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Foundations, Wield Your Proxies With Care

By Doug Bauer and Conrad MacKerron

Global warming. AIDS. Human rights. Campaign finance. Access to prescription drugs. Sexual bias. Those are all important issues that draw millions of dollars in foundation grants to groups dealing with their many facets. They also happen to be some of the most prominent issues being considered in the form of shareholder resolutions at corporate annual meetings this spring and fall.

With close to \$500-billion in the endowments of U.S. foundations -- much of it in publicly traded companies -- the field of organized philanthropy is a major shareholder.

But, sadly, it does not act like one. Foundations are not thoughtful, adroit users of their proxy votes.

Grant makers voted their proxies in support of management 54 percent of the time last year, the Council on Foundations reports, a sign that philanthropies for the most part trust corporate managers to make the right decisions, despite the number of corporate scandals that continue to play out in courtrooms and in the news media.

If that was not disconcerting enough, 90 percent of foundations that said they were now paying closer attention to how their shares were voted than they did previously said they had no guidelines in place to help them vote on corporate governance, social, or environmental issues.

In a time of growing need for accountability in philanthropy, that lack of attention and weak use of the proxy vote by foundations is a major oversight from both a programmatic and fiscal perspective.

Supreme Court Justice Louis Brandeis, in his book *Other People's Money and How the Bankers Use It*, wrote there is no such thing as an innocent shareholder. It is the obligation and business of the stockholder, he wrote, to see that those who represent him carry out a policy that is consistent with the public welfare.

While Justice Brandeis had the individual shareholder in mind, his words are equally on target for the field of philanthropy. Because of what grant makers do -- and why -- foundations should be held to a higher standard of conduct not only in the way they make grants, but also in the way they manage the endowments that fuel the grant making in the first place.

What needs to be done? Foundations must establish proxy-voting guidelines to aid their trustees and staff members in determining how to vote on shareholder resolutions of companies that are in their endowment's investment portfolio. Such a policy could help a foundation increase its ability to achieve its mission in two important ways by:

- Supporting actions that seek to strengthen management at publicly traded companies, protecting long-term shareholder value and the value of a foundation's endowment.

- Using proxy voting to support social and environmental goals that are often at the heart of a foundation's work.

Recent scandals demonstrated how readily securities laws can be violated. In the 2003 and 2004 annual-meeting season, investors made clear through their proxy voting that they were not content with new laws and regulations governing corporate behavior. Conscious proxy voting sends a strong and much-needed message to companies that shareholders are watching and expect honest and responsive management.

Proxy voting works and can have a lasting impact. Consider the following short list of important changes in the past few years in corporate social and environmental policies -- all achieved with minority shareholder votes or shareholder pressure or dialogue:

- Dell agreed to set goals for the number of computers recycled annually, the first time any manufacturer said it was willing to measure its progress in such a public way.
- Home Depot phased out sales of lumber milled from old-growth forests.
- PepsiCo and BP agreed to withdraw their operations from Myanmar.
- Gap and Nike improved enforcement of labor practices at supplier factories.
- The Ford Motor Company agreed to report on the effects of global warming on its business strategy.
- Johnson & Johnson and Schering-Plough agreed to disclose where and how much they gave to political parties and related organizations and to ensure that their boards of directors would oversee such contributions and guarantee that they follow the companies' guidelines.

How do a foundation board and its staff create a set of proxy voting guidelines? One simple way is to study foundation leaders in the use of proxy votes: The Boston Foundation, the Nathan Cummings Foundation, the Shefa Fund, the Jessie Smith Noyes Foundation, and the Educational Foundation of America have all established guidelines that are public and available on their Web sites. It is critical that foundations be armed with a thorough understanding of their rights and responsibilities in voting on proxies and consider the implications of their votes so they can act in an engaged, informed manner that is in keeping with their fiduciary responsibility and their specific missions.

Given the profound impact that corporations have on a range of issues that affect people throughout the United States and around the world, it is time for foundations (and other nonprofit organizations with large stock holdings) to make full use of their endowments to achieve results. That doesn't mean they must distribute more money each year or make loans to charities or other program-related investments -- although they certainly should consider that. Instead, what they can do far more easily than taking any of those steps is to use the powerful advocacy tool they have available: the proxy vote.

Making thoughtful grants and thoughtful proxy votes will ensure that foundations are using 100 percent of their resources to do good and to create positive social change. Now is the time to take Justice Brandeis's advice to heart, and, without a doubt, in this season of company annual meetings, now is the time to act.

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