

## Activist shareholders target HR issues

*Fund management company forces shareholder vote on resolution to increase number of women executives at high-tech firm Open Text*

BY UYEN VU

**IT'S A PHENOMENON** some publicly traded companies have grown used to south of the border: activist shareholders taking an interest in social issues such as charitable donations and climate change — and employment policies.

The trend is heading north. Last month, shareholders of Waterloo, Ont.-based high-tech company Open Text voted on a resolution to increase the representation of women at board and executive levels.

The resolution didn't pass, but it nevertheless represented a Canadian first. Deb Abbey, head of Real Assets Investment Management Inc., the Vancouver-based ethical fund that brought forward the resolution, said the glass ceiling issue hasn't ever been raised by shareholders in Canada — "at least, not in terms of filing a resolution."

Abbey said she was encouraged that the resolution garnered 45 per cent of investors' votes. That's considerably higher than many social-minded resolutions, for which a vote around 20 or 30 per cent would be considered a solid endorsement.

"When we looked at some of the companies in our portfolio, we were able to highlight a number of technology companies that have little or no gender diversity at the senior management or board level. And there's more and more evidence that companies with the best records of promoting women to senior positions are more profitable," said Abbey.

The resolution called on Open Text to adopt policies and practices designed to open opportunities for

women, combat stereotyping and ultimately to improve gender diversity.

Open Text didn't return phone calls for this story. Abbey said Real Assets will be filing similar resolutions this year with other high-tech companies in its portfolio.

Abbey stressed that the resolution wasn't about doing the right thing. "Our focus is always on long-term shareholder value." Women make up 30 per cent of workers at Open Text, but none of them have made it to the senior management level, she noted. "Enrollment of women in IT programs has been dropping, and if that trend continues, the IT sector will be facing round two of a skills shortage in the next few years. And shortages increase costs and decrease shareholder value. So we think IT companies need to support diversity at the senior level in order to broaden the IT workforce," said Abbey.

Not only was this the first time shareholders took up the torch of gender diversity in the country, the vote represented a rare incursion by shareholders into the area of HR. The exception in past years would be resolutions filed by shareholders of retailers like Sears and Hudson's Bay Company that call on the retailers to insist that their vendors and suppliers adhere to global labour standards. One such resolution last year, filed with Sears, garnered 7.7 per cent of the votes.

Eugene Ellmen, executive director of the Toronto-based Social Investing Organization, noted that similar social-policy resolutions are bound to increase in upcoming years. That's because the share-

holder activism is a new phenomenon in Canada, he said. Prior to the 2001 reform of the Canada Business Corporations Act, managers were allowed to reject offhand all resolutions that management believed were submitted for the purpose of promoting general economic, political, religious, social or other causes.

"But it wasn't just the legislative changes that were responsible for this (increase in shareholder activism). I think there has been an overall change in the environment in terms of how shareholders regard their duties as shareholders," said Ellmen, referring to the collapse of companies like Enron and WorldCom.

The evidence in the United States would bear him out. Last year, a record number of resolutions — more than 1,080 — were filed, according to the Investor Responsibility Research Center, a corporate governance research firm.

Of these, about 280 were social-policy resolutions covering everything from environmental concerns through to genetically modified organisms and human rights violations.

Of these social-minded resolutions, 10 to 15 per cent typically touch on HR areas. They mostly deal with equal employment opportunity

issues, like a resolution Cracker Barrel shareholders adopted to ban discrimination against gays.

Resolutions for change have to be fairly non-specific, said Ellmen. If they are too detailed the resolutions simply wouldn't get votes. And a respectable number of votes may spur dialogue between management and shareholders on the issue. "Managers don't want to get involved in a fight with shareholders," said Ellmen.

Outside the constraints of resolutions, investors can get downright particular about policies and practices they want to see before investing their money, said David Nitkin, president of EthicScan, a research consultancy based in Toronto.

"We work with a variety of institutional clients, and they have different agenda items. Some would be focused on women, some on the four disadvantaged groups. Others would be focused on internal communications, or on the well-being of employees. Some look specifically for things like 360-degree performance appraisals," said Nitkin.

"We have fund managers who are very particular, and others who are just interested in the grading overall."

## The activist's HR agenda

What HR and labour issues occupied activist shareholders in 2003? Here's a sample of resolutions they introduced in the United States:

99 Cents Only Stores	Adopt labour standards for vendors
AOL Time Warner	Adopt a code of conduct for China operations; review executive compensation
Bed Bath & Beyond	Report on equal employment opportunity and steps to break "glass ceiling"
CEC Entertainment	Take steps against workplace violence
Coca Cola	Remove sexual orientation from equal opportunity employment policy
FedEx	Adopt sexual orientation anti-bias policy
General Electric	Take steps to eliminate workplace discrimination; review executive compensation
National Fuel Gas	Take steps to eliminate workplace discrimination
Wal-Mart	Link executive pay to social criteria
WebMD	Commit to board diversity
Yum Brands	Make facilities smoke-free

Source: SocialFunds.com