I am delighted to have the opportunity to address you this evening in order to share the institutional investor's viewpoint on "Valuing Corporate Citizenship."

Through:

the products and services they sell or provide,
the internal management practices they cultivate,
the communities in which they are located,
the global suppliers they select, and
the influence they exert on public policy,

corporations clearly affect people and the planet in many ways.

In addition to financial performance, many individual and institutional investors have certain – some quite high – social and environmental expectations of corporations among their holdings.

Companies themselves have realized the internal business value of strong social and environmental policies and practices.

This thinking has cultivated the growth of the corporate social responsibility (CSR) movement. (Throughout my presentation I will use CSR interchangeably with corporate citizenship.)
Companies and investors alike now promote its fundamental assumptions, and believe in:

> "the integration of business operations and values whereby the interests of all stakeholders including customers, employees, investors, and the environment are reflected in the company's policies and actions."

I plan to divide my time with you this evening into several segments:

- First, I will provide you with a short background on the denomination, including some brief history on its 30-year involvement in the CSR movement. This will include a few minutes on the scope of activities my office currently conducts.

- Second, I will outline a series of factors influencing the growth of the corporate citizenship movement.

- I will then review the various Socially Responsible Investment (SRI) tools institutional investors often utilize to encourage superior CSR performance. As part of this section I will share with you a few highlights of an internal investment survey I conducted earlier this year.

- I will then address the subject of how institutional investors attempt to measure corporate citizenship through the various information sources at their disposal, and the challenges they currently face.

- Finally, before opening things up for discussion and question, I will offer some reflections on fears and hopes stirring within the CSR movement in the wake of the events of September 11th.

Formed in 1957, the UCC is often better known by its “pre-merger” denominations: the Congregational Christian Churches and the Evangelical and Reformed Church.

In fact, the earliest roots of the denomination date back to the Pilgrims of Plymouth Plantation and the Puritans of Massachusetts Bay Colony (1629).

In terms of church membership, we are the eighth largest Protestant denomination in the country, with approximately 1.5 million members and 6,000 local churches. These local churches are organized into 40 regional “Conferences.”

The UCC underwent a considerable restructure last summer, and as a result now has six national settings, or Ministries.

The Pension Boards, where I am based, has approximately 2.5 billion in assets under management, and the five other national settings have approximately 700 million in assets under management combined.

For over thirty years many religious institutions have been examining the relationship between faith and money; in particular, how church values might be expressed through the use of investment funds.

In the late 1960s the UCC began to acknowledge that business’ role in society should be more than the immediate maximization of profit at any social cost.

At that time, church leaders began to encourage an appropriate convergence of church investments with church programs.

As background, within the UCC, a gathering called General Synod occurs every other year. The General Synod is the representative body of the church, composed of delegates, and is where social policy is established.

In 1967, General Synod Six declared,

> "social value and social justice ought to be given consideration together with security and yield in the investment of funds held by religious organizations."

Additional guidance from the same Synod was that the denomination had the responsibility to:

> "utilize in a strategic way its economic power"

Two years later, the General Synod Seven established the Committee on Financial Investments (COFI). COFI was requested to:

> "Establish criteria and make recommendation toward substantial use of investments of all national agencies to promote maximum social impact based on established General Synod policies."

The central finding of the committee's subsequent report was that "investors should seek the best investment opportunities on financial grounds and then work from within to alter corporate practices that are at variance with social concerns of the church."

COFI's members predicted that "CORPORATE PERSUASION" would likely be the most effective option available to improve the social impact of a corporation in which a church organization held an investment.

This is the principle behind what would later become "shareholder activism" – the collection of efforts investors can use to influence the behavior and actions of a company. We will touch on that subject in a short while.

The following year (1971) the first staff member was hired to head the new Social Responsibility in Investment Office– a predecessor of the current Office of Corporate Social Responsibility.

Let us fast-forward three decades to the present.

The purpose of my office is to assist UCC National Ministries and their constituency groups achieve greater harmony between their economic resources and the policies and programs of the church.

Similar to the efforts of other religious institutional investors, we strive to continuously monitor and influence the CSR performance of the companies in which we invest.

Through four programmatic areas – Education & Research, Communication & Outreach, Participation and Shareholder Activism – the Office of CSR encourages responsible corporate citizenship across a wide range of social and environmental issues.

The current growth of the CSR or corporate citizenship movement stems from a wide range of events and trends. I will mention several of these factors now.

Changing Expectations of Stakeholders Regarding Business:

Simply put, the public and various stakeholders have come to expect more of business, according to several studies. Increasingly, they are looking to the private sector to help with myriad complex and pressing social and economic issues. There is a growing ability and sophistication of activist groups to target corporations they perceive as not being socially responsible, through actions such as public demonstrations, shareholder resolutions, and boycotts. These efforts emphasize the issue of accountability to external stakeholders when doing business.

Shrinking Role of Government:

In many countries, national and local governments have taken a more hands-off approach to regulating business, due to the globalization of commerce and shrinking resources. As a result, companies – and multinational companies in particular – are relying less on government for guidance, instead adopting their own policies to govern such matters as environmental performance, working conditions and ethical marketing practices.

Increased Customer Interest:

The growing interest in CSR comes both from business-to-business customers as well as consumers. In the former, there is a significant move by many companies, governments, universities and other institutions to align their purchasing decisions with social criteria, particularly those related to companies' environmental and human rights performance. In the latter, numerous studies correlate consumer purchasing preferences with ethical and socially responsible business conduct.

There is also a growing number of organizations that help consumers and businesses with their purchasing decisions by rating companies and products or publishing lists of products to seek out or avoid based on social criteria, such as a company's environmental performance, labor practices or community-involvement record.

Supply Chain Responsibility:

As stakeholders take a growing interest in companies' corporate social responsibility, many companies are finding that they are responsible not only for their own CSR performance, but for that of the companies "upstream" and "downstream" – that is, a company's suppliers as well as its customers and even its customers' customers. The result is that some companies are imposing codes of conduct on both their suppliers and customers to ensure that other companies' policies or practices do not reflect unfavorably on them. This has a cascading effect along the entire supply chain, encouraging suppliers to adopt socially responsible business practices.

More Competitive Labor Markets:

Many workers – especially professional, technical or highly skilled employees – have begun to look beyond paychecks and benefits to seek employers whose philosophies and operating practices align with their own beliefs. For example, some companies have found that having "family-friendly" policies or being identified as an employer of choice have given them a competitive advantage in attracting and retaining employees. At the same time, companies are finding they need to turn to nontraditional labor pools – including economically disadvantaged, non-English-speaking, and physically or mentally challenged individuals – to meet current and future demands for both skilled and entry-level employees.

Demands for Increased Disclosure:

Customers, investors, regulators, community groups, environmental activists, trading partners and others are asking companies for more and more detailed information about their social performance. In response, leadership companies are responding with a variety of reports and/or social audits that describe and disclose their social performance on one or several fronts. As part of this move toward greater disclosure, many companies are putting increasingly detailed information about their social and environmental performance - even when it may be negative - onto their publicly accessible websites.

Growing Investor Pressure:

The growth of socially responsible investing has accelerated in recent years, with investor groups increasingly pressuring companies on social issues. Many of these investors are using the shareholder resolution process to pressure companies to change policies and increase disclosure on a wide range of CSR issues, including environmental responsibility, workplace policies, community involvement, human rights practices, ethical decision-making and corporate governance. Activist groups are also buying shares in targeted companies to give them access to annual meetings and the shareholder resolution process.

Business Case for CSR:

CSR is seen by leadership companies as more than a collection of discrete practices or occasional gestures, or initiatives motivated by marketing, public relations or other business benefits. Rather, it is viewed as a comprehensive set of policies, practices and programs that are integrated throughout business operations, and decision-making processes that are supported and rewarded by top management.

Companies have experiences a range of bottom-line benefits, including:

- Reduced Operating Costs and Increased Productivity
  Some CSR initiatives, particularly environmentally-oriented and workplace initiatives, can reduce costs dramatically by cutting waste and inefficiencies or improving productivity. For example, many initiatives aimed at reducing emissions of gases that contribute to global climate change also increase energy efficiency, reducing utility bills. Many recycling initiatives also cut waste-disposal costs and generate income by selling recycled materials. In the human resources arena, work-life programs that result in reduced absenteeism and increased retention of employees often save companies money through increased productivity and by a reduction in hiring and training costs.
- Enhanced Brand Image and Reputation
  Customers often are drawn to brands and companies considered to have good reputations in CSR-related areas. A company

considered socially responsible can benefit both from its enhanced reputation with the public, as well as its reputation within the business community, increasing a company's ability to attract capital and trading partners.

- Increased Sales and Customer Loyalty
  A number of studies have suggested a large and growing market for the products and services of companies perceived to be socially responsible. While businesses must first satisfy customers' key buying criteria – such as price, quality, appearance, taste, availability, safety and convenience – studies also show a growing desire to buy based on other values-based criteria, such as "sweatshop-free" and child-labor-free clothing, smaller environmental impact, and absence of genetically-modified materials or ingredients.
- Reduced Regulatory Oversight
  Companies that demonstrate they are engaging in practices that satisfy and go beyond regulatory compliance requirements are being given less scrutiny and more free reign by both national and local government entities. In the U.S., for example, federal and state agencies overseeing environmental and workplace regulations have formal programs that recognize and reward companies that have taken proactive measures to reduce adverse environmental, health and safety impacts. In many cases, such companies are subject to fewer inspections and paperwork, and may be given preference or "fast-track" treatment when applying for operating permits, zoning variances or other forms of governmental permission. The U.S. Federal Sentencing Guidelines allow penalties and fines against corporations to be reduced or even eliminated if a company can show it has taken "good corporate citizenship" actions and has an effective ethics program in place.

Recent years have seen a growth in the breadth of topics consider under the "corporate social responsibility" umbrella. Included among these are corporate governance issues, such as how boards of directors are chosen and compensated; religious freedom in the workplace; "cyber ethics" issues of access to and privacy linked to information technology, both for consumers and employees; consumer concern over the use of genetically modified organisms in agriculture; and the new demands brought about by the increased interest in environmental sustainability.

Despite all these positive developments, there are still many companies, in our opinion, whose CSR performance falls below our expectations.

Accordingly, what tools can an investor then use to influence the CSR performance of a company, and harmonize our values with our portfolio? Many of our tools fall under the umbrella of Socially Responsible Investing (SRI).

SRI describes the integration of personal, religious or organizational values and societal concerns into investment decision-making. SRI is the act of making investment decisions to achieve social as well as a financial return. Working from my vantage point, church policies determine which CSR issue areas I focus on and which tools I use. Foundations involved in SRI sometimes use the alternate term, “mission-related investing” to describe the process of realigning their portfolios with the "values that shape their grant-making policies." For example, an environmental foundation might wish to examine and possibly reconcile the contradictions between the green initiatives it funds and the non-green companies in its investment portfolio.

The SRI Tools I will mention this evening are Screening, Shareholder Activism, and Community Investment.

Screening is the practice of including or excluding companies from a portfolio based on non-financial criteria. It is the SRI tool most people are familiar with, and provides the foundation for many religious institutional investors’ SRI approaches.

Screening can involve products, country-specific matters, or CSR policies and practices. Screening can also be both negative (avoidance) and positive (affirmative). “Secular” SRI mutual funds and separate accounts are most likely to apply affirmative screening, and often use the term, “best-in-class.”

Currently, individual investors have expanded options to invest in mutual funds whose screens match their values and beliefs. There are currently over 80 funds listed on the Social Investment Forum’s web site at www.socialinvest.org.

The individual investor can also work with his or her own investment professional to identify screens based on personal values and beliefs. I recall a story that a formal colleague relayed to me on the matter of individual screening that he encountered while working as an SRI advisor for a large investment management firm. One of his clients came to him and insisted that he did not want to be in any company associated whatsoever with Michael Jackson. His request may not fit the general intention of screening, as the social goal in this case is unclear – however, the story does provide an extreme example.

Although we as an institutional investor implement certain products screens, the guiding principle of our program is that investors should seek the best investment opportunities on financial grounds and then work from within to alter corporate practices that are at variance with social concerns of the church. The second SRI tool, shareholder advocacy, describes several actions that investors can take as “owners” of a corporation, and is the tool we most often employ.
Certain shareholders, particularly institutional investors, often try to influence corporate management directly through dialogue and actively work with companies to encourage more responsible levels of corporate citizenship.

This is often done in partnership with other religious institutional investors, socially conscious pension funds, and SRI mutual fund managers. In our case, the majority of our shareholder activism collaborations occur via our counterparts in the Interfaith Center on Corporate Responsibility Coalition (ICCR).

If the initial attempts at dialogue or communication prove unfruitful, institutions or individuals can file a shareholder proposal.

A shareholder proposal is a recommendation or request that a company and/or its Board of Directors take a particular action relevant to company policy.

In the United States, securities laws govern a process by which a shareholder or group of shareholders has a right to introduce formal proposals, have the proposal circulated to all of the company's shareholders, vote upon the resolution, and present it in person at company annual meetings.

Regardless of whether they were a filer or not, all investors have the opportunity to support shareholder proposals through voting their proxies in advance of or at the company annual meeting. Our CSR program possesses formal proxy voting guidelines, and tracks emerging shareholder issues each year.

It is important to stress that constructive dialogue with the company, along with corporate change, is the objective of filing a shareholder resolution. The goal of a shareholder proposal is usually to win access to and commitment from key corporate decision-makers who can produce the change shareholders seek.

Accordingly, if proponents believe that sufficient progress has been achieved with a company, they may chose to withdraw the resolution for the coming year.

Preliminary reports indicate that of the 261 social and environmental shareholder resolutions that faced publicly owned companies in 2001, the average vote for was 8.5%. This may seem low, but the number is 1% higher than it was in 2000. The leading issues in 2001 were proposals related to environment and global labor standards.

The final tool, community investment, attempts to address the financial needs of low income and underserved communities. Community investments can be made through institutions such as community development banks, community development loan funds, and community development credit unions.

These investments include products such as loans, checking, savings, CD's, and money market accounts. They can be at market or below market rates.

At present community investment represents the smallest portion of SRI money in the United States. There are still many performance and risk barriers many institutional investors face using this SRI tool.

At this juncture I would like to offer some figures on the scope of SRI investing in the United States. Every other year the Social Investment Forum conducts a survey to gather information on this topic. Unfortunately, their 2001 trends report was due out in late September, but was delayed. Therefore I am only able to provide 1999 data at this point.

Their findings included the fact that SRI in the United States experienced rapid growth from 1997 to 1999. All segments of social investing – screened portfolios, shareholder advocacy efforts and community investment – expanded.

Socially responsible investing tops the $2 trillion mark, which translates into one out of every eight dollars under professional management in the United States today is part of a socially responsible portfolio. The fastest growing component of socially responsible investing is the growth of portfolios that employ both screening and shareholder advocacy.

Before I conclude this section of my presentation, I would like to share some of my own data, revealed during a project I conducted earlier this year.

The survey - which was sent to all 6,000 UCC local churches – contained a broad spectrum of question including opinions on specific CSR issue areas, and the use different SRI tools. The project allowed me to gauge where local churches stood on CSR and SRI principles and preferences.

While this was a very comprehensive undertaking, I share with you just a few key findings, data I believe demonstrates my constituency's support for continued and expanded SRI activity.

As part of the survey, I asked respondents for their level of agreement with the following statements:

"Churches and church-related organizations:"

> Should use financial return expected as the only criterion for investment decisions.
>
> Should invest in community development initiatives and other socially responsible efforts even if it means a lower rate of return.
>
> Should take a positive approach, i.e. focus on investing in companies that have the best record on environmental and other social issues.

Over half of the respondents disagreed with the statement, "Churches and church-related organizations should use financial return expected as the only criterion for investment decisions.

Over sixty percent agreed with the statement, "Churches and church-related organizations should invest in community development initiatives and other socially responsible efforts even if it means a lower rate of return."

Our Board of Trustees might be very surprised – and perhaps alarmed – at this data.

Almost eighty percent of respondents agreed with the statement, "Churches and church-related organizations should take a positive approach, i.e. focus on investing in companies that have the best record on environmental and other social issues."

Finally, when asked about the CSR issue areas that were most important to them, the following rank order appeared.

90% Strongly/somewhat agreed that churches should use its power as a shareholder to advocate change in corporate practices concerning human rights and international worker rights issues.

>80% Strongly/somewhat agreed that churches should use its power as a shareholder to advocate change in corporate practices concerning equality issues (racial ethnic and women).

~80% Strongly/somewhat agreed that churches should use its power as a shareholder to advocate change in corporate practices concerning environmental issues.

Armed with the denomination's historical commitment to advancing the CSR performance of companies within its holdings, and the existing support for the work by members of the denomination, the next question becomes, how does one value – or measure – corporate citizenship performance in order to determine which companies are the leaders and should be rewarded, and which companies are the laggards who might require our attention?

Clearly this measurement question is fundamental to making effective decisions concerning CSR expectations and SRI strategy…
The value of corporate social responsibility can be measured in a variety of ways, based on both quantitative and qualitative data.

Clearly, certain external users of social and environmental information – such as the SRI community – are very interested in this “non-financial” communication, upon which many screening decisions and shareholder activism strategies are based.

Over the past decade, progress has clearly been achieved in the area of voluntary corporate disclosure on “non-financial” information.

Corporate citizenship information is often contained in publicly available reports issued by corporations. These include the company’s annual report, its 10-K report, and press releases. Some companies are also producing additional, voluntary reports in the form of corporate environmental reports, diversity reports, community reports, and even sustainability reports. In addition, many leading companies have their own Director of CSR or Director of Sustainability. These company contacts are critical sources of information.

There are also a variety of secondary sources those researching CSR performance can access. For the most part, this encompasses environmental data contained in such forms as the Toxic Release Inventory (TRI), Aerometric Information Retrieval System (AIRS), Permit Compliance System (PCS), etc.

However, as external users of non-financial information, the CSR community realizes that publicly available governmental databases are too compliance-oriented and somewhat outdated, and are not adequate to fully portray a company’s complete social, environmental and economic performance.

In addition, the facility-based and sometimes outdated nature of virtually all mandatory reporting clouds our ability to assess firm-level environmental or social performance.

Ratings organizations also provide research and analysis on the CSR performance of corporations. Their reports usually encompass a survey process with the companies, analysis of governmental databases, and

other components such as legal and media searches. Of course it is up to the company to voluntary participate or cooperate with the ratings organizations, as such disclosure is not mandated by law.
The media is another source of information on CSR performance. There is an increasing number of top-50 and top-100 lists produced by magazine such as Fortune and Working Mother Magazine, who annually names:

- Best Companies for Minorities
- Best Companies to Work For
- Best Companies for Working Mother

and so on.

Non-governmental organizations – both mainstream and watchdog group – offer another viewpoint, often negative, of CSR performance.

Many challenges exist using all of this information. In too many cases, corporate citizenship information is still too anecdotal, subjective, and even reactive. Companies' internal performance metrics often due not meet the needs of external stakeholders, and certain CSR performance data shared with stakeholder groups could be interpreted as "green-washing." Metrics might be inconsistent, so that progress over time is impossible to assess.

The growing reliance on voluntary corporate reporting for valuing and measuring corporate citizenship is an integral aspect of advancing the movement. Voluntary corporate reporting on non-financial factors of performance does help external users clarify some of the challenges we face using government-reported data, as well as supplement the reports we receive from CSR research groups and the media.

The SRI community applauds the efforts companies have taken to voluntarily communicate their performance on social and environmental policies and programs. We believe that a company's decision to begin publicly reporting on its social and environmental policies and performance represents an important step in achieving greater corporate social responsibility.

However, the very growth of such voluntary communications, embodied in hundreds of environmental, social, and now sustainability reports, has lead to an enormous volume of inconsistent, incomparable and unverified information.

This results in the fact that too few external stakeholders use corporate environmental and social reports, and companies experience frustration in producing them.

Fortunately, there are some promising developments on the horizon. We are currently active participants in the Global Reporting Initiative, a significant initiative seeking to promote the harmonization of reporting standards so that all key stakeholders have access to the information they need to make informed decisions.

The GRI was established in late 1997 with the mission of making corporate sustainability reporting as routine and credible as financial reporting; design a standardized reporting guideline reflecting the dimensions of sustainability; and to ensure a permanent and effective institutional host.

In short, GRI is about simplifying one aspect of corporate citizenship – making the process of measuring, reporting, comparing, and decision-making more efficient and more relevant for each stakeholder group that creates or uses sustainability reports. More information on GRI can be found on their web site at www.globalreporting.org.

Compared to financial reporting, the field of social and environmental reporting is in its infancy. Accurately ranking and benchmarking companies, the ability to identify both leaders and laggards, and the development of meaningful indictors created in a multi-stakeholder fashion are critical objectives for the movement.

Without progress in this area, the CSR movement will suffer form the lack of empirical evidence required to convince many mainstream/Wall Street of its true legitimacy.

I would like to conclude by offering some thoughts on the field of CSR in the wake of the events of September 11th.

I think one could make a convincing argument that U.S. transnational corporations are in fact one of the most visible faces of the country throughout the globe, and that acting as a responsible corporate citizen is more important than ever now.

While we cannot predict definitively what will happen, leaders in the field have offered both negative and positive outcome scenarios.

As identified by the UK-based CSR think-tank group SustainAbility, possible implications the CSR and sustainability agenda might face in light of September 11th are the following:

- Efforts to rebuild the security state will create major distractions for political leaders and business leaders from the CSR and sustainability agenda;

- There is a real risk that one of the deepest economic slumps in living memory could test business to the limit – particularly large, older companies, which have been among the CSR pioneers. Some will merge, others might fold. Initially, CSR priorities will slide, then expect rapid mutation in the CSR agenda;

- The CSR and sustainability debates will be increasingly politicized. The anti-globalization movement will continue to evolve. New forms of dialogue will emerge, although many NGOs will find their tasks at least 30-40% harder to achieve.

- There will be a shake-out among politicians, journalists, NGOs, consultancies, think-tanks and corporate professionals involved in CSR. Competition for attention and resources will build from other agendas; existing organizations will either adapt or disappear; new organizations, with new business models will emerge;
- Some business people will use the ongoing turmoil to excuse past failings, but they will find it hard to escape the spotlight. Leading corporations, financial markets and other pro-globalization institutions will be targeted, both by "antis" and "pros." Some 2-3 years out, corporate CSR strategies are likely to become an even more important source of competitive advantage.

Some social investment industry leaders are hopeful that one of the lessons from September 11th should be a focus on the long-term economic and environmental health of the whole world.
Social investing has long advocated that a just society and healthy environment are in the interest of all investors, and that the best long-term investments are companies that strive to be exceptional corporate citizens. From this perspective, the events of September 11th indicate that social investing is needed now more than ever.

Some are hopeful that there will be a renewed sense of diligence, support, and alliance with those companies that are taking responsibility for their role in society, proactively helping the environment and showing no tolerance for corruption, bribery and human rights abuses.
A long-term view would acknowledge that our prosperity is intrinsically tied to the prosperity of others around the globe and that economic issues cannot be separated from other issues, like peace and justice. A greater feeling of world interconnectedness may urge more people to demand that companies embrace social and environmental responsibility in their business practices.

I will close with an exert from Bob Dunn, CEO of Business for Social Responsibility, who published the following as part of an article last month:

In the realm of corporate social responsibility, the truths that shaped our thinking and actions on September 10th are in most respects still true today.

- *We still live in a dangerous and violent world.*
- *We still live in a world where too many people are hungry, sick and poor.*
- *We still live in a world that is rapidly depleting resources that are life sustaining.*
- *We still live in a world where every institution must continuously demonstrate that it serves a useful social purpose.*

People are continuing to make a connection between how companies behave and what the global society can offer to all of its members. And if anything has changed, there is only a deeper feeling around the world that the private sector must learn how to generate wealth, create jobs and bring its offerings to the marketplace in ways that more clearly serve the public good.

This view reflects what continues to be the essence of corporate responsibility – conducting business in a manner that not only meets financial objectives, but also consistently shows respect for ethical values, communities and the natural environment.

The principles that serve as the touchstones for this behavior -- fairness, integrity, transparency and accountability -- also remain unchanged.