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Trusting Harvard: The Cost of Unprincipled Investing (2014)

Marcy Murninghan
marcy.murninghan@gmail.com

Robert A.G. Monks

Trusting Harvard: The Cost of Unprincipled Investing

This article provides a framework for answering two questions: How can Harvard fulfill its fiduciary obligation as an investor in ways that advance its beliefs, values, and commitments? How can Harvard take the lead in creating a curriculum for students, professionals, and the general public about the civic moral obligations of wealth? While aimed at Harvard, the issues covered are relevant to other universities and tax-exempt institutional investors, because they have a special duty to advance the public interest. Commissioned and co-authored by the noted corporate governance and responsible ownership guru Robert A. G. Monks, it calls on Harvard to take a leadership role in recasting the meaning of "fiduciary" in the context of the scale and power of institutional investors—particularly those with roots in civil society. "Myopic" fiduciaries are short-term and narrowly focused, a paradigm that has held sway for decades. "Ethical fiduciaries" are those that have made some effort to incorporate normative considerations into their decision making, reflected in their investment policies and (typically) proxy voting records. "Ethical, integrated fiduciaries" view their civic moral obligations as investors in a more holistic way, across the portfolio and anchored in their institutional purpose.

Part I: Letter to Harvard President Drew Faust

December 4, 2013

Dear President Drew Faust,

I have always been in love with Harvard. When I arrived for the first time by subway at Harvard Square in September 1951 as a 17-year-old sophomore it felt very comfortable, as Harvard long had been a precious ingredient in my karma. I stayed for twenty years, enjoying not only the College but three of the graduate schools, the river, and all manner of Overseers' visiting committees. On leaving, we gave our house—nicely located next to the Cambridge Common—to Harvard for the history department's use.

By 1979, I was back in Boston and chairman of The Boston Company, a venerable trust company with directors including Harvard's Treasurer and the CEO of Harvard Management Company. I have elsewhere described the mini-Epiphany that I experienced upon discovering that a relatively few individuals in charge of fiduciary institutions held the controlling stock of a preponderance of publicly listed companies. So it seemed sensible to write Derek Bok, the hugely respected President of Harvard, to inquire as to the University's position on its responsibilities as owner of shares in the various companies held in its endowment.

Derek and I exchanged correspondence and lunches, and he later codified his general view:

> As I have already observed, society respects the autonomy of academic institutions because it assumed that they will devote themselves to the academic tasks that they were established to pursue. This does not mean that the universities should refrain from trying to influence the outside world. It does mean they should exert an influence by fostering the reasoned expression of ideas and

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> argument put forward by their individual members and not by taking institutional steps to inflict sanctions on others. Universities that violate this social compact do so at their peril. They cannot expect to remain free from interference if they insist on using their economic leverage in an effort to impose their own standards on the behavior of other organizations.[1]

A fair-minded man, Derek acknowledged a different perspective:

> [O]ne could argue that they should go further and initiate their own proposals for other stockholders to consider. According to this view, ownership carries an affirmative duty to try to improve the behavior of companies from which one derives a profit. As a result, universities should acknowledge a responsibility to exert such influence because they have the prestige to generate stockholder interest and encourage company executives to pay close attention to the resolution. . . .The burdens of initiating resolutions could be extremely heavy . . . prohibitively expense for trustees to monitor the performance of all these companies in order to initiate resolutions condemning inappropriate behavior. An institution could also try to reduce the administrative burdens by agreeing to sponsor resolutions only in certain categories of cases of unusual social importance.[2]

As my fiftieth reunion approached, I thought it suitable to try once again to attempt to correlate my own priorities with the realities of Harvard's views. Hence, I wrote "To Harvard with Love"[3] and in 2003 delivered it personally to President Larry Summers who was then head of the University and received me with grace—and some skepticism. Ultimately, he wrote, "I intend to raise these issues in the appropriate forum." Derek, to whom I also sent a copy, wrote: "After wrestling with problems of this kind for twenty years, I must confess to feeling relieved that I can relax and watch someone else grapple with them today. Shameful thought."

Alas, Larry failed to achieve the support of the faculty and Derek was called upon once again to be President of Harvard. He wrote in answer to my note of congratulations and condolence: "it is ironic that having boasted of being free of responsibility for Harvard and its problems, I find myself back in the hot seat." He undertook to refer me to a Professor of Ethics at the Harvard Business School but nothing came of it.

In January and June of 2013, I picked up my Presidential dialogue and wrote you about what might by this time—my fifth decade and fourth Harvard President (counting Derek Bok twice—politely or otherwise be styled the "Bob Monks Agenda." In July, you replied with courtesy and art: "I have taken the liberty of sharing your letter with colleagues involved with Harvard's investment, and I have asked that they be in touch with you directly if they are able to pursue your offer [of help and money]."

In my letter of June 24, I had raised two questions:

1. How does Harvard define its responsibilities as owner of the various securities held in the portfolio of its endowment?
2. Can Harvard take the lead in creating a curriculum to inform students and the public of the "Ethics of Institutional Portfolio Ownership"?

Having received no reply, I decided to celebrate my eightieth birthday by sending you my own responses to these questions, along with a series of questions for university trustees to consider. I've been ably assisted in this endeavor by Marcy Murninghan, alumna of Harvard Graduate School of Education, former instructor in the Divinity School, and researcher at the Kennedy School, who has concentrated on these issues since receiving her Harvard doctorate in 1983. We have long discussed and collaborated on these topics out of our mutual love for Harvard.

With best wishes,
Robert A. G. Monks

Part II: Fiduciary Ethics

Of all the traditionally finessed contradictions in the position of great private universities in America, none is greater than the stake in corporate capitalism by which they largely finance themselves. . . . The assumptions implicit in Harvard's dependence on corporate capitalism—without which it cannot survive-are intolerable unless it works actively to bring the benefactor in line with the humanitarian attitude the University claims to represent, and without which its survival is equally threatened.
—Michael Kinsley, "Profit without Honor"
Harvard Crimson, June 12, 1972

Restoring Fiduciary Values

The preceding quotation was written more than 42 years ago at a time when student activists were challenging the moral implications of Harvard's investment policy. What strikes me is that what Michael Kinsley said then still applies today. He even pointed out the origins of the word "divestiture." In late 2013, one could republish his piece, edit it a bit, insert reference to "divestiture of fossil fuel," and submit it to the *Wall Street Journal*.

Kinsley's article serves both as a critique and review of *The Ethical Investor: Universities and Corporate Responsibility*, a landmark book delineating the obligations of universities, at the very least, to avoid social injury through their investment policy.[5] In doing so, Kinsley's piece points out the obvious: Harvard, along with universities in general, has a special obligation to broaden, deepen, and connect its fiduciary obligations as an investor to its fiduciary obligations as an academic institution. Who else can help transfer the human values of one generation to the next, and beyond? Higher education looks to the future with insights gained from the past while embracing change and transition and, as a result, it resembles Janus: two faces going in different directions but possessing a coherent wholeness. To view investments as disconnected from this is to undermine this wholeness, this integrity.

As Kinsley pointed out in 1972, Harvard has yet to assume a leadership role. That still is true. In spite of decades of unrest and debate over its investments, Harvard has engaged in a carefully choreographed dance of denial, in which all parties have acquiesced. In two significant ways the discussion has remained fixed on certain features that fail to accomplish Harvard's avowed mission. First, discussion tends to concentrate on specific *issues*, rather than on long-term *responsibility* for critical problems facing us today. With great power and resources come responsibility for engagement—something Harvard has not displayed.

Second, the discussion tends to concentrate on specific tactics—for example, to divest or not to divest. To screen or not to screen. To boycott or not to boycott. Such a limited focus on issues and tactics misses the mark. I believe that Harvard needs to disclose some broader, and substantive, beliefs, values, and commitments that inform multiple strategies and tactics—covering both investment and academic operations. These beliefs, values, and commitments constitute Harvard's moral character as it has evolved nigh on four centuries, and can be expected to evolve over centuries to come. They permeate everything it does.

In a changing world, responsibilities are not divided neatly into specific asset classes or disciplines. A principles-based academic and investment policy equips graduates and professionals with the flexibility and adaptive capabilities needed in a dynamic and volatile environment. That's the purpose of a liberal arts education.

Fiduciary Responsibility for Multiple Capitals

For forty years, the Harvard Management Company (HMC) has managed Harvard's endowment and related financial assets. That's a departure from previous services provided by State Street Boston Financial Corp., now State Street Corporation. I'm somewhat familiar with this history, as I mentioned earlier. In the mid-70s I engaged directly with HMC's CEO and Harvard's Treasurer, in my capacity as Chairman of The Boston Company. I'm well aware of the considerable resources Harvard devotes to the management of its endowment. Harvard has been the leader among universities in creating and funding a professional management capability for its investments. It is important to continue this leadership by allocating resources to understanding and implementing a more spacious concept of value. Looking at the University and Harvard Management Company on a consolidated financial basis, the aggregate compensation paid to manage the endowment is strikingly large when contrasted to the totals paid for philosophy professors or, indeed, for the whole faculty of Arts and Sciences. My concern is that endowment managers are being rewarded for behavior that does not accrue to Harvard's integrity.

The justification, of course, is that HMC works to generate the financial resources that enable Harvard to do its work. Its publicly stated mission is clear: "Produce long-term investment results to support the educational and research goals of the University." The question to ask is, *What if the impacts of these investments undermine or contradict these educational and research goals?* Related to that is the assumption, now challenged by authoritative sources, that the management of financial capital exists a world apart from human, environmental, social, built environment (e.g., real estate, infrastructure), and intellectual capital (multiple or common capitals). Of course, they do not. These other storehouses of energy affect performance, and build upon earlier efforts to value intangibles.[6]

These days, multiple capitals theory is central to an evolving global sustainability ecosystem that will powerfully impact capital markets. It's the driving force in prominent corporate accountability groups such as the Sustainability Accounting Standards Board (SASB),[7] the International Integrated Reporting Council (IIRC),[8] the Global Reporting Initiative (GRI)[9], and the Global Initiative for Sustainability Ratings (GISR).[10] These groups recognize the materiality of human, environmental, social, and other forms of capital to financial performance, and the importance of sustainability disclosure to investors and stakeholders.[11] Thanks to activist pressure, they're also beginning to recognize the critical importance of planetary boundaries and contextual factors affecting these "capitals."[12] Why? Because they're a vital source of risk management and value creation. And moral dilemmas and ethical considerations hover over all of them.

Despite decades of discussion, often in response to some egregious controversy, there's been little commitment of HMC resources to discovering how these other forms of capital and their ethical implications bear upon value creation. It is this limited comprehension of what's fitting, proper, and possible that permits the perpetuation of stifling notions of fiduciary obligation, notions that have become truncated over time.

And therein lies the rub: Harvard, like most universities and certainly most endowments, clings to ideas about fiduciary duty that are frozen in time. Ironically, these ideas are relatively young; they emerged during the past 60 years in response to a number of post-WWII developments in the field of economics and social science that elevated algorithms *über alles*.

Such a devotion to mathematical models and so-called "rational behavior" fail to incorporate systemic risks and how real people behave. They impede fair competitiveness and sustainable prosperity, not to mention civic virtue.

These frozen ideas—I call it the plight of the myopic fiduciary—also fail to acknowledge the ethical outcomes and impacts of investment decisions on human, natural, social, and other forms of capital. These other capitals can generate true value for Harvard and its multiple intergenerational communities, both current and future.

The myopic fiduciary fails to acknowledge the vastly different operating environment affecting today's capital markets and corporate management. Today's marketplace is complex, constantly changing, and increasingly disruptive, with barriers to entry continually falling. There's more sophisticated and organized advocacy from the investor community, business coalitions, and nonprofit groups.[13] And there's increasing evidence to support the proposition that managing risk to achieve positive financial performance is linked to managing material environmental, social, and governance (ESG) risk, too.

As David Blood and Al Gore wrote recently in the *Wall Street Journal*, that's exactly what's happening with what they call the "subprime carbon asset bubble." This means that institutional investors such as Harvard are confusing "risk" with "uncertainty," thus failing to incorporate it into investment analyses. Investors need to identify total-portfolio carbon asset risk, say Blood and Gore, and engage corporate boards and executives about their plans to mitigate and disclose carbon risk. Otherwise investors are acting imprudently and exposing their portfolios to "stranded assets"—that is, holdings that lose economic value well ahead of expectations.[14]

The myopic fiduciary fails to recognize that the current investment operating environment features new business, reporting, and investor accountability frameworks, such as those mentioned earlier. These new frameworks emphasize new models of materiality disclosure, stakeholder engagement, and investor stewardship. In recent years, investors, corporate managers, and policymakers have recognized the relevance of sustainability factors to competitive performance. Throughout the world, sustainability initiatives have been launched, laws have been passed, new regulations put in place, listing standards created,[15] and financial services developed. Prominent data providers and ratings agencies have factored ESG into their offerings.[16] Many foreign firms and funds invested here in the U.S. carry with them sustainability commitments.

But Harvard remains an island unto itself—despite its world-class status and influence.

And, it trots out old arguments that no longer hold up. Those arguments remain covered with the dust of earlier skirmishes over the last half century, musty with mold in the light of modern developments.

Especially relevant here is the fact that, unlike most pension funds governed by actuarial tables, university endowments have time on their side. Their duration is not constrained by specific commitments. The Norwegian Government's pension fund is an example of a long-term investor dedicated to sustainability practices in building wealth for future generations of Norwegian people.[17] The permanent investor brings a perspective to the corporate constellation that is not available from other constituencies. Who else will require the enterprise to allocate resources to planning and funding the post-carbon world? The myopic fiduciary is fixed on short- term gains, rather than long term impacts. That's a shame and a pity.

Becoming the Ethical and Integrated Fiduciary

Economics is an evolving art and science, not permanently fixed to this or that orthodoxy or obstinate thinking. Therefore, Harvard can address critics of its investment policy by offering an alternative fiduciary concept, one that's tied to both theory and practice. I propose one that recognizes that the scope of investment, ownership, and management responsibilities is broader than mere profit maximization in producing lasting value. Such a model requires active engagement, not passive acceptance, to counteract harmful conduct to people and the planet. It draws upon new and increasingly mainstream thinking about how environmental, social, and governance information is used in financial analysis to address sustainability factors posing risks and opportunities. It views Harvard as a whole, not a disjointed institution with separate and distinct moving parts, one part preaching cherished values, the other part undermining them in the name of profit maximization.

That's why, at a more general level, it also introduces ways in which Harvard as *an investor and an educational institution* can cultivate those qualities of intellect, leadership, and public spiritedness that helps usher in a better, more just economy. One that distributes benefits more widely while reducing the costs of damaging impacts on society and the environment.

Indeed, the ethical and integrated fiduciary revives and strengthens the public interest standard built into the Securities and Exchange Commission enabling legislation of 1933, 1934, and 1940, wherein "the public interest" is mentioned 316 times, always linked to "investor protection."[18]

As such, both as an investor and an educational institution, Harvard can help to usher in a more functioning democratic system of representative self-governance. That's a system, originally envisioned by the nation's Founders, wherein power is distributed more widely, with checks and balances in place to reduce the costs of damaging impacts upon community. The *ethical fiduciary* views sustainability considerations and active shareholder engagement as a vital extension of fiduciary duty, loyalty, and care. The *integrated fiduciary* views its responsibilities as extending throughout the enterprise, consistent with its values and mission. Both are models of stewardship that recognize the importance of business innovation, strategy, and multiple capitals to value creation—financial, human, social, environmental, built environment, and intellectual—that also impact the common good. Let's call them "common capitals." The ethical fiduciary and the integrated fiduciary acknowledge the negative impacts of system risk and externalities, and how they can be prevented. Both emphasize collaboration and knowledge development so as to meet current challenges more effectively. And both acknowledge the need to review the conflicts of interest that have popped up in the complex relationships throughout the investment chain—conflicts of interest among intermediaries that are costly, in both empirical and moral terms.

The Ethical Fiduciary: Loyalty as Voice

The problems presented by "the University as owner" go beyond that of a simple limited liability shareholder because they are a fiduciary owner and owe loyalty to {chose one or more} today's students, yesterday's students, contributors, faculty, tomorrow's students, and the general public (due to the IRS tax-exempt status of endowments).

We're in the midst of massive transformation of our expectations of investor and corporate governance and accountability, particularly affecting ESG performance. As these sustainability concerns grow, prevailing assumptions about fiduciary obligation become challenged. The myopic fiduciary cannot remain blind to digital technologies, the permeability of institutional borders, conflicts of interest, more complex and innovative financial products, heightened exposure to systemic risk, greater reliance on financial intermediaries, and the mismatch between expectations—not to mention incentives—and performance.

The myopic fiduciary pays no attention to these changes, remaining aloof and assured that performance goals will be met. That's a form of blind faith that has little bearing on the marketplace, corruption and abuses of power, or evolving interpretations of law in response to changing circumstances.

The myopic fiduciary is imprudent, impervious to the dynamic nature of fiduciary principles and duties.

The ethical fiduciary, in contrast, recognizes its obligation to oversee activities entrusted to its care—including the outcomes and impacts of those activities—so as to uphold the highest standards of ethics and values. The ethical fiduciary recognizes the continuing evolution of this obligation, as circumstances warrant; the past several decades are testament to this. The ethical fiduciary assures that all of those associated with managing an endowment—including financial advisers, investment managers, administrators, trustees, and investment committee members—understand, accept, and act upon their obligations as owners and investors.

While mindful of the need to generate financial returns, the ethical fiduciary recognizes that, beyond "the *legality* of the corporation's activities where they are performed as the sole criterion of eligibility for investment . . . it cannot close its eyes to the moral factors." That's what faculty members of the 1971 Harvard Committee on University Relations with Business Enterprise concluded in the so-called "Austin Report," referring to issues related to public health, apartheid South Africa, and the concept (promoted by the work at the Business and Law School, as well as Economics faculty in Arts and Science) of "corporate souls."[19]

The ethical fiduciary harmonizes the civic moral values governing its institutional mission with the civic moral values governing its endowment. It does so through policy, procedures, and structures that assure this harmony won't diminish over time.

Terms of Engagement

This kind of harmony, extended to investments, is not a new idea. Throughout the past 40 years Harvard has sought to deal constructively with pressures to consider social issues in its investment portfolio. From 1970s-era Campaign GM and South Africa-related portfolio investments, to current debates over human rights and environmental protection, Harvard has recognized the importance of environmental, social, and governance considerations. More recently, the Social Choice option and creation of a Vice President for Sustainability at HMC suggest greater embrace of the financial implications of heretofore nonfinancial indicators.

As President Faust indicated in her response to fossil fuel investments, she favors engagement over divestment, and recognizes the importance of disclosing ESG factors in determining investment risk and opportunity.[20] The appointment of Jameela Pedicini as Vice President for Sustainability at HMC contributes to this, helping Harvard to forge a future achieving “superior investment returns as it fulfills a university’s distinctive responsibilities to society.” That, in addition to the emergence of worldwide trends toward greater investor engagement and a global architecture supporting corporate ESG disclosure and responsible stewardship, puts Harvard in an irresistible position to take the lead. After all, who better to encourage corporate responsibility and sustainability than the owners who benefit (or not) from their decisions?

A diminished sense of the purpose and means of the fiduciary obligation lies at the heart of our current nationwide crisis, threatening not only our democratic society but contradicting the very values that Harvard holds dear. Over recent decades, due to a variety of social and organizational forces, the classic fiduciary pillars of *duty*, *loyalty*, and *care* have become reduced to algorithmic calculations and a paper chase for “Alpha” that possess no moral depth or recognition of complexity.

The Integrated Fiduciary: A Holistic Approach

I have argued that, as Harvard’s endowment has grown, so, too, has its obligation as an ethical fiduciary—particularly manifest through shareholder responsibility and active engagement. To view conceptually the fiduciary obligation as separate from university purpose and mission bifurcates the very mission Harvard purports to advance: *Veritas* in aspiration and action.

That’s a shame, because a house divided against itself cannot stand—especially when that “house” is as prominent as Harvard University, and a vital part of an influential network of institutions that constitute the world as we know it. There is no such thing as perfect freedom or autonomy: Harvard is a deeply embedded institution in social, political, economic, cultural, and natural systems that nourish and sustain it—just as it seeks to nourish and sustain these systems. Its actions in one sphere have consequences in others, in all that it does, including its investments.

I propose that in addition to acting as an ethical fiduciary, Harvard behave as an *integrated fiduciary*. What does that mean? It means extending the values that animate program decision-making on the academic side to investment decision making on the endowment side, across the portfolio. Climate risk, for example, is not something that affects only corporations; it also affects other asset classes. So, too, do risks associated with political conflicts, ethical lapses, human rights violations, excessive compensation and fees, and other concerns that shareholders have about effective corporate governance and performance. There is important work occurring along these lines, something that needs to be more fully incorporated into both HMC’s operations, as well as the Harvard curriculum. While my focus is on publicly traded securities, an integrated fiduciary ethic views the entire portfolio as an extension of institutional values, something fitting and proper within current interpretations of fiduciary obligation.

Part III: Harvard’s Role: Curricular Options for the Ethical, Integrated Fiduciary

Happiness is the exercise of vital powers along lines of excellence in a life affording them scope.
—Aristotle, *Nicomachean Ethics*

Fiduciary Integrity and the University as Educator

One of the byproducts of the university acting as an ethical, integrated fiduciary is improved economic accountability and performance. Another is an active and engaged citizenry. Both are essential qualities for a healthy representative democracy. That's the opportunity before the members of the Harvard Management Corporation, and we the legion of benefactors who wish to sustain Harvard in the present and the future.

The university is a special kind of investor, unlike pension funds or mutual funds or banks or insurance companies. That's because it's granted a charter to advance, somehow, both private character and the public interest. The university as an ethical, integrated fiduciary emphasizes throughout its educational mission the ideas and values of responsible stewardship. Affecting multiple/common capitals, that kind of stewardship is directed to a future of sustainable prosperity. It balances quantity with quality, and recognizes that behind the numbers lie important questions of purpose and civic virtue.

Through its research, teaching, and outreach, Harvard is in a position to profoundly influence current and future generations of leaders, in addition to professionals, policymakers, and the public. It can do this through a carefully considered curriculum of fiduciary obligation, or "civic stewardship." Such a curriculum comprises a range of topics and disciplines, both deep and wide. It would draw on the extraordinary array of existing activity, from FAS through the various graduate schools. It also would feature new activity, geared specifically to institutional investor responsibilities for active equity ownership, and broader public participation.

Such a curriculum would feature a collaborative, forward-looking process with increasingly complex levels, rooted in both theoretical concepts but also practice. It would involve participants playing the ethical fiduciary game in ways that inspire curiosity, empowerment, challenge, and teamwork—all linked to improving performance and understanding of the value creation process, both internal and external to the firm and/or portfolio. It's an approach that would generate deep, not superficial, learning, and have direct bearing on professional performance and understanding. It would represent a form of ongoing education, rooted in solid pedagogy and incorporating various learning theories, so that subject matter and technology can be brought together in ways that illuminate, engage, and empower.

It also would make great use of digital tools and the latest insights into the use of educational technology for networked learning environments. Indeed, EdX, Harvard's Berkman Center, and expertise at the Graduate School of Education's Technology, Innovation, and Education (TIE) Program offer important insights and resources.

Here's a thumbnail sketch of key characteristics and questions, organized along a progressive continuum of intellectual and applied knowledge.

Level I: Fiduciary Fundamentals

This introductory part of the curriculum would introduce the essentials, including sustainability, value creation, and corporate and investor accountability. From a pedagogical perspective, it relies on remembering and understanding the fundamentals of historic, current, and evolving definitions of fiduciary obligation, applied to investors, corporate officials, policymakers, and the public.

Offered through any of the faculties of FAS, the Law School, Business School, Kennedy School, Ed School, even the Divinity School, it would address the fundamentals of capital markets and corporate ownership. Sample topics might include questions regarding the interrelated categories of *context, character, conduct,* and *consequences*. For example:

CONTEXT

How private is private?

How has the power and influence of the transnational corporation impacted the quality of life of world civilization, transcending traditional geo-political structures and boundaries and shaping a society's cultural values as well as foreign policy?

What characterizes current corporate and capital market activity regarding sustainable prosperity? How has it changed and how will it evolve?

What characterizes emerging global infrastructure supporting new and broader understanding of a fiduciary ethic affecting both quantitative and qualitative dimensions?

What are the key substantive issues related to measuring sustainability impact within a context of planetary boundaries, climate change, and political uncertainty?

What do religious, humanist, and philosophical traditions have to offer us about ethics and the civic moral obligations of wealth?

What contributions are social scientists making toward our understanding of markets, manners, and mores?

What are biologists and neuroscientists discovering about how we humans make moral judgment?

What horizon issues affect markets and morals?

CHARACTER

What does it means to be a trustee?

What are the qualities of character, organizational behavior, and structure for good governance, ownership, management, and accountability?

Who are the key players, direct and intermediary, across the value chain?

What are the types, roles, and responsibilities of institutional investors?

What are the special fiduciary obligations of endowments (nonprofit investors)?

What new environmental, social, and governance expectations confront corporations and other forms of private enterprise?

What are the barriers to civic virtue, and how can they be surmounted?

CONDUCT

How is responsible ownership or stewardship defined, and what models exist for its execution?

How has the evolution, experience, and insights of shareholder engagement bolstered collective action to a greater good?

What laws and reporting requirements affect them?

What voluntary actions might institutional investors and corporations take to achieve sustainable prosperity and political transparency?

CONSEQUENCES

How do these actions strengthen our political economy and representative democracy?

Level II: Fiduciary Usable Knowledge

This is the intermediate part of the curriculum; it builds upon **Level I: Fiduciary Fundamentals** and puts them to work in real or hypothetical settings. From a pedagogical perspective, it analyzes and applies them to firm-based or industry-based or issue-based situations, and/or those affecting geographical regions and place-based problems. It calls for integrated thinking across sectors, disciplines, and geographic boundaries. It is mindful of behavior, culture, and changing conditions.

Again, faculty and staff resources from the FAS, Graduate Schools, and other academic and applied initiatives can be drawn upon to help address critical questions about specific circumstance, context, and impacts involving multiple / common capitals, capital markets, and corporate enterprise. External collaborative partners can make important contributions, too.

Pertinent questions relate to *substance, strategy, and structure*:

SUBSTANCE

What sources of knowledge and expertise apply to the substantive issues, problems, risks, and opportunities presented by multiple or common capitals and the public interest?

Beyond the moral minimum, what ethical principles, codes, or systems are appropriate for current market and intermediary agents?

How do the ethical values of various religious and philosophical traditions become integrated in professional and public life—including trusteeship and investment management?

How do you maintain integrity when these ideals and practices are challenged by market pressures and political influence?

How do you carry out responsible ownership and engagement in a pluralist society and diverse regulatory environment?

How do you provide for continued learning, adjustment, and adaptability, given market uncertainties, emerging issues and trends, and core values of democratic accountability, sustainability, and civic virtue?

STRATEGY

How do you balance bottom line financial pressures with a commitment to do good in the world?

How do you factor climate risk and multiple or common capital theory into corporate and portfolio decision-making?

What strategic alternatives in addition to or in lieu of divestiture might forcefully and constructively address climate change and other major ESG problems?

How can we measure, manage, and monitor the impacts of our investments on the existing stock and flow of multiple or common capitals?

STRUCTURE

What similar measuring, managing, and monitoring mechanisms can be installed to assure flexibility and adaptability when confronting ESG risk?

What mechanisms can we build for transparency, monitoring, and adaptive learning—given the dynamic nature of fiduciary obligation and circumstances?

How can wider and purposeful stakeholder engagement be developed?

Level III: Fiduciary of the Future

This third, advanced part of the curriculum is future-focused. Building upon **Level I and Level II**, it dives into trends, forecasting, and calculations about horizon issues that could impact both the operating environment and the public interest. Pedagogically, it's a process of sustained inquiry, reflection, and innovation that relies on evaluating and creating, a form of design thinking and doing. This is emerging, frontier knowledge that means staying on the learning edge, spanning boundaries, and looking ahead to ESG issues that are likely to emerge, along with other macro-forces at work.

It draws on the work of Harvard faculty and other resources throughout the institution. It also works with non-Harvard groups and individuals who catalyze systemic change to exploit sustainability opportunities, mitigate negative impacts, and build resilience. Some of the rich challenges facing the *Fiduciary of the Future* include testing and scaling solutions aimed at:

Multifaceted disruptions occurring as a result of natural disasters and pandemics;

Reversing growing economic disparities between the have and have-nots;

Combatting corruption and developing ethical performance cultures;

Creating more entry points for citizenry to take charge of their economic (and political) destiny;

Preparing for demographic, political, and environmental shifts;

Building intergenerational support;

Anticipating—or creating—changes in the reporting, accountability, legal, and regulatory environments;

Managing the proliferation of digital media and other technological innovations; and

Understanding the ethical implications of biomedical and scientific breakthroughs.

Of course, Harvard already has a bountiful array of courses scattered throughout the university that touch upon these questions. Virtually every School and many Centers bring something to the sustainability table, and in some cases offer dedicated programs. Yet as impressive as this is, the fiduciary dimension is missing, along with a sophisticated moral discourse on how markets should incorporate human values.

So I ask: How might Harvard mobilize *Veritas* across a large canvas, in the pursuit, advancement, and diffusion of learning about how best to steward various forms of capital?

How might Harvard deploy its vast array of resources in service to cultivating future and current wise, sagacious, and thoughtful leaders, many who will find themselves as board directors and trustees?

The appendix contains a series of questions for university trustees to ponder. For current and future students, there are many ways of tackling these questions, from empirical and normative perspectives. They range from special courses or modules, to interfaculty collaborations and research initiatives. Applied to practitioners, the Kennedy School's "Executive Session" model is well-suited to such an inquiry. An Executive Session involves practitioners and academics in a shared quest to develop "usable knowledge" on emerging critical public issues.

Relying on blended model of online and face-to-face engagement, it's increasingly "owned" by participants.[21] Certainly other forms of blended approaches, utilizing massive open online courses (MOOCs) and other digital approaches, are appropriate.

Critical here is to involve staff at Harvard Management Corporation, too, in a powerful demonstration of "integrated thinking."

Fiduciary Thinking is High-Level Knowledge, Cognition, and Social Competence

A Harvard education aspires to more than filling students' heads with facts and figures. At both the undergraduate and graduate levels, as well as through the Extension School and various public offerings, Harvard also seeks to equip students with the flexibility and adaptive capabilities needed in a volatile environment. This means offering an education where problems cannot be broken down into separate disciplines or fields of analysis. It means fostering expansion and growth through increasing knowledge and ongoing, expanding performance capabilities. It means helping smart people learn how to learn, as the recently deceased Harvard Business School professor and "father" or organizational learning Chris Argyris put it.[22]

Harvard University is perfectly suited to developing high level fiduciary knowledge, cognition, and social competence. The question is, How might Harvard go about this? If not Harvard, then who?

Veritas, Self-Governance, and the Public Interest

I realize this may raise red flags if people perceive this as impinging on academic freedom. That is not my intent. My point is that, with its vast and varied resources, Harvard is unique. It can mobilize existing teaching, research, and outreach activities to better equip students and professionals for discharging their civic and fiduciary/stewardship responsibilities, through wise and active engagement. That's consistent with its mission as a university. As an institution, Harvard, as with other research universities, has an overwhelming duty to the pursuit of *Veritas* and the public interest. That's a duty that overrides every other possible interest—including the self-interest of specific groups, such as lawyers, accountants, and investment bankers.[23]

The argument for active engagement, manifest through equity ownership, occurs within two frames. The first is the current global context of best practices and efforts. Spanning the past several decades, they've elevated corporate ownership and value creation to a higher plane. The second involves the responsibilities of informed and active citizenship if we are to maintain our republican form of self-governance in public life.

This self-governance piece is relevant to academe. Universities are places where the tradition of shared governance continues, despite criticisms that it often leads to gridlock. To be sure, as Derek Bok points out, university governance leaves a lot to be desired.[24] Differences exist between the formal decision making power and influence of principal actors (e.g., trustees, academic leaders, faculty, and students) and actual practice. They resemble the differences found in corporate governance among shareholders, boards of directors, and management. Information asymmetries also exist, which can lead to unfortunate results.

Yet faculty and administrators are expected to play a major role in university governance, bringing their knowledge and perspectives to bear upon a range of important issues. While not necessarily efficient (no one ever claims academic decision making is efficient!), shared participation in university governance exhibits many of the qualities expected of good governance in business and public life. They include:

Shared commitment to purpose;

Shared commitment to ethical values;

A climate of mutual trust;

Careful attention to a collaborative and respectful process of education (especially when it involves new developments affecting institutional mission) and engagement;

Free, candid, open, and informed debate, in a variety of venues, both formal and informal;

Willingness to change course, even fail, based on due diligence and critical feedback.

"To govern is to foresee," a 19th century French president once said.[25] Self- governance within a republican tradition of representative democracy demands a rootedness in the present and knowledge of history. It also calls for "sentinelship," enabling future gazing, reflection, and consultation with experts to identify emerging issues and their implications for policy, program, and practice. That's Level III, a Fiduciary for the Future, and that's what Harvard can help to cultivate.

The Business of Neutrality: Beyond the Moral Minimum

Over the years much has been written about the importance of university neutrality in order to maintain academic freedom. On October 3, Harvard President Drew Faust issued a "Fossil Fuel Divestment Statement," writing about the importance of the endowment in meeting academic aims, rather than serving "other purposes, however worthy."[26] She warned against "instrumentalizing" the endowment, claiming that this "can entail serious risks to the academic enterprise. The endowment is a resource, not an instrument to impel social or political change."

Blended Relationships and Value[27]

While it's true that academic values are to be cherished and maintained, the idea that universities are neutral doesn't square with current reality. Nor does the notion that Harvard remains aloof from exerting economic pressure for social purposes. The fact is, there is a great deal of co-mingling between Harvard's role as an investor and Harvard's role as a research and teaching institution. Harvard is an active participant in the economic and political life of many industries and sectors, within the United States and throughout the world. As a result, Harvard becomes subject to various accountability regimes affecting sustainability, quality of life, and intellectual property, among other performance areas.

As an institutional investor, Harvard's also subject to, as I've pointed out, the emerging global infrastructure regarding responsible ownership, transparency, and disclosure—in particular, the movement toward integrated reporting. Then we must ask, What are the principles and guiding lights that govern both the endowment and academic sides? How might Harvard take the lead as an ethical, integrated fiduciary, equipping its students, faculty, and staff—even its alumni and others who choose to become engaged—with knowledge and competence that enable them to carry this stewardship model forward?

Along with many other universities, as Harvard has grown larger and more complicated, it has cultivated all kinds of research relationships with business, government, foundations, and individual donors. In many cases, these are for commercial and political purposes. The lines between basic and applied research are blurred as research becomes more collaborative and interdisciplinary. Be it the natural or social sciences, business, education, law, medicine, or the arts, the problems of society become the canvas on which academic resources are brought to bear. This typically involves many investigative partners, who are excited by opportunities for cross-disciplinary, cross-sector collaboration. Projects are undertaken not only on the basis of their intellectual merits, but for what they offer in terms of practical consequences.

Commenting on this development, Derek Bok writes, "The 'ivory tower' has been breached at so many points and the connections with the outside world have grown so numerous and close that the term no longer has descriptive value. The very mission of research universities has expanded to include making contributions to economic development and other national needs, with consequences for science that are not fully understood."[28]

These "contributions to economic development and other national needs" also are the province of institutional investors, who face challenges associated with climate risk, corporate political activity, corporate governance, energy options, political instability, human rights, supply chain vulnerability, privacy protection, and so on. Harvard also tackles many of these same questions, in various initiatives scattered throughout the university.

Why not make these efforts more transparent? Indeed, most people are unaware of the breadth and depth of Harvard's work in areas that matter to institutional investors, who often lack sound information with which to make informed decisions.

Donor Expectations

Another challenge to the neutrality argument is the fact that faculty and researchers often "take the preferences and predilections of funders into account if they need money to carry out a project," as Bok points out. "Investigators whose careers depend on getting grants for their research may feel constrained to choose safe problems to pursue in order not to risk being turned down by funding agencies."

Other pressures on academic freedom, he says, include "fear of intense student disapproval [that] doubtless encourages some professors from taking up some controversial subjects in class," the challenges to scholarship posed by obtaining research funding, and the appointments process in departments that are "wedded to a particular ideology or way of approaching the subject matter in its field."[29] There are many forces in play that contribute to bias, thus affecting what research questions are pursued and the type of research methods employed.

While there is nothing inherently wrong with these relationships, as long as they don't undermine core academic values, they do pose ongoing risks to institutional integrity. Yet an oft-heard response to pressures to integrate moral concerns into the university's fiduciary obligation is that potential donors might be put off by what they perceive as indictments of their behavior. "Don't bite the hand" becomes a defense against any form of protest against vexing problems. At its worst, this position, in the name of neutrality, represents an insidious form of apathy and passivity. It's a backhanded endorsement of the status quo, despite evidence that suggests the status quo isn't working.

At best, neutrality sometimes gets linked to a "moral minimum" of doing no harm. That was the position taken by the authors of The Ethical Investor in 1972, at a time when universities were riven by social and political conflict. (According to Michael Kinsley, during that time students demanded that Harvard sell its Gulf stock as a protest against Portuguese colonialism, they occupied Massachusetts Hall for a week.[30])

One outcome of a liberal education is to question the status quo and conventional wisdom, even advocate for reform. To expect that the day-to-day life of Harvard should somehow follow a different set of rules than the day-to-day life of Harvard's investments is to succumb to the argument that "tainted money 't'ain't enough"—that it cedes its power to reform corporations, or financial system, in the name of an illusory goal.

The University's Role

That capitalists often conspire to break the law—or stand by to let it be broken—is no surprise. Most recently, in *The Bully Pulpit*, Doris Kearns Goodwin describes the early efforts of investigative journalists to expose the nefarious links between business and government. It sounds like today, but Kearns Goodwin is talking about the turn of the twentieth century. Writing for *McClur*e's *Magazine*, the muckrakers confronted the corruption that had infected American politics and business, and galvanized an American public in doing so. *McClure's* January 1903 editorial could well have been written today, setting forth the challenge:

> Capitalists, working men, politicians, citizens—all breaking the law, or letting it be broken. Who is left to uphold it? The lawyers? Some of the best lawyers in this country are hired, not to go to court to defend cases, but to advise corporations and business firms how they can get around the law without too great a risk of punishment. The judges? Too many of them so respect the laws for some "error" or quibble that they restore to office and to liberty men convicted on evidence overwhelmingly convincing to common sense. The churches? We know of one, an ancient and wealthy establishment, which was compelled by a Tammany hold-over health officer to put its tenements in sanitary condition. The colleges? They do not understand.
>
> There is no one left; none but all of us.[31]

Well, it's time for the colleges to understand. And it's up to all of us to make this happen.

How? One of the ways of addressing corruption in capital markets is to do a better job of preparing young people for professional and public life, to teach them about how capital markets work, about how malleable they are.

Another is to help reorient and support existing professionals to uphold high standards of conduct in professional and public life, especially within the realms of finance and investing.

"Out-of-integrity behavior has become institutionalized," Michael C. Jensen, Harvard Business School professor emeritus, recently told a group of Montreal business school students. "It's so pervasive, it seems to be business-as-usual, or the nature of finance."[32] In addition to his pioneering work in corporate finance, Jensen also is co-founder, chairman, and "chief integrity officer" of the Social Sciences Research Group (SSRN).[33] Jensen is keenly interested in exploring positive role of values in economics and the social sciences, and how they affect outcomes.[34]

"About two-thirds of what we do in the MBA program is false, in terms of preparing for moral leadership," he said. "It's astounding the amount of lying that goes on in every financial report. We in business schools are responsible for that."

This happens, he continued, because "most people fail to see the cost in violating integrity. They systematically sacrifice integrity due to the integrity-performance paradox. There's a veil of invisibility over their sense of self-perception."

It seems to me that the purpose of education is to lift those veils of invisibility so that there greater congruence between words and deeds. The role and influence of the great research university has changed over time, but its core mission as a "city of intellect and public service" remains intact. Harvard cannot be a house divided, wherein the fiduciary responsibilities for its investments reside in one wing, its educational responsibilities in another.

The same challenge exists with other tax-exempt institutions fortunate and wealthy enough to have investment portfolios. Their fiduciary obligation extends from their social compact and charter, granted by the State as a condition of tax-exemption. The unique obligation of universities-as-investors, as well as other kinds of endowments, is to assure consistency between the civic moral values governing program governance, operations, and impact, and those affecting investment governance, operations, and impact.

The three-part curriculum proposed in this document presents some substantive building blocks to fiduciary integrity (coda for shareholders, fiduciary ownership, and citizenship), and the role Harvard can play in educating those multiple actors who contribute to fulfilling it.

A fiduciary ethic suitable for twenty-first century realities draws from multiple disciplines, helping to build a scope of vision informed by learned thought. It does not confine environmental, social, and governance issues into a single bucket. It views them as vital parts of all forms of asset management, subject to the fiduciary standard.

A twenty-first century fiduciary ethic calls for a form of ownership and trusteeship better equipped to deal with the problems we now face. To paraphrase a distinguished twentieth century lawyer, politician, and statesman, it calls for synthesizing the fruits of scattered capacities so that our problems may be looked at as a whole, rather than subject to sporadic treatment from various but limited points of view.[35]

I have offered a series of suggestions as to how this notion of stewardship can be woven into a three-level curriculum, ranging from basic knowledge to future problem-solving. Such a curriculum draws upon Harvard's rich array of resources, connecting current scattered capacities into a textured whole. It also involves external parties and partnerships, working in these fields.

It's time for Harvard to grab the opportunity and take a leadership role. The immediate aim: Enhance the knowledge and competence of current and future generations of fiduciaries, especially owners of publicly traded equities. The larger aim: recapture the essence of citizenship and democracy, with its tradition of participation, accountability, and representation, suitable to a twenty-first century context.

More specifically, I've touched upon what Harvard can do in the realms of program, process, and partnerships when confronting questions related to ethics, economics, engagement, and multiple/common capitals. That's because these are lenses through which the fiduciary obligation can be understood.

Throughout, I have maintained that the goals of sustainable capitalism—articulated by many, but most persuasively by Al Gore and David Blood's Generation Management LLP, in its February 2012 white paper, *Sustainable Capitalism*[36]—can be achieved through learned, competent, and motivated investors. It is they who hold corporate boards and management accountable for long-term wealth creation, thereby reducing agency costs and damaging externalities.

Appendix

The Ethical, Integrated Fiduciary

Ten+ Questions for University Trustees to Consider[37]

1. *What beliefs, values, and commitments govern our investment policy, and how well is it communicated?* Are they it written and available in plain and understandable language so that university constituents, taxpayers, and the broader public can understand them?
2. *What are the consistencies and inconsistencies between our investment policy and the guiding beliefs, values, and commitments—e.g., the pursuit, advancement, and diffusion of learning—of our university?* How does university purpose inform how best to steward various forms of capital—financial, human, environmental, social, built environment?
3. *How are these investment values, beliefs, and commitments communicated with investment chain intermediaries—such as collective investment vehicles, agents, service providers, and custodians—where such intermediaries exist?*
4. *How might we be more intelligently and actively engaged as a responsible owner of portfolio companies, both separately and with others?* What policies, guidelines, practices, and tools are we using to monitor the behavior of our equity holdings, to assess circumstances, performance, and long-term value? How are our policies, guidelines, and practices publicly communicated and understood? What provisions do we have for communicating with the public and eliciting feedback on our approach?
5. *What policy, guidelines, and voting record do we have for due consideration of proxy resolutions on environment, social, and governance matters?* How are they publicly communicated and understood? What provisions do we have for modifying them, in response to changing circumstances and feedback?
6. *What substantive knowledge, resources, and support do we need to fulfill our fiduciary commitments?* What internal expertise do we possess—research, teaching, outreach—regarding the issues, problems, risk, and opportunities presented by investment decision-making, multiple or common capitals, and the public interest? What internal and external partnerships, collaborations, and information do we need?
7. *In addition to public equities, what are the science- or evidence-based impacts of our institution's investments, across the portfolio, on the existing stock and flow of multiple or common capitals? How are these impacts measured, managed, monitored, and reported to university constituents and the wider community?*
8. *How do we intend to engage our constituents (both on and off campus), peers, and the public in conversations about this broader definition of fiduciary*

obligation—e.g., the ethical, integrated fiduciary—in an interdependent world? What is our policy and practice regarding public engagement in relevant policy dialogue on investment matters affecting University constituents and the wider community? What mechanisms or feedback loops do we have for incorporating the fruits of these discussions into our policy and practice?

9. *What mechanisms do we have for transparency, monitoring, and adaptive learning given the dynamic nature of fiduciary obligation and circumstances?* What provisions do we have for early detection of possible breach of fiduciary duty claims?

10. *How might our university deploy its vast array of resources in service to cultivating future and current wise, sagacious, and thoughtful leaders, many who will find themselves as board directors and trustees?*

Notes

[1] Derek Bok, *Beyond the Ivory Tower: Social Responsibilities of the Modern University* (Cambridge, MA: Harvard University Press, 1982), 289.

[2] Ibid., 258–260.

[3] Robert A. G. Monks to Lawrence Summers, "To Harvard with Love," 2003, http://www.ragm.com/library/To-Harvard-With-Love.

[4] Michael E. Kinsley, "Profit without Honor," a review of *The Ethical Investor: Universities and Corporate Responsibility* by John G. Simon, Charles W. Powers, and Jon P. Gunnemann, *Harvard Crimson*, June 12, 1972, http://www.thecrimson.com/article/1972/6/12/profit-without-honor-pbobf-all-the/#.

[5] John G. Simon, Charles W. Powers, and Jon P. Gunnemann, *The Ethical Investor: Universities and Corporate Responsibility* (New Haven and London: Yale University Press, 1972),available at http://acir.yale.edu/pdf/EthicalInvestor.pdf.

[6] See especially the work of the award-winning Baruch Lev, the Philip Bardes Professor of Accounting and Finance at New York University Stern School of Business. Baruch Lev, *Intangibles: Management, Measurement,* and *Reporting, and Financial Statement Analysis: A New Approach* (Washington, D.C.: Brookings Institute Press, 2001). An eBook can be viewed freely at http://books.google.com/books/about/Intangibles.html?hl=es&id=6TGMs4lQ5gQC.

[7] The Sustainability Accounting Standards Board (SASB) is working to establish industry-based materiality standards that are most relevant to companies, through a multiparty collaborative process certified by the American National Standards Institute (ANSI). Between Q4 2012 and Q1 2015, SASB will develop sustainability standards, metrics, and guidance for more than 80 industries in 10 sectors suitable for decision-useful disclosure to the SEC. SASB also is in constant communication with the SEC. http://www.sasb.org/sasb/vision-mission/ and http://www.sasb.org/materiality/.

[8] On December 9, 2013, the International Integrated Reporting Council (IIRC) released Version 1.0 of the final Integrated Reporting (<IR>) Framework, following an extensive multi-stakeholder consultation period. http://www.theiirc.org/. Also released: two supporting documents, *The Basis for Conclusions* and *Summary of Significant Issues*.

[9] The Global Reporting Initiative (GRI) is the world's leading sustainability disclosure organization. In May 2013, the GRI unveiled its fourth generation of Sustainability Reporting Guidelines, "G4," which include a list of internationally recognized material sustainability topics for use in reporting, https://www.globalreporting.org/reporting/g4/Pages/default.aspx.

[10] As sustainability reporting rises, external sustainability ratings and rankings schemes continue to proliferate. Currently, more than 100 ratings, ranking and indices are evaluating the performance of more than 10,000 companies. They are using more than 2,000 indicators of corporate sustainability performance. This makes it hard to know which ones are worth following and which aren't, and how accurately they represent corporate commitments

and behavior. Whatever their quality, they continue to influence corporate reputation and stakeholder perceptions. The purpose of the Global Initiative for Sustainability Ratings (GISR) is to lend order to this chaos, and develop a non- commercial, generally accepted sustainability ratings standard. It will not rate companies. It will accredit other sustainability ratings, rankings, and indices. GISR, co-founded by the multiparty sustainability network Ceres and the Tellus Institute, released its draft Guiding Principles in May 2013. http://ratesustainability.org/about/.

[11] As part of the run-up to the Integrated Reporting Consultation Draft, a Background Paper on Materiality was prepared by an IIRC Technical Collaboration Group. That group considered the commonality of materiality definitions from various reporting frameworks (e.g., financial and sustainability) and concluded this: "*Materiality for integrated reporting purposes is of such relevance and importance that it could substantively influence the assessments of providers of financial capital with regard to the organization's ability to create value over the short, medium and long term. In determining whether or not a matter is material, senior management and those charged with governance should consider whether the matter substantively affects, or has the potential to substantively affect, the organization's strategy, its business model, or one or more of the capitals it uses or affects*." See also International Integrated Reporting Council, *Materiality Background Paper for <IR>*, with contributions from American Institute of Certified Public Accountants (AICPA) (Amsterdam: International Integrated Reporting Council, March 2013), http://www.theiirc.org/wp-content/uploads/2013/03/IR-Background-Paper-Materiality.pdf. See also International Integrated Reporting Council, *Capitals Background Paper for <IR>*, with contributions from the Association of Chartered Certified Accountants (AACCA) and Netherlands Institute of Chartered Accountants (NICA) (Amsterdam: International Integrated Reporting Council, March 2013), http://www.theiirc.org/wp-content/uploads/2013/03/IR- Background-Paper-Capitals.pdf. See also Robert G. Eccles, Michael P. Krzus, Jean Rogers, and George Serafeim in "The Need for Sector-Specific Materiality and Reporting Standards," *Journal of Applied Corporate Finance* 24, no. 2 (2012): 8, http://www.sasb.org/wp-content/uploads/2012/06/JACF-Sector-Materiality.pdf.

[12] Sustainability Context Group, "Statement to GRI on the Need to Enhance Treatment of the Sustainability Context Principle in G4, September 24, 2013, http://www.sustainableorganizations.org/SCG-GRI-G4-Comment-Submitted-9- 24-12.pdf. See also Bill Baue, "Sustainability reporting: does G4 enhance sight but obscure vision?" *Guardian Sustainable Business blog*, May 24, 2013 at http://www.guardian.co.uk/sustainable-business/sustainability-reporting- g4-sight-vision. For more on "context based sustainability," see also the ClimateCounts pilot study of carbon emissions based on a methodology developed by Mark McElroy of the Center for Sustainable Organizations, at http://www.climatecounts.org/ and http://www.sustainableorganizations.org/context-based-sustainability.html.

[13] See, for example, David Grayson and Jane Nelson, *Corporate Responsibility Coalitions: The Past, Present, and Future of Alliances for Sustainable Capitalism* (Palo Alto: Stanford University Press, 2013).

[14] Al Gore and David Blood, "The Coming Carbon Asset Bubble," *Wall Street Journal*, October 29, 2013, http://online.wsj.com/news/articles/SB10001424052702304655104579163663464339836.

[15] Stock exchanges included NASDAQ OMX, BM&FBOVESPA, the Johannesburg Stock Exchange (JSE), the Istanbul Stock Exchange (ISE) and The Egyptian Exchange (EGX). From Reuters, "Sustainable Stock Exchanges Initiative: Exchanges listing over 4,600 companies commit to promoting sustainability," June 18, 2012 at http://www.reuters. com/artic le/2012/06/18/id US166113+18 -Jun-2012+HUG20120618.

[16] Bloomberg now has ESG information on all its terminals. Other data providers and business groups—such as Goldman Sachs, Deutsche Bank, UBS, Merrill Lynch, and Credit Suisse—have launched divisions to analyze ESG data from Bloomberg and its ESG competitors. And Moody's has begun to think about how ESG considerations can be factored into their ratings.

[17] Norwegian Ministry of Finance, "The Government Pension Fund," http://www.regjeringen.no/en/dep/fin/selected-topics/the-government-pension-fund.html?id=1441. Holdings in the Norwegian Government Pension Fund Global also are subject to the scrutiny of the Council on Ethics, regarding conformance with environmental, social, and governance considerations. The Council on Ethics was established by Royal Decree in November 2004. For an informative and colorful description of the Norwegian pension fund's policy and operations, go to *Norway Government Pension Fund Global: A Large, Long-Term Investor*, Norges Bank Investment Management, October 13, 2013, http://www.norges- bank.no/pages/98364/Kallevig_Regional _network _eng_31_10_2013.pdf.

[18] The enabling legislation that established the Securities and Exchange Commission's core mission and three main pieces, affecting corporate disclosure, market regulation, and investment management comprises three parts. As amended in 2012, they include the Securities Act of 1933, the Securities Exchange Act of 1934, and the Investment Company Act of 1940. The term "public interest" appears 34 times in the '33 Act, 223 times in the '34 Act, and 59 times in the '40 Act.

[19] Information about the 1971 Austin Report, as well as similar efforts to establish ethical fiduciary responsibility at Princeton, Yale, and MIT, are chronicled in Bevis Longstreth and H. David Rosenbloom, *Corporate Social*

Responsibility and the Institutional Investor: A Report to the Ford Foundation (New York: Praeger, 1973), 71–89.
[20] Drew Faust, "Fossil Fuel Divestment Statement," Office of the President, Harvard University, October 3, 2013, http://www.harvard.edu/president/fossil-fuels.
[21] Mark H. Moore and Francis X. Hartmann, "On the Theory and Practice of Executive Sessions," March 1999, http://cms.hks.harvard.edu/var/ezp_site/storage/fckeditor/file/pdfs/centers-programs/programs/criminal-justice/exec_sessions_theory.pdf. The idea and structure of Executive Sessions were pioneered at the Kennedy School in the late 1990s, by Frank Hartmann and Mark Moore. Initially aimed at community policing, it's a durable way of advancing a new field, blending both theory and practice. For more information, go to http://www.hks.harvard.edu/programs/criminaljustice/research-publications/executive-sessions.
[22] Chris Argyris, "Teaching Smart People How to Learn," *Harvard Business Review*, May 1991, http://hbr.org/1991/05/teaching-smart-people-how-to-learn/. Argyris died, at the age of 90, on November 17, 2013.
[23] See especially John C. Coffee, *Gatekeepers: The Role of the Professions and Corporate Governance* (New York: Oxford University Press, 2006). Coffee is Columbia's Adolf A. Berle Professor of Law and the director of the Center on Corporate Governance. More recently, Nobel Laureate Robert J. Shiller writes about the role and responsibilities of professionals in the field of finance, and how they might contribute to a good society. Schiller, *Finance and the Good Society* (2012).
[24] Derek Bok, *Higher Education in America* (Princeton and Oxford: Princeton University Press, 2013), "Chapter Three: The Governance of Nonprofit Universities," 44–71.
[25] Attributed to France's second President, Adolphe Thiers (1871–1873). In Newton D. Baker, "The Lawyer's Function in Modern Society," Address delivered at joint meeting of the Lawyers' Club of New York and the Columbia University Law School Alumni, May 19, 1932. Reprinted from the A.B.A. Journal, May 1933 (19 ABAJ 261), appearing in The Lawyer's Treasury, Edited by Eugene C. Gerhart (New York: Bobbs-Merrill, 1956), 55.
[26] Drew Faust, "Fossil Fuel Divestment Statement," Office of the President, Harvard University, October 3, 2013, http://www.harvard.edu/president/fossil-fuels.
[27] The term "blended value" was coined by Jed Emerson, to describe the integration of financial indicators with social and environmental ones. His work on sustainability and sustainability finance spans several decades, and is exemplary. For more, go to http://www.blendedvalue.org/about-jed-emerson/.
[28] Bok, *Higher Education*, 344–345.
[29] Ibid., *Higher Education*, 365, 366.
[30] Kinsley, "Profit Without Honor," *Harvard Crimson*, June 12, 1972, http://www.thecrimson.com/article/1972/6/12/profit-without-honor-pbobf-all-the/#.
[31] "Editorial Concerning Three Articles in This Number of *McClure's*, and a Coincidence that May Set Us Thinking," *McClure's*, January 1903, http://goo.gl/zbK2B0.
[32] Jensen was speaking to students at the David O'Brien Centre for Sustainable Enterprise, John Molson School of Business at Concordia University in Montreal on "Putting Integrity into Finance: A Positivist Approach," November 11, 2013, http://johnmolson.concordia.ca/en/news-events/events/1861?view=calendar. Many of his remarks draw from a paper co-authored with Werner Erhard entitled "Putting Integrity Into Finance: A Purely Positive Approach," Harvard Business School Negotiation, Organization, and Markets Research Paper no. 12-074, March 3, 2013. Also, Jensen is the co-author, with Kevin J. Murphy, of *CEO Pay and What to Do About It: Restoring Integrity to Both Executive Compensation and Capital-Market Relations*, forthcoming from Harvard Business School Press in September 2014.
[33] See "About SSRN: From the Desk of Michael C. Jensen, Chairman," http://www.ssrn.com/update/general/mjensen- 20th.html.
[34] See particularly Jensen's "Foreword" in Paul J. Zak, editor, *Moral Markets: The Critical Role of Values in the Economy* (Princeton, NJ: Princeton University Press, 2008).
[35] Baker, "Lawyer's Function in Modern Society," 57.
[36] Generation Management, *Sustainable Capitalism* (London, February 2012), http://www.generationim.com/media/pdf-generation-sustainable-capitalism-v1.pdf. Other related public statements by Generation Management can be viewed at http://www.generationim.com/sustainability/advocacy/.
[37] Based, in part, on International Corporate Governance Network (ICGN) *Statement of Principles for Institutional Investor Responsibilities*, April 2013. https://www.icgn.org/.