Engaging Mission: Applying the Catholic Social Tradition to Investing and Licensing

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Abstract

Faced with economic and demographic challenges, Catholic colleges and universities use endowment and licensing revenues to supplement tuition income in order to serve their missions of educating students of all socio-economic classes to promote the common good through their professional careers and service to the community. Licensees sometimes fail, however, to adhere to fundamental principles of the Catholic Social Tradition (CST), such as allowing workers to form labor associations to protect their human rights and dignity. Moreover, passive investment, even when operating with negative screens that reject corporations that violate key tenets of the Catholic faith, is an insufficient response to the mandate of *Laudato Si'* to protect the environment and the most vulnerable. This article encourages Catholic colleges and universities to regularly, collaboratively, and transparently review the alignment of their primary educational and non-core activities with CST.

As visitors walk across any of the hundreds of Catholic college campuses in the United States, they usually want to know something about the academic ranking of the school, and often something about the Catholic community and identity that exist there. Rarely does anyone inquire about how the mechanisms used to establish and maintain these key elements are funded. Anyone who did some digging, however, would find that intense competition in higher education has not escaped Catholic institutions. In response, many if not all have turned to investing and licensing to fulfill their stated commitments to Catholic identity and mission, often tied to the charism of their founding order. The questions now are whether Catholic colleges and universities (CCUs) are willing to apply the lens of the Catholic Social Tradition (CST) to monitor themselves against the corporatization of higher education and, if

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JOURNAL OF CATHOLIC HIGHER EDUCATION – 37:1, 2018, 53-69.

university leadership is preoccupied with enhancing revenue, who will do the monitoring? Might auxiliary services and revenue sources, like licensing and investments, come to have as much influence on campuses as the core missions of teaching, learning, and research, even to the point of redefining key principles of CST? Looking into the literature on collegiate licensing and investments, these questions appear valid.[1]

Former Harvard president Derek Bok has contended that "[t]he teaching of ethics in the classroom needs to be backed by ethical behavior within the institution itself if students are going to regard the lessons they learn as really credible."[2] For CCUs, inasmuch as they are Catholic, this ethical behavior should be guided by CST, which is sometimes characterized as Catholic moral theology applied to our shared social world. CCUs proclaim the principles of CST in their marketing materials and teach them in their classrooms. If those principles are not applied in major institutional decisions, however, CST is arguably undermined from within. Here, then, is this paper's guiding question: In their quest to continue to exist and fulfill their founding missions, are CCUs embracing a corporate model of maximizing revenue to the extent that they are neglecting, if not undermining, their missions? Our thesis is that, while the degree to which "corporatization" is occurring varies from one institution to the next, the evidence suggests that all CCUs should undertake a regular, collaborative, and transparent review of the alignment of their core missions and non-core commitments with CST.

From Founding Missions to Contemporary Financial Pressures

Whether they were founded in the early days of the republic or in post-World War II, most CCUs in the United States were created to meet the educational needs of the marginalized Catholic population in a particular region. Communities of religious sisters, brothers, and priests (along with dioceses) mustered their limited financial and rich human capital resources to establish institutions of higher education

[1] Zentralkomitee der deutschen Katholiken, Deutsche Bischofskonferenz, "Making ethically-sustainable investments"; IRRC Institute, TELLUS Institute, "Environmental, Social and Governance Investing by College and University Endowments in the United States: Social Responsibility, Sustainability, and Stakeholder Relations," July 2012.

[2] Derek Bok, "Universities and the Decline of Civic Responsibility," *Journal of College and Character* 2, no. 9 (2001), http://dx.doi.org/10.2202/1940-1639.1301.

that offered Catholic students the opportunities they were denied in the established academic realm. Staffed by vowed teachers and scholars, these humble institutions grew in reputation, student population, and — in many, though not all, cases — financial resources. As time passed, the size of religious communities began to decline and the costs associated with hiring lay colleagues began to rise. Single-sex institutions became "co-ed" as a way to boost enrollment. Some CCUs closed their doors.

Like their secular counterparts, CCUs entered the 21st century facing challenging economic and demographic conditions, some of which persist. As hardly needs recounting, the economy endured a recession in 2001 and a housing crisis in 2008, which triggered the so-called Great Recession that affects American workers, housing, and the economy to this day. Rising health insurance premiums limited the flexibility of both employers and employees. Families whose incomes were cut in half found the cost of private, Catholic higher education unaffordable. In some regions, as Catholic grade schools and high schools merged or closed, the pipeline to Catholic colleges contracted.[3] At the same time, the national college-aged population is on a downward trajectory. With the largest population of traditional college-aged students peaking at 18.7 million in 2011, that number is projected to decline for a generation.[4] Moreover, the percentage of non-Hispanic whites — the vast majority of students attending CCUs — is projected to decline in each cohort.[5] On the University of Virginia's demography blog, Luke Juday observed: "Historically (and currently), non-Hispanic whites attend college at disproportionately higher rates than most minority groups."[6] He added, "For some colleges, 'encouraging diversity' may go from being a matter of ethics to a matter of survival."[7]

Though prestigious CCUs have little trouble attracting well-qualified students, smaller and younger CCUs, most of which are highly tuition-dependent, have experienced the impact of the economic crisis and the demographic shift more acutely than their older and more renowned counterparts. Feeling pressure to maintain or increase enrollments in

[3] Mark Dent, "What's Behind the Enrollment Woes at Philly Catholic Colleges?" *BillyPenn.com* (March 25, 2016), https://billypenn.com/2016/03/25/whats-behind-the-enrollment-woes-at-phillys-catholic-colleges.

[4] Luke Juday, "The Demographics of Declining College Enrollment," *StatCh@t Demographics Research Group at UVA* (October 2, 2014), http://statchatva.org/2014/10/02/the-demographics-of-declining-college-enrollment/.

[5] Ibid.

[6] Ibid.

[7] Ibid.

this financial climate, many CCUs turned to supplemental income-generating activities. These included building — and at times borrowing from — endowments in order to generate necessary income. In some cases, supervision of endowment portfolios was turned over to professional managers in pursuit of a greater rate of return. Although the prestigious and highly endowed institutions suffered significant losses during the Great Recession as the stock market crashed and capitalized values shrank substantially, most managers of those endowments weathered the economic storm and put their institutions back on an even footing.

As the economy recovered and consumer spending picked up, income from the licensing of institutional trademarks and insignia also regained its potential as a reliable revenue stream. For smaller CCUs, licensing typically does not represent a significant source of revenue. By contrast, for a small number of all CCUs that are nationally recognized and supported (whether for athletic programs or storied histories), licensing revenue is substantial. In 2014, for example, the University of Notre Dame ranked number four on the list of top twenty-five apparel and non-apparel sales of collegiate merchandise licensed through Collegiate Licensing Company.[8] Because colleges typically garner royalties of about twelve percent of sales of their licensed goods,[9] an economic sector that in 2013-14 was estimated to yield $4.5 billion in annual sales,[10] licensing revenue for popular CCUs is substantial. Most CCUs in this coveted position argue that this revenue is essential for making access to their educational programs feasible for students of modest means. Those students may benefit from these non-tuition revenue activities but, we ask, at what cost?

Economic and Ethical Power of CCUs

Voices of dissent over licensing and investment practices have arisen. From the anti-apartheid divestment movement of the 1980s to today's campaigns demanding that CCUs withdraw their support of sweatshops and fossil fuel industries, morally concerned students,

[8] "CLC Names Top Selling Universities," *Licensemag.com* (August 7, 2014), http://www.licensemag.com/license-global/clc-names-top-selling-universities.

[9] IMG College Licensing, "Institution List: Advance Fees, Royalty Rates, FLA & WRC Affiliation, and Sample Requirements (July 1, 2017), https://www.clc.com/CollegiateLicensing/media/PDFDOCS/License-Docs/Institution-List-as-of-July-2017.pdf.

[10] Darren Rovell, "FSU moves up, but Texas still on top," *ESPN* (August 6, 2014), http://www.espn.com/college-football/story/_/id/11312752/florida-state-seminoles-move-revenues-list.

faculty, staff, and alumni of CCUs have called on the institutions to wield their immense moral and socio-economic power. In particular, these campus activists urge their leadership to honor in their investment and licensing decisions the principles of CST, such as solidarity, option for the poor, and promotion of the common good — even if those decisions constrain income-generation.

To be sure, revenue is essential to covering the cost of educating the women and men CCUs were founded to serve. Administrators and boards tend to view the primary purpose of endowment and intellectual property resources as ensuring the preservation of their institutions. This is especially true for smaller institutions whose leadership adopts a purportedly pragmatic attitude to management and frames strategic institutional decisions in terms of market competition and efficiency. The question is whether such an approach undermines a more foundational mission-based commitment that views key decisions through the lens of CST? Does the obligation to conform to CST principles differ for institutions based on their relative size and financial constraints, or must all CCUs find a way to maintain the integrity of their Catholic identity by ensuring their compliance with CST?

We must be careful not to exaggerate the extent to which socially responsible investing, particularly of the type that screens investments according to CST, leads to a long-term loss of endowment revenue. Evidence from recent decades suggests socially responsible investments pay off: Beabout and Schmiesing cite data indicating that "two of the top five … 1550 funds tracked by Lipper Analytical Services were socially screened funds."[11] Additionally, they point to arguments that socially responsible businesses emerge from economic downturns better than those focused solely on profit.[12]

The Economic Force of CCUs

CCUs possess tremendous economic influence, both at the national and international levels, as well as in their own communities. On the

[11] Elizabeth Judd, *Investing with a Social Conscience* (New York: Pharos Books, 1990), 2, as cited in Gregory R. Beabout and Kevin E. Schmiesing, "Socially Responsible Investing: An Application of Catholic Social Thought," *Logos* 6 (2003): 68.

[12] Amy L. Domini with Peter D. Kinder, *Ethical Investing* (Reading, MA: Addison-Wesley, 1984) and Ritchie P. Lowry, *Good Money: A Guide to Profitable Social Investing in the '90s* (New York: W.W. Norton, 1991) as cited in Beabout and Schmiesing, "Socially Responsible Investing," 67, 72.

local level, CCUs have an economic impact through the employment of personnel (both professional and support staff) and through the spending decisions of the institution and its employees. Those who buy homes and purchase their food and household items from nearby businesses support their neighbors through a multiplier effect that triggers rounds of income and spending. They also boost the community tax base through property, income, and sales taxes. Moreover, intentional partnerships between "gown and town" serve as engines for entrepreneurial activity and technological innovation, in addition to cultural enrichment.[13] At the same time, cuts in personnel — whether faculty or staff — can negatively affect a local economy, the same as would happen if any local business or public or private institution of higher education were to shed workers. What is different for CCUs is how the Church's teaching animates these personnel and purchasing decisions.

Several CCUs — notably the University of Notre Dame, Boston College, and Georgetown University — have among the largest endowments in American higher education and possess significant resources that can be channeled toward promoting the common good.[14] At Notre Dame, for example, endowment income accounts for twenty-five percent of the typical annual budget, providing funds that support the education of thousands of students who otherwise might not be able to attend.[15] All CCUs feel vulnerable in the present environment and may worry that prioritizing CST principles would limit their ability to continue to offer educational programs. Yet there are options that will ensure the institutions' futures while remaining consistent with CST. For instance, Notre Dame has discussed forming a consortium for licensing contracts with the global compliance group, Sumerra.[16]

Small Catholic colleges could likewise form a consortium to be proactive in their purchasing power. They also could pool their investments. An institution with billions of dollars of endowment has the ability to initiate shareholder resolutions that can shift a corporation's direction.

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[13] Notre Dame Alumni Association, "Economic Engines: Notre Dame and the South Bend-Elkhart Region," panel presentation (August 2, 2017), https://youtu.be/2TPKlM7KdlQ.

[14] National Association of College and University Business Officers and Commonfund Institute, "U.S. and Canadian Institutions Listed by Fiscal Year (FY) 2016 Endowment Market Value and Change* in Endowment Market Value from FY2015 to FY2016." http://www.nacubo.org/Documents/EndowmentFiles/2016-Endowment-Market-Values.pdf.

[15] University of Notre Dame, "Annual Giving" (2017), http://supporting.nd.edu/annual-giving/.

[16] Worker Participation Committee Spring Forum Presentation, University of Notre Dame, March 28, 2017.

It can withhold its investment funds from firms engaged in clearly immoral activities — pornography, human trafficking, and worker exploitation — and boost the value of firms that, for example, build affordable housing in low-income communities, generate alternative energy, and commit themselves to gender equality. When CCUs are faced with competing claims on their resources, i.e., maximizing investment return to reduce tuition-dependence versus engaging in socially responsible investing, CST calls for creative ways of doing well while doing good. So Pope Francis writes in *Laudato Si'*: "A fragile world, entrusted by God to human care, challenges us to devise intelligent ways of directing, developing and limiting our power."[17]

Although investing decisions can make the difference in determining which students can afford to have a place on their campuses, CCUs cannot make those decisions in a moral vacuum. As Saint John Paul II reminds us: "Even the decision to invest in one place rather than another… is always a moral and cultural choice."[18] It must be acknowledged, however, that "[w]hile the social teaching of the Catholic Church includes several references to the moral responsibilities of investing, there has been no detailed treatment of the topic in the encyclical tradition."[19] Accordingly, this is an area in which Catholic institutions of higher education can take the lead. They should take seriously the Church's exhortation that CST play a role in institutional investments — and brainstorm, design, and implement creative, professional practices that reflect this mandate.

Applying the CST Screen to Endowments and Investments

Private universities, unlike public ones, do not have to be transparent about their investments. Typically, Catholic colleges and universities indicate that they use the investing guidelines promulgated by the United States Conference of Catholic Bishops (USCCB).[20] This means something, but not as much as it might. The USCCB uses the economic pastoral letter, *Economic Justice for All,* to derive its guidelines:

[17] Pope Francis, *Laudato Si'* (Washington, DC: United States Conference of Catholic Bishops, 2015), sec. 78.

[18] Saint John Paul II, *Centesimus Annus* (Vatican City: Typis Polyglottis Vaticanis, 1991), sec. 36, ¶ 4.

[19] Beabout and Schmiesing, "Socially Responsible Investing," 84.

[20] United States Conference of Catholic Bishops, "Principles for USCCB Investments" (November 12, 2003), http://www.usccb.org/about/financial-reporting/socially-responsible-investment-guidelines.cfm.

(1) principles of stewardship, (2) strategies to avoid evil and promote the common good, and (3) specific investment policies to protect human life, promote human dignity, reduce arms production, pursue economic justice, protect the environment, and encourage corporate responsibility.[21] The guidelines are general and allow much flexibility. According to Morgan Stanley, "The Principles for the United States Conference of Catholic Bishops ('USCCB') Investment Guidelines established in 2003 are a comprehensive, though equivocal, set of guidelines."[22] The key word here is *equivocal*, apparently meaning in this context all-too-open to interpretation or, in other words, uncertain in application.

The Catholic Church does not claim competence in the secular realms of finance or investment. However, the Church enjoins Catholic laity, who do indeed have competence in many secular arenas, to become active in discerning the application of CST principles in concrete situations. To be effective in this effort, lay investment managers must work with experts in CST in order to interpret the guidelines as Morgan Stanley calls for them to do.[23]

It is a low-cost concession for Catholic universities to claim that their investment officers adhere to the USCCB investment guidelines. The guidelines are explicit about not investing in abortion, contraception, and human cloning; they are much less direct about specific investment decisions that will protect the environment and the rights of workers. Where the guidelines falter, lay Catholics must supply the expertise that is lacking. For example, what are best practices to address the social ills deriving from fossil fuels and extractive industries that are regularly accused of ignoring and violating community and human rights? Creating wealth, including in higher education, remains a positive and necessary value in the Catholic Social Tradition — but not at the expense of human dignity, solidarity, and the common good.

In these circumstances, Catholic higher education has an obligation to develop mechanisms for prudential judgment, such as a standing policy committee comprising CST experts (akin to a hospital's ethics committee), or training for the investment officers and the board of trustees on the principles of CST. For this to be effective, however, the standard for accountability has to be broadened: It is not enough for an institution's Chief Investment Officer to declare that his or her institution

[21] Ibid.
[22] Morgan Stanley, "What Are Catholic Values," *Catholic Values Investing* (2016): 3.
[23] Ibid.

invests according to the "equivocal" USCCB guidelines. Accountability to the USCCB guidelines is not equivalent to accountability to CST.

If CST is to make a substantial difference, it is precisely in the decision-making phase of the investment process that CST principles need to be applied. In describing that phase, Ormerod and colleagues distinguish a number of steps:

Step 1: a) Decide relevant principles/values.

b) Define an ethical organization.

Step 2: Define strategic risk.

Step 3: a) Decide negative and positive screens.

b) Decide which companies to engage with.[24]

They also distinguish between negative screening, in which certain types of investments (such as alcohol) are excluded, and positive screening, where some investments are preferred (such as renewable energy). They describe "engagement" as shareholders actively seeking to effect positive change within and by companies.[25] The USCCB principles pertain mostly to screening out, which depends upon the knowledge and commitment of the fund manager. In 2003, the USCCB recognized that it needed to update its original Socially Responsible Investment Guidelines that were created in 1991. The new guidelines state, "The Conference corporate responsibility policies have consisted primarily of exclusions, choosing not to invest in companies that comprise about ten percent (10%) of the S&P 500."[26] The revised guidelines recognize that positive strategies were needed to support "community development investments through the Catholic Campaign for Human Development (CCHD)."[27] Still, in the updated guidelines the emphasis remains on what to refrain from investing in — contraceptives, weapons, sweatshops — rather than on causes to promote, like human rights and gender equality.[28]

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[24] Thea Ormerod et al., "Catholic Investment: Principles and Practice," The Global Catholic Climate Movement (2016):1. http://catholicclimatemovement.global/wp-content/uploads/2016/06/Catholic-Investment-Principles-and-Practice.pdf.

[25] Ibid.

[26] United States Conference of Catholic Bishops, "Socially Responsible Investment Guidelines" (November 12, 2003), 2, http://www.usccb.org/about/financial-reporting/socially-responsible-investment-guidelines.cfm.

[27] Ibid., 4.

[28] In all fairness, the updated guidelines do encourage both investment in housing and efforts toward alternative renewable energy resources. See Ibid., 13-14.

Essentially, there are three ways that CCUs manage their investment funds. The traditional forms of investment oversight include, first, management by the chief investment officer (CIO), typically an institutional insider who makes investment decisions based on outside research, staff research, consulting advice, and/or board guidance. The CIO may or may not be required to get board approval for decisions. Usually only large endowments (generally greater than $1 billion, but even that number is getting higher) have in-house CIOs or investment staffs that make decisions on their own. Second, outside consultants — for instance, a firm that works with staff and provides recommendations — may play a role in CCU investment decisions, but those recommendations must be approved by either the staff (including the CIO), the board, or both. Most endowments use consultants. A manager or fund cannot be hired or fired without staff or board approval; all the consultant does is "recommend." It is not uncommon for some large funds to use multiple consultants for different asset classes or sub-classes. Third, investment decisions are often made after consultation with a so-called OCIO (outsourced CIO) — a consulting firm that has the discretionary authority to hire or fire managers or funds without the express approval of the institution's staff or board. However, authority is granted only within specified parameters. Boards usually set asset allocation limits, investment restrictions, and possibly even performance requirements. The consulting firm also may provide additional back-office services, but sometimes in-house staff does the back-office work.[29]

Clearly, today's Catholic educational institutions, which are nonprofits, have entered the world of big finance. As noted above, depending on endowment size, CCUs can influence the composition of boards of directors, fundamental corporate practices, and the direction that management takes firms. While large CCUs are best equipped to influence large corporations, smaller CCUs can have an effect through one of three routes. One possibility is for smaller CCUs to turn over the management of their endowments to larger partners, as Congregation of Holy Cross institutions King's College, Stonehill College, and the University of Portland have done in partnership with the University of Notre Dame.[30] Second, CCUs might invest their endowments with any number of investment service companies claiming compliance with

[29] Phil Chick, Assistant Vice President and Treasurer, University of Dayton, e-mail message to author, June 16, 2017.

[30] John Loyack, Executive Vice President and Chief Financial Officer, King's College, personal communication, June 22, 2017.

USCCB investment criteria.[31] Some of these companies engage in more active ownership of shares by leveraging pooled, commingling funds to initiate shareholder resolutions; engaging in corporate dialogues; and using proxy voting to shape corporate policy by Catholic beliefs.[32]

Pooling investments is an effective way for small CCUs to multiply their influence. For more than four decades, congregations of religious women and men — many of whom founded and continue to sponsor CCUs — have pooled their human resources to develop regional coalitions for responsible investing, the largest of which is the Tri-State Coalition for Responsible Investing, headquartered in New Jersey.[33] Like those in other regions, the Tri-State Coalition coordinates the active ownership strategies of its members, akin to those of private investment firms, and offers CST-inspired analysis and advocacy training.[34] Smaller CCUs could take this model a step further by combining their financial resources to create their own collective investment fund. Fund managers would be accountable to their member institutions, not only on a fiduciary basis, but also on the basis of consistency with CST.

Regardless of size, Catholic colleges and universities exercise significant impact on their local communities. Nationally and internationally, they leave a significant environmental footprint. With the guiding vision of Pope Francis and his encyclical *Laudato Si'*, some CCU endowments have begun to take environmental factors into account. A shining example can be found in Ohio, where, in June 2014, the University of Dayton "announced that it would divest coal and other fossil fuels from its $690 million endowment, making it the first American, Catholic university to do so."[35] This decision, though controversial with trustees and investment officers on many campuses, provides a leadership model for connecting mission to action. It is precisely the type of action Francis finds necessary if "our common home" is to be cared for and the world's

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[31] Among them are: Catholic Investment Services, http://catholicinvest.org; Investing for Catholics (a division of Index Fund Advisors), http://www.investingforcatholics.com/about; Catholic Way Investments, http://www.catholicwayinvestments.com/What_We_Do/Ethical_Investments; and Catholic Investment Strategies (a division of Summit Investment Management), http://www.catholicinvestments.com.

[32] Christian Brother Investment Services (2017), https://cbisonline.com/us/catholic-socially-responsible-esg-investing/active-ownership-in-our-impact-investing-program.

[33] Tri-State Coalition for Responsible Investing, "History," http://tricri.org/history.

[34] Tri-State Coalition for Responsible Investing, "Our Work," http://tricri.org/history.

[35] Arabella Advisors, *Assets in Action: How Catholic Institutions Are Using Their Investments to Counter Climate Change*, (Washington, D.C.) 6. https://www.arabellaadvisors.com/resource/assets-in-action-how-catholic-institutions-are-using-their-investments-to-counter-climate-change.

most vulnerable are to be protected.[36] As both an educational activity and a mission commitment, we submit that CCUs should follow the Dayton example and use financial capital to reduce carbon emissions, wasteful consumption, and pollution, thereby keeping solidarity and the option for the poor at the fore.[37]

Weaving CST into the Fabric of Licensing

Bringing in billions of dollars in revenue each year, licensing has become another non-core preoccupation of collegiate institutions. Although comparatively few CCUs depend on licensing revenue to a significant extent, no one can go into any CCU campus bookstore without being bombarded by the school's marketing of its name and logo on items from socks to shot glasses. Licensees sweep Catholic institutions into their global supply chains. Though colleges and universities are the intellectual property owners of their brand identities, CCUs tend to avoid monitoring the ethical practices of their many licensees, as this role is typically delegated to external entities, such as the campus bookstore contractor. The upshot of this is that basic CST principles, such as respect for human dignity, may be compromised if the industry norms for creating a product include minimal safety standards, forced overtime, and low wages.[38]

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[36] In *Laudato Si'*, Francis cites the *Aparecida Document* in which the bishops of Latin America rearticulated the Church's preferential option for the poor and reasserted that the needs of the poor and marginalized must imbue all that the Church does. In *Laudato Si'*, he suggests that this preferential option extends to preservation of and access to natural resources. See Pope Francis, *Laudato Si'*, ¶54. Moreover, Francis returns time and again to the theme of overconsumption by people in the global north, naming the harm to the earth, and to those with little income, that it causes. He is not timid in claiming that we should confront the throwaway culture if we are to solve environmental problems. See *Laudato Si'*, ¶56.

[37] Seattle University and King's College (PA) present examples of *physical* capital investments that are also environmentally sensitive. Seattle has a "zero-waste" system of recycling that reduces landfill contributions significantly. King's rehabilitated a former hotel using solar panels and energy-efficient windows, resulting in a "sea change" reduction in energy usage at that facility, per the CFO John Loyack (interview with Margarita Rose, June 22, 2017).

[38] This is more the case for smaller CCUs, which lack the national exposure and sales volume — and thus influence — enjoyed by their larger counterparts. Per Corry Unis, vice president for enrollment management at King's College, who oversees marketing activities, the college monitors how the bookstore and student groups use its logo on items, but it has no control over the manufacturing aspects of what is sold by those entities (interview with Margarita Rose, June 22, 2017). Erik Loomis, "In the

A company like Alta Gracia, which guarantees workers a living wage, is the exception in the apparel industry.[39] As Kline and Soule have reported, the company is enjoying initial success, with workers responding positively to wages that are three times the industry average; clean, safe factory working conditions that contribute to healthy, productive workers; and worker turnover that is a fraction of typical rates. For Alta Gracia to be sustainable, however, Kline and Soule argue that student groups and bookstore management have key roles to play, including consolidated purchasing of Alta Gracia t-shirts by student organizations and increased signage and floor space in campus stores.[40] At Notre Dame, students sourced a fundraising project known as "The Shirt" (in part, providing funds for fellow students in financial difficulties) through Alta Gracia from 2012 to 2016. Today, Alta Gracia shirts continue to be available both online and in the campus bookstore. Though the percentage of floor space devoted to the brand is minimal in comparison to other licensees, Seton Hall and Georgetown also stock Alta Gracia t-shirts and other garments in their bookstores.[41]

In another display of commitment to the cause, new student orientation at Georgetown has provided members of the last four incoming classes with Alta Gracia–produced t-shirts. Just as the Class of 2021 was orienting itself to life on campus, Georgetown also announced it had helped forge an agreement between Nike Inc. and the Worker Rights Consortium (WRC) that would allow WRC access to Nike contractor factories, to ensure conditions comport with licensor expectations. To arrive at this agreement, the administration consulted the university's Licensing Oversight Committee, among others.[42] For John Kline, a member of that committee, the indicator of success for the Alta Gracia model "will be if you can show that this model can be adopted by existing firms, big firms that will make the difference for many more

Global Apparel Industry, Abusive and Deadly Working Conditions Are Still the Norm," *In These Times* (June 15, 2015), http://inthesetimes.com/working/entry/18066/out_of_sight_erik_loomis.

[39] John M. Kline and Edward Soule, *Alta Gracia: Four Years and Counting. Georgetown University Reflective Engagement Project* (2014). See also Alta Gracia, http://www.altagraciaapparel.com/change-lives.php#.

[40] Kline and Soule, *Alta Gracia: Four Years and Counting*, 34.

[41] Personal observations of Rose.

[42] Georgetown University, "Georgetown Advances Workers' Rights through New Agreement with Nike and Worker Rights Consortium" (August 30, 2017), https://www.georgetown.edu/news/Nike-WRC-new-protocol-2017.

workers."[43] If CCUs can move their licensees into more agreements like the one between Nike and the WRC, there is a greater chance that the Alta Gracia model will spread and more workers will experience the dignity, respect, and justice that the Catholic Social Tradition argues they deserve.

A Case Study in Catholic Licensing

Acting upon the "see-judge-act" process initiated by community-based learning centers at CCUs and diverse institutions of higher education, a national collegiate anti-sweatshop movement, led by groups like United Students Against Sweatshops, arose in the late 1990s.[44] In 1997, the University of Notre Dame and Duke University were among the first to adopt a labor code of conduct for licensed goods. A statement on Notre Dame's website claims: "Notre Dame was the first university in the country to adopt a code of conduct for its licensees and the first to undertake independent monitoring of factories where its licensed products are manufactured."[45] The Fair Labor Association, which pushes companies to voluntarily monitor themselves, was then founded with Notre Dame's help. Notre Dame also belongs to the Worker Rights Consortium, an independent labor rights monitoring association.[46]

In 2001, Notre Dame implemented in its licensing contracts what became known as the "China Policy," according to which Notre Dame would not allow those who contracted with the university to make products with its name in any country that banned "the freedom of association." Specifically, the public Licensing Code of Conduct stated:

> [A]fter June 30, 2001, products bearing the name or other trademarks of Notre Dame shall only be manufactured in countries where all workers enjoy the legal rights to associate freely, form independent labor unions and collectively bargain with their employers concerning wages, hours, working conditions and other terms and conditions of employment.[47]

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[43] Georgetown University, "Sewing Hope: Living Wage Apparel Factory a Lesson for Large Companies" (October 23, 2017), https://www.georgetown.edu/news/sewing-hope-book-on-alta-gracia-by-john-kline.

[44] Christopher C. Kelly, "Students Against Sweatshops," in *Living the Catholic Social Tradition: Cases and Commentary*, ed. Kathleen Maas Weigert and Alexia Kelley (Peabody, MA: Sheed & Ward, 2004): 175.

[45] University of Notre Dame, "University of Notre Dame Policy on Freedom of Association" (2017), http://licensing.nd.edu/assets/13167/freedom_of_association_policy.pdf.

[46] Ibid.

[47] University of Notre Dame, "University of Notre Dame Licensing Code of Conduct" (2017): 4, http://licensing.nd.edu/assets/12740/codeofconduct_document.pdf.

Only a handful of nations ban such free association, but China is the biggest. Notre Dame stood alone in adopting this policy. A couple of times the university convened groups to consider changing it, but for nearly fifteen years the policy held. In 2015, however, the university decided to review and remove the "China Policy."

Also in 2015, Notre Dame put together a Worker Participation Committee (WPC) in order to engage the topic widely on campus, but many university constituents proved sadly indifferent. The university hired an outside vendor, Verité, to provide comprehensive assessments of factories in several countries, including China. Factories in all countries failed to meet the criteria established in that licensing code. In response, Notre Dame announced in 2016 that it would evaluate the factories in China on the basis of their worker participation practices — understood by the International Labour Organization as allowing workers to suggest changes to improve workplace safety or improve efficiency[48] — rather than on the basis of freedom of association.

Initially, the university suggested that the new policy would be a pilot on a temporary basis, under which Notre Dame would allow university goods, such as Under Armor shirts, to be produced in six Chinese factories. During the 2017-2018 academic year, however, Notre Dame is scheduled to announce the permanent end of the "China Policy" for licensing, and the pilot will become standard practice. The policy will shift to factory-centered instead of country-wide standards. The university will partner with Samarra, using its existing platform, and hope to partner with other universities to assess most licensee factories within a given timeframe. Worker participation will replace freedom of association as the key criterion. In *Laudato Si',* however, Pope Francis asserts: "Underlying the principle of the common good is respect for the human person as such, endowed with basic and inalienable rights ordered to his or her integral development."[49] Is freedom of association not a more fundamental right than worker participation? Are decision makers accurately interpreting CST when they elevate the vague, impotent notion of worker participation over workers' right to free association?

This shift in policy is reminiscent of the Sullivan Principles controversy of the 1980s. To recall, Rev. Leon Sullivan drew praise for

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[48] Gianni Arrigo and Giuseppe Casale, "A Comparative Overview of Terms and Notions on Employee Participation," Working Document Number 8, Labour Administration and Inspection Programme LAB/ADMIN, International Labour Organization, Geneva, February 2010.

[49] Pope Francis, *Laudato Si'*, ¶157.

establishing standards for General Motors within its South African auto factories during the apartheid era. But critics argued these standards would do little to end the socio-economic injustices that awaited workers once they stepped outside the factory doors.[50] The bottom line of shifting evaluation to the criterion of worker participation instead of freedom of association is that it compromises a keystone of CST in order to allow an auxiliary service. The challenge for Catholic colleges and universities is how best to discern which principles of CST ought to be prioritized in order to stay true to their Catholic mission, especially when there are competing financial interests.

Conclusion

Few presidents of CCUs would deny a role for Catholic Social Teaching in the administration of their institution. Moreover, they likely would agree that non-core pursuits (e.g., auxiliary services) ought to be considered in service to the institution's core mission. However, the tussle between core and non-core responsibilities may not be easy for some CCU leaders to resolve. Surely, though, it cannot be ignored. The USCCB offers some guidelines on investment decisions, but these guidelines do not address the critical conflicts that confront licensing policies. Moreover, it is time to update these guidelines (dating from 2003) in light of Pope Francis' encyclical *Laudato Si'*, which mandates an evaluation of the impact of investment and consumption decisions on both the environment and the world's most vulnerable people, who are most directly affected by climate change and environmental damage. In paragraph 56, the Pope speaks critically of those who fail to view these decisions in moral terms: "In the meantime, economic powers continue to justify the current global system where priority tends to be given to speculation and the pursuit of financial gain, which fail to take the context into account, let alone the effects on human dignity and the natural environment."[51]

While one might expect administrators and boards to view the primary purpose of endowment and intellectual property resources as ensuring the preservation of the mission of their institution, one would hope

[50] S. Prakesh Sethi and Oliver F. Williams, "Creating and Implementing Global Codes of Conduct: An Assessment of the Sullivan Principles as a Role Model for Developing Corporate Codes of Conduct: Lessons Learned and Unlearned," *Business & Society Review* 105 (2000): 178-179.

[51] Pope Francis, *Laudato Si',* ¶56.

that most also acknowledge the good that can come from directing institutional resources away from morally corrupt practices and toward innovations and organizational practices that promote principles of CST. Rather than taking up questions of compliance with CST principles on an ad hoc basis, CCUs could more fully institutionalize CST by including regular monitoring of compliance with CST principles. For example, the alignment of all key institutional policies and decisions could be integrated into the institution's assessment and accreditation processes.[52] Perhaps with the aid of a mission and identity committee or officer, but more effectively with a panel of CST "experts" on campus, all divisions of the CCU would review how their key decisions reflect CST principles. This expert panel should comprise persons with an understanding of the theological foundation of CST principles, the key documents of the tradition, and a sense of the historical context in which the social teachings of the Church have emerged. By incorporating CST compliance systematically, leaders of CCUs would signal to their campus communities — including to their endowment and licensing managers — as well as to the world beyond that they value the social tradition of the Church and want to use the resources they possess to promote the principles of that tradition. Failure to do so weakens the integrity of the institution.

This article has its origins in the authors' participation in the CST Learning and Research Initiative, a collaboration of faculty and administrators at eleven Catholic colleges and universities across the United States. Through national meetings over the last five years, the Initiative has facilitated campus focus groups and collected oral histories of student understanding of CST, developed a rubric for curricular and research purposes, and conducted conversations leading to the peer-reviewed articles in this issue of the Journal of Catholic Higher Education. *For more information, see both the introduction to this issue and http://sites.nd.edu/cstresearch.*

[52] This idea was suggested by John Loyack in response to questions from Margarita Rose on June 22, 2017.