Divestment x Boards

A Board Member's Explainer to Divestment

What is Divestment?

In the context of higher education, calls for "divestment" generally entail governing boards considering or resisting the revision of an institution's endowment policies and investment strategies to liquidate holdings in specific companies, industries, or sectors.[1]

Background

Divestment historically has taken place in response to social and political concerns voiced by students, faculty, staff, alumni, or community members. Divestment first gained momentum during the anti-apartheid campaigns of the 1970s and 1980s. Student and faculty movements across hundreds of higher education institutions urged the administration to divest from companies with ties to the South African government in order to economically isolate the apartheid state and denounce its repressive system of racial segregation.[2] By the late 1980s, over 120 college campuses had voted to partially or fully divest from companies doing business with South Africa.[3]

In recent years, campus stakeholders have increasingly urged governing boards to direct their institutions to divest from an array of industries such as fossil fuels, private prisons, tobacco, and arms manufacturing. Similar to the anti-apartheid movement, modern divestment campaigns emphasize not only the potential of economic pressure to drive societal change but also the critical role divestment plays in aligning university investments with their core mission and values. **As such, a decision to divest necessitates that governing boards not only consider their fiduciary duty—a legal obligation to act in the best financial interest of the institution— but also negotiate factors such as stakeholder relations and alignment with institutional principles.**

This explainer discusses:

- Divestment's potential impacts on institutional governance and stakeholder relations;
- Considerations and strategies for addressing calls for divestment;
- Case studies from three leading higher education institutions;
- Resources for further reading.

Divestment and its Impacts on Institutional Governance and Stakeholder Relations

When evaluating changes to the endowment, governing boards are generally guided by a responsibility to seek strong returns, often through a diversified and risk-conscious investment portfolio.[6] However, the act of divesting—or even adopting a process for evaluating divestment petitions—can shift traditional institutional investment strategy to a more holistic approach that accounts for stakeholder concerns and aligns investments more closely with the institution's mission and values.

Divestment campaigns constitute one way that campus constituencies can enhance university governance by calling upon boards of trustees to be more transparent and responsive to stakeholder voices. Moreover, stakeholders may play an advisory role in the deliberation process, offering input through formal committees, public forums, or feedback mechanisms that inform board decision-making. Even when boards choose not to divest, the deliberation process can highlight the need for increased transparency and more consistent decision-making policies, thereby bolstering institutional accountability and participatory governance.

Institutional Example in Practice

During the anti-apartheid campaign of the 1970s and 1980s, Williams College established the Advisory Committee on Shareholder Responsibility (ACSR), which "provides advice to the Investment Committee of the Board of Trustees on matters relating to non-financial aspects of the investment portfolio."[7]

In 2024, the ACSR—composed of two faculty members, two staff members, two students, and two alumni—played a central role in advising the Board of Trustees amidst calls for divestment from "companies that sell weapons, reconnaissance tools, or vehicles used by the Israel Defense Forces" and from weapons manufacturers. To inform its recommendations, the ACSR engaged in a month-long deliberative process that included closed meetings with key stakeholders, open forums for students, faculty, and staff, and feedback submitted through an online survey.

Citing factors such as the absence of campus consensus, the volatility of geopolitical conflict involving Israel, and the broad scope of companies involved in weapons manufacturing, the ACSR recommended against divestment. However, the ACSR encouraged the Investment Committee to increase transparency practices, recommending clearer communication of how values-based considerations influence investment strategies and disclosing more information about the college's investment portfolio.[8]

What Strategies Can Boards Implement When Considering Divestment?

When considering divestment, boards can adopt a transparent approach to evaluating stakeholder input and endowment holdings:

1. Collaborate with the university president and chief investment officer to develop or update investment policies to articulate divestment procedures and accountability measures, including publicly sharing board rationales for investment decisions.

2. Revisit the board's interpretation of fiduciary responsibility to include long-term sustainability, risk mitigation, and alignment with institutional values.

3. Ensure there are accessible channels for students, faculty, staff, alumni, and community members to raise concerns or submit divestment proposals.
   - Support the creation of an advisory committee of diverse campus stakeholders to evaluate divestment petitions and the extent of institutional consensus in order to advise the Investment Committee.
   - Report publicly on how investment-related feedback was considered and integrated.

4. Establish investment screening criteria that guide divestment decisions and standards, informed by input from campus leadership, investment advisors, faculty experts, and stakeholder representatives.
   - Define adopted terms (i.e., ESG (Environmental, Social, and Governance)) to ensure consistency in investment evaluations and practices.
   - Work with investment advisors to model alternative portfolios and to determine whether substitute holdings can mitigate any financial risk of divestment.

GUIDING QUESTIONS FOR BOARD MEMBERS:

- How does the board's fiduciary duty extend beyond maximizing financial returns? In what ways can the board incorporate long-term reputational, social, and sustainability risks into its investment practices?

- How can the board partner with institutional leadership to clarify its investment policies and communicate its decision-making rationale to stakeholders?

- What channels currently exist for campus members to raise concerns over investments? What mechanisms can the board support to evaluate and respond to divestment proposals?

- What questions should the board ask financial advisors regarding the potential impacts of divestment? How can insights from peer institutions that have divested inform these conversations?

They Say – You Say: How Board Members Can Respond To Stakeholders

Designed to anticipate common objections, this section provides mission-aligned talking points, framing strategies, and peer institution case studies to help board members navigate stakeholder conversations and address concerns around key decisions.

They Say: "Amidst calls for divestment, universities should maintain institutional neutrality."

You Say: "Universities regularly make political statements implicitly and explicitly on campus—from mission statements and strategic plans to campus policies and partnerships with external organizations. Divestment is no exception. Importantly, when guided by transparent criteria and a deliberative process, it is not a reactive stance but rather a prudent approach. Moreover, universities routinely affirm ethical and political commitments to values such as human rights, environmental sustainability, and social justice; maintaining investments that contradict these principles undermines institutional integrity and erodes stakeholder trust."

Institutional Example in Practice

In 2015, Columbia University announced it would divest $4.35 billion worth of shares in its endowment from the for-profit prison industry. This decision followed 1) an 18-month student-led campaign that mobilized campus stakeholders to demand the university align its investments with its stated commitments to racial justice, 2) a resolution passed by the University Senate's Student Affairs Committee, 3) a formal recommendation from the Advisory Committee on Socially Responsible Investing (ACSRI), 4) an endorsement from then-President Lee Bollinger, and 5) approval by the Board of Trustees.[9]

They Say: "The board has a fiduciary responsibility, so it should ensure that the endowment generates the greatest possible income in support of the university's mission."

You Say: "Yes, the board does have a duty to ensure the health of the endowment, and this responsibility extends beyond maximizing short-term financial returns. Boards must also manage long-term risks that could undermine the university's mission-aligned work. When approached strategically, divestment is not a departure from fiduciary responsibility. By aligning investment practices with ethical standards and accounting for stakeholder concerns, boards can protect the university's long-term financial interests while maintaining its mission and values."

Institutional Example in Practice

In December 2024, San Francisco State University (SFSU) approved an investment policy restricting investments in weapons manufacturers, following sustained advocacy from pro-Palestinian students and faculty. In the revised investment policy, the SFSU Foundation articulated a long-term framework for aligning future investment decisions with the university's stated commitments to human rights and social justice by incorporating "non-geographically specific and non-conflict-specific" language. As a result of the policy's passage, the institution immediately restructured its $163 million investment portfolio, divesting from three companies that failed to meet its human rights investment criteria. This approach ensures the policy applies broadly and consistently across all investments, rather than focusing narrowly on ongoing conflict in Israel and Palestine.[10]

They Say: "Investment portfolios are too complex for a university to divest from a particular industry or sector."

You Say: "Divestment is a process with multiple stages that could include halting new direct investments, screening out sectors that misalign with investment standards, and liquidating legacy private equity holdings. These steps mirror standard investment practices of rebalancing portfolios and managing risk over time. Moreover, investment managers and financial advisors offer advanced technologies and innovative strategies to support divestment in ways that maintain fiduciary duty."

Institutional Example in Practice

In 2020, Harvard University announced its commitment to achieving net-zero greenhouse gas emissions across its endowment's portfolio by 2050. To realize this goal, the university has adopted a long-term, multi-pronged strategy. The Harvard Management Company (HMC) has phased out direct investments in fossil fuel exploration and development and has pledged not to pursue such investments in the future. Currently, less than 2% of the endowment remains tied to legacy private equity funds with fossil fuel holdings, with no new commitments made to these funds since 2019. In support of a low-carbon transition, HMC has implemented an investment strategy focused on generating returns through investments in climate solutions and clean technologies. Additionally, HMC is working with a third-party service to pilot a custom carbon emissions reporting tool to evaluate its hedge fund investments.[11]

Relevant Resources for Further Readings and Best Practices

If you are interested in learning more about divestment and endowment practices, the following resources provide additional insights, data, and guidance.

Fossil Fuel Divestment in U.S. Higher Education: Endowment Dependence and Temporal Dynamics - This study analyzes divestment trends across U.S. four-year higher education institutions and evaluates the extent to which financial reliance on endowments is a barrier to divestment.

Global Fossil Fuel Divestment Commitments Database - This is a comprehensive global tracker of institutional commitments to fossil fuel divestment.

Intentional Endowments Network - This directory offers issue-specific resources ranging from divestment to fiduciary duty to guide colleges and universities in aligning endowment investing with sustainability and equity goals.

NACUBO-Commonfund Study of Endowments - This annual report presents comprehensive data on U.S. college and university endowment performance, investment strategies, and governance practices.

Values and Value: University Endowments, Fiduciary Duties, and ESG Investing - This legal article examines fiduciary duty in the context of university endowments and explores how institutions can consider social and environmental factors in investment decisions without violating legal obligations.

Endnotes

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