STANFORD
GRADUATE SCHOOL OF BUSINESS
STANFORD SOCIAL INNOVATION *review*

What Works

The Other 95 Percent: How a community foundation uses proxy voting to advance its mission. By Alessandra Bianchi

Stanford Social Innovation Review
Winter 2005

STANFORD
GRADUATE SCHOOL OF BUSINESS
Stanford Social Innovation Review
518 Memorial Way, Stanford, CA 94305-5015
Ph: 650-725-5399. Fax: 650-723-0516
Email: info@ssireview.com, **www.ssireview.com**

The Other 95 Percent

How a community foundation uses proxy voting to advance its mission *by Alessandra Bianchi*

The Boston Foundation is sending some very pointed messages to the public companies in which it owns stock. Last February, for example, the foundation was among the 39 percent of Emerson's shareholders that voted to change the global manufacturer's discrimination policies. Although the shareholder resolution was not passed, Emerson nevertheless changed its equal employment opportunity (EEO) statement seven months later to prohibit discrimination on the basis of sexual orientation – the resolution's goal.

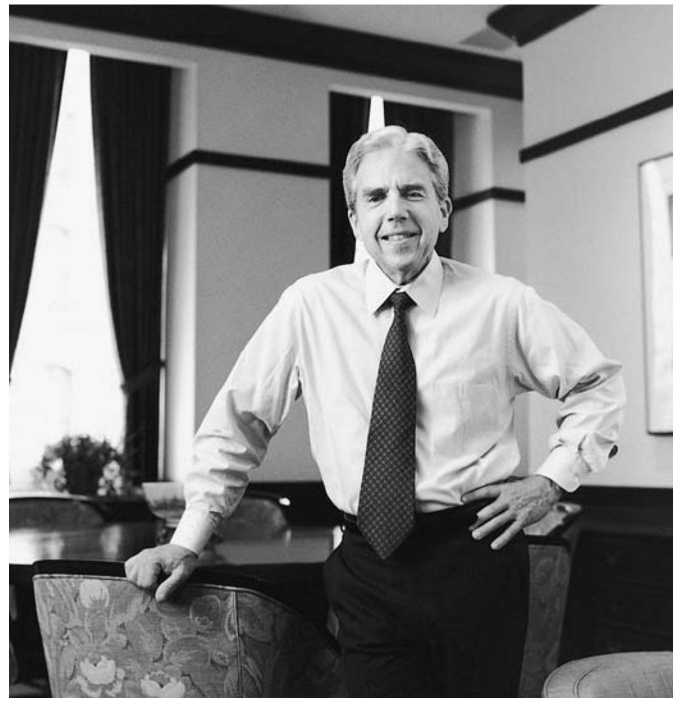
Like all community foundations, the Boston Foundation pools together and invests a variety of donors' charitable funds. The 90-year-old foundation is one of the oldest and largest community foundations in the country, encompassing 750 charitable funds and possessing a collective endowment of $675 million. Last year, it awarded $51 million in grants.

Why would a Boston-based foundation concern itself with how St. Louis-based Emerson treats its employees? Like a lot of organizations, the foundation started down the road to socially responsible investing in the mid-'80s, when it divested itself of companies with ties to South Africa and, later, tobacco. It decided to take socially responsible investing one step further in 2002 by promoting its values through proxy voting – that is, voting on company proposals, such as slates of board members, as well as on shareholder resolutions regarding social responsibility.

By law, shareholders have a right to vote on these matters. Yet foundations, which are formidable shareholders, rarely exercise that right. Indeed, the Boston Foundation was the first community foundation in the country to establish an active proxy voting policy. And at last count by the Council on Foundations, only 28 of the country's 65,000 foundations (only five of them community foundations) had adopted formal proxy voting policies.

Writing the Magna Carta

In 1998, when Robert Glassman was chairman of the Boston Foundation's investment committee, he began thinking about new ways to promote the foundation's mission of nurturing community. Thinking about how to change the world is Glassman's stock-in-trade. In 1987 he co-founded Wainwright Bank, a national leader in socially responsible business practices, which he still co-chairs.



Robert Glassman, former chair of the Boston Foundation's investment committee, spearheaded the writing of its proxy voting policy.

PHOTOGRAPHS COURTESY OF THE BOSTON FOUNDATION

"Leaving proxy votes sitting on the table made the board's default position one that sided with management. Is this what donors expected of us?"

Every year, charitable foundations are required by federal law to spend 5 percent of their endowments on mission-related programs. Nationwide, this amounts to $20 billion a year. But what about the other 95 percent of a foundation's assets? Glassman thought. Was the Boston Foundation using those invested assets – and the shareholder clout that they buy – to advance its mission?

The answer was no. Instead, it was "leaving proxy votes sitting on the table," says Glassman, which "made the board's default position one that sided with management. Is this what donors expected of us?" he asked.

Glassman asked Marcy Murninghan, an ethics and corporate governance consultant, to take a look at the foundation's portfolio of equity holdings "to find out what we weren't voting," he says. Among Murninghan's findings were that the foundation still held at least one tobacco-related investment as well as shares in Unocal, the oil giant with then-controversial operations in Myanmar.

In light of these findings, Glassman and Murninghan drafted a letter in December 1999 that proposed a vision for socially conscious proxy voting. "Access. Equity. Diversity. Fairness. Respect. These values are enshrined in the foundation's history and embedded in its mission statement, and they find expression in its fundraising, grantmaking, and management operations," Glassman and Murninghan wrote to the board's 12 members. "The time has come to further extend these fundamental values to the foundation's activities as a property owner and investor."

Glassman and Murninghan deliberately chose language that was lofty and nonobjectionable. (Murninghan refers to it as "motherhood and apple pie, our Magna Carta.") The actual phrase "proxy voting" doesn't appear until the sixth paragraph. "Proxy to some people sounded too revolutionary," Murninghan explains.

In the end, word choice was among the least of the challenges the proposed policy encountered. Several board members resisted the idea of adopting an explicit policy. "It's not our job to vote proxies," said one. "If I vote against management, somehow the Boston Foundation loses money," another said.

As its discussion spilled into a second year, the board spent an increasing amount of time evaluating the foundation's corporate holdings, right down to companies' positions on the environment, on the treatment of people in same-sex relationships, and on corporate governance. The process was very time-consuming, "like splitting hairs," recalls Bill McCarron, of Prime, Buchholz & Associates, an investment consulting firm that assists the foundation with its asset allocation.

Eventually, the board decided that adopting an overarching policy that spelled out and supported the foundation's values would be more effective than debating discrete issues one by one. It identified four areas in which it would actively vote its proxy: corporate governance; the environment; community well-being and citizenship; and diversity and equity.

From proposal to implementation took two years. "I felt like Sisyphus pushing the rock up the hill," Glassman recalls. "We had a terrific board, with wonderful, good people, but there was definitely an inertia factor."

Worth It to Walk the Walk

Today, even with clearly identified topics, adhering to the policy takes work. "It's a challenge to have to take yet another factor into consideration in managing an investment portfolio," concedes Ray Hammond, chairman and president of the foundation's board. "It's always an imperfect exercise."

The breadth of the policy's four core areas of focus,

Internet Resources on Proxy Voting

- **www.asyousow.org**
"Unlocking the Power of the Proxy: How Active Foundation Proxy Voting Can Protect Endowments and Boost Philanthropic Missions," a joint publication of Rockefeller Philanthropic Advisors and the As You Sow Foundation

- **www.coopamerica.org**
Shareholder Activism section has useful Frequently Asked Questions feature. Site also features extensive Web resources, shareholder news and proposals, prewritten letters to CEOs, and in-depth information on targeted campaigns

- **www.thecorporatelibrary.com**
Excellent corporate governance materials, news, and financial analysis sections

Selected Foundations With Proxy Voting Policies

- **The Boston Foundation (www.tbf.org)**
- **Jennifer Altman Foundation (www.jaf.org)**
- **Jessie Smith Noyes Foundation (www.noyes.org)**
- **Nathan Cummings Foundation (www.nathancummings.org)**
- **Shefa Fund (www.shefafund.org)**

The Boston Foundation's 2002 board of directors, which approved the first community foundation proxy voting policy in the country.

along with the proliferation of shareholder resolutions, requires a review of hundreds of proxy requests every year, each of which comes with an explanatory document that can reach 400 pages. To minimize the workload for its staff, the foundation contracts with Institutional Shareholder Services (ISS), a professional proxy voting firm, to track the proxy requests it receives from the 1,400 companies in which it owns stock. The foundation voted its proxy more than 500 times last year.

As the Emerson case demonstrates, proxy votes sometimes spur a corporation to act on an issue even when dissident shareholders aren't in the majority. The Boston Foundation was once again part of an influential minority at the Walt Disney Co.'s annual meeting in March 2004. The foundation sided with the 43 percent of shareholders who did not support a board slate that included Michael Eisner, who was then both chairman and chief executive officer. Behind the foundation's stance was a section of its proxy policy that supports the separation of chairman and CEO functions. "One of the principal functions of the board is to monitor and evaluate the performance of the CEO," the policy states. "The chairman's duty to oversee management is obviously compromised when he is required to monitor himself." The board removed Eisner from the role of chairman, and he left the company 18 months later.

Corporations are increasingly paying attention to proxy votes, notes McCarron. He speaks of a recent "mind-shift, and an openness to talk about certain issues" among corporate management. "Directors around the country are starting to become more cognizant of issues raised in proxy votes," he says. "They know people are watching."

Gail Snowden, the foundation's chief financial officer and vice president of finance and operations, says that devoting time and resources to proxy issues is the right thing to do. It also gives the foundation a competitive advantage in attracting new donors, she says. "Having our policy lets potential donors and others know that we are paying attention to credibility, precision, and transparency," says Snowden. "It gives us total alignment between who we are and what we do." □

–Alessandra Bianchi, a freelance journalist in the Boston area, writes about nonprofits, for-profits, and entrepreneurship.