THE CONVERSATION

How to use your pension fund to hold big business to account

October 20, 2014 4.07pm BST

Mila Ivanova
Doctoral Researcher, Cardiff University

Pooling pensions power. SS&SS, CC BY

It is a cold but sunny morning at a white brick office building in the shadow of London's Shard skyscraper. For the people attending a training event here it is the first step on the road to financial enlightenment as they learn how to turn their retirement savings into a weapon in the fight for responsible capitalism.

The office belongs to a group called ShareAction. Its goal is to create a new breed of investment champions in the workplace. Their role? To transform your pension fund into an actively responsible investor.

In the minds of many, the business of holding large corporations to account for their behaviour is the exclusive domain of wealthy individuals and institutional investors possessing large chunks of shares. It wasn't always like that though and, increasingly, efforts are being made to ensure that this kind of shareholder activism is not a closed shop for financiers, but open house for the mass of small-time investors like you and I.

Until the 1970s, this kind of investor engagement with companies in the US and the UK was actually dominated by individuals, or “corporate gadflies”. It wasn’t until the 1980s that we began to see greater involvement from institutional investors. At first this was predominantly public pension funds, but from the late 1990s, hedge funds started to flex their muscles too.

These players often have sizable stakes in a target company; enough, at least, to grab the attention of like-minded investors and cause a stir in the boardroom. For those of us with less punch in our purses, however, things are changing fast and a new movement designed to empower individuals to take on corporate executives is growing in popularity.

Better together

New legislation in the UK means that by 2018 all employers will have automatically enrolled their eligible workers into a workplace pension scheme. In practical terms this means that a lot of people will enter the world of finance and own shares in some of the world’s major corporations through their pension fund investments.

Heart of the matter. Where the money is put to work. John Keogh, CC BY-NC

According to estimates from TheCityUK, the global conventional fund management industry had $97.2 trillion in assets under management at the end of 2013, with pension assets accounting for $38.1 trillion of the total. The UK is the second largest market after the US with about 10% of the world’s total pension assets – and pension funds in the UK are among the largest asset-owning types of investors. UK pension funds and insurance companies hold about 11% of the value of the **UK** stock market.

These statistics hint at the potential power held by the pension fund industry – which, with its large shareholdings in companies, can have a significant influence on their environmental and social practices. And the ultimate beneficiaries to whom pension funds are accountable are the pension savers – you and me, the cashier at Sainsbury’s, the professor at LSE, the IT consultant, the shop assistant, everyone saving toward a pension.

Building consensus

Of course, none of this can happen by accident. Pension savers have to engage with their pension fund and seek to influence the investments the pension fund holds in the UK and overseas. They can get involved with how votes are cast by fund managers at shareholder meetings and help decide how a fund engages with companies on environmental, social and governance issues. It sounds daunting for an individual but ShareAction’s training provides a step-by-step guide. The key is to begin by establishing the kind of pension scheme you belong to and identifying who is responsible for making the big decisions.

But one voice can seem terribly quiet. Crucial to the process is building a workable consensus by talking to colleagues, your employer and your union before starting a negotiation process with the pension fund. Then it is a case of choosing your battle. It makes sense to focus the energies of your hard-won alliance on a particular corporate campaign, for example, pushing companies across the UK to adopt Living Wage standards. Alternatively, the initial approach could be to push for greater pension fund transparency and to install a robust responsible investment policy.

It might sound hard going; a lot of effort to make a tiny ripple in the world of global finance. But NGOs have successfully managed to mobilise pension savers and put pressure on pension funds to act. A case in point is the 2007 “Patents vs Patients” campaign run by

The sharper end of campaigning fotdmike, CC BY-ND

Oxfam and FairPensions (which later became ShareAction) which was aimed at securing the availability of affordable generic medicines in developing countries and centred round a legal case in India involving Swiss drugs giant Novartis. The organisations managed to mobilise members of pension funds worth £1.7 trillion – and one fund manager commented he had "never had so many questions from pension funds on a particular campaign issue".

In a similar vein, during its Tar Sands campaign against BP and Shell which involved the tabling of two resolutions at the companies' annual meetings in 2010, ShareAction again pushed more than 6,000 pension savers to target their pension funds and urge them to back the resolutions. At BP, some 15% of investors either supported the resolution designed to assess the impact of the Tar Sands projects or abstained from the vote. At Shell it was 11%.

Cause and effect

It may sound like a meagre return, but in fact it is a strong base to build from – activists with smaller stakes in firms have made waves before now. My research based on interviews with professionals from institutional investment houses and NGOs has shown that activism from pension savers is a powerful driver to encourage many pension funds to take account of environmental, social and governance issues and to become more responsible investors. How well that is deployed and used is simply a question of scale.

This new breed of shareholder activists is not as widespread as it needs to be – a relatively small proportion of pension savers are asking questions at the moment or taking responsibility for where their retirements savings are invested. As a result, pension funds do not feel an urgent need to address the issues that matter to their clients. And it is clear that large and influential NGOs with huge supporter bases have a role to play in adopting and popularising this mode of campaigning among their constituents.

The reality of the situation can be summed up by a West African proverb: "If you think you are too small to make an impact, try sleeping in a room with a few mosquitoes." In other words, pension savers can make a difference, and the more of them that realise this and start to act, the greater the results.

Investment
Corporate governance
Pensions
Management
Leadership
Ethical investment

Tweet29
Share9
Get newsletter