 September 1989, CERES publicly announced the Valdez Principles, ten guidelines for environmentally responsible behavior. CERES project director David Sand summarized the principles:

The number one issue is disclosure. We want a standardized way of letting investment managers know about environmental aspects of the business. If you look at a company's financial sheets, you know that they will be the same for a big company as well as a small company, allowing easy comparison. We want that here. The chairman of Price Waterhouse once said that "environmental accounting is what financial accounting was 100 years ago."[7]

Media coverage of the announcement included the *New York Times*, CNN, FNN, *LA Times*, *San Francisco Chronicle*, *Fortune*, National Public Radio, *Business Week*, and others. CERES received more than 200 requests for copies of the principles immediately after the first press conference, prompting it to hire a professional public relations specialist to handle media relations.

On 16 November 1989, CERES presented the principles to seven corporations that it thought had exceptionally responsible environmental controls, most notably Polaroid and H.B. Fuller. Many were upset that they had not had an opportunity for earlier input. Bavaria remarked, "Interestingly enough, some companies that we thought would be allies were offended, asking, 'Who are you to tell us what to do?'" According to CERES records, "We had intense dialogue with two or three who thought the principles were a really good idea and wanted to work with us in developing them." CERES hoped these companies would help "find pitfalls and unfair clauses but will make sure that we retain the integrity or toughness of the principles." The group was hoping to gain their assistance in developing strong, firm principles that would set standards throughout industry.

> CERES would be a catalyst, not creating a new corporate mind-set, but facilitating its emergence based on a movement already in motion.

Thirty-two people representing the fifteen invited corporations attended a second meeting on 7 December 1989. According to the meeting's minutes, CERES realized that it had grabbed the corporate world's attention. It had heard from more than sixty companies, particularly in the chemical, manufacturing, and extractive industries, and thought it was "clear that a great deal of discussion [was] going on between companies about how to respond."

In December 1989, the first letters went out to potential signatories. CERES contacted the legal counsels of 3,000 companies, including all the *Fortune* 500 companies. Bavaria commented, "After drafting, we originally wanted to target companies, find companies that we thought were cutting-edge, companies that we thought would accept. However, after the first announcement, we were inundated with press calls. We lost the ability to target since we were consumed with handling the press."

In addition to the blanket mailing, CERES also proposed investor-initiated resolutions for a select number of upcoming corporate shareholder meetings in the spring. The chemical and petroleum industries were a favored target. Of the twenty-three resolutions on the Valdez Principles in spring 1990, seven were directed at chemical companies,[8] and nine at oil companies.[9] Most sponsors were religious groups working through the ICCR. However, three large pension funds — the New York City Retirement System, the California Public Employees' Retirement System, and the California State Teachers' Retirement System — also came out in favor of the principles.[10]

Corporate Change Begins: Amoco's Response

Amoco closely monitored CERES's activities early on, as did all oil companies. The first related record in Amoco's files was a 10 September 1989 *New York Times* article that introduced the Valdez Principles. As Amoco executives began to analyze the principles' significance, they also watched other industry representatives' responses carefully. On 25 September, Dow Chemical issued a press release, complimenting the program but pointing out that its alignment and overlap with the Chemical Manufacturer's Association (CMA) Responsible Care Program made it unnecessary. On 13 December 1989, the American Petroleum Institute presented the initial results of its Quality Performance Standards Task Force, which was developing a comparable program. It considered the Valdez Principles as a possible model, along with the Environmental Protection Agency's Corporate Excellence in Environmental Protection and the CMA's Responsible Care Program.

On 14 December 1989, Amoco received its first contact from CERES, which had sent a letter to CEO Richard Morrow inviting Amoco to become a "founding signatory" of the Valdez Principles. In general, internal response was negative. Amoco was extremely sensitive to the principles' name. In a 29 December 1989 memo, the environment, health, and safety (EH&S) vice president wrote, "Because of the very negative connotation of 'Valdez,' we prefer to refer to this effort as the CERES Principles." Although he did not recommend signing, he went on to argue, "I believe we would be wise to do something very proactive and try to 'sell our view,' rather than wait until the heat is turned up." Other Amoco executives resisted signing external corporate practices, which they felt was tantamount to turning over governance to a third party. Many thought that the principles were redundant to other programs Amoco belonged to. As one EH&S executive remarked, "With so many programs out there that were vying for our endorsement [the EH&S vice president] adopted the attitude that 'you can't be Catholic and Protestant at the same time.' [The president] felt very strongly that we should never let a third party have control over company operations."

In a 24 January 1990 letter from Morrow to Bavaria, Amoco declined CERES's offer, stating that:

> *Amoco Corporation, while unequivocally committed to progress in protecting the environment, is not prepared at this time to either accept or reject the 'Valdez Principles' in their entirety. Thus we choose to decline to become a signatory of the principles at this time. Nevertheless, we do concur wholeheartedly with the underlying objectives and spirit of the principles and with the commitment of the CERES project, coalition members, and investors for a sound, continuing business policy on environmental issues.*

CERES's request was not the only pressure applied to Amoco. It received letters from nine separate religious investment groups proposing a Valdez proxy statement at the upcoming shareholder meeting in spring 1990.[11] Amoco executives immediately negotiated with these groups and, in return for their agreement to withdraw the resolution, agreed to abide by one of the Valdez Principles and publish an environmental progress report within six months of the annual meeting.[12] The company published the report in the fall 1990 issue of its corporate magazine, *Span.* (Nicknamed the "green span," the issue outlined Amoco's position on the Valdez Principles and provided reporting data for shareholders.)

This was the first of several corporate actions that meshed with CERES's objectives. For example, in line with principle nine, Morrow recommended, in a 3 January 1990 memo, forming a board-level EH&S committee. His reasons were "increasing public and political support for environmental concerns, as evidenced by resolutions from Amoco shareholders, public opinion polls, comments by both Republican and Democratic politicians, and efforts by CERES to enlist investors." He also addressed what he saw as a fundamental shift in the external forces pressuring for corporate environmental action: "This means that instead of command and control, we can expect direct shareholder and customer action." Appropriately, the newly formed committee's first responsibility was to consider whether Amoco should sign the Valdez Principles.

Was this a direct response to CERES pressure? Executives are cautious to grant the organization that much credit. According to one senior EH&S manager, CERES precipitated but did not create the idea of forming a board-level committee; the process had already begun.

Table 1 Shareholder Voting on Valdez Principles (1991)

	Percentage of Shares Voting		
Company	**For**	**Against**	**Abstain**
Amoco	8.6	91.4	12.6
Exxon	6.3	93.7	20.4
Occidental	14.9	85.1	10.0
Mobil	8.3	91.7	6.5
American Cyanamid	12.0	88.0	8.7
Dow Chemical	6.4	93.6	13.0
General Electric	7.3	92.7	9.6
General Motors	9.0	91.0	15.8
McDonald's	9.4	90.6	8.2
Waste Management	9.5	90.5	9.2

Note: Numbers do not add up to 100 percent because the official resolution approval is based on the percentage of voting members. Abstentions are not included in the tally.

He remarked, "We were already looking at what other companies were doing.[13] But we didn't want to be caught by a shareholder proxy forcing us to do it. So, for a lot of industries, Amoco included, it was a defensive maneuver to counteract CERES."

The effectiveness of this defensive maneuver was only temporary. CERES's shareholder resolution efforts continued. On 6 December 1990, internal Amoco records noted that two environmental resolutions had been submitted for consideration at the 23 April 1991 annual meeting: the Valdez Principles and a Friends of the Earth toxic chemical reduction proposal. One reactionary memo described the Valdez Principles as an "undesirable and unwarranted intrusion into corporate affairs." In addition to shareholder pressure, both the Sierra Club and the Wilderness Society applied direct pressure; their respective presidents personally requested that Amoco sign the principles. Amoco executives, however, firmly resisted.

In a 17 December memo, Amoco management laid out three fundamental reasons for rejecting the principles:
1. Regarding principle nine that "one board member be qualified to represent environmental issues," the board felt that "reserving directorships for individuals with a narrow agenda and single-issue constituency is contrary to fundamental notions of good corporate governance."
2. Regarding principle seven that the company "take responsibility for harm we cause to the environment by making every effort to fully restore the environment and compensate persons adversely affected," the board felt that agreement might open the company to increased legal liability. "Many of the principles could be used as evidence of a standard of legal responsibility against which the corporation's conduct is to be measured."
3. Regarding principle ten for self-auditing and eventual independent auditing over which CERES would establish procedures, the board felt that "the role which CERES appears to be carving out for itself would be that of special interest overseer, inquisitor, and judge."

Summing up this position, Amoco's associate general counsel wrote:

> *The Valdez Principles represent a well-intentioned attempt to speed corporate progress by motivating companies to move beyond mere compliance by the voluntary adoption of environmental "stretch" goals. However, the lack of specific guidance for decision making, the requirement that companies commit to compliance without specific requirements, and CERES's self-appointed role as standard setter and judge, all combine to create policy and legal issues which make adoption a difficult and risky decision for companies and frustrate the ultimate achievement of the principles' goals.*[14]

Fundamentally, Amoco executives remained unconvinced of the need for external principles or the advisability of giving accountability to a self-appointed group. Amoco drafted a formal board resolution not to sign the principles and petitioned the SEC to have both the Valdez Principles and the Friends of the Earth resolutions excluded from the upcoming proxy statement. On 19 March 1991, the SEC rejected the company's arguments; the resolutions remained on the agenda.[15]

At the 23 April 1991 annual meeting, Amoco shareholders gave the Valdez Principles an 8.6 percent supporting vote, which was well within the range of other companies in 1991 (see Table 1). According to SEC rules, if a resolution receives 3 percent of the nonabstaining votes, it is to remain on the next years' ballot. If it receives 6 percent, it remains on the next two years' ballots. Therefore, much to Amoco executives' chagrin, the resolution could be recalled at the 1992 and 1993 shareholders' meetings. Executives were also concerned that actual shareholder support might have been greater than the endorsing votes revealed. Had the number of abstentions been included as supporting votes, the final tally could have exceeded 20 percent.

Seemingly spurred by the CERES movement, Amoco began to incorporate the proactive language of the Valdez Principles into its environmental, health, and safety policy. Responding to the CEO's earlier memo, which suggested that the company "develop some 'Amoco Principles' that we could adopt rather than negotiating on the Valdez Principles," the EH&S vice president pointed out, in a 30 May 1991 letter, that internal principles would be preferable and that he had "recently undertaken a process to redraft Amoco's environmental, health, and safety policy so that it is consistent with Amoco's mission, vision, and values in tone and content."[16] As a result, the policy underwent a fundamental shift from being compliance oriented to being proactive, pledging the corporation to environmental leadership.

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When asked if CERES caused the formation of the new environmental policy, Amoco executives are again cautious to grant such credit. One EH&S executive replied:

Yes and no. They influenced the redraft but, previous to that, we had spent a lot of time looking at other companies' policies. There was a directional shift within industry at that time. It was greater in the chemical industry than in the oil industry. It started with the CMA's Community Awareness and Emergency Response (CAER) program which really started pushing companies toward community responsibility and the idea that they were responsible for the well-being of their neighboring communities. This, coupled with the Canadian Chemical Manufacturer's Association program, was the genesis of the CMA Responsible Care Program. So, in a sense, CERES precipitated a movement within industry. But, for Amoco, it was more a look at how other companies were moving. We were just looking around trying to decide what to do.

Preparing for the 1992 meeting, Amoco executives met separately with representatives of both the Friends of the Earth and CERES late in 1991 to discuss the objectives of their investor initiatives. As a result of the first meeting, Friends of the Earth issued a press release on 14 February 1992 announcing the withdrawal of their proposal, while complimenting Amoco on its "practices and forthrightness on the issues." In a second meeting, Amoco executives were able to convince CERES members and the proposal representatives that their environmental progress negated the need for external oversight. On 13 February, CERES withdrew the shareholder proposal, and Amoco agreed to account publicly for their environmental initiatives and meet periodically with CERES members to exchange ideas on new ones.

By the end of 1991, Amoco had initiated three internal changes that had been precipitated, at least in part, by pressure from CERES: (1) public accountability through the "green span" environmental report, (2) the formation of the EH&S board committee, and (3) the redraft of the EH&S policy. In dealing directly with this external source of the pressure, Amoco had opted for strategies that involved either avoidance or neutralization of CERES's efforts. However, late in 1991, the focus began to change.

Amoco and CERES Collaborate

In October 1991, Amoco and IBM representatives met at a conference sponsored by the Evangelical Lutheran Church of Germany and the United States (the U.S. branch is a CERES member). Over lunch, Joan Bavaria indicated that CERES would continue to push for increased disclosure as a separate effort from the pressure to sign the Valdez Principles. In turn, IBM and Amoco representatives discussed meeting with CERES to develop environmental reporting standards. Bavaria concedes, "We had nothing promising happening, so we got talked into it. IBM saw themselves as statesmen, but they wouldn't do things alone. They wanted four or five companies to join them. We brought additional players to the table. We never conceded that this was an alternative. We said this was a good first step."

In January 1992, representatives from IBM, Amoco, and CERES discussed a new public reporting initiative. One Amoco executive recalled that CERES agreed to two things at that meeting, "One, that its members would refrain from shareholder propositions against participating companies and, two, that these negotiations would be considered as a means of appeasing the CERES interests." On this basis, Amoco, IBM, and CERES began to develop an alternative to the Valdez Principles for public disclosure of environmental data.

In fall 1992, Amoco reached a decision. One executive working on the project commented:

We wanted at least ten companies on board [with the development of reporting standards], and we wanted it to have a broad base of support among a wide variety of companies. We wanted big corporations, heavy hitters, behind it. The group of firms should be broad-based, representing multiple industries. We wanted it to have credibility, something that other companies would look at seriously and want to join. This should not be viewed as just one or two companies doing it. The environmentalists would not likely *accept it. . . . We really did a big sales job on Bristol-Myers, which was in for a very short time but pulled out. It just wasn't in their culture. We also wanted P&G in it, since they recruited us for GEMI [the Global Environmental Management Initiative]. But if you look at how they do things, they don't want any attention on their plants, only on their products.*[17]

With the conditions of additional players understood, on 19 November 1992, Amoco's EH&S management committee agreed to join the CERES public reporting initiative. By December, the effort had broad support from both industry representatives and public interest groups. Dubbed the Voluntary Environmental Reporting Initiative (VERI), the effort gained support from three companies: Amoco, IBM, and AT&T. British Petroleum, Dow, Rockwell International, 3M, and United Technologies also considered joining. CERES agreed to help develop the reporting requirements and be a clearinghouse for the compiled information, but not to evaluate or analyze the reports.

Amoco's rationale for joining the initiative seemed predicated on both diverting investor pressure and preempting possible government action. If the latter objective proved unattainable, executives felt that participation in VERI would likely help in any future efforts to set government standards. According to a 2 December 1992 memo:

There are significant benefits to sponsorship. There is growing pressure for increased public reporting of environmental performance. The debate is focused on the scope and structure of disclosure and whether it should be voluntary or government mandated. Amoco, through its participation in the development of the report format, has influenced the structure of voluntary public disclosure of environmental policies and performance. Sponsors of the program will have a seat at the table in the forthcoming debate, particularly on the issue of government involvement.

The memo went on to argue that sponsorship should discourage the filing of a shareholder resolution concerning support of the Valdez Principles; CERES "plan(s) to issue guidelines to its members recommending against filing shareholder resolutions on the Valdez Principles if corporations file the corporate environmental report."

Sun Oil's Endorsement

During the VERI discussions, CERES was also negotiating with Sun Oil Company to become the first *Fortune* 500 signatory of the Valdez Principles. According to Bavaria, "We had two tracks going simultaneously — VERI and Sun. We saw them both as viable." In February 1993, Sun Oil "endorsed" the "CERES" Principles. Sun chairman Robert Campbell, who wrote an explanatory letter to Amoco's new CEO, Lawrence Fuller, informed Amoco executives directly. An internal Amoco memo quickly discredited the development, pointing out that "during negotiations between Sun and CERES, Sun was able to obtain two important concessions from CERES. First, the CERES bylaws would change the language from Valdez Principles to CERES Principles. Second, Sun's agreement [to endorse, not sign] is a statement of intent. A goal towards which they would work, recognizing the realities of Sun's business."

When asked if Sun's decision created pressure on Amoco to drop VERI and endorse the Valdez Principles as well, an Amoco executive involved in the negotiations dismissed the idea, "Sun did not set the standard with CERES. They don't have any technical advantage over the rest of the industry. Dow has technical power that gave them an edge [in helping to start the Responsible Care Program]. This is, in part, a public relations game but you must have substance behind your deeds." Aware of the public relations implications, Sun had seen the endorsement as a race with VERI. According to Bavaria, "Sun suggested that we drop VERI and focus on them. VERI would have diffused the attention given Sun for [endorsing]."

For Amoco executives, this development nearly destroyed VERI, as CERES's credibility now appeared to have been legitimated. One executive remarked:

A minority faction within CERES got cocky. They felt that since they had a Fortune *500 company on board, they didn't need to negotiate anymore. Even though this was a minority position, it threatened to break CERES apart, so they moved in that direction. Hard-liners in CERES announced two changes in their position. First, all bets were off about refraining from proxy statements with companies negotiating on public reporting; and second, these negotiations were now viewed as a step toward adoption of CERES. As they put it, "VERI is a Ford. CERES is a Cadillac."*

In March 1993, there was a meeting of possible VERI signatories at IBM's offices in New York. An Amoco official recalls:

A group of the companies were uncomfortable from the beginning, and this didn't help any. Many had problems with some of the data requirements. Some wanted to start from scratch. The whole thing almost fell apart. Amoco *and IBM maintained that they would go ahead regardless of the other companies' actions. Dow and DuPont said yes. Monsanto and Olin left. BP was forced to leave because their Detroit office knew about it but their London office did not.*

Another Initiative Emerges

Amoco and IBM officials resolved to stanch the hemorrhage and try to retain the remaining companies' interest. A 25 May 1993 memo acknowledged success, stating, "Amoco and at least nine other companies ended formal discussions with CERES concerning standardized environmental reporting, agreeing instead to develop their own reporting standards." Citing the implications of losing CERES involvement, the memo warned:

CERES proponents chose not to introduce resolutions at all but one of these ten companies this year, mainly because of their support for standardized environmental reporting. However, since discussions have ended, the ten companies (including Amoco) could become targets of CERES shareholder resolutions next year. The ten companies, Amoco, Dow, BP, Polaroid, IBM, Northern Telecom, United Technologies, Philips, Rockwell and DuPont, have agreed to proceed without CERES, and a formal announcement is expected soon.[18]

VERI, renamed the Public Environmental Reporting Initiative (PERI), was officially launched on 26 May 1993, with the help of a newly hired public relations firm. Letters went to the senior environmental officers of more than 150 North American corporations and trade associations. The Keystone Center, a nonprofit public policy, scientific, and educational organization, agreed to be the facilitator, increasing support for the initiative with a broad group of stakeholders including environmental organizations and socially responsible investor groups.[19]

Internally, Amoco executives felt that PERI would put Amoco in a leadership position that could become a business advantage. According to a 13 July 1993 presentation to the HS&E coordinating committee:

Public environmental reports are important vehicles for increasing the public's perception of a company's social responsibility. Investor fund managers specializing in responsible or "green" companies are similarly influenced by open reporting. A leader in this arena can not only reap the benefits arising from a satisfied public and "green" investors but can also put considerable pressure to catch up on the competition.

With the prospect of another possible shareholder proposal that Amoco endorse the CERES Principles, the Environmental Affairs and Safety (EA&S) management committee declared on 28 December 1993, "Amoco's program meets the spirit of the CERES Principles. However, past SEC decisions in 1991 were reportedly based on the presence or lack of an auditing procedure, which Amoco (now) does have." In December, Amoco petitioned the SEC to agree to omission of the proposal based on their prior "substantial implementation" of the CERES Principles. In January 1994, the SEC agreed to Amoco's request, based on four significant improvements since March 1991: (1) PERI reporting, (2) improvements in operational and management programs such as crisis management and waste minimization, (3) changes in the internal auditing function, and (4) cooperative government programs such as the Yorktown Project, among others.[20]

> Amoco executives felt that PERI would put Amoco in a leadership position that could become a business advantage.

In February 1994, the first PERI report was completed. PERI Europe is expected to evolve soon, with member companies Amoco, Dow, BP, IBM, Northern Telecom, Phillips, Polaroid, and Rockwell.

Political Negotiations Effect CERES's Changes

Throughout negotiations, it wasn't only Amoco and other industry members that changed strategies and structures. CERES also evolved in its perspectives and goals. This evolution can be seen both in the language CERES officials used to describe their objectives and methods and in the principles themselves.

In the early stages, CERES internal documents stated, "It is not our intention to enter into negotiations to bend the principles so any company can sign." CERES originally intended to convince companies to sign the principles first and then rate and publish their environmental status based on third-party environmental audits. It would then entice the companies to improve their environmental performance based on CERES deadlines. In a 1990 statement, CERES project director David Sand said, "Corporations will voluntarily sign the principles and then work with CERES and others in defining and refining standards of applicability."[21] However, that position began to waiver as CERES found that its tactics were unsuccessful and its legitimacy was called into question.[22] By moving away from its strict, nonnegotiable position, CERES began to negotiate to sign up large companies, principally Sun, GM, and Polaroid.

The name and wording of the principles similarly evolved. The first revisions to the principles began on 28 April 1992. The amended version no longer called for the creation of a board-level environmental committee and the appointment of an environmentalist director (principle nine) or the goal of creating an independent environmental auditing procedure (principle ten). References to the greenhouse effect, the ozone layer, acid rain, and smog were removed (principle one). Where the original version

By developing new principles and amending certain requirements, CERES moved toward industry perspectives.

called for companies to "minimize" environmental, health, and safety risks, it was amended to encourage firms to "strive to minimize" those risks (principle five). The wording in principle seven (environmental restoration) was softened by adding, "to the extent feasible," we will redress damage to the environment. And, finally, a disclaimer was added, explicitly stating that signing these principles in no way constituted a legal commitment. Bavaria remarked, "We added the disclaimer to make [the principles] more nonbinding.[23]. . . We're trying to make it clear that we are not out to micromanage companies. CERES is not going to get into corporate governance matters."[24]

In February 1993, Sun endorsed the second revision of the principles. There were two significant administrative changes: First, CERES bylaws changed the name from Valdez Principles to CERES Principles. Second, Sun agreed to endorse, not sign, the principles, making them a statement of intent, rather than strict directives. By endorsing the agreement, it becomes more a reciprocal recognition. Sun recognized the CERES Principles as complementary to its own, and in return, CERES recognized that Sun's principles contained fundamental environmental values for decision making. Following Sun's endorsement, all subsequent investor resolutions proposed that companies "endorse" the CERES Principles. By 1994, "signing" the principles was no longer requested.

Some specific word changes occurred at this time as well. In the first principle (protection of the biosphere), the original (amended) document stated, "We will reduce and make continual progress toward eliminating the release of any substance that may cause environmental damage to the air, water, or the earth, or its inhabitants." This appears to include the pollutants that are released when Sun's gasoline is burned. However, the Sun version stated, "We will reduce our overall emissions to the environment (air, water, and land) with special emphasis on toxic substances." In a deviation from the proactive spirit of the earlier versions, this statement merely pledged that Sun will obey the law. In principle three (reduction and disposal of wastes), the Sun version added the caveat that waste disposal will be conducted "in accordance with regulatory standards." Finally, bowing to the limitations of an oil company signing principles that state "sustainable development" as a goal, principle four (energy conservation) is amended to state that sustainability will be considered only "in selecting new energy sources."[25] Sun's chairman Robert Campbell admitted, "This is not a commitment to go out of the petrochemical business or the fuels business." He did not foresee major changes in company operations.[26]

The evolution of the principles' content and how they were presented suggests a convergence in strategies and objectives between CERES and industry representatives. By developing new principles and amending certain requirements, CERES moved toward industry perspectives. The lines between CERES and industry began to blur during negotiations on the proper standards for each. Bavaria explained:

We've learned to understand the language barriers and the perspective issues. We have conceded on certain points, but we've tried to be adjustable. Throughout we have made a major effort to retain our integrity. We understand better that we are not a legislative body. What we're after is culture change and forging relationships. Our goal is not to become an institution but to be part of the process. CERES is not a certification program. Its value is the formation of relationships.

While admitting a certain convergence, Bavaria appreciates the importance of remaining in opposition, "We are trying to keep the tension between environmentalists and industry. We think this is a healthy tension that yields productive changes. We are trying to walk the line between working together with companies but, at the same time, retaining the right to protest if they do something we don't like."

Amoco Becomes a Corporate Activist

As in the case of General Motors and Campaign GM, investor activists did not target Amoco for anything that it had done or not done. Instead, CERES targeted it as one in a group of prominent firms in order to gain visibility for CERES's goals and objectives. In contrast to GM's reaction, however, Amoco ultimately decided to respond to investor pressure by establishing both internal structural changes and an external program to gain broad acceptance of its own initiatives. Its response made the CERES initiative superfluous. It responded to investor activism with corporate activism, which appears to be a more substantive change than David Vogel observed. To understand why Amoco adopted this strategy, we must consider CERES's characteristics, Amoco's culture, and the political environment for their interactions.

CERES's Characteristics

Why did corporate executives take CERES seriously? Did it have the political clout to expect widespread adoption of its principles? Or did it expect to successfully insert its initiatives into policy debates? The answer is somewhere in between. Christine Oliver has analyzed the dynamics of strategic responses to institutional pressures and offers a framework for determining why a firm might respond to external constituents' pressures:

1. Cause. Why is the organization being pressured to conform to certain expectations?
2. Constituents. Who is exerting the pressure?
3. Content. To what requirements is the organization being pressured to conform?
4. Control. How are the pressures being exerted?
5. Context. What is the situational context in which the pressures are being exerted?[27]

In this framework, CERES's political power rests largely on its unique access to corporate decision makers through its constituents and on the context in which it applied that power. The diverse stakeholders (investors and environmentalists) pressuring for adoption of the principles helped engage corporate executives' attention and establish CERES's political clout. CERES's administrative coercion through the annual meeting, coupled with media coverage, maximized its power. Without these, corporations would not likely have taken the principles seriously. Yet political power alone could not gain their acceptance; content was critical. In their initial format, the principles were too extreme for corporations to consider. Given their inconsistency with established corporate norms, firms could have been predicted to resist them. With some alterations, however, the principles became more credible. Furthermore, the Exxon Valdez catastrophe and the public's high level of environmental concern in the early 1990s served to legitimate CERES's position.[28] With the enactment of the Clean Air Act Amendments of 1990 and the expanded dialogue on environmental management, corporate executives faced society's unpredictable expectations.[29] That CERES might become an arbiter of those expectations was a real possibility.

But the power of each of Oliver's characteristics relies on individual corporate perceptions. The credibility of the principles' cause, constituents, content, control, and context is open to subjective interpretation. Firms previously inclined toward environmental considerations would weight the principles' credibility highly and conclude that CERES had significant power in directing corporate decision-making processes. To those not so inclined, credibility would be weighted lower and lead toward resistance.

At the time of the Amoco case, when no oil company had signed the principles, we might surmise that CERES's political power was quite low. Even today, neither Amoco nor many other major companies have signed (or endorsed) the Valdez (or CERES) Principles.[30] Yet, while this might suggest failure, CERES's influence in the business environment cannot be disputed. Coupled with the efforts of other programs such as the Business Council for Sustainable Development and the World Industry Council for the Environment, the changing landscape of corporate environmentalism bears CERES's mark.

Although many executives may dispute the group's impact on their own operations, there are several movements that redefine corporate environmental management along the lines CERES advocated. Many firms have adopted the principles in spirit, minimizing the need to adopt them in deed. For example, since the introduction of the Valdez Principles, many major oil and chemical companies (although not signing on) have followed one of the principles and appointed environmentalists to their executive boards. Similarly, many more have established board-level committees on environmental, health, and safety matters. In mid-1992, well over one-third of the *Fortune* 100 companies' boards of directors had either a public policy committee or an EH&S committee — for example, Amoco, ARCO, Dow, DuPont, Occidental, Union Carbide, and Hoescht Celanese.[31] Finally, the number of companies preparing public environmental disclosure reports has risen dramatically since 1990.[32] In each case, the adoption of these new practices was voluntary. No law was enacted. No explicit industry standards were established. Therefore, to understand why any company and, in particular, Amoco responded to CERES necessitates an analysis of the firm itself.

Amoco's Culture

Amoco had long attempted to establish itself as an environmental leader in the industry. As early as 1970, the company found its product line consistent with environmental concerns and even gained in competitiveness by introducing environmental regulation. Lead-free Amoco white gas had been on the market for many years before it was mandated by the Clean Air Act of 1971. As a result, through its "get the lead out" program, Amoco supported rather than opposed increased environmental controls.

The alignment of environmental standards and the competitive strategy of the company's product line continues today as environmental attributes begin to merge with quality considerations in the consumer's eye. Amoco Ultimate gasoline (which is clear and produces fewer polluting emissions) is one of the few gasoline products to enjoy a price premium for quality. Given this affiliation between business and environmental concerns, Amoco might be expected to adopt proactive environmental initiatives more readily in order to promote its environmental leadership status. As a matter of strategy, Amoco officials explicitly stated that, by setting the environmental standards for the industry, it can establish the benchmarks for others. This was a critical aspect of its decision to initiate the PERI program.

Political Environment

But it was more than just market share, industry strategy, and public opinion that drove Amoco's decisions. Consistent with Vogel's conclusions and explicit in Amoco executives' statements, the threat of the CERES/Valdez Principles as a model for future policy debate and regulation led the company to interject its own programs into discussions. The company integrated government policy into its competitive strategy. As Alfred Marcus points out, such a proactive stance on managing regulation and public policy has been a critical aspect of business strategy since the 1970s.[33] In particular, he sees that "firms in industries particularly threatened by regulation — the automotive, chemical, energy and metals industries . . . [have] tried to improve their ability to anticipate issues and tried to become organized and more skillful at using the political process. Managers need to be aware of the competitive and financial implications of proposed regulations."

An interesting caveat that the Amoco case exposes, however, is that this awareness need not be focused strictly on lawmakers and politicians. If a company can identify the seeds of an emerging policy debate and correctly analyze their potential for germinating into concrete political action, it may be able to develop a strategy and preemptively position itself. The strategic approach to managing the regulatory process necessitates a broad view of the entire system, not simply the activity on Capitol Hill. Investor resolutions can indicate a policy debate's trajectory. In determining when to take such resolutions seriously, a company must consider the political climate and its future trends.

As in everything, timing was crucial. Pressing for the CERES resolutions today in the political climate that Speaker of the House Newt Gingrich has established might be less fruitful. However, although the CERES Principles emerged during the Bush administration — a period unmarked by noteworthy environmental initiatives — debate had already begun on the Clean Air Act Amendments of 1990. This controversial legislation diverged from previous Bush administration legislation, eventually becoming the single most expensive environmental regulation ever written. It had, therefore, elicited significant concern within industry. In such a climate, some CERES demands could be expected to be interjected into the policy debate. An additional factor at the time of the Amoco case was the Exxon Valdez disaster, which raised public concern for corporate environmentalism, particularly against the oil industry, to such an extent that increasingly stringent requirements were inevitable. Preemptive environmental initiatives, such as PERI, served to increase individual corporate power while diminishing that of CERES.

Furthermore, PERI indicated trends toward self-policing programs that trade associations had been adopting. Beginning with the CMA's Responsible Care Program in 1990, other industry-initiated environmental programs had been formed, for example, by the American Petroleum Institute, the American Textile Manufacturers' Institute, the American Forest and Paper Association, the Printing Industries of America, the American Automobile Manufacturers' Association, and the Lead Industries Association. Clearly, industry preferred the certainty of self-regulation to the uncertainty of third-party oversight.

Conclusion

Given this evolution in both industry strategy and CERES's development, what can we expect of CERES in the future? Is it still a viable force in directing environmental change? By integrating itself into the mainstream political processes of corporate governance, it could not help but be influenced by the mechanisms and perspectives that it sought to change. Through the give and take of constant interaction, organizations begin to resemble each other in form and thought through coercive, normative, and mimetic mechanisms.[34] Clearly the successive redrafts of the principles and softened rhetoric point to a merger of environmental and business interests.

The creation of PERI, the negotiated alteration of the principles, the inability to gain widespread formal endorsement, and the tacit incorporation of the principles' objectives throughout industry lead many environmentalists to think that the principles have been diluted to insignificance. Those more critical see CERES as being co-opted by corporate interests, the process being indicative of what Mark Dowie describes as an entire environmental movement that is "courting irrelevance."[35] Although this is an unfair criticism given the significant changes CERES has created, the political prominence of the group is waning as it blends into the complex fabric that drives corporate environmental change. Its programs and objectives have been eclipsed by independent corporate actions and the emergence of new programs that extend corporate environmentalism beyond the threshold sought by CERES, most notably ISO 14000.

Yet the lessons learned from its history and the impact of its principles on both industry in general and Amoco in particular offer corporate executives intriguing insights into the investor activist movement. An executive's decision to respond to activist pressure is based on three factors:

1. The firm's culture and degree to which the proxy resolution is tangential to the culture.
2. The power and influence of the social activist group filing the resolution.
3. The political climate in which the resolution is filed.

Ultimately, a response to investor activism involves integrating political strategy with competitive strategy. Activist pressure can be an important indicator of policy discussions. A corporation's appropriate strategic response gives it an awareness of future policy debate and a springboard for influencing the debate's outcome. ◆

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3. D. Vogel, *Lobbying the Corporation* (New York: Basic Books, 1978).

4. Ibid.

5. Ibid., p. 14.

6. ICCR is a coalition of nearly 250 Protestant, Roman Catholic, and Jewish religious groups, agencies, pension funds, health care systems, and dioceses. The organization itself holds no shares. Each member institution makes its own investment and program decisions.

7. D. Sand, presentation at the MIT work group on business and the environment (Cambridge, Massachusetts, 16 May 1991).

8. Allied Signal, Dow, DuPont, Eastman Kodak, Ethyl, Imperial, and Union Carbide.

9. Amoco, ARCO, Chevron, Exxon, Mobil, Occidental, Philips, Sun Oil, and Texaco.

10. According to CERES, the investment groups they represent control more than $150 billion in invested assets.

11. The Evangelical Lutheran Church of America, the Sisters of Charity of Saint Elizabeth, the Oblate Conference, the United Methodist Church (World Division), the Mount Saint Vincent Mother House, the Pension Fund of the Christian Church, the Christian Brothers Investment Services, the Loretto Community, and the United Methodist Church (Women's Division).

12. In fact, of the twenty-three corporate Valdez resolutions filed that year, ten were withdrawn due to such responses from the target companies.

13. All companies in the industry appear to have been very carefully watching the actions of others at this time. For example, on 28 February 1990, Unocal's director of environmental affairs asked, in a fax, if the attached article was true. Amoco's vice president for EH&S assured him that, despite what the article said, Amoco would not sign the Valdez Principles.

14. G. Carpency, "The Valdez Principles: A Corporate Counselor's Perspective," *Wake Forest Law Review* 26 (1991): 11-37.

15. That year, Texaco and Chevron were successful in gaining SEC approval to exclude the Valdez resolutions. Texaco argued that its Valdez resolution was "moot" because it had hired Arthur D. Little to conduct an outside audit of its environmental policies. Chevron argued that it was asking shareholders to endorse its own comparable corporate environmental policy (which eventually received 98.3 percent of the shares voting). Amoco became aware of these defense strategies, but too late for the 1991 SEC ruling. Internal memos took special note of these as possible strategies for the next year, if needed.

16. "Mission, vision, and values," developed in 1990, were goals covering a wide range of leadership objectives across the company. One was a declaration of environment, health, and safety objectives stating that Amoco "will maintain a leadership position in the protection of the environment, the health and safety of our employees, contractors, the users of our products, and the communities in which we operate."

17. This reference seems to suggest that P&G, a consumer products company, prefers to keep its processes out of the public eye, thereby controlling its reputation by disclosing information only on the products it develops and sells.

18. An EH&S executive noted that once British Petroleum informed all the necessary officials who were previously left out of the loop, BP was able to rejoin the initiative. In fact, after rejoining, BP began to work as a facilitator for introducing a PERI project in Europe.

19. The Keystone Center brings together people from the private sector, environmental and citizen organizations, academia, and government to address public policy issues. It is located in Keystone, Colorado.

20. In 1990, Amoco entered into a partnership with the Environmental Protection Agency and Resources for the Future to study pollution re-

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25. The very nature of extracting, refining, marketing, and finally burning fossil fuels is unsustainable by definition.
26. M. Wald, "Sun Oil Takes Environmental Pledge," *New York Times*, 11 February 1993, p. D5.
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29. This can be seen in the bewildering array of newly emerging techniques and philosophies: pollution prevention, total quality environmental management, industrial ecology, life cycle analysis, sustainable development, and environmental justice, to name just a few.
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34. P. DiMaggio and W. Powell, "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields," *American Sociological Review* 48 (1983): 147-160.
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READER and AUTHOR RESPONSE

SLOAN MANAGEMENT REVIEW

SPRING 1996

STRATEGIC RESPONSE TO INVESTOR ACTIVISM

The quote, "Rumors of my death have been greatly exaggerated," might have applied to CERES (the Coalition for Environmentally Responsible Economies) many times in the seven years since it was formed. The most important message in response to Andrew Hoffman's article, "A Strategic Response to Investor Activism," Winter 1996, reprint 3724, is that CERES has a patient, evolving process that is not only alive but also prospering. As a result of CERES's process, much has been accomplished since the conversations with Amoco and the nine other companies in PERI, including an explosion in public environmental reporting unknown before CERES's request in 1989.

As one of eight or so CERES board members who participated in all the negotiations with the group of companies, including Amoco, I find Hoffman's recounting of the process, as Amoco employees see it, to be one-sided. For the sake of historical accuracy and a deeper understanding of the dynamics in such relationships, it is important to recount faithfully the complex interaction between CERES and Amoco. Certainly, it was difficult for CERES to bring both the VERI (now PERI) and Sun processes to maturity at the same time, but there were many reasons for the eventual breakdown of the talks.

As a result of the concurrent negotiations spanning several years, CERES has learned that the difficult, complex process of creating a working relationship with large companies requires time and trust. Trust is gained only by individual, focused discussions on the emerging relationship between a company and a stakeholder group such as CERES. The negotiations including Amoco broke down because of the companies' insistence on a drop-dead date for completion and on Amoco's insistence that at least ten companies participate in the process, in addition to the complication of the concluding Sun talks.

The injection of two new companies in the negotiations in late 1992, with little time for the development of trust and no time for discussion of expectations and potential problems, caused many CERES board members to feel that the process needed to slow down. After a difficult meeting in Washington, we delivered a list of requests to the companies, not the least of which was a request that the announcement of VERI be limited. The VERI companies rejected the requests and withdrew as a group. Several individual companies contacted us in the ensuing weeks and months; one is now a CERES company.

Learning from our experiences in 1992 and 1993, CERES has subsequently added six *Fortune* 500 companies and now includes more than fifty ongoing, full participants. General Motors is the largest, a point that Hoffman relegates to a footnote. The GM negotiations required more than a year (as did Sun's) with eight GM team members and eight CERES members, and subcommittees on such issues as reporting. CERES is currently negotiating with several other large companies and various smaller companies.

The details or even the breakdown of discussions are irrelevant once a relationship is established between a company and multiple stakeholders. We work closely with our companies; they sit in on virtually all process and policy discussions of the CERES board, codesign the annual report, and have proved to be more aggressive in lifting their environmental management and reporting hurdles than CERES could have been from the outside.

The most important lesson we've learned is one that Hoffman rejects — that in a complex world, flexible solutions are imperative. Far from unilaterally changing in response to the companies, CERES has been agile enough to integrate external realities and strong enough to cause corresponding changes in the companies with which we work. Those who view CERES as having sold out are mired in a dualistic worldview that can lead only to escalating antagonism. CERES has not been afraid that it will lose its own strength by working in relationships where seemingly conflicting goals must be continually mediated.

It is hard to refute the thesis that Amoco and others chose a preemptive strategy in response to CERES, although some misperceptions seem to persist about our intention in entering those negotiations. They were never intended to subvert the original CERES process of signing or endorsing, words that CERES members consider synonymous. It is also true (and CERES knew this) that the strength of the coalition was important for getting the attention of the media and corporate America.

But investor activism should be seen as much more than a chess game to be strategically anticipated and/or neutralized. In a world where globalized commerce increasingly renders political communities and their governance systems obsolete, the tendency of transitional companies is to fight for complete freedom in a laissez-faire global system of nongovernance. Of course, this has uneven consequences but, in general, causes stakeholders (employees, neighbors, and customers) to become alienated and suspicious of motives they see as hostile to their welfare. Investor activists, while not monolithic, do represent these various stakeholders, and the channel of communications and influence they employ gives feedback to the companies about issues that concern the population outside the corporate boardroom — hence the high correlation between eventual policy and shareholder activist issues. Smart companies know this and are learning to work with it rather than against it.

If we are to live peacefully in a world with shrinking resources, patient mediating processes like the CERES process will be imperative to ensure balance and stability between what can be colliding interests. CERES is alive and growing, both in terms of companies signing or endorsing the principles and in terms of membership. This spring we are adding a new executive director and a new board member. We continue to learn, change, and influence our companies to change.

Joan Bavaria
Co-Chair and CEO
CERES
Boston, Massachusetts

The experience of the Jessie Smith Noyes Foundation is that shareholder activism is an effective tool for promoting corporate social responsibility and that, when undertaken in collaboration with other stakeholders, the impact can be significant.

During the past two years, we have been actively working with groups involved in this process: Intel, Southwest Organizing Project, Electronics Industry Good Neighbor Campaign, Interfaith Council on Corporate Responsibility, religious and philanthropic investors, and socially concerned money managers. It is abundantly clear that corporate cultures can be substantively changed.

A corporate self-audit with respect to social and environmental issues is necessary for responsible corporate governance. But, just as every company needs an outside financial audit, it also needs outside scrutiny in other areas. Such audits play a key role in the process of corporate accountability to all stakeholders — employees, communities, governments, and shareholders.

Our experience confirms Hoffman's observations: even though Amoco did not sign the CERES Principles, CERES's imprint on Amoco's policies cannot be denied. This is not an isolated case. The Interfaith Council's twenty-five years of experience clearly demonstrate the effectiveness of shareholder activism.

Edward Tasch, Treasurer
Stephen Viederman, President
Jessie Smith Noyes Foundation
New York, New York

As one of the early backers of the CERES Principles (then the Valdez Principles), I thought Hoffman's article was quite accurate and his analysis correct. I did notice the evolution over time as the CERES people met with corporations and negotiated endorsements. Although the process did lead to changes and even some weakening, I don't regard this as necessarily a bad thing. Although the principles are not as "pure" as they were in the beginning, they are certainly more relevant because business enterprises are observing them. The principles are, by necessity, somewhat general and don't tell a company exactly how to manage environmental policy. They have produced changes in the culture of many companies and have helped improve corporate environmental performance. When I research companies for possible inclusion in the Parnassus Fund's portfolio, I notice a much different attitude and much better performance from ten years ago.

I would, however, like to correct an error Hoffman makes regarding social investment funds. He writes, "The idea of using environmental concerns to guide investor decisions emerged in the mid-1980s, with the creation of several environmental investment funds, such as those offered by Oppenheimer Global, Fidelity, Freedom, Merrill Lynch, New Alternatives, Progressive, Calvert, and Pax. . . . CERES, however, was the first attempt to merge the two movements."

The funds Hoffman describes fall into two very different categories. One group, including Oppenheimer, Fidelity, Freedom, Merrill Lynch, and Progressive, did not take a company's environmental responsibility into account but, rather, invested in companies that were engaged in the environmental services industry even if a company had a poor environmental record. Other groups such as New Alternatives, Calvert, Pax, and Parnassus invested in companies that were concerned about environmental protection. The spirit of the latter was the guiding light of CERES, not the former.

Jerome L. Dodson
President
The Parnassus Fund
San Francisco, California

While Hoffman sheds light on Amoco's hidden reactions to shareholder resolutions, he was not a party to any of the interactions between shareholders and companies and is thus at a disadvantage.

Since 1990, I have coordinated all resolutions on the CERES Principles as well as on other environmental issues. In that capacity and as a CERES board member, I have been part of many company discussions with shareholders, including those with Sun and General Motors that led to endorsement of the CERES Principles. In my experience, the power of shareholder resolutions resides not in votes at annual stockholder meetings, but in the fact that they stimulate executives to negotiate rapidly to keep resolutions from appearing on their annual proxy statement. A company's response is determined not just by the "degree to which the proxy resolution is tangential to the [firm's] culture," as Hoffman states. The key distinction between companies is their willingness and ability to:

- Negotiate with shareholders on environmental issues, as on other issues.
- Allow their company to become more accessible to shareholders and others.
- Benefit from stakeholder input *before* issues become contentious.

Sun, GM, Polaroid, and Bethlehem Steel have all stressed the utility of forging real alliances with stakeholders (investors, environmental organizations, community representatives) through endorsing the CERES Principles. GM's CEO has called it "a successful case of two cultures coming together to find areas of agreement. . . . On environmental issues, the stakes are so high that everyone ought to be pulling in the same direction."

Even though the article misses the central impact of resolutions — stimulating companies and shareholders to collaborate — it makes two revelations: that even inside companies there is debate about "accountability" to shareholders, and that environmental reporting sometimes is done merely to stay ahead of pressure.

Unfortunately, the author's outside position results in inaccuracies about shareholder activity:

• He relies on an ancient 1978 publication by David Vogel, covering only the infancy of shareholder advocacy. Since then, two decades of experience have informed both executives and shareholders on how to achieve their objectives with each other in win-win scenarios.

• CERES is not a shareholder. Only shareholders file or withdraw resolutions. Shareholders, not CERES, targeted companies, and they did so according to the composition of their portfolios, the environmental records of those companies, and their years of history with companies and whether those companies were closed or open to shareholder input.

• Focusing on whether Sun "endorsed" or "signed" the CERES Principles misses the point. What was important was Sun's desire to revise its own environmental principles to be philosophically consistent with and modeled after the CERES Principles. Its commitment was in no way altered by the particular word, which was preferred to demonstrate flexibility and increase the comfort level of others coming new to the process. Also, the wording in Sun's Principles did not cause changes in the CERES Principles, contrary to Hoffman's suggestion.

• PERI did *not* increase corporate power or diminish that of CERES. The two efforts have simply moved in different directions. PERI helps companies issue more consistent environmental reports. CERES provides a way for companies to prove sincerity in being environmentally accountable to the public. As more companies build trust with CERES, both they and CERES gain in power through increasing knowledge and input from each other. As a member of the CERES board, I have seen remarkable interactions as companies and CERES member institutions have sought, received, and been impressed with what each has had to contribute.

• Amoco's response did not make the CERES initiative superfluous as Hoffman states but, rather, all the more needed, if stakeholders are to have real input into a company's environmental impact, which touches them more than it does the company. Environmental damage hurts the land, water, air, and the level of safety around the company; it can add to the hundreds of millions of dollars that companies spend on environmental measures. Thus, it affects dividends and shareholder value.

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Andrew Hoffman replies: I wish to thank all the letter writers for their thoughtful comments. My article chronicles the rarely seen internal politics of one corporation, Amoco, as it dealt with shareholder pressure to sign the CERES Principles. It also describes the firm's internal thinking behind its unique decision to respond with "corporate activism." Criticisms from Ms. Bavaria and Ms. van Buren that it is "one-sided" or "disadvantaged" from its "outside" position are reflective of their vantage points as activists, a perspective thoroughly covered within the journals. I instead wrote an article based on and directed toward corporate management. As such, the article provides a unique vantage point, offering new insights into the corporate dynamics of shareholder resolutions.

The article highlights two points. First, CERES has been unable to gain widespread formal adoption of its principles. Second, regardless of this fact, the group has been highly successful in changing the norms of business practice. As Messrs. Dodson, Tasch, and Viederman point out, this case study of the Amoco Corporation is not an isolated example. CERES has produced changes in the culture of many companies and has helped to improve corporate environmental performance on several levels including environmentalists on executive boards; board-level environment, health, and safety committees; and the distribution of public disclosure reports.

Today, the innovations introduced by CERES six years ago have taken root throughout the increasingly complex system that drives corporate environmental change. For example, those joining CERES in developing environmental reporting guidelines include the Business Council for Sustainable Development, the World Industry Council for the Environment (WICE), Japan's Keidanren, Europe's growing array of green business networks (e.g., BAUM, Business in the Environment), the United Nations Environment Programme, and, of course, PERI. Those helping to set standards for environmental management practice include the Chemical Manufacturer's Association, the American Petroleum Institute, the American Forest & Paper Association, the American Automobile Manufacturers Association, the Global Environmental Management Initiative, the Global Tomorrow Coalition, and, most notably, the International Standards Organization (ISO14000), to name just a few.

Yet, despite this crowding of the field, CERES's role remains important. As the article points out, the group utilizes a powerful route to influencing corporate decisions — the shareholder. Contrary to what David Vogel observed, the Amoco/CERES/PERI story shows that corporate response to shareholder pressure can be substantive and not simply "marginal procedural adjustments." As van Buren points out, this response was reflective, not just of the nature of the resolution, but also of the culture of the firm. And consistent with Vogel's observations, a major threat driving this response was the possibility that shareholder resolutions might inform future policy debate. Therefore, as corporations strive to incorporate competitive, political, and environmental strategy, they must look beyond Capitol Hill lawmakers and include shareholder initiatives in their strategic planning.