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Mission-Based Investing: Practices & Perceptions Among Foundations and Endowments in Quebec

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“It is not the answer that enlightens but the question”
- Eugene Ionesco

Abstract

The recent and impressive growth of socially responsible investing has been motivated by preoccupations with generating income for the future in a way that does not compromise religious, social or environmental values. Given their same dual preoccupation with generating income for the future and supporting social causes, foundations and endowments would appear to be likely practitioners of mission-based investing (MBI). Nonetheless, there remains a serious gap within investment literature relating to MBI globally, and research specific to MBI within Quebec-based foundations and endowments is virtually non-existent. It has been hypothesized in the literature on the subject that three major barriers to MBI exist among foundations and endowments: (1) the psychological/cultural divide between the people responsible for investments and the people responsible for granting; (2) the perception that MBI is not legal; and (3) the perception that MBI would compromise financial performance. Empirical data on the validity of these theorized barriers is lacking. This study aimed to address these identified gaps within investment literature related to MBI by looking to (A) document the current investment practices of foundations and endowments in Quebec, and (B) test the posited barriers to MBI.

By means of an exploratory empirical study, the study sought to meet these objectives through interviews with representatives of a variety of foundations and endowments in Quebec. It was found that 35.6% of the sample institutions are currently engaged in some form of MBI. Anglophone institutions appear more likely to engage in MBI than Francophone institutions, and large institutions (asset base greater than $100,000,000) appear more likely than smaller institutions to adopt the practice. Linguistic origin, asset size, exposure to MBI and an institutions interpretation of charity appear to have an influence on investment behaviour with respect to MBI. Possible explanations for these variations are advanced, but the details of these influences remain uncertain. With some further qualifiers, the three hypothesized barriers to MBI were supported by the study, and additional important

barriers were identified. The most significant barrier being that MBI is perceived to be too complicated. The study concludes that while the comprehensiveness of the observed instances to MBI is lacking, the fact that some institutional shareowners with social missions are beginning to be more accountable, is encouraging. It is posited that the perceived barriers are surmountable with awareness raising on the available resources to facilitate conversion to MBI, hard money financial education on MBI, and exposure to the concept and its multiple manifestations. Despite moments of insight into the multiplicity and complexity of MBI practice, the data confirm the hypothesis that MBI remains a relatively untapped resource of foundations and endowments in the pursuit of their mission.

Table of Contents

Abstract ii

Table of Contents iv

List of Tables and Figures vi

List of Abbreviations and Acronyms vii

Introduction 1

Chapter I: Definitions 7

1.1 Foundations 7

1.2 Endowments 9

1.3 Mission-Based Investing 10

1.3.1 Mission-Based Investment Strategies 10

1.4 Conclusion 16

Chapter II: Literature Review 18

2.1 History and Evolution of SRI and MBI 18

2.1.1 Religious Mission and Social Movements 18

2.1.2 An Emerging Market 22

2.1.3 The Pension Fund Example 26

2.1.4 Conclusion 29

2.2 Current State of MBI Among Foundations and Endowments 29

2.3 Barriers to MBI 34

2.3.1 The Psychological/Cultural Divide 34

2.3.2 Legal Questions 35

2.3.3 Financial Concerns 38

2.4 Conclusion and Research Questions 48

Chapter III: Research Methodology 53

3.1 Research Method 54

3.2 The Sample 54

3.3 The Survey Process 59

3.4 Limitations of the Study 63

3.5 Conclusion 64

Chapter IV: Presentation & Analysis of Results 65

4.1 Theme A: Mapping the Current Investment Practices of Foundations and Endowments in Quebec 65

4.1.1 Asset Values and Granting Allocations 66

4.1.2 General Issues of Investment Management 68

4.1.3 Asset Mix 70

4.1.4 Alternative Investment Instruments 74

4.1.5 Summary of MBI Profiles 74
4.1.6 PRI Observed 77
4.1.7 Social Screens Observed 78
4.1.8 Voting Corporate Stock 83
4.2 Theme B: Testing the Hypothesis Regarding Perceived Barriers to MBI 91
4.2.1 The Psychological/Cultural Divide 92
4.2.2 Legal and Financial Concerns as Barriers to MBI 96
4.2.3 New Articulations of Barriers to MBI 98
4.2.4 Specific Barriers to Social Screening 103
4.2.5 Specific Barriers to Shareholder Engagement 105
4.2.6 Specific Barriers to PRI 107
4.3 Conclusion 109
Chapter V: Conclusion 111
Appendix 1: Interview Questions (Guidelines) 117
Appendix 2: Table 17: Institutional Assets and Other Sample Data 119
References 129

List of Tables and Figures

Table 1: SRMF and total MF industry assets: comparative growth statistics....2
Table 2: Charitable Organisation Financing by Issue: Statistics for Quebec, 1999....3
Table 3: Percentage of Grantmakers That Use Social-Investment Screens....30
Table 4: Summary of 21 empirical studies on CSR and traditional financial performance....40
Table 5: Morningstar Ratings of U.S. SRMF vs. the U.S. Universe of MF....43
Table 6: Charitable Organisation Financing by Issue Comparative Statistics for Quebec (1999) and Study Sample (2002)....56
Table 7: Sample Institutions Categorized by Asset Size....57
Table 8: Investment Related Documentation Requested & Institution's Response....60
Table 9: Institutional Assets and Other Sample Data....67
Table 10: Asset Mix of Participating Institutions....71
Table 11: Percentage of Institutions with Social Screens, Mission-Related Criteria in Proxy Voting and PRIs by Portfolio Size....76
Table 12: MBI Practices by Linguistic Origin and Asset Size for All Institutions....85
Table 13: MBI Practices by Anglophone Institutions and Asset Size....85
Table 14: MBI Practices by Francophone Institutions and Asset Size....86
Table 15: MBI Practices by Ontario-Focused Institutions and Asset Size....87
Table 16: MBI Practices by Justice-Oriented Institutions vs. MBI Practices by Charitable Service-Oriented Institutions....90
Table 17: Frequency of Different Barriers Cited to MBI in General....99
Table 18: Frequency of Different Barriers Cited to Social Screening....103
Table 19: Frequency of Different Barriers Cited to Shareholder Engagement....106

Figure 1: The Old Paradigm for Investing and Spending....35
Figure 2: Equity by Asset Size....72
Figure 3: Fixed Income by Asset Size....73
Figure 4: Equity Percentages by Portfolio Assets....74

List of Abbreviations and Acronyms

CalPERS	California Public Employees Retirement System
CAD	Canadian Dollar
CBCA	Canadian Business Corporations Act
CSR	Corporate Social Responsibility
DSI	Domini 400 Social Index
EI	Ethical Investing
ED	Executive Director
GIR	Groupe Investissement Responsable
ICCR	Interfaith Center on Corporate Responsibility
ICC	Investment Committee Chair
IFIC	Investment Funds Institute of Canada
JSI	Jantzi Social Index
LSVCF	Labour-sponsored venture capital funds
MF	Mutual fund
MBI	Mission-based investing
MJRA	Michael Jantzi Research Associates
MRI	Mission-related investing
PERS	California Public Employees Retirement System
PRI	Program-related investing
RRSE	Regroupement pour la responsabilité sociale des entreprises
SHARE	Shareholder Action for Research and Education
SIO	Social Investment Organization
SIF	Social Investment Forum (U.S.)
SRMF	Socially Responsible Mutual Funds
SRI	Socially Responsible Investing
SR	Socially Responsible
S&P	Standard and Poor
TCCR	Taskforce on the Churches and Corporate Responsibility (now Kairos)
TSE	Toronto Stock Exchange
USD	United States Dollar

Introduction

“If you have a large endowment, the power of that money to create change is probably more than the power of your grant-making”

-Jill Ratner
President of the Rose Foundation for
Communities and the Environment

A growing number of people and institutions believe that by investing their assets in accordance with their social goals they can effect greater social change. Indeed, the incorporation of social concerns in investment practices is undeniably on the rise. According to the *2001 Social Investment Forum Trends Report,* nearly one out of every eight dollars under professional management in the United States today is involved in socially responsible investing. The $2.34 trillion managed by major investing institutions, including pension funds, mutual fund families, foundations, religious organizations, and community development financial institutions, accounts for nearly 12 percent of the total $19.9 trillion in investment assets under professional management in the United States. This represents an significant increase from the US$ 1.185 trillion social investment assets under professional management in 1997, and even an 8% increase from 1999 (when such assets were at US$2.16 trillion) despite a stock market slide covering most of the 1999 to 2001 period (SIF, 2001).

By nature of being capitalised institutions with social missions, foundations and endowments seem likely proponents of this growing tendency in social investment. US foundations and other endowed non-profit organisations (primarily universities) now control almost $1 trillion in investment assets (Bradley & Jansen, 2002) and according to the U.S. Council on Foundations’ *1999 Foundation*

Management Report, approximately sixteen percent of foundations invest at least part of their portfolio in accordance with specific socially responsible guidelines.

In Canada, assets of socially responsible investments on June 30, 2000 were $49.9 billion, which represents 3.2 per cent of the retail mutual fund market and the institutional investment market (*Canadian Social Investment Review 2000*). While small in comparison with total industry assets, the social investment industry in Canada is growing at a significantly greater pace than the broader investment industry. Table 1 compares Canadian socially responsible mutual fund asset growth to the asset growth of the Canadian mutual fund industry as a whole.

Table 1: SRMF and total MF industry assets: comparative growth statistics

	June 1998	June 2000	Growth Rate
SRMF assets	$3.283 billion	$5.77 billion	**75.7%**
Total MF industry assets	$322.7 billion	$420.8 billion	30.4%

Source: Canadian Social Investment Review 2000

The retail market[1] grew 75.7 per cent from $5.9 billion in June, 1998, to $10.35 billion in June 2000 while figures published by the Investment Funds Institute of Canada (IFIC) for the mutual fund industry as a whole show a growth rate of only 30.4 per cent from $322.7 billion in June 1998 to $420.8 billion in June 2000. Indeed, Canadian socially responsible mutual fund assets grew at more than twice the rate of the total mutual fund industry assets.

Despite the growth in the industry, there has been very little research into the SRI market among institutional investors in Canada. Within the research that has been produced, however, certain significant facts and statistical trends have been evidenced. With an asset base estimated at $9 billion (Canadian Centre for

[1] It was not possible to estimate the growth rate of the institutional social investment market because the market was only surveyed for the first time in 2000.

Philanthropy, 2001)[2], Canada's 1,684 charitable foundations and endowments, while admittedly not as potent as pension funds or mutual funds for example, represent a non-negligible economic force.

The *Centre québécois de philanthropie* estimates that the asset base of foundations and endowments in Quebec amounts to over 4 billion dollars. Table 2 reveals the granting allocations of these Quebec institutions by issue.

Table 2: Charitable Organisation Financing by Issue: Statistics for Quebec, 1999

Issue	Percent of Donations by Private Foundations
Poverty; social services and community organisations	32.6%
Health, hospitals and medical research	17.5%
Education (including science and technology)	16.9%
Arts and culture	15.1%
Religion	13.4%
Environment, ecology	2.0%
Sports and leisure	1.5%
International cooperation	1.0%
Total	**100%**

Source: Verret, André (March, 2001) "Domaines de financement des organismes de charité du Québec en 1999" *Fonds & fondations du Québec : Répertoire des sources de financement pour organismes de charité du Québec*, Centre québécois de philanthropie, p.xxii.

According to the *Centre québécois de philanthropie*, three hundred and thirty three (333) foundations in Quebec (32.6%) primarily direct their grants to poverty; social service and community organisations. Health, hospitals and medical research receive just over half of that amount (17.5%) from private foundation's grants, while education receives 16.9% and religion 13.4%. The environment, sports and leisure and international cooperation receive far less significant pieces of the philanthropic pie at 2%, 1.5%, and 1% respectively.

[2] The numbers changed dramatically with the arrival of the Lucie & André Chagnon Foundation, in 2000, which has an asset base of more than 1.380 billion dollars.

Canadian law requires all foundations in the country to annually disburse 4.5% of their investment assets (averaged over two years)[3]. While endowments are not held to the same disbursement rates as foundations[4], their grant-giving represents an equally small portion of their overall asset base. It is clear that these institutions are utilizing only a fraction of their monetary mission-based potential. Certainly, the awarding of grants responds to the respective missions of foundations and endowments. However, there remains an apparent lack of attention given to the potential advancement of these missions through the strategic investment of the capital base. Information on institutional granting is fairly accessible, whereas, currently, information on philanthropic institutional investment practices is not. Given this information gap, certain questions must be addressed so as to fully explore the aforementioned assumption that foundations and endowments are not fully exploiting their monetary value in the pursuit of their missions.

Thus, the purpose of this study is to better understand the investment practices of Quebec foundations and endowments. More specifically, the study intends to investigate the following questions:

- What are the current investment practices of Foundations and Endowments in Quebec? Have their investment choices been informed by their mission? If not, why not?
- Is there an interest among foundations and endowments to align their investment practices with their mission? If not, why not?
- What are the perceived barriers to mission-based investment?

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[3] A more flexible rate of disbursement that would reflect actual market conditions is currently under discussion. It is also important to note that these rates of disbursement apply to endowed funds only. Public foundations must disburse 80% of any receipted donations for the previous year with the exception of bequests and gifts received with a direction to hold for at least ten years, while private foundations must disburse 100% of any funds received from another charity unless designated as a specified gift, and 80% of receipted donations of the previous year received from other than another charity with the exception of bequests and gifts received with a direction to hold for at least ten years.

[4] True endowments are required to maintain a specified capital base in perpetuity, and thus are allowed only to disburse income generated from investment of that capital.

Pursuant to answering these research questions, this study will be exploratory in nature and will provide an empirical survey of the current investment practices of foundations and endowments in Quebec. The study will document the perceptions of MBI through semi-directed interviews with individuals representing a cross-section of foundations and endowments in the Montreal region. The sample includes 14 foundations and foundation-like institutions in Quebec including private foundations, community foundations, hospital foundations, university endowments, and churches or religious communities. Using quantitative and qualitative analyses of the interviews and investment policy-related documents, the study aims to identify the following within the Canadian Philanthropic sector:

- the current profile of a variety of foundation and endowment investment policies in Quebec;
- an initial investigation of the Quebec market for mission-based investment; and
- potential opportunities for foundations and endowments to reinforce their missions and broaden their impact.

This thesis is divided into five chapters. In the first chapter we present the framework of the study by defining the terms: foundations, endowments, and MBI; and by introducing the strategies of MBI: social screening, shareholder engagement and program-related investing. In Chapter 2, through a review of the relevant literature on MBI, we explore the history and evolution of SRI and MBI, the current state of MBI among foundations and endowments, and the barriers that have been posited to the adoption of MBI, namely, organizational structure and culture, legal issues, and financial concerns. In Chapter 3, the methodology of the study will is explained and defended, going into some detail as to the sample selection, and the empirical data collection process. In chapter four, the data is presented and analysed. Here, the current investment practices of the institutions studied is presented with emphasis placed upon current MBI practices among participating institutions. The presentation of current practices is followed by a

presentation of the perceived barriers to MBI. The results of the study are discussed with a reflection on the congruencies and disjunctures noted between results obtained in this study and the literature. The thesis concludes, in chapter five, with a synopsis of what this study has brought to the field. It appears that linguistic origin, asset size, exposure to MBI and an institutions interpretation of charity have an influence on investment behaviour with respect to MBI, and possible explanations for these are advanced. We conclude that while the comprehensiveness of the observed instances to MBI is lacking, the fact that some institutional shareowners with social missions are beginning to be more accountable, is encouraging. We posit that the perceived barriers are surmountable with hard money financial education on MBI and exposure to the concept and its multiple manifestations. Despite moments of insight into the multiplicity and complexity of MBI practice, the data are consistent with the hypothesis that MBI remains a relatively untapped resource of foundations and endowments in the pursuit of their mission.

Chapter I: Definitions

Prior to entering into the body of this study, it is essential to understand the terms that will be used throughout. With this in mind, this first chapter aims to provide definitions. After first defining the institutions that are the object of the study, i.e. foundations and endowments, we will move on to define mission-based investing and elaborate on the forms or strategies, it takes.

1.1 Foundations

Foundations are defined by Canada Customs and Revenue Agency (CCRA) as charities that primarily disburse funds[5]. There are both public and private Charitable Foundations. The designation depends on the nature of the relationship between the directors (or founders, trustees, etc), and on the source of the funds. The difference between a public and private foundation is that a private foundation gets more than half of its capital from one source, and often has family or other “non-arm's length” board members, while a public foundation gets its capital from more than one source and has an independent board.

As previously mentioned, both public and private foundations must annually disburse 4.5% of their investment assets (averaged over two years). According to the *Directory to Foundations & Grants for 2001*, produced by the Canadian Centre for Philanthropy there are currently 1,684 active Canadian grantmaking foundations, with over $9 billion in assets, and with grants of almost $850 million (p.9). Central Canada (Quebec and Ontario) hosts the bulk of foundations (69.3%); the Western Provinces host 27.9%; the Atlantic Provinces 2.7%; while the territories host a mere 0.2%.

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[5] It is important to note that although an organization may have the term “foundation” in its name, this does not necessarily mean that it is a grant-giving organization or that it is a

Foundations are categorized as follows:

Family foundations are private foundations that usually are established by a wealthy individual or family. Their missions are generally attritutable to the founder's interests; however, many larger family organizations now focus on broader needs within the community.

Corporate Foundations are private foundations that derive their funds from profit-making businesses. Legally independent of the corporation, the corporate foundation is nevertheless closely tied to the corporation through its board and funding. The grants tend to be given to organizations in harmony with the corporate mission. These foundations function mainly as vehicles through which funds flow in and out on an annual basis, and rarely develop a pool of assets[6].

Community foundations are established to assist in meeting the needs of a particular community. Usually classified as *public foundations*, they nevertheless function like private foundations. Funds are derived from the contributions of many donors (often through bequests), and donors may designate their funds to particular areas of interest. Canada currently has 104 community foundations with combined assets of about $1.3 billion. According to the Canadian Centre for Philanthropy, over half of all public foundations are community foundations that focus on building endowments and supporting a wide range of charitable activities in specific geographical communities.

Other *public foundations* include government foundations and foundations connected to service clubs. Hospital foundations, for example, generally direct the funds they raise directly to their own hospital.

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capital-based institution.

[6] For these reasons, corporate foundations will not be included in this study.

There are a variety of factors that affect a foundation's operations. The most important being size, staff, involvement of the original benefactor or family, and geography. It is common to refer to a foundation's mission by describing the areas of its primary grant making: a foundation is what and whom it funds (Canadian Centre for Philanthropy, 2002). Endowments are not dissimilar.

1.2 Endowments

Endowments are much like foundations in that an endowment is money or property given for the permanent use of an institution. True endowments contain provisions prohibiting the principal from being expended. It is the income from this capital that is used for the purposes that the endowment was set up. Gifts and deferred giving instruments such as bequests are the only sources of true endowments. Universities and religious communities often create endowments to solidify funds in the name of the institution, to manage and invest gifts and property for the institution's benefit, and/or to promote or sponsor programs in support of the institution's activities. Some endowments are highly restricted as to purpose, while others simply support the institution's charter. It is important to note that because the capital must remain in perpetuity, endowments are not held to the same disbursement rules as foundations. In a year like 2002, income could be far below 4.5% and meeting this minimum would be in direct contravention to the constituting document which states no encroachment on capital.

Nonetheless, the fact that both foundations and endowments function with a capital base, using investments to generate income to benefit a specific cause, or charitable mission, led some individuals and institutions to look at the real and potential relationship between the capital base and the philanthropic mission. Out of a desire for greater consistency between how money is generated and how money is spent, mission-based investing was born.

1.3 Mission-Based Investing

Mission-based investing (MBI), mission-related investing (MRI) or program-related investing (PRI) is the incorporation of an institution's mission into its investment decision-making process. An institution's mission is its central purpose or calling, which is often summarized in its mission statement. While MBI is rooted in the socially responsible investing (SRI) movement, it is not as broad. SRI or ethical investment (EI) are terms which are often used interchangeably and refer to a form of investing that includes notions of values and principles in the selection and management of an investment portfolio (Weigand *et al*., 1996). With MBI, the mission of the institution, rather than social responsibility in general, guides the asset management. For example, a foundation with a mission to promote the environment might use their asset management to specifically promote environmental causes, and might not be so concerned with issues such as "sin" stock (i.e. alcohol, pornography), or board diversity. Proponents of MBI argue that the practice makes it possible for an institution to use all of its resources in pursuit of its mission (Jantzi, 2001; Kinder, 2002). How, then, does one practice MBI?

1.3.1 Mission-Based Investment Strategies

It is generally perceived that there are three (3) major strategies to both SRI and MBI (Abbey *et al*., 2000; Domini *et al*., 1993; Hutton, 1998; Schueth *et al*., 1999): *i.* screened portfolios, *ii* shareholder activism, and *iii.* community development or program-related investing. This next section will define each of these and explain some of their respective merits and shortcomings.

Screened portfolios:

Screening of investments is perhaps the most widely known strategy of social investment and often is assumed to be the only strategy. Screening involves using one or more ethical considerations to decide whether to invest in a particular stock, bond or mutual fund. Screens can be used either to "screen out" or to "screen in" particular kinds of companies. Negative screens exclude companies

involved in certain activities with which an investor might take issue (Domini et al., 1984; Ellmen, 1997; Hutton, 1998; Skinner 2001). For a foundation or endowment that includes issues of health in its mission, a negative screen might seek to avoid companies involved in the tobacco industry. Those whose missions incorporate human rights issues might avoid companies or bonds associated with countries particularly known for these types of abuses; while a foundation working for the promotion of the environment might want to avoid resource extraction industries.

It is important to note that in Canada, screening out resource extraction industries, because of their pervasive effect on the environment, is somewhat complicated by the social fall-out. Resource extraction is woven into the social, political and economic life of this country: 40% of Canadian industry is directly involved in resource extraction, and an outright boycott of the industry would have perverse social effects. In addition, to ensure limited risk and portfolio diversification, socially-oriented investors, or mission-based investors may find it particularly hard to avoid exposure to these sectors. Largely for these reasons, the SRI industry in Canada has generally rejected sector avoidance strategies (with the exception of tobacco, nuclear and military production) for the “best-of-sector” approach, which searches out the most socially or environmentally responsible companies in a particular industry or sector of the economy (Skinner, 2001).

Positive screens identify companies’ attributes or products that are considered desirable investments. Depending on their mission, foundations and endowments might use positive criteria which include companies that are involved in manufacturing energy-efficient products, are known for good employee conditions, or for good community relations (Skinner, 2001; Abbey *et al*., 2000; SIF).

The broadest and most significant social issues that have influenced the investment in, or the avoidance of, specific companies include: South Africa during the apartheid regime; “sin” stock such as alcohol, tobacco, and gambling;

weapons; the environment; corporate relations with the community; corporate relations with employees; product quality; diversity of work force, management and board of directors; animal rights; and birth control/abortion (Weigand *et al*., 1996). Of these areas of concern, the most commonly excluded by institutional investors is the tobacco industry (Weigand *et al*., 1996; Council on Foundations, 1996).

While some companies or issues might seem black or white, there is an inherent difficulty in defining a list of acceptable or unacceptable investments. To boot, the costs and difficulties related to divestment might make screening a less desirable strategy for some institutions than actively using the right as a shareowner to attempt to influence company behaviour, a strategy known as shareholder activism.

***Shareholder Activism*:**

Shareholder activism or shareholder engagement is increasingly becoming the social investor strategy of choice for the most important institutional investors. Shareholder activism or engagement involves leveraging ownership for social impact. It implies dialogue with companies, potentially initiating shareholder proposals, and using the investors' vote as a shareholder to attempt to influence corporate governance (Skinner, 2001). Instead of avoiding or divesting from companies that do not meet their standards, shareholder activists attempt to reform them through education and example. Their principle means is the shareholder resolution, which appears in the corporation's proxy statement. A proxy, in this situation, refers to the power of attorney to vote corporate stock (Domini *et al*., 1984). Because of the amount of work involved in mounting a comprehensive advocacy plan, such campaigns are usually undertaken by institutional investors, like mutual and pension funds and labour-sponsored funds (Skinner, 2001). The ability to simply vote proxies, however, is one of the most accessible mechanisms for investors to direct corporate policy, and trustees have a fiduciary duty to ensure that proxies are voted in a prudent and responsible manner (Yaron, 2000a).

It is interesting to note that in the United States, over 260 shareholder propositions of a social nature were introduced in 2001; one hundred and fifty-eight were voted on and the average percentage of votes received was 8.5% which was up from 7.5% in 1999 and 2000 (SIF, 2001). In Canada, 39 shareholder proposals were submitted in 2001, 63 resolutions had been submitted in 2000, and between 1994 and 1999, ten or fewer shareholder proposals were submitted per year (O'Brien, 2002, p.7). It is important to remember that shareholder resolutions are not so much intended to pass as they are to exert pressure on companies to change objectionable practices. Many shareholder advocates view withdrawal of their proposals as victories, as withdrawal typically means a good portion of the proponents demands have been met, or that management shows sincerity and legitimate progress towards meeting the goals sought by the resolution filers.

Shareholder resolutions concerning equal opportunity and other employment issues were particularly successful while the most popular issues were adopting International Labour Organisation (ILO) standards, linking executive pay to social and/or environmental criteria, and phasing out, labelling, or reporting to shareholders on genetically engineered food products (MacNeill *et al*., 2001, p.49 - 51). The highest vote in 2001 for a shareholder resolution was 31.5 per cent for a proposal at BE Aerospace, asking it to implement the MacBride Principles, a fair employment code for companies operating in Northern Ireland (SIF, 2001). The highest score of support for such resolutions in Canada was from the shareholders of the Hudson's Bay Company in 2002. Thirty-six point eight percent (36.8%) voted in favour of amending the Company's Code of Vendor Conduct and standard purchase contracts to reflect the principles contained in the International Labour Organisation (ILO) "Declaration of Fundamental Principles and Rights at Work"; to establish an independent monitoring process to assess adherence to the amended Code; and to report annually on this adherence (Chapman, 2002).

Indeed, shareholder engagement can be a powerful tool for foundations and endowments to advance their particular missions. The Jessie Noyes Smith

Foundation experience with shareholder engagement gives an idea of the potential impact of engagement.

In 1994 the Jessie Smith Noyes Foundation in the U.S. was approached by one of its grantees, the Southwest Organizing Project (SWOP), to support its battle against Intel Corporation. SWOP is a community organization based in Albuquerque, New Mexico that advocates on issues of economic and environmental justice. Intel, the largest microchip manufacturer in the U.S., was planning a massive plant expansion in New Mexico. SWOP had a number of concerns related to water usage (given they are in a desert state), air pollution, jobs, tax breaks and the company's level of accountability to the community. Intel management had refused to meet with citizens of the area regarding their concerns. The Jessie Smith Noyes Foundation realized that it held 100 shares (worth about US$6,000 at the time) of Intel Corporation in their investment portfolio. While divestment would have gone unnoticed, their holdings were sufficient to attempt shareholder engagement. When dialogue with the corporation fell on deaf ears, the foundation filed a shareholder resolution for a vote at the 1995 shareholders meeting asking the company to change its Environmental, Health and Safety (EHS) Policy to include a commitment to consulting and sharing information with communities in which it operates. The resolution got Intel's attention and a series of meetings were arranged. While some progress was made, the agreements remained unsatisfactory leading the Noyes Foundation to file the same resolution again in 1996. Shortly thereafter, Intel produced a draft of a new EHS policy that responded to the proposed resolution. The Noyes Foundation consequently withdrew the resolution (Viederman, 1998).

It seems that in response to this shareholder pressure, Intel altered its administrative procedures with the intention of listening more carefully to communities' voices. When SWOP originally approached Intel to address their report, Intel management had commented that they did not listen to "vocal minorities". After the shareholder engagement work of Noyes Foundation, Gordon

Casey, Intel's Director of Investor Relations wrote: "[t]he experiences we have shared with the Jessie Smith Noyes Foundation illustrate the value of establishing a dialogue with the company where an investor concern exists…We at Intel welcome constructive dialogue with our stockholders" (Viederman, 1998, p.3).

Indeed, constructive dialogue with management can achieve results even at the local community level. Another way for foundations and endowments to directly affect the communities they support is through investing a portion of their asset portfolio in community development. Community development investing is the third and final strategy of both SRI and MBI.

Community Development Investing:

Foundations and Endowments generally call community development investing Program-Related Investing (PRI). PRI refers to the use of funds in non-traditional ways (not grantmaking or conventional investments) to achieve programmatic purposes. Such investments include investment in community loan funds providing micro-credit or capital to local entrepreneurs, co-operatives or community-oriented enterprises that tend to have difficulty accessing financing from regular sources. The objective is often to create local jobs, develop local enterprise, provide essential services or empower workers or consumers (Skinner, 2001; Hutton, 1998; Ellmen, 1997). This type of investment usually generates a fixed return ranging from 0% to 4% and largely can be specified by the investor within that range. Several authors also include social venture capital and labour-sponsored venture capital funds[7] within the broader community development approach (Skinner, 2001; Hutton, 1998). Like regular venture capital, social venture capital investments have high minimum investments, are high risk and have potentially high returns.

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[7] Labour funds are venture capital pools investing in small and medium-sized start-up companies or established firms that have difficulty accessing regular sources of capital. Their social value lies in their capacity for job creation. The funds are established under special federal and provincial legislation and sponsored by labour unions. Generous tax

Philanthropic practitioners of PRI argue that the benefits are myriad and include the enlargement of a foundation's overall resources for program initiatives by allowing participation in projects of a size and scale that would not be possible from the annual grants budget. PRIs, they argue, leverage non-grant financial participation from traditional financial institutions and government sources that might not otherwise be forthcoming and they encourage the development of approaches to social problems that, to a significant extent are self-supporting and self-sustaining. They add that PRIs serve as models for public and private organisations interested in devoting some portion of their assets to social needs; and allow funders to participate in ventures or public/private partnerships that might not be viewed as appropriate grant projects for their foundations, but are seen as promising valuable social benefits (Marble, 1989, p. 1-2).

1.4 Conclusion

This chapter equips us with an understanding of the key terms necessary for full comprehension of the research questions of this thesis. Foundations and endowments, we understand, are institutional investors that have been set up, with special tax privileges because of their stated objective, to distribute grants that are aligned with their social mission. Unlike other charitable organisations, foundations and endowments rely on a capital base or fund (and its income generation capacity) to provide funding for grantmaking activities. Mission-based investing, we learned, is the practice of aligning the investment practices of an institution with its social mission. MBI is a form of socially responsible investing that is particular to institutions with a specific organisational mission, narrowing the concept of social responsibility to issues related to the mission or charter of that particular institution. SRI and MBI, we ascertained, can be accomplished through three main strategies: screening of companies in the portfolio, shareholder engagement activities and community development investing (known more commonly as program-related

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benefits are given to LSVCF investors.

investments in the foundation and endowment sectors). Ultimately, this study sets out to explore whether there is interest among foundations and endowments in Quebec to use their investments not only to provide funding for grantmaking activities, but as a catalyst in their own right, for positive social and environmental change. To answer this question, we will need to better understand the context and history of SRI and MBI development; and, if it is a legitimate investment strategy worthy of practice by foundations and endowments. The next chapter will review the literature on the evolution of SRI and MBI, attempt to ascertain the current market penetration of MBI and look at the proposed barriers to this strategy of investment by foundations and endowments.

Chapter II: Literature Review

In this chapter we will look at the history and evolution of the SRI and MBI in order to get a better understanding of the reasons for its growth and to justify its validity. We will then explore the limited literature on the current state of MBI among foundations and endowments. This exploration will lead into a review of the literature examining the barriers to MBI. The respective reviews of the literature on the psychological and cultural barriers, the financial barriers, and the legal barriers, will serve to establish the legitimacy (or illegitimacy) of each of these barriers.

2.1 History and Evolution of SRI and MBI

An overview of the history and evolution of SRI and MBI will reveal the role of faith-based motives, and will expose environmental and social issues as powerful forces behind the growing numbers who are aligning their investments with their values or missions. Despite opposition, an SRI market emerged and we will see how the expanding demand for SRI financial products has led to the development of a widening variety of socially responsible mutual funds, social indices, independent evaluators, other industry related services and even changes in relevant legislation. Increasingly, other institutional investors, such as pension funds, are engaging in different forms of mission-based investing. These developments could provide identification groups and information sources that could serve to reinforce and facilitate a decision on the part of foundations and endowments to align their investments with their missions.

2.1.1 Religious Mission and Social Movements

Religious belief was and still is a motivating value system for mission-based investment and socially responsible investment in general. In early biblical times, Jewish laws laid down many directives on how to invest ethically. Meir Tamari (1987), in *With All Your Possessions: Jewish Ethics and Economic Life,* explains that,

> [The] whole network of halakhic rulings exists in order to ensure that the way a man accumulates wealth is neither morally damaging nor physically harmful to his fellow men…these restrictions, if observed, must necessarily limit the scope of a Jew's economic activities…

These rulings were brought into being centuries ago; and yet their message remains intrinsic to an expectation of Jewish economic practices even to the present day. Despite this clarity within Jewish belief, the first instances of socially responsible investment actually originated from the Quakers in 17th century America. The Quakers, who were active agricultural merchants, refused to invest or do business in war-related activities or the slave trade. These were the two most lucrative markets at the time, but they seriously contravened the Quakers' ethical beliefs and religious missions (Hutton, 1998; Domini, 1997; Schueth *et al*., 1999).

As of the beginning of the twentieth century, American Christian institutions began aligning their principles with their investment strategies by avoiding investment in companies engaged in military, alcohol, tobacco or gambling (Hutton *et al*., 1998). In 1908, the Federal Council of Churches in the U.S. adopted "The Social Creed of Churches." This manifesto which, to this day, serves as an ethical proxy for individuals and institutions, addressed such timeless issues as equal rights, abolition of child labour, protection of workers from unsafe working conditions and providing a living wage (Weigand *et al*., 1996). The first ethical fund, the Pioneer Fund of Boston, was established in 1928 to respond to the moral preoccupations expressed by religious communities not wanting to finance activities that ran contrary to their religious mission (Hutton *et al*., 1998).

In 1971, the American churches and religious orders set up the Interfaith Center on Corporate Responsibility (ICCR) which, since 1973, systematically studies the practices of American industries at home and around the world (Hutton *et al*., 1998). The ICCR was heavily involved in the campaign to stop U.S. companies' support of the Apartheid regime in South Africa. The ICCR list of companies that were present in South Africa represented forty-five percent (45%)

of the S&P 500 in 1985. The divestment from South Africa thus became the most commonly applied criteria in SRI at the time (Domini *et al*., 1997).

In Canada, the Taskforce on the Churches and Corporate Responsibility (TCCR) was founded in 1975 to, as they put it, "work ecumenically to influence Canadian business to adopt responsible social policies in carrying out their corporate activities" (Skinner, 2001, p.17). During the 1970s and 1980s, it was the TCCR that spearheaded campaigns to get Canadian business out of South Africa, to persuade banks to take human rights and other social factors into account in their lending policies and to develop shareholder activism. In July 2001, the TCCR, and 8 other ecumenical social justice coalitions of mainline churches in Canada, restructured into Kairos. Kairos is the lead agency for shareholder-based campaigns associated with Talisman Energy Inc.'s activities in Sudan; with climate change issues with Canadian oil companies; and with the emerging ethical debate over the agricultural applications of biotechnology and genetic engineering. In Quebec, the *Regroupement pour la responsabilité sociale des entreprises (RRSE)* is an association of religious communities, churches, religious organisations and individuals that works with Kairos and other international groups to promote corporate social responsibility (human rights, environment and worker rights) through shareholder engagement.

Parallel to developments in the incorporation of religious belief into responsible investment practices was the introduction of social reform movements to the shareholder ballot. Historically, there have been few, albeit significant, convergences of non-faith-based social justice and investment practice. Saul Alinsky, in the 1930's, brought his political agenda relating to civil rights and labour relations into the forum of Kodak's annual general meeting of the shareholders. Ralph Nader put a more modern face on consumer activism when he placed two shareholder resolutions on the General Motors proxy ballot: these resolutions marked the first time social issues had been placed on a stockholder ballot (Hutton, 1998). In Quebec, in even more recent years, Yves Michaud became referred to as

the “Robin des banques” when he fought to get speaking rights for small shareholders of financial institutions. Currently, the convergence of social reform movements and investment practice assumes a far greater presence. Significantly, as aforementioned in Chapter 1, over 260 shareholder propositions of a social nature were introduced in 2001; one hundred and fifty-eight were voted on and the average percentage of votes received was 8.5% which was up from 7.5% in 1999 and 2000 (SIF, 2001).

The environmental movement has also made its mark on investment behaviour. In 1962, Rachel Carson’s book *Silent Spring* issued a damning critique of the chemical industry and raised public alarm over mounting environmental problems caused by unchecked industrial growth. The movement for “sustainable development,”[8] was popularized in the 1987 Bruntland Commission report, *Our Common Future*, by the World Commission on Environment and Development (M’Zali *et al*., 1997; Skinner, 2001). At the same time, a series of disasters (e.g. Love Canal, 1977; Three-Mile Island, 1979; Bhopal, 1984; Chernobyl, 1986; Exxon Valdez, 1989) awoke a social conscience in many investors (Skinner, 2001; M’Zali *et al*., 1997). In 1996, for example, an American District Court entered a $5 billion judgement (which was recently overturned) against Exxon for cleanup costs related to the 1989 Valdez oil spill. This sum was in addition to the 4.9 billion Exxon was already paying (Krumsiek, 1997). The company suffered an immediate fall on the financial markets (M’Zali *et al*., 1997).

While faith-based motives, as well as social and environmental concerns have and continue to influence individual and institutional investment behaviour, it is esteemed to have been the combination of concern for social justice; the declining role of government in both economic regulation and financial support for social welfare programs; and, globalization that have given impetus to the SRI

[8] The concept of sustainable development being that economic development should meet the needs of current generations without compromising the ability of future generations to meet their needs.

movement more recently (Lewis, 2001; Skinner, 2001; Krumsiek, 1997). Like any emerging idea, SRI and MBI have not gone without sceptics.

2.1.2 An Emerging Market

As the SRI industry was emerging in the early 1970s, Milton Friedman rose to challenge the definition of the socially responsible company by arguing that the only legitimate social responsibility of business was to increase profits for shareholders (Friedman, 1970). The ensuing debates can still be heard in both academic literature and corporate boardrooms.

Despite Friedman's arguments, the 1980s and early 1990s saw the SRI movement continue to expand. The Social Investment Forum's *2001 Report on Socially Responsible Investing Trends in the United States,* reported that socially responsible investing grew from $2.16 trillion in 1999 to $2.34 trillion in 2001 despite an extended market downturn for most of that period, an amount roughly equal to 12 percent of the total $19.9 trillion in investment assets under professional management in the United States.

The Canadian social investment industry is somewhat younger in its development. The first socially responsible financial product came in 1984 when the Quebec Federation of Labour established the Fonds de Solidarité/ Solidarity Fund to support regional economic development in Quebec. It proved to be a key vehicle for helping to maintain jobs and business in Quebec, as well as being profitable for its investors (Skinner, 2001). Canada's first socially responsible mutual fund, Ethical Funds, was established in 1986, and the nonprofit Social Investment Organization (SIO) was founded in 1989 with a mandate to "promote socially and environmentally responsible investment".

As further testimony to the growing demand for SRI, a number of social indices have been created over the years. The oldest and perhaps best known, of these is the Domini 400 Social Index (DSI) which was launched in May 1990. The

DSI tracks the financial performance of 400 socially screened major U.S. corporations. It is a leading benchmark for judging the performance of socially screened equity portfolios and mutual funds in the United States (Skinner, 2001). The Dow Jones STOXX Sustainability index and FTSE4Good are two other frequently used social indices. In February 2000, the Jantzi Social Index (JSI), the first of its kind in Canada, was launched. The JSI is a market capitalization-weighted common stock index modelled on the S&P/TSE indices. It distinguishes itself from the other indices in that it consists of 60 Canadian companies that pass a set of broadly based social and environmental screens (Skinner, 2001).

A few other indicators of growing demand for SRI include the development of social performance research firms, shareholder advocacy and proxy monitoring agencies. In Canada, EthicScan Canada Ltd. (1989) and Michael Jantzi Research Associates Inc. (1992) provide social investment research services; the Shareholder Association for Research and Education (SHARE), established in the summer of 2000, the Shareholder Action Network and, in Quebec, the *Groupe Investissement Responsible (GIR)*, also launched in 2000, offers shareholder advocacy and proxy monitoring services. In addition, legislative changes facilitating SRI also reveal that the industry has acquired a certain level of legitimacy.

Legislative Changes

Legislative changes are a sign of changing times and practices. Amendments to Canadian legislation that inhibited shareholder advocacy and amendments that could encourage pension funds to invest in a socially responsible manner are no exception.

Under the Canada Business Corporations Act (CBCA), directors manage the affairs of the corporation. Under section 137 of the CBCA, any shareholder entitled to vote may submit to the corporation notice of any matter s/he wishes to discuss and have voted on at the annual general meeting. Until recently, section

137 of the CBCA allowed management to reject proposals on a number of grounds, including if the proposal clearly appears to management to be submitted primarily for the purposes of promoting general economic, political, racial, religious, social or similar causes. The section effectively barred shareholders from expressing concern on social responsibility unless the proposal was strongly grounded in language dealing with more traditional business matters. In November, 2001, amendments were made to the Act that lowered the barriers to shareholders putting forward proposals that address issues of corporate responsibility[9]. In order to file a proposal with a federally registered company, a shareholder has to hold either individually or collectively with other shareholders[10], the lesser of either 1% of the total number of outstanding voting shares of the company or $2,000 worth of shares[11] on the day the proposal is submitted and have held this value of shares for at least 6 months[12] (Yaron, 2000).

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[9] A corporation must circulate a shareholder proposal, except in the following situations:

• Where the proposal is submitted less than 90 days before the anniversary date of the notice of meeting of the previous annual general meeting

• Where the primary purpose of the proposal is to enforce a personal claim or redress a personal grievance against the corporation, its directors, officers or security holders

• The proposal clearly "does not relate in a significant way to the business or affairs of the corporation

• Where the shareholder failed to present a proposal circulated at the shareholder's request less than two years prior to the current proposal being received by the corporation

• Where "substantially the same" proposal was circulated to shareholder's within the past 5 years and received less than:

  • 3% of the total number of shares voted in the first time it was submitted;

  • 6% of the total number of shares voted the second time it was submitted;

  • 10% of the total number of shares voted the third time it was submitted.

• Where the proposal is "being abused to secure publicity." (Yaron, 2000, p.2).

[10] Shareholders (including beneficial shareholders) are allowed to pool their shares in order to put forward a proposal

[11] The value of shares is determined by the market value at the close of business on the day preceding submission.

[12] For non-federally registered companies, these rules do not apply.

It is also of interest that regulatory amendments are changing the pension industry in the UK and Europe[13]. Without forcing pension funds to take into consideration non-financial criteria in the investment decisions, a number of governments (the United Kingdom, Australia, France and Germany) have adopted legislative modifications that facilitate the introduction of such criteria into investment policies and improve their accountability on social and environmental issues (SIO, 2002). In July 2000, the UK was the first to amend its Act, the UK Pensions Act, to require trustees of occupational pension plans to disclose their policy on SRI in their Statement of Investment Principles (SIP). Prior to this amendment, pension fund trustees were under no obligation to inform their members of their ethical stance.

The Quebec government has begun to take some initiative on issues of SRI. In September 2002 the Quebec National Assembly hosted a parliamentary commission on public finances addressing the twin issues of corporate social responsibility and socially responsible investing. This occurred because of "…the growing importance of the social repercussions of economic decisions and the potential role of the government on such issues"[14] (Sécretariat des commissions, 2002). Many unions and non-governmental organisations presented briefs which recommended that the Quebec government mandate the *Caisse de dépot et placement (CDPQ)* to adopt a policy to invest in socially responsible companies that respect human rights, labour rights and the environment (Fortin, 2002). To be sure, some of the largest pension funds in the world have investment policies that incorporate social and environmental issues.

A slightly more in-depth look at the current investment theory and practices of some of the worlds largest public pension funds and union pension funds will

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[13] While a Bill to this effect was deposited (Bill C-394) to the House of Commons in Canada in 2001 by former Bloc Québecois Member of Parliament, Stéphane Tremblay, the Bill was never chosen to be addressed.

[14] Liberal translation

give insight into what and why some institutional investors are adopting SRI and MBI strategies.

2.1.3 The Pension Fund Example

Admittedly, pension funds have a different legal structure and asset size than foundations and endowments; however, these institutional investors share an affinity for specific types of capital market participation based on similar organisational mandates, structures and long-term investment horizons. While very little has been written on the subject of social investment by foundations and endowments, a small body of literature does look at the opportunities for pension funds to maximize long-term value for workers through active asset management (Drucker, 1996; Ghilarducci, 1992; Falconer, 1999; Hebb and Mackenzie, 2001; Canadian Labour and Business Centre, 2001). Pension fund management literature and certain current practices serve to provide insights into the opportunities and obstacles for mission-based investing that could be applied to the fund management of foundations and endowments.

Like foundations and endowments, pension funds invest in capital markets to generate income for their specific social mission, which is to provide income to retired workers. Numerous authors have argued that capital markets, in general, work against the interests of workers (Baker *et al*., 2001) and that a view to optimise short term earnings performance might engender collateral damage (e.g. job losses) which could then affect the institutional investor's future capacity to obtain optimal earnings performance. The inverse is also recognized: that pension fund investments in capital markets may generate collateral benefits that are ancillary to the primary aim of obtaining optimal earnings performance. Collateral benefits can include economic growth, jobs and/or local development, among other social goods. Recognizing that capital markets are not neutral on issues of local development, jobs and other social goods, pension funds can decide to be more strategic about the obtainment of these collateral benefits. In other words, while continuing to treat earnings as the first and over-riding priority, these institutional

players can still have a calculated intention to generate specific secondary effects from investment[15] (Falconer, 1999, p. 5).

SRI strategies such as community development investment and shareholder engagement can be used to achieve these secondary effects all while prioritizing earnings. In the U.S., large public pension funds have long recognized the financial potential of private equity and now allocate on average 5 percent of total assets to private placements (a form of community development investment) which they also believe to leverage social value (Calabrese, 2001). In addition, a number of large pension funds target underperforming firms for shareholder engagement with the overarching purpose of improving economic performance at the target company. A large vote on a proxy proposal seems to be a very effective way to at once validate shareholder's social and financial concerns.

Shareholder activism on the part of pension funds in the U.S. began in the 1980s when public sector and Taft-Hartley funds first led anti-takeover resolutions. Public pension funds and labour pension funds have continued to engage with companies in their investment portfolios on issues of takeovers, and have also engaged on issues of corporate governance such as director elections, executive powers and compensation, control deals, reorganising and various social concerns (Falconer, 1999, p.20).

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[15] James Hawley and Andrew Williams (2001) take the pursuit of collateral benefits a step further in a theory they elaborate in *The Rise of Fiduciary Capitalism: How Institutional Investors Can Make Corporate America More Democratic*. They describe pension funds as "universal owners" given that they invest in all the major corporations across the stock market (through indexed funds or individual stock holdings) and effectively own the entire economy. The authors argue that the portfolios of these funds are directly injured by antisocial corporate behaviour, and that they will pay the costs of any specific company's negative externalities (e.g. pollution or abusive operating methods) even if it yields profit to that particular company. In effect, these "universal owners" play a quasi-public policy position by having an economic interest in the long-term health and well being of the whole society. Hawley and Williams maintain that it is in the long-term financial interest of these funds to consider the health of the environment, quality of life, education of children and safety of workers as part of the investing process.

One of the largest and most successful pension funds in the world (with assets totalling over $140 billion), the California Public Employees Retirement System (CalPERS), is very active promoting changes in corporate boardroom and workplace practices (Hebb and Mackenzie, 2001; Falconer, 1999). CalPERS considers aspects of labour relations in its investment analysis and justifies its concern over workplace issues as a means to measure a company's long-term economic performance. CalPERS looks at the availability of employee training programs and the degree of responsibility given to lower-level workers; it avoids investing in construction projects that do not meet specific labour standards, and has criticized companies that lay off workers to raise short term stock prices (O'Connor, 2001, p.91). For emerging market investments, CalPERS also considers things like ratification of core conventions of the International Labour Organization (ILO); comparison of national legislation to ILO standards; institutional capacity for enforcement; and effectiveness of implementation[16] (CalPERS website).

There are some pension funds in Canada that have also strategically broached the pursuit of collateral benefits. The Ontario Municipal Employees Retirement System (OMERS), for example, is one of the first large Canadian pension plans to explicitly publish policies on SRI[17]. OMERS does not use social screens to select or reject investments, but they do encourage good corporate performance through shareholder engagement and they do invest in venture financing. "As part of our due diligence in researching investments and monitoring performance, we take non-financial factors into consideration in terms of their potential impact on future returns," says the document, and it continues, "[o]ur focus is to encourage the adoption of high standards of behaviour as a means to maximize long-term shareholder value" (OMERS, Investment Practices, p.10).

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[16] A full report of labour practices in 27 emerging markets commissioned by CalPERS to assist them in determining which emerging markets are able to support institutional investment is available at http://www.calpers.ca.gov/invest/emergingmkt/verite.pdf.

[17] It was unveiled in January 2002

Without giving exhaustive examples, it is nonetheless clear that some well respected pension funds accept that investing in capital markets without managing the collateral damage of these investments can undermine their social purpose, and that by using different strategies of social investment or mission-based investment, they can actively pursue collateral benefits and minimise collateral damage all while prioritizing financial returns.

2.1.4 Conclusion

The history and evolution of the SRI and MBI movements have allowed us to ascertain that faith-based motives, social justice issue as well as environmental concerns have been powerful forces behind the growing numbers aligning their values, or missions, with their investments. The increasing demand for SRI financial products has led to the development of a widening variety of socially responsible mutual funds, social indices, independent evaluators, other industry related services and even changes in relevant legislation. Literature on other institutional investors such as public pension funds and labour pension funds looks into the use of SRI or MBI as a way to generate collateral benefits from investment, thereby reinforcing their pursuit of value for working people. These developments show that it is possible to at once pursue financial and social returns. That other important players are engaged in MBI gives the practice some legitimacy; it provides identification groups and information sources that could reinforce and facilitate a decision on the part of foundations and endowments to align their investments with their missions. Now that we have an idea of the contours of the surrounding landscape, we can focus more specifically on the current state, or market penetration of MBI practices among foundations and endowments.

2.2 Current State of MBI Among Foundations and Endowments

Despite the fairly long history of mission-based investing and the recent growth in SRI in general, foundations and endowments have not widely embraced the concept of MBI. According to the U.S. Council on Foundations' *1999*

Foundation Management Report approximately 16 percent of foundations require their investment managers to apply social and ethical criteria when choosing which stocks to buy (Whelan, 2002). The practice does, however, appear to be on the rise. The 16% evidenced in 1999 was up from the 1996 survey which found that approximately one in ten foundations invested at least part of its portfolio with specific socially responsible guidelines (Dowie, 1998). Table 3 below shows the percentage of U.S. grantmakers that use social investment screens within different asset size groupings.

Table 3: Percentage of Grantmakers That Use Social-Investment Screens

Assets	Percent
Under $5,000,000 in assets	24.0%
$5,000,000-$9,999,999	16.9%
$10,000,000-$24,999,999	17.0%
$25,000,000-$49,999,999	9.3%
$50,000,000-$99,999,999	15.6%
$100,000,000-$249,999,999	14.0%
$250,000,000-$499,999,999	4.7%
$500,000,000 or more	18.4%
All	**16.0%**

Source: Council on Foundations in *The Chronicle of Philanthropy*, February 21, 2002

It is interesting to note from this Table that in the U.S., small grantmakers were almost twice as likely (1.7%) as foundations with more than $100 million in assets to use social investment screens. With a total of 16% of US foundations applying social criteria to portfolio selection, screening stands out as the most widely observed MBI strategy.

There is some literature on the prevalence of Program-Related Investing (PRI) in the U.S. Two studies in particular appear to estimate very different occurrence levels that are attributable the different sampling. A study by the Ford Foundation in 1989 (Marble, 1989), found 38 of the 50 private foundations

interviewed (76%) had made one or more PRI[18], while a 1997 study, looking at the entire foundation population, conducted by the U.S. Foundation Centre found that approximately .006 percent of foundations (240 of 40,000) are active PRI providers, this was up from their 1993-1995 study results that documented approximately half that amount (126) of foundations engaged in PRIs (Dowie, 1998 p.7). Program-related investments were undertaken by foundations of all sizes, from the small foundations with assets of $3 million to the largest with assets in excess of $5 billion. Investments made ranged in size from loans of a few thousand dollars to investments of $10 million or more (Marble, 1989).

A number of American university endowments engage in some forms of mission-based investing. Harvard, Johns Hopkins, Northwestern and Tufts Universities, for example, avoid investing in companies that manufacture tobacco products (Mercer, 1996). In the 1980's, a number of both American and Canadian universities divested from South Africa as a form of pressure against the apartheid regime. But, given the inherent difficulty in defining a list of unacceptable investments that would be satisfactory to every constituency, and because divestment is not always attainable or desirable, many universities turn to shareholder activism. Over 50 colleges and universities in the States subscribe to Investor Responsibility Research Center's (IRRC)[19] services, and a number of universities have set up advisory committees (composed of professors, students, alumni and board members) to look into MBI issues. The Advisory Committees at Harvard (as of 1973), Yale (as of 1972), Stanford and Williams Universities, for example, review shareholder resolutions that pertain to the companies held in their portfolios, and the Advisory Committees at Harvard and Stanford recently

[18] Some foundations consider loans from their annual giving budget as PRIs, while others report such loans as "recoverable grants" (grants that function as interest-free loans) making the distinction that a "real" PRI is made from the principal. Others report all collateralized loans as PRIs and consider unsecured loans recoverable grants. Still other call interest-free loans recoverable loans and loans that charge interest PRIs.

[19] IRRC is a US organisation that provides impartial research, software products and consulting services on corporate governance and social responsibility issues affecting investors and corporations.

recommended that their universities encourage sustainable development by investing in best-of-sector petroleum companies that are investing significantly in renewable energies (Mercer, 1996). The University of Montreal is the only university in Canada that has publicly announced that it intends to adopt a socially responsible investment policy for both its endowment fund and its pension fund, the combination of which total $1.8 billion in assets (Baril, 2002).

Very little data is available on MBI in Europe. An empirical study on the prevalence and perceptions of MBI among foundations in France, conducted in the Spring of 2002 (Plant, 2002), revealed that the most important foundation in the country, the Foundation de France[20], has investments in some ethical funds, but this was purely by chance; MBI had never been discussed[21]. Of the "Public Interest" (*Utilité publique*) foundations contacted, 87.5% (7 of 8) do not apply non-financial, mission-based criteria to their investment decisions. Some foundations had begun to reflect on MBI and seem interested, but there were others that found the idea "bidon" (bogus or phoney). The asset mix of these foundations was heavily weighted in fixed income, which naturally puts constraints on the use of a shareholder engagement strategy. For the one Foundation that had consciously and meticulously integrated its mission into its investment behaviour by using exclusionary screens, it did so despite warnings from the asset manager that the income is not necessarily, but may be inferior as a result of these mission-based screens. The study determined the financial and legal barriers, or the "statutory obligation to perpetuate the capital", as the most notable perceived obstacle to MBI. The relative newness of foundation culture in France was esteemed to have an influence on investment behaviour (Plant, 2002).

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[20] The Foundation de France is a form of community foundation that houses 364 foundations and has endowed assets valued at approximately 400 million euros.

[21] It has since been announced that the Fondation de France intends to invest 5% of it's assets in a socially responsible way. This change of strategy has been attributed to the fact that the question was raised by the Plant, 2002 study.

A number of Swedish foundations have adopted certain forms of MBI. The Swedish government's environmental research foundation, MISTRA, and the Swedish foundation for Strategic Research recently decided that a certain percentage of their portfolios of US and European shares would be chosen on positive environmental and ethical criteria. Vardalstiftelsen, a foundation for health care research, and Seventh AP Fund, which manages part of the Swedish pension system, have sold holdings in a number of international companies whose behaviour they judged to be unethical (Baue, 2002; White, 2002).

The growth of MBI has not been exceptionally documented anywhere. What is known in Canada is that some foundations, like the Atkinson Foundation, TIDES Canada, and the Endswell Foundation, have embraced MBI and integrate screening and shareholder advocacy strategies into their investment decision making, while "others have begun to educate themselves and are exploring opportunities in this area" (Jantzi, 2001, p.6).

To be sure, very little empirical data on mission-based investing practices among Foundations and Endowments exists. From the literature available, the following is apparent: screening seems to be the most widespread practice (with tobacco being the most renowned exclusion); PRIs are evidenced, but far less prevalent; and, a growing number of university endowments and some foundations are becoming engaged shareholders. While socially responsible investing has been gaining in prevalence and legitimacy and foundations and endowments seem like probable candidates for this approach to investing, the pervasiveness of this practice in Quebec is unknown. Furthermore, the reasoning behind the integration of MBI strategies by foundations and endowments remains misunderstood. What stands in the way of a widespread adoption of MBI practices?

2.3 Barriers to MBI

Given the lack of pervasiveness of MBI, barriers to its implementation must exist. Stephen Viederman (1994;1998a - d), the former president of the Jessie Smith Noyes Foundation and the person who coined the term mission-based investing, posits three major inhibiting factors to the adoption of MBI strategies on the part of foundations and endowments: the psychological/cultural divide, financial concerns, and legal concerns. This next section will address each of these three, one by one.

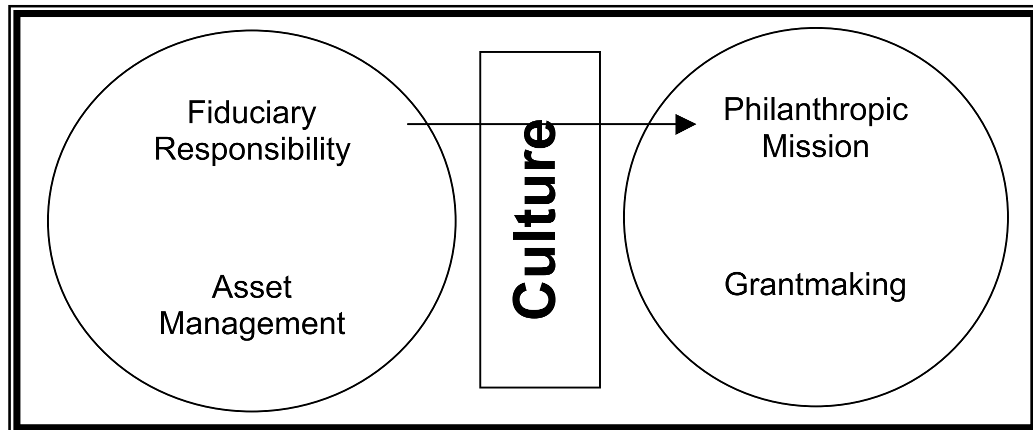
2.3.1 The Psychological/Cultural Divide

Historically, those managing the investment portfolio of many foundations have operated in relative isolation, separate from individuals managing the philanthropic investments of those same institutions (Tasch *et al*., 1995; Veiderman, 1998a-d). Most foundations do not invest their assets with the intent of creating social value and most do not view their grantmaking as part of a larger capital market process:

> "It's hard for a board to make sure that its investments are aligned with its mission," two foundation officials observed in the Chronicle of Philanthropy in October 1995. "The cultural barriers between the people who make the financial decisions and those who run the programs are usually impenetrable. Most people who run foundation grants programs have little interest or experience in investing and do not know the language of finance" (Dowie, 1998, pp. 2-3)

Figure 1 illustrates this cultural divide. In traditional foundation culture fiduciary responsibility dictates that assets be managed as a passive income generating pool of securities with the only connection to grantmaking being the generation of donatable resources, cash.

Figure 1: The Old Paradigm for Investing and Spending



Source: Stephen Viederman & Edward Tasch, "Dissonance, Responsibility and Corporate Culture," *Jesse Smith Noyes Foundation 1994 Annual Report* (New York, 1995)

The cultural divide between those generating the income and those spending it, may be grounded in the legal obligations of trustees. Understanding this cultural divide thus involves a closer look at the legal obligations of asset managers. Interpretations of the legal obligations of trustees have also been cited by Viederman (1998a-d) as obstructing the adoption of MBI by foundations and endowments.

2.3.2 Legal Questions

To be sure, trustee investment decisions are limited to those permitted by the law. How an organisation is legally structured and/or defined, as well as where it is geographically located, have implications for the investment of its assets. Clearly, trustee investment decisions are limited to those permitted by the law of the region. In a comprehensive review of the historical and current law, Solomon and Coe (1997) conclude that US fiduciaries of not-for-profit organisations are permitted to consider non-financial criteria when making investment decisions. The authors state,

> Fiduciaries of nonprofit entities may undertake social investing without violating their legal duty of care. They may consider social implications of their investment decisions, whether they are bound by the prudent investor rule or the business care rule. Under prudent

> investor rule, a consideration of social factors is limited to their probable or potential effect on the financial health of the investment portfolio….Under the business care rule, social considerations are relevant to the extent that they affect the overall purposes and goals of the entity as well as the financial health (Solomon & Coe, 1997, p.117).

Canadian law has not addressed the consideration of non-financial criteria in the investment decisions of not-for-profit institutions. Basic principles are espoused, but interpretations with respect to virtually every point are unsettled (Yaron, 2001). All the same, there is nothing in provincial trustee statutes that prevents trustees from considering social criteria, and the legislation does not expressly restrict trustees from applying non-financial criteria at the expense of financial returns (Yaron, 2001).

While social criteria in general are not prevented, provincial laws in Canada do limit the extent to which foundations and endowments in different provinces can engage in MBI. The provincial laws in Alberta, British Columbia[22] and Newfoundland restrict investment to a legal list of fixed income securities and a limited range of equities. The other provinces and territories use the prudent person standard for investing, but articulations of the principles of prudence for trustees vary nonetheless (Yaron, 2001). The Quebec Civil Code (Art. 1304, 1306, 1309, 1310) stipulates the prudence requirements of administrators and includes (Article 1339) a list of investments that are presumed sound. The fiduciary must act with honesty and loyalty in the best interest of the beneficiary or of the pursued ends (Art. 1309(1)). MBI can be practised within this legal structure (Yaron, 2001; Cloutier, 2001)[23].

Despite the legal permissibility of MBI, trustees have traditionally chosen conservatively when investing funds, usually focusing on three factors when

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[22] The Alberta Law Reform Institute and the British Columbia Legal Institute have recommended changes to this legislation in their respective provinces.

[23] For more details on legal opinions on SRI or MBI, see SHARE publications www.share.ca

making investment decisions: keeping the principal safe; generating the highest possible rate of return; and offsetting the effects of inflation through capital appreciation (Jantzi, 2001). Non-financial criteria and possible externalities of investments, positive or negative, are not part of the investment decision-making process.

While foundation and endowment trustees have largely chosen this aforementioned interpretation of different laws which results in their rejection MBI as a viable investment strategy, it has been argued that foundations could actually be considered legally obligated to engage in MBI. This interpretation argues that because of the specialized nature of their missions, and the obligations imposed by their charitable status, non-profit foundations and charitable trusts must be exceptionally vigilant with regards to remaining obedient to their mission. These institutions fulfil a unique purpose, enjoy a privileged tax status, and thus, may be held to different standards of care than other institutional investors. In “On Being True to Your Mission: Social Investments for Endowments,” W.B. McKeown (1997), an attorney specializing in tax exempt organizations in the U.S., concluded:

> [T]his duty may actually **require** directors of charitable corporations, when making investment decisions, to consider whether the decision in question would further, or at the least, not hinder, the fulfillment of those charitable purposes. [Emphasis added]

The *Restatement of the Law Third, Trusts, section 227,* the U.S. federal law that governs private trusts, states that the trustee’s ultimate “duty to beneficiaries [is] to invest and manage the funds of the trust as a prudent investor would, in light of the purposes, terms, distribution requirements, and other circumstances of the trust” (Dowie, 1998, p.4). While most trustees still see their unique responsibility as the maximisation of financial returns, McKeown argues that the prudent investor standard actually encourages fiduciaries to engage in investment strategies that further a foundation’s program mission. Where the prudent investor standard is the law, a legal interpretation will be for or against MBI depending on the interpretation of the meaning of prudence.

While MBI can be practiced in Quebec, the interpretation of prudence may vary. Legal concern thus may well be considered an obstacle to MBI in Quebec. The legality of the practice of MBI is intimately connected to the affects of MBI management on financial returns. This brings us to the third and final hypothesis as to potential barriers to MBI: financial concerns.

2.3.3 Financial Concerns

We have seen that fiduciary responsibility is only an issue of concern if the financial risks of MBI are real. The trustees of a Canadian foundation or endowment fund must be comfortable with the risk profile of their portfolio, because, while they are not expected to be expert investment managers, and while their specific fiduciary duties vary from province to province, in all Canadian jurisdictions they are expected to act prudently, as a cautious persons with investment expertise would. Many voluntary sector institutions are concerned with the possible financial impacts of incorporating social and environmental parameters into their investment decision-making process (Viederman, 1994,1998a-d; Tasch *et al.*, 1995; Jantzi, 2001; Kinder, 2002). A poor investment decision could result in the loss of capital and a decrease in the money available to support important programs or grantmaking activities. Understanding the true financial risks of MBI is critical to understanding perceptions and barriers to MBI[24]. This next subsection will look at the growing body of evidence that the integration of social and environmental concerns into investment decisions has no proven

[24] In a response to a demand from institutional investors for education and hands on experimentation, the U.S. Capital Missions Company set up what they call a Triple Bottom Line Simulation, a program that creates portfolios of socially responsible investments and tracks how they would actually perform in the real market (Baue, March 2002). The more than 40 US institutional investors participating have created five separate SRI portfolios according to investor type: religious institutions, foundations and endowments, not-for-profit institutions, wealthy family officers and shareholder activists. Treasurers simulated the investment of $100 million across all asset classes using exclusively social investments. To date, in its 5th quarter, four of the five simulations are outperforming their financial benchmarks. It will be interesting to see at what point, if at all, institutions following the simulation apply MBI strategies to their real portfolios.

adverse financial implications, but arguable, no proven beneficial implications either.

Judging by the amount of research devoted to it as well as the variety of academic disciplines including: accounting, business ethics, economics, finance and management, that have studied it, the most controversial issue surrounding SRI is its financial performance (Pava *et al*., 1996; Hutton *et al*., 1998). Despite the plethora of empirical studies looking into the nature of the relationship between financial performance and social performance of companies, the true relationship remains equivocal.

The majority of the empirical studies that have examined the financial performance of SRI can be grouped into two main categories: the first concerns studies that examine the relationship between an individual company's financial performance and their social behaviour, and the second concerns studies that have focused on the financial performance of socially responsible mutual funds (SRMF). All of these studies tend to address financial concerns regarding the use of investment screens. Empirical studies have also been done on the financial implications of shareholder engagement. In the proceeding sections, the results of these studies will be reviewed and a brief cost/benefit analysis of PRI's will be presented.

Corporate Social Responsibility and Financial Performance

Although numerous researchers have studied the relationship between corporate social performance (CSP) and corporate financial performance, no definitive consensus exists. The results are frequently contradictory, even within a given analysis. Griffin and Mahon (1997) classified the last twenty-five years of empirical studies on the subject. They cite eleven (11) studies that identify there being only a negative relationship; five (5) that identify an inconclusive relationship; eleven (11) that unearthed contradictory results on the relationship, and; twenty-two (22) that identified a positive relationship. Additionally, Griffin and Mahon

qualify that the majority of negative relationships were found by researchers investigating the impact on the stock market of potential corporate illegalities (e.g., antitrust suits) or product problems such as automotive and drug recalls. The existence of either clearly skews the research when exploring the relationship between corporate social responsibility and corporate financial performance.

The reviews of empirical research conducted by Ullmann (1985) and Pava and Krausz (1996) also reveal that a majority of studies found a positive relationship between a company's social performance and financial performance; however, their respective conclusions diverge somewhat. Ullmann (1985) looked at thirteen (13) studies and determined that eight (8) among them found there to be a positive relationship, one (1) found there to be a negative relationship, and four (4) found no relationship. Pava and Krausz (1996) examined twenty-one (21) studies on the relationship between social responsibility and financial performance of companies and found that twelve (12) reported a positive relationship, one (1) found there to be a negative relationship, and eight (8) found no relationship:

Table 4: Summary of 21 empirical studies on CSR and traditional financial performance

Direction of the relationship	Results of studies examined by Ullman (1985)		Results of studies examined by Pava and Krausz (1996)	
	Percent	No. Studies	Percent	No. Studies
Positive association	61.5	8	57.2	12
Negative association	7.6	1	4.8	1
No association	30.8	4	38.1	8
Total	100%	13	100%	21

Source: Pava, Moses L. and Joshua Krausz, 1996. "The Association Between Corporate Social-Responsibility and Financial Performance: The Paradox of Social Cost", Journal of Business Ethics, vol. 15, p.324.

While the results are not dissimilar, Ullmann (1985) concludes that there is no consensus as to the nature of the relationship because the results were too disparate; meanwhile, while Pava and Krausz (1996) conclude that there is indeed a clear tendency that emerges from the results. They assert that socially

responsible firms perform no worse, and perhaps perform better, than non-socially responsible firms.

The conflicting findings are attributed to both theoretical and methodological issues. The studies approach the subject with different theoretical foundations; measures of corporate social performance; measures of financial performance; research methods; sample sizes and composition; and, dependent and independent variables (Griffin *et al*., 1997; McGuire *et al*., 1988; Pava *et al*., 1996; Ullman, 1985; Laprun, 2000).

Socially Screened Funds and Financial Performance

The financial performance of socially screened mutual funds has not received as much academic attention as the relationship between CSR and financial performance, but research conducted by private firms offer some thoughtful insight into the association.

Prior to examining the findings of different studies, it is important to place social screening within context. There is no question that social screening is incompatible with modern portfolio theory, which posits that utility-maximising investors must hold some combination of the market portfolio of all risky assets and risk-free assets. By imposing constraints on security holdings, social screens restrict the feasible investment options and could result in dominated portfolios which exhibit lower return for a given level of risk, or higher risk for the same return level (Grieb et al., 1998; Ullman, 1985). The conventional wisdom might be different if social criteria effectively screened out the worst financially performing stocks. The results of studies comparing social indices to the leading indices, and studies comparing SRMF and conventional MF performance, challenge conventional wisdom.

Studies of the Domini Social Index's returns since inception have found that after adjusting for market risk, style, and industry, there is still some unexplained

outperformance (Luck, 1993-99) which could be attributed to social screening. As of June 30, 2001, the DSI has recorded an annualized return of 16.3 per cent over a 10-year period, compared with 15.1 per cent for the S&P 500. On a five-year basis, the DSI has recorded an annualized return of 15.6 per cent, compared with 14.5 per cent for the S&P 500 (SIO web site). Luck (1993-99) raises the possibility that this performance advantage is a result of the social screens. Nevertheless, while Dibartolomeo (1999) agrees that style effects are generally a wash and that industry effects are important, he does not agree that there might be a SRI effect at work. His model finds no unexplained performance. Other studies have simply found that social screens have no detrimental impact or are statistically indistinguishable from those of unscreened funds (Hamilton et al.,1993; Guerard, 1996).

In Canada, the Jantzi Social Index was only launched in February 2000 and, therefore, does not have the long-term track record needed for comparison. However, using historical data, the index was backdated to determine if it was able to outperform indices of conventional Canadian stocks. This data shows that the value of the JSI 60 would have increased by 18.9 per cent during the last five years, while the TSE 100 grew by 18.1 per cent and the TSE 300 rose by 17.4 per cent[25]. Asmundson and Foerster (2001) of the Ivey School of Business at the University of Western Ontario looked at the financial returns of socially-screened mutual funds invested in Canadian equities with five- and 10-year performance histories. This performance was then compared with returns from the appropriate benchmark, the Toronto Stock Exchange 300 index. The analysis included mean excess returns (fund returns versus the benchmark) as well as two measures of risk-adjusted returns (Sharpe ratio and Jensen's alpha). They found that the fund returns underperformed the benchmark but that this underperformance was not statistically significant. Moreover, the funds slightly outperformed in terms of the Jensen's alpha and were almost identical to the benchmark in terms of the Sharpe ratio.

[25] See SIO web site: http://www.socialinvestment.ca/

Other evaluations of SRMF have changed over time. In 1997 Morningstar[26] did not give a 5-star rating to a single SRI fund. More recent results of SRI fund performance, illustrated in the table below, have muddied the waters of what seemed a clear-cut conclusion that SRMF might be better for the soul than for the bottom line (Hall, 1999).

Table 5: Morningstar Ratings of U.S. SRMF vs. the U.S. Universe of MF

	1999		2000	
	5* rating	**4-5* category rating**	**5* rating**	**4-5* category rating**
SRMF	21%	50%	13%	21%
MF universe	10%	N/A	10%	21%

Source: Hall, 1999; Hickey, 2000

Table 5 shows the Morningstar ratings of US socially responsible mutual funds to the US universe of mutual funds. We see that in 1999, 21% of the U.S. SRMF examined by Morningstar got a 5 star rating for their three-year record, a rate that is over twice that of the overall fund universe. Moreover, only 19% of the SRMF got 2-star or 1-star ratings, while a third of the overall fund universe rates that low (Hall, 1999). When compared to their specific Morningstar categories[27],

[26] Morningstar is an independent company that provides mutual fund, stock, and variable-annuity investment information. Their Risk-Adjusted Rating, better-known as the star rating, is a measure by which many funds are judged. It's based on the fund's performance. To determine a fund's star rating for a given period (three, five, or 10 years), the fund's Morningstar risk score is subtracted from its Morningstar return score. The resulting number is plotted along a bell curve to determine the fund's rating for each time period: If the fund scores in the top 10% of its broad investment class (domestic stock, international stock, taxable bond, or municipal bond), it receives five stars (highest); if it falls in the next 22.5%, it receives four stars (above average); a place in the middle 35% earns it three stars (average); those in the next 22.5% receive two stars (below average); and the bottom 10% get one star (lowest). The star ratings are recalculated monthly (Morningstar website, 2001).

[27] Like the star rating, the Morningstar Category Rating is a quantitative measure of risk-adjusted returns. This three-year rating shows how well a fund has balanced risk and return relative to other funds in the same Morningstar category. The rating uses the same methodology as the star rating. Unlike the star rating, however, the category rating does

one quarter of the SRMF achieve the rating of 5, and half rated 4 or 5 and a total of 19 SRMF outperformed their category peers over the trailing five years while 16 underperformed (Hall, 1999).

The ratings for 2000 remained superior to the overall fund universe, but were less glowing then they were in 1999. The percentage of SRMF with 5-star ratings went from 21% in 1999 to 13% in 2000, a rate that nonetheless surpassed the 10% of the broader universe of funds that were given the 5-star rating (Hickey, 2000). For the category ratings, the SRMF were also down from 50% in the 4 and 5 rating range in 1999 to 21% in 2000, the 21% is, however, in line with the typical distribution for the broader universe of funds (Hickey, 2000).

The cause of such outperformance is a matter of some academic debate. Some researchers believe that this outperformance is due to investment factors, such as sectors, industries, capitalization or other factors (Hickey, 2000). Others believe that there is a social premium, that socially responsible screening leads to higher returns because of social and environmental factors, such as far-sighted management, higher productivity, lower legal and social liabilities and market opportunities (M'Zali *et al*., 1997; Luck, 1993-99; Bragdon *et al*., 1972; Chen *et al*., 1980). Clearly, isolating the social factor to test for its effects on financial returns is difficult and thus interpretations of financial effects of screened portfolios remain somewhat ambiguous even if the correlation between social screens and financial performance are, for the most part, positive.

Thus, it seems that limiting the universe of funds by social screening does not necessitate accepting lower returns, and, in actuality tends to show similar or

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not reflect any front- or back-end loads. Other expenses, such as 12b-1 fees, are included. As with the star rating, five is the best rating and one is the worst.

better financial performance overall. Nonetheless, there is no definitive consensus as to the causal relationship between social screens and financial performance. The next step, then, is to look at the literature on the relationship between shareholder engagement and financial performance.

Shareholder Engagement Costs and Impact

The empirical work investigating the linkage between corporate governance and corporate financial performance is also equivocal. Karpoff (1998) surveys 20 recent empirical studies that attempt to measure the effects of shareholder activism on target firms' values, operations, and governance structures and finds contradictory results. He concludes that disagreement among researchers is more apparent than real, arising not so much from widely different empirical findings, but rather, from differences in the events considered and the ways authors choose to characterize activist efforts' "success."

Karpoff (1998) determines that, overall, there is no evidence that news about shareholder proposals has a positive short-horizon effect on share values, but that, unlike announcements of shareholder proposals, announcements of negotiated settlements or non-proposal pressure may be associated with positive share value changes. His survey results also show that shareholder activism does not appear to be associated with subsequent changes in earnings, capital expenditures or earnings payout.

Study findings on long-term returns are more contradictory. While some studies looking at the long-term returns following shareholder proposals or non-proposal targeting announcements (Nesbitt, 1994; Opler and Sokobin, 1997; Smith,1996) report positive long-term stock returns, others (Del Guercio and Hawkins, 1998; Martin *et al.*, 1996; Wahal, 1996) find statistically insignificant long-term returns. Hawley and Williams (2000, p.122) argue that either the measures are not directly related to performance or the relationship is overwhelmed by other

factors. They posit that pure governance reform works as a preventative measure, in which the effect really does not appear until the firm is threatened with the "disease" at a later date. These authors maintain that empirical study results imply that active ownership matters to performance, even if specific governance features do not[28]. Clearly, the size and sign of long-term returns following the initiation of activist shareholder pressure remain topics of genuine dispute in the empirical literature (Karpoff, 1998). Having established tendencies for positive correlations, but no definitive causal relationships, neither between social screening and financial performance, nor between shareholder engagement and financial returns, we now will look at the literature on the financial implications of the final MBI strategy, program-related investment.

Program-Related Investing Costs and Impact

The industry literature on the PRI tends to focus on the high social impact of the investment (Mitlo & Berge, 2000) rather than on the financial returns. The US Social Investment Forum, for example, explains,

> [i]nvestors do not need to direct a large portion of their individual portfolios to realize this impact….Diverting one percent of an investor's overall portfolio would have a minimal impact on the individual investor's overall returns, and the collective impact of a new influx of community investment dollars would make a powerful, lasting difference for those in disadvantaged communities (Mitlo & Berge, 2000, p. 4).

Given that the positive externalities of microfinance and the like will never be measured perfectly, these benefits are often presented anecdotally (Schreiner, 1999; Schreiner and Yaron, 1999). Subjective as they may be, the social value arguments can rest on empirical measurements and explicit assumptions, though they may not always (Schreiner, 1999). The full cost-benefits analysis of the multiple forms of community development investments is still imperfectly

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[28] An implication that has not been tested is the idea expressed by John Biggs, chairman and CEO of TIAA-CREF: "The significance [of shareholder activism] is not the three or four laggards you catch – it's that you get the herd to run. We need to scare all the animals" (CalPERS, 1995, p.14).

understood (Conning, 1999, p.75) and certainly goes beyond the scope of this study.

Another element to consider when assessing PRI value is the financial costs of PRIs to an institution. Costs include increased staff time and the expense of obtaining legal documents and tax opinions on making investments in fields in which the foundation lacks expertise (Marble, 1989; Dowie,1998). The Marble (1989) study found that more than half of foundations surveyed felt that most PRIs or recoverable grants do not require significantly more work than grants. It is interesting to note that foundations that plan to make several PRIs often make them out of assets, but create loss reserve funds from their grants budget. The Ford Foundation, for example, sets aside a loss reserve from grant funds equal to a minimum of 15 percent if each PRI. If losses occur, the assets are replenished from the reserve. Other foundations have charged PRI losses to the grants budget over a several year period (Marble, 1989 p.41).

Without a doubt, the financial performance argument for PRI is limited. The true financial value that might arise through improved economic conditions of poor communities is impossible to measure with any certainty, and the private financial returns are small, ranging from 0 to 4% when opportunity costs are not considered. While they arguably offer other value, PRIs have clearly not been proven to improve financial performance over other forms of investment. For the purposes of this study, we will assume that the greatest value of PRIs lies in the social impact which are not readily quantifiable.

Conclusion on MBI Financial Performance

Contrary to conventional wisdom, investing according to social and environmental screening does not necessarily lead to lower returns. While a large number of studies have shown a positive relationship between CSR and financial performance, academics and practitioners alike should be concerned with the variability and inconsistency in the results. The recent financial performance

evaluations of SRI indices and SRMF has been positive. Still, the financial performance cannot necessarily be attributed to the socially responsible nature of the fund, and like any investment, past performance is no guarantee of future results.

Empirical study findings on the relationship between shareholder engagement and financial performance are also equivocal, with some studies showing a positive correlation between engagement and long-term share value and others showing no statistically significant correlation. While no argument has been made for the financial benefits of PRI, as these investments tend to be valued for their social impact, the combined results for screening and engagement strategies seem to indicate that while MBI does not necessarily improve financial performance, it is also hard to argue that it has a negative effect on financial performance. This uncertainty may well have implications for the investment decisions of foundations and endowments. Financial concerns are thus a very plausible perceived barrier to MBI.

2.4 Conclusion and Research Questions

The recent and impressive growth of SRI has been motivated by preoccupations with generating income for the future in a way that does not compromise religious, social or environmental values. Given their same dual preoccupation with generating income for the future and supporting social causes, foundations and endowments would appear to be to be likely practitioners of mission-based investing. The cursory statistics that exist on the prevalence of MBI among foundations and endowments in North America reveal otherwise. Based on the minimally available data, there is nevertheless a general perception that such practices are more prevalent in the U.S. than they are in Canada. Indeed, while there remains a serious gap within investment literature relating to MBI globally, research specific to MBI within Quebec-based foundations and endowments is virtually non-existent. Three theoretical barriers to MBI among foundations and

endowments have been posited: (1) the psychological/cultural divide between the people responsible for investments and the people responsible for granting; (2) the perception that MBI is not legal; and (3) the perception that MBI would compromise financial performance. There is little empirical data validating these hypotheses. This study aims at responding to these identified gaps within investment literature related to MBI by looking to (A) document the current investment practices of foundations and endowments in Quebec, and (B) explore the perceptions of MBI by these same institutions and test the posited barriers to MBI. To attain these objectives, specific research questions have been formulated.

Research Questions

Given the two different objectives of the study, the research questions focus on two major themes. Theme A deals with mapping the current investment practices of foundations and endowments in Quebec while theme B deals with testing the hypotheses regarding perceived barriers to MBI.

Theme A: Mapping the Current Investment Practices of Foundations and Endowments in Quebec

The preceding review of the literature brought to light the fact that very few studies have examined the prevalence of MBI. Fewer still can offer descriptive characteristics of institutions engaging in MBI versus those that are not. Viederman (1998a-d) and others (Tasch *et al*., 1995) posit perceived barriers to MBI and yet the true penetration of the investment strategy is not fully documented or understood. Before asking why institutions are not more engaged in MBI, it is important to document what they are doing with their investments. Our first section of research will thus be devoted to such documentation.

By their very nature, all foundations and endowments have investments. Institutions will no doubt vary in such things as the number of asset managers they have, or in their choice of asset mix. A description of basic investment characteristics is important to the overall understanding of these institutions and

leads us to our first research question **(Q1): What are the current investment practices of foundations and endowments in Quebec?**

Mission-based investment practices have been observed and documented in the United States. U.S. foundations show rates of screening at 16% (Whelan, 2002); PRI at .006% (Dowie, 1998); and, while no percentage can be attributed to it, we saw that a number of universities and some foundations practice shareholder engagement (Mercer, 1996; Viederman, 1998). Given that SRI is much more prevalent in the U.S. than in Canada, and that there is no official documentation on the observed practices of MBI in Canada, it has been assumed that MBI is less prevalent in Canada than it is in the US. Lack of information on the instances of MBI in Canada and Quebec invites our second research question **(Q2): What evidences of MBI can be observed among foundations and endowments in Quebec?**

Foundations and endowments in Quebec, as elsewhere, come in many forms and sizes. Specific characteristics of institutions may be associated with, or even help explain, certain investment behaviour. The literature revealed that smaller U.S. foundations were more likely than larger ones to engage in MBI (Whelan, 2002). It would be interesting to know if any such tendencies could be observed in Quebec. Another aspect of foundations and endowments that is particular in Quebec, is the presence of both Anglophone and Francophone institutions. While predominantly Anglo-Saxon institutions characterise U.S. foundations and endowments that, as previously shown, are engaged in all three strategies of MBI to varying degrees, Plant's (2002) study on French foundations evidenced very little MBI activity. These affirmations lead us to our third, and fourth research question **(Q3): Does the size of the foundation, small, medium or large appear to be related to MBI? (Q4): Are differences in MBI practice observed along linguistic origins?**

Theme B: Testing the Hypothesis Regarding Perceived Barriers to MBI

The literature on the subject theoretically identifies three major and interconnected barriers to MBI among foundations and endowments. These perceived barriers include: (1) the psychological/cultural divide between the people responsible for investments and the people responsible for granting; (2) the perception that MBI is not legal; and (3) the perception that MBI would compromise financial performance. This section aims to empirically test these hypotheses regarding perceived barriers to MBI within capital-based charitable institutions in Quebec.

If the psychological/cultural divide between those who's mandate it is to generate money and those who's mandate it is to dispurse grants does indeed exist, it may well be a perceived barrier to MBI. It is thus relevant both to document the presence or absence of this divide and to test as to a difference on this divide between institutions that engage in MBI and institutions that do not. Our fifth and sixth research questions are thus, **(Q5): Does a psychological/cultural divide between those responsible for investments and those responsible for granting exist? (Q6): Does the relationship between those responsible for investments and those responsible for granting differ among institutions that engage in MBI and those that do not?**

Legal and financial concerns are assumed to pose barriers to MBI. Legal concerns are connected to financial concerns in that trustee prudence is generally interpreted as a narrow obligation of profit maximisation; an interpretation that neglects to account for positive or negative externalities associated with investment. Judging by the number of studies devoted to it, the literature has led us to understand that the most controversial issue surrounding SRI is the financial performance of the practice. To test for these barriers, we ask the following research questions **(Q7): Do foundations and endowments in Quebec have legal and financial concerns with the practice of MBI? (Q8): What do foundations and endowments in Quebec perceive to be the major barriers to the three MBI strategies?**

As previously underlined, the SRI movement is younger in Canada than it is in the U.S.. Laws on voting corporate stock in Canada have only recently opened the doors to greater shareholder activism in this country. The speculation that the perception of MBI may well change over time inspires our ninth, and final question **(Q9): Are perceptions of MBI different for those who have had greater exposure to the concept?**

The methodology used and the sampling involved in answering these seven research questions will be presented in the following chapter.

Chapter III: Research Methodology

The literature review reveals a growing trend in socially responsible investing and signs of interest in the adoption of such investment practices by institutional investors with charitable missions. It has been highlighted as paradoxical that,

> …the bifurcation between profit-maximization and social purpose is nowhere more pronounced than within foundations, where the iron curtain between endowment management and the grant-making program is virtually inviolable in the name of "making as much as possible so we will have more to give away" (Tasch and Veiderman, 1995, p.8)

Indeed, the few studies that have questioned foundations and endowments on MBI seem to show that the practice remains somewhat marginal. People in the voluntary sector and socially responsible investment (SRI) industries have posited a number of perceived obstacles to mission-based investment among foundations and endowments in North America. While some institutions might quite simply never have thought about the possibility of reinforcing their mission through their investment practices, others will have thought about it, and are hesitating nonetheless. To recapitulate, the hypotheses put forth regarding barriers to MBI are the psychological/cultural divide, the legality of MBI, and financial concerns related to the adoption of MBI. Again, although these are barriers that have been posited, little empirical data on their validity exists. In order to construct a profile of the existing investment practices and then test these hypotheses regarding the barriers to MBI, we have formulated the following research questions:

Theme A: Mapping the Current Investment Practices of Foundations and Endowments in Quebec

- (Q1): What are the current investment practices of foundations and endowments in Quebec?
- (Q2): What evidences of MBI can be observed among foundations and endowments in Quebec?

- (Q3): Are differences in MBI practice observed along linguistic origins?
- (Q4): Does the size of the foundation, small, medium or large appear to be related to MBI ?

Theme B: Testing the Hypothesis Regarding Perceived Barriers to MBI

- (Q5): Does a psychological/cultural divide between those responsible for investments and those responsible for granting exist?
- (Q6): Does the relationship between those responsible for investments and those responsible for granting differ among institutions that engage in MBI and those that do not?
- (Q7): Do foundations and endowments in Quebec have legal and financial concerns with the practice of MBI?
- (Q8): What do foundations and endowments in Quebec perceive to be the major barriers to the three MBI strategies?
- (Q9): Are perceptions of MBI different for those who have had greater exposure to the concept?

The methodology defended below was designed to best answer these nine research questions.

3.1 Research Method

Given the exploratory nature of the study, semi-directed interviews have been chosen as the most appropriate data collection method. The flexibility of the interview structure allows for the exploration of areas previously unidentified while the somewhat standardized nature of the semi-directed interview is required in order to effectively synthesize the results.

3.2 The Sample

The sample was restricted to Quebec-based institutions due, in part, to convenience: a cross-section of Anglophone and Francophone institutions of varying asset bases can be found with travel expenses restricted to the minimum; and, in part, to the desire to target a geographically distinct area where the legal

contexts are constant. The institutions targeted for the study were chosen in consultation with individuals in the sector and with reference to the 16th edition of the Canadian Directory to Foundations and Grants. Linguistic origin, granting issues (missions), and asset size were the criteria used to construct a sample that is representative of the foundation and endowment community in Quebec.

As of fairly recently, Quebec hosts relatively equal numbers of Anglophone and Francophone institutions[29] in all of the following categories: private foundations, public foundations, community foundations, hospital foundations, university endowments, and church or religious community endowments. This study targeted Anglophone and Francophone institutions[30] in each of these categories. A slight emphasis was put on private foundations and Anglophone foundations, given that they are the most prevalent. While the initially targeted sample was weighted 55% Anglophone and 45% Francophone, the actual sample, composed of institutions willing to participate in the study, was 64.3% Anglophone and 35.7% Francophone.

Attention was taken to construct a sample of institutions that reflected the granting practices, or the missions, of the overall Quebec foundation and endowment community. Table 6 reveals that the targeted sample is a decent reflection of the overall missions of granting institutions in Quebec, although, institutions granting to poverty, social services and community organisations; and, institutions granting to arts & culture are slightly underrepresented by our sample, while institutions granting to the environment are slightly overrepresented.

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[29] In 1992, the *Centre québécois de philanthropie* counted 300 such institutions in Quebec: 225 Anglophone and 75 Francophone. The statistics for 2001 count a total of 450 such institutions, where the majority of the 150 new institutions are Francophone (Centre Québécois de philanthropie, 2002).

[30] If the funds for a family foundation came from an Anglophone family, even if the staff were Francophone, the institution was classified as Anglophone.

Table 6: Charitable Organisation Financing by Issue
Comparative Statistics for Quebec (1999) and Study Sample (2002)

Issue	Percent of institutional granting in Québec	Percent of granting in sample (frequency)	Variation between total and sample
Poverty; social services and community organisations	32.6%	27.3% (6)	-5.3%
Health, hospitals and medical research	17.5	18.2 (4)	+0.7
Education (including science and technology)	16.9	18.2 (4)	+1.3
Arts and culture	15.1	9.1 (2)	-6.0
Religion	13.4	13.6 (3)	+0.2
Environment, ecology	2.0	9.1 (2)	+7.1
Sports and leisure	1.5	4.5 (1)	+3.0
International cooperation	1.0	0	-1.0
Total	100%	100% (22)[31]	

Source: Verret, André (March, 2001) "Domaines de financement des organismes de charité du Québec en 1999" *Fonds & fondations du Québec : Répertoire des sources de financement pour organismes de charité du Québec*, Centre québécois de philanthropie, p.xxii.

After narrowing down potential sample institutions by category and mission, a further triage was done for institutional size. This was done for two reasons: (1) representability, and (2) to test for variations in MBI behaviour according to asset size given that the Council on Foundations (2002) in the United States had found that small U.S. foundations [32] were almost twice as likely as large foundations[33] to screen their portfolios for any social or ethical consideration. Of the fifty richest foundations in Canada, ten are based in Quebec and three of these are Francophone (Centre québécois de philanthropie, 2002). Among 8 of these richest foundations that were approached, only 4 agreed to participate in the study, none of them are Francophone. The Francophone portion of the sample is thus

[31] A number of the 14 participating institutions have missions that cover more than one issue.

[32] In the U.S. foundations with assets of less than US$10 million are considered small.

underrepresented in the large institutions category. Table 7 categorizes the actual sample into small, medium and large institutions showing the numbers of Anglophone and Francophone institutions per category. There are numerous small Francophone institutions and few mid-sized Francophone institutions[34]; our sample reflects this distribution.

Table 7: Sample Institutions Categorized by Asset Size[35]

Asset Category	Linguistic Representation	Total assets of Institution (CAD)
Large-sized Institutions	0 Francophone 4 Anglophone	$792,200,000
		$543,000,000
		$130,000,000
		$125,000,000
Medium-sized Institutions	1 Francophone 4 Anglophone	$ 90,000,000
		$ 80,000,000
		$ 60,000,000
		$ 57,700,000
		$ 24,000,000
Small-sized Institutions	4 Francophone 1 Anglophone	$ 20,000,000
		$ 17,000,000
		$ 15,000,000
		$ 12,500,000
		$ 12,000,000
Total	5 Francophone 9 Anglophone Total: 14	$1,963,400,000

Of the 20 institutions that were solicited, fourteen foundations and foundation-like institutions accepted to participate in the research[36]. The total funds

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[33] Foundations with assets US$100 million or more.

[34] Of the three mid-sized Francophone institutions that were contacted, two did not have publicly available phone numbers. These two institutions did not contact the researcher after receipt of the letter requesting participation, and the researcher was unable to follow-up the request.

[35] The majority of private foundations in Canada have assets of less than $10,000,000 so our categories are in fact all among the richer institutions.

[36] In fact, 15 institutions agreed to participate. One institution was not included in the results and discussion because it is a non-profit, grant-giving organisation with foundation in its name, but that is not capital-based: its current capitalisation is to the tune of $940,000. It relies more on annual donations than on its capital base for it’s financing, and thus is not as pertinent to this study. For this institution, both the Executive Director and

of these fourteen institutions constitute the sample of the research and represent a combined asset value of nearly $2 billion. All but one of these institutions were based in the province of Quebec. The one institution that was based outside of Quebec had a national mandate that included Quebec and was thus considered part of the sample.

In an attempt to test for the posited psychological/cultural divide between asset management and grantmaking cultures both the Executive Directors (ED) and the Investment Committee Chairs (ICC) were targeted. The ED was considered as the representative of the grantmaking culture and the ICC was considered as representative of the culture of money management. Of the 14 institutions interviewed, 7 institutions were represented by both the Executive Director (or equivalent) and the ICC, and the remaining seven were represented by one or the other (4 EDs and 3 ICCs). Due to the fact that seven of the sample institutions were represented by two interviewees, the total number of interviews was twenty-one.

Part way through the study, based on occasional interviewee comments that revealed a lack of full understanding of the concept of MBI, as well as on the belief that US foundations and endowments were more involved in MBI partially as a result of greater exposure to the concept, it was decided that testing for differences based on previous exposure to the concept of MBI would also be worthwhile. Accordingly, three additional Ontario-centred foundations that have been exposed to the concept of MBI for a number of years were solicited for participation in the study. These three institutions are significant Toronto-based foundations that were considered to have additional insight into the barriers to MBI. Almost Sixty-seven percent of these institutions have social justice-oriented missions. The executive

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the Chair of the Investment Committee were interviewed. One hundred percent of assets are in fixed-income. Furthermore, one of the institutions interviewed recently pooled their asset management with another, but for the purposes of this study will be included as a separate institution. The data for this institution therefore corresponds to their situation prior to the changeover.

directors of two, as well as the sole Investment Committee member (also Chairman of the Board) of the third of these institutions, were interviewed on their perceptions of MBI. The combined sample total comes to twenty-four interviews, representing seventeen institutions: 14 Quebec-focused, and 3 Ontario-focused.

3.3 The Survey Process

An initial letter was mailed to an identified contact person at twenty institutions targeted as the sample. The letter explained the project with specific reference to the question of whether mission-based investment makes sense for foundation and endowment funds, and requested their participation in the study. Importantly, issues of confidentiality of the institutions participating in the study were addressed in this initial letter. Naturally, French letters were sent to the Francophone contact people, while English letters were sent to the Anglophone contact people. For the Ontario foundations, meetings were arranged by telephone and interviews took place in Toronto.

The letters were followed by a phone call at which point interviews were scheduled with willing institutions. The interviews were executed during the months of June through October 2002, and were conducted in the language of choice of the interviewee. Prior to these interviews, the questionnaire was tested and approved by experts in the field[37].

The interviews lasted between 25 minutes and 1.5 hours. All interviews were audio recorded with the permission of the interviewee. Two individuals preferred not to be recorded and detailed notes of these interviews were therefore taken by the researcher. All of the recorded interviews were later transcribed verbatim. The documentation requested from each institution under study included information on the organizational mission and granting; the investment policy; and,

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[37] Stephen Veiderman of Noyes Foundation in the U.S. and Charles Pascal of the Atkinson Foundation in Toronto.

the investment portfolio information. Much of the organisational mission and granting information was available on the institutions web site, where applicable. Table 8 presents the responses of the participating institutions to requests for investment related documentation.

Table 8: Investment Related Documentation Requested & Institution's Response

Documentation Requested	Institutions' Response
Investment Policy	14% did not have an official investment policy 14% read parts of Policy to researcher 71% provided a copy of Policy to researcher
Investment Portfolio	29% provided a copy of Portfolio to researcher

Total number of institutions = 14

While a couple of institutions (14%) did not have an investment policy per se; another fourteen percent agreed only to read parts of it to the researcher without providing a copy. The remaining institutions provided the researcher with a copy of the investment policy, however, only twenty-nine percent (4) of the sample institutions provided a copy of their investment portfolio to the researcher.

Each interview began with a brief introduction including a presentation of the interviewer, the research project and how the interview would proceed. Permission to record the interview was requested. It was made clear that the study follows the ethical codes set out for social science research and that respect for the confidentiality of the interview texts and other data were to be taken very seriously to avoid possible negative repercussions on participants and the organizations that they represent.

Before embarking on a series of questions related to the research, each respondent was asked to explain their function in the organization. At the end of each interview, before thanking the respondent, the respondents were asked if they would accept to be called for clarifications, if need be, during the transcription process. The interview guide was divided into 5 sections (see the questionnaire in Appendix 1). The first included general questions about the foundation or

endowment and its mission. Since previous research on these aspects of the institution had been done by the researcher when construction the sample, this was more of an occasion to show interest in the institution and develop some levels of confidence before embarking upon the more delicate issues of money. It is worth noting, nonetheless, that the sample selection and this section of the questionnaire were aimed at answering research questions (Q3): Are differences in MBI practice observed along linguistic origins? And, (Q4): Does the size of the foundation, small, medium or large appear to be related to MBI ?

The second section, looking at the granting practices of the institution, included questions on granting guidelines and decision-making as well as the percentage of the total assets that are given out in grants each year. In an attempt to get a better understanding of the investment decision-making process, the third section included questions on the structure and composition of the Investment Committee as well as the interaction between this committee and the Board of Directors of the institution. These two sections intended to (1) insure that the interviewee make a connection between mission/granting and investment, and (2) test for the psychological/cultural divide between ICCs and EDs (proxies for money generators and money distributors). These sections thus addressed research question (Q5): Does a psychological/cultural divide between those responsible for investments and those responsible for granting exist?

Section four looked at the investment policy: who determined the policy, the asset mix of the portfolio, the number of money managers, whether the investments are pooled or in separate accounts, if there are proxy voting guidelines, who votes the proxies, whether there are non-financial criteria considered in the investment decision and whether MBI has ever been discussed. Clearly, this section was constructed to establish a profile of the current investment practices among foundations and endowments in Quebec, including any evidences of MBI. This section sought answers to research questions (Q1): What are the current investment practices of foundations and endowments in Quebec? (Q2):

What evidences of MBI can be observed among foundations and endowments in Quebec? And, (Q6): Does the relationship between those responsible for investments and those responsible for granting differ among institutions that engage in MBI and those that do not?

Having acquired information on the current MBI activities of the institution, it was then appropriate to addressed the perceived barriers to the different MBI strategies. The final section of the questionnaire thus posed open ended questions on what interviewees see as inhibiting factors to the adoption of MBI. As previously mentioned, testing for the psychological/cultural divide between asset management and grantmaking cultures was done predominantly in the earlier sections of the questionnaire. To test for legal barriers and concerns regarding the effect of MBI on financial returns as well as any other barriers that might exist, open-ended questions were asked about what these individuals perceived to be the barriers to the three strategies of MBI. These three strategies, screening, engagement and PRIs, were presented with some examples of implementation before this question was asked. Evidently, this final section sought to answer research questions (Q7): Do foundations and endowments in Quebec have legal and financial concerns with the practice of MBI? And, (Q8): What do foundations and endowments in Quebec perceive to be the major barriers to the three MBI strategies?

Questions addressed to the additional three Ontario-centred foundations that have been exposed to the concept of MBI for a number of years were focused on perceptions of MBI. This part of the study was directed at gleaning insight into research question (Q9): Are perceptions of MBI different for those who have had greater exposure to the concept?

Having explained how the study addresses all nine of the research questions set out for this study, and prior to moving on to the presentation and analysis of the data collected, it is important to acknowledge the limitations of the study.

3.4 Limitations of the Study

This study is not without limitations. First off, financial issues tend to be delicate, and raise concerns around confidentiality. Even though it was assured that the institutions would remain nameless in the final report, many of the institutions could be identifiable to those who know the sector simply because of information presented on their mission and asset base. Issues of confidentiality were no doubt cause for some information to be withheld and even the outright refusal of some institutions to participate in the study. The researcher attempted to minimize these predicted risks by properly explaining the purpose of the study. It was made clear to participating institutions that the purpose of the study is not to "expose" them, but rather to map the current situation in a non-judgmental manner, and to gain an understanding of whether MBI is a strategy that foundations and endowments might want to adopt.

The researcher's personal motivations and engagements in the field of socially responsible investment may have inspired defensive and protective responses on the part of participants or a less objective interface on the part of the researcher.

In addition to the possibility of interviewer and response biases, the size of the sample is limiting. The small sample size cannot give rise to statistically significant measures of correlation between the type of institution, the primary language of the institution or the asset size and the degree of MBI practiced, but the numbers will nonetheless help to better situate the potential market for MBI and perhaps discover some of the issues that could be tested in the future with a wider sample through surveys. The variety of foundation and foundation-like institutions that compose the sample may have compromised the depth of understanding of institutional investment behaviour. Concentrating on only one type of institution, such as community foundations or religious community endowments might have provided a more profound understanding of that one type of institution. It was felt, however, that while breadth might hamper the depth of understanding on the

separate types of institutions, it does provide a better overall initial profile of all such institutions in Quebec, and was appropriate for an exploratory study. Findings, whether statistically significant or not, will no doubt serve to highlight the need for future empirical studies into particular issues in this field.

3.5 Conclusion

This chapter has set out the research method for this study of the practices and perceptions of MBI by foundations and endowments in Quebec. An exploratory study, involving interviews with EDs and/or ICCs from a variety of foundations and endowments in Quebec, was considered the best method to address our previously established 9 research questions related to mapping the current investment practices, and then testing the proposed barriers to MBI as presented in the literature. The sample includes 14 Quebec-based institutions considered fairly representative of the wider foundation and endowment community in Quebec. Three additional Ontario-based institutions were also interviewed to test for changes in perceptions of MBI according to exposure to the concept. While this study is clearly not without limitations, having acknowledged these allows us to move on to the analysis of the data that was collected.

Chapter IV: Presentation & Analysis of Results

The analysis of the results of the study will be presented in two parts, consistent with the two themes of the research questions. The first part will describe and present summary statistics related to theme A, on the current investment practices of these institutions. In responding to research questions 1 through 4, it will present and discuss both general practices and MBI specific practices, highlighting, where applicable, differences observed along asset size and linguistic lines. The second part of this chapter will report and analyse the findings related to theme B, testing the hypothesis regarding perceived barriers to MBI. This discussion will be a predominantly qualitative analysis of the perceptions of MBI by foundations and endowments in Quebec. It will address research questions 5 through 8 on the perception of MBI and the posited barriers to MBI, and it will compare perceptions of MBI by these institutions to the information gathered from the three Toronto-based foundations, thereby addressing the ninth and final research question.

4.1 Theme A: Mapping the Current Investment Practices of Foundations and Endowments in Quebec

In this first section of the analysis of the results, a current general profile of the participating institutions will be presented. Quantitative statistical measures have been calculated where possible to summarize the profiles of institutions. The numerical summaries are supported and elaborated upon with synthesized qualitative interview data and quotes[38]. This profile will include statistics on the asset values and granting allocations, general issues of investment management, the comparative asset mixes, and the alternative investment instruments used. We

[38] To preserve the confidentiality of the institutions involved, quotes for interviews that were conducted in French have been translated with great care to preserve the accuracy of the statements by the researcher, and will not be specifically identified as translated quotes. In addition, the neutral “s/he” has been used as a pronoun, again, in an attempt to further preserve the confidentiality of interviewees.

will then take a particular look at the current MBI profile of participating institutions, presenting the current practices in program-related investing, social screening, and proxy voting. The results will be analysed according to the asset size and the linguistic origins of the institutions, including speculations as to how linguistic origins might impact MBI investment behaviour.

4.1.1 Asset Values and Granting Allocations

Table 9 presents the asset values of core sample participating institutions. We observe that the asset range is from $12,000,000 to $792,200,000, giving an average asset-base for the sample of $141,314,286 with a standard deviation of $231,815,277 and a median asset-base of $60,000,000. The total asset value of all core sample participating institutions is $1,963,400,000[39].

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[39] The asset value of the one foundation that has recently pooled its fund management with another is, obviously, calculated only once.

Table 9: Institutional Assets and Other Sample Data

Asset Category	Linguistic Representation	Total assets of Institution (CAD)	No. Asset Managers
Large-sized Institutions	0 Francophone 4 Anglophone	$792,200,000	12
		$543,000,000	8
		$130,000,000	2
		$125,000,000	~60
Medium-sized Institutions	1 Francophone 4 Anglophone	$ 90,000,000	2
		$ 80,000,000	1
		$ 60,000,000	7
		$ 57,700,000	1 restructuring to 2
		$ 24,000,000	2
Small-sized Institutions	4 Francophone 1 Anglophone	$ 20,000,000	1 restructuring to 2
		$ 17,000,000	1
		$ 15,000,000	1 restructuring to 2
		$ 12,500,000	1
		$ 12,000,000	1
Total	5 Francophone 9 Anglophone Total: 14	$1,963,400,000*	
Average	--	$141,314,286	
Standard Deviation	--	$231,815,277	
Median	--	$60,000,000	

* The asset value of the one foundation that has recently pooled its fund management with another is, obviously, calculated only once.

These assets, and the interest and the capital gains they generate, are not subject to federal or provincial taxes, but the foundations are obliged to annually disburse 4.5% of their investment assets (averaged over two years), and the endowments to disburse the income generated from their investments. The majority of foundations claimed that they saw this obligatory granting percentage as a minimum: one person made the analogy to the percentage as “a floor rather than a ceiling”. Of the institutions that cited a numerical response to the question about average granting amounts as a percentage of asset value, the highest cited was 5.3 – 9%. One foundation said that they give all earnings, and if that is not equal to 4.5%, obviously, they dig into the capital to give at least the 4.5%. These findings are interesting in that they reveal that the majority of participating

institutions, are not automatically using surplus income (over required disbursement) from investments to appreciate the capital. It seems rather that there is great pride and pleasure derived from giving more than the required amount away. Generating income in a manner that reinforces the mission would not necessarily inhibit this grantgiving generosity, but in and of itself, MBI is not as visibly generous, and thus may not be a priority.

4.1.2 General Issues of Investment Management

In order to meet these granting targets while simultaneously covering the costs of operation, the participating institutions tended to have a number of standard policy directives which had been created by the Investment Committee and approved by the Board of Directors. Most of the funds, for example, have as a fundamental policy that the fund must, as a minimum, allow for inflation and maintain its value in current dollar terms over the years.

Before delving into the specifics on the investment management, it is important to comment on the organisational structure that frames the investment management. Most institutions had delegated the investment management decisions to an Investment Committee. For a number of family foundations, the composition of this committee was predominantly family members who often had investment knowledge and experience “at least with the management of their own money”. For all the other institutions, the Investment Committee members were chosen specifically for their financial savvy. Usually, the ED (or equivalent) and sometimes another Investment Committee member also sat on the Board of Directors of the institution. For the most part, it was acknowledged that the investments of the institution and the granting were considered separate activities. A number of the ICC’s interviewed said they knew very little about the granting activities of the foundation, and one ED said: “We separate making the money from giving it away and I think that’s fair to say that, although I’m involved in both, and so is the president, it’s two different activities.” These comments reveal that a certain divide between those who make the money-making decisions and those

who make the granting decisions. Whether this divide appears to have an effect on MBI practice will be discussed later, in section 4.2, under barriers to MBI.

For two institutions, their investments are managed as separate accounts, one institution has uniquely pooled investments and all others reported a combination of both pooled funds and separately managed funds. This information is relevant as the type of investment could have an impact on the potential for different types of MBI. As with the question of the cultural divide, the issues of pooled funds versus separately managed funds will be discussed in section 4.2.3 under barriers to MBI.

As laid out in Table 9 the number of asset managers used by the institutions ranged from 1 to “around 60”, but the majority of institutions (71%) use one or two managers. Fourty percent of the institutions that use one or two managers have just recently moved from one to two managers, or are about to restructure to that end. The remaining three institutions interviewed have 7, 8 and 12 managers respectively. Aside from one institution with 7 managers, most institutions with under one hundred million dollars in assets only use one or two managers. It was not directly asked, but a number of institutions mentioned the companies that manage their assets. Two of the participating institutions mentioned Philips, Hager & North, an investment manager that has been offering SRI products for over a decade. Two other institutions interviewed mentioned that they use the Commonfund[40] for at least part of their asset management. One interviewee maintains that the Commonfund management system is the way of the future: “I started us with Commonfund …. And what we’re doing is what’s happening. In Canada you may not see that much of this, but it will be. So three years from now, this is what’s going to be normal”. This speculation is of note to our study because the Commonfund re-emerges in section 4.2.3, as a barrier to MBI.

[40] The Commonfund offers fund management and investment advice exclusively for nonprofit institutions such as educational institutions, hospitals, foundations, and other nonprofit organizations. It is a nonprofit organization that offers its member institutions investment funds that invest in marketable and alternative asset classes.

4.1.3 Asset Mix

The majority of the asset managers are expected to comply with a benchmark asset mix as set out in the Investment Policy. The current asset mix of participating institutions is laid out in Table 10, on the following page. The asset mix is of interest to us because it impacts on the types of MBI strategies available to these institutions. Shareholder engagement, for example, is not relevant to a portfolio composed of 100% fixed income. The degree of social screening is also limited in fixed income investments.

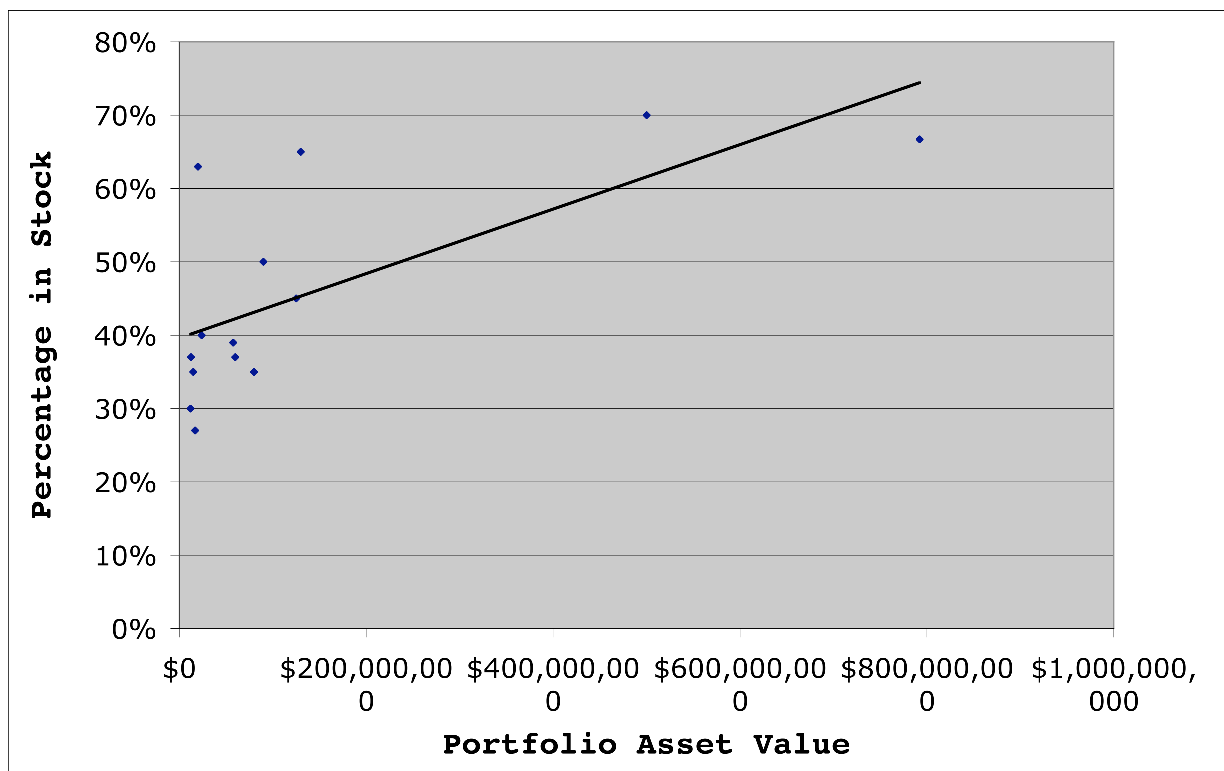
Table 10: Asset Mix of Participating Institutions

Total assets	Fixed income	Stock	CND Stock	US Stock	Int'l Stock	Cash	Other
$792,200,000	26.5%	66.7%	14.2%	34.7%	17.8%	5.9%	mortgages 0.9%; hedge funds
$543,000,000	28%	70%	14%	28%	28%	2%	real estate
$130,000,000	35%	65%	14%	50%	1%		
$125,000,000	40%	45%	15%	15%	15%		hedge funds 12-15%; real estate 0-10%; PRIs separately managed~7%
$90,000,000	42.5%	50%	50%	0%	0%		
$80,000,000	65%	35%	35%	0%	0%		
$60,000,000	58%	37%	37%	0%	0%	5%	
$57,700,000	56%	39%	16%	13%	10%	5%	
$24,000,000	50%	40%	15%	15%	10%	5%	hedge funds 5%
$20,000,000	30%	63%	20%	20%	23%	2%	(int'l = Europe:10%;Japan 8%; Emerging markets 5%)
$17,000,000	63%	27%	13.5%	13.5%	0%	10%	Real Estate
$15,000,000	60%	35%	20%	15%	0%	5%	
$12,500,000	59%	37%	32%	5%	0%	4%	PRIs = $30 000 @ 2%
$12,000,000	68%	30%	15%	9%	6%	2%	

Total number of institutions = 14

While the sample is not large enough to allow us to see any definitive trends, by reformatting information on fixed income and stock ratios from Table 10 into the scatter charts below (figure 2 and 3), and having Excel perform a linear regression analysis[41], the beginnings of a trend is indicated: stock percentages appear to increase in correlation with increased asset value of the portfolio. Fixed income percentages for this sample, however, do not appear to show any trends.

Figure 2: Equity by Asset Size



[41] Linear regression analysis uses the "least squares" method to fit a line through a set of observations. It allows us to analyse how a single dependent variable is affected by the values of an independent variable.

Figure 3: Fixed Income by Asset Size

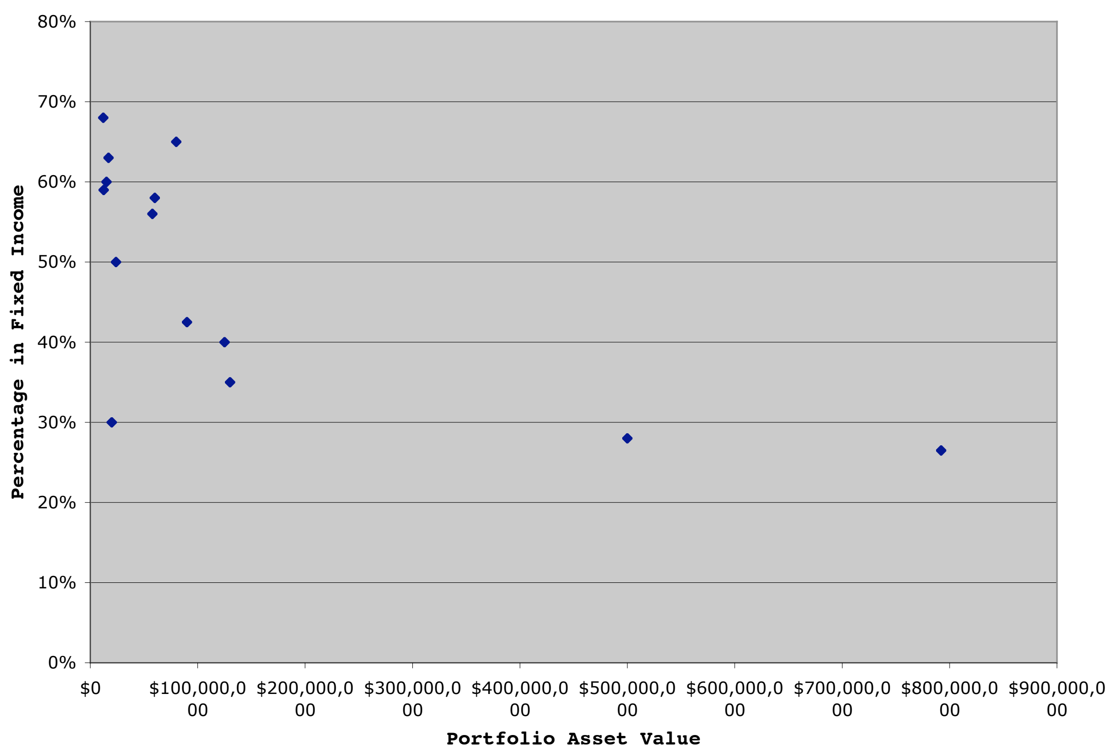
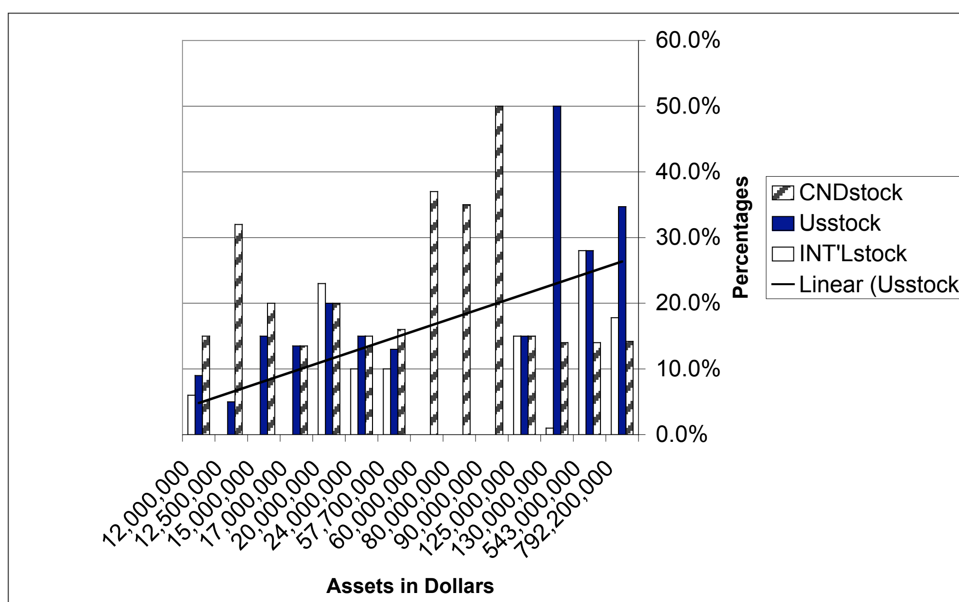


Figure 4 plots the Canadian, U.S., and international equity investment percentages by portfolio asset value. A linear regression line for US stock reveals a tendency for larger institutions to hold a greater percentage of their portfolio in US stock. This is of interest to us because the number of shareholder resolutions of a social nature appearing on proxy ballots is more prevalent in the US. If foundations and endowments with large US holdings are not conscientiously voting their proxies, they could be missing opportunities to vote on issues that are very relevant to their mission.

Figure 4 shows a gap in foreign investment for mid-size investment portfolios. For one institution, holding solely Canadian equities was not their preference, but rather was the result of a legal interpretation of section 1339 of the Quebec Civil Code. No other institutions mentioned this limitation. The two other institutions that are solely invested in Canadian stock cited their small size and Canadian currency needs as their primary reasons for investing Canadian.

Another institution mentioned increasing their Canadian equity content as an issue of social responsibility that had been discussed, and agreed upon, by the Investment Committee. Figure 4 charts the dispersion of investment across Canadian, US and International equity[42].

Figure 4: Equity Percentages by Portfolio Assets



4.1.4 Alternative Investment Instruments

Aside from traditional fixed income and equity investments, a number of institutions are using alternative investment instruments: twenty-one percent invest in real estate, 7% invest in mortgages, 25% invest in hedge funds and 14% invest in PRIs. We will explore these PRIs further under the rubric of current MBI profiles.

4.1.5 Summary of MBI Profiles

Prior to profiling the current MBI practices of our sample of foundations and endowments in Quebec, it is important to note that the premise on which this study was based - that philanthropic capital based institutions might be interested in aligning their investment practices with their social mission - was legitimized by the

[42] Note that percentages per institution do not add up to 100% because this graph only shows the equity portion of the portfolio.

study. As evidenced by the comment: “people thought that it was a real contradiction -- using our funds in a variety of ways to deal with social issues and make money on selling arms”, awareness that dissonance can exist between a foundation or endowments’ social mission and their investment practices was observed.

The initial assumption was that the prevalence of MBI is greater in the U.S. than it is in Quebec. Thus, it was somewhat surprising to find that as much as 35.6% of our sample (refer to Table 10) are currently engaged in some form of MBI. This percentage rises to 50% when historical data is considered. We remember that in 1999 the U.S. Council on Foundations observed screening among only 16% of their members. Such comparisons, however, should be made with apprehension. Our sample is small, any one observation is equal to 7% of the total sample, and the results cannot necessarily be extrapolated to the wider foundation and endowment community. In addition to the fact that they are not the same year, our sample covers both foundations and endowments when the U.S. statistics only refer to foundations.

Table 11 summarizes the MBI profile of the core sample by asset groupings. Our findings do not resonate with the U.S. statistics regarding small foundations[43] being almost twice as likely as large foundations to apply social screens. For our sample, **large** institutions are more likely to use social screens than small or medium sized institutions.

[43] Our asset categories are also different, to reflect the nature of Quebec-based institutions.

Table 11: Percentage of Institutions with Social Screens, Mission-Related Criteria in Proxy Voting and PRIs by Portfolio Size

Size	Asset value (CAD)	Social Screens	Mission-Related Criteria in Proxy Voting	PRIs	Institutions per asset grouping (frequency)
small	10,000,000 to 20,999,999	7.1%*	0	7.1%	7.1% (1)[44]
medium	21,000,000 to 99,999,999	7.1%	7.1%	0	7.1% (1)[45]
large	100,000,000+	21.4%**	0	7.1%	21.4% (3)[46]
	TOTAL	35.6%***	7.1%	14.2%	35.6% (5)[47]

*When historical data included, this number increases to 14.3%
** When historical data included, this number increases to 28.6%
*** When historical data included, this number increases to 50%
Total # of institutions = 14

It is important to remember that these observed instances of MBI vary in scope: an institution that has only one negative screen, for example, marks the same value in this table as an institution with an extensive and deliberate screening policy. When the comprehensiveness of MBI is considered, these numbers shrivel. Only one institution was observed to have an extensive and deliberate MBI policy. This institution has a national mandate, which covers Quebec, but the institution is based in Ontario. Second to this institution in terms of depth of commitment to MBI, is a Francophone institution, and for this institution, the desire to be engaged in all three strategies of MBI is strong, but the practice has only recently begun. The ED of this institution explained,

> Ethical investing is a question that has always been present for us, how to have consistency between our investment strategies and our orientations and priorities. I would say that it remains a difficult thing to push forward…. Two years ago we recruited a Board member who is concerned with issues of ethical investing, she's involved with the RRSE[48],....to see what it would bring in terms of Board reflection on

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[44] It is the same institution that engages in both screening and PRI.

[45] It is the same institution that has social screens and mission-related criteria in proxy voting.

[46] One institution has both a social screen and PRI, and is therefore only counted once.

[47] Given that 3 of the institutions engage in 2 MBI strategies each, the total frequency of institutions engaging in MBI is 5.

[48] Regroupement pour la responsabilité sociale des entreprises

> this issue….Up until now we've had a more passive approach: we don't want to invest in this sector, that sector or that sector.

The other institutions observed to engage in some MBI activity really only dabble in MBI. To facilitate the reading of Table 11, each strategy will be examined separately, beginning with PRIs, followed by screening, and finishing with mission-related criteria in proxy voting. Note that three of the institutions cited in Table 11 use more than one MBI strategy, but none currently use all three.

4.1.6 PRI Observed

Program-related investment is the investment in community economic development through micro credit, cooperative business development or other such institutions. Returns on such ventures generally range from 0 – 4%, but PRI is predominantly considered for it's social value rather than it's financial return. Our sample found fourteen percent of the institutions interviewed to be investing in some form of PRI. This percentage seems slim when compared to the 1989 survey in the US that found 76% of foundations (38 of 50) to be investing in PRI (Marble, 1989). However, our 14% is quite impressive when compared to the 1997 US study results for the entire US foundation population (40,000), which evidenced .006% of foundations to be active PRI providers (Dowie, 1998). Clearly, different sampling selection makes comparing data difficult. The intents of PRI, though, can be compared. Across the board, it is clear that the object of PRI is not to supplant granting, but to serve as an addition to the tool kit of philanthropy, a tool that may be appropriate at particular times to carry our programmatic strategy. While no institution allocates a large portion of it's assets to this strategy, both our study and the literature revealed resistance to PRI from trustees. We will return to the potential roots of this resistance under theme B: the barriers to MBI.

The institutions practising PRI in our sample explained that they had been compelled to do so by the social value that reflected their mission. One institution invests as much as 7% of their asset-base in PRI's. While not considered grants, this portion of the portfolio is notably not the charge of the Investment Committee, rather,

program-related investment decisions are the only investment decisions that are made by the Board of Directors, not just approved by the Board. Clear signs of a divide between social and investment decision-makers are noted.

While this above-discussed institution falls in the larger third of participating institutions, one of the smallest institutions interviewed is also investing in PRIs. This supports findings from the Ford Foundation in the US that found small foundations as likely as large foundations to invest in PRI (Marble, 1989). For the small institution in our sample, the $30,000 invested in PRIs represents only a fraction of a percentage of their $12,500,000 total assets. The institution's Executive Director explains,

> A new thing for us this year, which for me asserts a first break through, is to invest 30 thousand dollars in a community loan fund, the Montreal Community Loan Fund….of course the returns are less, but it is a different way to do what we seek to do with our granting….I think that our Board is very happy with this, a first movement in this direction. It's a way of diversifying our investment practices. It is not a grant. It is an investment.

Thus, it was their desire to invest proactively and in-line with their mission that led them to try a PRI investment in a local community loan fund. It was mentioned that the Investment Committee had some hesitations with respect to this investment, and that a full evaluation of the impacts of this investment will be forthcoming.

Indeed, while we have seen some evidence of PRI among our sample, social screening appears to be a more widely observed MBI strategy.

4.1.7 Social Screens Observed

Social screening has been the longest standing social investment strategy with documented instances dating back to the 17th century (Hutton, 1998; Domini, 1997; Schueth *et al*., 1999). It is the most widely recognized social investment strategy and is often mistaken for the only social investment strategy. To be sure, Table 9 shows social screening to be the most widely utilised MBI strategy within our

sample. fifty percent of participating institutions have implemented at least one negative investment screen in the course of their existence, and 35.6% are currently screening their portfolio with some social criteria. As noted above, these appear to be impressive figures compared to the 16% of US foundations that used social screens in 1999. Two of the institutions that have not considered any social screening highlighted that the original money of the institution came from a “sin” industry. This was presented to justify the lack of social screens and shows a somewhat fatalistic attitude of, once a sinner, always a sinner. The missions and granting of these institutions, however are very laudable, and interviewees were proud to talk about them. Once again, the divide between social mission and income generation emerges.

Of those that are currently using screens, twenty-one percent specifically mentioned screening out tobacco and this issue is currently under discussion for yet another institution that has no other current screens. These findings reverberate the US statistics that show the exclusion of tobacco to be the most widely cited screen. Despite being the most prevalent screen, the tempting financial performance of tobacco stock made it also the most controversial among our sample. A few interviewees mentioned such issues, for instance, one of the Executive Directors mentioned how displeased the money manager was a few years ago when he was told that he could not invest in tobacco companies.

Further negative screens that have been implemented by our sample institutions, and that are not dissimilar from the US screening issues evidenced in the literature, include screens against weapon producing companies, a practice followed by fourteen percent of institutions interviewed. One Executive Director elaborated, “people thought that it was a real contradiction -- using our funds in a variety of ways to deal with social issues and make money on selling arms. That decision was taken about 2 years ago.”

For another institution, while it is not a written policy, one proactive screen is used: the foundation invests in bonds from a particular geographic region that is important to their mission. It was made clear that this choice was made for mission reasons, not because of the financial performance of these particular bonds. There is no question that this institution would not invest in these bonds, and yet no other screening issues have ever come up.

A couple of institutions that no longer apply any social screens mentioned an historic use of screens. Fourteen percent explained that at the time of Apartheid in South Africa, the institutions had taken a stance in divesting from companies that were, as one interviewee stated, “making a killing out of South Africa under those conditions”. In the *Draft Statement of Investment Policy* given to the researcher by one of these institutions it is written,

> While the primary purpose of the management of the [funds] is to optimize the real rate of return on the fund's assets with an acceptable level of risk, companies in the portfolio that, by decision of the Board of Governors, might cause concern to _____ are to be reviewed regularly by the Board's Committee to Advise on Matters of Social Responsibility. The Investment Committee is responsible for ensuring that the divestment decisions of the Committee to Advise on Matters of Social Responsibility are implemented in an orderly and timely manner.

While the document no longer mentions South Africa, both interviewees on this institution did. However, in neither of the interviews, with the Investment Committee Chair nor a member of the Board of Directors, was the “Committee to Advise on Matters of Social Responsibility” mentioned. While it is not clear as to whether this committee really exists, there is nonetheless an opening for it as well as an acknowledgement of the potential for negative screening in the draft document that was provided to the researcher.

Yet another institution acknowledges having a vague general policy on negative screens that relies heavily on the judgement of the asset managers. The Executive Director explains,

> We tell our investment managers that the foundation has ethical concerns and that we don't invest anywhere in the name of economic returns, ... [We're concerned about] the environment and child labour, but it remains pretty large, which means that after that, it's up to how the manager decides to integrate it into his practice....we said no Coca Cola, no McDonalds, but the list wasn't very long. We don't have a systematic exercise to name them.

It seems that leaving tough judgemental decisions up to the asset managers might take some of the work and guilt burden off the institution. To be sure, developing and implementing appropriate screens takes concerted effort which entails the allocation of staff time and resources and board member time. The use of ready-made materials and outside consultants can lighten the workload for staff and trustees, but also requires resources.

While this above mentioned institution's policy leaves much up to the interpretation of money managers, and the other institutions using screens have been observed to have only single-issue screens, one participating institution has an extensive MBI policy. This institutions policy, while it does not mention PRIs, encompasses shareholder engagement as well as social screening, and leaves only the financial decisions up to the asset managers. The Treasurer of this institution explained that the social screening process was very systematic (see relevant sections of the actual Investment Policy in Appendix 3). They have hired Michael Jantzi & Associates to provide them with quarterly ratings on a number of social criteria, including such things as arms, employee relations, and the environment, for all the companies listed on the Toronto Stock Exchange. These ratings are cross referenced with the positive, negative and best-of-sector screening criteria set out by the institution in their Investment Policy, and a list of eligible investments is thus derived. Each quarter, the new list is validated by the Investment Committee and presented to the asset managers. The managers have 90 days to divest from ineligble companies and otherwise comply with the list. Despite these limitations, the managers are held to conventional benchmark returns. The Treasurer explains that,

> when the managers are hired by the committee, they are made very well aware of the restrictions related to SRI, they agreed with the policy and agreed to be measured against the overall benchmark like the TSE, TSX, Standard & Poors' benchmark and so on, despite these restrictions.

The fact that the asset managers are expected to, and accept to, measure up to conventional benchmarks even though engaging in MBI, is very important to our study. It shows a belief on the part of both the charitable institution and the asset managers that it is possible to incorporate social mission into investment practices without compromising financial returns. It is worth noting that this institution does apply the best-of-sector approach to screening in two specific areas: occupational health and safety and environmental performance. The best-of-sector approach is considered by this institution to be economically prudent all while facilitating engagement and effecting positive social change: providing incentive for companies in industries facing safety and environmental challenges to improve their performance. The best-of-sector approach appears vastly underutilized by the study sample; no other institution uses it. It is possible that the other institutions are simply not aware of the approach. Best-of-sector screens could be interesting for some of the institutions that are fearful of the financial implications of avoiding entire sectors, but are concerned nonetheless with greater consistency between their mission and investment. It would be interesting to test, in a future study, whether if all institutions were made aware of this approach, any more would be likely to engage in MBI.

All in all, it is apparent that the use of some sort of social screen was not foreign to half of the institutions in the study. Aside from the comprehensive policy outlined by one institution, and the vague policy that left most screening decisions up to the asset managers, the observed social screening tends to be limited to single-issue screens, and a general reflection on screening or other MBI strategies had never been done. Our sample echoes the literature in that tobacco is the most widely applied screen. Arms and Apartheid, two other commonly cited negative screens in the literature, also emerged from our sample. Negative screens tend to be more prevalent than positive screens and the best-of-sector approach to screening

appears to be underutilised. The underutilisation of the best-of sector approach is attributed to lack of awareness of its existence. As we will now see, the same might be said for the voting corporate stock along mission lines.

4.1.8 Voting Corporate Stock

Voting corporate stock, or proxies, is one of the principal mechanisms for investors to direct corporate policy. It is the simplest and most commonly used method of shareholder engagement. While shareholder engagement is rapidly becoming the SRI strategy of choice for a number of large institutional investors in the US, this strategy did not garner much appeal within our sample. Half of the participating institutions reported having proxy voting guidelines outlined in their Investment Policy, but, as laid out in Table 11, only 7.1% applied social considerations to voting corporate stock. Whether there were guidelines set out in the Investment Policy or not, the majority of the institutions delegated their asset managers with voting of corporate stock. Again, for the most part the rule of thumb is that the asset managers vote with management, and that if they plan to vote against management of any company, they must consult with the Investment Committee. Three interviewees knew neither who voted, nor how they voted their corporate stock. One of these interviewees noted significantly, “it’s a good point that should be raised, the shareholders meeting and the votes - that’s really the time for expression”. Indeed, trustees need not sit on the sidelines and hope that the companies they own do the right thing. Voting blindly with management, failing to vote, or voting without considering the impact of the questions can arguably be neglecting the responsibilities of trusteeship.

The institution that demonstrated extensive screening procedures also respects extensive proxy voting guidelines. For this one institution the purpose of the proxy voting guidelines and procedures is,

> to serve as a guideline for our External Investment Manager/s, to support resolutions that will ultimately benefit shareholders, and be in line with the [institution’s] corporate and social responsibility investing

> (SRI) guidelines….where the [institution may take a more activist role, are those non-financial issues such as Board Diversity, business activities with companies and/or countries having poor human rights and labour regimes, poor environmental records, etc.

While this specific institution delegates the voting rights to the asset managers who have agreed to the guidelines, they also reserve the right to have access to the company's proxy should a representative from the institution want to dialogue with a company. See Appendix 3 for further details as to the guidelines for voting on issues like the independence of the Board of Directors, management and director compensation, takeover protection, shareholder rights, shareholder and stakeholder proposals, and reporting set out by this institution.

The only institution that we observe to be doing shareholder engagement by means of voting corporate stock along mission lines is a medium-sized institution. No institutions were observed to be submitting shareholder proposals or communication directly with companies in their portfolio concerning mission issues. We hope to gain greater insight into the inhibiting factors associated with this strategy in section 4.2.

Prior to moving on to the section 4.2 on perceptions and barriers to MBI, we would like to do an analysis of the current MBI profile both by linguistic origins and by exposure to the concept of MBI in an attempt to assess if these variables have a noticeable influence on investment behaviour. Table 12 presents MBI practice by linguistic origin and asset size for the combined population of Anglophone and Francophone institutions in our sample. We observe that 28.5% of the screening done by our sample happens in Anglophone institutions while only 7.1% happens in Francophone institutions. PRI rates are the same, at 7.1% each, and shareholder activity, or mission-related proxy voting is only evidenced among Anglophone institutions. This comparison is distorted, biased by the fact that the sample includes 9 Anglophone institutions and only 5 Francophone institutions.

Table 12: MBI Practices by Linguistic Origin and Asset Size for All Institutions

Asset Size (CAD)	Anglophone Institutions			Francophone Institutions		
	Social screens	PRI	Mission-related proxies	Social screens	PRI	Mission-related proxies
10,000,000 to 20,999,999	0%*	0%	0%	7.1%	7.1%	0%
21,000,000 to 90,999,999	7.1%	0%	7.1%	0%	0%	0%
100,000,000+	21.4%**	7.1%	0%	n/a	n/a	n/a
Total (frequency)	28.5% (4)	7.1% (1)	7.1% (1)	7.1% (1)	7.1% (1)	0% (0)

*Increases to 7.1% when historical data considered
** Increases to 28.6% when historical data considered
Total # of institutions = 14

Table 13 and 14 present MBI rates within Anglophone and Francophone institutions according to asset size. With this new classification we find that forty-four percent of the participating Anglophone institutions currently engage in some form of MBI, this percentage rises to 55% when historical data is considered. By contrast, only 20% of the Francophone institutions under study engaged in some form of MBI. While the divide is not as wide, Anglophone institutions are still observed to practice MBI more than twice as frequently as Francophone institutions.

Table 13: MBI Practices by Anglophone Institutions and Asset Size

Asset Size (CAD)	Institutions (Total sample of 9 institutions)		
	Social screens	PRI	Mission-related proxies
10,000,000 to 20,999,999	0%*	0%	0%
21,000,000 to 90,999,999	11%;	0%	11%
100,000,000+	33%**	11%	0%
Total (frequency)	44% (4)	11% (1)	11% (1)

* Increases to 11% when historical data considered
** Increases to 44% when historical data considered
Total # of institutions = 14

Table 14: MBI Practices by Francophone Institutions and Asset Size

Asset Size (CAD)	Institutions (Total sample of 5 institutions)		
	Social screens	PRI	Mission-related proxies
10,000,000 to 20,999,999	20%	20%	0%
21,000,000 to 90,999,999	0%	0%	0%
100,000,000+	n/a	n/a	n/a
Total (frequency)	20% (1)	20% (1)	0% (0)

Total # of institutions = 14

These findings on linguistic differences with respect to MBI practice have been observed in the literature. French Foundations were found to engage very little in MBI (Plant, 2002) and the relative newness of foundation culture in France was considered to be an influencing factor. The same can be said for Francophone foundations in Quebec. Francophone philanthropy in Quebec has really only exploded in the last five years (Stanton, 2002), in 1992 only 25% of foundations in Quebec were Francophone, since then more than 210 foundations have been created, the majority of which have been Francophone (Stanton, 2002*)*. Explanations for the Francophone delay in getting into philanthropy is often attributed to a cultural preference for other forms of redistribution of the wealth (i.e. via the state). The history of a strong labour movement in Quebec is further testimony to a certain vision that a fair salary is preferable to the exploitation of a worker to whom we later give a nice donation. This might explain the delay in the development of foundations and endowments. Now that there are increasing numbers of Francophone foundations, however it remains possible that the very newness of the institutions has an impact on their investment behaviour. MBI might be something that an institution would consider once the foundation or endowment itself is already fairly well established.

Another possible explanation for the lag in Francophone MBI behaviour, which may actually be combined with the former explanation, is that the

information, services and networks on MBI and SRI have been predominantly Anglo-Saxon. One ED of a Francophone institution even mentioned that s/he felt disconnected on these issues, precisely because of the language barrier. New MBI and SRI products and services are developing in the French language, like for instance, the *Groupe Investissement Responsable* based in Montreal. Time might reveal whether the observed linguistic discrepancy in MBI practice is a result of lack of French language resources or not.

By means of testing for differences in MBI investment behaviour according to exposure to the concept of MBI, we interviewed three representatives of Ontario-focused institutions known to have been well informed on MBI and its various forms for some time. Table 15 documents the rates of MBI practice among this group. One recently revamped their Investment Policy with an MBI strategy that includes both social screening and extensive shareholder activism; another uses "rudimentary negative screens" like no gambling, no weapons and no tobacco, but typically does not vote the proxies or utilise other forms of shareholder activism; and the third, does not use any social screens, has done "very limited shareholder engagement", and used to do some PRI.

Table 15: MBI Practices by Ontario-Focused Institutions and Asset Size

Asset Size (CAD)	Ontario-Focused Institutions (frequency)			
	Total Sample	Social screens	PRI	Shareholder Engagement
10,000,000 to 20,999,999	0% (0)	n/a	n/a	n/a
21,000,000 to 90,999,999	100% (3)	66.7% (2)	0%*	33.3%**
100,000,000+	0% (0)	n/a	n/a	n/a
Total (frequency)	100% (3)	20% (1)	20% (1)	0% (0)

* Increases to 33.3% when historical data considered
** Increases to 66.7% when historical data considered
Total # of institutions = 3

All three institutions fall in the mid-size asset base. Interestingly enough, the one institution that had a national mandate that included Quebec and was therefore included in our Quebec sample, was also headquartered in Ontario, and fell into the mid-sized asset base category. It was also found to be the only institution in the Quebec sample that had a truly comprehensive MBI policy and practice. Indeed, Our sampling indicates a stronger likelihood of foundations and endowments based in Ontario to engage in MBI. Once again, we should be wary of jumping to quick conclusions. The Ontario-focused institutions were selected because of their previous exposure to MBI, but it is perhaps not irrelevant that 66.6% of these institutions have a social justice mission. The higher incidence of MBI observed among Ontario-focused institutions could be attributable to heavy social justice-orientation of a small sample and/or the exposure to MBI. One ED, for instance, directly attributed their MBI practice to their social justice mission: "[I]f you forget about socially responsible investment, and just look at the "M" in mission-based, we exist to promote social and economic justice …[that must inform] everything we do; we have a legal responsibility".

Given that the pursuit of social justice has been shown to be a significant factor in the rise of SRI (see Literature Review, Chapter 2, Section 2.1), we might expect that foundations and endowments with social justice or social change-related missions might be more apt to adopt MBI. The pursuit of justice has been associated with social change activism, and with efforts to address root causes of the conditions of the injustice. As it has been characteristically interpreted, however, the Charities Act in Canada seems to foster approaches to charitable activity that are not directly concerned with issues of justice (Philips *et al*. 2001). This Act is relevant for our study because foundations and endowments are registered charities[49]. One of the major premises of this study so far -- that foundations and endowments by nature of having a social mission pursue a longer and larger tradition of charity in which concerns for justice, the public good and

charity are interconnected -- is thus put into question. Foundations and endowments that, for example, seek only to provide charitable help to impoverished individuals and/or individuals who are marginalized by unjust social arrangements, are probably less likely to use all of the resources at their disposal (i.e. their investment portfolio) than are institutions that also seek to address the underlying causes of these conditions. To explore these MBI attribution hypotheses, Table 16 compares MBI practice by institutions with social justice or social change missions and MBI practice by institutions with charitable service missions[50]. The table includes both the Quebec-focused and Ontarion-focused institutions. When categorized as such, we observe that only 23.5% of the sample institutions actually address social justice or systemic change issues in their missions. One hundred percent of these institutions engage in social screening; 25% in PRI; and, 50% in shareholder advocacy. These rates of MBI practice are significantly greater than those observed in the charitable service oriented institutions, where only 23% of institutions are engaged in social screening; 7.7% in PRI; and, none do shareholder activism. Indeed, it is likely that the narrow definition of the Canadian Charities Act is an additional barrier to MBI. An further hypothesis as to why many foundations and endowments are not advocates of equality and justice comes to mind: such institutions are often created by wealthy individuals who benefited from the system the way it is, they might be interested in giving back; in the tax advantages of creating a foundation and/or in the glory of being known as a philanthropist, but they are not necessarily interested in systemic change.

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[49] The most important reason for being recognized as a charity lies in the provisions of the Income Tax Act: a gift to (or the creation of) a registered charity offers tax relief to the donor.

[50] This data represents current practices; historical data is not included in these results.

Table 16: MBI Practices by Justice-Oriented Institutions vs. MBI Practices by Charitable Service-Oriented Institutions

Mission	Total Sample	MBI Practices (frequency)		
		Social screens	PRI	Shareholder Engagement
Justice	23.5% (4)	100%(4)	25% (1)	50% (2)
Charitable Service	76.5% (13)	23% (3)	7.7%(1)	0%
Total (frequency)	100% (17)	(7)	(2)	(2)

Total # of institutions = 17

Whether it be the pursuit of social justice or the longer-term exposure to MBI that contributed to the increased prevalence of MBI among Ontario-focused institutions in our sample, their longer term exposure has enabled them to contribute additional reflections on the perceived barriers to MBI, reflections that will be presented and analysed in section 4.2 on the perceived barriers to MBI.

All in all, the current investment profile of the participating institutions is fairly conventional; a mostly passive income generating pool of securities that is connected to grantmaking only by donatable resources (cash) it generates. Aside from one institution with a comprehensive MBI policy and practice, only scatterings of what could be considered MBI approaches have been observed, and these, among only half of the sample. We observed that large institutions were more likely than small institutions to engage in social screening, while both large and small institutions seemed equally likely to engage in PRI. The only evidence of shareholder activism that was observed was in a medium-sized institution, which voted its corporate stock along mission-lines. We also observe that Anglophone institutions are more likely to engage in MBI than Francophone institutions and speculate that this might be related to the newness of Francophone foundation culture and/or the lack or MBI resources in the French language. It seems that exposure to MBI could very well have an effect on the prevalence of the practice as the Ontario-focused institutions selected for interviews because of their long-standing exposure to MBI showed increased prevalence. This attribution

hypothesis was put into question when the fact that 66.6% of these Ontario-focused institutions had social justice-related missions. Indeed, when the total sample (all 17 institutions) were divided into social justice missions and social missions, we observed that institutions with social justice goals were less prevalent than simple social mission institutions, but more likely to engage in MBI. A narrow interpretation of charity by the Canadian Charity Act, and/or that foundations and endowments are often created by wealthy individuals who are more interested in the tax advantages, giving back and/or notoriety rather in systemic change, are thus assumed to influence MBI behaviour. The next section (4.2) of this Chapter will present and analyse the perceptions of MBI and the barriers to MBI as presented by our sample of foundations and endowments in Quebec.

4.2 Theme B: Testing the Hypothesis Regarding Perceived Barriers to MBI

We recall that in section 2.3 of the literature review, three main barriers had been presented as untested, but probable barriers to the adoption of MBI strategies by foundations and endowments. The barriers posited, and tested for in this study, were: (1) the psychological/cultural divide; (2) the question of the legality of MBI; and, (3) concerns regarding the effect of MBI on financial returns. In this section we will present and analyse our findings on these three posited barriers, including an analysis of the findings from the three Toronto-focused institutions to compare for differences in perceived barriers to MBI according to exposure to the concept. We will also present other perceived barriers that emerged, highlighting the major barriers that were presented for the three MBI strategies, namely, social screening, shareholder engagement and program-related investment.

4.2.1 The Psychological/Cultural Divide

The findings of this study support the literature on the psychological/cultural divide between those managing the investment portfolio of sample foundations and endowments and those managing the philanthropic investments of those same institutions. When it came to issues of investment, a significant percent of interviewees revealed a deferral of responsibility to the investment "experts". As we saw in section 4.1.2 of this chapter, the organisational structure of many institutions reflects this division of responsibilities and perhaps encourages a lack of communication between the two. A number of the ICC's interviewed said they knew very little about the granting activities of the foundation, and one ED said: "We separate making the money from giving it away and I think that it's fair to say that, although I'm involved in both, and so is the president, they're two different activities". Another interviewee commented on Investment Committee composition and culture, explaining that we should not expect anything other than what we set up in the first place:

> The people around the table are not there 'for politics'.... [T]hey were recruited from the financial community, and we know that the financial community makes it their obligation to be, what they call, rational, and not to let non-financial issues cloud the way. They were recruited for that reason, and they see that as their role.

These comments suggest a task division, but not necessarily a divide in vision. Again, the narrow definition of charity in Canada may come into play. The task division is present, but the investment people and the granting people are of the similar vision that having money to give away, for example, to alleviate inequality is what counts; not addressing the root causes of the inequality. One of the interviewees from an Ontario-focused institution that had had greater exposure to MBI, but that is currently not practicing any form of MBI, also commented on this divide:

> the whole notion of MBI…ha[s] been picked up by Executive Directors who are generally responsible for spending the foundations money, not for generating any of the wealth, ….[T]here is this great

> divide and great dissonance, between most of where the board would stand and the …[Investment Committee].

When it comes to making investment decisions, however, the ED explained, the board defers to the "experts"; the "investment managers who will lecture … on why they don't believe in MBI". It was observed that the divide between these two cultures led a number of interviewees to think that MBI asks both money managers and grantmakers to step out of their area of proficiency - a step that neither desires to take. It had been suggested at one institution, for example, that the program managers look at the investment portfolio and advise the Investment Committee on conflictual holdings. The ED explained that the program managers had outright refused to step out of their area of proficiency.

While the hypothesis that there is a divide between these two cultures is supported by our findings, when we examine the institutions among our sample that have comprehensive MBI practices, we find that this divide is no less present. We found, as a case in point, that the Treasurer of the only Quebec-focused institution with an extensive MBI policy and practice, also accentuates this divide:

> the managers have investment responsibilities, not mission responsibilities. They are in the business of managing money, generating income … that the [institution] can spend on mission, but they are not directly linked on mission. They don't know what we spend our money on, and that is not their concern.… [W]hen the managers are hired by the committee, they are made very well aware of the restrictions related to SRI, they agreed with the policy and agreed to be measured against the overall benchmark like the TSE, TSX, Standard & Poors' benchmark and so on, despite these restrictions.

This comment is of particular interest because it gives us insight into our research question (Q6): Does the relationship between those responsible for investments and those responsible for granting differ among institutions that engage in MBI and those that do not? The Treasurers' comments show us that adopting MBI does not mean that either investment people or granting people have to completely change their way of being, or their culture. The fact that some

investment experts, who do not necessarily share the same values as the charitable institution whose money they manage, are able to incorporate MBI strategies while simultaneously maintaining standard financial benchmarks, reveals that MBI can exist while the divide persists. While this cultural divide may be an inhibitor to MBI, it need not be. A couple of the institutions with greater exposure to MBI supported this modified hypothesis that a cultural divide between investment people and grantmaking people can be, but is not necessarily an inhibitor to MBI. One institution appears to have found an asset manager willing to "experiment" in a slightly new culture. The ED explains how their asset managers were not formerly doing social investment, but "thought there was something to it" and were "sincerely interested in experimenting with it". To deal with the transition over to MBI, this institution has hired outside services to audit their current holdings (finding the "glitches between what we hold and our new policy"), and to bring together other institutional investors with whom the institution could collaborate on shareholder engagement. The ED continued,

> We still have members of our board who are going along with it cautiously….[But] even if we lost money in the market, which most of us don't think we would, even if there were a 5% differential, but we made a difference … to how one corporation a year behaved, we could do far more on that side than we probably do with our 3 million dollars or so of grantmaking.

Clearly, for this social justice-oriented institution, social change value counts. It is this attitude, that the social change impact is perhaps more important than the bottom line, that another interviewee sees as the weakness of the MBI movement,

> I think there is a real problem in that movement between the people who are financially oriented and the people who are mission oriented …. When you go through these discussions you get down to, usually fairly quickly, to a point where somebody says to the financial people that we just have to stop worrying about return and there is too much social demand for doing things differently.… You're not going to bring more financial people to the table if they think that part of what they have to do is stop making money, or make a lot less money at doing it.

According to this interviewee, it is not that MBI practice might compromise financial performance that MBI is not more prevalent; rather, it is because too many advocates of MBI emphasize the social justice aspect over the financial value. S/he continues, elaborating on the difference between "soft" money and "hard" money,

> I always differentiate between hard money and soft money and soft money is the odd foundation, church fund, the odd inheritor of wealth who's got more money than they need …. they could lose $5 million a year for the rest of their life and still live well. That is soft money, and they tend to be more sympathetic towards taking lower returns and backing long-shots just because they like the idea.

S/he continues to explain that soft money is scarce, and that changing the way the world behaves around business and business issues requires persuasive financial arguments:

> [I]f you really want to change the world, and change the way the world behaves around business and business issues, you have to find a way to bring in the hard money. To create situations that have a real persuasive financial component to them as well as a useful social mission, and if you don't do that, it'll always be a kind of a minor thing…

Indeed, for this interviewee, it is important to recognize the divide between these cultures, and not expect financial people to accept social value arguments. These comments link the potential cultural divide barrier to the legal and financial barriers, and function thus as a smooth transition into a discussion of the findings on the legal and financial barriers to MBI.

4.2.2 Legal and Financial Concerns as Barriers to MBI

Aside from the psychological/cultural divide between those concerned with the investments and those concerned with the granting, two other significant barriers to MBI among foundations and endowments were presented in the literature: legal and financial concerns. We have grouped the two together here because the two are intimately linked, and, while legal issues did not surface directly as an obstacle to MBI[51] in our study, it can be assumed that they were indirectly raised through comments related to the financial implications of MBI: if MBI is perceived to be financially compromising, it is not considered prudent practice.

Our findings supported the hypothesis that financial concerns are a barrier to MBI. Almost twenty-four percent of respondents (see Table 17) said outright that “returns are too important” while many others expressed these financial concerns more subtly. The asset managers’ compensation, for instance, was raised as a barrier to social screening: “The money managers do not like being told that they cannot do this or that because it ruins their bottom line, and their publicity is how well they do for you, with your money”.

It is noteworthy that for a number of the interviewees, the automatic assumption was that MBI involves financial compromise. While understandable that foundation and endowment representatives be wary of poor investment decisions that could result in the loss of capital and decreased money available to support important programs or grantmaking activities, we cannot help but wonder why people assume that MBI is equivalent to poor investment decisions. It is likely that a large number of the interviewees had not been exposed to the vast array of studies on the financial viability of MBI, and their assumption that it would compromise financial returns could stem from the fact that, despite recent growth,

[51] The representatives of one institution expressed concerns about the Quebec Civil Code restricting their investment to Canada. This was not cited as a barrier to MBI per se.

SRI/MBI still remain marginal. In such case, education on these issues might be the variable worth investigating further. We remember from section 2.4.3 of the literature review, that there is a growing body of evidence that the integration of social and environmental concerns into investment decisions has no adverse financial implications. Nevertheless, because there is no definitive consensus on this issue and it appears as though personal preference determines where the burden of proof falls: the current position of any institution could be defended by the literature. One ICC explained, for instance, that he had, “essentially decided that we preferred not to put any restrictions on our managers essentially because it hasn’t been proven that that type of investing adds anything to the performance”. And yet, for the institutions that had comprehensive MBI policies and practices, the fact that this institution maintains standard performance benchmarks like the TSE, TSX, S&P, supports a belief that there are no proven adverse financial implications of MBI. Given the imperfect science of the financial markets, this debate could persist.

As previously presented in section 4.2.1, the institutions that had experienced increased exposure to the concept of MBI tended to support the financial concerns barrier to MBI, but for different reasons than we observed in the Quebec-focused institutions. It is not that MBI practice might compromise financial performance that MBI is not more prevalent; rather, it is because too many advocates of MBI emphasize the social justice aspect over the financial value. Financially minded people can learn to appreciate positive externalities of financially successful investments, but are unlikely to learn to accept social justice arguments at the expense of financial returns. In other words, it could be argued, financially minded people can learn to incorporate social considerations into financial performance, but the culture of finance, the culture of profit maximisation, is immutable.

With some important qualifiers, our study thus supports the three major barriers to the adoption of MBI that were set out in the literature. We observe that these three

perceived barriers are intimately connected, and that the divide between investment people and granting people within a foundation or endowment can be perceived as a barrier, but the cultural divide itself is not necessarily a blockage to the adoption of MBI. For some, this divide appears to be task related, as the narrow vision of charity seeks to give money away, not to effect social change. While the social change value is clearly the motivating force for one institution to adopt MBI, it is believed by others that to put forth the social value argument to investment people is to deny the cultural divide that exists. The rational culture of finance can include positive externalities of financially successful investments, but is unlikely to be transformed into a culture of social justice. Since MBI practice is not yet mainstream, and the current body of empirical studies on the relationship between MBI and financial performance remains open to interpretation, legal and financial concerns can also be perceived as barriers to MBI. In addition to these three major barriers, a number of new articulations of the perceived barriers to MBI were raised by our study.

4.2.3 New Articulations of Barriers to MBI

Given that specific barriers to MBI were not presented by the researcher for the interviewees' commentary; that rather, the responses were to an open-ended question about what they saw as the barriers to MBI in general, a number of new articulations of the perceived barriers to MBI were raised. The issues raised and the number of interviewees who mentioned each as a barrier and laid out in Table 17.

Table 17: Frequency of Different Barriers Cited to MBI in General

Barrier raised	Interviewees[52] (frequency)
Too much time/too much work	28.6% (6)
It's up to the money managers	28.6% (6)
We're too small/too new	23.8% (5)
Too complicated (moral relativism)	23.8% (5)
Returns too important	23.8% (5)
Other priorities	14.3% (3)
Lack of expertise	9.5% (2)
Too political/excludes people	9.5% (2)
Mindset barrier takes time	4.8% (1)

Total # of institutions = 14; Total # of interviewees 21

Despite the fact that it was an open question, there was a reasonable amount of overlap in the barriers presented. Most individuals presented more than one barrier to MBI. The two most commonly sited barriers, mentioned in both cases by 28.6% of respondents, were that the conversion to, or the implementation of MBI takes too much time or too much work, and that investment decisions were the domain of the asset managers. One ED presented these two barriers together:

> You have to have a completely different relationship with your investment counsellors…. It would almost have to be a program of the foundation because someone would have to put in a great deal of time and effort to keep your investment counsellors in check.

The barriers of time and other priorities (e.g. granting) stem from the perception that it would be hard to find the time, with volunteer board members and Investment Committee members, to have an informed discussion, much less find the additional time that implementation of MBI strategies would involve. Outside resources exist to aid in this transition and in the implementation of MBI strategies; if there is a will, there is a way. However, for a number of institutions the priority is granting. We previously discussed how the narrow definition of charity by the Canadian Charity Act may well influence foundation and endowment investment behaviour. When the focus is on giving money away, it makes sense that the

[52] Note that there are 21 interviewees as for 7 of the 14 institutions, both an ICC and an ED were interviewed.

investments are only revenue generators, not additional resources that can be leveraged in pursuit of the mission.

Almost twenty-four percent of interviewees mentioned the small size or newness of their institution as a barrier to MBI. One ED, for instance commented, “[w]e’re not ruling it out because we’re so new and the question keeps coming up, and I think that one day we are going to have to get there, but for now it’s just too early”. For others, it was that they felt too small to affect change. Often, however, the size issues presented were connected with the willingness of the asset manager to take on an MBI approach. One ICC elaborated on this point. S/he said that with a

> [m]inimum of 1 billion … the managers do not want to be burdened with limitations. With a larger pool you could be more discriminating, not with a smaller pool. Managers will simply rebel, it’s just too complicated for them.

Indeed, 23.8% of interviewees also felt that MBI was too complicated. One ED commented,

> MBI has come up. It was discussed as an issue before the decision was taken not to invest in weapons producing companies. When we discussed it, the attitude was, …. [we did not want] to have the discussion in the abstract…. but when it came to concrete, what about this? – then it’s easier for people to see, ‘well, no, we don’t feel comfortable with that’.

Complications were often based in ideas of moral relativism. While the researcher never mentioned the word “ethics”, many respondents understood MBI and SRI to be clouded by issues of moral relativism. “Who decides?” one ICC asked. S/he continued about how fiduciaries must be careful not to make decisions based on self-interest, that it should in fact be the beneficiaries who decide, but it is not clear how that could be done. Another ICC commented that what is at, one point in time, politically “correct is really not what is right”. Yet another interviewee makes a link between moral relativism and MBI-averse money managers:

> The [trustees feel that they must not get] sidetracked by issues that, universal as they may appear at the time, are probably not going to last as issues as long as the [institution].

Indeed, our study revealed a preference among many foundations and endowments not to address the issue of aligning their investments with their mission because there is no absolute core set of moral ideas that are shared and understood. Cigarettes, many argue, are legal, so who are we to say that companies manufacturing them are unethical? This idea that all ethics is relative, and intensely personal is not a reason to dismiss value-based issues. As revealed by some of the interviewees, mindset change takes time; social values are not unchanging realities; there must always be room for dissent with consequent enrichment and refining of the value framework. The beauty of having an institution with a mission is that the issues are often already fairly clear. For institutions with broader missions, it was very hard to conceptualize negative screens, but perhaps positive and best-of-sector screening combined with shareholder engagement would be more strategic.

Nine and a half percent of interviewees said that MBI is too political. One ED, for instance, explains that politicizing investment can have the effect of excluding certain people:

> The Investment Committee members are chosen from the private sector, people with means, it might not be a debate in which they would feel comfortable…at this time we need all possible allies and at the end of the day, the money will be put to good use….. It would certainly have certain advantages: for people who hold to that, I think it would make their attachment to the [institution] even stronger, but we'd exclude people. And, are we not losing sight of our mandate?

Again on the issue of mixing politics with investment, another ED exclaims,

> [O]ur mandate is to run the affairs of the investments and we're not here to be politicians. When you do activism, there is an opinion there, and not everyone agrees with you.

Whether qualified as political or not, it seems that the practice of MBI is not considered normative to this sector. Perhaps it is simply that it is seen to be too new of an idea. One interviewee who said that he had never heard of MBI, referred to a mindset barrier, and ultimately an issue of time. S/he said, "I have no doubt that your fundamental going-in position is absolutely correct, and 20 years down the road…everyone will think mission-based investing", s/he continued,

> ….at the present state of the stock market the biggest issue is return on investment….So I don't see any possibility of having any discussion about change at the present time, but I am fascinated to learn about it, and fascinated to learn what would be the experience over time, over a 5 year period, or a 10 year period.

Another ED reflected a similar view, highlighting the need for a proper process and full information. S/he maintains that one,

> wouldn't want to bring up this sort of thing without having the right information because you could get a knee-jerk reaction which would be, "no, no, no it's impossible, it's too value laden".

Still with respect to process, an ICC commented that the "way to do [MBI], if one wanted, is not to bring it up as such, because that would just create an immediate reaction, but rather to bring up a specific program that has merit and do it that way. Otherwise it would become a heated argument".

Another ED had a slightly different take on the process of implementing an MBI strategy. S/he believes that,

> the challenge is to have the debate, to demystify investing, to let everyone appropriate this issue. That takes time, bringing people to think that they can also be competent on this issue. There are always so many things on the agenda...

All of the above barriers have been classified here as general barriers to MBI. Additional, more specific, barriers were raised for each of the three strategies of MBI. We will begin by looking at the barriers to social screening, and then examine the barriers elucidated for shareholder engagement. Finally, we will look at the barriers presented to the implementation of PRIs.

4.2.4 Specific Barriers to Social Screening

Table 18 lays out a number the barriers, as perceived by interviewees, specific to social screening of portfolio investments.

Table 18: Frequency of Different Barriers Cited to Social Screening

Barrier raised	**Interviewees[53] (frequency)**
Where do you stop?	23.8% (5)
Pooled investments	9.5% (2)
Our mission is too broad	9.5% (2)

Total # of institutions = 14; Total # of interviewees 21

The most commonly cited barrier, mentioned by 23.8% interviewees, was, “where do you draw the line?”. One ED continued,

> [y]ou can take it to the extreme. Some people are violently against automobiles because automobiles kill and they use gasoline and gasoline is doing God knows what to our environment, I mean, where do you stop?

One interviewee said that screening has been described within his/her institution as “a slippery slope”. Another explained, “[Y]ou could rule out too many, the asset managers would find that too hard”. A few interviewees alluded to the fact that no company is 100% clean and that even tobacco is not necessarily the

[53] Note that there are 21 interviewees as for 7 of the 14 institutions, both an ICC and an ED were interviewed.

“no-brainer” industry to avoid. One argued, “Phillip Morris is a great buy, …. [w]e wouldn’t rush to say that’s what we want to invest in, but if it’s part of a portfolio,….there are smokers [who] buy the product; it’s legal”. Another interviewee argued that taxes on cigarettes “more than covers the weight on society”, while yet another argued that tobacco is only a small portion of the products under the Phillip Morris conglomerate. Not surprisingly, the more general the mission of the institution, the more difficulty they appeared to have with identifying potential screens.

Nine and a half percent identified pooled investment funds as another barrier to social screening. For instance, investing through the Commonfund (which one interviewee believed to be “the way of the future” in philanthropic institutional money management) was presented as a barrier to MBI as it does not offer screened products. We remember that in section 4.1 it was documented that 7.1% of our sample was uniquely in pooled funds while 78.6% had a combination of pooled and separately managed investments. Pooled funds do not actually rule out MBI, but they do make it more difficult. Numerous investment managers across Canada offer pooled vehicles that utilize social and environmental screens[54], and many pooled investment vehicles (screened and conventional) now allow investors to vote their shares independently of other participants, permitting the trustees to vote shares in a way that is consistent with the mission of the institution, if they so desire. Once again, lack of information or education on the availability of SRI products is perhaps the real barrier here.

It was interesting to learn that some asset managers feel the need to mention that they do not offer SRI services. One interviewee mentioned that when they recently put out a call for asset managers, a number of proposals received specified that they offered no possibility of exclusionary screens. S/he determined that this, combined with the difficulty of determining sectors or companies that were

in obvious conflict with the broad mission of their institution, meant that proactive screening might be the way to go. S/he felt that screening is probably the “easiest” of the three MBI strategies and that is nevertheless “effective”.

Finally, still on barriers to social screens, one interviewee explained how it would be impossible to predict in advance all the potential issues that could arise in conflict with the institution. While it was not cited as such, it becomes clear from the above observations that another barrier to MBI is that often the different strategies are considered as completely separate. Rarely is attention given to how these strategies could complement each other. An institution need not divest of its holdings in a company for which there emerges a conflict with the mission, they need not have to identify all potential issues that could arise in the future either. Combining social screens with shareholder engagement strategies all while maintaining a diversified portfolio was not recognized by the vast majority of the participating institutions at all. Combining strategies is perhaps not an obvious option for most of these institutions given the number of barriers that were raised to shareholder engagement.

4.2.5 Specific Barriers to Shareholder Engagement

While there were a few fairly positive considerations of shareholder engagement, the majority nonetheless see some fairly significant barriers to the implementation of this strategy; these specific barriers to shareholder engagement are laid out in Table 19. Nine and a half percent of interviewees felt that their respective institutions had enough of a reputation that they could use their institutional power in other ways than through shareholder engagement.

[54] These investment managers include Genus Capital Management; Greystone Managed Investments; GWL Investment Management; McLean Budden; Meritas Financials; Real Assets Investment Management; United Investment Counsel and others.

Table 19: Frequency of Different Barriers Cited to Shareholder Engagement

Barrier raised	Interviewees[55] (frequency)
Use institutional power in other ways	9.5% (2)
We're too small to influence corporations	23.8% (5)
Too controversial	14.3% (3)
Limited resources	14.3% (3)

Total # of institutions = 14; total # of interviewees = 21

A couple of ICCs could appreciate the value of shareholder activism. One, for instance, stated, "[if you have] over $0.5 billion, shareholder activism is great stuff - the backlash from irresponsible leadership, auditing - bang them on the head, by all means". Another Investment Committee member[56] proclaimed,

> I think that a lot of institutional shareholders are negligent in allowing companies to get away with bad governance…. [T]here is a role for being active…you get all these big companies where management doesn't control the company, nobody controls the company, and if the big institutional shareholders are going to be passive, you see management just get away with murder.

Despite these appreciations of the strategy, most interviewees, however, thought that the assets of their institutions were too small to influence corporate behaviour. It did not occur to them, or it was not mentioned, that they could join forces with other like-minded institutional investors on these issues, and that services that coordinate such activities are available. The fact that legislative changes have only recently opened the doors to this strategy in Canada may also, in part, explain these results.

One ICC showed much greater faith in the capacity of company management. S/he did not see a role for shareholder engagement because, "in general, companies have their own self-interest in acting well". S/he went on to ask, "How do shareholders know what is good?" Indeed, 14.3% of interviewees

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[55] Note that there are 21 interviewees as for 7 of the 14 institutions, both an ICC and an ED were interviewed.

[56] This individual contributed to an interview that the researcher had with the ICC of the foundation. S/he was not interviewed separately and only commented on this issue.

find this strategy of MBI to be too controversial. One ED simply stated that their institution was “allergic to publicity” while another said, “in no way would we have a role to play, we don’t have an advocacy mandate”. Once again, the vision of charity that tends not to include aspects of social change may be at issue.

Limited resources were also cited by 14.3% of interviewees as a barrier to shareholder engagement. Some qualified this in terms of volunteer hours; others in terms of the cost of hiring such services, one ED said, “[we] can’t afford to pay for extra services at this time…, but I think that is a very constructive way to go – changing corporate practices”, and still others felt that the opportunity costs of shareholder engagement were too high. One ICC stated, “it doesn’t pay us to do that unless it were something of enormous significance to our [constituency]”.

Clearly, there is some appreciation of the potential value associated with this particular strategy, but perceived issues regarding the size and potential impact of their institution in this forum; the real and/or opportunity cost associated with the high involvement required for this strategy; and the controversial nature of trying to influence corporate policy, stand in the way. The lack of awareness of this practice; the lack of knowledge that there are institutions that offer services that work in coalition with other institutional shareholders to increase impact also appear to inhibit the adoption of this strategy by most Quebec philanthropic institutions. The fact that legislative changes have only recently opened the doors to this strategy in Canada may, in part, explain these results. Unlike shareholder engagement, the final strategy, PRI, does not raise political controversy alarm bells, but resistance is observed nonetheless.

4.2.6 Specific Barriers to PRI

Sure enough, while a larger number of interviewees could see value in the abstract concept of community development investing, when it was considered in the light of their institutions’ investment, the majority simply did not feel that the PRI

strategy fit with their mandate. While one ICC proclaimed PRI to have "phenomenal potential", a number felt strongly that they had more impact on the grantmaking side and that PRI was too risky an activity for the investment side. Once again, a number of institutions cited the small size of their asset-base as a barrier to PRI, although this was more related to feeling risk averse (as a result of a smaller security cushion), and not related to impact potential as was the case with shareholder engagement. Curiously enough, one ED actually argues the reverse, that, "we're big enough not to have to compromise". Lending from the asset portfolio at preferential rates for community economic development was thus seen to be compromising when money can be given away.

Trustee unfamiliarity with this form of investing was also presented as an obstacle. One interviewee, for instance, said,

> There are certainly opportunities for mission-based, or program-related grants, which would offer some real interest, but the trustees are not very confident about that, they know what it means to make a grant. They don't expect a return, they don't expect the money to come back,… [it's] very straightforward.

This unfamiliarity was echoed by an ICC, who said,

> I somehow doubt that [the asset managers] would, as a firm, wish to do that…. It's not their thing. They would have no way of doing it…. [A]nd then there is the whole problem of how it is monitored, supervised, accounted for…. In theory, it is an interesting, constructive thing to do for a community-based organisation, but in reality, it would not be easy to accomplish.

On PRI, there were far fewer elaborate explanations of barriers than there were for the social screening and shareholder engagement. For the majority of interviewees, the concept of PRI had value, but the practice was considered either, too risky given the size of their institution, too little understood by trustees, or not part of their mandate.

4.3 Conclusion

For both the Quebec-focused institutions and the Ontario-focused institutions that had had greater exposure to MBI, over half of the institutions observed currently engage, or have engaged in some form of mission-based investing. While all the institutions had fairly significant shares in equity, very few took the opportunity to apply their mission to the voting of corporate stock. Despite the fact that a number of institutions had dabbled in other forms of “alternative” investing and found PRI of interest, program-related investing was also seldom observed. Social impact is clearly not the investment priority for these institutions; maximizing returns to be able give more away is their priority. MBI strategies were perceived by most to somehow compromise the institutions capacity to maximize returns.

With some important qualifiers, this study supports the three major barriers to the adoption of MBI that were set out in the literature, that is: the psychological/cultural divide between asset managers and grantmakers; legal concerns related to the practice; and, the percieved financial implications of the practice. We observe that these three perceived barriers are intimately connected, and that the divide between investment people and granting people within a foundation or endowment exists. This divide, however, is not a necessary obstacle to the adoption of MBI. For some institutions, this divide appears to be task related, rather than ideologically related: a narrow definition of charity seeks to give money away, not to effect social change. While the social change value is clearly the motivating force for one institution to adopt MBI, it is believed by others that to put forth the social value argument to investment people is to deny that the cultural divide exists. Since MBI practice is not yet mainstream, and the current body of empirical studies on the relationship between MBI and financial performance remains open to interpretation, legal and financial concerns can also be perceived as barriers to MBI. In addition to these three major barriers, interviewees raised a number of new articulations of the perceived barriers to each of the three MBI strategies. These new perceived barriers included that MBI would take too much

time and too much work; that investment decisions are the domain of the money managers; that the institution is too small or too new; that making the moral decisions involved in MBI is too complicated; that granting is the priority; that there is a lack of expertise; that MBI is too political; and, that overcoming the mindset barrier takes time.

We conclude that education is perhaps the greatest barrier to MBI. The Executive Directors, the trustees and the asset managers alike could benefit from wider dissemination of true information on the real financial risks of MBI and on the multiplicity of possibilities within all three strategies of MBI. While sensitization on the issues is important for Boards, Executive Directors and other grant makers, given that these tend to defer to the financially-minded people when it comes to investment, a good part of the education on MBI needs to target the financially-minded people and it needs to do so in a discourse that talks to them: a hard money sale. As long as the potential positive externalities generated by MBI cannot be readily quantifiable, the debate will surround issues of private gain. Again, the fact that a number of financial institutions, which by nature seek to maximize profits, offer socially responsible investment products is a sign that financially-minded people can see the hard-money argument: equity with equity can have value with values. There is a perception that MBI, in economic parlance, can be Pareto optimal.

Chapter V: Conclusion

The recent and impressive growth of SRI has been motivated by preoccupations with generating income for the future in a way that does not compromise religious, social or environmental values. Given their same dual preoccupation with generating income for the future and supporting social causes, foundations and endowments would appear to be to be likely practitioners of mission-based investing. The cursory statistics that exist on the prevalence of MBI among foundations and endowments in North America reveal otherwise. Indeed, while there remains a serious gap within investment literature relating to MBI globally, research specific to MBI within Quebec-based foundations and endowments is virtually non-existent. It has been hypothesized (Viederman, 1994,1998a-d; Tasch *et al*., 1995) that three major barriers to MBI among foundations and endowments exist: (1) the psychological/cultural divide between the people responsible for investments and the people responsible for granting; (2) the perception that MBI is not legal; and (3) the perception that MBI would compromise financial performance. Empirical data on the validity of these theorized barriers is lacking. This study aimed to complete these identified gaps within investment literature related to MBI by looking to (A) document the current investment practices of foundations and endowments in Quebec, and (B) test the posited barriers to MBI.

To obtain these objectives, the research method chosen was exploratory, involving interviews with EDs and/or ICCs from a variety of foundations and endowments in Quebec. The sample includes 14 Quebec-based institutions chosen to be fairly representative of the wider foundation and endowment community in Quebec with respect to the diversity of institutions (including private foundations, community foundations, hospital foundations, university endowments and church or religious community endowments); the asset base (our sample was grouped into small, medium and large institutions); and, with respect to linguistic

origins of the institutions (Anglophone and Francophone). Three additional Ontario-based institutions were interviewed to test for changes in perceptions of MBI according to exposure to the concept.

The findings of the study are multiple. At first glance, the overall instances of MBI activity observed seem somewhat surprising. Almost 36% of our sample is currently engaging in some form of MBI, and this percentage rises to 50% when historical data is included. When the comprehensiveness of MBI is considered, these numbers shrivel. Only one institution was observed to have an extensive and deliberate MBI policy. This institution has a national mandate that covers Quebec, but is based in Ontario. Second to this institution in terms of depth of commitment to MBI, is a Francophone institution. All the other institutions observed to engage in some MBI activity really only dabble in MBI. Single-issue screening accounts for most of this MBI practice. Institutions that practice shareholder engagement (7.1%) and PRI (14.2%) also have at least one social screen.

Divided according to asset size, we observe that large institutions (assets > $100,000,000) are more frequently engaged in MBI than small or medium sized institutions. This finding differs from the US statistics that showed small institutions to be more likely to use social screening strategies. Divided linguistically, the results showed forty-four percent of the participating Anglophone institutions currently engage in some form of MBI[57], while only 20% of the Francophone institutions under study engaged in some form of MBI. It is hypothesized that this gap is attributable to a relatively recent culture of philanthropy in Quebec, and/or a lack of French language MBI resources.

When comparisons were made with Ontario-focused institutions that had had greater exposure to the concept of MBI, it was found that MBI was indeed more prevalent. Sixty-six percent of these Ontario-focused institutions were engaging in MBI. Whether this increased prevalence is attributable to increased

[57] Again, this percentage rises to 67% when historical data is considered.

exposure, or the fact that 66.5% had social justice-oriented mission, is questioned. This questioning brought us to analyse all of our data according to the presence, or not, of a social justice-orientation in the mission. Only twenty-three and a half percent of the total 17 institutions have a social-justice orientation, but among these, 100% engaged in MBI. These observations challenge one of the major premises of the study – that foundations and endowments by nature of having a social mission pursue a longer and larger tradition of charity in which concerns for justice, the public good and charity are interconnected. A narrow interpretation of Charity in the Canadian Charities Act is thus assumed to hinder MBI. An further hypothesis as to why many foundations and endowments are not advocates of equality and justice is that many such institutions are often created by wealthy individuals who benefited from the system the way it is, they might be interested in giving back; in the tax advantages of creating a foundation and/or in the glory of being known as a philanthropist, but they are not of necessity interested in systemic change.

With some important qualifiers, our study thus supports the three major barriers to the adoption of MBI generally perceived in the literature. We observe that these three perceived barriers are intimately connected. The study supports the hypothesis that a psychological/cultural divide exists between those who are responsible for generating the institutions' income through investment, and those who are responsible for distributing money in the form of grants, but that the cultural divide itself is not necessarily a barrier to the adoption of MBI. For some, this divide appears to be task related, as the narrow vision of charity seeks to give money away, not to effect social change. While the social change value is clearly the motivating force for one institution to adopt MBI, it is believed by others that to put forth the social value argument to investment people is to deny that the cultural divide, and is therefore problematic. It is not that MBI practice might compromise financial performance that MBI is not more prevalent; rather, it is because too many advocates of MBI emphasize the social justice aspect over the financial

value. It could be argued, then, that financially minded people can learn to incorporate social considerations into financial performance, but the culture of finance, the culture of profit maximisation, is immutable. Since MBI practice is not yet mainstream, and the current body of empirical studies on the relationship between MBI and financial performance remains open to interpretation, legal and financial concerns can also be perceived as barriers to MBI.

In addition to these three major barriers, a number of new articulations of the perceived barriers to MBI were raised by our study. The most important of these include: time limitations; the complexity of MBI; the controversiality of MBI; granting priorities; and, that mindset change takes time. The main barrier cited for social screening in particular is the complexity of establishing criteria. For shareholder engagement the principle obstacles are that institutions perceive themselves to be too small to influence corporate behaviour, and that the strategy is perceived to be too controversial. For PRI, the specific barriers that emerge are: the financial risk relative to the size of the institution is perceived to great; the lack of trustee understanding of this strategy; and, the strategy does not fit with the mandate of the institution. It is put forward that all of these perceived obstacles to MBI could be dissipated through education on available resources and the neutral financial implications of MBI.

All while recognizing that the sample size is too small to test correlations and/or to make legitimate extrapolations to the wider foundation and endowment community, the findings nonetheless represent an important contribution to a little researched phenomenon: MBI. It is possible that the focus on barriers to MBI biased the responses. A questioning on the opportunities for MBI might have invited a different sort of reflection and response. Many other questions remain, for instance: are certain types of philanthropic institutions more likely than others to engage in MBI? Is the Francophone lag in MBI attributable to the lack of Francophone resources and/or the youth of the Francophone philanthropic culture?

Is MBI increasing over time? If some of the perceived barriers to entry are removed, does MBI practice increase?

The full results of this study cannot yet be determined. During the interviews a couple of the interviewees mentioned that they appreciated the researcher's raising such questions as it had provoked reflection. In at least one case, this reflection led to behavioural change: one of the participating foundations, which at the time of the study had not previously considered MBI, recently contacted the researcher to report that their new Investment Policy that will be finalized in January 2003 will include an "ethical considerations" component. This instance leads us to believe that simple exposure to the concept could increase its prevalence. As Eugene Ionesco so insightfully put it, "It is not the answer that enlightens but the question".

Despite moments of insight into the multiplicity and complexity of MBI practice, the data confirms the assumption that MBI remains a relatively untapped resource of foundations and endowments in the pursuit of their mission. But at a time of increasing government withdrawal and corporate scandal, that some shareowners are beginning to be more accountable is encouraging. We heard that mindset change takes time; social values are not unchanging realities; there must always be room for dissent with consequent enrichment and refining of the value framework. It was clearly stated by a few interviewees, that dissemination of true information on MBI is crucial to its market penetration given that currently the "knee-jerk reaction" is defensive, or even outright dismissive. We posit that the perceived barriers are thus surmountable with education and exposure. This study has perhaps raised more questions than it has answered, but such is the nature or exploratory studies into little documented fields like that of mission-based investing. The study has served to shed some light on the current practices in mission-based investing among foundations and endowments in Quebec, as well as the perceived barriers of these same institutions to MBI, but much on this issue remains to be further explored and confirmed in an empirical way.

Appendix 1: Interview Questions (Guidelines)

a. Brief introduction of researcher, the research project and how the interview will proceed. Ask to complete consent form.
b. Request permission to record the interview.

1. Introduction to interviewee:
1.1 Could you please briefly explain to me your function and title in the institution?

2. About the foundation in general:
2.1 Who founded the foundation?
2.2 Why, with what purposes? What is the mission of the institution?

3. About the grant giving:
3.1 What are your grantgiving guidelines?
    3.1.1 Who determined the grantgiving guidlines?
3.2 How much money is given out in grants each year? (As % total assets)

4. About the investment or finance committee:
4.1 Who makes the investment decisions?
4.2 What is the structure and composition of your investment/finance committee?
4.3 What is the role of the board in determining investment decisions?
4.4 Is there interaction between the people who make the financial decisions and those who run the programs or determine the granting?

5. About the investments themselves:
5.1 Does the foundation have an investment policy?
    5.1.1 Who determined it?
    5.1.2 May I get a copy of the investment policy?
5.2 What is the total asset value of the portfolio?
5.3 What does the investment portfolio consist of?
    5.3.1 Asset mix: Bonds Canadian
    U.S.
    International

    Equity Canadian
    U.S.
    International
    5.3.2 Money management:
    -Separate account
    -Pooled funds

    5.3.3 Is there any non-financial criteria used in making these choices?
5.4 Does the foundation have proxy voting guidelines?

5.4.1 Who votes? and with what instructions?
5.4.2 Is a report on votes taken circulated?

5.5 Has the board or the Investment Committee ever discussed Mission-based investment or mission-related investing?
5.5.1 With what conclusions?

6. Perceived obstacles to MBI:

6.1 Have you heard about mission-based investing (the three strategies)? (I'll explain in simple terms, if necessary)

6.2 Do you think MBI or any one of the three strategies would be a viable practice for your foundation?
6.2.1 Why or why not?

7. Follow-up:

7.1 Would you be able to give me a copy of:

The organizational mission	N	Y
The investment policy	N	Y
The investment portfolio	N	Y

7.2 Would accept to be called for clarifications, if need be, during the transcription process?

Thank you.

Appendix 2: Table 17: Institutional Assets and Other Sample Data

Appendix 3: Extract from Investment Policy of one of the Sample Institutions

Social Investing

7.7 The Committee recognizes the desirability of social investing. At the same time, all investments made by Managers must be of a prudent nature, meet all legal requirements, and not result in a lower rate of return than would otherwise be received.

7.8 The Committee has adopted guidelines regarding social, moral and ethical issues as they pertain to the investment of the Fund. They are attached as Appendix C to this document.

These guidelines are not applicable to Pooled Funds, as long as the total of any securities which would have been excluded under the guidelines do not constitute more than ten percent (100;0), taken at market values, of the Pooled Funds' total investment portfolio, also taken at market.

7.9 The Fund Manager will advise the Fixed Income and Canadian Equities Managers of any changes to the list of eligible investments prepared by Michael Jantzi and Associates and approved by the Investment Committee. If a current holding becomes ineligible for investing, the Investment Manager will have up to 3 months to liquidate their position and report such action at the next quarterly investment report.

Appendix B: Proxy Voting Guidelines and Procedures

PURPOSE

The purpose of these Proxy Voting Procedures is to serve as a guideline to our External Investment Manager/s, to support resolutions that will ultimately benefit shareholders, and be in line with [institutions'] corporate and social responsibility investing (SRI)guidelines.

Items 1 to 4 are summarized from PIAC (Pension Investment Association of Canada) Corporate Governance Standards, the Fairvest Proxy Monitor Corp., and other sources. [The institution] has no strong objection to any of these documents. Where [institution] may take a more activist role, are those non-financial issues such as Board Diversity, business activities with companies and/or countries having poor human rights and labour regimes, poor environmental records, etc.

REPRESENTATION PROXIES

We delegate to the External Manager/s, who have agreed to these guidelines, to vote our proxies on our behalf.

The [institution] reserves the right to have access to a company's proxy should an appointed representative wish to speak or dialogue with a company, or attend annual meetings using The [institutions'] proxy.

In situations where a [institution] representative, related organization, or individual(s) wish to use a proxy, the Chair of the Investment Committee or his delegate must approve.

1. BOARDS OF DIRECTORS

Independence and Nominating Committee

The preferred numbers on any Board is 10 to 15 members. A majority of independent directors is preferred. However, many Canadian companies are majority controlled. To the extent that the corporation's performance is satisfactory and is majority controlled, we would not vote against a majority of related directors.

The same applies to the independence of the nominating, audit and compensation committees.

Confidential Voting

We support confidential voting on the premise this encourages free elections rather than coercive pressures on shareholders to exercise their proxies in a specific manner.

Cumulative Voting

Generally we are against cumulative voting. It may allow shareholders representing special interests to elect directors. This may not result in a long-term benefit to the company. An occasion when we would support cumulative voting would be to vote for a slate of independent directors where the existing directors are unresponsive to the performance of the corporation.

Classified/Staggered Boards

We prefer annual election of all directors. We would not support a proposal that proposes to move from annual to staggered voting for directors.

For companies that we invest in and have, in place, staggered voting for directors, that for example, votes annually for one-third of the directors for a three-year term we are not strenuously opposed. This assumes the directors that we are voting for are serving the best interests in the company's shareholders.

Director Liability & Indemnification

Directors' liability should be limited. So long as the directors are acting in the best interests of the corporation, there should be no personal recourse from shareholder lawsuits.

Separation of Board and Management Roles

We support the principle that the Chair and the CEO should be separate.

Board Diversity

On the premise that both gender diversity, and diversity of personal and professional backgrounds makes for a better board composition, we support and encourage statements committing corporations to Board Diversity.

2. MANAGEMENT AND DIRECTOR COMPENSATION

Executive compensation should coincide with the long-term interests of shareholders; that is, its purpose should be to motivate and retain individuals without being excessively generous.

Directors serving on the Compensation Committee should be independent of management. Shareholders should be advised annually about the principles and structure of executive compensation.

Stock options should be issued at not less than 100% of their current fair market value. They should expire in five years (ten years the absolute maximum). The plan should not allow the Board to lower the purchase price of options already granted; that is, options repricing at a lower level than originally granted. In the event of a takeover or change in control, stock option plans should not allow beneficiaries to receive more for their options than shareholders would receive for their shares.

Directors who are not executives of the company may receive options so long as they are limited and subject to shareholder approval. The plan for these Directors should be separate to that for executives. Loans to directors and executives should be reasonable and within their ability to pay.

The total dilution should be no more than 10% of the outstanding common shares or 2% per annum over the life of the five-year options; 1% per annum over the life of the ten-year options.

3. TAKEOVER PROTECTION

We support resolutions that benefit shareholders and vote against those that do not. The standards for anti-takeover proposals have become well documented by PIAC and Fairvest. In Canada, the Ontario Securities Commission and stock exchanges require corporations to submit shareholder rights plans to shareholders for their approval.

U.S. regulation is less restrictive. There, boards without going forward for shareholder approval can adopt shareholder rights plans.

We do not support:
'crown jewel defense' where a company sells its most valuable assets to a convenient third party
'going private transactions' without the approval of a majority of the minority shareholders
'leveraged buyouts' without an independent fairness opinion
'lock-up arrangements' where some shareholders agree to tender their stock to the target company or to a third party.

4. SHAREHOLDER RIGHTS

- We support one class of common voting shares and one vote for each common share owned.
- We do not support the issuance of new stock with rights not available to existing shareholders.

- We support proposals for the authorization of additional common shares so long as it is for good business reasons.
- We do not support unlimited (blank cheque) share issues or preferred shares.

5. SHAREHOLDER AND STAKEHOLDER PROPOSALS

These must be evaluated on a case-by-case basis. We will support management when the proposals are deemed unnecessary, arbitrary or peripheral to the business of the company.

6. OTHER: Social, Environmental, and Political

We support issues and invest in companies having: fair labour practices, good environmental records, good business arrangements with other organizations and countries that have similar good labour, environmental and human rights practices.

7. REPORTING

Our External Manager/s to notify The [institution] of any conflicts of interest and to disclose any situation where our manager/s are acting as insiders.

In accordance with Section 7.4 in the Statement of Policies and Procedures, each manager 'shall prepare an annual report to the Committee outlining and explaining any departures from, or exceptions to, the policies, any issues where the Manager has voted against corporate management, and any other extraordinary matters.'

April 2001

APPENDIX C - Social and Environmental Screening Criteria

INTRODUCTION

This document presents a set of screening criteria to be applied to the funds of The [institution]. The criteria reflect the general principles on social investment stated in the Statement of Investment Policies and Procedures, and are designed to be practical enough to provide clear guidance to the managers of the funds. The criteria are intended to honour the desire to invest its funds in a manner consistent with both its values and mission, and the fiduciary responsibilities of the trustees of the funds.

Section II describes briefly the analytical framework of the screening criteria, and Section III presents the criteria themselves.

II ANALYTICAL FRAMEWORK

The screening criteria stated below are of two basic types: qualitative criteria and exclusionary criteria.

Qualitative criteria are applicable in issue areas such as employee relations and environment, in which is it possible for a company to perform both positively and negatively. It is therefore possible to implement positive screening criteria that is, screening criteria designed to select companies with desirable attributes as well as negative screening criteria that is, criteria designed to screen out companies with undesirable attributes. The application of qualitative criteria in each issue area is generally based on an overall assessment of a company's performance, both positive and negative, in that area.

In all of the issue areas below except "Product" there are both positive and negative screening criteria. The inclusion of positive screening criteria reflects one of the goals of the [institution] as well as most social investors, which is to focus not only on screening out companies with poor records, but also on encouraging positive social performance by "screening in." The positive screening criteria below use the language of "seek to invest" in order to clarify that managers are not bound to adhere strictly to such criteria.

Exclusionary criteria, in contrast, are applicable to products and/or services that social investors may wish to avoid. All of the criteria in the "Product" area are exclusionary.

Some of the criteria below, especially the exclusionary criteria, include a threshold pertaining to a company's revenues. A company will be considered to have met a given criterion if it has achieved the specified threshold in two of its last three fiscal years.

The Best-of-Sector Methodology
Criteria in two areas specifically, occupational health and safety and environmental performance are based on a best-of-sector (BoS) approach, in which each company's record is evaluated in relation to that of its industry counterparts. The standard for performance is the best practices in its industry.

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Appendix C - Social Screening Criteria

The [institution] uses the Best of Sector (BoS) approach to evaluate safety and environmental records because, in both of these areas, companies in certain sectors face challenges that are inherent to the nature of the operations of their sector. For example, a company within the forestry sector is not expected to eliminate all negative environmental impact, because it is measured against the standard of best practices in its sector.

The BoS approach is incorporated into the [institution]'s investment screening criteria for two reasons.

First, it is economically prudent. By evaluating each company in relation to its industry counterparts, the [institution] can avoid making whole industries ineligible for investment, and can therefore continue to invest in companies across all industries of the economy.

Secondly, and equally important, the BoS approach is consistent with one of the general goals of social investment, which is to effect positive social change. The BoS approach facilitates engagement with companies in sectors that have a high level of exposure to certain safety or environmental issues. It sends the message to such companies that they are not expected to be "perfect" (i.e. to eliminate all safety concerns or environmental impact). Instead they are expected to adhere to the best practices of their industry, and if they do so they will be eligible for investment.
Thus the BoS approach can provide an incentive for companies in industries facing safety and environmental challenges to improve their performance.

III SCREENING CRITERIA

The screening criteria are organized as follows:
1. Business Practices
2. Community
3. Employee Relations
4. Environment
5. Product:
    - Product Safety
    - Alcohol
    - Gaming
    - Pornography
    - Tobacco
    - Weapons

Business Practices
Positive screening criteria:
The [institution] will seek to invest in companies that:
- have a written/formal code of ethics or business conduct, as well as mechanisms to ensure compliance with the code, such as training for all employees, an annual review and sign-off on the code by all employees, etc.

Negative screening criteria:
The [institution] will avoid investing in any company that:
- has engaged in fraudulent, deceptive, or highly controversial marketing or advertising practices.
- has been convicted or paid recent fines or civil penalties related to price fixing, antitrust violations, or illegal insider trading.

Community
The word "community" refers primarily to the residents of local communities in which a company operates. In the case of many resource compa11ies in Canada, this often means local First Nations communities upon whose traditional land a company is operating. The word "community" may also refer to the larger areas, such as a province or nation, to the extent that society in such larger areas is affected by a company's operations.

Positive Screening Criteria
The [institution] will seek to invest in companies that:
- contribute directly to the development of communities in which they operate.

Negative screening criteria
The [institution] will avoid investing in any company that:
- has ignored or failed to take into account the needs and interests of communities affected negatively by its operations or planned operations. Evidence of such failure may be found in a lack of engagement in public consultation, especially in the face of community opposition, or in fines, civil penalties, or civil suits related to the company's activities.
- has ignored or failed to take into account the needs, interests, and rights of aboriginal communities affected by its operations or planned operations.
- has been implicated, through its international operations, in the violation of human rights.
- has operations in Burma.

In applying criteria in the area of human rights, the [institution] employs a company-specific rather than a country-specific approach. It does so on the grounds that, even in the context of countries governed by oppressive regimes, it is generally possible for companies to have either a positive impact or a negative impact. It is therefore important to view the social record of each company individually. This approach also recognizes that it would be financially imprudent to screen out all companies that have operations in any country that has a poor human rights record. There can be exceptions to this approach. In some cases human rights violations may be so extreme that no investment is appropriate. The [institution] views Burma as such a country, and therefore screens out companies with operations there.

Employee Relations
Positive Screening Criteria
The [institution] will seek to invest in companies that:
- offer good benefits packages to their employees. In addition to basic benefits, this may include programs to encourage employee ownership (through stock option or share purchase plans), profit sharing plans, and the extension of spousal benefits to the same-sex partners of gay and lesbian employees.
- have implemented policies and management systems to ensure the health and safety of their employees.

Negative screening criteria
The [institution] will avoid investing in any company that:
- provides inadequate benefits to its employees.
- has a health and safety record that is poor relative to its industry counterparts.
- is involved directly or through its major suppliers in the use of child, prison, or "sweatshop" labour.
- has faced major controversies or legal action related to discrimination in the workplace or employment equity issues.

Environment
Positive Screening Criterion

The [institution] will seek to invest in companies that have a good environmental record relative to their industry counterparts.

Negative screening criterion
The [institution] will avoid investing in companies whose environmental performance is among the worst in their industry.

In assessing each company's environmental performance, consideration will be given to the following elements:

- environmental management and reporting systems.
- the company's record of compliance with applicable environmental laws, regulations, and operating permits.
- methods of use/extraction of natural resources (includes consideration of use of recycled materials in production processes, the use of alternative energy sources, or resource extraction methods that minimize environmental impact).
- level of emissions of hazardous or toxic substances or substances that increase the threat of climate change or contribute significantly to ozone depletion or the formation of acid rain.
- impact on natural ecosystems, including the health and viability of wildlife populations(includes consideration of development projects or other planned operations that are likely have such an impact).
- measures to reduce the environmental impact of operations (includes consideration of reductions in the use and/or release of toxins, hazardous substances, and other pollutants).
- the impact of the company's product (includes consideration of the provision remediation or other environmental services, or products with environmental benefits, as well as the manufacture of products, such as pesticides or other harmful chemicals, that have a negative impact on the environment).
- the company's public stance regarding major environmental issues.

Product
The [institution] will avoid investing in companies that meet any of the following criteria:

Product Safety

- One or more of the company's products, though used responsibly and for their intended use, have caused life-threatening injuries, illness, or death. Or, major lawsuits or regulatory actions allege that the company's products have caused such injury.

Alcohol

- The company is directly involved in the production of alcoholic beverages.
- The company derives 10% or greater of revenues from activities related to the production of alcoholic beverages.

Gaming

- The company is directly involved in the gaming or lottery industries.
- The company derives 10% or greater of revenues from the production of goods and services related to gaming or lottery industries.

Pornography

- The company is directly involved in the pornography industry.

Tobacco
- The company manufactures tobacco products.
- The company derives 10% or greater of revenues from activities closely associated with the production of tobacco products.

Weapons
- The company develops and/or manufactures weapons.
- The company manufactures weapons delivery systems (such as jet fighters, battleships, military submarines, tanks, and armoured personnel carriers).
- The company derives more than 2% of its annual revenues from the design and/or manufacture of highly specialized components of weapons.
- The company derives more than 25% of its annual revenues from the design and/or manufacture of components/parts for weapons or weapons delivery systems.
- The company derives more than 25% of its annual revenues from the provision of support services for weapons delivery systems, such as the repair and overhaul jet fighters, military flight training services, etc.

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