IN-DEPTH: Employee feedback

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When preparing for the risk of shareholder activism, companies may be wise to check their own workforce. Employees at a handful of companies, particularly in the technology sector, are using their stock ownership to demand change, especially related to environmental and social concerns but also on strategy and executive compensation. Unlike union pension funds, which have long played a role in corporate governance, today's employee groups are smaller and directly involved, although they sometimes work with experienced governance campaigners.

At Amazon, 15 employees who received stock grants filed identical shareholder petitions in November and December asking the e-commerce behemoth to prepare a comprehensive plan addressing climate change. The proposal, which will be voted on at Amazon's upcoming annual shareholder meeting, asks the board to state its response to climate change and explain how it would reduce Amazon's dependence on fossil fuels.

A session hosted by the New York State Comptroller at the Council of Institutional Investors' spring conference in April heard from several employee activists, who cited the dominant market position of their employers and high demand for technology workers as reasons they felt safe challenging the status quo.

Another tech giant, Google, saw its workers collaborate with sometime activist investor Zevin Asset Management as it filed to demand parent company Alphabet link compensation to diversity and inclusion goals. The employees of Google – Alphabet's search engine subsidiary – did not file the proposal directly, but joined Zevin to present it at last June's annual meeting.

Ultimately, the proposal was voted down with nearly 9% of the votes in support. But Pat Tomaino, Zevin's director of socially responsible investing, told *Activist Insight Online* that the firm will work with employees and resubmit the resolution for consideration at Alphabet's 2019 shareholder meeting.

"As investors on the outside, we were confronted by a lack of progress about inclusion at Alphabet," Tomaino said. "We're dipping our toes in, but employees in a lot of other tech companies are grouping together to file their own proposals."

Fighting for change

Employee shareholder activism is becoming a force in part due to increasingly contentious debates about the tech industry, including over controversial customers and technologies such as facial recognition and artificial intelligence. Others are inspired by the #MeToo Movement to influence companies' responses to sexual harassment claims. The Paris Agreement, meanwhile, encouraged employees to hold employers accountable for environmental concerns.

Cydney Roach, executive vice president of employee experience at communications marketing firm Edelman, said in an interview that interest in promoting change comes at a time when people are fearful of the political and cultural climates that they live in. "The pace of innovation is overwhelming, and they're scared it'll eat them up," she told *Activist Insight Online*. "With those kinds of frustrations, I think everyone is looking for an outlet. Employers are the closest sources of power that they have a connection to."

This push for change has encouraged corporate leadership to be more accountable and transparent, Roach said, noting that employers are opening avenues for employees to submit feedback.

Yet even without a formal avenue, employees are letting their employers know exactly what they think. To this end, a group of unnamed investment bankers at HSBC launched a scathing attack against the boss of the bank's global banking and markets division in August. The employees urged CEO John Flint and Chairman Mark Tucker to oust division head Robin Phillips from the role. Phillips announced his departure less than five months later.

Authenticity and alignment

Not everyone is convinced of management's authenticity. Tomaino noted that Google claimed to already have policies in place that addressed Zevin's concerns regarding inclusion in the workforce. "We're concerned about the implementation piece," Tomaino said. "There's a lack of senior leadership and responsibility. We don't see executives putting their money where their mouth is."

Tomaino said management teams will soon be forced to be more transparent and responsible after employees fight for a change in policy - either through shareholder proposals or other actions.

Companies also need to align executive pay with employee and shareholder concerns, Roach stated, noting that the average CEO pay ratio is too high. The differential between the average employee salary and chief executive pay indicates that "employees haven't had a fair shake," she said.

Last year, retirees of Verizon Communications submitted two resolutions for consideration at the annual meeting in May. The proposals sought to limit certain aspects of executive pay and introduce clawback provisions, citing dangers to long-term shareholder value as justification. The proposals gained 11.6% and 35.4% support, respectively.

What's next?

The Securities and Exchange Commission has considered raising the threshold for shareholder proposals, both in terms of the initial shares required and regarding resubmission after a defeat. This could be harmful to employee activism, considering employees are often minority shareholders and do not own significant amounts of stock.

Nonetheless, the trend of employee advocacy for change at corporations will not wan - regardless of whether company workers actually submit shareholder proposals or not. But for now, experts told *Activist Insight Online* that we can expect to see more employee resolutions submitted for a vote moving forward.

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