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| Responsible Executive:<br><b>Secretary of the Board of Governors</b>                                                                                        | Enquiries:<br><a href="#"><u>University Secretariat</u></a>                                                           |
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## Introduction

In recent years we have witnessed a growing concern in our society over corporate social responsibility and the responsibility of investors (both individual and institutional) to act within their powers to ensure that the issuers of securities do not cause social harm by violating basic human rights.

As individual members of society and of the University community, we recognize the need to engage in affirmative action for social improvement. McMaster University, in its role as an institutional investor, has a prima facie obligation to avoid condoning social injury resulting from the activities of any corporation, government, or government agency whose securities it holds.

### 1. The Social Responsibility of the University

The primary social responsibility of the University is to fulfill its role as a centre of learning and free inquiry. Any discussion of the University as an institutional investor is subordinate to the preservation of a climate in which teaching, scholarly inquiry, freedom of dissent, social comment and criticism may flourish.

### 2. The University as Investor

As an investor the University's primary objective is to maximize financial returns over the long run. Affirmation of the primacy of this objective, however, does not absolve the Finance Committee from a periodic review of investments to ensure that there are no compelling moral or social considerations that might warrant disinvestment. It is possible that the position of the University as a shareholder or a lender in relation to certain corporations, industries, or governments may be inappropriate no matter how attractive the financial return.

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Until recently the investment policy of McMaster University has been geared solely to maximizing return on investments. The agenda of a shareholders' meeting usually deals with routine matters like approval of financial reports, election of the board of directors and the appointment of auditors. As long as the company exhibits financial responsibility, it is customary for the University to vote proxies on routine issues according to the management's recommendations.

### 3. Considerations for Policy Making

Any attempt to devise an investment policy for McMaster which is sufficiently sensitive to, and effective in addressing, the social implications of a particular corporation's or government's conduct must consider the following questions:

- a. What are the facts?
- b. By what criteria do we decide whether or not the social behaviour of a corporation, industry, or government is morally acceptable?
- c. What is the most effective means to voice concerns when a corporation, industry, or government is considered to be morally praiseworthy or blameworthy?
- d. Who speaks for the University on social issues?
- e. Who makes decisions on the University's investment policy?

Each of these questions will be briefly considered in turn.

- a. The facts.

In any specific case it will be essential to make careful investigation of all available information bearing on the activities of the corporation or government and the effect of these activities on the employees and other nations of the country, as well as the probably effect of discontinuance of the activities.

- b. The criteria.

The Declaration of Human Rights proclaimed by the United Nations Organization, together with the associated International Covenants, suggest guidelines which may provide a basis for assessing social performance. A copy of the Declaration may be obtained from the Board of Governors office.

c. Voicing the concerns.

If after investigation of the policy of a corporation, industry, or government appears to be incompatible with the Declaration, the following avenues are open to the investor:

- i) Communicate the Finance Committee's concerns to the security issuer in question requesting clarification of its policy;
- ii) Raise questions at shareholders' meetings;
- iii) Introduce resolutions at shareholders' meetings;
- iv) Where feasible, vote for the appointment of concerned individuals to the Board of Directors;
- v) Disinvestment.

d. "Who speaks for the University on social issues?"

This is a difficult question to answer. The following excerpt from the Kalven Committee report to the Ford Foundation is relevant here:

"There is no mechanism by which the University can reach a collective position without inhibiting the full freedom of dissent on which it thrives.....This creates a heavy presumption against the University taking collective action or expressing opinions on social and political issues of the day, or modifying its corporate activities to foster social or political values, however compelling and appealing they might be." <sup>1</sup>

Acknowledgement of the problem should not obscure the fact that the University is concerned with the goals of society. "It should be a forum for analysis, debate and the search for truth."<sup>2</sup> In the pursuit of these activities it is imperative that faculty members, administrators, members of the supports staff and students be allowed free expression of opinion with impunity. Furthermore, it would be invidious to presume that any single group could speak for all members of the University community.

Such considerations militate against the establishment of inflexible guidelines for defining social policy as they relate to the investment decisions of the Finance Committee of the University.

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<sup>1</sup> Reported in *Corporate Social Responsibility and the Institutional Investor*, a report to the Ford Foundation. B. Longstreth, H.D. Rosenbloom. Praeger Publishers. Quoted in "Social Responsibility and Queen's Investment Policy", pp. 5-6.

<sup>2</sup> "The Social Responsibility Dimension of Investing the Smith College Endowment: Some Objectives and Policies", p. III - C-1.

e. Making the decision.

Since these difficulties exist, the Finance Committee must continue to assume final responsibility for the investment policy of the University. It will be clear that goodwill will be required of the various constituencies of the University when the Finance committee makes decisions about which there are internal disagreements. The Finance Committee, however, does have a serious obligation to consider matters of social responsibility that may arise in connection with its investment decisions. The disagreements referred to may be mitigated to the extent that the Finance Committee's decisions reflect the full range of concerns that exist on campus and among the University's alumni.

#### 4. Recommended Policy

1. That the Board of Governors go on record as supporting the Declaration of Human Rights of the United Nations Organization as it bears on investment policy.
2. That the Finance Committee indicate its readiness to consider documented submissions relating to specific investments from its own members or from any other member of the University community.
3. When, after due investigations, the Finance Committee considers that the activities of the issuers or securities held by the University are morally reprehensible, then the following steps should be taken:
  - a. Communicate this concern to the corporation or government requesting a clarification of its policy either by letter or by personal interview;
  - b. If the corporation or government is still considered to be culpable, the Finance Committee should then seriously consider disinvestment, recognizing the following constraints:
    - i. Disinvestment must take place in an orderly and responsible manner. In responding to its felt social obligations at home and abroad, the Finance Committee may not rashly embark on a programme of disinvestment detrimental to the University's financial resources or the position of the University Pension Plan.
    - ii. Consistency demands that if the University decides it cannot in good conscience invest in the securities of a corporation, it must also decline financial support from the same corporation.
4. In the matter of voting proxies
  - a. Where no contentious issue is involved, the University administration will vote by proxy on routine matters.
  - b. Where a contentious issue is involved, or a special issue arises, the University administration will refer the request for a proxy vote to the Finance Committee for a decision.
  - c. In any event, the University will not delegate its vote.