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The goal of the Jessie Smith Noyes Foundation is to prevent irreversible damage to natural systems and ensure a sustainable society. Until recently, our only tool was grantmaking. Now, we have begun to explore how the management of our assets can also be used as an instrument for achieving our mission. In so doing, we have begun to re-examine aspects of corporate culture and fiduciary responsibility which we had held to be axiomatic. This essay, written jointly by the President and Treasurer of the foundation, reflects our commitment to this process.

Dissonance, Responsibility and Corporate CultureOr, How Two Camps Struggle For OurHearts and Minds and What We Can Do About It

Ours is an age of dissonance.

We know that atmospheric pollution poses a significant and potentially irreversible threat, yet gasoline tax hikes are politically unacceptable and surveys show that increases of a dime a gallon for ultra-low emission gas formulations are resisted by consumers.

We know that petrochemicals threaten our groundwater, yet we apply fertilizers and herbicides to our lawns and import bottled drinking water from afar.

We know that cigarette smoking causes cancer, yet we value the

stock of the corporations that make them in the many billions of dollars and include the growth and profitability of these companies in measures of national economic health.

Reflecting this pervasive dissonance, foundations often find themselves in the position of supporting with their investment dollars activities that are antithetical to the charitable purpose of their grantmaking. By accepting as axiomatic the Iron Curtain between making money and giving it away, foundations reinforce the kind of corporate culture that identifies corporate responsibility with financial management, relegating social and environmental problems to the provinces of politics and philanthropy.

At the Jessie Smith Noyes Foundation, we have found our way to such questions on both the theoretical and practical levels. In theory, we have become convinced that traditional economic models are fundamentally flawed by their failure to take into account the long-term impact of economic growth on communities and the environment. In practice, we found ourselves owning shares of a company whose environmental impact and lack of responsiveness to community concerns were being contested by a coalition of our grantees.

Once recognized, this dissonance becomes undeniable on both levels. By investing with the sole aim of economic self-interest, we would endorse the market orthodoxies in which all growth is good and any contradictions are explained away as ``side effects'' and ``externalities.'' By profiting from passively holding stock of a company whose environmental impact is being challenged by one of our grantees, we would put our self-interest before the interests of our grantees. Once recognized, the dissonance becomes defining: the only desirable actions are those which reduce it.

But moving towards ``dissonance reduction'' is an uncertain process for a foundation Board. The cultural barriers between

finance committees and grantmakers are usually impenetrable. (Figure 1) Many on the program side have little interest or experience in investing and do not know the language of finance. For those on the investment side, fragmentary or insufficient performance data for ``social investment'' seem to confirm their assumption that the introduction of so-called exogenous factors into investment decision-making reduces the universe and limits returns.

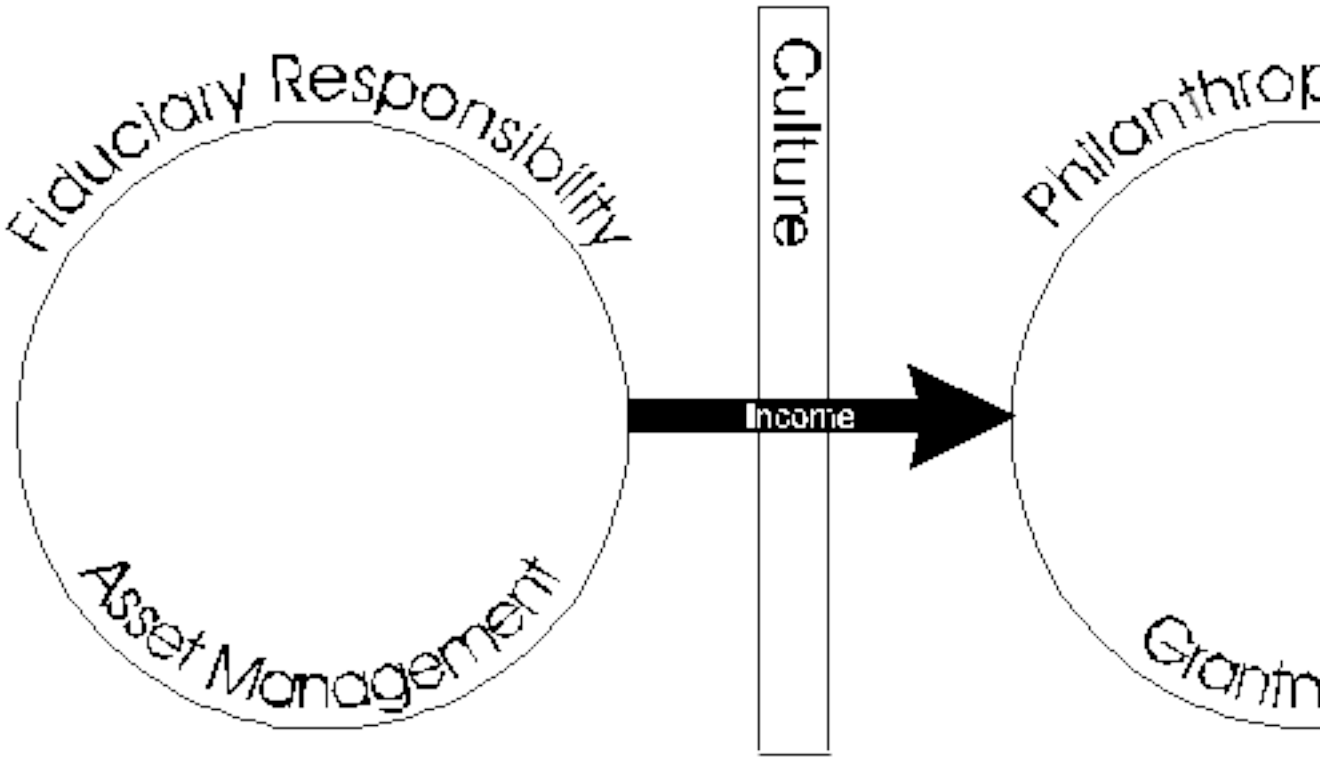

Figure 1

In traditional foundation culture fiduciary responsibility dictates

that assets be managed as a passive income generating pool of securities. The only connection to grantmaking is the generation of cash.

Underlying differences of vocabulary and training runs a fault line, a difference of thinking and perception that tends to push us as decisionmakers into two distinct camps:

Camp One. If you believe either that indefinite expansion of consumption on a finite planet is a physical impossibility, or that quality is fundamentally independent of (or, after a point of diminishing returns, in inverse relation to) quantity, then economic growth and profit-maximizing are no longer synonymous with progress or fiduciary responsibility.

Camp Two. If you believe that scientific advance, technological breakthrough and entrepreneurial creativity are engines of continued improvement of the human condition, or that lack of faith in the capacity of innovation to overcome obstacles is a greater problem than the obstacles themselves, then economic growth and profit-maximizing remain the sine qua non of progress and fiduciary responsibility.

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While on one level it takes considerable commitment and dedication for Board members to resist falling into one or the other ideological camp, on another level the dissonance remains quite concrete:

- Should a health funder own stock in a tobacco company?
- Should a foundation pursuing disarmament own stock in a munitions manufacturer?
- Can an environmental grantmaker own shares of a major oil company?
- How about the oil company that rates best in terms of compliance with environmental regulations or is the first in the industry

to sign the CERES Principles1?

The shades of gray multiply rapidly, and it is for this reason that many in the financial community are quick to dismiss ``social investment'' as subjective, difficult to quantify and unwieldy as a portfolio management tool. Yet it has been our experience that while we seldom arrive at clear cut decisions in particular cases, the process itself is a meaningful one and leads us to central and far-reaching questions: Can companies balance the social and environmental needs of the community in which they are located with the imperatives of distant shareholders and financial markets? Is ``environmentalism'' something that can be ``afforded'' by small companies and job-starved communities?

Such questions lie at the heart of our purpose. For if we are ``to prevent irreversible damage to the natural systems upon which all life depends,'' and if we believe that in the coming century economic activity will create ecological and political stresses of global proportions, then it is no longer prudent to keep philanthropy and investment separate.

We must seek to affect the way all corporations and financial institutions understand their responsibility. We must help all businesses acknowledge and then deal with the dissonance between shareholder value and the social and environmental costs of commercial activity, costs that are not reflected on corporate balance sheets. And we must, of course, begin by putting our own house in order.

For us this has meant a close and on-going collaboration between both sides of the house. As President and Treasurer of the foundation, we are working together toward a new, fuller definition of fiduciary responsibility, one which challenges us to use all of the resources at our disposal to pursue our mission. (Figure 2)

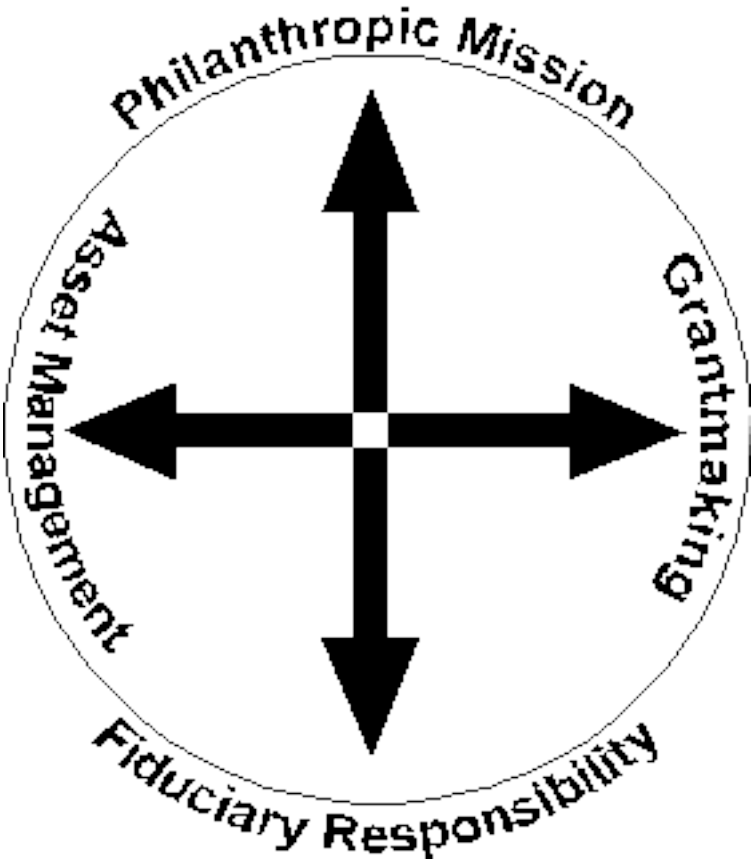

Figure 2

By seeing philanthropic mission and fiduciary responsibility, both, as key elements of our purpose, grantmaking and asset management become mutually reinforcing instruments of change. While we are admittedly still early in our process, we see four principal categories of investment activity through which we can promote our purpose, complementing our grantmaking activities to achieve change:

- screened portfolios;
- program-related investment;
- venture capital; and,
- active shareholder involvement.

The first two have been practiced in varying degrees for some time. Foundations or church pension funds with strong interests in or aversions to particular areas can indicate these areas to social

investment money managers, who in turn screen companies in or out of their portfolio accordingly. [See page 85.] In the case of program-related investment, foundations can make concessionary, below-market loans to or equity investments in corporations whose mission is consistent with their charitable purpose and who cannot otherwise attract investment from the capital markets. These are both areas in which foundations can enlist significant professional support as they begin the process of dissonance reduction.

We have found our own initial efforts in the areas of venture capital and shareholder activism to be particularly promising. We have made small, direct investments in companies that make leak detection systems, enzyme-based cleaners, and shoes from recycled materials, as well as in an energy services company and a person-to-person marketer of non-toxic cleaning and personal care products. We have made one indirect investment in a small venture fund utilizing investment screens broadly similar to our own, and we are currently considering additional indirect investments in small funds. [See page 86.] The potential for venture capital to affirmatively shape the culture of young companies is enormous. Furthermore, this approach to venture investing supports the increasing number of entrepreneurs who share our concerns.

Further, we have become actively involved as shareholders of a large public company. When we discovered that we both held this company in our equity portfolio and were making grants to the community groups whose concerns were not being addressed by the company, we considered two alternatives: divest or collaborate with our grantees to help their voice be heard. We chose the latter. First, we spoke out at the corporation's annual meeting. When the company failed to respond, we filed a shareholder resolution. As a result of our actions, a number of money managers have joined the fray, we have had a number of interactions with corporate management and there is hope that we will influence corporate behavior, albeit in a small way.

We wish to acknowledge just how small the steps we have taken are, especially when measured against the scale of the problems they seek to address. This a learning process. We are a financial institution with less than $60 million under management. Many questions remain, particularly around issues of how to measure the impact of our investments on environment and community.

But we are committed to the task of dissonance reduction at the Noyes Foundation: to use asset management *and* grantmaking as instruments of change. We welcome collaboration with other financial institutions and for-profit and non-profit organizations who wish to work with us in addressing the fundamental questions:

- What *kind* of companies do we wish to support?
- What *kind* of corporate culture do we wish to encourage?
- What *kind* of economy do we wish to build, and, through it, what *kind* of communities and world shall we attempt to shape?

Stephen	Edward
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President	Treasurer

March 21, 1995

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