"Summary of article by Peter D. Kinder, Steven D. Lydenberg, and Amy L. Domini: Socially Responsible Investing: Doing Good While Doing Well" in Frontier Issues in Economic Thought, Volume 6: A Survey of Sustainable Development. Island Press: Washington DC, 2001. pp. 280-282

Social Science Library: Frontier Thinking in Sustainable Development and Human Well-being

"Summary of article by Peter D. Kinder, Steven D. Lydenberg, and Amy L. Domini: Socially Responsible Investing: Doing Good While Doing Well"

The History of Socially Responsible Investing (SRI)

Humanity has had only a century plus a few decades to figure out how to deal with the extraordinary new force represented by the modern corporation. "Apart from armies, no one had ever put together human organizations the size of, say, U.S.Steel (now USX) which was created in 1901. Nor had anyone ever tried to concentrate so many functions – so many human relations, both internal and external – in a single structure." (15) Government and civil society is still reorganizing and redefining social and political relationships to respond to the challenge posed by the existence of these gigantic new economic forces.

The period from 1890 to 1917, called "the age of reform," generated mass movements that attempted to redress the balance between individualism and social needs. Government control had, in fact, begun to be exerted through the creation, beginning in the 1870s, of such regulatory agencies as the Food and Drug Administration. Civil society in the age of reform initiated a variety of crusades, fads, political movements, and other proposals for individual and collective action. One of these new directions was the beginning of the SRI movement.

An even earlier phase of the SRI movement might be traced to the seventeenth century Quakers, who refused to profit from war or the slave trade. However, it was not until the early twentieth century that this impulse confronted corporate power in its modern U.S. form. The Social Creed of Churches, adopted by the Federal Council of Churches in 1904, stressed most of the issues of workers rights that are still in the foreground today, along with a broad appeal for "the abatement of poverty" and "the most equitable division of the products of industry that can ultimately be devised." (14) However, from then until the 1960s the movement did little more than encourage churches and individuals to exclude "sin stocks" from their portfolios.

The late 1960s combined the fervor of the civil rights movement and a new sense of urgency about the environment with the unrest associated with the Vietnam War. Following the death of Dr. Martin Luther King, the divestiture movement – the effort to disengage university and other portfolios from companies seen to support South African apartheid – became an obvious outlet for a general sense of moral outrage. Then Ralph Nader took on General Motors, following up his book, *Unsafe at any Speed*, with Campaign GM, which managed – for the first time in history – to put social issues on stockholders' proxy ballots. "U.S. churches and religious orders grasped the importance of what Nader had done. In 1971 they formed the interfaith Center on Corporate Responsibility (ICCR), which has filed a torrent of shareholder resolutions ever since." (17-18)

Types of socially responsible investors

Socially responsible investment may be carried out in several ways. One is guideline portfolio investment. Guideline portfolio investors may be individuals working through brokers, mutual funds, or other kinds of investment managers. What they have in common is the use of ethical guidelines, or screens, which affect their choice of investments. These may range from simple negative screens (e.g., eliminating all tobacco companies) to more proactive screens that seek out companies with, for example, good labor relations records. Social screens do not replace financial screens. While most investors prefer that their SRI portfolios perform reasonably close to the market average (a requirement that many have met or exceeded), others are willing to accept a below market return for a worthy cause.

"Done quietly and individually, this type of investing has no effect whatsoever on publicly traded corporations." (3) However, the growth in the number and size of SRI mutual funds has not escaped the notice of corporations. Working with others to bring pressure for accountability, SRI investors have contributed to a social environment which, perhaps most importantly, has forced corporations to disclose more of their workings to an informed public.

Another type of socially responsible investor is the shareholder activist who, at minimum, votes on the resolutions for responsible corporate behavior that are put forth at annual meetings,[1] and, at maximum, writes and sponsors such resolutions. Religious groups such as the Interfaith Center on Corporate Responsibility and specific Christian orders have led the way in using shareholder resolutions to lobby corporations. Large pension funds such as TIAA-CREF or the New York City Employees Retirement System have also worked to convince corporations to divest from South Africa, to adopt the CERES (acronym for Coalition for Environmentally Responsible Economies) principles on the environment,[2] etc. So far, however, the pension funds have hewed to a narrower agenda than the religious groups, stressing especially the governance issues around the relationship between shareholders and managers.

There are many complementarities between guideline portfolio investors and shareholder activists. The issues developed by the latter often become screens used by the former. The two approaches together may be needed to get the attention of corporations. Their effectiveness is less in winning proxy votes – in fact, this is rarely achieved – than in getting corporations to pay attention to the issues they are raising. Even a small percentage of votes against management can make a company realize that it faces a potential public relations problem. Corporations see it as in their interest to prevent proxy fights, and increasingly often will agree to come to the table with the SRI group before a resolution goes to vote.

The third kind of SRI activity involves community investors. These groups deposit their money in community loan funds or credit unions, which in turn make loans that other credit institutions might turn down. These loans may be used to support small businesses in depressed areas, to support housing in districts considered poor risks, or to create jobs. Accion International, which loans U.S.-generated funds to microenterprises in Central and South America, is an example of the first of these approaches. South Shore Bank in Chicago, which channels funds from wealthy communities to support housing in poorer areas, is a good example of a housing oriented community investment institution. The ICA Revolving Loan Fund in Massachusetts, financing worker-owned businesses, is a job-creating community investor.

"Conventional wisdom holds that you can't mix money and ethics. Conventional wisdom is wrong. Socially responsible investors have proven it so." (1)

Notes

1. Most commonly, such shareholders are voting on "proxy resolutions" – so named because, rather than attending the annual meeting, most shareholders take the option of authorizing a stated representative to vote as they direct.
2. The CERES Principles are a 10-point code of corporate environmental conduct which, by the end of 1999, had been adopted by more that 50 corporations, including about 10 Fortune 500 companies. http://www.ceres.org