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New Episode in the Never Ending Epic of Labor-Capital Relations:

Trade Union's Influence in Pension Funds and Corporate Governance in The Netherlands

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To My Beloved Wife Amita Muharani:

There is a time when I extremely miss you –I want to pick you up from my dreams and hug you day by day in the real world

(The Hague, December 2005)

Foreword and Acknowledgements

This paper discusses the influence of the trade union in pension funds in the context of internationalization of financial activities and a boost in the demand for Corporate Governance practices and socially responsible investment (SRI) to corporations throughout the world. It observes The Netherlands as the background of study where pension funds developments are highly commendable and trade unionism tradition is strong. Thus, it focuses on PGGM (the Dutch Pension Fund for the Healthcare and Social Work Sector) as a case study for three reasons. First, PGGM is the second largest Dutch pension fund with total capital at the 2004 year-end of more than €60 billion. Second, PGGM's role has been acknowledged as the driving force in Dutch SRI market. Third, PGGM has union representatives in its Board of Governors (BoG) aimed at representing workers' voice in the pension funds. In the attempts to explore trade union roles in pension funds and Corporate Governance practices, this paper is dedicated to industrial relations and Corporate Governance studies. I wish that this paper could be a useful reference on the better practices of robust industrial relations and sound Corporate Governance for workers, companies, shareholders, trade unions, employer associations, and the governments. In particular, it is dedicated to developing countries, especially my country Indonesia, in achieving improved economic and social development in the era of internationalization of financial activities.

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Tubagus (TB) M. N. Sutawinangun

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ABBREVIATIONS

ABP	:	*Algemeen Burgerlijk Pensionfonds* - the Dutch Public Sector Employee Pension Fund
ABVAKABO	:	*Algemene Bond van Ambtenaren en van Personeel in de Gezondheidszorg, het Welzijnswerk en de Sociale Werkvoorziening* (ABVA) and *Katholieke Bond van Personeel in de sectoren Overheid, Volksgezondheid, Maatschappelijk Welzijn en Sociale Werkvoorziening* (KABO) - FNV Affiliated Union for Public Servants and Employees in the Education, Healthcare, Social Work and Sheltered Work Sectors
Arcares	:	The National Sectoral Association for the Nursing and Care Sectors
BoC/BoS	:	Board of Commissioners/Board of Supervisors
BoD	:	Board of Directors
BoG	:	Board of Governors
CNV	:	*Christelijk Nationaal Vakverbond* - the Dutch Christian National Trade Union
CSR	:	Corporate Social Responsibility
Eurosif		European Sustainable Investment Forum
FNV	:	*Federatie Nederlandse Vakbeweging* - the Dutch Federation of Trade Unions
GGZN	:	*Geestelijke Gezondheidszorg in Nederland* - the Netherlands Federation of Mental Healthcare
GMoS	:	General Meeting of Shareholders
HEFF	:	Hermes European Focus Fund
HFAME	:	Hermes Focus Asset Management Europe
ILO	:	International Labour Organization
LO	:	*Landsorganisationen i Sverige* - Swedish Federation of trade unions
LVT	:	*Landelijke Vereniging voor Thuiszorg* - the National Association for Care in the Home
MO Groep	:	*Maatschappelijke Ondernemers Groep* (Social Employers Group) - the Sectoral Organization for the Healthcare, Youthcare and Childcare Sectors
NU '91	:	New Union '91
NVZ	:	*Nederland Vereniging van Ziekenhuizen* - the Association of Hospital

OECD	:	Organisation of Economic Co-operation and Development
PGGM	:	*Stichting Pensionfonds voor de Gezondheid, Geestelijke en Maatschappelijke Belangen* - the Dutch Pension Fund for the Healthcare and Social Work Sector
REO	:	Responsible Engagement Overlay - A registered acronym and design name for REO is ***reo***®
SCGOP	:	*Stichting Corporate Governance Onderzoek Pensionfondsen* - the Foundation for Corporate Governance Research for Pension Funds
SEE	:	social, ethical, and environmental
SRI	:	socially responsible investment
TUAC-OECD	:	Trade Union Advisory Committee to OECD
UK	:	United Kingdom of Great Britain
UN	:	United Nations
US	:	United States of America
VBDO	:	*Vereniging van Beleggers voor Duurzame Ontwikkeling* - the Dutch Association of Investor for Sustainable Development
VGN	:	*Vereniging Gehandicaptenzorg Nederland* - the Netherlands Association of Care for the Handicapped

CHAPTER 1

Introduction

1.1 General Background

In response to the Asian financial crisis in 1997/1998 and the collapse of US large corporations, such as Enron, Worldcom and Tyco in 2001/2002, Corporate Governance has been greatly fostered amongst publicly listed companies throughout the world. Following Enron in the US, numerous corporate financial misconducts and mismanagements were also exposed in Europe, such as Vivendi (France), Allied Irish Bank (Ireland), Baan Company, KPNQWest, Royal Ahold (The Netherlands), and Parmalat (Italy). Corporate Governance calls upon companies to be more transparent, accountable and responsible in financial and broader governance practices. The basic notion of Corporate Governance refers to "corporate power and wealth" (Fannon, 2003: 3) and this leads to issues of control over decision-making process and exercise of power. Based on this notion, Corporate Governance is defined as "a system by which companies are directed and controlled" (Cadbury Committee, 1992: 15) and it is therefore about "the relationship between three sets of actors or stakeholders –capital, management, and labour" (Gospel and Pendleton, 2005: 3). Although the position of workers is crucial in the context of Corporate Governance as they are at the forefront being affected by every decision on "company's going concern" that is taken by the shareholders (*capital*) and the boards (*management*), it is evident that workers (*labor*) remain at the periphery of corporate decision-making process and, thus, of Corporate Governance practices.

To put *labor* at the center of Corporate Governance practices, the trade union –an organization that expresses workers' voice on a collective basis– needs to have control over *capital*. The idea of "union control over capital" differs from that of workers' control in the "workers' self-management" system – as practiced e.g. in former Yugoslavia– wherein capital is sidelined instead of being controlled (see Adizes, 1971; Kester and Schiphorst, 1987; and Bayat, 1991). There are several ways for the union to have control over capital. *First*, the union becomes the shareholder in the corporation. *Second*, the union controls a central clearing fund under an "employee investment funds" system as practiced in Sweden between 1984 and 1992 (see Meidner, 1978). *Third*, the union exerts control in a pension fund, which is then called a union-influenced pension fund.

The first two attempts will need a strong backup of social and economic policies at macro level in the country. Yet, in the era of free market and economic liberalization as well as internationalization of financial activities existing in many countries throughout the world these attempts are difficult to implement. The third attempt, i.e.: union-influenced pension funds, could be promising as pension funds' activities utilize investments in the capital market (i.e.: domestic as well as foreign stock exchanges). In Ontario-Canada, after the Canadian Labour Congress passed a resolution that "endorse(d) the goal of organized Canadian workers achieving greater control and direction of the investment of pension funds" (Carmichael, 2004: 106), a number of public sector unions gained respective joint trusteeships of the pension funds (Ibid.). The study carried out by Carmichael in 1998 in assessing the level of union control of the 24 largest pension funds in Canada reveals that "relatively few unions have control over investment of their pension funds; however, where there is control, the funds are often large and cover many unionised staff in public service workforces across the country" (Carmichael, 2004: 107).

In The Netherlands, PGGM (the Dutch Pension Fund for the Healthcare and Social Work Sector) is one of the largest union-influenced pension funds wherein representatives of FNV (the Dutch Federation of Trade Unions) and CNV (the Dutch Christian National Trade Union) as well as New Union '91 (NU '91) have a seat in the PGGM board. The PGGM has also been the driving force in the Dutch institutional SRI market with a total pension capital at the 2004 year-end of over €60 billion comprising pension contributions and investment returns. This is invested –both in The Netherlands and in the rest of the world– over equities, fixed-interest securities, real estate, private equity and commodities (see PGGM, 2005: 64). One of the investment policies set out by PGGM is the exclusion principle in which PGGM will not invest in a country if it systematically violates the three fundamental human rights that refer to the Universal Declaration of Human Rights and ILO Conventions, i.e.: freedom of speech, freedom of the press, and core Labor Standards consisting of freedom of association and the effective recognition of the right to collective bargaining, the elimination of all forms of forced and compulsory labor, the effective elimination of child labor, and the elimination of discrimination in respect of employment and occupation.

The importance of trade union control over capital (i.e.: in pension funds and, thus, to address Corporate Governance issues) can be seen from different angles. *First*, the trade union movement needs to change its strategic direction in representing workers' interests as high capital mobility in the globalized economy has threatened unions' roles. *Second*, at the same time, in this way a trade union can address not only issues on Decent Work with emphasis on core Labor Standards but also issues that go beyond Labor Standards, such as a more democratic workplace and environmental issues, and the ways to achieve them.

1.2 Objectives and Research Questions

In accordance with the notions set out above, there are three main objectives of the research on union-influenced pension funds, i.e.: *First*, it will explore trade union's roles in addressing Corporate Governance issues. *Second*, it aims at examining the range of issues addressed (including issues beyond core Labor Standards) through union-influenced pension funds. *Third*, it intends to critically examine the extent to which the union's experience in influencing pension funds decision is used to make union members at large aware of the issues of Corporate Governance and workers' influence. In order to reach these objectives, there are three questions raised herein, i.e.:

1. To what extent does the trade union have control in union-influenced pension funds and control over investment decisions?
2. How are Corporate Governance issues and issues beyond core Labor Standards addressed by the trade union in the work and operation of union-influenced pension funds?
3. To what extent are trade union involvement in the pension funds and its influence in pension fund decisions used to deliver the message on the issues of Corporate Governance and workers' influence to its members?

1.3 Relevance and Justification

The relevance and justification of the research on union-influenced pension funds in Corporate Governance practices is threefold. *First*, it augments the emerging study on Corporate Governance with particular attention to the roles of workers and trade unions. *Second*, it observes possible alternative channels for workers and trade unions to engage in Corporate Governance process and mechanism, i.e.: how to deliver workers' voices towards the decision making level and how to encourage companies throughout the world to implement Labor Standards and workers rights. *Third*, it provides better practices that pension funds system and operation may refer to within the framework of Corporate Governance practices. This is in particular very beneficial for Indonesia, a country where the author comes from and where Corporate Governance issues currently play a major role. In the future, these issues might soon turn to cover the roles of workers and trade union as political reforms and democratization progress in Indonesia starting from 1998 has contributed to the growth of civil society and, thus, greater voice for workers and trade unions.

1.4 Theoretical Framework

In analyzing the roles of the trade union in the union-influenced pension funds, a number of theoretical approaches are used in this research paper. The first theoretical framework is concerned with Corporate Governance concepts and models, i.e.: shareholders-driven and stakeholders-driven model of Corporate Governance. In line with this framework, the theory of the firm (e.g.: Hayek, 1969) is discussed as the background of shareholders-driven model. At the same time, the social entity theory of the corporation (Letza and Sun, 2002) and the pluralistic model theory of the corporation (Blair, 1995) are discussed to justify the key roles of workers and trade union in Corporate Governance. A second theoretical framework concerns union control over capital. In line with this framework, the work of Bernstein (1976) on "three dimensions of participation in decision-making" and the work of Meidner (1978) on "employee investment funds" as well as practices of workers' self-management are discussed to seek their relevance for union-influenced pension funds. A third theoretical framework concerns union-influenced pension funds. Researches on Canadian union-influenced pension funds, such as two types of control over pension funds (Quarter et al., 2001) and nine models of pension fund governance (Carmichael, 1998) are discussed to analyze the work and operation of PGGM. Finally, a fourth theoretical framework concerns union democracy. The notion of union democracy, the debates on compatibility of democracy and efficiency, and "the iron law of oligarchy" are discussed to analyze union-members relationship, particularly the state of communication within the union (i.e.: union leaders) and its members.

1.5 Research Methods

The research is based primarily on a qualitative methodology. It studies and analyzes both primary and secondary data on a qualitative basis. The nature of the research is a mixture of exploratory research and descriptive research. It intends to explore the notion of union-influenced pension funds and to provide information on the work and operation of a union-influenced pension funds in The Netherlands within the framework of union's control over capital and of Corporate Governance practices.

The primary data sources are interviews with representative(s) of PGGM, Dutch trade unions (i.e.: FNV, ABVAKABO, and NU '91), and a Corporate Governance and industrial relations expert at the TUAC-OECD (Trade Union Advisory Committee to OECD). In addition to interviews, there are also e-mail correspondences with the trade union leaders and investment managers that are hired by PGGM to manage the invested funds, such as F&C Asset Management and Hermes Investment Management.

The secondary data sources consist of company's official documents, literatures and researches, and information collected from newspapers and the internet. Company's official documents used in this research paper are annual reports; corporate policy manual; and reports on engagement activities (i.e.: Responsible Engagement Overlay program or called REO), General Meeting of Shareholders (i.e.: direct use of voting rights), and proxy voting. REO is a quarterly engagement report made by F&C Asset Management on behalf of PGGM and other pension funds. It reports how investments have been utilized to encourage investee companies to enhance their business performance by adopting sound Corporate Governance and better social, ethical, and environmental (SEE) practices. Proxy voting report is a report made by PGGM concerning the use of voting rights in the shareholder meetings, which they are delegated to the proxy on a collective basis. Literatures and researches used in this research paper are books and journals in the area of Corporate Governance, pension funds, workers' participation, institutional investors in capital market, trade union shareholder activism, and union-based pension funds.

1.6 Structure of the Research Paper

Following is the structure of the research paper. Chapter 1 is the introductory part of the paper. It incorporates the general background; the objectives and research questions; relevance and the justification of the research; and the research methods.

Chapter 2 reviews some theoretical frameworks related to Corporate Governance and trade union's control over capital. In the area of Corporate Governance, it covers narrow and broader Corporate Governance concepts, shareholders-driven and stakeholders-driven model, and theories justifying these models. Meanwhile, in the area of trade union's control over capital, it looks at the practices of union's shareholding and employee investment funds. As particular attention is given to publicly listed companies, the review of these frameworks eventually leads to the notion of 'institutional investors' and 'union-influenced pension funds'. This is followed by a discussion of union-influenced pension funds and the review continues with a discussion of union democracy that attempts to figure out union-members relationship.

Chapter 3 narrows the focus to union-influenced pension funds in The Netherlands presenting PGGM as the case study. At first, it looks into the state of affairs of Corporate Governance and pension funds in The Netherlands at both the macro and micro level. Then, it continues with an analysis of PGGM including PGGM governance structure, its sustainable investments and policies for equities and the link of sustainable investments and Corporate Governance. Finally, this chapter presents labor and SEE issues addressed in Corporate Governance practices (i.e.: engagement, direct use of voting rights, and proxy voting).

Chapter 4 provides an analysis of the relationship between trade unions, pension funds, and union members. At first, in looking into the relationship between trade unions and pension funds it analyses the views of trade union on Corporate Governance and on pension funds' roles. Then, it looks into union's views on representation in pension funds. Subsequently, an analysis is presented of the governance practices in the PGGM board (which includes trade union representatives) to observe the union's influence in decision-making. Finally, an analysis on union-members relationship is presented to figure out how communication is maintained by the union to its members in the context of pension funds activities.

Finally, Chapter 5 distils the findings and arguments presented in this paper to conclude on trade union's influence in union-influenced pension funds and its sustainable investment practices, and the influence in Corporate Governance of publicly listed companies.

CHAPTER 2

Corporate Governance and Union-Influenced Pension Funds: Some Theoretical Approaches

2.1 Corporate Governance: Concepts, Models, and Theories

The term 'Corporate Governance' is defined as "a system by which companies are directed and controlled" (Cadbury Committee, 1992: 15). A further definition of Corporate Governance points out that "Corporate Governance is concerned with the relationship between the internal governance mechanisms of a corporation and society's conception of the scope of corporate accountability" (Deakin and Hughes, 1997: 2). The internal governance mechanisms mean that in the *narrow* sense Corporate Governance governs the relationship between shareholders and the management (i.e.: Board of Directors and Board of Commissioners) in corporate decision-making process. Meanwhile, the society's conception of corporate accountability means that in the *broader* sense Corporate Governance sets the rules, cultural and institutional arrangements, practices, and procedures that govern the relationship between shareholders, managers, workers, creditors and other internal and external stakeholders in respect to their rights and responsibilities. In line with this notion, Blair points out that:

> The phrase corporate governance is often applied narrowly to questions about structure and functioning of board of directors or the rights and prerogatives of shareholders in boardroom decision making... [but] a broader view of corporate governance, [is] one that refers to the whole set of legal, cultural, and institutional arrangements that determine what publicly traded corporations can do, who controls them, how the control is exercised, and how the risks and returns from the activities they undertake are allocated (1995: 3).

Shareholders-Driven Model

There are two models of Corporate Governance practices, i.e.: *shareholders-driven* and *stakeholders-driven* Corporate Governance. The first model views shareholders as the 'key stakeholder' and the 'ultimate beneficiary' of a corporation. This makes maximization of shareholders' values the primary objective of Corporate Governance.

This model is commonly applied in Anglo-Saxon countries, e.g.: the UK, US and Canada, and it is based on modern firm theories. These theories derive from property rights conception whereby the shareholders as capital provider are seen as the owners of the corporation and, thus, assets of the corporation are the property of the shareholders. This conception has been then generating a notion that the shareholders have residual rights (i.e.: over profits) and bear the risks of the residual rights (i.e.: in case of a company making losses). Because of bearing such risks, Hayek (1969) argues that "shareholders' property rights in the corporation must be fully protected and shareholder control of the corporation must be strengthened" (cited in Letza and Sun, 2002: 45). Hence, the directors and managers (*the agent*) have a fiduciary duty to act in the best interests of the shareholders (*the principal*) by maximizing the share price in the short-run and, in the long-term, continually improving corporate performance.

Stakeholders-Driven Model

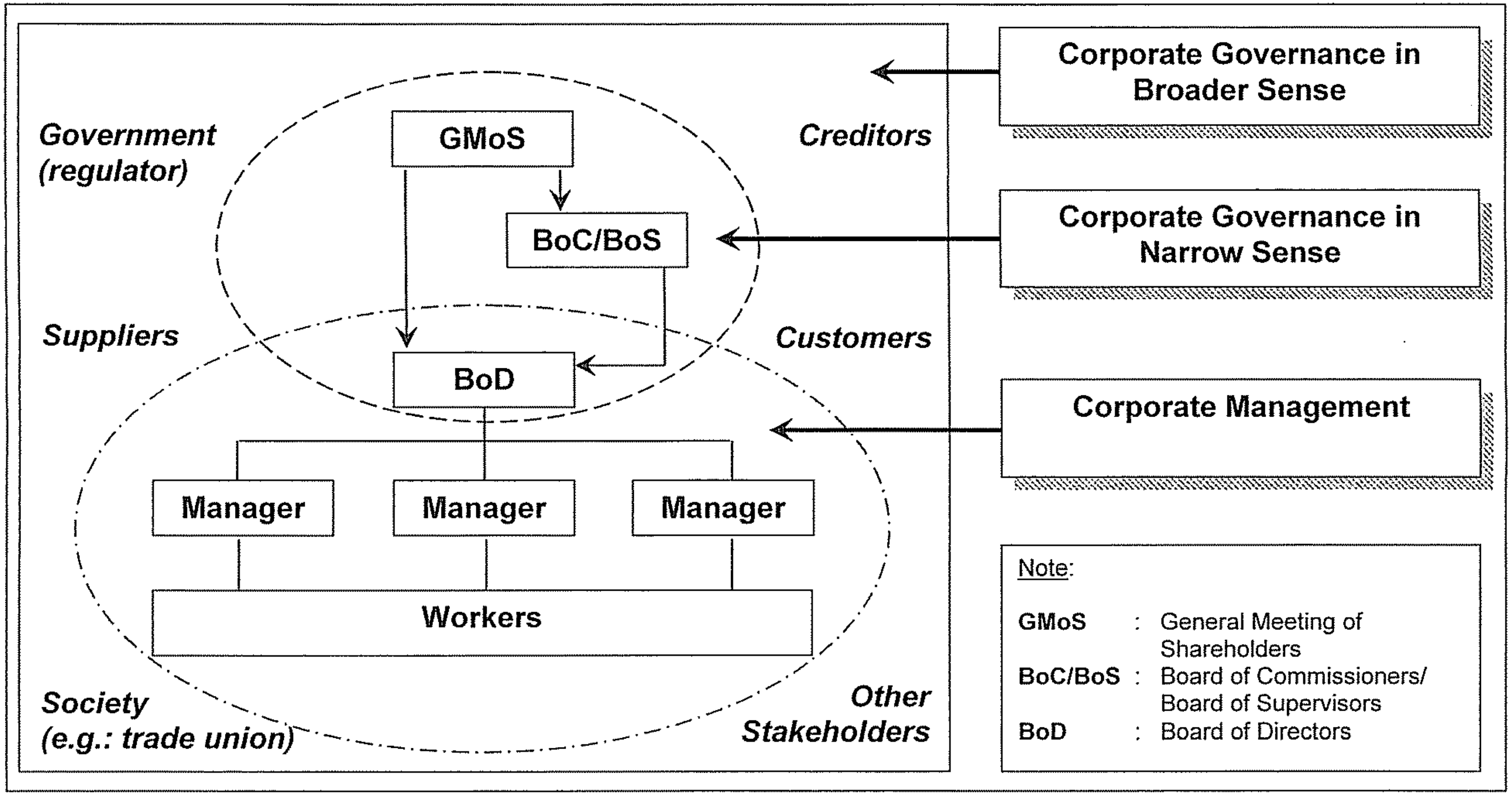
The second model views the key stakeholder of a corporation beyond the shareholders. The argument is that "corporations are not simply managed in the interests of their *shareholders* alone but there is a whole range of groups, or *stakeholders*, that have a legitimate interest in the corporation as well" (Crane and Matten, 2004: 50). The stakeholders (such as workers, creditors, customers, suppliers and local communities) are in fact substantially affected by the company's success and failure. In continental European countries, such as Germany, France, and The Netherlands, workers represented by trade union and/or co-determination bodies (e.g.: Works Council) are seen as the key stakeholder, in addition to the owners. Being framed by state macro-economic policy and state supported social policies, continental European's stakeholder-driven model duly emphasizes "social responsibility" in the context of Corporate Governance and, thus, underlines "workers welfare" as one of the major concerns (Fannon, 2003: 9 and 35).

Justification of workers and trade unions as key stakeholder in Corporate Governance practices may refer to *the social entity theory* and *the pluralistic model theory*. Deriving from a communitarian view of property conditionality which argues that individual property rights are conditioned and restrained in a social context and in community, the social entity theory views the corporation "not as a private association united by individual property rights, but as a public association constituted through political and legal processes and as social entity for pursuing collective goals with public obligations" (Letza and Sun, 2002: 49). This makes a corporation having a collective rather than individual identity and makes a corporation not only an economic entity for a commercial purpose, but also a social entity for general community needs. Consequently, a corporation has to serve its stakeholders' interests including workers and trade unions.

Compared to the social entity theory, the pluralistic model theory has a different stance. Supporting the idea of multiple interests of stakeholders by adjusting the property rights conception, the pluralistic model theory views stakeholders in "a more subtle way" (Letza and Sun, 2002: 50), i.e.: ownership rights in a corporation can also be claimed by other stakeholders, particularly workers. This stands on the argument that workers make firm specific investments and contributions, and bear risks in the corporation. This argument, in particular, is based on the fact that modern corporations rely on the skills and knowledge of the workers and the ability of the organization as a whole to put those skills to work for customers and clients. Therefore, they should have residual rights and should participate in corporate decision-making to enhance corporate efficiency (Blair, 1995: 230-234).

Figure 1 (next page) illustrates perceived stakeholders of a corporation on the basis of Corporate Governance approaches. The shareholders-driven model epitomizes Corporate Governance in the *narrow* sense, while the stakeholders-driven model exhibits Corporate Governance in the *broader* sense. To be able to engage in Corporate Governance (and, ultimately, participate in decision-making), workers should go beyond the Corporate Management sphere and turn to the area of Corporate Governance in a broader sense. In this regard, the trade union becomes the most relevant vehicle for workers as its position exists in the broader Corporate Governance sphere, i.e.: it is an element of civil society and is at the same time an organization representing workers' voice. From this sphere the trade union should further tap into the area of Corporate Governance in the narrow sense, i.e.: the General Meeting of Shareholders (GMoS). To be able to enter the GMoS, the trade union should therefore have influence over the shares or have control over capital.

Figure 1. Corporate Governance Approaches and the Stakeholders of a Corporation
(Source: adapted from FCGI, 2001: 3-4)



2.2 Workers' Control: Workers' Self-Management Model

As a background, it would be beneficial to look into the notion of "workers' control" before we discuss ways of trade union's control over capital. Bayat (1991) refers workers' control as: "an organization of work in which the workers' are directly involved in determining the entire operation and direction of an enterprise, including production and administration, at the shop floor and at the level of general policy making" (1991: 46). This notion is manifested in the "workers' self-management" model.

According to Kester and Schiphorst (1987), the workers' self-management system enables the ownership of a company to remain in the hand of the state or private owners, yet the owners do not have right to appoint directors and managers or make policies for the running of the company (1987: 44). The owners merely act as the capital provider, while workers act as the borrower initiating to set up a company by borrowing capital from the provider (i.e.: state, banks, private individuals or trade unions). Workers are then free to run the company once they have paid a certain amount for use of the capital, while the power to govern –as named by Adizes (1971)– is held by the workers themselves. To perform governing functions ('*decision-making*'), workers set up General Assembly (GA) wherein important decisions (such as merger, acquisition, large expansion and so forth) are taken; whilst, to perform administrative functions ('*implementing*') workers elect Workers' Council. Put in the simple way, the GA is the same as the GMoS and Workers' Council is the same as the BoD and/or BoC/BoS. Being responsible to the GA, a Workers' Council is therefore accountable to workers (Kester and Schiphorst, 1987: 44-45; Adizes, 1971: 32-34).

Based on the above explanation, it is clearly that under this system capital is sidelined –it is not controlled– because "(the) ownership is social" and "enterprises belong to the entire society" (Bayat, 1991: 31). What is the role of trade union within this system wherein workers are actually self-managed? The role of trade union remains important, i.e.: to safeguard workers' self-management rights and to ensure that they are fully implemented at enterprise level. Moreover, the union plays important roles to protect workers individual rights and to represent workers' interests at all levels of social and public policy making, such as on incomes and employment policy (Kester and Schiphorst, 1987: 46-47). Whereas capital is sidelined in this notion, the following discussion is concerned with capital controlled by the trade union.

2.3 Ways of Trade Union's Control over Capital

There are at least three ways for the trade union to exert control over capital. *First*, the union becomes the main shareholder of the corporation. *Second*, the union controls a central clearing fund under "employee investment funds". Finally, *the third* is union controlling pension funds company, i.e.: union-influenced pension funds. The first two models are discussed in this section, while union-influenced pension funds is discussed later in Section 2.5.

Union's Shareholding

The saying 'union becomes the shareholder of the corporation' refers to the union's direct shareholding in the company. The work of Bernstein (1976) on "three dimensions of participation in decision-making"[1] in which he identifies the organizational *level* at which workers and their representatives exert influence, may give a theoretical explanation. Bernstein identifies the following organizational levels in a company: (1) individual; (2) work-team; (3) department or shop; (4) plant or office; (5) division; (6) executive committee; (7) board of directors; and (8) owners. Level above owners is industry-wide association, and in the case of public enterprises the levels are the various state bodies. Alongside this company structure, Bernstein also makes levels of trade union consisting of (1) shop stewards –equal level to department or shop in company; (2) plant sub-local –equal level to plant or office; (3) local chapter head quarter –equal level to board of directors; and (4) district council –equal level to owner. Levels above district council are national industrial union and national union confederation which is equal level to state bodies. However, the creation of such union levels does not automatically alter the intra-company power relationships for the worker. Therefore, the proposal is that "unions take over ownership of companies as a way of achieving workers' control" (Bernstein, 1976: 57-58). The empirical evidence of union ownership comes from Israel where the national union confederation (the Histadrut) was "simultaneously the owner of many companies" (Bernstein, 1976: 58-59).

Employee Investment Funds

Meidner (1978), a Swedish economist working for the LO (Swedish Federation of trade unions), identified three objectives for an 'employee investment funds' or 'wage-earner funds', i.e.: to supplement union solidarity in wages policy, to counteract the concentration of wealth resulting from private ownership and control of

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[1] Bernstein (1976) in *Workplace Democratization: Its Internal Dynamics* points out that there are three dimensions of participation in decision-making, i.e.: "(1) the *degree* of control employees enjoy over any single decision; (2) the *issues* over which that control is exercised; and (3) the organizational *level* at which it is exercised" (1976: 47).

the forces of production, and to increase the influence which employees have over the economic process (Meidner, 1978: 15; see also Whyman, 2004: 414-415). In line with these objectives, companies with more than 50 workers are obliged to transfer part of their profits to the workers as a collective, i.e.: 20% of the pre-tax profits. The transfer of profits does not mean that the money leaves the business because a company issues shares to that amount and the shares are transmitted to the central clearing fund under the administration of the trade unions (Meidner, 1978: 47). The 20% of voting rights of fund shareholding is then transferred to the trade union in order to influence business strategy (Whyman, 2004: 414). It was estimated that if companies book an annual profit of 20%, half of the company's shares will be owned by workers within 20 years. With some modifications from the original Meidner proposal, employee investment funds was put into place in 1984 –almost a decade after the LO called for employee investment funds in its congress in 1976– until it was abolished in 1992.

Reflections on Those Three Models

The application of those three models (i.e.: workers' self-management, union shareholding, and employee investment funds) will need a strong backup of social and economic policies at macro level in the country. It consequently demands a high degree of state intervention. For example, workers' self-management was successfully applied in former Yugoslavia as an integral part of political system of the country,[2] and the Histadrut was actually part of the state of Israel. Employee investment funds in Sweden were implemented by the Social Democrat Party –the then political power in Swedish government– in addition to a longstanding social democratic tradition with a strong tradition of trade unionism.

Conversely, the world today is apparently incompatible with such a demand. The rise of free market forces hastened by the global competition –thus, it promotes economic liberalization and internationalization of financial activities in many countries throughout the world– has declined the roles of the state. Any state intervention in the market is viewed as distortion and should therefore be diminished. Workers' self-management collapsed with Yugoslavia and is perceived outdated and inflexible in the eyes of free market advocates. The Histadrut does not levy a general labor tax anymore (that included fees for healthcare insurance) since the government of Israel severed the link between trade union and provision of healthcare services in 1995. Additionally, many state (Histadrut)-owned companies have been privatized. The employee investment funds system was abolished in 1992 by the non-socialist

[2] However, workers' self-management is not just found in socialist countries. Many self-managed enterprises exist in non-socialist or non-communist countries (Kester and Schiphorst, 1987: 46).

government that won 1991 election, and the accumulated funds were distributed among the Swedish public pension funds.

These facts lead to the need for a change in union strategic direction, particularly in relation to union's control over capital. Trade unions have to sustain their presence and maintain their roles in the midst of a great surge of economic liberalization and internationalization of financial activities. Influence over investments in the capital markets has been one of the options. These could be done through an investment company[3] or, in particular, through influencing pension funds –a widely acknowledged influential institutional investor in capital markets today.

2.4 Institutional Investors: The Shareholders of Publicly Listed Companies

Before we can discuss union-influenced pension funds, it is necessary first to look at the notion of 'institutional investors' and 'shareholder activism' within the context of publicly traded corporations and capital market activities. Unlike 'closely held companies' wherein the ownership structure is monolithic, i.e.: one entrepreneur (or a small number) owns the shares and runs the company; share ownership of 'publicly listed companies' has been greatly dispersed amongst individuals and/or institutions because the shares are traded in securities markets. Financial institutions (such as banks, insurance companies, mutual funds/investment companies, and pension funds) play a major role in shareholding of the publicly listed companies and they are recognized as the 'institutional investors'.

Generally, when shareholders are dissatisfied with the performance of the publicly listed company they can take the following actions: (1) 'vote with their feet', i.e.: sell their shares; (2) hold their shares and voice their dissatisfaction; or (3) hold their shares and do nothing (Gillan and Starks, 2003: 40). For many institutional investors, the second action (i.e.: exercising their voice) has been frequently chosen. The reason is that unlike individual investors the institutional investors have been identified as 'fiduciaries' for they are responsible to manage the funds invested by their depositors and clients and they invest the funds on a long term basis in order to meet the needs of present and future beneficiaries. They collectively become shareholders with substantial voting power in the GMoS. Accordingly, they have also

[3] With regard to the investment company, a recent example is the National Union of Metalworkers of South Africa (NUMSA) that set up an investment company, namely Numsa Investment Company (Pty) Ltd., through its investment trusts wherein the beneficiaries are members of NUMSA and their families. This company has investments in various companies doing business in the fields of telecommunication, financial services, IT, lottery, services and retail (Kgobe, 2004: 145-152).

been identified as a new voice for promoting prudent Corporate Governance[4] because of having concerns in corporations in which they invest "must operate in a financially, socially and environmentally responsible manner that supports a healthy and sustainable economy" (Yaron, 2002: 3).

The attempts of institutional investors to ensure that companies operate on a financially, socially and environmentally responsible basis are called 'shareholder activism'. By and large, shareholder activism exhibits voting power and direct consultation. What is more, Yaron points out that shareholder activism refer to "a myriad of activities, including corporate-shareholder dialogue, letter writing to corporations, submission of shareholder proposals, proxy voting, and litigation" (2002: 3 fn). In the context of narrow Corporate Governance process (i.e.: GMoS) and the use of voting power, submission of shareholder proposals and proxy voting are the pertinent attempts.

A shareholder proposal refers to a recommendation appealing for a change in corporate policy or disclosure that is proposed by a shareholder or group of shareholders. It contains statements of fact and incorporates a "resolved" clause. The proposal is submitted to the GMoS and voted on by shareholders. On the other hand, proxy voting refers to the handing over voting rights from one shareholder to another shareholder (commonly institutional investor) in the GMoS. Two purposes of proxy voting are: *first*, in case the shareholders cannot attend the GMoS their votes are counted in by giving the proxy to other shareholders, and *second*, proxy voting enables small shareholders to voice their concerns on collective basis –a spirit of collectivity that is inherent in the trade unions as well. In line with these purposes, numerous institutional investors currently post their voting decisions online prior to the meeting, giving individual investors a chance to see where the large institutional shareholders stand on issues. Additionally, the institutional investors also provide 'proxy voting guidelines', with criteria for long-term value, corporate accountability, social responsibility, sustainability, and so forth (Van Bergen, 2004). Figure 2 (next page) illustrates a governance model of publicly traded corporation with dispersed share ownership. Institutional investors (such as banks, insurance companies, mutual funds/investment companies, and pension funds) play an important role in influencing the behavior of the company through shareholder activism, including voting power and direct consultation.

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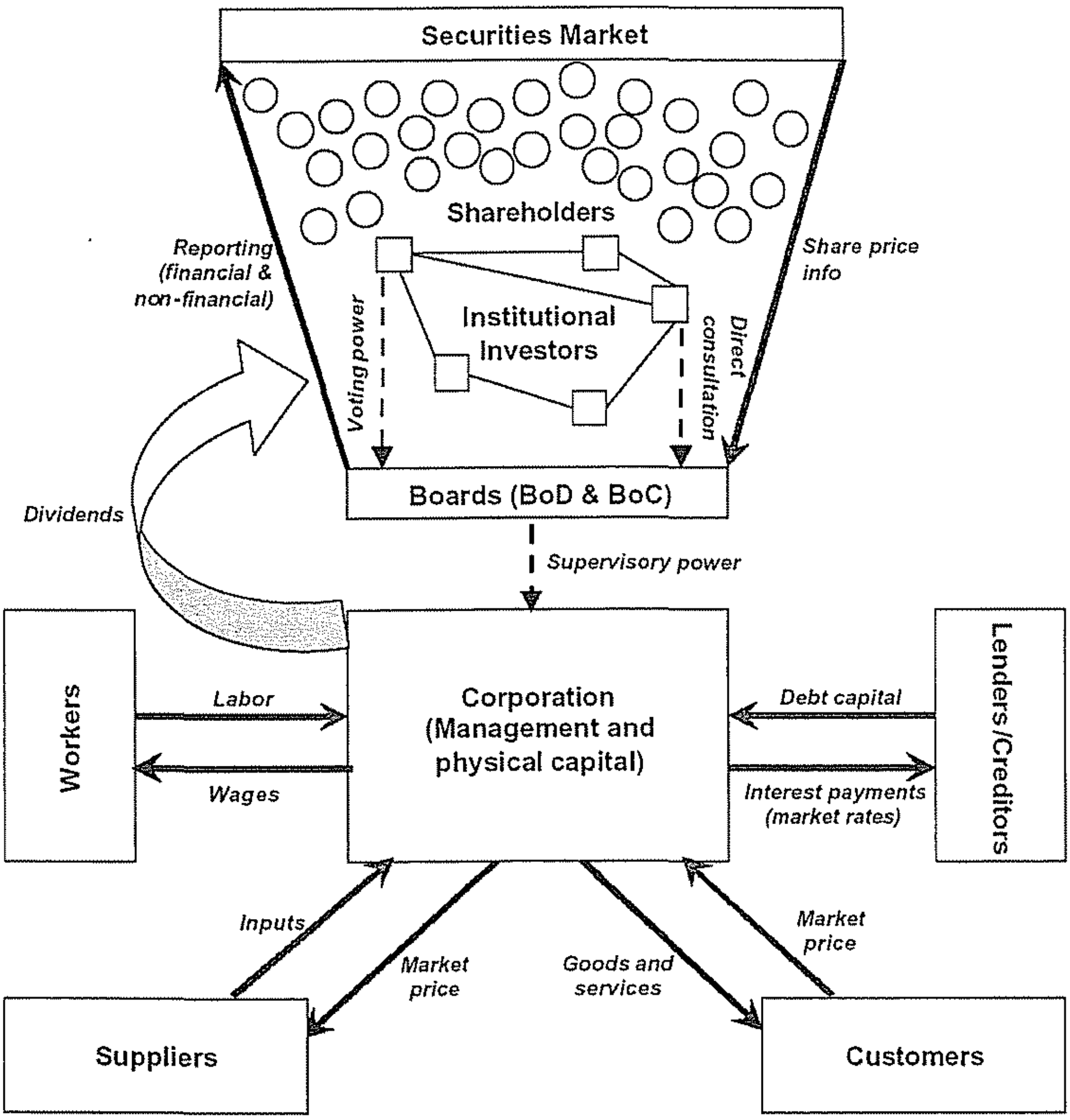
[4] For the whole notions of fiduciary roles of institutional investors, see Hawley and Williams (2000) in *The Rise of Fiduciary Capitalism* and Monks (2001) in *The New Global Investors*.

Figure 2. Governance Model of Corporation with Institutional Investors
(Source: adapted from Blair, 1995: 47)



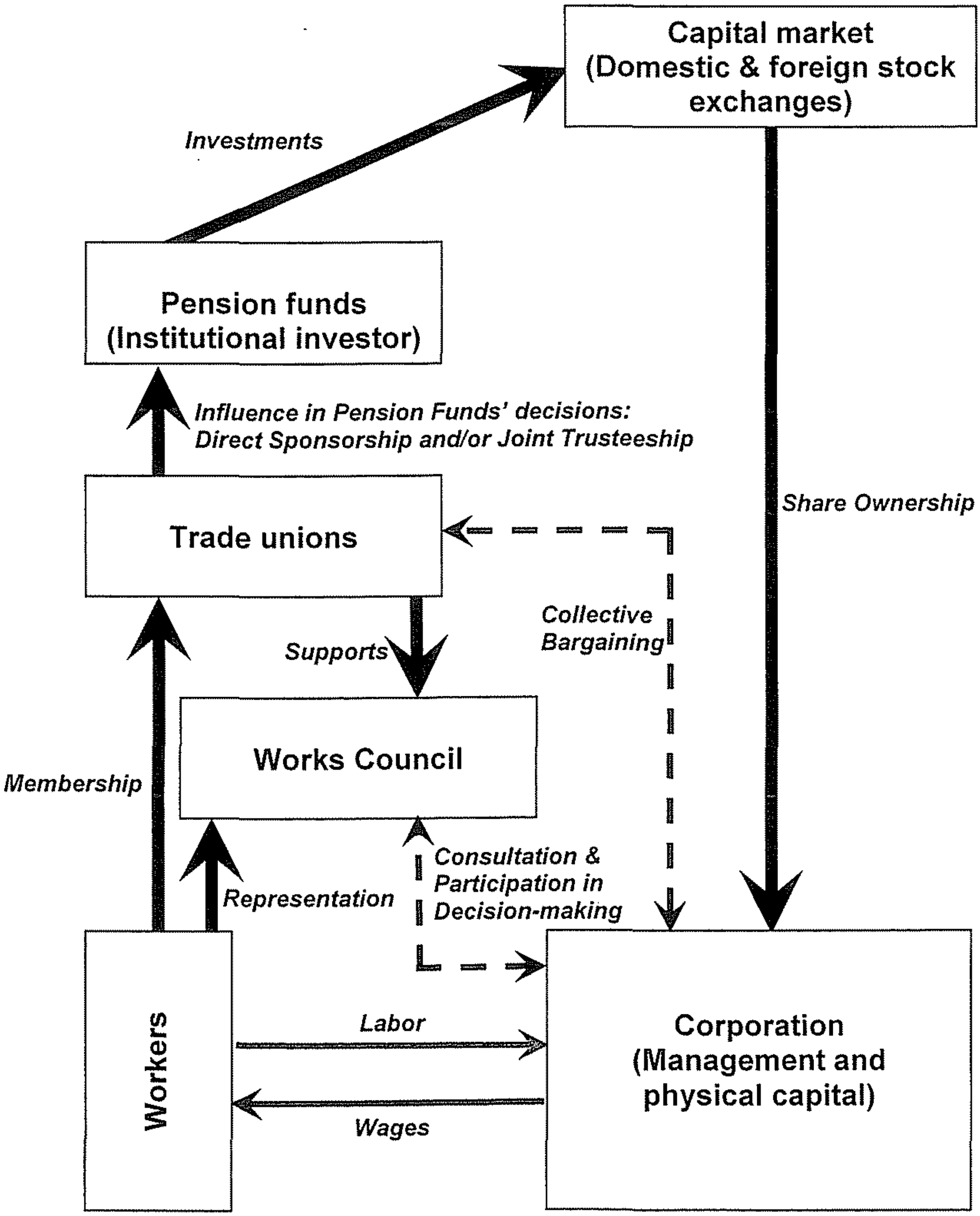
2.5 Union-Influenced Pension Funds

As mentioned earlier, pension funds have been widely acknowledged as an influential institutional investor in capital market. Occupational pension funds – schemes organized and sponsored by employers and employees, and individual pension schemes offered by financial institutions– are the largest equity investors in the OECD countries in which the investment on equity accounted for 78% of total invested funds in 1993. In the UK, pension funds' stakes in stock markets in 1993 increased to 34.7% (compared to only 7% in 1963); while in the US the stakes in 1995 increased to 25.4% (compared to 20.1% in 1990) (Faccio and Lasfer, 2002: 605). In Canada, pension funds controlled 35% of equity in the stock markets in the first quarter of 2002 (Carmichael, 2004: 105). These developments of pension fund investments in capital markets have given a justification to the unions to set forth active influence over pension funds as a strategy for union renewal. In 1986, the Canadian Labour Congress passed a resolution that "endorse(d) the goal of organized Canadian workers achieving greater control and direction of the investment of pension funds" (Carmichael, 2004: 106) and, soon afterwards, a number of public sector unions gained respective joint trusteeships of the pension funds (Carmichael, 2004: 106).

According to Quarter et al., unions in Canada have taken two types of initiatives to assume greater control over pension funds. *The first* is direct sponsorship of pension funds. It involves 14% of the membership of pension plans largely in the building trades and in industries such as textiles. *The second* is joint trusteeship, typically found in the public sector, the building trades, forestry, transportation, and some retail industries (2001: 94). Moreover, Carmichael in assessing the level of union control of the 24 largest pension funds in Canada in 1998 identifies several models of pension funds governance –mapping the relationship between government, employers, workers, and unions. Based on his work, these models range from so called "the company plan" –wherein the board of directors of the company is also the board of trustees of the pension plan and there is no union involvement– to "a fully joint board of trustee" –wherein union and employer representation is equal and the board has full control of administration and fund investment (2004: 106). List of the models of pension fund governance according to Carmichael's survey is attached in Annex 1.

In summary, Figure 3 (next page) illustrates the notion of union-influenced pension funds in the context of modeling union control over capital. Traditional devices for the unions to voice workers' interests are through collective bargaining and supports for the Works Council in order to be more effective in consultation and participation in decision-making processes. The rise of pension funds and their investments in the global capital markets today has encouraged the unions to tap into pension funds activities. Unions today have been attempting to influence pension funds' decisions, and this is executed through direct sponsorship and/or joint trusteeship.

Figure 3. Union-Influenced Pension Funds
(Source: Author)



2.6 Union Democracy: Union-Members Relationship

When unions engage in the highest level of an organization, i.e.: representation in the boards of pension funds and, thus, involvement in making the decisions on pension schemes and investments, this begs questions on the state of union-members relationship, i.e.: How does union representation in pension funds reflect the values and priorities of union members? How do union members perceive union representation in pension funds? And, to what extent is communication maintained by the unions to their members concerning union representation in pension funds? Such questions have been actually a perennial topic of union democracy as pioneered by the Webbs in 1911. The notion of union democracy is encapsulated in two concepts, namely *representativeness* and *responsiveness* (Glenane et al., 2000: 3 and Hyman, 1996: 57). According to the Webbs, "representativeness is promoted through lateral communication, whereas responsiveness is facilitated through vertical communication channels" (Glenane et al., 2000: 3).

The notion of union democracy has conflicted with that of union efficiency. Authors arguing that efficiency is paramount believe that a union's fundamental role is to improve members' general well-being. Here, responsiveness is emphasized more by these authors. One of these authors is Stein (1963) who views union members as shareholders in corporation (Glenane et al., 2000: 2). As the shareholders, union members give responsibility to run "the corporation" to the union leaders in order to create efficiency and, at the same time, to give the opportunity to the union leaders in achieving members' general well-being. In this regard, the most important thing is that "active collaboration exists between workers and union... wherein a representative union seeks workers' views, interprets their demands, proposes new themes, reports back to workers and pursues members' demands" (Pegler, 2003: 7). Accordingly, as pointed out by Strauss, "a union might be classified as democratic even if elections or membership meetings were never held and officers relied heavily on opinion surveys to determine the members' wishes. It might even be enough if the officers knew the members' desires intuitively" (1991: 6).

In contrast, other authors believe that democracy articulated in union members' participation is also desirable as it provides them with a voice. Here, representativeness is perceived crucial. These authors see no separation between the concepts of responsiveness and representativeness. Davis (1986) views that unions must operate in a democratic fashion to ensure that the workers' voice is properly represented, while Summers (1988) sees representativeness is an element of responsiveness (Glenane, et al., 2000: 2). According to Summers, two forms of representativeness are identified as *reflective representation* whereby decisions are made based on members' desires, and *authoritative representation* that involves judgments made by trade union officials as to what they believe is desirable for the membership. Both forms of representation are democratic, dependent on the acceptance and legitimacy bestowed on them by union members (Glenane, et al., 2000: 3). The arguments pointing out the needs for sustaining democracy in the trade union derive from the proposition of "the iron law of oligarchy". Criticizing the divisions between union leaders and the rank-and-file that generate "the iron law of oligarchy", the advocates of representativeness view that even in unions with the most idealistic of leaders "the iron law of oligarchy" is inevitable and democracy is likely eroded due to the following reasons: *First*, the needs for special expertise in union leadership have kept the members out of union management. *Second*, the union leaders control both formal and informal channels of communications. *Third*, as the union leaders become entrenched in their positions, adopt a different style of life and different values; they may lose contact with the rank-and-file. *Fourth*, the leadership's monopoly of control is accentuated by membership apathy (Strauss, 1991: 4-5).

Those are the frameworks and theoretical approaches in relation to union-influenced pension funds and union-members relationship. In the next chapter, we analyze the practice of union-influenced pension funds in The Netherlands by looking into PGGM as a case study.

CHAPTER 3

PGGM: Union-Influenced Pension Funds in The Netherlands

3.1 Dutch Corporate Governance and Pension Funds Context

There are two milestones of Corporate Governance developments in The Netherlands in the context of industrial relations, i.e.: the Report of the Verdam Commission issued in 1964 and the formation of the Corporate Governance code in 1997 and 2003. The Verdam Commission was installed to revise the Dutch Works Council Law of 1950 (*Wet op de Ondernemingsraden*) and the Dutch Company Law. Its recommendations included the suggestion to give additional powers to the Works Council to determine to a certain extent the contents of information that management should disclose regarding an enterprise's economic affairs, and to give the rights to the Works Council to receive and to discuss the company's annual financial statements (Bollen and Nuffel, 1997: 56). The Corporate Governance code was aimed at providing guidelines to the publicly listed companies in The Netherlands and/or companies listed in the Dutch stock exchange in applying Corporate Governance practices. The last version of the Corporate Governance code was issued in 2003 by Tabaksblat Committee.[5] Although the code is voluntary in its nature, it intends the legislator to use an order to designate the code as code of conduct, to which companies must refer in their annual report. Consequently, the publicly listed companies are required to state in their annual report to what extent they are complying with the provisions of the code (Tabaksblat Committee, 2003: 5 and 61; and SCGOP, 2004: 9).

The Report of the Verdam Commission reflects the Dutch traditional preference for the stakeholder approach in Corporate Governance, whereas Tabaksblat Code gives particular attention to the publicly listed companies and their shareholders' roles. Thus, this has been viewed that issues on shareholders' interests become more prominent in recent Dutch Corporate Governance developments (see Groenewald,

[5] It is the Dutch Corporate Governance Committee chaired by Morris Tabaksblat, a former Chairman of the Executive Committee of Unilever (Dutch-based consumer goods multinational company).

2005). The code sets out the responsibility of the corporation to allow as many shareholders as possible take part in the decision-making in the GMoS. This includes giving shareholders the opportunity to vote by proxy and to communicate with all other shareholders (Tabaksblat Committee, 2003: 25). The code also points out that the institutional investors have the rights to enter into a dialogue with the company if they do not accept the company's explanation on the governance issues. Equally, the code sets out the responsibility of institutional investors "(to) act primarily in the interests of the ultimate beneficiaries or investors" and "to decide, in careful and transparent way, whether they wish to exercise their rights as shareholder of listed companies" (Tabaksblat Committee, 2003: 30). Based on these guidelines, pension funds consequently have to publish their policy on the exercise of the voting rights for shares they hold, how their policy is implemented, and how they have voted as shareholder in the GMoS.

With regard to the state of affairs of pension funds, the Dutch national pension house has a multi-pillar architecture. The *first pillar* is the basic state old age pension whereby all people aged over 65 –who were residents or working in The Netherlands when they were between the age of 15 and 64– are entitled to this statutory and mandatory pension. The first pillar is financed by the "Pay-As-You-Go" (PAYG) system.[6] Subsequently, the *second pillar* consists of supplementary pensions which are built up as part of employees' terms of employment. Employers and workers are responsible for this (quasi) mandatory pension, and representatives of both employers (i.e.: employer associations) and workers (i.e.: trade unions) make collective pension arrangements for almost all workers. Occupational and industry-wide (sectoral) pension funds, such as ABP (the Dutch Public Sector Employee Pension Funds) and PGGM, are in this second pillar. Finally, the *third pillar* consists of supplementary personal pensions which anyone can buy from insurance companies on a voluntary basis (Ministry of Social Affairs and Employment of The Netherlands, 2002: 6 and 2005: 1-2). For most Dutch retirees, their pension income derives from the basic state old age pension (first pillar) and supplementary pensions (second pillar). Retirees who earn an additional pension income from supplementary personal pensions (third pillar) are often former high ranking executives in the public or private sector or professionals.

Looking into pension funds' assets, Dutch pension funds have a substantial share of the total assets of Dutch institutional investors. As presented by Table 1 (next page),

[6] It is a system wherein today's retirees are supported by the taxes or paid contributions of today's workers. The government promises the PAYG contributors that future earmarked taxes (compulsory contributions) will provide them with good and services in their old age (see Willmore, 2004: 1).

in 2001 the total assets of Dutch pension funds accounted 55% of the total assets of Dutch institutional investors (i.e.: US$398 billion of total US$722 billion). It also accounted 105% of the Dutch GDP. These percentages were the highest of OECD countries. The total assets of Dutch pension funds continued to grow. As reported in 2002 by VBDO (the Dutch Association of Investors for Sustainable Development), the total assets of the Dutch pension funds was €428 billion (Eurosif, 2003: 31), and at the end of 2003 it reached almost €491.5 billion (Faber and Sprengers, 2005: 6). Of this 2003 year-end figure, ABP and PGGM constituted respectively the first and the second largest Dutch pension funds. The total pension capital of ABP was €150 billion, while that of PGGM was €55 billion.[7] Together they make up 41.7% of total Dutch pension funds assets.

Table 1. Pension Fund Asset Management in Selected OECD Countries in 2001

(Source: TUAC, 2005: 23)

Countries	Financial Assets of Institutional Investors (in billion US$)	of which Pension Funds (in billion US$)	Pension Funds Assets as % of Total Assets of Institutional Investors	Pension Fund Assets as % of GDP
Australia	458	238	52%	68%
Canada	794	331	42%	48%
France	1,701	n/a	n/a	n/a
Germany	1,478	61	4%	3%
Italy	1,007	47	5%	4%
Japan	3,645	711	20%	19%
The Netherlands	722	398	55%	105%
UK	2,743	954	35%	66%
USA	19,258	6,351	33%	63%

[7] This figure is for the calendar year 2003. The total pension capital (and liabilities) of PGGM was over €60 billion at 2004 year-end (see PGGM, 2005-a: 64).

3.2 PGGM: A General Overview

PGGM is in the second pillar of Dutch pension system, which is supplementary –yet mandatory in its nature– and arranged on a collective basis. Thus, PGGM provides a compulsory pension scheme for workers in the healthcare and social work sector. In addition to a compulsory pension scheme, it also operates an extra pension scheme, which allows participants and employers to arrange a supplementary pension within the collective system. PGGM serves more than 1.8 million clients consisting of contribution-paying participants, former participants, pensioners, and recipients of early/flexible retirement benefits. In addition to these clients, there were a total of 17,300 employers affiliated to PGGM at the end of 2004 (PGGM, 2005-a: 7 and 10). They are present and future beneficiaries of PGGM and are key stakeholders for whom PGGM performs its fiduciary duty. Table 2 below demonstrates the developments of PGGM's clients and affiliated institutions from 2000 to 2004.

Table 2. Participants and Affiliated Institutions of PGGM
(Source: PGGM, 2005-a: 10)

Participants	2000	2001	2002	2003	2004
Contribution-paying participants	896,800	947,000	1,000,200	1,044,900	1,068,800
Former participants	512,500	542,400	564,300	586,000	613,900
Pensioners	129,400	140,600	152,900	165,200	175,100
Recipients of early/flexible retirement benefits	25,600	28,000	32,000	36,400	41,300
Total	**1,564,300**	**1,658,000**	**1,749,400**	**1,832,500**	**1,899,100**
Affiliated Institutions (employers)	13,900	14,300	14,200	14,200	17,300

With the increased number of participants and affiliated institutions over the year, PGGM had a total pension capital (and liabilities) of €63,942 million (or over €60 billion) at the end of 2004. Of this total capital, PGGM had an investment portfolio of €53,930 million (or over €53 billion) which is invested in equities, private equity, fixed-income securities, real estate and commodities throughout the world.[8] Looking into the proportion of investment portfolio, investments in equities (and participating interests) pose the largest share with €28,321 million (47.3%) followed by investments in real estate (€6,229 million or 10.4%), private equity (€2,839 million or 4.7%), and commodities (€1,926 million or 3.2%) (PGGM, 2005-a: 10-11 and 64).

PGGM's Investment in Equities

Investment in equities is of great importance for PGGM since it makes PGGM the shareholder of publicly listed companies. Looking into the geographic spread of equity investments, the picture at the end of 2004 was: 40% of investments in North America (US and Canada), 40% in Europe (particularly in Western Europe), 10% in the Far East (such as Japan, China and Southeast Asian countries), and 10% in emerging markets (such as Eastern Europe and a number of developing countries) (PGGM, 2005-a: 31 and Russelman, 2005: an interview). Based on this information, it is evident that PGGM's investment in equities remains higher in developed countries (i.e.: 80% or more) than in developing countries. However, a link with developing countries exists fundamentally due to the global value chain system that is applied by multinational companies. Looking into the value of investments in the publicly listed companies, PGGM's investments are much dispersed and highly diversified. At the end of 2004, the highest equity investment amounted to €703 million, i.e.: only 2.5% of total investments in equities. This was invested in Royal Dutch Petroleum/Shell. Moreover, the investments varied from companies in oil and gas mining to companies in financial services. Table 3 (next page) presents PGGM's investments in publicly listed companies.

[8] "Equities" exclusively refer to publicly listed equity, while "private equity" refers to non-publicly listed equity (most of which will only produce a return in the longer term) including buyouts and the venture capital sector, which are held either directly or via funds of funds (see PGGM, 2005-a: 80-81).

Table 3. PGGM's Equities Portfolio at 2004 Year-End
(Source: PGGM, 2005-a: 31)

No.	Companies	Value in millions of euros	Percentage of total portfolio	Registered in
1.	Royal Dutch Petroleum/Shell	703	2.5%	The Netherlands
2.	ING Group	448	1.6%	The Netherlands
3.	General Electric	264	0.9%	US
4.	Microsoft	254	0.9%	US
5.	Citigroup	251	0.9%	US
6.	Exxon Mobil	225	0.8%	US
7.	Total	222	0.8%	France
8.	Novartis	186	0.7%	Switzerland
9.	Bank of America	178	0.6%	US
10.	Sanofi-Aventis	177	0.6%	France
	Total	**2,908**	**10.3%**	
	Total equities portfolio (including participating interests)	**28,321**	**100%**	

PGGM Governance Structure: Parity of PGGM's Board of Governor

PGGM is a foundation (*stichting*) in which the Board of Governors (BoG) has ultimate responsibility. The BoG's policy responsibilities include the pension fund's strategy, its policy on contribution and indexation, its investment policy and the policies linking pensions from different funds and on providing information (PGGM, 2005-a: 49). With regard to the board composition, the BoG of PGGM consists of representatives of employer and employee organizations on an equal number basis. In total, the BoG (including the Chairman) has thirteen members. Six BoG members represent six employer associations and another six BoG members represent three trade unions. Additionally, the Chairman of BoG is an independent person appointed by the BoG members.

The six employer associations represented in the BoG of PGGM are:

(1) Arcares (the National Sectoral Association for the Nursing and Care Sectors);

(2) GGZN (the Netherlands Federation of Mental Healthcare);

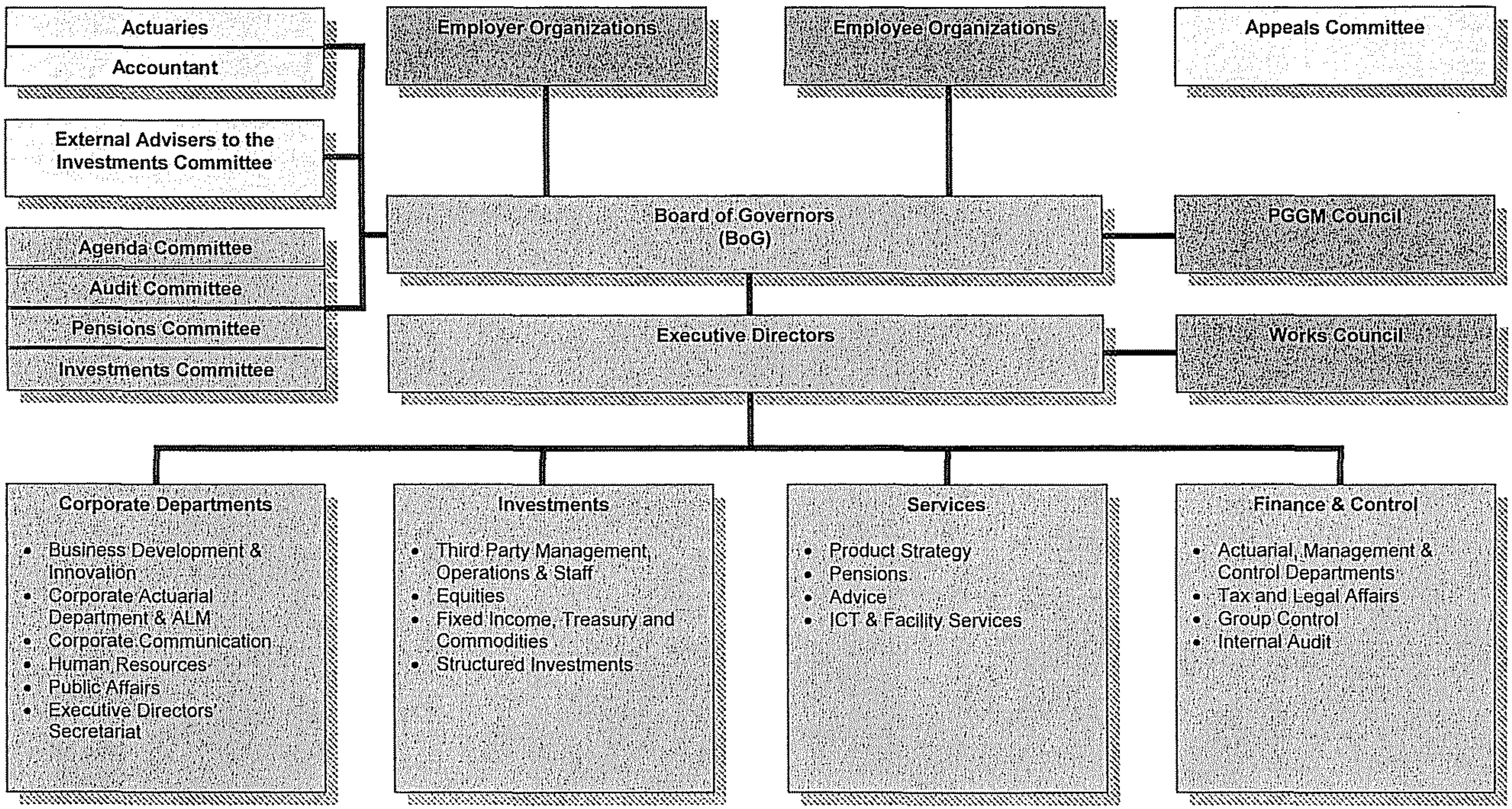
(3) LVT (the National Association for Care in the Home);
(4) MO Groep (Social Employers Group - the Sectoral Organization for the Healthcare, Youthcare and Childcare Sectors);
(5) NVZ (the Association of Hospital); and
(6) VGN (the Netherlands Association of Care for the Handicapped).

Meanwhile, the three trade unions represented in the BoG of PGGM are:
(1) ABVAKABO (FNV Affiliated Union for Public Servants and Employees in the Education, Healthcare, Social Work and Sheltered Work Sectors) - represented by three persons;
(2) CNV for Public Sector - represented by two persons; and
(3) New Union '91 (NU '91) for Nursing and Care - represented by one person (PGGM, 2005-a: 119-123).

Although the BoG members represent each appointing organization, they operate independently of the organization that appointed them and they work with collective responsibility (PGGM, 2005-a: 49). Referring to the Carmichael's models of pension fund governance (see Annex 1) , PGGM has a similarity with the Ontario Teachers' on its BoG structure, i.e.: jointly trusteed pension funds where there is an equal representation of union and employer representatives and the union and employer sponsors agree to select an independent chair. In the near future, as a result of the introduction of Pension Fund Governance Code representatives of retirees will get a seat in the BoG and, therefore, a possible new board composition will be one-third representing each organization, i.e.: employer organizations, trade unions, and retirees (Russelman, 2005: an interview).

For the day-to-day management of PGGM, the BoG delegates its roles and responsibilities to the Executive Directors. The Executive Directors are appointed by the BoG. They are therefore responsible for advising the BoG on policy and for implementing policy and management decisions. This includes responsibility for PGGM's profile and external contracts and for managing the fund's resources. The Executive Director for Finance and Control (Chief Financial Officer or CFO) is responsible solely for finance and control and has no direct line management responsibilities. The objective is "to ensure an optimum balance between the funds' commercial objectives and the needs for checks and balances" (PGGM, 2005-a: 50). Figure 4 (next page) illustrates this organizational structure.

Figure 4. PGGM Organization Structure
(Source: PGGM, 2005-a: 9)



3.3 PGGM's Sustainable Investments

According to Gerrit Russelman (PGGM Advisor to the Director of Investment), "sustainability has always been a central theme of PGGM's philosophy of investments" (Russelman, 2005: an interview). In accordance with the notion of sustainability, there are three basic investment objectives of PGGM, i.e.: *first*, long-term viability of the pension system at low and stable premium rates; *second*, maximum investment returns at preferred risk perception; and *third*, acceptance of some general constraints. The first two objectives stem from the financial perspective, while the third one emanates from the notion of social responsibility of a corporation.

Looking specifically into the third objective, the BoG of PGGM has set out the guidelines for "general constraints" as follows:

(1) PGGM shall not invest in countries, where human rights are flagrantly being violated;
(2) PGGM shall not invest in corporations, whose main activity is in the weapons industry;
(3) PGGM shall emphasize countries and corporations that represent added sustainable-value (social and environmental); and
(4) PGGM shall emphasize corporations with good Corporate Governance.

In addition to these guidelines, PGGM acknowledges that "maximum investment returns remain the key" (Russelman, 2005: an interview) since PGGM bears a fiduciary duty to its present and future beneficiaries, such as contribution-paying participants and retirees.

Following up its basic investment objectives, PGGM has set out three policies for the investment in equities. The three policies comprise *Exclusion*, *Best-in-Class*, and *Engagement*. Below is a detailed elaboration of these policies:

(1) *Exclusion* (also called 'negative screening') refers to the attempts of barring investment in certain companies, economic sectors, or even countries for Corporate Governance and/or SEE related reasons (Eurosif, 2004: 18). In PGGM, the exclusion policy points out that PGGM will not invest in a country if it systematically violates the three fundamental human rights referred to the Universal Declaration of Human Rights and ILO conventions, i.e.: freedom of association, freedom of speech, and freedom of the press (PGGM, 2005-b). In addition to the freedom of association (and recognition of the right to collective bargaining), other core labor standards consisting of the elimination of all forms of forced and compulsory labor, the elimination of child labor, and the elimination of discrimination in respect of employment and occupation are

included in the notion of fundamental human rights as well. Consequently, PGGM will not invest in countries under a boycott or extensive economic sanctions imposed by the international community, the UN, and the ILO (Russelman, 2005: an interview). Similarly, "PGGM will not invest in companies which generate over half of their turnover from arms production or trading" (PGGM, 2005-b).

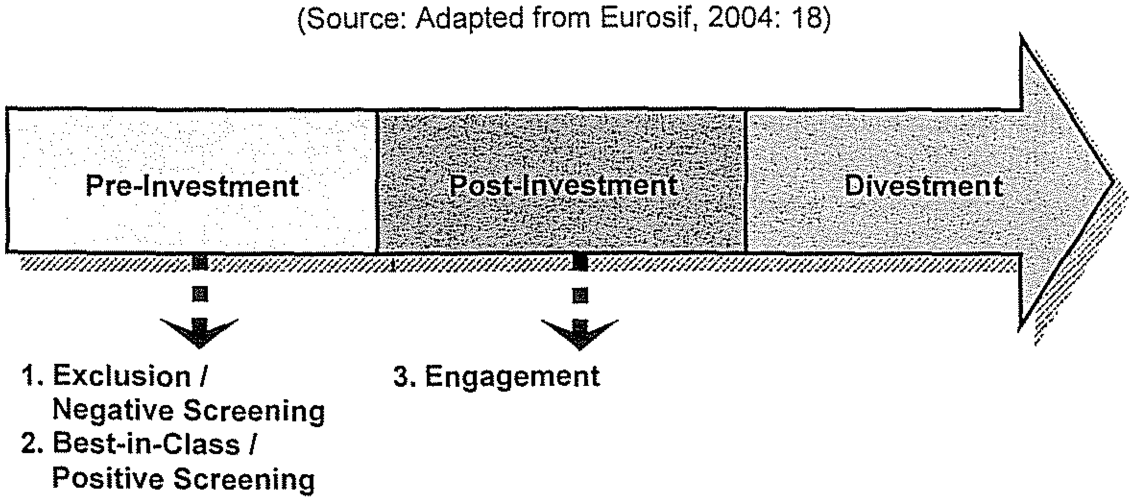
(2) *Best-in-Class* (also called 'positive screening') refers to the attempts in selecting –within a given investment universe– stocks of companies that perform best against a defined set of sustainability or Corporate Governance and/or SEE criteria (Eurosif, 2004: 18). The policy indicates that PGGM will invest in companies rated 'best-in-class', i.e.: in addition to highest market capitalization, the score is above average in each sector in terms of compliance with various sustainability-related criteria. For this purpose, PGGM has appointed two fund managers to manage pilot portfolios of sustainable European and US equities in recent years (PGGM, 2005-b). According to Eurosif's SRI toolkit for pension funds, issues and criteria used in positive screening consist of several domains, such as human resources, environment, customers and suppliers, human rights, community involvement, and Corporate Governance. Example of issues within human resource domain is as follows: integration of human resources issues into corporate strategy, promotion of labor relations, encouraging employee participation, career development, training and development, quality of remuneration systems, improvement of health and safety conditions, and respect of and management of working hours (Eurosif, 2004: 20-21).

(3) *Engagement* refers to the attempts in influencing corporate policy by virtue of the position as investor and the associated rights (Eurosif: 2004: 21). Three levels of engagement consist of cultivating general dialogue, taking a proactive stance, and reactive dialogue. According to Eurosif (2004), with this approach every company in the investment universe can be purchased and afterwards an investment manager will create dialogue teams that will engage with the company on specific, selected issues –usually a few per annum (Eurosif, 2004: 21). In PGGM, the engagement policy is executed through the Responsible Engagement Overlay program or REO. This is managed by a UK company F&C Asset Management by engaging in companies in which PGGM invests, cooperating closely with them to establish active and positive policies on human rights, the environment and social responsibility issues (PGGM, 2005-b). According to Eurosif's SRI toolkit for pension funds, a variety of methods –both private and public– can be exercised to exert influence. Private methods comprise raising questions on social issues in regular meetings between

institutional investor (like pension funds) and company management, writing to company management about issues of concern, arranging special meetings to discuss such matters, writing to other shareholders to express concerns, joining hands with other like-minded investors to undertake such actions, and informing other investors on the dialogue as to build up pressure. Whilst, public methods comprise attending GMoS to ask questions, proposing shareholder resolutions, exercising voting rights (i.e.: adoption of the report and accounts or the re-election of directors), calling an extraordinary GMoS, and issuing press briefings (Eurosif, 2004: 22).

By looking into the lifetime of an investment process, exclusion and best-in-class are classified as pre-investment actions, while engagement (including voting in the GMoS) is classified as post-investment action. A pre-investment action takes place when the investor is selecting companies before investing, while a post-investment action takes place when the investor already owns shares of the company. Consequently, engagement is seen as an active action because institutional investors attempt to influence the behavior of the corporation. As an illustration, Figure 5 below depicts the policies for equities in the lifetime of an investment process.

Figure 5. Three Track Policies for Equities in the Lifetime of an Investment Process
(Source: Adapted from Eurosif, 2004: 18)



Corporate Governance and sustainable investments are perceived to go hand in hand as they both deal with transparency and accountability –the link pins are a best-in-class approach and engagement (Russelman, 2005: an interview). In line with the engagement policy and concerns towards Corporate Governance practices PGGM invests in Hermes European Focus Fund (HEFF) managed by Hermes Focus Asset Management Europe (HFAME). It invests in "badly governed companies" (Russelman, 2005: an interview)[9] with the intention to persuade these companies to improve their acts and implement sound Corporate Governance. The benefit of engaging in this focus fund is "to get profits from upturn in share price of these companies once they make improvements on Corporate Governance practices" (Russelman, 2005: an interview). Example of companies in which HEFF engages is IWKA, a German-based automobile assembling and consumer goods packaging company (Howaldt, 2005: an email correspondence).[10]

The engagement process of the HEFF intends "to assist boards in taking the tough decisions sometimes required of them and to support them in implementing those decisions once taken" (Hermes Investment Management, 2005-a). In the first instance, HFAME contacts the boards and outlines its proposals aimed at improving performance through changes to strategic, financial, and governance structures. There are two possibilities, i.e.: When the response from the boards to the proposals is positive, HFAME monitors the implementation of the proposal and supports the board in that process; when there is no response or the response is negative, HFAME opens discussions with the independent board members and shareholders and continues to work with the full board to convince it of the need for change. If, over time, no progress is made HFAME steps up its engagement to include a more public campaign, such as calling for an extraordinary GMoS. The next step, once an engagement has been successfully completed, HFAME holds the stock in its portfolio until the market appreciates the changes that have been made will result in a return to strong performance on the company. According to HFAME, it typically takes two to three years for an engagement program to be successfully implemented and the company's stock value to improve (Hermes Investment Management, 2005-a).

Those are engagement activities with particular attention to narrow Corporate Governance issues (i.e.: strategic, financial, and governance structures). In the next sections, engagement activities are discussed in broader Corporate Governance

[9] This refers to "companies that are fundamentally sound but under-performing as a result of weaknesses in their strategy, governance or financial structure" (Hermes Investment Management, 2005-b).

[10] Hermes affirms that detailed information on the interaction with portfolio companies is confidential. To look at the result of the HEFF, we can refer to Hermes research publication concerning the link between engagement and performance. It is mentioned that "...since its inception in 2002, the European Focus Fund has outperformed its benchmark by 1.9% on an annualised basis" (Hermes Investment Management, 2005-b).

perspective covering not only Corporate Governance issues but also labor and SEE issues.

3.4 Labor Issues in Corporate Governance

To figure out labor issues addressed by PGGM within its sustainable investment and Corporate Governance practices, let us look into PGGM's engagement practices through private methods (such as special meetings, consultation and dialogue, and letter writings) and public methods (such as direct use of voting rights in the GMoS and proxy voting). Following is the findings on these practices.

Engagement through Private Methods: REO

Three objectives of engagement in the area of labor standards as set out in the Responsible Engagement Overlay program (REO) are as follows:

1. encourage companies to adopt a code of conduct on labour standards and working conditions (based on ILO Core Conventions), develop a formal management system to ensure compliance with the code, undertake audits of compliance and work with suppliers to address areas of weakness;
2. encourage companies to adopt good practice standards in the workplace relating to non-discrimination, including codes of practice, management systems and disclosure, issues include work-life balance, glass ceilings and diversity management; and
3. in relation to HIV/AIDS in the workplace; encourage companies to assess the present and potential impact of the pandemic on their international operations, and develop optimal responses and prevention strategies (F&C Asset Management, 2004-a: 26).

On behalf of PGGM (and other pension funds), F&C Asset Management[11] operates REO and makes a report on engagement on a quarterly basis. This research paper uses REO reports from 2004 (first to fourth quarter) and from 2005 (first and second quarter). In 2004, the number of companies wherein REO made engagement in labor issues was respectively as follows: 19 companies (first quarter), 38 companies (second quarter), 24 companies (third quarter), and 37 companies (fourth quarter); while in 2005 there were 28 companies (first quarter) and 48 companies (second quarter). Examples of company in which engagement activities addressed labor issues are Carrefour and adidas-Salomon. To Carrefour, the issue addressed was the integration of policies on core Labor Standards into company's performance management systems. Meanwhile, to adidas-Salomon it was the whistle-blowing system aimed at enabling ordinary factory workers to alert senior management to

[11] F&C Asset Management was previously known as ISIS Asset Management.

labor standards abuses. Details of the examples of labor issues addressed in engagement activities are attached in Annex 2.

Responses from the companies to the engagement attempts vary. For instance, issues on discrimination at the workplace based on sexual orientation have been responded in a different way by the targeted companies. Some companies replied that there is no need to expand beyond the protected categories named by the government.[12] ExxonMobil was one of these companies that reply negatively. After five years discussions have proved fruitless, F&C Asset Management (on behalf of PGGM and other pension funds) decided to exert stronger pressure. It joined the City of New York in filing a shareholder proposal at ExxonMobil to add sexual orientation to its diversity policy (F&C Asset Management, 2005-b: 12). In contrast, a company like ALLTEL gave a positive response and changed its diversity policy. Below is the extract of the letter to F&C Asset Management replied by ALLTEL dated 27 October 2004.

> *We appreciate the input of our stockholders on matters of interest to them. ALLTEL's Board of Directors recently revised ALLTEL's Ethics in the Workplace guidelines explicitly to prohibit discrimination in employment on the basis of sexual orientation…* (F&C Asset Management, 2005-b: 13).

Engagement through Public Methods: Direct Use of Voting Rights and Proxy Voting

For the direct use of voting rights, this paper randomly studies GMoS of several Dutch companies in 2004 and 2005 in which PGGM participated.[13] Meanwhile, for the proxy voting this paper looks into PGGM proxy voting reports in 2004. There were a total number of 1,052 companies (including companies in the Netherlands) at whose GMoS PGGM voted in 2004.

Compared to issues addressed in engagement through private methods as described earlier, issues addressed in engagement through direct use of voting rights (in the GMoS of selected Dutch companies) focus more on issues of Corporate Governance in the narrow sense. For example, these issues are concerned with dividend policy, discharge and appointment of commissioners and/or directors, adoption of remuneration policy and incentive plans, amendments of company's articles of

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[12] According to REO® report, unlike in European Union countries, US-based workers are not legally protected against discrimination based on sexual orientation under US federal law (F&C Asset Management, 2005-b: 12).

[13] Five GMoS in each year are selected. They are GMoS in ABN Amro, Ahold, ING, Shell, and Van der Moolen (for 2004); and GMoS in Akzo Nobel, ASML, ING, KPN, and Philips (for 2005).

association (including merger and acquisition) and so on. In this regard, it is recorded that PGGM voted "against" on issues such as granting of a discharge from liability to the commissioners and directors (i.e.: Shell and Ahold), re-appointment of BoC member (i.e.: Akzo Nobel), amendment of company's articles of association (i.e.: Akzo Nobel), and retention and dividend policy (i.e.: Van der Moolen). Yet, it is different with proxy voting. Although proxy voting is classified as engagement through public methods, issues addressed are more various, i.e.: from conventional Corporate Governance issues to labor issues. Based on PGGM proxy voting reports, it is recorded that PGGM voted "against" in the GMoS in line with the issues in respected companies such as shareholders proposal on equal employment rights (i.e.: ALLTEL), shareholder proposal on employment rights in China (i.e.: IBM), and shareholder resolutions on human rights related to ILO conventions and severance agreements (i.e.: The Home Depot) (PGGM, 2005-f). There is neither pressure from the trade union nor direct role of PGGM's BoG in deciding the vote in those cases. However, PGGM internal Corporate Governance working group –a multidisciplinary team which sets PGGM's voting behavior– and PGGM Corporate Governance Manager exercise voting rights in accordance to BoG guidelines for investment in equities and inputs from the BoG members (PGGM, 2005-c and Russelman, 2005: an interview).

This implies that collective shareholder actions are stronger than individual ones in bringing in not only narrow Corporate Governance issues but also other social issues. Through collective actions, shareholders' voice in the GMoS becomes more powerful and influential, and, as pointed out by Eurosif, "more than a box-ticking exercise, it is an opportunity for investors to get together with other shareholders in order to pursue the goals that they have in common and ensure that their views are represented properly" (Eurosif, 2004: 23-24).

3.5 SEE Issues in Corporate Governance

In addition to the labor issues, engagement through REO programs includes also the following issues: bribery and corruption, transparency and performance, biodiversity, environmental management and climate change, and human rights. Like responses to the engagement in the area of labor issues, responses from the companies to these issues also vary. Some companies responded positively. Yet, for some other companies much still needs to be done. Examples of positive response are Microsoft and Tullow Oil. In the area of *transparency and performance*, Microsoft was encouraged to establish clearer board accountability for Corporate Social Responsibility (CSR) issues. Microsoft followed it up with the assignment of responsibility for CSR to its Governance and Nominating Committee. Meanwhile, in the area of *human rights* Tullow Oil were urged to develop effective management systems to promote and protect human rights. According to the REO report, "an initial response from the company indicated that human rights have not been a key issue for the company to date, but they will be raised specifically in country risk assessment as they move into operating roles in critical countries" (F&C Asset Management, 2005-b: 30). Below is the extract of the letter to F&C Asset Management replied by Tullow Oil sent in September 2004.

> *Our current activities in Côte d'Ivoire are non operated. We recognise this doesn't exempt us from these important issues (human rights) and, for this level of involvement, we are committed to working with, and monitoring, the Operators to ensure appropriate standards are being met. Where we move into the Operated role in such areas, human rights issues will be raised specifically in the country risk assessments we carry out as part of the process* (F&C Asset Management, 2004-a: 30).

However, for Total much still needs to be done as the company could not convince its investors on the integration of biodiversity considerations into its Environmental Management Systems and Environmental Impact Assessments. Moreover, the company has been ranked as the weakest performer amongst its peers in biodiversity issues (F&C Asset Management, 2005-a: 10). Details of the examples of SEE issues addressed in engagement activities are attached in Annex 3.

CHAPTER 4

Trade Unions, Pension Funds, and Union Members: Analyses

4.1 Union's Views on Corporate Governance

Dutch trade unions view workers as important as shareholders in the Corporate Governance framework and practice. Such a view is found in FNV comments to the draft of OECD Principles of Corporate Governance in 2004. FNV emphasized that a clear distinction should be made between the different categories of stakeholders, i.e.: workers and shareholders are in different position than other stakeholders as they can be considered to be participants in the risks and developments of the enterprise. Accordingly, workers and shareholders should play a role in the management and accountability systems of the company (FNV, 2004). Moreover, FNV called for "an explicit and standard setting recognition of employees as a group of stakeholders who, through their representatives, are entitled to a particular place in the Corporate Governance Framework and who should be able to express themselves in the Corporate Governance Process of the company" (FNV, 2004).

Earlier, the FNV issued a memorandum entitled "Pension Assets, a Socially Responsible Approach of Pensions". In this memorandum, FNV underlined that in exercising influence in Corporate Governance "the influence of employees can be increased by giving the Works Council influence on the composition of the Board of Supervisors" (FNV, n.d.: 17). This view is interesting. The presence of "dual channel of representation" (i.e.: trade union and Works Council) to leverage workers' influence in Corporate Governance is seen positive by the union. On one hand, this is driven by a conducive legal framework in which the revised Dutch Works Council Law of 1979 provides for "mandatory councils elected by and from the workers, independent from employers and endowed with powers of information, consultation and, on matters of personnel policy regulations, co-determination" (Van Klaveren and Sprenger, 2005: 5). On the other hand, this is also driven by the fact that the majority of Dutch union officials can be found in Works Council –showing that the unions have succeeded getting members elected to Works Council. According to Van Klaveren and Sprenger, in elections between 1979 and 1993 the FNV gained on average 40% of the votes, twice its membership share (2005: 5).

However, it is most likely that the Works Council alone is not enough to ensure workers' influence in Corporate Governance. Its position in the governance structure of a corporation lies on corporate management sphere instead of Corporate Governance sphere.[14] Thus, it creates limitations to get involved in strategic decision-making. Accordingly, the union deems it necessary to use the pension funds and utilize pension funds' influence –as the shareholder of publicly listed companies– to influence strategic decision-making for the sake of workers' interests. The increased influence of shareholders has been factually acknowledged by the union. In the aforesaid memorandum, FNV underlined that the greater influence of shareholders "arises not so much from changing legislations and regulations, but because the interests and values of the shareholders bear more weight nowadays as a consequence of increased international competition that goes hand in hand with internationalisation of the capital markets" (FNV, n.d.: 17). This indicates that this Dutch union has adopted a shareholders-driven approach of Corporate Governance in addition to its traditional Dutch's stakeholders-driven approach. This can be identified as the "double track of union's strategy" on Corporate Governance, which uses the Works Council at the workplace level and, at the same time, utilizes pension funds in the investment universe. Following in the next sections, we will discuss details of the union's views on pension funds' roles and its representation in pension funds.

4.2 Union's Views on Pension Funds' Roles

As a response to the increased influence of shareholders, FNV suggests that pension funds must fulfill their roles as shareholders within a socially responsible investment policy. Therefore, pension funds should be largely long-term investors and should enter a durable relationship with investee companies (FNV, n.d.: 17). This statement indicates the union's desire for an active role as an institutional investor taken by the pension funds. For the union, neither the option "vote with the feet" nor the option "hold on to the shares and do nothing" is desirable. The union demands that pension funds hold their shares and engage with the investee companies to exert their influence. The FNV rejects any policy involving intense speculation on short-term profits, although it is acknowledged that pension funds will not be able to completely avoid a certain anticipation of speculative price movements (FNV, n.d.: 17).

[14] See Figure 1 (Corporate Governance Approaches and the Stakeholders of a Corporation) in page 10.

The reasons for choosing an active institutional investor role are threefold. *First*, there is a financial reason, i.e.: the investment performance of pension funds is judged by the score in comparison to the relevant investment benchmark. *Second*, due to the investment benchmark pension funds will build up more expertise, which can form the basis for assessing the quality of company management. *Third*, it is finally for a social reason, i.e.: increased informal and formal discussions between pension funds and investee companies enable pension funds to become involved in corporate social policy. Interestingly, FNV views that pension funds should be open to discussion with all other important stakeholders in the company, which would include discussions with trade unions and Works Councils who are involved in corporate social policy (FNV, n.d.: 17-18).

However, in reality discussions with stakeholders of the investee company (such as trade unions and Works Councils) taken directly by the pension funds might be easier said than done. As pointed out by Gerrit Russelman of PGGM, pension funds themselves have limited sources to do some engagement programs (Russelman, 2005: an interview). For this reason, pension funds hire investment managers (such as F&C Asset Management and Hermes Investment Management) to carry out direct engagement activities on specific issues. Here, an active role of investment managers is highly crucial. They can engage, by holding a consultation meeting for example, not only with companies but also stakeholders of the companies. As an example, F&C Asset Management has a well-established process for identifying the subjects on which to engage and which companies should be engaged. In addition to meetings with investee companies, its consultation meetings involve fund managers, brokers, thought leaders, and campaign groups or NGOs (Chatterjee, 2005: an e-mail correspondence). Although trade unions and Works Councils are not specifically mentioned as stakeholders that are involved in the meetings, in line with engagement activities the investment managers can always hold dialogue with either trade unions or Works Councils to collect inputs.

Furthermore, report on engagement activities is then made by the asset manager on a regularly basis (such as REO report issued on a quarterly basis by F&C Asset Management). In theory, PGGM could ask its asset manager to investigate a case in which PGGM is particularly interested. However, to date no customized and dedicated report has been produced by F&C Asset Management on a client request basis in addition to the regular one (Litvack, 2005: an e-mail correspondence). Yet, pension funds have always the right to ask its asset managers to pay special attention to certain aspects that pension funds find important (Russelman, 2005: an e-mail correspondence). For example, F&C Asset Management's engagement with the pharmaceutical sector has been driven by a combination of specific interests from PGGM and its pharmaceutical sector analysts' views of the risks facing companies as well as discussion with thought leaders in this field. In addition, PGGM has also proposed specific companies for engagement, based on their weighting in the PGGM portfolios, and has played a substantial role in the decision to engage –and continue engaging– with companies with operations in Burma/Myanmar (Chatterjee, 2005: an e-mail correspondence).

4.3 Union's Views on Representation in Pension Funds

Dutch unions remark that pension scheme is brought about as one of the components of the collective agreement (Driessen, 2005: an interview; Van der Heijde, 2005: an interview; and Van Pijpen, 2005: an interview). This leads to a choice that needs to be made as to how the administration of the pension scheme can be carried out best. In both industry-wide and company pension funds, it is indicated that the BoG has final responsibility for the contents and administration of the scheme. This includes a wide range of issues from choosing the pension fund administrator until global investment policies. The unions also remark that the trade union is the representative organization for the workers and pension participants in industry-wide pension funds, such as ABP and PGGM (FNV, n.d.: 9 and Driessen, 2005: an interview). The main objective of union representation in pension funds' BoG is to safeguard workers' funds and ensure that invested funds generate expected incomes for the workers and retirees (Driessen, 2005: an interview; Van der Heijde, 2005: an interview; and Van Pijpen, 2005: an interview).

In the interview with the union representatives in PGGM's BoG, I asked the question: "How is this objective achieved?" One union representative replied that it is achieved by providing good pension schemes favoring workers and retirees. Another union representative replied that it is achieved by inquiring PGGM to make good returns of investment through socially responsible ways (Van der Heijde, 2005: an interview and Van Pijpen, 2005: an interview). What was more, based on the interviews with these union leaders it appears that emphasis is given to the 'good returns of investment' as a primary goal, while the 'social responsibility' is set as a secondary goal. This means that investments made by the pension funds ought to give foremost good financial returns. However, good financial returns are in themselves not decisive if investee companies do bad practices in social, ethics, and environmental terms.

In this regard, in 1996 FNV issued a memorandum entitled "Assured of a Pension" (*Van Pensioen Verzekerd*). This was followed by a further memorandum in 2002 entitled "Well Invested" (*Goed Belegd*). This memorandum contains a strategy for socially responsible investing of pension assets based on a three track approach, i.e.:

1. The minimum approach. The FNV believes that the investment policy must fulfill minimum social and environmental conditions. For example, it does not want assets to be invested in countries that violate human and/or trade union rights. The FNV wants such conditions to be laid down in investment codes to be developed by company pension funds in 2004.
2. The positive approach. Investing in companies that score well in terms of social and environmental policy. The FNV believes that a good social and environmental policy leads to a good return and wants to see half of pension assets invested partly on the basis of this positive approach by around 2008.
3. The dialogue approach. An active dialogue must be conducted with companies in order to critically assess their policy and adjust it whether necessary. The FNV believes that in long term the dialogue will help deliver better results than a policy consisting only buying and selling shares and bonds of companies which score well or badly in the area of sustainability (SCGOP, 2004: 28).

Additionally, another Dutch trade union, i.e.: CNV, drew up an investment code in 1999 and issued a revised version in 2003 entitled "Principles in Practice" (*Principes in Praktijk*). With a reference to the World Commission on Environment and Development (the Brundtland Commission), CNV emphasizes the importance of future generations as stakeholders addressed in the pension funds' policy. Furthermore, CNV lists various strategies whereby pension funds can achieve a sustainable investment policy, i.e.: excluding companies which do not meet the specified sustainable requirements, excluding worst-in-class, and selecting best-in-class companies in the field of sustainability, selecting companies with the best financial and sustainability ratios, and active engagement as a shareholder (SCGOP, 2004: 29).

These union's policies are clearly identical with PGGM's policies for equities (i.e.: exclusion, best-in-class, and engagement –as discussed in Chapter 3). Information acquired from union leaders indicates that union representation in PGGM's BoG started before 1990 with the main goal to safeguard workers' funds (Van der Heijde, 2005: an interview; and Van Pijpen, 2005: an interview). To understand whether pension funds policies for equities are essentially influenced by the unions (especially in relation to Corporate Governance and SEE issues), questions have been raised to PGGM as well as union leaders seating in PGGM's BoG, i.e.: When were exactly the policies for equities applied by PGGM? How do you see union representatives' roles on these policies?

According to Gerrit Russelman, exclusion principles have been applied since 1970s by adopting the policy not to invest in countries on which the UN issued a statement condemning the human rights conditions in these countries, such as freedom of association, freedom of speech, and freedom of the press. Additionally, PGGM decided not to invest in companies, which generate over half of their turnover from arms production or trading in arms (Russelman, 2005: an e-mail correspondence). Gabriel van der Heijde (who holds a position in BoG of PGGM since 2000) confirms that the BoG's guidelines for "general constraints" have been actually in force for some 25 years, while later a policy "to emphasize corporations with good Corporate Governance" was adopted (Van der Heijde, 2005: an interview).[15] Meanwhile, as Gerrit Russelman points out, a positive approach to sustainable investments using the best-in-class (or best-in-sector) criteria has been started through a couple of pilot portfolios (i.e.: European and US equities) since 1999/2000, and engagement (i.e.: REO programs) since 2001 (Russelman, 2005: an e-mail correspondence).

With regard to role of the unions, one union leader in the PGGM's BoG points out that union representatives play an important role in monitoring the application of the policies for equities applied by the Executive Directors. Another union leader is convinced that union representatives play a major role in inducing these approaches and encouraging PGGM to implement them as it is in line with the notion of active long-term investor within a socially responsible investment policy (Van der Heijde, 2005: an interview and Van Pijpen, 2005: an interview).

At this stage, a conclusion on whether unions do influence the pension funds or not can not be simply drawn since it is actually a complex issue. The rise of consumer actions and environmental campaigns during 1990s might also have given a significant contribution to the way pension funds invest their funds. However, from a historical perspective PGGM only started implementing engagement programs in 2001, while unions had set out strategies for socially responsible investment – wherein engagement is included– in 1996 (for FNV) and 1998 (for CNV). This might be an indication of unions' influence on pension funds' policies. To assess this view, let us look into the extent of unions' activity by figuring out the governance practices in the boards of pension funds in the next section.

[15] See the guidelines for "general constraints" of PGGM's Board of Governor (BoG) in page 28.

4.4 Governance Practices in Pension Funds' Boards

The governance structure of the PGGM indicates that the BoG is advised by four specific committees, i.e.: the Audit Committee, the Pension Committee, the Agenda Committee, and the Investment Committee. The membership of these committees consists of BoG members (from both employer associations' and unions' representatives) and external experts. For example, the Investment Committee comprises three BoG members and three external experts.[16]

Let us narrow the focus to the investment policy and the work of the Investment Committee of pension funds. Union's views on the investment policy of pension funds point out that the BoG responsibilities comprise the distribution of investment categories[17] and the provision of the social standards that must be met by the investment policy. Moreover, the union underlines that the authority of BoG to decide whether, and if so in what forms, use is to be made of its 'power' as shareholder within the framework of the fund's Corporate Governance strategy (FNV, n.d.: 9). Under the terms of PGGM Bylaws, the Investment Committee has been granted certain powers to approve or reject investment proposals submitted by the Executive Directors for which approval is required. In this regard, the Investment Committee exercises repressive supervision on the way in which the Director of Investments uses his power to take tactical investment decisions. Moreover, the Investment Committee is required to compile reports of its meetings, which are then sent to the BoG for reporting purposes (PGGM, 2005-a: 57).

To elaborate these notions, the union leaders seating in PGGM's BoG were asked: "How do you describe the board meetings in PGGM?" Both union leaders indicate that the board meetings have enabled them to be active in supervising and monitoring investment activities executed by the Executive Boards. Notification of the schedule for the board meetings have been done to such a way so that the BoG members can give high priority to attend the board meetings. Moreover, the agenda of the meeting and pertinent documents are usually prepared for the BoG members at least one week before the board meeting so that these enable them to look into the agenda, scrutinize the important issues, and make comments before attending the meeting. Eventually, the minutes of the meetings are distributed to the BoG members (and also to the Executive Directors and committee members if the meeting is a plenary meeting) a couple of days after the meeting so that it enables them to

[16] See the PGGM Organization Structure in page 29. Two union leaders whom the author interviewed are currently members of the Audit Committee (i.e.: Gabriel van der Heijde) and the Pension Committee (i.e.: Jenneke van Pijpen).

[17] Such as equities, private equity, fixed-income securities, real estate and commodities.

follow up further actions as decided by the meetings (Van der Heijde, 2005: an interview and Van Pijpen, 2005: an interview).

As a follow up question, we asked: "Can you characterize and give an example of company on which the board members discuss before making investment decisions?" Both union leaders reply that the role of BoG is to set general guidelines for investment and assure that these guidelines are properly complied by the Executive Directors. Then, every technical decisions made by the Director of Investments is scrutinized and the BoG will raise questions and ask for clarification if they deem an investment decision in a certain company is problematic in view of the general guidelines. Accordingly, both union leaders clarify that to decide to invest in an individual company is beyond the scope of their roles and responsibilities of the BoG. Equally, if the matter is not as crucial as the general guidelines set out, the BoG will let the Executive Directors decide to invest or divest based on general investment considerations. One union leader pointed out that regulation on prohibition of "insider trading" has been the background of this BoG's position. This regulation has been followed up by an internal rule in the PGGM, in which every member of BoG and Executive Directors regularly reports his/her private investments and signs off a statement of disclosure (Van der Heijde, 2005: an interview and Van Pijpen, 2005: an interview).

In summary, it is evident that at the macro level policy unions have a great chance to exert influence by setting the general investment guidelines. Moreover, this is endorsed by the governance system of the pension funds that enables union representatives to be active in exercising their roles and functions. However, at the micro level practices, i.e.: investing in an individual company, there seems very little likelihood of unions' influence because of the internal system established by the pension funds and regulations in the public domain, i.e.: capital market rules on prohibition of insider trading. In my opinion, to a certain extent this position is correct since it will endorse engagement programs carried out by the pension funds, such as investing in "badly-governed" company and trying to improve its performance. However, if the emphasis on the traditional role of union representation in pension funds (i.e.: mainly to safeguard workers' funds) is maintained, it will constrain union's role to exert influence beyond the macro policy level and to tap into more specified investment decisions. Thus, this implies that the goal of influencing decisions towards investing in socially responsible ways remains distant.

4.5 Union-Members Relationship

To identify the state of union-members relationship in the context of union-influenced pension funds, some questions have been raised to the union leaders represented in the PGGM's BoG. *First*, what is the internal procedure in the union to appoint representatives in PGGM held? Both union leaders indicate that union representative is selected from the member of union board and nominated to the BoG of PGGM by the union board. The BoG of PGGM will then assess nominee's competency and qualifications (such as knowledge on pension funds and capital markets) and make the decision to accept or to reject the nomination. If the BoG rejects the union's nomination, the BoG will ask the union to nominate another person. According to the union leaders whom the author interviewed, there is however a possibility of which the BoG asks the nominee to take relevant trainings and/or induction programs before officially being appointed in the BoG of PGGM if the assessment results do not meet the requirements. The objective of this nomination system is to get a qualified BoG member as the government has imposed minimum qualifications for this. In this regard, union members are not directly involved, for instance through an election for the appointment of their representatives in PGGM (Van der Heijde, 2005: an interview and Van Pijpen, 2005: an interview).

Once the union representative sits in PGGM's BoG, the *second* question becomes relevant, i.e.: In what way do union representatives in pension funds report to their union and union members? Both union leaders indicate that feedback to the union boards is given through internal regular meetings and/or a special meeting. The issues discussed vary from pension schemes to investments –including Corporate Governance and sustainable investment issues. With regard to feedback to union members, one union leader informs that a regular newsletter containing information on the activities of the BoG is distributed by PGGM to the active participants –who are also union members– as well as retirees. Union members are only directly informed during the general meeting. There is no special newsletter issued by the union. In contrast, another union leader informs that the sectoral union she chairs issues a regular newsletter focusing on pension funds issues. The newsletter is distributed to those union members whose pension plans are covered by the PGGM. Meetings are also regularly held with the sectoral union members, i.e.: several times in a year, to communicate developments in pension funds and the activities of union representatives in pension funds (Van der Heijde, 2005: an interview and Van Pijpen, 2005: an interview).

Following up on the second question, a *third* question was raised, i.e.: to what extent do union members see the importance of union representation in pension funds as well as issues on Corporate Governance and sustainable investments? Both union leaders are convinced that their members see union representation in pension funds as being important to them. As an example, although PGGM opens hotline services to receive complaints from its customers (i.e.: active participants and retirees), at the same time many of them –who are union members– contact the union to communicate their problems or matters of interest to them. However, few of them are interested in the issues on Corporate Governance and sustainable investments. Many union members are more interested in the issues on pension schemes. Although only a few union members are interested in the issues on Corporate Governance and sustainable investments, union leaders admit that these issues are of great importance to 'good pension schemes' and 'good returns of investment'. Thus, these are of great importance to all union members too (Van der Heijde, 2005: an interview and Van Pijpen, 2005: an interview).

Based on the details above, within the notion of union democracy it is identified that Dutch unions put emphasis on responsiveness and efficiency in maintaining its relationship and communication with their members. For the sake of efficiency, unions do not involve their members in the nomination process for union representatives in pension funds. This decision is left to the union leadership. As far as feedback is concerned, one union attempts to communicate pension funds issues with their members and to present reports. With all its limitations and weaknesses, this union attempts to seek its members' views and interpret their demands. Another union identified as a small union seems to have shortage in this effort because of lack of resources. Apart from these limitations, the unions intuitively view Corporate Governance and sustainable investments important for their members' pension funds. This is embraced by the unions despite low interest from their members on these issues. This situation is rather different with the notion of "the iron law of oligarchy" whereby union members are radical, but the leaders are moderate and increasingly sympathetic to management. Here, union leaders have progressive views on the importance of Corporate Governance and sustainable investments for the members. Yet, union members remain one step behind in seeing these issues.

4.6 Summary of Analyses

In brief, union representatives have played the role to safeguard workers' funds and investments in line with the fiduciary principles. Yet, they have not gone beyond this traditional role to move to the monitoring of Corporate Governance and SEE practices in the investee companies –their co-workers and value chains. This is indicated by the fact that union representatives have not yet used inputs for investment decisions from the union body being in charge in global monitoring of

Labor Standards. Equally, this union body has not yet either used inputs from union representatives in pension funds to strengthen its global monitoring programs (Van Pijpen, 2005: an interview and Kaag, 2005: e-mail correspondence). However, they clarified their experience in which the union and pension funds (i.e. PGGM and ABP) put collaborative pressures to IHC Caland (Dutch-based dredging and offshore company) to pull out its activities from Burma/Myanmar. The FNV urged PGGM through its representatives in the BoG to give pressure in IHC Caland's shareholders meeting (Kaag, 2005: an interview). In my opinion, such cooperation between union representatives and union's monitoring body may considerably widen and leverage union's influence in pension funds. Learning from the Burma case, the potential role of pension funds in supporting global monitoring of Labor Standards through shareholders activism becomes increasingly sensible. At the same time, inputs from union's monitoring body might lead to the greater influence of union representatives in pension funds. Therefore, according to Astrid Kaag, the union is now doing a study to explore the potential role of union representation in pension funds and pension funds' SRI programs that is aimed at setting up union's future strategies on pension funds (Ibid.).

CHAPTER 5

Concluding Remarks

Internationalization of financial activities has brought pension funds at the center of the capital market world. At the same time, it has boosted a call for sound Corporate Governance and socially responsible investment (SRI) to corporations throughout the world, which is increasingly demanded by investors and stakeholders of the corporations. Trade unions in The Netherlands have taken part in such a demand and play a pivotal role through pension funds. To a certain extent, the trade unions have contributed to the way pension funds take SEE issues into consideration of their investment activities. However, much needs to be done by the trade unions to enhance greater influence and achieve their goals. As concluding remarks, let us look back to the research questions as set out earlier.

First, to what extent does trade union have control in union-influenced pension funds and control over investment decision? The extent to which trade union has control in union-influenced pension funds lies on the general guidelines for investment. Yet, the union set to distance itself to the issues on investment decision in an individual company. The union accordingly leaves the control over investment decision to the pension funds. In this regard, the roles of investment managers that are hired by pension funds are very crucial, particularly in the engagement programs. There is an assumption that the effectiveness of engagement programs will be jeopardized if the union involves too far in the investment decision in an individual company. Additionally, capital market regulation regarding the prohibition of insider trading has been seen as a point of reference for the BoG of pension funds to set a distance from the investment decision in an individual company. In my opinion, setting a distance from this issue will then make union influence less essential and, thus, make the idea of investing in socially responsible ways less meaningful. A conservative view on the union representation in pension funds, i.e.: to safeguard workers' funds, should be rejuvenated by putting more weight on Corporate Governance and SRI objective as well. Thus, without violating insider trading rules (as there must be a set of provisions and mechanism to define certain acts as violation to these rules) the union should take a proactive action. This can be done by actively monitor and give feedbacks to the work of the investment managers. A regular consultation among the BoG (where union representatives have a seat), the investment managers hired by pension funds, and the Executive Directors of pension funds will be very beneficial. For the union, this will enhance a greater control and influence to exert its agenda on Corporate Governance and SEE issues. For the pension funds, this will make its investment portfolios genuinely acknowledged as socially responsible investments in addition to earning good returns. For the investment managers, this will give beneficial inputs for engagement programs and give strong and wide legitimacy to their work and operation in engagement activities.

Second, how are Corporate Governance issues and issues beyond core Labor Standards addressed by the trade union in the work and operation of union-influenced pension funds? In the context of internationalization of financial activities, trade unions in The Netherlands have set out their approaches towards pension funds wherein Corporate Governance and SEE issues are emphasized deliberately. In the same way, a longstanding union representation in the boards of pension funds (i.e.: PGGM) has existed with the main objective to ensure good pension schemes for workers and to safeguard workers' funds. The union representation in the boards of pension funds has been therefore functioning as a channel for unions to address Corporate Governance practices and SEE issues. The union representatives in the BoG of pension funds have accepted general investment guidelines and, as a result, pension funds' investment portfolios have been covering a wide range of social issues from labor to environmental issues. For addressing Corporate Governance and SEE issues, the BoG of PGGM has set up an Investment Committee comprising the BoG members and external experts. This committee will look into every investment proposal proposed by the Executive Directors and give its approval based on Corporate Governance and SEE considerations. However, Corporate Governance and SEE are not the only considerations in giving approval as pension funds have set the 'good returns of investment' as a primary goal, while the 'socially responsible ways' is set as a secondary goal. Moreover, the whole notions of addressing Corporate Governance and SEE issues here should be seen in the context of macro level policy of pension funds since union representatives in the BoG do not handle investment decisions in an individual company. The weakness of these approaches is that when a company's poor Corporate Governance and SEE practices do not attract public outcry it is less likely that they are taken into consideration. Pension funds will then merely take into consideration financial issues, i.e.: good returns of investment. To overcome such weakness, as a suggestion, a strong link between union representatives in the pension funds and their union body being in charge in global monitoring of labor standards should be established and institutionalized so that inputs and exchange of information can be explored as much as possible, and union's influence in pension funds can be widened and leveraged considerably.

Third, to what extent are trade union involvement in the pension funds and its influence in pension funds decisions used to deliver the message on the issues of Corporate Governance and workers influence to their members? The extent to which union involvement and influence in pension funds are used to deliver the message to union members varies from one union to the other. For a small union with few resources, the extent is low since this union relies on the information given by the pension funds through its newsletter. There is no certainty that issues of Corporate Governance and workers influence are always delivered in the newsletter produced by pension funds. For a big union with adequate resources, the extent is relatively higher than that of small union is. It produces its own newsletter and holds regular meetings to deliver the message to union members. However, to judge these efforts as the effective way in delivering the message on the issues of Corporate Governance and workers influence is a different thing. It depends on the feedback given by the union members. Few union members who are interested in these issues indicate low degree of feedback from the union members and, thus, it questions the effectiveness to deliver the issues of Corporate Governance and workers influence to them. Nevertheless, union leaders' effort to emphasize these issues is of great importance for their members and this is highly commendable in continuing the efforts to influence pension funds, foster Corporate Governance and SEE issues, and disseminate these principles to their union members.

In summary, Corporate Governance increasingly is dominated by the shareholders model emphasizing more and more the interest of the providers of capital, at the expense of the more inclusive stakeholder model. In such a world, a trade union, through its involvement in pension fund investment, can play a strong role in broadening the focus of Corporate Governance and make companies aware of their social responsibility. However, as we have seen, this does not come easy. A trade union can only play this role if it is pro-active, well-connected and prepared to make full use of all the information that its own channels generate. In this way a trade union can play its role in Corporate Governance in the interest of its members and in the interest of labor in general.

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Annex 1.

The Models of Pension Fund Governance in Canada

(Source: Carmichael, 1998: 11-12)

(1) Pension funds with no union or employee representation, e.g.: Bell Communications Enterprises (BCE) Inc., Canadian National (CN) Rail, General Motor (GM) of Canada, Canadian Pacific, and Air Canada;

(2) Pension funds with little or no representation from in-house union, e.g.: Ontario Hydro and Ontario Pension Board;

(3) Pension funds with no joint trusteeship with the union –but, there is 50% employee and retiree representation, e.g.: Ontario Municipal Employees' Retirement System (OMERS) and Alberta Local Authorities;

(4) Pension funds where unions are recognized but only in an advisory capacity, i.e.: BC Municipal, BC Public Service, BC Teachers, and Nova Scotia Public Service;

(5) Jointly trusteed pension funds where unions and the employer are equally represented except that that the employer retains the chair, e.g.: Canadian Broadcasting Corporation (CBC);

(6) Jointly trusteed pension funds where unions and employers are equally represented, with a legislated chair (in Quebec, the chair of jointly trusteed pension funds is the President of the Pension Commission), e.g.: Quebec Public Employees, Hydro Quebec, and Quebec Teachers';

(7) Jointly trusteed pension funds where the affiliated union and the government are sponsors, with an independent chair, e.g.: Ontario Teachers';

(8) Jointly trusteed pension funds where union and employer equally represented, government trustee selection on union recommendation, and trustee selection of chair and vice chair, e.g.: Alberta Public Service Pension Plan;

(9) Jointly trusteed pension funds where union and employer equally represented, and rotation of chair and vice chair between them, e.g.: OPSEU Pension Trust, Hospital of Ontario Pension Plan (HOOPP), and Colleges of Applied and Technology (CAAT) Plan.

Annex 2.

Examples of Labor Issues in Engagement Activities

(Source: F&C Asset Management)

Labor issues addressed	Companies	Remarks
Core Labor Standards	1. Carrefour 2. Lowe's Companies	1. A consultation with Carrefour (French-based supermarket operator) was made in Paris to solicit Carrefour's clarification on how the adoption of code of conduct supporting the core ILO conventions is integrated into company's performance management systems. Following up the meeting, Carrefour was sent a letter emphasizing the importance of creating the right incentives for staff, particularly buyers, and was asked to report on its approach. 2. To Lowe's Companies (US-based retailer), a letter expressing concern over the lack of transparency on labor standards issues and incorporating a suggestion to commit to upholding core ILO conventions was made. The boards of Lowe's Companies were warned that the company risks endangering its brand value if it does not demonstrate leadership in this area as Lowe's Companies are the fastest growing company in its sector (ISIS Asset Management, 2004-a: 24).
Corporate Social Responsibility (CSR) reporting	Wal-Mart	A longstanding engagement with Wal-Mart (US-based supermarket operator) through REO was continued by giving feedback on its Corporate Social Responsibility (CSR) reporting. Wal-Mart was encouraged to consider Global Reporting Initiatives (GRI) Guidelines,* and to emphasize the importance of reporting fully on diversity and labor standards issues, including the issues of sub-contracting illegal immigrant labor, which had triggered

* GRI Guidelines are voluntary reporting guidelines in the field of economic, environmental, and social dimension to be used by the organizations for their activities, products and services. The guidelines are set up by Global Reporting Initiatives (GRI) a multi-stakeholders process and independent institution comprising active participants representing business, accounting, investment, environmental and labor organizations from around the world. For further information on GRI see www.globalreporting.org.

Labor issues addressed	Companies	Remarks
		high-profile press conference and an official investigation in late 2003 (ISIS Asset Management, 2004-a: 24).
Whistle-blowing system	adidas-Salomon	A proposal to adidas-Salomon (German-based sportswear producer) recommends the company to adopt a formal whistle-blowing system covering its supply chain. REO report underlines that this would enable ordinary factory workers to alert senior management to labor standards abuses, enabling them to take corrective action before these reach press (F&C Asset Management, 2004-a: 25). The company replied that it has already mechanisms for workers to raise concerns confidentially, including a non-retaliation policy and confidential worker interviews. However, it committed to considering the best practice identified by REO programs, including offering a confidential telephone hotline for workers to use (F&C Asset Management, 2004-a: 25).
Discrimination at the workplace based on sexual orientation	1. ExxonMobil 2. ALLTEL	The Chief Executive Officers (CEOs) of both ExxonMobil (US-based oil company) and ALLTEL (US-based telecommunication company) were sent an open letter calling on to amend the company's non-discrimination policy to include sexual orientation (ISIS Asset Management, 2004-b: 28 and F&C Asset Management, 2004-a: 26).

Annex 3.

Examples of SEE Issues in Engagement Activities

(Source: F&C Asset Management)

Issues addressed	Companies	Remarks
Bribery and corruption	Halliburton	Halliburton (US-based energy services and construction company) has been appealed to clarify allegations of corruption at a subsidiary operating in Nigeria and has been pushed to make greater transparency on its operations in Iraq. The appeal was made in accordance to "recent US Government inquiries into alleged overcharging and wasteful procurement practices in Iraq have resulted in a freeze on payments that seriously threatens the profitability of the company's Iraqi business" (ISIS Asset Management, 2004-b: 18).
Transparency and performance	Microsoft	Microsoft (US-based software company) has been encouraged to establish clearer board accountability for CSR issues. Detailed written proposals for alternative options were made. Reply from Microsoft indicated that it had decided to assign responsibility for CSR to its Governance and Nominating Committee (ISIS Asset Management, 2004-b: 22).
Biodiversity	Fifteen extractive companies (such as BP, BHP Billiton, ExxonMobil, Rio Tinto, Shell, Total and Tullow Oil).	Following up a dissemination of the report called "Are Extractive Companies Compatible with Biodiversity?" engagement in fifteen extractive companies was brought about focusing on biodiversity issues. Within 12 months, responses had been made from these companies. For instance, BP's (UK-based oil company) CEO has ordered a review of the company's policy on operating in ecologically sensitive areas and the company will publish a much strengthened operating standard this year. However, for Total (French-based oil company) it was noted that "after lengthy discussions, we remain unconvinced that the company has integrated

Issues addressed	Companies	Remarks
		biodiversity considerations into its Environmental Management Systems and Environmental Impact Assessments, and we rank the company as the weakest performer amongst its peers" (F&C Asset Management, 2005-a: 10).
Environmental management and climate change	Coca-Cola	In the investor meeting with Coca-Cola (US-based beverage producer), it was gauged progress in resolving several controversies in India that F&C Asset Management raised in previous discussions with the company. Coca-Cola responded that it expects to set water use and conservation goals system-wide, and moreover, it announced that the company had met its goal to utilize 10% post-consumer plastic in all North American carbonated beverage containers one year ahead of schedule. This is the issue that F&C Asset Management worked on with Coca-Cola since 1999 (F&C Asset Management, 2005-b: 25).
Human rights	Tullow Oil	Following up the acquisition of Energy Africa, Tullow Oil (UK-based oil company) was encouraged to develop effective management systems to promote and protect human rights by establishing board responsibility for monitoring security and human rights issues and to implement appropriate employee training. A positive response was made by Tullow Oil trhough a letter (F&C Asset Management, 2005-b: 30).

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