CAPITAL STRATEGIES

An overview for activists and movement organizations

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transform finance

About this briefing

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About Transform Finance

Transform Finance is a research, education, and implementation partner that supports all stakeholders to challenge legacy investment approaches, seed transformative investment models, and build movement power. We help investors move capital in alignment with the Transformative Finance principles and we help social change actors leverage the power of investors to achieve movement goals. We also help change enablers, such as philanthropic actors and government, support these new approaches to capital.

INTRODUCTION

Because of their outsized role in the economy, corporations are often the targets of movements for environmental justice, racial justice, privacy rights, gender justice, and most other rights-based issues. Familiar strategies that movement organizations use to curb corporate abuses or otherwise influence their behavior include union organizing, publicity campaigns, boycotts, and policy and regulatory work.

An underexplored strategy to affect corporate behavior is to "follow the money" upstream and leverage the power of the *investors* in those corporations, who have certain rights and overall ability to influence and shape their behavior.[1] We refer to this body of movement activities as **Capital Strategies**.

We explore in this primer the different kinds of Capital Strategies, how the power of investors can be leveraged by movements, what spurs investors to action, and how they can be persuaded to advance a movement position.

WHAT ARE CAPITAL STRATEGIES?

Capital Strategies are social change actions that leverage the relationships between companies, their sources of capital, and the capital markets more broadly to change corporate behavior in a way that drives a social outcome.

Capital Strategies enable the movement to exploit investors' powers of *corporate governance*, or their say over a corporations' affairs and its board composition, or of *capital allocation*, the power for investors to either invest or not invest.

These strategies can be – and have been – used to confront a wide range of harmful behaviors that rely on capital. For example, pressuring investors to divest from harmful industries, such as fossil fuels, is a commonly known Capital Strategy. Shareholder engagement (sometimes called shareholder activism), commonly seen in the form of (1) investors exerting pressure behind the

[1] Capital Strategies can be conceived whenever an investor is in a position to influence any investee, including not just corporations but bond issuers, infrastructure projects, and other entities. However, given the greater familiarity with investors' roles around corporations, this briefing will focus principally on them for ease of explanation.

scenes or (2) investors filing shareholder resolutions that go to a vote at company board meetings, is another Capital Strategy that allows investors (and often the movements behind these positions and proposals) to make demands on a company's behavior.

There are other, less-explored Capital Strategy types across a wide range of issues. As a still-developing field, the definition and practice around Capital Strategies is emerging; this primer seeks to lay some of the boundaries and core concepts behind them.

WHY CAPITAL STRATEGIES?

Capital Strategies is not a substitute for other movement work; one can think of it as an additional tool in the toolbelt of activism. Why should activists do so?

1. **Investors hold too much power to be left uninfluenced.** Asset owners (like pension funds, university endowments, and foundations) and asset managers (institutions that handle others' money, like Fidelity, BlackRock, and Vanguard) move trillions of dollars throughout the economy. Ignoring them leaves a fundamental force in society unchecked and leaves on the table an opportunity to drive change through a different avenue.

2. **Policy and other forms of pressure can be slow**. Political standstills, like those seen in recent decades for the left, can lead to inaction. Companies, for better or worse, do have to listen to their investors. This provides an alternative tack when more traditional political approaches falter. That said, the most effective Capital Strategies are enacted in tandem with other modes of driving change, such as public-facing activism to shape a company's public image, create a narrative shift, or lead to regulatory or legal action and policy change.

3. **Some investors can be partners of movements**. A core tenet of Capital Strategies is that even while investors are often seen as outside of or even counter to movements, they may indeed be aligned with a movement position on a specific topic. In some cases, investors are stewards of resources, such as workers' pensions, which puts them in natural alignment, for example, on issues of worker rights.

4. **Some issues can be uniquely tackled through Capital Strategies.** In an era of unbridled capitalism, more of what has historically been part of the public sphere is now being decided at the corporate level, such as whether assault rifles should be available at retail stores. Issues such as the pay disparity between top earners and regular workers are in the sweet spot of Capital Strategies, as investors are poised to advance positions that outsiders can't.

5. **Capital Strategies build on skills that organizers already have**. Even though the world of capital markets may seem esoteric and unapproachable, the activities behind successful Capital Strategies are familiar to activists, organizers, and movement leaders. Taking on a Capital Strategy entails opposition research, relational organizing, strategic campaigning, and communications to spur or enable investors to undertake actions that in turn affect the behavior of corporations - all of which are within the purview of movement actors.

HISTORY OF CAPITAL STRATEGY MOVEMENTS

While relatively unknown in many movement circles, Capital Strategies have a fairly distinguished history. Religious asset owners and their constituents led an early wave of Capital Strategies through their anti-apartheid work in South Africa. In 1971, the Episcopal church, as a shareholder, filed a shareholder proposal at General Motors, requesting the company to withdraw its business from South Africa until apartheid was abolished. That early effort led to the launch of the Sullivan Principles (named after Black minister and civil rights activist Leon Sullivan), whereby companies agreed to adhere to a set of principles when doing business in South Africa.

Through engagement with hundreds of banks and companies, religious investors filed shareholder resolutions, publicized and challenged the role of companies, and withdrew accounts from banks they called "partners in apartheid," with some taking the additional step of selling their shares (i.e., divesting) in protest. Out of this work emerged the Interfaith Center on Corporate Responsibility (ICCR), which, after almost 50 years, continues to support and coordinate efforts by religious endowments and non-church related groups to engage companies on social issues.

Pension funds, which manage trillions in retirement assets and savings of workers, pushed the next big wave around labor rights. While they exist for the benefit of the workers, pension funds have a duty to maximize their returns, which means they invest in ways that are often at odds with worker wellbeing. For example, that tension came to the fore in the 1990s when GTCR, a private equity fund which managed a large sum of money on behalf of the California Public Employees' Retirement System (CalPERS), bought a California-based school bus company whose bus drivers were CalPERS members. GTCR took the public company private and laid off large numbers of employees. In essence, while CalPERS made a profit from GTCR's operation, it also cost CalPERS members their jobs. In response to this, the Service Employees International Union (SEIU), one of the largest U.S. unions, created a Capital Stewardship[2] team that pushed CalPERS to adopt an anti-privatization policy to prevent situations like that in the future. This burgeoning awareness of the importance of corporate governance by both pension funds and the labor movement spurred the creation of multiple institutions that provided for collective action around capital.

In the environmental arena, investor activism grew out of the Exxon Valdez disaster in the 1980s. The disaster lifted up to investors the risk that climate crises and environmental strains have on investors' bottom line, as well as the role and responsibility of companies in of economic and social change. Ceres, a prominent environmental rights organization in Capital Strategies, was started as a response. The idea that environmental disasters and climate change create a negative outlook for even a purely profit-motivated investor has driven many Capital Strategies since then.

[2] "Capital Stewardship" is the term used by pension funds and labor groups to refer to investments of worker assets in a way that is consistent with the long-term economic interests of the workers. Capital Strategies is a broader concept; Capital Strategies can be applied to any pool of capital and for a variety of social or environmental interests.

TYPES OF CAPITAL STRATEGIES

Capital Strategies can be grouped into three major buckets, even though there is some overlap.

STRATEGIES BASED ON OWNERSHIP

Ownership strategies utilize the powers that come with being an owner of a security, company, or capital asset to influence corporate decision making. Ownership comes with a mix of legal rights of a shareholder to vote on certain issues, and soft pressure by nature of being large and publicly recognized (or even a public figure). The exact rights and powers vary between countries and, especially, depending what *asset class* an investment is, i.e. whether the asset is shares in a public company, a municipal bond, or an investment into a hedge fund or a private equity fund, for example.

The most common type of ownership strategy is in the public equities space (i.e., shares traded on a stock exchange). A "share" represents the ownership of a fraction of a corporation and can be bought or sold through a public exchange, such as the New York Stock Exchange. Owning shares grants formal powers, such as the right to vote to elect corporate directors and on other matters affecting the company. The power to elect corporate directors is critical, as they are responsible for the oversight and governance of the corporation. Every owner of a share has one vote for each share they own; given the size of the public equities markets, large institutional investors are the ones who truly determine (a) who should represent their interests in the boardroom, and (b) what those directors do once they are there. For example, a "vote no" campaign at JPMorgan in 2020 resulted in the ousting of Lee Raymond, a staunch climate denier, as lead director.

The most common right in the ownership strategy context is the shareholder proposal, or shareholder resolution. Shareholder resolutions are a formal vote brought to the board of directors of a publicly traded company by a shareholder, which needs to own at least $25,000 in shares of the company. Other shareholders vote on the proposal, with a vote proportional to the number of shares in the company they control (so an investor with 10% of a company's shares gets 10% of the overall vote). Proposals do not need to go to a vote to have impact; many resolutions are addressed before going to a vote and are withdrawn before the shareholder meeting. When they do go to a vote, proposals do not need to gather a majority of votes in support in order to "pass"

– if a significant number of shareholders (especially more powerful ones) vote a certain way, the company is forced to take that as a sign they should address the issue. More than the vote itself, shareholder proposals are often used to open dialogue and to measure and demonstrate shareholder conviction on a particular topic, opening the door to further action.

Shareholder resolutions come with their limits, however. The main limitation is that they are not binding in the United States; even if a proposal receives a majority of the shareholder vote, management is not forced to enact the suggested changes. Shareholder proposals also can only focus on a very specific demand, which means that you can't tackle multiple issues at a time and that complex issues may take multiple efforts. For example, a company subject to a resolution on climate may have a slew of bad social practices that are untouched. Lastly, the massive asset managers like BlackRock and Vanguard have tremendous power to swing votes and are critical to obtaining support on a resolution. So are the "proxy advisors" like ISS and Glass Lewis that inform large asset owners on how to vote on all the resolutions that they face across their holdings.

Ownership Capital Strategies are not just limited to public equities. Investors also have rights based on their ownership in other asset classes, which allows them to affect the behavior of non-public companies:

> **Private Equity:** Asset owners, such as pension funds, foundations, or universities, invest in Private Equity funds as Limited Partners (LPs). PE funds are quite responsive to the preferences of LPs. For example, when the SEIU ensured that CalPERS would not invest in PE funds that privatized public jobs, the fund managers paid attention. It is more difficult for LPs to have an influence over a PE fund after the LP has committed money to it, but it is still possible by threatening to not invest in future fund rounds.

> **Real Estate:** Pension funds and other asset owners invest in Real Estate Investment Trusts, or REITs, which are investment vehicles that pool capital for real estate acquisitions. As with Private Equity investments, asset owners can stipulate their investments based on certain policies being enacted. This has been implemented in many instances in the form of Responsible Contracting Policies (RCPs), which ensure that real estate projects meet a level of wages, benefits, and safety measures for construction workers.

> **Public Sector Debt:** Municipal bonds are a common asset class in investors' portfolios, and yet they have been understudied as an area for mission-aligned investment and for Capital Strategies. Activest, a research and advisory organization advocating for "fiscal justice," is organizing municipal bondholders and highlighting research on the financial costs of injustice and inequality for city governments. By exposing to investors the link between municipal debt and outcomes for communities of color, they influence investors' decisions to buy or not buy municipal bonds.

STRATEGIES BASED ON SHIFTING CAPITAL

While ownership strategies are based on an investor's rights that come from owning an asset, Capital Strategies based on shifting capital seek to influence the target's activities by not investing or divesting (or threatening to do so).

The most common Capital Strategy that shifts capital is simply exclusion, which has been practiced for at least a century in the modern capital markets by religious entities that refused to hold "sin stocks." Nowadays, besides exclusion, there is a surge in divestment, or getting rid of one's holdings in a target company. Divestment has most notably been pursued over the last decade in the case of fossil fuels and the prison industrial complex. Divestment is most recognized with respect to public companies in the stock market, but divestment can also be applied to other asset classes.

Divestment in public equities has its limitations and strengths. When an owner divests, those shares are bought by someone else - they do not disappear, nor do they directly affect the amount of money available to harmful companies, other than at the margin. Divestment from specific companies in the public equities markets can be logistically difficult, since most holdings are in indices, or buckets that have shares of many companies at the same time. However, divestment signals widespread disapproval of their activities (which is bad for business), challenges the social license to operate, and builds momentum for broader opposition by catching the public eye (this has been seen with many climate activists starting in student divestment campaigns).

Divestment is, however, more likely to directly affect a company's bottom line in other asset classes. Getting banks or other capital providers to not provide loans and other forms of debt financing (which many big banks do for publicly traded companies, even in addition to holding their stock) actually deprives a company of the money it needs for operations. In 2019, due to activist pressure towards banks who were providing debt financing to private prison operators, many major banks decided to stop doing so. In a similar instance, activists fighting the Dakota Access Pipeline in 2017-2018 found it more effective to exert pressure on debt providers and relied on banks' status as shareholders in the banks.

Lastly, divestment can target some asset classes entirely. As a noteworthy example, CalPERS, the pension fund for California public employees, divested from hedge funds entirely. Similar calls have been made for several asset owners with respect to Private Equity, which is tied to several social and environmental abuses.

STRATEGIES BASED ON CHANGING RULES AND NORMS

Movements can also try to change the rules of the game of capital, whether by increasing the voice and power of outsiders to drive social change in the capital markets, or by changing the playbook for investors to make it easier for movements to engage in Capital Strategies. This has been a major avenue for change by organized labor.

One strategy revolves around making it mandatory to disclose non-financial information to investors, such as climate risks and labor practices. For example, the Sustainability Accounting Standards Board (SASB) has pushed for disclosure on social standards. The Human Capital Management approach aims to put worker well-being on par with financial capital; the SEC adopted some of these measures in regulatory revisions after the start of the COVID-19 pandemic. These disclosure strategies are often led by large nonprofits or coalitions of large investors, but are integral resources for activists doing Capital Strategy work as accepted frameworks that can be pushed into new contexts and improved upon. Disclosure is a starting point on which to build further strategies.

At the regulatory level, movements can leverage the fact that institutional investors rely on strong and stable capital markets for their investments to thrive. For example, under the Dodd-Frank legislation, investors won a critical right with Say on Pay, which allows voting on executive pay packages and requires disclosure of the ratio of CEO compensation to average worker wages. Organizations such as the AFL-CIO Office of Investment and Americans for Financial Reform were instrumental in driving these efforts.

Capital Strategies can also aim to shift the dynamics between investors and movements or other stakeholders. Outside of the United States, workers enjoy representation on corporate boards, known as co-determination, and there are efforts underway to give U.S. workers a formal voice on boards. Students have pressured university endowments under the premise that the endowment is to be stewarded for them. Low-wage workers and contractors at tech companies have garnered support from higher-wage employees who are also shareholders of the company, which helps the workers leverage the rights of the employee-shareholders who have a stronger voice.

In other interesting innovations, movements have positioned themselves as needed informants for investors, rather than as opponents. Unite HERE, a labor union that represents hotel workers, developed an innovative tactic to address the issue of unsafe conditions for hotel workers. Instead of merely directly protesting against bad actors, Unite HERE leveraged their unique access to information on worker conditions into something that could be useful to investors in those hotels. Unite HERE issued a “HospitalityESG bulletin” that speaks the language of capital, providing investors with actionable data on worker conditions that could jeopardize the value of their investments. Investor reliance on this information can help improve worker conditions.

At the broadest level, the solidarity economy movement has focused attention on democratizing decision-making over capital allocations, where it is generally undisputed that the owners of the capital are sole decision makers. Participatory Investment initiatives such as the Boston Ujima Project and the East Bay's REAL People's Fund center the idea of shifting power from traditional asset managers to community members whose voice and vote is not predicated on how much wealth they have (i.e., how much they can invest) but on their status as members of the community and bearers of the risk of extractive investments.

While this body of work is visionary and aspirational, it is a promising attempt to break out of dynamics that so far have not favored non-investor stakeholders. These initiatives can be seen simultaneously as Capital Strategies that shift investment norms, but also complementary "outside" strategies to the more "inside" approaches described in this briefing. A comprehensive vision of the ways movements engage with capital can be found in the Center for Economic Democracy's Social Movement Investing report.

WHERE CAN I LEARN MORE ABOUT CAPITAL STRATEGIES?

Capital Strategies is an emerging field, with many movement organizations, partners, investment coalitions, and other groups developing new strategies and resources for others. In addition to all of the organizations and resources mentioned in this briefing, we encourage readers to check out Transform Finance's resources at transformfinance.org/learn.