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The Ethics of Investing

Making Money or Making a Difference?

Joakim Sandberg

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Chapter I
Introduction

1. Background

During the last couple of decades there has been a growing societal concern about different kinds of ethical issues related to the financial sector in general and financial investments in particular. Whereas the traditional view of the world of finance may have been that it is all about making money in whatever way (legally) possible, this view has been challenged by an increasing amount of reports in the popular press; and also by an increasing number of academic scholars. More and more financial services actors (e.g., banks and fund companies) have begun to market financial vehicles with an explicit ethical, social or environmental dimension – most often referred to as either 'ethical' or 'socially responsible' funds. And more and more private persons and institutions have also opted to put their assets in these kinds of funds or to take putatively ethical or social considerations into account when deciding how to invest. According to some recent reports, the total amount of investments with an explicitly ethical, social or environmental

profile was as much as $2.29 trillion in the United States and €1.03 trillion in Europe at the end of 2005.[1]

This book tries to make sense of this growing societal concern, and I will discuss different ideas as to what genuinely ethical investing may consist in. Part of the aim will be to determine precisely what is wrong with the traditional view of the financial world, if there indeed is something wrong with it; and how this view should be revised. For the most part, however, the discussion will focus on what to think of the alternatives that the 'ethical' or 'socially responsible' investment movement has to offer. Some examples of the kind of issues I will be discussing are: Do investors always have moral reasons to avoid investing in certain business areas such as, for example, the weapons industry, because it is wrong *in principle* to invest in such areas? If not (or even if so), do investors sometimes have moral reasons to do something more – for instance, to invest in morally problematic industries and try to make companies change their evil ways? How much does morality really demand of an individual investor – *must* she invest in a morally problematic company that she will be able to influence in this way, or is it justifiable for her to do considerably less? Or perhaps this kind of aggressive investing conflicts with a more basic responsibility connected to shareholding, namely that of taking good care of the companies one invests in?

Before introducing in more detail the kind of questions that will be my main concern in this book, I will give a background to the growing societal concern over ethical issues related to the financial sector and financial investments. According to many commentators, this development has roots that go much further back in time. There are some religious groups, for instance, who have let ethical considerations influence their investment practices for many hundreds of years.[2] Somewhat more recently, the social protest movements of the 1960s and -70s would also seem to be important precursors to the social investment movement of today. At a time when there was a general antipathy in many parts of society against, for example, the Vietnam War and the apartheid regime of South Africa, worries also grew about the corporate involvement related to these conflicts. Many churches, universities and private in-

[1] Cf. Eurosif 2006, Social Investment Forum 2006. However, these estimates are probably exaggerated – see chapter IV, section 4.1. See also Entine 2003, Munnell and Sundén 2005, Schepers and Sethi 2003.

[2] Cf. Domini 2001, Powers 1971, Schwartz 2003, Sparkes 2002

vestors started to boycott commercial companies which were perceived to facilitate the Vietnam War effort or to support the South African government by withdrawing their financial investments from these companies.[3] Others tried to raise issues about labour rights and racial equality at the annual general meetings of some of the largest companies in the West, like General Motors and Eastman Kodak.[4]

While these historical precedents certainly would seem to be important for the practices of the present social investment movement, some more recent societal trends could perhaps explain why the commotion over ethical issues in relation to financial investments has continued to increase during the last couple of decades. First of all, there has been a general trend towards corporate deregulation and privatisation in many parts of the Western world since the 1980s. Whereas citizens previously may have been able to rely on governments and the political processes to hold the corporate sector in check and to hold commercial companies accountable for their practices, the power and influence of the modern corporation has increased dramatically in recent years.[5] Add to this the development toward globalisation and integration of the world's economies, and the rise of the multinational corporations with immense powers over the lives of people in many different parts of the world, and it is not hard to see why an increasing number of people want to put ethical demands on the corporate sector of today. According to many commentators, deregulation, privatisation and globalisation has increased the need for companies to take on a *quasi-political* role, i.e. to take a stronger responsibility for the social effects of their practices.[6]

A trend which to some extent may be parallel to the globalisation of business is the globalisation of information. Perhaps this informational revolution, which most people in the Western world see many proofs of in their everyday lives, could be one of the explanations of the increased uneasiness among the general public about different kinds of ethical, social and environmental issues related to the corporate sector and fi-

[3] Cf. Brill et al. 1999, Brill and Reder 1993, Domini 2001, Domini and Kinder 1986, Harrington 1992, Judd 1990, Kinder at al. 1993, Melton and Keenan 1994, Miller 1991, Sparkes 1995, 2002, Taylor 2001

[4] Cf. Brill and Reder 1993, Domini 2001, Domini and Kinder 1986, Harrington 1992, Kinder et al. 1993, Lowry 1993, Melton and Keenan 1994, Simon et al. 1972, Sparkes 1995, 2002, Vogel 1970, 1983

[5] Cf. Brill et al. 1999, Hellsten and Mallin 2006, Sparkes 2002, Vogel 1978

[6] Cf. Sparkes 2002, Vogel 1978

nancial investments.[7] According to some writers, environmental concern has gone from only being perceived to belong to some "left-wing" groups in society to being a more or less mainstream concern.[8] Furthermore, in the wake of recent corporate scandals such as those of Enron and WorldCom, consumers are becoming increasingly aware of and concerned about issues such as third world poverty, human rights and business ethics.[9] While it is hard to know where this growing awareness really originated, a good guess is probably that it is correlated with an increase in media coverage of ethical, social and environmental issues in general.[10]

An important upshot of the trend outlined above is the turn toward and existence of a commercial niche for companies perceived to be more socially responsible or ethical than others. The concepts of, for instance, Corporate Citizenship and Corporate Social Responsibility (CSR) have been viable ingredients in the marketing schemes of an increasing number of companies during the last couple of decades.[11] And here the successful marketing of the concepts of 'ethical' and 'socially responsible investment' (SRI) itself should probably be given at least some credit for having attracted more investors into taking ethical or social considerations into account in their investment decisions. As already noted, more and more funds have been launched with explicit references to ethical, social or environmental concerns and, since these dimensions have also been discussed so much in the media, it is perhaps not surprising that so many people have been attracted to these kinds of funds.[12]

What I think is the most important development in terms of explaining the increase in societal concern about ethical issues related to financial investments, however, is the simple fact that an increasing number of *private persons*, or individuals, are becoming involved in the financial investment process. Partly because of deregulations of the pension systems of many countries, and partly perhaps because of general increases

[7] Cf. Hellsten and Mallin 2006, Schueth 2002
[8] Cf. Gardyn 2003
[9] Cf. Auger et al. 2003, Harrison et al. 2005, Krumsiek 1997, Schepers and Sethi 2003, Worcester and Dawkins 2005
[10] Cf. Berry and McEachern 2005, Harrison 2005, Nilsson 2007, Wagner 2003
[11] Cf. Bhattacharya and Sen 2004, Nilsson 2007
[12] According to some recent reports, over 200 so-called 'socially responsible' funds exist in the US, representing $179.0 billion in total net assets (Social Investment Forum 2006), and over 70 such funds exist in the UK, with £6.1 billion assets under management (Eurosif 2006).

in wealth, more and more individuals are today, either directly or indirectly, shareholders in at least a couple of companies on the world's stock markets.[13] According to one estimate, as much as 94% of the Swedish population could in fact be said to be investors in some manner – either directly, i.e. through having bought shares or bonds themselves, or indirectly, i.e. through having at least some of their retirement assets in some deregulated pension scheme.[14] The total wealth invested in unit trusts (funds) in Sweden represented around SEK 997 billion in 2005 compared to SEK 65 billion in 1986, and approximately 70% of all Swedes actively invested in unit trusts in 2005.[15]

So the stage is set as follows: An increasing number of 'regular people' are becoming concerned about different kinds of social and environmental issues, and these people are also coming into contact with the world of financial investments for the first time, a world which in their minds has run slightly wild and whose power perhaps has to be harnessed in some manner. Surely, it is not hard to imagine that the traditional view of finance will be disputed in different ways in such a scenario. But what is really a plausible view on the ethical responsibilities of investors?

2. Defining the issue

There are surely a large number of ethical issues related to the financial sector in general and financial investments in particular, which it could be very interesting to discuss from a philosophical perspective and in a book like this. While the title of the book, *The Ethics of Investing*, may seem to indicate that I will discuss every possible such issue, it should be noted right away that it obviously is impossible to do so in a book of this length – a book which I also intend to be accessible and interesting for most people concerned about the ethical responsibilities of investors. In the present section, I will present the kind of question which will be my main focus here and try to make it as clear as possible. In the sections that follow, I will first delineate this kind of question from certain other issues which often are discussed in the literature on 'ethical investing', and I will then say something general about the method I will be using for analysing and hopefully answering the question under con-

[13] Cf. Domini 2001, Nilsson 2007, Teweles and Bradley 1998
[14] Nilsson 2007
[15] Nilsson 2007

sideration. Finally, I will give a more detailed introduction to the specific suggestions which will be our focus of attention throughout the book.

The general question which will be my main interest here is a question which I take to be at the core of most discussions concerning the ethics of investing, namely: *What ought investors to do?* Or, to put it in another way: *How ought one to invest?* Formulated this generally, it may seem difficult to know even where to begin to analyse it, let alone to answer it. It should be noted, first of all, that I will speak of what investors *ought to do,* the *moral* or *ethical responsibilities* of investors, and what investors have *moral reasons* to do somewhat interchangeably. I take these formulations to be roughly synonymous, although I will note some advantages of formulating certain positions in terms of moral *reasons* as we go along (see, e.g., chapter II, section 4, for the first time this is discussed). In keeping with the standard view in moral philosophy, I take the terms *ethical* and *moral* to denote roughly the same thing. What is more, however, is that I will understand ethical reasons and responsibilities in a fairly broad sense so as to also incorporate what is often formulated as *social, environmental* and even *financial* reasons. Perhaps this is somewhat unorthodox in the context of discussions of the 'ethical investment' movement – as the reader soon will see, this kind of investing is often understood as one which incorporates "ethical, social or environmental" concerns in the otherwise strictly financial investment process (sometimes "governance" concerns are also mentioned – see chapter V). According to this kind of formulation, it may be noted, ethical concerns are only one kind of concern which may motivate the investor interested in 'ethical investing'. But one may wonder exactly what distinguishes 'ethical' concerns from 'social' and 'environmental' ones. And, more importantly, how should these be weighed against the financial concerns of the investor in the final analysis?

There may be many reasons for why different writers have chosen to speak of "ethical, social and environmental" concerns in this kind of context. Since the question which I think is most interesting here is not what investors have ethical or social reasons to do in this *narrow* sense, however, but rather what they ought to do *all things considered* (that is, when all kinds of reasons are taken into account), I will understand ethical reasons and responsibilities in the broader sense indicated above.[16]

[16] This understanding of ethical reasons and responsibilities, I believe, is not unorthodox in the context of discussions in applied ethics – see, e.g., Glover 1977, pp. 22-23.

In my terminology, then, there is no real difference between saying that investors have *social* or *environmental* reasons for doing a certain thing and saying that they have *ethical* reasons for doing so (although the latter obviously is more inclusive) – both kinds of statements will be understood as suggestions about what investors *ought to do*.[17] In chapter VII, I will also discuss suggestions about what investors have *financial* reasons to do, and I will understand these as genuine rivals to suggestions about what investors have (other) *ethical* reasons to do.[18] I hope that this terminology should not cause any problems for the reader, but will actually make it easier to understand the fundamentally normative issues under discussion (especially in the later chapters of the book).

The focus of attention in this book will be on what *investors* ought to do, or what we ought to do *as investors*. Now, there are obviously a lot of other kinds of agents involved in the investment process and financial markets in general, such as financial companies and their managers, financial intermediaries, analysts, bank officials and corporate managers and directors, but the ethical responsibilities of these groups will not be my main concern here. Even when we restrict the inquiry to investors, it may be noted, there are a lot of different kinds of investors for which quite different ethical issues may be relevant and salient – there are, e.g., institutional investors, fund managers, corporate asset managers and both professional and non-professional individual investors. While I believe much of what I will have to say is relevant to the ethical dimension of all of these different kinds of actors' investment decisions, my primary focus will be on *typical non-professional individual investors*. By 'typical non-professional individual investors', or henceforth simply 'individual investors', I mean people "like you and me" – people who are not too familiar with the most intricate workings of the stock market, and who only have a moderate amount of disposable income available for investments in shares or bonds.[19]

There are many reasons for why I have chosen this focus on individual investors. One is the trend already mentioned, i.e. that an increasing

[17] Although I will sometimes speak of the moral *responsibilities* of investors, then, my main interest is not in the issue of whether or not investors are *blameworthy* for performing certain actions (which some have called *retrospective* responsibility), but rather in what actions they have moral reasons *to perform* (which some have called *prospective* responsibility). For a discussion on this distinction, see Zimmerman 1988.

[18] For some further comments on this terminology, see note 1 in that chapter.

[19] For a similar understanding of typical non-professional individual investors, see Kolers 2001.

amount of 'regular people' now are becoming investors, either directly or indirectly, and will have to take some kind of stand on the ethics of different investment strategies. It is my hope that the discussions in this book, even though many readers perhaps may disagree with my conclusions, will help to (further) inform these people of at least some of the most important features of the ethical challenge they are facing. As noted above, furthermore, it is also my conviction that an important explanation of the growing societal concern about ethical issues related to financial investments is this infusion of 'regular people' into the world of finance and investments. That is, the initiatives of the 'ethical' or 'socially responsible' investment movement, although proponents of these in recent years have started to talk more and more about the role of institutional investors[20], would seem to be designed primarily for typical non-professional individual investors. We will soon see that many books on this topic are explicitly directed to people "like you and me", and they are seemingly designed to try to convince the average investor why this new kind of investing may be something for him or her. Now, I am not sure that a focus on the ethics of regular people's investment decisions actually is the most *fruitful* one in a context like this, at least not if one wants to come up with the *most effective solutions* to the kind of problems in the corporate sector from which the discussion on the ethics of investing could be said to originate. At the very end of the book (chapter VIII, section 2), I will therefore comment on some general features of the issues that have been considered which indicate that political, or legislative, solutions may be suitable for many of these problems.

With regards to individual investors, some readers may have noted that the formulation 'What ought investors to do?' is ambiguous in a certain sense. On the one hand, it may be taken to mean 'What ought *these people*, who now happen to be investors, really to do?'. According to this interpretation, it seems perfectly possible that the correct answer has little to do with financial investments – what those people who *now* are investors, or whom we refer to by the term investors, really ought to do may be to move to Africa and work as volunteers, or to dedicate their lives to writing beautiful symphonies, or to do something completely different. On the other hand, the question may be taken to mean 'What ought investors to do *qua* investors, i.e. what ought they to do *in*

[20] For further comments on this, see chapter IV, section 6.2 and chapter VIII, section 2.

their role as investors?'. For the most part, it is this second understanding of the question above that I will be interested in here. That is, I will be assuming that the agents of concern either already *are* investors or *are becoming* investors – either they already hold some shares or bonds, or they have a certain amount of money and are trying to decide how to invest them – and the question I will be discussing is what they then should do *with these investments*, or how they should go about *investing this amount of money*. While there may be a lot of interesting ethical issues surrounding other parts of individual investors' lives, then, I am chiefly interested in the ethical comparisons between different kinds of *investment actions* or *strategies* open to individual investors and, for this reason, the formulation 'How ought one to invest?' would seem more suitable. At the end of chapter VII (section 4), however, I will discuss what happens if we drop this kind of focus and discuss more freely what people with a certain amount of disposable income generally ought to do with their money.

A few more comments are in place in relation to the kind of focus just outlined. Since I for the most part will be discussing what investors ought to do, *given that they are going to invest* in some manner or the other, some may want to accuse me of basically *assuming* that the practice of investing is not morally corrupt *in a more systematic way* – that is, according to my take on the ethics of investing, investors can never have moral reasons to *refrain from investing altogether*. But it is not totally obvious that the practice of investing is not morally corrupt in this way – according to some writers, there may be fundamental moral problems connected with the *very idea* of financial investments, or with the stock market as a societal phenomenon. This view is often connected to discussions about the immorality of financial interest (or "usury") and different views on this among certain political and religious fractions.[21] Now, it is correct that I will not be discussing this particular kind of arguments in the present context – since the kind of political and religious issues they raise are so complicated, I believe this would require a book of its own. In a certain sense, then, I am assuming that there is nothing structurally dubious about the practice of investing. However, with regards to the kind of arguments I *will* be discussing, this kind of assumption is only a *tentative* one – that is, while I am not assuming *from the start* that all forms of investing are morally problematic, a possible *result* of my discussion is

21 Cf. Haigh and Hazelton 2004, Lang 1996, Lewison 1999, Moore 1988

that they actually *are*. Indeed, as we soon will see, some of the most basic intuitions many people have about what constitutes genuinely ethical investment would actually seem to imply that there simply is no such thing, i.e. that investors have moral reasons to refrain from investing altogether (see, e.g., chapter III, section 2.1).

A further ambiguity in the qualification of my main question here may arise from different understandings of the importance of the *role* of investors referred to above. While I said that the focus of this book will be on the issue of what investors ought to do *in their role as* investors, or *qua* investors, this should not be taken to imply that I have any more specific role in mind, nor that I only am interested in the responsibilities investors may have because of a certain role *they normally play in the corporate governance setting*. According to some writers, shareholders could be said to have certain moral responsibilities exactly because they play a certain role in this setting – roughly put, since they are generally considered (part) *owners* of companies limited by shares (henceforth simply limited companies[22]), they also ought to take on the responsibilities which this role implies and behave as *responsible owners*. Now, most of the suggestions about the moral responsibilities of investors I will be discussing in this book are not like this.[23] If they could be said to stem from some kind of *role* investors have, it may be noted, it is from a role that also many others have – perhaps that of being a member of society, or, that of being a moral agent in general. As indicated above, most of the current discussion surrounding the ethics of investing is formulated in terms of the "*ethical, social and environmental*" responsibilities of investors. I will return to the difference between role-specific and (what could perhaps be called) social responsibilities in chapter V, where I will also evaluate the idea of responsible ownership in more detail.

[22] Since the kind of financial investments I will be discussing here mainly is investments in corporate shares (stocks), the relevant kind of company is mainly so-called *companies limited by shares*, or simply *limited companies* (also known as *limited liability companies*, *joint stock companies* or *corporations*) – that is, companies who have issued shares and are owned by their shareholders (unlike, for instance, sole proprietorships and partnerships). Furthermore, I will most often be concerned with so-called *public* limited companies – that is, companies that are quoted on a stock exchange and whose shares are available for purchase there (unlike so-called *private* limited companies). For more on this, see Rini 2002.

[23] As noted above, furthermore, the primary focus here is *non-professional* individual investors – for this reason, I am not interested in the ethical responsibilities investors may have because of their *professional* role. Nor will I say anything about the issue of insider trading, which I take to arise mainly with regards to professional investors – for some good discussions of this issue, see McGee 2008, Moore 1990, Werhane 1989.

As a final clarificatory point it may be expedient to say something about how the terms 'investment' and 'investing' will be understood in this context. Although I will use the terms 'investment' and 'investing' somewhat loosely in what follows, it should be noted that my main concern is with *financial* investments and not, e.g., investments in property or land.[24] Defining 'financial investment' in a way which fits the purposes of the present discussion, however, turns out to be a rather tricky business. It may be noted that the concept of investment is seldom defined in the academic discussion on the 'ethical investment' movement, but rather an intuitive understanding of this concept could be said to be in use. I don't think this must be a problem. Consider, for instance, the following attempt at a definition of 'investing' by Avery Kolers: "As I understand investment, a person *invests* when she uses money in such a way that the primary useful return for her money is, or is intended to be, money. This definition does not imply that investors necessarily share the financial risk of the endeavor in which they invest. Rather, the crucial issue is participation by the proxy of one's money in an economic enterprise".[25] Now, Kolers is quick to point out that this may not be an economist's definition of 'investment', but he thinks it covers the most paradigmatic examples of what is commonly referred to as investments – when one puts some money in, for example, a retirement plan, corporate shares or bonds, a unit trust or a bank deposit.[26] To what extent this is true, however, I think depends on how his central concepts of "the primary useful return" of a certain use of money, and "participation in an economic enterprise", are spelled out more exactly.

In chapters III and IV, I will distinguish between several possible interpretations of Kolers' and others' understanding of investment as 'participation' and argue that they are problematic in many ways. In order to indicate already at this stage how previous attempts at defining 'investment' are problematic, however, consider the following problems with the idea of "the primary useful return": Should we take Kolers' definition to suggest that *the investor herself* must intend that the primary useful return on her money is money? If this is the case, then it would seem conceptually impossible that investments chosen primarily for non-financial reasons could be ethical *investments* (or how should '*useful*

[24] Some writers, however, have extended their discussion on financial investments to also cover other kinds of investments – see, e.g., Ward 1991.
[25] Kolers 2001, p. 436
[26] Ibid.

returns' be understood?). Yet this seems like a perfectly possible understanding of the most genuinely ethical kind of investment.[27] Perhaps we should take the definition to suggest that the *socially intended* primary return of a certain use of money must be money in order for this use to classify as investment? This idea of a 'social intention' is actually sometimes used by writers who are sympathetic to the idea of responsible ownership already mentioned (see chapter V, section 2.1) – since the institutional setting surrounding shareholding would seem to 'intend' for them to have a certain role, their ethical responsibilities are also tied to this role (and, some writers say, other uses of shares or bonds are simply not *proper investments*[28]). Since this only is *one* idea of the ethical responsibilities of investors, however, and, furthermore, an idea which I believe clashes with many of the intuitions of proponents of the 'ethical investment' movement (at least when properly understood), one should certainly not assume from the start that it is correct.

These are just some of the reasons why this *one* attempt at defining 'investment' may be problematic, but I believe similar problems will befall most other attempts as well. Perhaps part of the problem is that the kinds of innovative investment strategies nowadays referred to as 'ethical' or 'socially responsible' simply are so different from their traditional counterparts that it is hard to see what the two have in common. As I indicated above, however, I don't think these complications with giving a clear definition of 'investment' need to be an insuperable problem in the present context. In keeping with most of the previous discussions on the ethics of investing, I will focus almost exclusively on what seems to be the most paradigmatic example of financial investments, namely *direct investments in corporate shares (stocks)*. In order to give proponents of the socially responsible investment movement the benefit of the doubt, however, I will allow that *almost any kind of use* of corporate shares – that is, even social campaigns where shareholding is only a rather peripheral part – can be adequately classified as investing. Even though some may think this is misleading, what is important in the end is not *what you call* a certain line of action, I believe, but rather whether this line of action is *morally justified*.

In most situations, there are certainly a vast amount of actions open to investors, that is, there is a vast amount of things that the investor

[27] Similar points are made by Bruyn 1987, Moore 1988.
[28] See chapter V, section 2.1, note 43.

could do which would qualify as investing in the loose sense outlined above. In order to facilitate my discussion of what investors ought to do, however, I will limit this discussion to a smaller set of *investment strategies*, i.e. a limited set of (composite) lines of action which are open to individual investors. Even though there may be many more things that investors could do, and many more lines of action are open to individual investors, I will be discussing some of the investment strategies that are most commonly thought to have some further moral merit. But what characterises an investment strategy more generally? And how can I be sure that the strategies I have chosen to discuss are most morally meritorious in this context? Hopefully, my answers to these questions will become clearer throughout the following sections.

3. Two levels of inquiry: Business- and investment-evaluative issues

Since the ethics of investing concerns ethical issues related to the financial sector in general and investments in corporate shares in particular, it has been common to regard this field of inquiry as a part of the larger field of *business ethics*.[29] Indeed, several books on business ethics in general contain a chapter on the ethics of investing[30], and many books and papers on the ethics of investing or 'socially responsible investment' contain chapters or sections on, e.g., whistleblowing, the rights of employees, discrimination at the workplace, consumer safety, corporate philanthropy and recycling[31]. This may only be natural – as noted above, the growing societal concern about ethical issues in relation to financial investments is probably largely correlated with a growing concern over ethical issues related to business and the corporate sector in general. In many cases, it would also seem like it is the same set of intuitions about the ethical responsibilities of companies that are involved in both fields – exactly the fact that some company is engaged in a practice which is perceived to be morally unacceptable, for example, is often cited as a reason for thinking that it is morally problematic to invest in this company or for morally castigating those who hold its shares. But where does this leave our prospects for saying something useful about the

[29] Cf. Mackenzie 1997
[30] Cf. De George 1999, Harvey 1994, Sorell and Hendry 1994
[31] Cf. Brill et al. 1999, Judd 1990, Kinder et al. 1992, 1993, Miller 1991, Schwartz 2003, Sparkes 2002

ethics of investing? In this section, I will elaborate on how the question outlined above relates to these more general issues in business ethics more exactly, and also explain why I will not say very much about them.

The range of interesting and important ethical issues related to corporations or business in general, it should be noted, is dauntingly vast. In order to arrive at a fully informed answer to the question of what investors ought to do, however, I believe it is simply impossible to avoid these kinds of issues. While different ideas about what genuinely ethical investing consists in connect in different ways to issues about the ethics of different corporate practices, and this connection can actually be rather weak in some cases (as I will explain below), it seems hard to maintain that these kinds of more general issues in business ethics are *totally irrelevant* to the ethics of investing. In order to give a full answer to exactly what investors ought to do in a world as complex as ours, then, one would more or less have to settle the ethical issues surrounding, e.g., labour rights, gender equality, the importance of the environment, animal rights, global justice, and so on. Obviously, it is impossible to even begin to do justice to the seriousness and complexity of all these kinds of issues in a book like this.

It should be noted from the start, then, that there are many kinds of issues that are highly relevant to the ethics of investing yet which I will not be able to adequately address in this context. However, I believe there are certain other issues which it actually is possible to say something constructive about in a context like this, and these are issues which are characteristic exactly for the ethics of *investing*. Perhaps the best way of introducing these is to distinguish between different *levels* on which different kinds of issues lie, or between two *levels of inquiry* within the field of investment ethics: On one level, we have the issues pertaining to the ethics of different corporate practices, or concerning the ethical responsibilities of commercial companies. We might call these *business-evaluative issues*, and the level of inquiry where these are central is at the *business-evaluative level*. On a higher level of inquiry, we have the issues pertaining to the ethics of different kinds of investments, or concerning the ethical responsibilities of investors. We might call this the *investment-evaluative level*, and the issues on this level *investment-evaluative issues*.

The level of inquiry that is central in the field of investment ethics is obviously the investment-evaluative level, that is, my main concern is the question of what investors ought to do and what we should think about the ethics of different kinds of financial investments. Now, the 'problem' outlined above, however, is that many kinds of business-eva-

luative issues would seem highly relevant to this kind of investment-evaluative issues. To the extent that it seems plausible to morally criticise investments in companies which are engaged in morally unacceptable business practices, for instance, it would simply seem impossible to determine what investors ought to do without also determining which kinds of business practices are morally acceptable and which are not. So can we really say anything intelligible about the ethics of investing without first also saying something about a whole range of business-evaluative issues? Well, my 'solution' to this 'problem' lies in the following considerations: While I agree that a whole range of business-evaluative issues are highly relevant to the issue of what investors ought to do, I believe too little emphasis actually has been put in the previous discussion on investment-evaluative issues with regards to certain *structural issues which are characteristic of the investment-evaluative level of inquiry*. It is too often assumed, for instance, that exactly because some business practice is open to moral criticism of a certain sort, we should conclude that investors ought to refrain from investing in companies which engage in this kind of practice. But this line of reasoning contains a hidden premise which is seldom explicated – namely the idea that it is morally wrong to invest in companies which are engaged in morally unacceptable business practices. It is these kinds of premises that I wish to discuss in this context.

The main focus of the discussions of this book, then, will be on certain structural issues which are characteristic of the investment-evaluative level of inquiry or, perhaps I should say, the kind of issues that are *left once all business-evaluative issues are settled*. Now, this is not to say that I will *ignore* the business-evaluative level completely in what is to come. In trying to analyse these more general ideas about what investors have moral reasons to do, I believe there is reason to analyse certain *structural issues on the business-evaluative level* as well. While too much discussion concerning the ethics of investing has ignored the distinction above and focused on what is really business-evaluative issues, it may be noted, there are also writers who have made this distinction but who seem to overemphasise it and thus to make it too easy for themselves. The previous writer who has made the distinction above most explicitly, I believe, is once again Kolers – who suggests a distinction between two ways of "theorising" about the ethics of investing:

> First, one might offer an account of which industries, companies, and types of behavior one ought to avoid or promote, based on moral and empirical premises. [...] Call this a *special* theory [of corporate ethics].

> Such a theory applies moral conclusions about what sorts of obligations investors have regarding their investment behavior. [...] A second approach, [...] offers a *general* theory of ethical investment behavior. A general theory answers two questions: whether morality generates obligations regarding investment decisions; and if so, what form those obligations take.[32]

Now, since Kolers is interested in the latter, more *general*, form of theorising, he leaves his argument open to be amended with what he calls a special theory of corporate ethics. His interest is, among other things, in the general idea that it is morally wrong to invest in companies which are engaged in morally unacceptable business practices. This idea, he suggests, can be discussed without reference to a theory about what constitutes a morally unacceptable business practice. He writes:

> My argument in this paper is independent of any particular view about which industries one should avoid, or which activities would be immoral, should they occur. For this reason, I leave notions like "unethical practices" (of companies) undefined. My argument should be compatible with a range of special theories of corporate ethics. While I will certainly give examples of activities I consider unethical, my thesis is independent of them.[33]

Kolers' distinction between general and special theories or theorising, one may note, is quite similar to my distinction between the investment-evaluative and business-evaluative levels of inquiry. While I think it is important to make this distinction in this context, and also correct to say that the investment-evaluative level is the more general and central one in the ethics of *investing*, I think it should be noted that Kolers' idea of the relative independence of investment-evaluative and business-evaluative issues is only half right. In his defence of the idea that investors have moral reasons to refrain from investing in companies engaged in morally unacceptable business practices, he perhaps does not have to presuppose any *more elaborate* idea about what qualifies as a morally unacceptable business practice. However, he needs to presuppose that there *is some* idea about what qualifies as a morally unacceptable business practice that *is reasonably plausible*, and that this idea *could be plugged in* to his idea of what investors have moral reasons to do. I will argue in chapter III that, depending on how the kind of general idea that Kolers defends is understood, this would also seem to give rise to rather differ-

[32] Kolers 2001, pp. 436-37
[33] Ibid.

ent kinds of positions on the business-evaluative level, and these positions may, in turn, make the practical implications of the more general investment-evaluative idea more or less plausible. As will soon become evident, furthermore, depending on what general take you have on the issues on the business-evaluative level, different kinds of arguments would seem to become salient on the investment-evaluative level. In chapter II, for instance, I will discuss the idea that investors have moral reasons to avoid investing in companies whose business practices they *themselves* find morally unacceptable. With regards to this idea, an argument from personal consistency would seem relevant which is not as relevant with regards to other investment-evaluative positions.

Of course, as I indicated above, I believe there *are* positions on the investment-evaluative level which are relatively independent of there being any kind of answer to business-evaluative issues. According to one idea which I will discuss to some extent, for instance, it is perhaps not really important exactly what kind of companies or business areas investors invest in as long as they *donate* (enough of) *their investment returns to socially worthwhile charities*. For the most part of the book, however, I will be discussing different suggestions as to how investors *generally should relate* to the fact that some business areas or practices may be morally acceptable, unacceptable, praiseworthy, or something of the like. For this reason, as I have said, I will sometimes have reason to say something quite general about what ideas about these business-evaluative categories that could be plugged in to these suggestions and to what extent these are plausible.

The different ways of *generally relating* to certain business-evaluative categories that I will be discussing, as the reader may have figured out by now, will of course be specified by the set of *investment strategies* referred to above, and which I will soon introduce in some more detail. Before introducing these, however, I will say something about the method I will be using in order to analyse and try to settle the kinds of issues outlined here.

4. The method: Applied ethics as reflective equilibrium

Since the ethics of investing, like business ethics, is interdisciplinary by its very nature, it may be noted that it has been approached from a

number of quite different angles, and by writers with quite diverse academic backgrounds.[34] Both economists, sociologists, psychologists, business scholars and philosophers have been interested in the phenomenon of 'socially responsible investment', and while many have been interested in describing it, explaining it, and comparing it to mainstream investments – financial comparisons between 'socially responsible' and conventional portfolios, it may be noted, is the topic of an overwhelming part of this literature[35] – only some have been interested in discussing the normative issues it gives rise to. Since it is this latter kind of issues I am interested in here, the present inquiry most straightforwardly belongs to the field of *moral philosophy*, or what is sometimes called *applied ethics*. In this section I will try to explicate some of how I take the method (or, at least, one of the methods) of applied ethics to work and, through this discussion, I hope to make clear some of the most important characteristics of the method I will be using in order to analyse and answer the kind of issues outlined above.

Quite intuitively, the best method to use for a certain inquiry should obviously be the method which has the greatest chance of allowing one to answer the inquiry's central question(s) – the method that tells you what you want to know. Following this line of reasoning, the appropriate method in this context would obviously be the method which has the greatest chance of allowing us to determine what investors really ought to do, or what investment strategies really are preferable from a moral point of view. But which method is this? Unfortunately, it seems fair to say that applied ethics is a field where not only the *answers* to many central questions are disputed, but where there is not even a consensus on what the best *method for arriving* at good answers is (nor, for that matter, is there a general consensus in moral philosophy on what constitutes a *good answer* to a normative question). I will, for this reason, not attempt a complete defence of any more elaborate view on the appropriate method of applied ethics, but simply outline some of the main tenets of a method fairly commonly used in this field, so-called *reflective equilibrium*, and discuss some of the merits of this method as compared to other possible methods.

Perhaps the best way of introducing the standard method(s) of applied ethics is by way of discussing some recent criticisms directed at the

[34] Cf. Laufer 2003, Mackenzie 1997

[35] For an overview of some of these studies, see Kreander 2002.

place of philosophy in business ethics in general and in the ethics of investing in particular. In his dissertation on the ethics of investing and the 'ethical investment' movement in the UK, Craig Mackenzie criticises the tendency of certain business ethicists to engage too much with *philosophical theories* – a tendency which he thinks is intimately connected with the conception of business ethics as a part of applied ethics:

> One common way of conceiving of business ethics is as a part of the literature of 'applied ethics'. The term 'applied ethics' implies a particular way of going about ethical thinking: theory applied to practice. In business ethics as elsewhere, by applied ethics people usually mean applied philosophy. The theories that are applied in applied ethics are philosophical theories such as varieties of Kantianism or utilitarianism. [...] In business ethics, [these] theories are applied to specific issues such as 'whistle blowing,' broader ones such as the duties of the company to its stakeholders, or broader ones still such as the merits of capitalism.[36]

The method outlined above is problematic for a number of reasons, Mackenzie suggests. What seems to bother him most is actually that it is too *exclusive* – that is, that it excludes people who are not so familiar with philosophical theories.[37] What is more important in our context, however, is the further complaint that it tends to be rather *abstract*, and therefore insensitive to the social particularities of different communities.[38] Rather than seeing business ethics as 'applied ethics', Mackenzie wants to approach the issues of the ethics of investing from a perspective "which does not set a gulf between theory and practice in ethics, but see ethical deliberation as a contextually situated practice"[39]. And he thinks the works of writers like Michael Walzer[40] and Alasdair MacIntyre[41], or what he calls *interpretive* or *communitarian* methodology, facilitates such a perspective. "Rather than appealing to philosophy or revelation, say, as the basis for ethical thinking", Mackenzie writes, "these theorists appeal to the understandings of a particular community"[42]. Furthermore:

> The lesson that the interpretive turn offers is that intelligent ethical arguments can be built on the basis of critical engagement with the shared understandings of a particular community, tradition, or institution. On

36 Mackenzie 1997, p. 20
37 Ibid.
38 Ibid., pp. 22-32
39 Ibid., p. 21
40 Cf. Walzer 1983, 1987
41 Cf. MacIntyre 1984, 1988
42 Mackenzie 1997, p. 22

> this approach one can evaluate the ethics of a particular practice, or a particular community, not primarily with reference to a philosophical theory, but by means of critical engagement with the shared understandings of the people who engage in various ways in the practice concerned. I can evaluate the ethics of ethical investment by means of a critical engagement with the shared understandings and traditions of the ethical investment 'community'.[43]

It is not obvious how Mackenzie's line of argument against traditional moral philosophy and applied ethics should be understood more exactly. To some extent, I believe this kind of criticism – although it has been stated more conspicuously by other writers[44] – is important to acknowledge and take into account in a sound approach to the ethics of investing. I believe it should be noted first of all, however, that the general understanding of the method of 'applied ethics' outlined above is rather misapprehended. While some philosophers certainly have approached issues in applied ethics from a kind of 'top-down' perspective, seeing it as a simple application of theories like Kantianism or utilitarianism to issues like euthanasia, abortion, or the ethics of war, most modern works in applied ethics are much more dynamic than this. It has become increasingly common to stress the importance of a *coherence* between abstract ethical principles and *our considered moral judgements in more particular cases*. And I think this is only reasonable – how can one otherwise know that the moral theory one applies really is the most plausible one?

Since the idea of coherence between abstract principles and more particular judgements will be a central part of the method I will be using in this book, it may be useful to say something more about this here. According to Tom Beauchamp, in a paper on "The Nature of Applied Ethics", whereas the term 'applied ethics' itself at first sight perhaps may be taken to imply the kind of straightforward "application of theory to practice" model outlined above, it has become increasingly common to refer to concepts like 'coherence' and 'reflective equilibrium' in modern inquiries into applied ethics:

> "The top" (principles, theories) and "the bottom" (cases, particular judgements) are both now widely regarded as insufficient resources for applied ethics. Neither general principles nor particular circumstances have sufficient power to generate conclusions with the needed reliability. Principles need to be made specific for cases, and case analysis needs

[43] Ibid., p. 33

[44] See below.

> illumination from general principles. Instead of a top-down or bottom-up model, many now support a version of another model, variously referred to as "reflective equilibrium" and "coherence theory."[45]

The term 'reflective equilibrium' originally comes from John Rawls[46], and is most often understood as a kind of philosophical *method* where moral judgements about particular cases, e.g. "In circumstances C, action A is wrong", are compared with the recommendations of more general moral principles, e.g. "It is always wrong to A", and vice versa. That is, particular judgements are "tested" against more general principles, and these principles are in turn "tested" against other particular judgements. Alternatively, 'reflective equilibrium' could also be understood as *the final state* which this kind of method (ideally) leads to, i.e. a state where our moral principles and judgements about particular cases are in perfect coherence.[47] In the present context, however, it is the method we are after. Beauchamp writes:

> The goal of reflective equilibrium is to match, prune, and adjust considered judgments in order to render them coherent with the premises of our most general moral commitments [("considered judgements" is a technical term referring to judgments in which moral beliefs and capacities are most likely to be presented without a distorting bias)]. We start with sound judgments of moral rightness and wrongness, and then construct a more general and more specific account that is consistent with these paradigm judgments, rendering them as coherent as possible. We then test the resultant action-guides to see if they yield incoherent results. If so, we readjust these guides or give them up and renew the process. We can never assume a completely stable equilibrium, so the pruning and adjusting can be expected to occur continually.[48]

The method I will be using in this book is a form of reflective equilibrium. That is, rather than mechanically applying some ethical theory to the world of finance, I will be trying to make sense of different ideas about what a genuinely ethical investment strategy consists in by comparing them both to (1) what would seem like reasonable and important *theoretical* considerations about morality and moral *principles*, and to (2) what would seem like *plausible moral judgements about particular cases*, both real and hypothetical ones. Since moral judgements about particular cases are invariably the result of the judges' context, taking context into

[45] Beauchamp 2003, p. 10
[46] Rawls 1971
[47] For an extended discussion of the idea of reflective equilibrium, cf. Tersman 1993.
[48] Beauchamp 2003, p. 11

consideration is in fact an unavoidable part of applied ethics as reflective equilibrium – unlike in the scurrilous picture of applied ethics painted by Mackenzie above. Since different parts of our moral thinking may sometimes come into conflict, and the goal is to achieve coherence between them, we will sometimes be forced to give up either a favoured moral principle or a favoured judgement in certain particular cases. Although it is not always easy to know which of these roads to choose, I will indicate what road I believe is the most reasonable from the perspective of reaching an as sound and coherent view as possible on the ethical responsibilities of individual investors.

Now, how does this method relate to the one outlined by Mackenzie above? Well, while his account of the method "usually" employed in applied ethics would seem misapprehended, I believe there actually is something to the kind of criticism he delivers against the way inquiries into applied ethics often are conducted. Even though I think most writers in applied ethics in general and in business ethics in particular actually implicitly use some kind of reflective equilibrium approach to settle contested ethical issues, it may be noted that both the ethical principles and the particular moral judgements they discuss very often are *only their own*, which they somehow have picked up 'a priori' and without much discussions with the people involved in the kind of ethically contested situations they discuss. That is, many writers – especially philosophers – would seem to be ignorant or outright sceptical of the *relevance of empirical research,* and also hesitant to engage too much with the views of *'regular people'* and the *practitioners in the professional fields* they study. Tom Sorell refers to this phenomenon as "armchair applied ethics"[49], or as the "objectionable ivory-towerism"[50] of much work in business ethics. He writes:

> [T]he business ethics literature [is quite often] unsympathetic to, even censorious of, routine business practice. It can also be ignorant and ill-informed – that is to say, written without the benefit of the legwork most academics need to do to find out a little about how markets and businesses work. In short, it is not unusual to find business ethics writing that has been composed without any travel from an armchair or a desk chair. Where credibility among the practitioners is [already] at such a premium, armchair applied ethics is particularly objectionable. It gives business ethics a bad name in business, and so connives at limiting the

[49] Sorell 1998, p. 82
[50] Ibid., p. 84

> influence that the best applied ethics always exercises on the practices it discusses.[51]

Many other writers have given similar comments on the lack of sensitivity in much of the philosophical business ethics literature to the particularities of the issues and practices discussed, and the general divide between normative and empirical camps within the business ethics community.[52] While some see this as a reason for saying that business ethics research radically needs to change direction – like Mackenzie seems to do – others are more moderate in their recommendations. It seems fair to say, however, that there is a general consensus on the idea that philosophical inquiries into ethical issues in the corporate sector can be *substantially improved* by a greater attention to the views of corporate practitioners and empirical details surrounding markets and competition.[53]

The main focus of this book is on a certain normative issue, namely what individual investors ought to do with their investments, and so my inquiry could be said to rest firmly in the field of (moral) philosophy. However, I think it is very important to avoid the mistakes of "ivory-towerism", or "armchair applied ethics". For this reason, I have gone to great lengths to make my discussion sensitive to the particularities of the practices under consideration, and also firmly established in the views of the relevant practitioners. First of all, although I have not conducted any empirical investigations myself, I will frequently cite *empirical research* into and *relevant facts* about the way in which financial investments and shareholding in particular, and markets in general (albeit mainly stock

[51] Ibid., p. 81

[52] Cf. Crisp 1998, Cowton 1998a, Freeman 2000, Lucas 1998, Stark 1993, Trevino and Weaver 1994, Victor and Stephens 1994, Weaver and Trevino 1994

[53] It is interesting to note that few writers – even within the philosophical community – have come out against this kind of view. An exception may be the renowned philosopher R. M. Hare who, in a paper entitled "One Philosopher's Approach to Business Ethics", seems to be rather skeptical of the idea that it is the *philosopher*'s duty to spell out the relation between abstract principles and real-life cases. He writes: "Although I do now spend about half my time on the study of practical issues (the other half being still devoted to theory), I do not want to set myself up as an expert on the issues themselves. A philosopher, interested in many different practical issues, is bound to get much of his information about them from secondary sources like the newspapers (which I spend a lot of time reading). Nobody can become an expert on the facts involved unless he is immersed in the practicalities of a particular field, as business people are in business, doctors in medicine, planners in environmental planning, and so on. It might be thought that the philosopher, who will always know less about such subjects than the practitioners, cannot contribute much. But he has his own contribution to make, namely the study of the logic of the arguments; and the experts in the field are often not so versed in this as they might be" (1998, p. 45).

markets), work. Where this is not available, I will also cite parts of *contemporary financial and economic theory* which have bearing on the issues under discussion. As will soon become evident, many of the most common ideas about what genuinely ethical investing consists in actually rest on a rather simplistic view about how financial investments and stock markets work, and it becomes a lot more complicated to spell out their practical implications for individual investors in light of the particularities of the real world (see, e.g., chapter III, sections 2.2 and 3.1, and chapter IV, section 3). Although certain parts of the financial theory that I will discuss are somewhat complicated (see especially chapter IV, section 3.1), I have tried to explain them as well as I can and I hope that it will not be too problematic for the reader to follow my arguments in these sections.

To be adequately informed by the relevant empirical facts and theories from other academic disciplines, I believe, is a minimum requirement on a philosophical inquiry that wants to avoid the mistakes of "ivory-towerism". But perhaps this is not enough. The most important concession I have made to the critics of "ivory-towerism" is that I – just like Mackenzie – have chosen to focus almost exclusively on the ideas about what investors have moral reasons to do suggested by practitioners in or proponents of *the already existing 'socially responsible investment' (SRI) movement*. That is, the investment strategies I will be discussing and comparing from a moral point of view are the investment strategies *generally used* and/or *suggested by various parts of the SRI movement*, and most of the ideas about how and why these strategies may be justified from a moral point of view will also be ideas from *practitioners in* or *proponents of* the SRI movement. While I have not interviewed these people myself, the reader will soon see that there is a plethora of literature on 'ethical' and 'socially responsible investment', most often written by practitioners in or proponents of this field, and this literature gives rise to plenty of ideas about what investors have moral reasons to do which can form starting points for the philosophical discussions to come. Obviously, I will take into account how other academic writers have understood and rationalised (or sometimes criticised) the views of these practitioners as well. But the starting point for most discussions will be the practitioners' own ideas about what 'ethical investment' consists in.

Having noted the concession above, and the similarity with Mackenzie's project in this respect, however, an important difference between my method and Mackenzie's should also be noted. While the main focus of this book will be on the investment strategies generally proposed by

proponents of the SRI movement, and the ideas about moral justification which will be discussed for the most part also will be ideas from proponents of or commentators on the SRI movement, a great deal of energy will be devoted to *critically assessing these strategies and ideas* and to *putting them into a larger* (philosophical) *perspective*. Although Mackenzie wants to "critically engage" with the "procedures, purposes and problems" of the SRI movement as well[54], since he subscribes to the kind of communitarian methodological framework outlined above he is careful to say that we will not attempt to evaluate these things from a perspective "outside" the SRI movement. Rather, he says that "I have tried to evaluate the methods of ethical funds against my understanding of their own convictions about the purposes of ethical investment. Similarly, when I talk about the 'effectiveness' of ethical funds, I am discussing how effective their chosen means are for achieving what I consider to be *their* purposes"[55]. But what if the purposes of the 'ethical investment' movement are morally questionable in the first place?

The position which Mackenzie ends up defending in his dissertation is actually a version of the idea of responsible ownership mentioned above and, as I will suggest in chapter V (section 2.1), this should not come as a big surprise – the kind of communitarian methodology he subscribes to, because of its allegiance to communities and traditions, tends to reproduce a bias towards the status quo. Many writers have noted this kind of problem with the communitarian methodology and other kinds of 'bottom-up' methods in applied ethics.[56] I take it as a strength of applied ethics in the guise of reflective equilibrium that it not only allows us to try to construct an as strong case as possible for the suggestions given by different parts of the SRI movement, but that it also allows us to question the most fundamental assumptions of these suggestions. As my discussions in the rest of the book will show, while I believe many of the suggestions given by SRI proponents carry at least some moral merit, there are also many points where I think these suggestions are either (partly) mistaken or fundamentally implausible. Quite generally, I will argue that the ethical responsibilities of individual investors are *less rigid* than they are often made out by SRI proponents, but also *more demanding* than is usually admitted in the SRI literature.

[54] Mackenzie 1997, p. 36

[55] Ibid., emphasis in original

[56] Cf. Beauchamp 2003, Bell 1993, Dworkin 1985, Tännsjö 1993

Before commencing my inquiry into the moral merits of the more particular suggestions of SRI proponents, however, it may be suitable to introduce these different suggestions in some more detail, as well as to say something more on the SRI movement in general.

5. 'Socially responsible' investment strategies

In order to delineate the present inquiry into the question of what investors ought to do, I said above that I will focus on a limited set of *investment strategies* and, in order to avoid the mistake of making my inquiry completely 'a priori' and insensitive to the views of the relevant practitioners, I will focus on the investment strategies *commonly suggested by practitioners in or proponents of the existing 'ethical investment' movement*. But which are these strategies more exactly? And how can one define the 'ethical investment' movement without already assuming some idea about what investors have moral reasons to do? In this section, I will briefly elaborate on these issues and say something more about the set-up of my discussions in the remainder of the book.

As noted above, more and more financial services actors (such as banks and fund companies) have begun to market financial vehicles with an explicit ethical, social or environmental dimension, and the total value of investments with this kind of profile has reached staggering heights in recent years. Perhaps not surprisingly, there are great differences between different parts of this phenomenon, and it is not always clear what the common denominator between the various parts is. Although the most common terms used in this context are 'ethical investing' (or 'ethical investment')[57] and 'socially responsible investing' (or 'socially responsible investment', 'SRI')[58], for instance, other terms that are not uncommon are, e.g., 'social investing'[59], 'responsible investing'[60], 'alternative investment'[61] and 'green' or 'sustainable investments'[62].

[57] Cf. Anderson 1996, Cooper and Schlegelmilch 1993, Cowton 1994, 1999, De George 1999, Domini and Kinder 1986, Kolers 2001, Kreander 2002, Lang 1996, Lowry 1993, Mackenzie 1997, Simon et al. 1972, Sorell and Hendry 1994, Sparkes 1995, 2001

[58] Cf. Brill and Reder 1993, Camejo 2002, Cowton 1998b, Domini 2001, Haigh and Hazelton 2004, Harrington 1992, Judd 1990, Kinder et al. 1993, Miller 1991, Monahan 2002, Rivoli 2003, Sparkes 2002, Sparkes and Cowton 2004, Ward 1991

[59] Cf. Bruyn 1987, Entine 2003, Kinder et al. 1993, Lowry 1993, Munnell and Sundén 2005, Powers 1971, Waddock 2003

[60] Cf. Dembinski et al. 2003, Harrington 1992

[61] Cf. Cowton 1998b, Lowry 1993

Furthermore, while these terms most often are given similar definitions – for instance, "the exercise of ethical and social criteria in the selection and management of investment portfolios"[63] – both wider and more narrow definitions of different terms can also be found.[64]

Many writers have previously commented on the heterogeneity of the 'ethical investment' movement.[65] In light of this heterogeneity, some academics have called for more rigorous definitions of 'ethical investment'[66] and, indeed, some have even attempted to give their own definition. According to Russell Sparkes, for instance, the term 'ethical' seems to convey a kind of rather altruistic objectives, i.e. a desire to do good even at some cost to oneself but, since they seldom would seem to allow for reduced financial gains for social reasons, most of the so-called 'ethical funds' do not have ethical objectives in this sense. For this reason, Sparkes argues, we should "restrict the use of the term 'ethical investment' to investment carried out on behalf of values-based organisations such as churches and charities, with the term 'socially responsible investment' used in all other cases"[67]. Furthermore, since initiatives such as community banking and shareholder lobby campaigns would seem to lack the kind of strong financial objectives of regular socially responsible investment, and these initiatives also use techniques for realising their objectives quite different from that of ethical funds, Sparkes suggests that these initiatives ought to be considered phenomena distinct from socially responsible investment as well.[68]

With regards to the kind of definitional suggestions exemplified above, I think it is important to distinguish between *descriptive* and *normative* definitions of 'ethical investment' – or perhaps between *definitions of 'ethical investment'* on the one side, and the *normative discussion concerning the ethics of investing* on the other. It is often suggested that the perennial question for the ethical investment movement is how to define the term

[62] Cf. Heinkel et al. 2001, Louche and Lydenberg 2006, Miller 1992. Other, less frequent, terms are, e.g., 'natural investing' (Brill et al. 1999), 'values-based investing' (Fehrenbacher 2001), 'socially responsive investments' (Melton and Keenan 1994) and 'socially conscious investments' (Harrington 1992).

[63] Cowton 1994, p. 215

[64] For a comparison of some early definitions, see Sparkes 2001.

[65] Cf. Cooper and Schlegelmilch 1993, Dunfee 2003, O'Rourke 2003, Schepers and Sethi 2003. For some recent research into explanations of this heterogeneity, see Louche and Lydenberg 2006.

[66] Cf. Bruyn 1987, Michelson et al. 2004, Monks 2002, Owen 1990, Sparkes 2001

[67] Sparkes 2001, p. 119

[68] Ibid., pp. 201-3

'ethical'.[69] If this is understood as the same question as the one I am interested in here, i.e. as a question about what investors ought to do, however, it should be fairly obvious that this cannot be settled by a simple *definition*, but rather requires an open discussion about many kinds of underlying issues. Of course, I hope the discussions in this book can help to fill what many perceive as a gap in the existing literature on 'ethical investment' on this point. Some writers suggest that one reason why some parts of the 'ethical investment' movement prefer to use the term 'socially responsible investment' instead is that they want to distance themselves from the normative connotations of the term 'ethical' – that is, that it would seem to imply that mainstream investments simply are *un*ethical.[70] However, as these writers note, the term 'socially responsible' could probably be said to be equally normative – implying that mainstream investments are either 'antisocial' or 'irresponsible'.

In order to avoid confusion about descriptive and normative uses of the terms 'ethical' and 'socially responsible', I will in what follows use the acronym 'SRI' as the descriptive term, i.e. as referring to the range of funds and other investment vehicles which take *putatively* ethical, social and environmental considerations into account in their investment practices, and retain the terms 'ethical' and 'moral' for my discussion about the *substantive merits* of these kinds of practices. Furthermore, even though there is a great deal of heterogeneity surrounding SRI, I will, following many other writers[71], continue to talk about *the SRI movement* as though it was a largely homogenous entity. For my present purposes, namely, what many practitioners in and proponents of the SRI movement actually *have in common* is more interesting than what they do not. Most importantly, most accounts of SRI revolve around a limited set of *investment strategies* which are generally thought to carry some important moral merit, and these are also the investment strategies which my discussions in the remainder of this book will focus on.

According to most accounts of SRI, there are three central ways in which investors can incorporate ethical, social or environmental considerations into their investment practices. The one most frequently employed by so-called ethical funds, and perhaps also the one most commonly associated with 'ethical investing' among the general public, is

[69] Cf. Laufer 2003, Schwartz 2003, Taylor 2001

[70] Cf. Cowton 1998b, Sparkes 2002, Sparkes and Cowton 1994

[71] Cf. Haigh and Hazelton 2004, Harrington 1992, Louche and Lydenberg 2006, Monks 2002, Schepers and Sethi 2003, Waddock 2003, Ward 1991

what is often called *'the avoidance strategy'*[72] (alternatively, 'the avoidance approach'[73] or 'negative' or 'exclusionary screening'[74]). Investors who employ this kind of strategy attempt to *avoid* investing in companies engaged in business areas or practices which are *morally unacceptable*, or *problematic*, in some sense[75] – that is, they incorporate *negative ethical criteria* in their decisions on what companies' shares to acquire, hold or get rid of. If a company they can invest in is engaged in some kind of morally problematic business area or practice, they simply refrain from investing in this company. And, furthermore, if they already hold shares in the company in question, they sell them 'as soon as possible'.[76] According to some recent reports, as much as 70 percent of the American and European SRI industries may employ some kind of avoidance strategy.[77] Even though the amount of companies excluded by ethical funds varies to a great extent,[78] it seems fair to say that the avoidance strategy is the most central part of SRI.

According to many practitioners in and proponents of the SRI movement, however, the avoidance strategy is not enough on its own. A second way in which investors can incorporate ethical, social or environmental considerations into their investment practices is through *'the*

[72] Cf. Cowton 1994, 1998b, 1999, Miller 1991

[73] Cf. Domini and Kinder 1986, Sparkes and Cowton 2004

[74] Cf. Kinder and Domini 1997, Statman 2000. Some other terms are, e.g., 'avoidance screening' (Brill et al. 1999), 'negative sanctions' (Powers 1971) and 'negative policies' (Ward 1991).

[75] Exactly how the companies or business areas/practices that are avoided should be described is somewhat unclear – they are referred to in the literature as everything from evil (Irvine 1987), unethical (Sparkes and Cowton 1994), bad (Cowton 1994, Judd 1990, Lang 1996) socially irresponsible (Miller 1991), to unacceptable (Cooper and Schlegelmilch 1993, Heinkel et al. 2001, Lang 1996), undesirable (Cooper and Schlegelmilch 1993) or simply "unethical" (Judd 1990) or "bad" (Domini and Kinder 1986, Cowton 1999). Exactly what these last formulations are meant to indicate is perhaps not clear. I will return to the issue of what business-evaluative classification should be plugged in here in chapters II and III.

[76] On most accounts, the general idea of the avoidance strategy would seem to be that investments in morally unacceptable companies should be disposed of immediately. However, for certain reasons, this is not how the avoidance strategy most commonly is practiced. See chapter IV, section 3.2, note 75.

[77] Eurosif 2006, Social Investment Forum 2006. Since the terminology is far from clear in these reports, it should be noted, the exact percentage here is hard to determine. The Eurosif report, for instance, distinguishes between 'ethical exclusions', 'simple exclusions' and "integration of risks associated with social, ethical and environmental concerns". It is hard to tell exactly what proportion of this last category is adequately classified as avoidance investing. While the SIF report speaks only of the broader category of 'social screening', the lion's share of this category is probably avoidance investing (see also Munnell and Sundén 2005).

[78] According to the SIF report (Social Investment Forum 2006), as much as 25 percent of the US ethical funds only avoid companies involved in one specific business area (most often, companies involved in the tobacco industry). As much as 36 percent use less than five 'social screens'.

supportive strategy'[79] (also known as 'the positive approach'[80], or 'qualitative' or 'affirmative screening'[81]). Investors who employ this kind of strategy attempt to *seek out and invest in* companies engaged in business areas or practices which are *morally praiseworthy*, or *exemplary*, in some sense[82] – that is, they incorporate *positive ethical criteria* in their decisions on what companies' shares to acquire, hold or get rid of.[83] If a company they can invest in is engaged in some kind of morally praiseworthy business area or practice, or if it is reasonable to think that it is socially beneficial in some other way, they simply invest in it. This strategy is not employed as commonly as the avoidance strategy by the ethical funds – according to a recent estimate, less than 10 percent of the European SRI industry employs it.[84] Part of the aims of the present inquiry, however, will be to try to determine whether this is as it should be or not.

A third strategy commonly employed by ethical funds is what we might call *'the activist strategy'*, or *'shareholder activism'*[85] (also known as 'active shareholding'[86], 'active' or 'constructive engagement'[87] or 'direct dialogue'[88]). Investors who employ this kind of strategy attempt to invest in companies who are engaged in business areas or practices which are morally unacceptable and *use their shareholder influence to make them*

[79] Cf. Cowton 1998b, 1999

[80] Cf. Domini and Kinder 1986, Taylor 2000

[81] Cf. Beabout and Schmiesing 2003, Brill et al. 1999, Domini 2001, Kinder and Domini 1997. Some other terms are, e.g., 'positive policies' (Ward 1991), 'incentive investment' (Powers 1971, Powers and Gunnemann 1969), 'economically targeted investing' (Melton and Keenan 1994, Munnell and Sundén 2005), or simply 'alternative investing' (Miller 1991).

[82] Once again it is unclear how the companies or business areas sought out should be described more exactly – in the literature they are variously described as good (Cowton 1994, Domini and Kinder 1986, Judd 1990), "good" (Cowton 1999), socially useful (Cooper and Schlegelmilch 1993, Lang 1996) and socially responsible (Miller 1991). More elaborate formulations can also be found, like "companies that enhance the quality of life" (Domini and Kinder 1986).

[83] For obvious reasons, the avoidance and supportive strategies are sometimes lumped together under the term 'screening' or 'social screening' (Cf. Brill and Reder 1993, Domini 2001, Rivoli 2003, Schueth 2003, Social Investment Forum 2006, Sparkes 2002), alternatively 'guideline portfolio investing' (Kinder et al. 1993) or 'stock market social investing' (Bruyn 1987). Combinations of these strategies are also possible, see chapter IV, section 1 – especially note 10.

[84] Eurosif 2006

[85] Cf. Brill et al. 1999, Brill and Reder 1993, Cowton 1998b, Domini and Kinder 1986, Guay et al. 2004, Kinder et al. 1993, Melton and Keenan 1994, Sparkes 2001, 2002, Vogel 1983

[86] Cf. Lang 1996, Viederman 2002

[87] Cf. Domini and Kinder 1997, Eurosif 2006, Hellsten and Mallin 2006, Lewis and Mackenzie 1997, Sparkes 1995

[88] Cf. Domini 2001. Some other terms are, e.g., 'shareholder advocacy' (Schueth 2002, Sparkes 2002), 'shareholder action' (Sparkes 1995, Ward 1991), 'the activist approach' (Domini and Kinder 1986), 'activist investing' (Miller 1991) or simply 'social investing' (Lowry 1993).

change their ways. The starting point for this strategy is the contention that investors, as shareholders in or (part) owners of limited companies, enjoy certain rights and privileges in relation to these companies. Most commonly, shareholder activists *use their right to introduce and vote on resolutions* at limited companies' annual general meetings in order to try to make the companies in question take a stronger responsibility for the societal effects of their actions. However, also other kinds of campaigns are commonly associated with shareholder activism – for example, starting a dialogue with corporate managers, writing letters to institutional investors and sending out press releases. Around 30 percent of the US SRI industry is reported to be engaged in some kind of shareholder activist activity.[89]

The three investment strategies outlined above will be the main focus of attention in this book. Obviously, these are not the only strategies which are open to individual investors. For instance, some SRI proponents suggest that so-called 'community investing'[90] (also known as 'community lending'[91], or 'ethical' or 'socially responsible banking'[92]) could be regarded as a separate strategy, or strand, of SRI.[93] Investors who engage in this kind of investing attempt to support minority communities or communities with poor economic development by, for instance, loaning money directly to local banks or credit unions which collaborate in job-creation programs and housing projects. Since there are obvious similarities between this kind of investing and the supportive strategy, however, at least at the structural level, I will not treat it as a completely separate investment strategy in this context.[94] However, I will argue in chapter IV (section 3.2) that community investing actually is a particularly promising part of the supportive strategy.

There are, however, two other investment strategies, or suggestions about what investors have moral reasons to do, which I will consider in the discussions to come. In my discussion about shareholder activism,

[89] Social Investment Forum 2006
[90] Cf. Brill et al. 1999, Kinder et al. 1993, Nixon 2002, Schueth 2002
[91] Cf. Domini 2001
[92] Cf. Brill and Reder 1993, Sparkes 1995, 2001. Some other terms are, e.g., 'alternative investing' (Lowry 1993, Sparkes 1995) and 'investing in the social economy' (Lang 1996). According to a recent estimate, about 1% of SRI assets in the US could be classified as community investing (Social Investment Forum 2006).
[93] Cf. Beabout and Schmiesing 2003, Brill et al. 1999, Domini 2001, Kinder et al. 1993, Louche and Lydenberg 2006, Schueth 2002, Social Investment Forum 2006
[94] These strategies are also often intertwined in the literature – cf. Bruyn 1987, Lang 1996, Melton and Keenan 1994, Miller 1991.

first of all, I will compare an idea about the role-specific responsibilities of shareholders which is common in the SRI literature to a similar, but more comprehensive, idea in the literature on *corporate governance* (a literature that sometimes overlaps with the literature on SRI). I will argue (in chapter V) that it seems far from obvious that this more comprehensive idea about the role-specific responsibilities of shareholders actually entails the activist strategy, at least as SRI proponents understand it. As a competitor to the activist strategy, then, I will discuss what I will call *'the relationship strategy'*. What this kind of strategy amounts to more exactly, and how it relates to shareholder activism more specifically, will hopefully become more evident in the discussions in chapter V.

A strategy which at least some Swedish ethical funds employ[95], finally, and which has also been discussed in at least some of the literature on SRI or the ethics of investing[96], is what I will call *'the philanthropic strategy'*. Although this strategy could be combined with the others in different ways, I will discuss it mainly as a radical alternative to the avoidance and supportive strategies. Investors who employ the philanthropic strategy, namely, attempt to invest in *whatever they can make the most profit from* and then *donate* (part of) *the proceeds to socially worthwhile charities*. That is, for these investors, the issue of whether or not a certain company is morally unacceptable, acceptable or praiseworthy is not what is most important – rather, the central issue is how they can make as much money as possible, money which they then can donate (parts of) to particularly effective social charities.

The reader should note that many combinations of the strategies above certainly are possible and, although I cannot discuss all of these here, I will discuss some of the most prevalent combinations along the way. I have now introduced the main investment strategies, i.e. the main ideas about what investors ought to do, which will be the focus of attention in the following chapters. In the following section, I give a general outline of the chapters to come and indicate briefly what kinds of strategies, issues and arguments I will be discussing in what parts of the book.

[95] Cf. O'Rourke 2003, Skillius 2002

[96] Cf. Bruyn 1987, Kinder and Domini 1997, Harrington 1992, Kolers 2001, Zweig 1996

6. Plan of the book

The remainder of this book will proceed as follows: In chapter II, a first look will be given at how many accounts of SRI focus on individual investors, and I will offer some possible explanations for this phenomenon. More specifically, I will focus on how this relates to the avoidance strategy by discussing the suggestion that investors have moral reasons to avoid investing in companies whose business areas or practices they morally disapprove of *themselves*. The standard argument from SRI proponents for this idea is an appeal to *consistency*, and I will discuss different ways of understanding this appeal. I will argue that there are serious problems with the appeal to consistency, and suggest that proponents of investing 'with your conscience' would do better by some appeal to conscientiousness, or moral seriousness. In the end, however, I will argue that also this kind of appeal is unsatisfactory from a moral point of view. If investors indeed have moral reasons to avoid certain kind of companies, these must be morally unacceptable in some more robust, or *impartial*, sense.

In chapter III, following this strain of thought, I will discuss arguments for the avoidance strategy more generally. My primary focus in this chapter will be on what I call (putatively) *principled* arguments for this strategy, that is, arguments which suggest that the fact that some company is engaged in some business practice which is morally unacceptable is a *direct* reason for thinking that it is morally problematic to invest in this company. I will discuss three kinds of principled arguments for the avoidance strategy: First, the idea that it is morally problematic to *profit* from morally unacceptable activities. Second, the idea that it is morally problematic to *support* morally unacceptable activities in the sense of *sustaining* them or *contributing to their harmful effects*. Third, the idea that it is morally problematic to support morally unacceptable companies in the sense of *accepting* them, or *approving of* their activities. I will suggest that a problem which is common to all of these ideas is that, because of the way investments work, their practical implications are much more complicated than their proponents generally have assumed. Even though they are often understood as arguments for the avoidance strategy, it is not always obvious that this actually is what they recommend. Furthermore, even though they are often understood as *principled* arguments for the avoidance strategy, it is not obvious that they always are that principled.

In chapter IV I will turn to discuss what I call *pragmatic* arguments for the avoidance and supportive strategies, that is, arguments which suggest that investors can 'make a difference' by employing some of these strategies. Since a common argument in this context would seem to be that buying and selling the shares of different companies can have a certain *financial* impact on their activities, the discussion will take me knee-deep into certain aspects of economic and financial theory. However, I will also discuss suggestions about how this kind of financial behaviour may have indirect *social* effects – for example, making it more likely that other investors will invest in a certain way, or creating a demand on information about the social effects of corporate practices. In general, my argument in this chapter will be that we should demand more empirical evidence from proponents of the avoidance and supportive strategies before we assume that individual investors can make a difference simply through buying and selling shares in different ways. Lacking this evidence, there are good theoretical reasons to think that this is very hard for individual investors. I will suggest an important exception to this rule but suggest that it generally seems hard for individual investors to make a difference *without considerable self-sacrifice*. According to some SRI proponents, even though individual investors cannot make a difference *on their own*, they may still have reasons to screen their investments because they could make a difference *together with others*, or, at least, *if everyone behaved in a similar way*. However, I will suggests that it is questionable whether these ideas really apply as things currently stand in the investment community. If it doesn't matter much exactly what kind of companies individual investors invest in, I will suggest, perhaps the philanthropic strategy is actually not so implausible as it is often made out to be.

In chapter V I will turn to discuss shareholder activism. My primary focus in this chapter will be on the idea that investors have moral reasons to engage more actively with the companies they invest in because *they generally are considered (part) owners* of limited companies. I will suggest that it is not obvious what this idea implies more exactly – in the literature on corporate governance, it is often understood as an argument for what I call *the relationship strategy* rather than for shareholder activism. However, since the traditional understanding of the appeal to the responsibilities of ownership is problematic, perhaps there is no real conflict between these two approaches. I will suggest a somewhat different understanding of this appeal, in any case, and argue that it is compatible with the standard line of argument for the activist strategy.

In chapter VI I will discuss whether investors can 'make a difference' through becoming shareholder activists. Writers who have stressed the importance of this dimension of SRI tend to look favourably on the possibilities of activist strategies. However, once again, I will argue that more empirical evidence is needed before this can be assumed. Lacking this evidence, the circumstances surrounding standard corporate governance procedures seem to indicate that it is very hard for individual investors to make a difference in this way – at least when it comes to *proposing and voting on resolutions* at limited companies' annual general meetings. Perhaps there are some more promising ways in which individual activists can make a considerable difference – I note that everything from writing letters to sending out press releases has been suggested in the literature. In order for such kinds of more radical activist campaigns to have a chance of influencing corporate behaviour, I will suggest that they probably have to be *directed at forces outside the modern corporation*, i.e. power centres which can balance the immense powers of corporate managers and directors. Furthermore, successful campaigns will probably have to be a lot more *self-sacrificial* than is commonly admitted by SRI proponents.

These points about self-sacrifice give rise to the question about *how much morality demands of individual investors*. In chapter VII, I will comment on the fact that few SRI proponents actually tackle this kind of question – it seems important to most writers that ethical investing should also be *profitable*. I will try to tackle this question myself, however, by importing and commenting on some of the more general philosophical discussion about the demandingness of morality. Even though a case perhaps could be made for resisting too extreme demands on self-sacrifice in some cases, I will argue that giving up investment proceeds is not extreme. Rather, I will suggest that investments themselves are a kind of *luxury products*. And it would not seem extreme to insist on that the needs of, e.g., the poor in the third world are more important than the 'luxury needs' of the kind of people who can afford to become investors.

In chapter VIII, finally, I will summarise some of the main conclusions of my previous discussions. I will also try to put these into some perspective by introducing the political dimension of the ethics of investing. While SRI proponents are very critical of many parts of the corporate sector, it is interesting to note, they are seldom critical of the free market system which could be said to enable many of the moral problems in the corporate sector – nor are they particularly sceptical of

the trend towards corporate deregulation and privatisation noted above. But, I will suggest, some of their own lines of reasoning seem to indicate that they should be.

Chapter II

'Investing with Your Conscience'[1]

1. A double focus on individual investors

'Ethical' or 'socially responsible investing', according to most accounts, is a kind of investing which attempts to integrate ethical, social or environmental considerations into investment decisions. During the last couple of decades, a large number of books and articles have been published which seek to entice new investors to this kind of investing, and the intended audience for most of these books and articles are *typical non-professional individual investors*. It is often suggested that most individual investors, like people in general, want to be ethical and behave in ways which are consistent with their most basic values. Whereas issues like labour rights, environmental sustainability and global justice may previously only have been the concern of an educated few, more and more people are now becoming aware of different kinds of ethical, social and environmental problems related to the corporate sector. But, SRI proponents suggest, perhaps this then calls for exactly an integration of considerations of these kinds into one's investment decisions.

[1] Parts of this chapter have been published previously (see Sandberg 2007a), although I now have changed my mind on a number of points. See especially note 46 below.

Amy Domini and Peter Kinder, co-founders of one of the largest SRI firms in the US, write as follows in the opening paragraph of their book on 'ethical investing':

> Should your ethics play a significant role in what you do with your money? Unlike Charles Foster Kane, perhaps you refuse to separate your ethics from your investments. If so, this book is for you. Today many people recognize the dilemma of profiting from enterprises whose goals, methods, or products they know are inconsistent with their personal philosophy. What environmentalist, for instance, wants to profit from dioxin? What parent wants to benefit from sponsors of television violence?[2]

In this chapter, I will discuss what I take to be an interesting feature of this kind of 'argument', or sales pitch, for SRI – namely that it would seem adapted to, or designed for, individual investors in more than one way. Not only are individual investors *the intended audience* and the idea is that they have moral reasons to integrate ethical, social or environmental considerations into their investment decisions. What is more is also that the idea often would seem to be that individual investors have moral reasons to integrate the kind of ethical, social or environmental considerations *they themselves care about* into these decisions. That is, according to many SRI proponents, it is the individual investors' own moral views on business-evaluative issues that seemingly are relevant for assessing the ethical status of his or her investments.

This second kind of adaptation to individual investors is salient in many books and articles on SRI. Extensive parts of many such books are dedicated to helping individual readers, or potential individual investors, decide what moral issues related to the corporate sector are essential to their own understanding of social responsibility.[3] Not uncommonly, simple questionnaires are offered where investors may choose what areas of concern, among those most commonly considered by so-called ethical funds, are most pressing to themselves.[4] Indeed, this focus on the investors' own moral views is actually salient already in the titles of many books on SRI. Many books on this subject bear titles such as,

[2] Domini and Kinder 1986, p. xi. The reference to Charles Foster Kane is a reference to the main character of Orson Welles' film *Citizen Kane*, who at one point both defends the writing of a critical newspaper article about a certain company, because he is the publisher of the newspaper, and opposes it, because he is a major shareholder in the company. (An excerpt from the script appears in Domini and Kinder's book, p. x.)

[3] Cf. Brill et al. 1999, Brill and Reder 1993, Domini and Kinder 1986, Harrington 1992, Miller 1991

[4] Cf. Brill et al. 1999, Brill and Reder 1993, Domini and Kinder 1986, Harrington 1992

e.g., "Ethical Investing – How to make profitable investments without sacrificing your principles"[5], "Socially responsible investing – How to invest with your conscience"[6], "Investing with your conscience – How to achieve high returns using socially responsible investing"[7], and "Put your money where your morals are – A guide to values-based investing"[8]. All these titles refer to *your*, or the reader's/investor's, moral concerns. What this implies is made explicit by Jack Brill and Alan Reder, in their introduction to SRI:

> The full term, socially responsible investing, simply means money management and investment decisions made according to both financial and ethical criteria. Not just any ethical criteria, however – *your* criteria. SRI is not about satisfying someone else's political or social agenda. Although most socially responsible investors would agree generally about a broad range of issues, the emphasis in SRI is on your individual ethical stance.[9]

Now, there may be many explanations for this kind of focus on individual investors' own moral views among proponents of the SRI movement. It should be noted from the start that much of the SRI literature has what we might call a *marketing* dimension – that is, the goal is often to portray SRI in a way which makes it interesting to the reader, or which has a high chance of enticing the reader to becoming an SRI investor.[10] If the intended audience is 'regular people', most of these are after all potential investors and so also potential 'ethical' investors and it is probably easier to attract investors to a certain type of financial product if you appeal to the specifics of your target customers and take their values seriously, than if you start to moralise over their choice of investment practice. The existence of this marketing dimension may in turn be given different explanations. Many of the authors of these books on SRI, it may be noted, are actually owners of or practitioners in fund companies which offer different kinds of SRI vehicles themselves. Thus, the focus on investors' own ethical stances could perhaps be said to make *monetary* sense for the SRI *industry* – the funds specialising in

[5] Domini and Kinder 1986
[6] Miller 1991
[7] Harrington 1992
[8] Fehrenbacher 2001
[9] Brill and Reder 1993, p. 12
[10] According to Moskowitz, much of the SRI literature is "evangelical" in nature, "sort of a cross between *The Wall Street Journal* and the Bible" (1992, p. 71). See also Anderson 1996, Entine 2003, 2005, O'Rourke 2003.

providing 'ethical' or 'socially responsible' investment vehicles.[11] As long as investors are motivated to invest according to at least *some* kind of non-financial values, fund companies can design different SRI vehicles to suit the values of different customer groups and the result is an "SRI market", fully equipped with competition and specialisation – a market which financial companies of course are familiar with.[12]

From similar considerations, many commentators have criticised the SRI movement for being too simplistic and populist. Digby Anderson, for instance, argues that current ethical funds are better understood as pure customer products than anything genuinely ethical. Hence, notions such as 'ethical' and 'socially responsible' investing are misnomers:

> What is the principle on which certain "unethical" products or practices are selected for listing and certain others ignored? One answer [...] is that the criteria reflect the criteria demanded by investors. If so, well and good. The investments these companies favor indeed satisfied a customer demand. But that does not mean that what they are doing has a right to be labeled "ethical" with the at least occasional implication that other investments are unethical. [...] [Standard ethical investments] might variously be more accurately labeled "investments reflecting investors' opinions", "investments reflecting fashionable causes", "scrupulous investments", "ethically simplistic investments", or a range of others. The one term, which prejudges the issues and which is not justified is "ethical". What has ethical investment to do with ethics? Not much.[13]

We need not go into the details of Anderson's position here, but it is worth noting that an implicit assumption in his argument seems to be that investments that simply are made to reflect the moral opinions of

[11] According to Cowton, it is ironic that the development of SRI products could be explained in this way: "At one level, ethical investment can be seen as just another product innovation that helps widen choice, which would probably be seen as a good thing. [...] The irony is that its occurence can be explained in pure, profit-seeking, capitalistic terms, as financial institutions seek to influence and exploit their environment in the interests of profitability. Thus individual investors can, potentially at least, have their values met or satisfied by institutions/people who do not share those values at all, whose sole motive might be to make more money" (1994, p. 228). See also Hellsten and Mallin 2006.

[12] According to Monahan, the SRI movement indeed exhibits a kind of "value schizophrenia" – seeking to integrate ethical, social or environmental concerns while still working in a traditional market-based set-up. He writes: "The traditional market-based axiology of profit and growth is now being blended with a more qualitative axiology that embraces specific moral concerns. The result of this blend seems to be a 'you tell me the values, and I'll make the money' type of fund management strategy. This value schizophrenia is reflected by the overwhelming emphasis in the current literature on performance rather than ethics" (2002, p. 30).

[13] Anderson 1996, p. 4. Similarly, Sparkes suggests that the kind of investing outlined above perhaps can be called 'conscience investing', but questions whether it can adequately be called 'ethical' (2001, p. 195).

individual investors do not have any real moral merit. Is this right? Well, perhaps agreeing with this position already at this stage is somewhat premature. In what follows, I will discuss a line of reasoning which I think could be taken as a kind of argument from SRI proponents to the effect that it indeed is individual investors' own moral views on business-evaluative issues that are relevant for assessing the ethical status of investments. For the sake of simplicity, although this kind of argument most often is made out as an argument for SRI generally, I will focus on the avoidance strategy in this context. According to the most common set-up of this kind of argument, namely, the idea is that *investors have moral reasons to avoid investing in business areas they morally disapprove of*.[14]

The remainder of the chapter proceeds as follows: In section 2, I present the kind of reasoning, common among SRI proponents, which I think could be understood as a kind of argument for "investments reflecting investors' opinions". I call this the appeal to consistency, and I discuss different understandings of this appeal. In section 3, I argue that the case for this kind of investments could be made stronger by an appeal to conscientiousness, or moral seriousness – such an appeal could rationalise what seems intuitive with the appeal to consistency, at the same time as it could avoid some of what seems counterintuitive with this appeal. In section 4, however, I suggest that there are problems also with the appeal to conscientiousness. My general argument in this section is that Andersson is on to something in his critique of the SRI movement – that is, focusing on the moral views of individual investors is not very fruitful from an ethical point of view. To the extent that investors indeed have moral reasons to invest "with their consciences" (which I think we should demand more arguments for before accepting), these moral reasons would seem quite weak in the overall context of the ethics of investing. In section 5, I make some remarks about the direction in which I think we must go in order to make 'ethical investing' have "something (more) to do with ethics". Finally, in section 6, the main conclusions of the chapter are briefly summarised.

[14] A similar line of reasoning could perhaps be that investors have moral reasons to invest in business areas they find morally praiseworthy. Although I will not discuss this idea explicitly, much of what I say in this chapter also concerns this idea.

2. The appeal to consistency

The most common line of reasoning which accompanies the idea that investors have moral reasons to avoid investing in business areas they morally disapprove of, I believe, was already implicitly invoked in the introduction to 'ethical investing' by Domini and Kinder above. They write: "Today many people recognize the dilemma of profiting from enterprises whose goals, methods, or products they know are *inconsistent with their personal philosophy*. What environmentalist, for instance, wants to profit from dioxin? What parent wants to benefit from sponsors of television violence?"[15] We might call this kind of argument *the appeal to consistency*. Loosely stated, the idea is that it would be morally *inconsistent* in some way to both be opposed of, say, the weapons industry and at the same time invest in that industry. Assuming that most individual investors have certain business areas or practices (like environmental pollution, or the sale of weapons, tobacco or alcohol) which they find morally problematic, then, they would seem to have some kind of reason for integrating ethical, social or environmental considerations into their investment decisions. In her later book on 'socially responsible investing', Amy Domini makes this appeal explicit:

> There are two basic reasons for integrating social or ethical criteria into the investment decision-making process: the desire to align investments with values and the desire to play a role in creating positive social change. Consistency is almost always the motivation that causes investors to start down the path of becoming socially responsible in their investments.[16]

Elizabeth Judd does not use the term consistency, but summarises this idea quite neatly:

> Socially responsible investing encompasses a wide range of complicated issues, but the principle is simple: investors make statements by the investments they choose, and these statements should reflect the investor's beliefs.[17]

[15] Domini and Kinder 1986, p. xi, emphasis added

[16] Domini 2001, p. 13

[17] Judd 1990, p. 7. Similar ideas can be found in many other accounts of SRI. According to Lowry, for instance, the simplest form of SRI "involves individual and institutional investors who decide what their most important ethical values are and make their investment decisions reflect those values" (1993, p. 21). According to Miller, "[a]ny individual or group which truly cares about ethical, moral, religious or political principles should in theory at least want to invest their money in accordance with their principles" (1992, p. 248).

Although the appeal to consistency here is not presented as an argument, in the strict sense, for the kind of conscience-reflecting investing under discussion, I think it is fair to interpret the appeal to consistency as a kind of argument for, or a description of what is attractive in, this sort of investing. In his article on SRI for the *Encyclopedia of Applied Ethics*, Christopher Cowton seems to think along similar lines when he describes what he calls the argument from "investor integrity", or "moral purity":

> What, then, is the ethical basis for SRI as described earlier? [...] The first [of two discernable strands], which follows naturally from the *prima facie* case [for ethical considerations in investment decisions], seeks to ensure that consistent standards of behavior are applied in all areas of life. Thus, at a very basic level, it might be considered inappropriate for someone who practices and advocates teetotalism to hold shares in a distillery. Similarly, the British Medical Association was subject to criticism a number of years ago because, while it had an antismoking policy, it held shares in companies which had substantial tobacco interests. To many observers, passively holding a stock and making a return from it indicates some support for a particular activity. [...] An attempt is made to avoid the type of inconsistency which represents one of the central types of hypocrisy. A pure avoidance strategy might be the outcome of such a perspective.[18]

My interest is mainly in the argument pertaining to individual investors here (like the teetotaller), and not on an argument concerning companies or associations (like the British Medical Association). Although it seems clear that it is considered "inappropriate" or, I guess, morally incriminating, for someone who, like the above teetotaller, is morally opposed to the sale of alcohol to at the same time invest in a distillery according to Cowton, Domini, Judd and other writers, unfortunately I think that it is far from obvious what it is that makes for this inappropriateness. Exactly how should we understand the "inconsistency" that apparently gives rise to the moral fault of Cowton's teetotaller and similar complaints in parallel cases? In order to pave the way for some of the later discussions, it may be interesting to elaborate some on this point. I can see at least five different interpretations of how the appeal to consistency might be understood more exactly.

(1) Perhaps the salient feature is that the teetotaller is involved in some kind of logical inconsistency, i.e. that she holds moral beliefs (or

[18] Cowton 1998b, p. 187

expresses moral attitudes[19]) that contradict each other. One might argue that assuming that she "practices and advocates teetotalism" is tantamount to saying that she believes it is *always wrong to support the sale of alcohol* (or to profit from it, or something of the like). Yet she invests in a distillery, which could be taken to suggest that she in this instance does *not* find it wrong to support the sale of alcohol (or to profit from it, or something of the like).[20] These two convictions, that it is always wrong to support the sale of alcohol, and that in this instance it is not wrong to support the sale of alcohol, contradict each other. Perhaps the argument, then, turns on that the teetotaller is involved in a straightforward logical inconsistency.[21]

(2) Perhaps this is not so, but the inconsistency she is claimed to be involved in is more accurately described as arbitrariness. Considering the reference to the "*prima facie* case for ethical considerations in investment decisions" that Cowton gives, one might interpret the teetotaller's convictions as being the following: She believes that most instances of supporting the sale of alcohol are wrong, yet, for no good reason, she does not believe that the instance of supporting it where her shares in the distillery are involved is wrong. The *prima facie* case is spelled out earlier in Cowton's article:

> The *prima facie* case for ethical considerations in investment decisions is that as an area of human activity it should not be immune from ethical considerations. There is, it is suggested, nothing special about investment in general that warrants its exclusion from the ethical considerations that are brought to bear on other areas of life.[22]

Following an interpretation of this line of reasoning, perhaps what is salient in the appeal to consistency is the following: Believing that supporting the sale of alcohol is generally wrong, and yet excluding from this the support generated by investing in a distillery, for no good reason, is completely arbitrary. There is nothing special in this kind of sup-

[19] Whether moral opinions are beliefs or attitudes, and whether attitudes can stand in logical relations to each other, are issues that are much debated in philosophy. I will not take a stand on these here. However, as we will see in the next chapter (section 4), the idea that investments in some manner express moral attitudes seems to be widespread in the SRI literature.

[20] A similar interpretation of investment choices seems to be what Judd is getting at, when she argues that "investors make statements by the investments they choose" (1990, p. 7).

[21] This interpretation is suggested by the rhetoric of some writers, for example: "Should the pension fund of the American Medical Association invest in Philip Morris, whose cigarettes cause a major health problem? Such an action would defy logic!" (Harrington 1992, p. 4).

[22] Cowton 1998b, p. 187. Similar statements of the *prima facie* case can be found in Cowton 1999 and Sparkes and Cowton 2004.

port of the sale of alcohol, it is argued, that warrants its exclusion from the general principle that is brought to bear on other areas of life. In this version, the argument is one about the arbitrariness of excluding investment choices from the scope of otherwise general principles.

(3) Another interpretation of the argument, and of the *prima facie* case, is that it is not about consistency between convictions at all, but rather about some type of practical inconsistency of the teetotaller. The fact that she holds shares in a distillery does not necessarily imply some conviction on her side to the effect that this is also correct. Maybe we should say that she practices and advocates teetotalism, i.e. believes it is always wrong to support the sale of alcohol. Yet she somehow fails to apply this conviction in her actions – she actually supports the sale of alcohol through her investing in a distillery (or, so the argument goes). The inconsistency she is involved in is, then, an inconsistency between what she believes in and what she actually does, i.e. between principle and action. She simply fails to comply with her own moral standards of action.

(4) An interpretation that is not so far from the previous one is that the inconsistency of the teetotaller is some error of instrumental rationality. Perhaps it is presumptuous to assume that the teetotaller somehow just fails to comply with her moral convictions. One might instead assume that she, falsely, believes that her holding shares in the distillery does not amount to her supporting the sale of alcohol. Because she falsely believes this, she has no problem with holding shares in the distillery and so is not subjectively inconsistent in the formerly mentioned senses. Yet, the argument might go, her holding shares in the distillery *de facto* amounts to her supporting the sale of alcohol, so she is instrumentally irrational. The instrumental irrationality here is constituted by the fact that she contributes to the realization of something she (morally) disapproves of.

(5) Yet another interpretation of the example, which I think is not farfetched in real-life situations, is of course that the inconsistency of the teetotaller is only apparent. Her investment in the distillery actually reveals her true moral beliefs – she is not such a devout teetotaller as she makes herself out to be. Under this interpretation, no real inconsistency

is involved, but perhaps something of equal moral importance – the hypocrisy of pretence.[23]

It is unclear which of these interpretations proponents of the appeal to consistency would choose, or if they would give some other interpretation.[24] It may be noted that the different interpretations have different characteristics. First of all, while (1) may seem like the most natural interpretation of the talk of consistency, it is controversial if this case has anything to do with ethics. Having logically inconsistent views might certainly be irrational, or even stupid, but is it really immoral? Furthermore, while (3) and (4) may seem to describe worse situations for the teetotaller, morally speaking, they also involve stronger claims than the other interpretations about the facts of the situation. In order to show that the teetotaller is practically inconsistent or instrumentally irrational it needs to be established that she, through her investing, actually does what she thinks is wrong – i.e. actually supports the industries she is opposed of, or profits from them, or whatever she is opposed of doing.[25] We might call these kind of claims *the underlying premises of the argument* – as will soon become evident, these premises are actually vital to any plausible argument for the avoidance strategy building directly on the characteristics of certain companies or business areas.

Do we have to choose among the interpretations above, however? I do not think we have to, and, in fact, I think we should not. I will shortly (in section 3) argue that, in order to build a more inclusive and robust case for investments "according to conscience", proponents of this kind of investments should appeal to a more comprehensive idea of conscientiousness, or moral seriousness, instead of simple consistency. Before elaborating on this idea, however, I will consider a slightly differ-

[23] This interpretation is suggested by (a perhaps superficial reading of) Cowtons reference to "one of the central types of hypocrisy" (Cowton 1998b, p. 187). In an article with Roger Crisp (Crisp and Cowton 1994), Cowton separates the hypocrisy of pretence from the hypocrisy of consistency. See further note 38 below.

[24] Some authors develop their conception of consistency so as to be able to cover more than just the relationship between investments and beliefs. Brill et al., for instance, include a chapter in their book on how to change your entire lifestyle to become more consistent with your moral beliefs (2000, chapter 13). As noted in the previous chapter, Sparkes (2001) doubts that investing in companies through a retail SRI fund can be consistent with any conception of morality – because of the profit motive of such funds. Perhaps, he suggests, the term ethical investment should only be used for the (consistent?) investments of churches and charities.

[25] Cowton refers to the idea that "[t]o many observers, passively holding a stock and making a return from it indicates some support for a particular activity" (1998b, p. 187). Domini and Kinder (1986) focus, instead, on the fact that an investor may profit from business activities that she disapproves of. For more on how these things should be understood, see the next chapter.

ent understanding of the appeal to consistency as it stands. Perhaps I have already been getting ahead of myself, and understood the argument as a stronger claim than it actually is?

2.1 Valuing consistency

It seems possible to understand some of the authors above as saying that consistency is not normatively relevant in itself, nor for all investors, but that it is only relevant to the extent that some investors *themselves value consistency*. This interpretation of the argument, it may be noted, appeals to the consciences of investors also when it comes to the justification of the appeal to consistency itself. Hal Brill, Jack Brill and Cliff Feigenbaum seem to suggest this interpretation when, in order to explain the moral justification of SRI, they give us the following hypothetical conversation:

> *Bob*: What's the use of screening investments, Annie?
> *Annie*: Everyone has their own reasons, but it usually comes down to this. People value integrity; they don't want to profit from activities with which they disagree.[26]

I will here understand the reference to integrity along the lines of what has been previously said about consistency. One way to understand Annie's position is that what kind of inconsistency should be avoided, and to what extent this should be avoided, simply depends on what kind of consistency investors themselves value, and how much value they actually assign to it. The appeal to consistency, on this understanding, would not need to be supplemented with any of the more precise interpretations of consistency suggested above. Different investors might have different conceptions of consistency in mind and still agree that consistency is valuable. The point is that consistency, whatever it is, is valuable to the extent that actual investors value it.

This sort of argument may seem simple enough. I think it is hard to deny that many investors attracted to SRI value some sort of consistency. Domini, for instance, describes what she calls her "moment of realization":

> One day the research department at the firm I worked for sent out a recommendation for a company that they thought had good prospects

[26] Brill et al. 1999, p. 76

> for winning a major military contract. On the basis of this expectation, most of my fellow brokers were calling their best customers and recommending a purchase of the stock. I felt sick. How far had I fallen that I might consider calling people I was fond of and urging that they make an investment in a killing machine?
>
> It was a moment of realization for me, and since that day, I have come to recognize that most social investors have experienced a similar moment. There is value to being more consistent with yourself and with your value system. You don't need perfect consistency; every step in that direction feels better than no step in that direction.[27]

I take this quote to mainly say something about the value of a certain perceived consistency for Domini, and other investors, personally.[28] I am not denying that many investors might agree with Domini on the value of consistency, along the lines of her story. Even if we grant that most investors would agree with her on this issue, however, I think it is unclear how this should be understood as a moral argument for investments according to conscience.

First of all, saying that *most* investors value consistency is not the same as saying that *all* investors do. The reference to "most social investors" already seems to assume that these investors have some interest in joining the SRI movement. Other investors may not value consistency at all, and may, even when proponents of the appeal to consistency point out that they in some sense are inconsistent, fail to feel the slightest bit unnerved by this. Others may perhaps be persuaded to feel somewhat hypocritical in their inconsistency, but overall feel content with such inconsistency because of the profit they make on their investments, or because they cannot see any reasonable way for *anyone* to avoid being at least somewhat hypocritical.[29]

Moreover, even if all investors were to value consistency, some might not agree with what I above called the underlying premises of the argument from consistency, and therefore fail to feel inconsistent simply because they are investing in areas they morally disapprove of. Some investors might, for example, hold that their investing into an area that they morally disapprove of does not make them inconsistent since it

[27] Domini 2001, pp. 15-16

[28] It is perhaps not obvious that this personal value of consistency is the only thing that is thought to speak in favor of consistency here. Domini might ultimately agree that consistency is valuable, even if no investor thinks so. I think it is fair to say that the personal value of consistency is at least a part of what is thought to be good about consistency, however.

[29] For some empirical research on the commitment among 'ethical investors', see Webley et al. 2001.

allows them to persuade the companies they have invested in to change their ways. Investing with such a purpose, they might say, does not amount to supporting the company in the morally incriminating way – so they are not being inconsistent with their moral beliefs. But perhaps this is not a real problem for SRI proponents – as indicated above, the appeal to consistency is often understood as an argument for SRI generally, and not only for the avoidance strategy (so perhaps proponents of the appeal to consistency would have this investor become a shareholder activist).

The considerations above both focus on problems with the scope of an argument from facts about investors' own valuations of consistency. More importantly, I think there is also an internal problem with this kind of argument. What is it that makes it wrong for investors who value consistency to engage in inconsistent behaviour? If it is only the possible fact that this may make them "sick", as Domini puts it, then there seems to be no difference between moral inconsistency and other types of actions that may *go against the preferences of investors*. If an investor dislikes the gambling industry, say, simply because she has lost a lot of money playing slot machines, the argument under discussion – just as in cases where the investor morally disapproves of some business area – seems to imply that she has a reason to avoid investments into the gambling industry to the extent that she values consistency. After all, she might feel even more "sick" from such investments than from investments into areas she morally disapproves of. The fact that an investor simply dislikes some industry does not seem to constitute a *moral* reason for such an avoidance, however. If any sort of disapproval of some business area is sufficient for there to be moral reasons for consistency, it may be noted, also the failure to avoid unprofitable investments (where these are unwanted) might be regarded as inconsistent and immoral. But such a result is obviously absurd. Where the present interpretation of the appeal to consistency goes wrong, we might say, is in its equation of being *undesired* with being *morally undesirable* – plausibly, not all things that are undesired by investors are morally undesirable.[30]

Now, it is important not to overstate the present argument against proponents of investments according to conscience. The present argument indicates that if all that was won by investing in an ethical fund

[30] In line with Irvine (1987), we might require a distinction between *ethical* and *aesthetic* reasons for investing in a certain manner.

was the realization of the kind of personal values for investors outlined above, then 'ethical investing' indeed seems to be just another product on the financial market – as Anderson so forcefully claims. That is, simply because certain investors may *want* to invest "according to their consciences", this does not mean that such investments also carry some further moral merit. But some proponents of the SRI industry may not find this problematic. Perhaps some SRI proponents actually are content with 'ethical investing' just being another product on the market – as noted in the previous chapter (section 5), there are some indications that the term 'socially responsible' sometimes is preferred over the term 'ethical' exactly for reasons of avoiding discussions of whether SRI products carry some further moral merit (which non-SRI products, then, by implication do not). In what follows, however, I will assume that this is not how the views of most SRI proponents should be understood – *my* project, if not *theirs*, is to find a plausible answer to the question of what investors have moral reasons to do.

Given, then, that we want to find a difference between cases of *moral* inconsistencies and other cases, what could this difference be? Well, one might argue that there is something special about an agent's moral convictions that makes it wrong for a person who values X (in this case, consistency) to engage in behaviour that is contrary to X, or which embodies something contrary to X. This is why it is wrong for someone who values consistency to engage in inconsistent behaviour. But what sort of argument is this? It seems to me that this is nothing but the appeal to consistency all over again. It is inconsistent of someone who values X to at the same time engage in behaviour that is contrary to X, and that is why it is wrong. But then we are back to where we started – how should we understand the appeal to consistency, and why should we accept it?

3. The appeal to conscientiousness

I think it is unfortunate that so many of those discussing the SRI movement seem to understand the appeal to consistency along the lines of the discussion in the previous section. A stronger defence of investments according to conscience, I think, would be an appeal to a more comprehensive conception of *conscientiousness*, or *moral seriousness*. Among philosophers, there has been some debate regarding so-called 'moral

non-dogmatism‘, i.e. the idea that the only duty we have is to do what we ourselves *think* is our duty.[31] In this debate, both sides seem to give some room for an appeal to conscientiousness. For instance, Daniel Goldstick argues that whoever is opposed to moral non-dogmatism ought to concede that there is at least *some* moral ‘pull’ in the idea that one ought to follow one’s conscience:

> We ought to concede, I think, that *conscientiousness*, an active concern to behave in a moral fashion, is in itself a morally good thing. However evil and depraved an individual’s moral principles are, there is indisputably *something* morally admirable in his dedicatedly following them at real cost, it may be, to his own personal interests.[32]

Unfortunately, exactly what is meant by conscientiousness is not developed much by Goldstick. Exploiting the wider notion of conscientiousness he refers to, i.e. “an active concern to behave in a moral fashion”, seems to allow an appeal to conscientiousness which is a lot stronger than the appeal to consistency discussed above, however. Although I will find reasons to question it below, the idea that investors ought to have an active concern to be moral (or to do what is right) might, for reasons I will now sketch, not only help to explain the *point* of the appeal to consistency, but also offer a way to handle the most *implausible* sides of this appeal.

Consider a case similar to that of the teetotaller’s:

> *Inconsistent Fredrik*: Say that some investor, Fredrik, morally disapproves of supporting the sale of weapons in the manner generally assumed here. When he reads about the enormous proportions of military spending in the US, for instance, he is appalled by the support which the US government would seem to give to the sale of weapons. Increasing the sale of weapons, he thinks, can only lead to more death and destruction in the world. Incidentally, Fredrik has inherited a large chunk of shares in companies involved in the arms trade. He does not give much thought to such matters, however, and is only glad to receive his annual dividends allowing him to slightly increase his living standards. It has never occurred to him that, because of his invest-

[31] The term moral non-dogmatism is from Cohen (1967). For discussions about moral non-dogmatism, see also Cohen 1972, Govier 1973, Hunter 1970, Kordig 1969, Sturch 1970.
[32] Goldstick 1980, p. 248, emphasis in original

ments, he could be said to be supportive of or profiting from the sale of weapons.

I think most proponents of the appeal to consistency would find the investor described above inconsistent. In other areas of his life, Fredrik is of the opinion that the sale of weapons is not something that one should support or profit from. Yet, this is exactly what he himself does, through his investing (for the sake of argument, we may assume that the underlying premises of the argument are true in this way). First of all, let us return to the different possible interpretations of this consistency for a moment. The rhetoric of the proponents of the appeal to consistency might suggest that it is *practical inconsistency* they are talking about – people who invest in businesses they are morally opposed to are flat out failing to comply with their own moral standards of action.[33] Well, let us assume that Fredrik really has given no thought at all to the fact that he is supporting the sale of weapons through his investments, so that Fredrik's case resembles interpretation (3) of the teetotaller's case most.

I think it is fair to say that this is the most unnerving sort of inconsistency from a moral point of view. Notice, however, how easy it is for Fredrik to avoid the accusation of practical inconsistency. Perhaps, when confronted with his apparent practical inconsistency, Fredrik would reply:

> *Fredrik's first reply*: "Thank you for helping me get my head straight. All this time, I have been morally opposed of all kinds of support of the sale of weapons, and that seems to have included my own investments in the arms trade. Now I know better, however. I am now not opposed to each and every kind of support of the sale of weapons, but only those kinds which do not involve my own investments. Support of this kind, I think, is not morally relevant. Of course, on my new set of moral principles, I am not practically inconsistent."

From the variations of the teetotaller's case above it is quite easy to see what Fredrik does here. After changing his moral views in this manner, Fredrik is no longer practically inconsistent but rather, I will assume,

[33] Practical consistency, it may be noted, is also a central part of Goldstick's conception of conscientiousness – conscientiousness involves, at least, following one's own moral principles with a certain dedication, and at a certain "real cost".

subscribing to an arbitrary set of moral principles.[34] He thinks all kinds of support of the weapons industry are morally wrong, except for the support generated by himself investing in companies involved in the arms trade – he is not, however, able to deliver any good reasons for why this kind of support should be excluded from the general rule he subscribes to. His case now resembles interpretation (2) of the teetotaller's case. What should we say about this move?

Well, I think most people would still find something about Fredrik's behaviour morally problematic. The difference between cases of practical inconsistency and cases of moral arbitrariness, one might say, is itself (normatively) arbitrary. What matters is whether Fredrik has an active concern to behave in a moral fashion or not, and not to what extent he is consistent under some of the possible interpretations of consistency. He does not seem to have such a concern when he is practically inconsistent, nor when he is morally arbitrary. A conscientious person, namely, not only applies his moral principles to his actions, but also makes sure his moral principles are *universalisable* – i.e. he treats similar cases similarly, and he does not allow any difference in treatment unless there is a morally relevant difference between cases. To fail to do this is not necessarily to be inconsistent, but it would not be done by a person with an active concern to be moral.

I will not go into the details here and consider if all other interpretations of the teetotaller's case above are excluded by an appeal to conscientiousness.[35] The point I am trying to make is simply that the multitude of possible interpretations of the appeal to consistency considered are rationalised by an appeal to conscientiousness. What the different interpretations of the teetotaller's case above have in common, I suggest, is that they describe the behaviour of someone who does not have

[34] Of course, Fredrik might have good reasons for changing his principles in this manner. If this is the case, the analysis of Fredrik's change of view would be different.

[35] Gensler (1996) argues that principles roughly corresponding to the five interpretations of the teetotaller's case above are widely considered to be the basic principles of morality – for instance, "Be logically consistent in your beliefs", "If you want to achieve an end, then carry out the necessary means", "Follow your conscience", "Practice what you preach", "Make similar evaluations about similar cases" and "Don't act in a way that you'll later regret" (p. vii). These are principles that most of us agree with, and which can be rationalised from almost all philosophical understandings of morality. Depending on how we use the terms, they might be labelled principles of consistency or conscientiousness (although Gensler suggests a more advanced terminology). Some may want to describe this as the "formal" requirements of morality, requirements that apply independently of any substantive view of morality (pp. 5-13). Another way to put it is that they describe a "minimal" set of requirements, that have to be fulfilled regardless of what else morality prescribes.

an active concern to be moral. In this sense, the appeal to conscientiousness explains what may intuitively seem right with the appeal to consistency.

To further establish the power of an appeal to conscientiousness, consider a case where the appeal to consistency seems to yield counter-intuitive results. Once again, Fredrik is confronted with the apparent practical inconsistency of his investment behaviour. He is morally opposed to the sale of weapons, yet he holds shares in companies dedicated to this very thing. On the appeal to consistency as an argument for the avoidance strategy, it is here commonly argued that Fredrik should immediately sell his shares in the relevant companies. However, Fredrik might now give the following reply:

> *Fredrik's second reply*: "Thank you for pointing out that I am practically inconsistent, this is something I want to avoid at all costs. However, I also want to retain my investments in the arms trade, and I think I have found a loophole for that. Notice that I really have two ways of achieving consistency between my investing and my moral beliefs. One is of course to change my investing – I could divest all my shares in companies involved in the arms trade. The other is to change my beliefs. I could generally start to praise companies involved in harmful activities – or, more specifically, I could start to praise companies involved in the arms trade. Since I want to keep my investments in companies engaged in the sale of weapons, I have decided to opt for the latter – to simply develop a more positive moral view towards this activity. I have decided to become a consistent warmonger!"

What should be said about this example? As it appears, it causes problems not only for the appeal to consistency, but also for the appeal to conscientiousness. To start with the first point, however, I think most of us would probably be less inclined to say that Fredrik's consistency, when becoming a consistent warmonger, is a morally good thing.[36] If

[36] Some proponents of the appeal to consistency might argue that it is unrealistic to think that an investor can change his moral beliefs in the way I propose that Fredrik can do here. Our values are not something we choose, they could say, but something that we are taught at an early age, or something that evolves through life. Perhaps this is generally true, but I don't think it excludes that we sometimes can make alterations in our values in the way I propose Fredrik can here. If the reader is not convinced, imagine some investor that is less certain of her reasons to be morally opposed of a certain industry in the first place. Surely, for this kind

this intuition is right, then it cannot just be consistency that investors should aspire to. What should they aspire to? Well, I think we might say that Fredrik's change of beliefs, in order to be able to consistently invest in the arms trade, shows that he, just as proponents of the appeal to consistency, has mistaken *an active concern to be moral* for simple *consistency*. Consistency, however this is construed, may be one of the things we want to require of investors, or moral agents generally, but clearly not the only thing. One is not justified in switching from one consistent set of beliefs to another simply because it fits one's personal preferences.

In order to determine whether the appeal to conscientiousness can offer a reasonable answer to this example, it might help to compare the notion of conscientiousness used here with the notion of *moral seriousness* used by some philosophers. A conscientious person, I have said, is someone who shows an active concern to behave in a moral fashion. Another way to put this, it seems, is to say that a conscientious person is someone who takes morality seriously. Keith Ward explains the demands of moral seriousness in the following way:

> What is it to be 'morally serious'? In one sense, it is quite obvious that a man who stands by his moral principles with difficulty and in face of many obstacles, even to the extent of giving his life rather than denying these principles, is a morally serious person. He might be contrasted with a man who gives up or modifies his moral principles whenever their implementation becomes difficult, or threatens to harm his interests; and this person might be called morally frivolous.[37]

I think it is fair to say that, at least on Ward's use of this term, Fredrik's behaviour here is morally frivolous. Following this line of reasoning, it seems plausible to say that if we want to deny Fredrik the moral option of becoming a consistent warmonger, it is conscientiousness, or moral seriousness, that we should appeal to, and not only consistency – irrespective of how the appeal to consistency is construed more exactly.

4. The limits of conscientiousness

As already suggested, Fredrik's second reply above has implications for the appeal to conscientiousness as well. I will now turn to evaluate this appeal and, in turn, present my view on what we may now call con-

of investor, there would be no problem with changing her mind on such issues to be able to invest in whatever business area she feels like.

[37] Ward 1970, p. 114

scientious investing. It may be noted, first of all, that other authors have discussed the implicit appeal to conscientiousness in arguments similar to the appeal to consistency. So, for instance, Roger Crisp and Christopher Cowton argue that a common feature of all kinds of behaviour which we describe as hypocritical (including what they call the hypocrisy of inconsistency[38]) is that it would be avoided by someone who takes morality seriously. They understand moral seriousness in very much the same way as I have understood conscientiousness here, i.e. as "an active and genuine concern to be moral". More specifically, they argue, moral seriousness is best understood as a sort of virtue, or perhaps a "metavirtue":

> [All kinds of hypocrisy] would be avoided by a person who took (morally) seriously the relation between her self and morality, someone who demonstrated an active and genuine concern to be moral. This concern is in a sense a "metavirtue," since it is a concern to be virtuous. But it is nevertheless an excellence, the lack of which in various ways is likely to issue in hypocrisy when its possessor is engaging in moral practice or the moral language game.[39]

One may ask what reasons there are for considering moral seriousness a virtue, or a metavirtue, in this manner. Crisp and Cowton's argument, I take it, is mainly that such an understanding of moral seriousness explains what is wrong with hypocrisy: "If anything is morally blameworthy, then lack of concern for morality itself surely is"[40]. Furthermore, understanding moral seriousness this way explains why arguments about hypocrisy, and perhaps arguments similar to the appeal to consistency, are so prevalent in the modern debate:

[38] The hypocrisy of inconsistency is described as follows: "In Matthew 23.13, Christ advises his listeners to pay attention to what the Pharisees say because they are in the seat of Moses, and goes on, 'But do not follow their practice; for they say one thing and do another.' Were [Senator Joseph] McCarthy [who publicly castigated gays for immorality] to have been a practicing gay, he would provide another example. [...] Hypocrisy of inconsistency consists in failure to live up to a self-professed moral requirement that does in fact apply to oneself" (Crisp and Cowton 1994, p. 345). Unfortunately, this description is not clear enough to compare directly with the teetotaller's case above. On the surface it may resemble (3), where the teetotaller simply fails to apply the moral standard that she believes in (this is "a failure to live up to a self-professed moral requirement"). On further inspection it seems to resemble (2) more, however, as it seems like both the Pharisees and Senator McCarthy fail in the respect that they cannot give good reasons for why they should be excused from the general principle they otherwise preach. So, they are arbitrary in favour of themselves, one might say.

[39] Crisp and Cowton 1994, p. 347

[40] Ibid.

> Hypocrisy's being a failure to possess a metavirtue explains why [...] accusations of hypocrisy are so prevalent in our present age of widespread disagreement about the content of morality. Such accusations enable a critic to pursue her agenda without engaging with the question of just which virtues comprise morality itself.[41]

In order to determine to what extent this view on conscientiousness is plausible, it is now time to consider the full implications of Fredrik's second reply above. Why was it possible to say that Fredrik's choice of becoming a consistent warmonger was a failure of conscientiousness here? Well, the reason seems to be that Fredrik originally is morally opposed of the weapons industry in a very strong manner. From the description of Fredrik's moral views at the outset, it is obvious that he is not opposed of the weapons industry for reasons of personal preference, but for *moral* reasons. Since this is the case, we may legitimately say that becoming a consistent warmonger is failing in the respect that one should not simply change one's moral principles to satisfy one's personal preferences. Now, it is entirely possible, however, that some other investor starts off from a completely opposite view of what is right – there might be investors who are warmongers for moral reasons, and not because of the possibility of making money from investments in the weapons industry. Examples such as the following, I think, show that there is a serious flaw in the appeal to conscientiousness outlined above:

> *The Principled Warmonger*: Consider a warmonger who believes in supporting the production and sale of weapons of mass destruction because of a firm belief in Nazism. Because of this belief he also invests all his capital in companies engaged in the weapons industry – in the same way as Fredrik so casually did. Assume further that this warmonger cannot be persuaded by the standard arguments against warmongering and Nazism – he does not care about the Holocaust, and he is firmly committed to the view that a continued proliferation of weapons of mass destruction in the world will be beneficial to the goal of, say, enslaving the non-white population of the earth.

[41] Ibid.

A fairly intuitive response to the kind of example above would seem to be that it is rather implausible to say that people like the principled warmonger have moral reasons to be conscientious, or to take morality seriously in the sense sketched above. It might actually be *better*, from a moral point of view, if a principled warmonger did not take morality seriously and became inconsistent in the application of his beliefs. This is so since taking morality seriously, and consistently applying his beliefs, actually makes the warmonger act *wrongly* more often! In taking morality seriously, the warmonger invests in the weapons industry and does other sorts of things that are consistent with Nazism. From a moral point of view, it would be better if he did not do this.[42]

In a classic paper on the conscience of Huckleberry Finn, Jonathan Bennett makes a similar point. Being raised in the slave-owning American south, Huck is of the opinion that it would be wrong to assist another man's slave to escape from the clutches of his rightful owner. When he finds himself helping his slave friend Jim to escape on a raft down the Mississippi, however, he is unable to act on this conviction. The sympathy he feels for Jim overpowers his moral conviction that what he is doing is wrong. Bennett argues: "This passage in the novel is notable", among other things "for its finely wrought irony, with Huck's weakness of will leading him to do the right thing"[43]. Conclusion: Sometimes we simply ought to let our sympathy guide us, and not be excessively conscientious – especially if we are subscribing to what everyone else can see is a "bad morality"[44].

What do these examples show? Well, one might take either of two positions, I think. One possibility would be to give up on the appeal to conscientiousness altogether, at least as an independent source of moral reasons, and say that some form of *impartiality* obviously is required. Investors do not have moral reasons to avoid investing in areas they

[42] It should be noted that, on my use of the term conscientiousness, it is an open question if it is right to act in accordance with one's conscience. Some may want to use the term differently and require of a conscientious person, not only the he is (internally) concerned with acting correctly, but also that he to some extent (externally) succeeds with this. Although the principled warmonger in my example may be taking *his own principles* seriously, it may be argued, he hardly takes *morality* seriously. Although I will not understand conscientiousness in this way (for extended discussions of how to understand conscientiousness, cf. Lewis 1945, Thomas 1964), it may be noted that I actually agree with the basic tenet of this suggestion – that is, that the principled warmonger does not live up to all that morality requires of him. Being conscientious, on this suggestion, would seem more or less synonymous with being wholly *virtuous*. I will return to this idea below (section 5) and also in the next chapter (section 4.2).

[43] Bennett 1974, p. 127

[44] Ibid., p. 125

themselves morally disapprove of simply because this is what their consciences recommends, since different investors may have more or less misguided conceptions of ethics – some might be Nazis and others might be depraved in other ways. Rather, on this view, the kind of considerations which most straightforwardly could give investors moral reasons to avoid investing in certain business areas would be that these businesses are *impartially* morally unacceptable in some sense (or impartially socially irresponsible) – that is, unacceptable regardless of the investors' own moral convictions.[45] We might call this an *impartialist* position[46] on the issue of what business-evaluative categories are relevant for the question of what investors ought to do. As will become evident in the following chapter, in contrast to the representatives of the SRI movement considered here, most philosophers who have discussed issues pertaining to the ethics of investing actually seem to assume this type of position. I will give some further comments on this kind of position below.

Although the denial of part of the basic tenet of the appeal to conscientiousness inherent in the view above may strike some readers as rather radical in the present circumstances, I believe further arguments actually are needed in order to refute this view. While it initially may seem plausible to think that conscientiousness is important, *The Principled Warmonger* certainly casts doubts over this kind of intuition. It should be noted, furthermore, that the impartialist position is consistent with the idea that conscientiousness sometimes may be *indirectly* morally valuable. That is, although the fact that one's conscience recommends a certain action is not *in itself* a moral reason for performing that action, and so the appeal to conscientiousness is not an *independent* source of moral reasons, being conscientious may sometimes help us achieve some *other* goals which we have moral reasons to achieve. I will discuss at least one way in which conscientiousness or consistency may be considered indirectly valuable in chapter IV, section 6.2 below.[47]

[45] This is the position which Govier (1972) would seem to take. According to her, the act of 'following one's own moral principles' cannot be separated from what specific actions one's moral principles actually imply. Thus, what is good about good people's following their consciences is simply that they do good things, and nothing over and above this.
[46] I previously called this the *objectivist* position (Sandberg 2007a, p. 80). However, see section 5 below for a discussion of the relation between objectivity and impartiality.
[47] The impartialist position is also consistent with saying that conscientiousness is directly important for determining *blameworthiness* – at least, that is, if the question of whether a certain agent is blameworthy is separated from the question of whether he or she acted rightly or

Having noted all of this, some might argue that the impartialist position still is too radical and does not give reasons of conscience adequate room. While the examples above may show that it is not *always wrong* not to be conscientious, they might say, the examples are compatible with the view that investors always have *at least some* moral reason to invest with their conscience. Now, in cases like *The Principled Warmonger*, there are obviously stronger moral reasons that pull in a different direction – the consequences of being conscientious in this scenario would after all, be devastating – and such other reasons may sometimes override or outweigh investors' moral reasons to be conscientious. However, and this is where the impartialist position goes wrong, this does not rule out that there is at least *something* which pulls in the direction of conscientious investing – even in such a scenario. According to this weaker understanding of the appeal to conscientiousness, then, while it may not always be *wrong* not to be conscientious, investors always have at least *some* moral reasons to follow their consciences.[48] The possibility of formulating this kind of weaker positions, I believe it should be noted, is an advantage of talk about 'moral reasons' over talk about, e.g., 'moral obligations', or what agents 'ought to do' (period).

Actually, if we continue to read Goldstick's paper, he seems to take this weaker position:

> However evil and depraved an individual's moral principles are, there is indisputably *something* morally admirable in his dedicatedly following them at real cost, it may be, to his own personal interests. Which is not to say that this consideration must count for very *much* when weighed in the scale against the depravity manifested in commitment to truly monstrous moral principles.[49]

wrongly. Since it is this latter kind of question I am interested in here, however, I leave this point aside.

[48] Govier (1972) suggests a third option: Maybe conscientiousness could be considered a 'conditional virtue', i.e. something that is only good under certain circumstances. I think it is clear that my version of this weaker position is superior to Govier's, however. What one is saying if one argues that conscientiousness is a conditional virtue is, in effect, that what determines if investors have moral reasons to invest according to their consciences or not is a further set of circumstances, and not the fact that the investors' consciences say something or the other in itself. Under certain circumstances – perhaps when investors' conceptions of social responsibility are fairly reasonable – there are moral reasons to let one's conception of social responsibility guide one's investments, or so the idea would seem to go. But isn't this the same as saying that investors have moral reasons to invest according to what is (impartially) socially responsible? The postulation of a moral reason of conscientiousness, over and above the reason from (impartial) social responsibility, seems to me to do no work in this suggestion.

[49] Goldstick 1980, p. 248. Many others have proposed a similar understanding of conscientiousness – see, e.g., Hunter 1970, Lewis 1945, Sturch 1970. According to some, this

My own view on this matter is wavering but, for the sake of argument, I will assume that this weaker understanding of the appeal to conscientiousness basically is sound. As Goldstick points out, however, it may be noted that the question left for this appeal is when these weaker reasons of conscientiousness are of real moral importance. When can the existence of this kind of reasons influence what it is that investors really ought to do? The answer to these questions, I believe, depends on *how much is at stake* in investment decisions. The more that is at stake in such decisions, the less room there would seem to be for reasons of conscientiousness to come into play – and, in effect, the less difference there would seem to be between this weaker appeal to conscientiousness and the impartialist position introduced above. For reasons I will now suggest, I believe there is actually not much difference (at least not practically) between these two positions.

How much is really at stake in investments decisions? Well, although the impartial sense of moral unacceptability may not be the *only* one that matters in the present context, I believe, *The Principled Warmonger* suggests that it must play an *important* role in determining what investors ought to do. If investing in a company involved in the arms trade basically amounts to supporting the arms trade, and, in the end, to supporting war, then this seems to be a fairly strong reason for morally castigating such investments. Interestingly enough, a sort of paradox actually seems to arise here for proponents of conscientious investments. This is due to the fact that how much is at stake in investment decisions seems to depend, in turn, on whether *the underlying premises* (noted above) of the argument from conscientiousness are correct, and how morally important these are. How important is it that investing in a certain company may amount to supporting it or profiting from it – and is it true that one really supports the companies one invests in in the sense commonly assumed by SRI proponents? If what I just said is true, i.e. that investing in the arms trade in the end basically amounts to supporting war, then I fail to see what reasons of conscientiousness add – everyone who invests in the arms trade is more or less doing what the principled warmonger is doing, and their acting in this way seems just as wrong. Only if the choice of investments on the stock market has little moral relevance in other ways do reasons of conscientiousness become

view of conscientiousness is needed if one wants to defend the right of pacifists to refuse serving in the military (so-called conscientious objectors), but at the same time refuse the right of fanatics to do whatever they feel like (Lewis 1945, Sturch 1970).

of higher moral importance. As the discussion in later chapters will show, however, this does not seem very plausible.[50]

Just out of curiosity: What happens if the choice of investments on the stock market has little moral relevance in other ways? According to the argument above, this might create some space for the moral importance of conscientiousness. However, this is where the paradox shows its ugly face – if the underlying premises of the argument are not correct (or not relevant), this would mean that the case for investments according to conscience would be much weaker than initially assumed. It is not true that investors who invest in businesses they morally disapprove of can be accused of being practically inconsistent in some important sense, for instance, because they are simply not connected to these businesses in the relevant way. They are not, for instance, supporting them in the sense commonly assumed and so they are not doing what they morally disapprove of doing.[51]

5. Impartiality and objectivity

The outcome of the discussion above is that to the extent that investors indeed have direct or independent moral reasons to invest "with their consciences", which I think we should demand more arguments for before accepting, these moral reasons would in any case seem quite weak in the overall context of the ethics of investing. This, I think, implies that it is not very fruitful from a moral point of view to continue to stress the importance of what I have called conscientious investing. It should be noted, however, that we are not forced to conclude from the arguments above that terms such as 'socially responsible' or 'ethical' investment are misnomers. In the previous section, I introduced an *impartialist* position quite close to the basic idea of most SRI proponents but without any reference to individual investors' own moral views on business-evaluative issues. On this position, it is possible to argue that investors have moral reasons to avoid certain businesses that are morally unacceptable in a more robust sense – and this may well be companies

[50] As the ultimate balancing of reasons is a rather complex deal, the final word on this will not be given until in chapter VII, section 3.

[51] It may be noted that the paradox does not arise for all of the interpretations of consistency discussed above. One might still argue, for instance, that there are reasons from logical consistency that should be considered in investing. However, it seems correct to say that the case for conscientious investing is weakened considerably if the underlying premises referred to here are false or morally irrelevant.

involved in the weapons and tobacco industries, or some other industry commonly avoided by contemporary ethical funds. Before closing this chapter, it may perhaps be in place to say something more about this impartialist position.

It may be noted that impartiality sometimes is connected with *objectivity*, and it is often regarded as controversial to talk about objectivity when it comes to moral matters. According to many people, including many prominent moral philosophers, it is misguided to think that morality can be objective in the sense that, e.g., the things that the natural sciences concern can be objective. A similar idea can also be found in the literature on SRI. Although he finds the emphasis on subjective values in much of SRI problematic, for instance, Michael Monahan writes as follows:

> When I discussed this topic with a local group of financial advisors the first question was, "Well, who decides what counts as 'socially responsible' anyway?" Of course, there is no easy answer. The simple fact is that there is no overarching structure by which we can objectively determine the social responsibility of a given company or product. Each individual will certainly have his/her own notions [...] of [...] what it means to be socially responsible. There are then, from this perspective, two options for the investor. He/she can shop around and examine the holdings of a variety of different pre-screened funds, or he/she can sit down with an advisor and construct a fund based on his/her own values and research. In either case, the nature of the screens to be used is highly dependent on the individual and his/her own view of what kinds of things count as socially responsible. Consequently, the values that guide the screening process cannot help but be subjective.[52]

I think Monahan's questioning of objectivity with regards to business-evaluative issues could be understood in at least two different ways. On one interpretation, he simply *denies that there can be any form of objective* or *independent answers* when it comes to matters of right and wrong. As I said above, this position is not uncommon among moral philosophers and the issue of the objectivity of morality is a highly controversial one. While I cannot explore this controversy any further here, I think it should be noted that *impartiality* in ethics is far less controversial than *objectivity*. What the impartialist suggests is simply that our subjective views on morality are not *necessarily right* – i.e. that we might actually be *mistaken* about, for instance, what companies we ultimately have moral reasons to avoid investing in. This view does not involve any meta-

[52] Monahan 2002, pp. 31-32

physical speculations about an objective realm of moral facts – another way to formulate this view, I believe, could be to say that the business areas which are morally unacceptable in an impartial sense are those business areas which we would find morally problematic *if we were wholly virtuous* (and fully informed). Following this line of reasoning, my argument above could be understood as saying that while conscientiousness certainly may be *one* virtue, in order to determine what business areas investors really have moral reasons to avoid investing in it may be necessary to consult other virtues as well, or what the wholly virtuous investor would do.

Although much SRI literature focuses on conscientious investing, I believe the impartialist position should not be too implausible in the greater context of 'ethical investing'. Even proponents of the appeal to conscientiousness, it should be noted, normally presuppose at least one sort of impartiality similar to the one above – irrespective of what individual investors themselves think, it is suggested that *all investors* have moral reasons to align their investments with their values. That is, mainstream investors who do not agree with this may be *mistaken* about what they have most (moral) reason to do. I argued above that a conception of this kind of appeal which does not invoke any kind of universal or impartial moral principles like this, but simply appeals to the preferences of investors *all the way*, fails to make 'ethical investing' into something over and above a pure customer product. Given that most SRI proponents want 'ethical investment' to stand for something more than this, then, it would seem to be in the interest also of these proponents to assume that there can be more or less (impartially) ethical ways of investing – and I see no reason for why a similar assumption should not be made with regards to the business-evaluative level of inquiry.

A weaker interpretation of Monahan's position could be that he simply thinks it is very *difficult* for individual investors to *know* what is impartially morally acceptable or socially responsible.[53] There is no "overarching structure" from which we easily can retrieve this informa-

[53] According to some authors, a problem for impartialists is that it is *impossible* to know these things. Perhaps this is an alternative interpretation of Monahan here. If individual investors cannot avoid being subjective in their choice of investments (there is no way of "objectively determining" social responsibility), this idea could go, they simply cannot have a moral obligation to follow something over and beyond their own moral views. As others have noted, however, this kind of arguments (appealing to the rule of 'ought implies can') are seriously flawed (see, e.g., Goldstick 1980, Govier 1973). Certainly investors *can* do things that are not sanctioned by their own moral views (why do we otherwise have a "bad conscience" sometimes?).

tion, and so we may never know if our moral beliefs are mistaken or not. I actually think we should agree with this characterisation of the situation. As I indicated in the previous chapter (section 4), both our intuitions about what moral *principles* are reasonable and our moral responses to *particular cases* are probably *fallible* – that is, they are not perfectly reliable guides to moral truths. The best we can do is to try to make the different parts of our moral thinking as coherent as possible, along the lines of the method of reflective equilibrium. When it comes to business-evaluative issues, I also said in the previous chapter that this may be very difficult indeed. In order to spell out a detailed view on what business practices should be considered morally unacceptable in an impartial sense one would more or less have to settle the ethical issues surrounding, e.g., labour rights, gender equality, the importance of the environment, animal rights, global justice, and so on. *But*, the fact that this seems rather difficult does obviously not imply that it is *useless*. Even though investors may never *know with absolute certainty* that they are avoiding investments in companies that are impartially morally unacceptable, they may perhaps be able to arrive at a *reasonably justified* position on at least *certain* business-evaluative issues. In the following chapter, I will approach the matter of what such a reasonably justified position may look like at least indirectly.

I think it is fair to say that previous theorists who have discussed the appeal to consistency, and other principles thought to justify SRI strategies, have failed to specify if they are concerned with subjective or impartial ideas of social responsibility.[54] There might, of course, be many reasons for this. The most obvious one is that not many people would consider becoming warmongers just to achieve consistency between their investments in the arms trade and their moral beliefs. As some suggest, we might after all agree to a large extent on what business areas are morally unacceptable.[55] If this is so, the implications in terms of the avoidance of a large number of morally problematic business areas might be the same for most of us on both subjective and impartial accounts.

Moreover, of course, investors do not arrive at their subjective ideas of social responsibility in a vacuum (at least not to the extent that they

[54] For some examples of this, see the next chapter.
[55] Cf. Brill et al 1999, Brill and Reder 1993. Research into the motivations of individual SRI investors seems to indicate a more complicated picture than this, however – see Cooper and Schlegelmilch 1993 for an overview.

are conscientious). Rather, they, most probably, focus on certain (objective) properties of different business areas and form their idea of the unacceptability of these areas *by reason* of such properties. For instance, most of the investors that are opposed of the sale of weapons might be so inclined because of the potential destruction in the world that this industry is a part of. There is, then, an important connection between the objective properties of certain business areas and practices and the fact that many investors morally disapprove of them. However, what my argument in the previous section says is that it is misguided to think that it is mainly the fact that an investor morally disapproves of some business area that, *as such*, gives rise to moral reasons for the investor to avoid investing into such an area. Rather, it is the objective properties of certain business areas *themselves* that might give us moral reasons to avoid investing in them. If one wants to make a reasonable argument for why we ought to employ an investment strategy involving some systematic avoidance of certain industries, then, one must appeal to some impartial account of social responsibility.

As was noted at the end of the previous section, the issue of the moral reasons for this kind of avoidance strategy depends largely on how plausible, and morally important, the *underlying premises* of the arguments from consistency and conscientiousness are. Is it really so, for instance, that investors holding shares in weapons companies *support* these companies in some morally relevant manner? This is the kind of issues I will turn to in the following chapter.

6. Conclusions

In this chapter, I have discussed what could be taken as the most simple conception of what characterises 'ethical investing' among proponents of the SRI movement, namely the idea that genuinely ethical investors are those who avoid investing in companies whose business areas or practices they morally disapprove of themselves. The most common line of reasoning accompanying this idea is that it would seem inconsistent of someone who is opposed of, say, the weapons industry to at the same time invest in that industry. Assuming that most individual investors find certain business areas or practices morally problematic, then, they would seem to have some kind of reason to integrate ethical, social or environmental considerations into their investment decisions.

However, I have argued that this kind of reasoning is problematic from a moral point of view. First of all, since consistency can be un-

derstood in so many different ways, and what is salient about the 'inconsistency' cases which SRI proponents want to criticise in any case would seem to be a lack of moral seriousness, I suggested that an appeal to the richer concept of conscientiousness seems more promising than an appeal to consistency. However, since the moral views which different individual investors start from also can be quite diverse, I argued that the appeal to conscientiousness is problematic as well. If one wants to make a reasonable argument for why investors ought to employ an investment strategy involving some systematic avoidance of certain industries or companies, one does best in appealing to some impartial account of moral acceptability or social responsibility – that is, to features of these industries or companies which have little to do with the values of individual investors.

In the following chapter(s), I turn to discuss arguments for the avoidance strategy more generally.

Chapter III

Avoiding Moral Contamination

1. Principled arguments for avoidance

The probably most common idea about what a genuinely ethical investment practice consists in, both within the SRI movement and among the general public, is that it involves the avoidance of a certain kind of companies or industries – companies or industries that sell products or engage in activities which in some sense are morally unacceptable. Ethical investors, according to this idea, are those who refrain from investing in, for example, the weapons industry, big tobacco producers or companies that pollute the environment. In the previous chapter, I argued against the idea that investors have (strong and direct) moral reasons to avoid investing in certain business areas because they happen to morally disapprove of them themselves. In this chapter and the next, I will discuss more generally the issue of whether investors have moral reasons to avoid investing in certain kinds of companies or industries (regardless of their own moral views towards these companies and industries). Even though an avoidance of certain kinds of companies is the practice most commonly employed by what is popularly known as 'ethical funds', I believe it should be noted, it is not obvious whether this sort of avoidance has any more substantial moral merit. In

any case, this is the issue that will form the centre of attention in these chapters.

In order to facilitate the discussion, we may distinguish between two broad ways in which I believe proponents of the SRI movement (and other writers) have generally tried to justify the avoidance strategy. According to some writers, as will become obvious later, the justification of the avoidance strategy lies mainly in the *positive societal effects* which a systematic avoidance of certain companies may have. Refraining from investing in certain morally problematic companies, according to these writers, can be a good way of letting these companies know what you think of their activities, and also of letting others know exactly what kind of activities the companies are up to. Thus, the avoidance strategy can be a powerful tool in trying to change the way certain businesses are run, and also in trying to change the way people think about the moral responsibilities of corporations. We might call this way of thinking a *pragmatic*, or (in a wide sense) *consequentialist*, line of reasoning.[1] In the literature on SRI, it may be noted, this line of reasoning is most often formulated in terms of 'making a difference' – a phrase which the reader has already made some acquaintance with. I will elaborate further on these kinds of pragmatic arguments for the avoidance strategy, as well as discuss their merits and demerits more extensively, in the next chapter.

In the present chapter, I will focus on what might be called (putatively) *principled*, or *non-consequentialist*[2], lines of argument for the avoidance strategy. What I mean by 'putatively principled' is that these lines of argument seek to justify the (employment of the) avoidance strategy, not by reference to the possibly positive societal effects of employing such a strategy, but with reference to some idea about what is wrong *per se* with investing in companies who are engaged in morally unacceptable

[1] By consequentialist 'in a wide sense', I here mean two things. First of all, although the present line of reasoning makes the issue of whether investors have moral reasons to employ an avoidance strategy depend on what the (probable) effects of such an employment are, proponents of the argument need not say that effects are *all* that matter morally. Secondly, it is left entirely open exactly what it is that makes effects positive. See further the discussions in chapter IV, section 2, and chapter VII, section 2.

[2] The distinction between consequentialism and non-consequentialism is a common one in moral philosophy. Sometimes it is formulated as a distinction between consequentialism and *deontology*, but I will use the wider term non-consequentialism in order to allow ideas which I believe are not strictly deontological (see, e.g., my discussion of virtue ethics in section 4.2). As I make the present distinction mainly between different *kinds of arguments*, it should be noted again that it is possible for proponents of non-consequentialism to embrace at least some consequentialist arguments, and vice versa. For a similar distinction in the context of investment ethics, see Powers 1971. See also note 4 below.

business areas or practices (henceforth simply *morally unacceptable companies*[3]). That is, it is a *matter of (moral) principle* that investors should not invest in morally unacceptable companies. Even if there were no positive effects (either on the companies themselves or the general public) with employing an avoidance strategy, these arguments hold, it would still be wrong not to do so, or investors would still have moral reasons to do so. This is because simply the fact that certain companies are morally unacceptable, *in itself* or *directly,* makes it morally problematic for investors to invest in them. Many writers would seem to appeal to some idea along these lines, I believe, although it is not always obvious how to interpret their position more exactly. Part of the task, then, will be to try to understand exactly what kind of principled argument, or what kind of moral principle, different writers are appealing to in their defence of the avoidance strategy. More generally, the main question of this chapter will be whether it is at all possible to defend the avoidance strategy on this kind of principled basis, i.e. without resorting to a more pragmatic kind of reasoning. While most previous authors contend that this *obviously* is possible, I will suggest that matters actually are a lot more complicated than this.

To some degree, it should be noted, the kind of reasoning of interest here is related to the kind of reasoning discussed in the previous chapter (and, as I noted there, many writers fail to separate these lines of argument from each other[4]). In the previous chapter, I discussed the suggestion that investors have moral reasons to avoid investing in companies which they morally disapprove of themselves (or companies whose business areas or practices they morally disapprove of). An underlying premise of this suggestion, I said, was the idea that investing in a certain company amounts to supporting it, or profiting from it, or something of this kind, which (at least in part) is why investing in a certain company

[3] I will use 'morally unacceptable companies' as a generic term to refer to those companies, whichever they might be, which investors have moral reasons to avoid investing in according to different principled arguments for the avoidance strategy. Although I will formulate all of these arguments with the help of this generic term, it should be noted that different writers may have quite different ideas about exactly what companies qualify as morally unacceptable. Furthermore, the different arguments themselves would seem to imply different ideas about this. I will return to this issue many times below.

[4] For this reason, a distinction roughly similar to the one above is sometimes made between the appeal to consistency, on the one hand, and the call for making a difference, on the other – cf Cowton 1998b, Domini 2001, Mackenzie 1997. (Mackenzie distinguishes between what he calls solutions to the "investment ethics" problem, which I take are roughly appeals to consistency, and solutions to the "corporate harm" problem, which I take are roughly calls for making a difference – cf. Mackenzie 1997, pp. 7-8.)

indeed is something quite contrary to opposing it. Now, this more simple idea was problematic, I argued, because what business areas people morally disapprove of can vary to a great degree and, thus, many cases of truly conscientious investing will still strike us as morally repugnant (remember *The Principled Warmonger*). If one demands more impartial criteria for calling a certain company *morally unacceptable* in this type of reasoning, however, one would seem to get the kind of ideas I am now interested in. Perhaps it is simply wrong to invest in companies that are morally unacceptable in some more robust, impartial, sense – exactly because investing in such companies would amount to supporting them, or profiting from them, or something of the like? Well, it is roughly ideas of this kind that I wish to discuss in the present chapter.

Perhaps the general idea of the sort of principled arguments I am after is stated most clearly by certain philosophers. Richard De George, for instance, I believe formulates this quite nicely in the following passage:

> [N]o one is ethically allowed to invest in an unethical operation. If we know an operation is unethical, we have the ethical obligation not to invest in it or, if we are already invested in it, to withdraw from it. Clearly, because the basic transaction of selling cocaine is unethical, it would be unethical to invest in a cocaine ring, even if one were guaranteed extremely high returns on one's funds. If Murder, Inc., were quietly seeking investors, investing in that enterprise would be unethical. The general principle is that if a corporation is established for an immoral end, then no one can morally support its activities through the purchase of its stock. The ordinary public corporation does not have an immoral end. Yet by analogy we can argue that even if a company is established for a legitimate end, if it in fact has a policy of engaging in unethical practices, then no one can morally support its activities through the purchase of its stock.[5]

Before going further, a few words of caution may be necessary. Judging from most formulations of more principled arguments in favour of the avoidance strategy, I believe, the general idea involved would seem to be that the moral unacceptability of certain companies *'spills over to'*, or *'contaminates'*, those who invest in these companies, so that investing in these companies also, in some sense, becomes morally unacceptable. As De George puts it, "[c]learly, because the basic transaction of selling

[5] De George 1999, p. 476

cocaine is *unethical*, it would be *unethical* to invest in a cocaine ring".[6] What may be morally problematic with investing in morally unacceptable companies, then, is that the moral problems connected with the activities of these companies 'spill over' to the act of investing in them. As a general characterisation of the basic idea of the kind of arguments under consideration in this chapter, I think this characterisation is highly illustrative (and, thus, I will frequently discuss different arguments in the language of 'moral contamination' or 'moral dirt'[7]). It should be noted, however, that the general idea involved here could be spelled out more exactly in many different ways – the strength of the moral reasons involved could be varied, and the quite general formulation above could be kept as it is or it could be made more specific in different ways.

In one of the first philosophical treatments of the ethics of investing – a paper which I will have reason to return to many times throughout both this chapter and the next – William Irvine argues against the kind of extremely general formulations of the principled argument suggested above. According to what Irvine calls the *evil-company principle*, "[i]f a company is at present "evil," it is [always] morally wrong for us to buy its stock"[8]. I will discuss later, in section 3.2, exactly what Irvine means by "evil" companies here. Now, consider the following variation of Irvine's argument against the evil-company principle:[9]

> *Slaveholders Against Slavery*: One day you are contacted by a group of investors, calling themselves 'Slaveholders Against Slavery'. These investors all own shares in a company in some remote country which, with full backing by this country's regime, uses slave labour to manufacture some kind of cheap export goods. At first you are appalled by the fact that these investors don't sell their shares in this company immediately, but the investors manage to assure you that their primary aim with holding shares in the company is not to support its activities, but rather to be able to make the company change its evil ways. Unfortu-

[6] Mackenzie similarly writes that the basic idea of many fund managers and commentators (although this is often connected to the appeal to consistency discussed in the previous chapter) is that "it [is] *unethical* to invest in a company which is pursuing *unethical* practices" (1997, p. 119, emphasis added).

[7] For similar terminology, see Hollenbach 1973, Powers 1971, Simon et al. 1972.

[8] Irvine 1987, p. 234

[9] Cf. Irvine 1987, p. 235. I have adjusted the argument slightly in order to avoid some internal problems (pointed out by Larmer 1997, p. 398).

> nately, they're just one investor short of being able to force the company to change its evil ways, and you're their only hope. If you invested in the slaveholding company and cooperated with this group of investors, the group would gain just enough votes at the company's annual general meeting to be able to stop its use of slave labour. You decide to invest in the company and to cooperate with 'Slaveholders Against Slavery'. Shortly thereafter, the slaves are set free.

What should one say about this case? According to Irvine, cases like this show that the evil-company principle is fundamentally mistaken.[10] I think most people would agree with this and, therefore, if anyone thought that a principled argument for the avoidance strategy could be stated *this* generally, i.e. as generally as the evil-company principle is formulated, I believe they would obviously be mistaken. The problem is, however, that I think very few commentators would actually support such a general formulation of this kind of argument. Would it really be wrong to invest in morally unacceptable companies *under all circumstances* – that is, even when this would be the *only way* of making the company change its morally problematic ways?

Perhaps one should distinguish between a very rigid, or a 'pure', employment of the avoidance strategy on the one hand and some more complex investment strategy where avoidance is only one part.[11] Interestingly enough, even though the majority of the so-called ethical funds would seem to practice a more or less 'pure' avoidance strategy – i.e. the only thing that separates them from mainstream funds is that they avoid certain types of "unacceptable" companies[12] – very few SRI writers seem keen on defending such a strategy. According to almost all writers in this field, it may under certain circumstances be morally permissible, perhaps even obligatory (!), for investors to invest in companies which are otherwise regarded as morally problematic – especially if by doing so they are able to influence these companies into changing their evil ways. As the reader may have recognised by now, this is actually what the so-called *activist strategy* of the SRI movement, or 'shareholder activism', is all about. Even writers like De George, we may note, seem to grant the contention that becoming a shareholder activist sometimes may be mor-

10 Irvine 1987, p. 235
11 Cf. Cowton 1998b, 1999, Domini and Kinder 1986
12 For some figures on this, see chapter I, section 5.

ally permissible. The reason for why he does not say anything about this in the quote above, I believe, would mainly seem to be that he doubts that the activist strategy is an effective alternative for individual investors. In a later passage, he writes that "the analysis is not quite the same with respect to large investors and institutional investors. [...] Large shareholders may [...] be in a position to influence corporate policy from within a firm in a way that small shareholders cannot. Hence, larger shareholders might legitimately not sell stock in a company if they in good faith intend to produce a change in corporate policy and have some hope of doing so"[13]. I will discuss to what extent the activist strategy is an effective alternative for individual investors in chapter VI.

Now, what can proponents of the avoidance strategy say in response to Irvine's argument above? Well, I discussed a way of making moral principles weaker at the end of the previous chapter, and proponents of the avoidance strategy may perhaps pick that suggestion up again here.[14] A more plausible position in this context, and indeed the position I believe most proponents of the avoidance strategy (both within the SRI movement and in the academic literature) *actually* take, is that investors have at least *some* moral reason not to invest in morally unacceptable companies. As previously noted, this kind of position is consistent with the idea that the moral reason involved may sometimes be overridden, or outweighed, if there are stronger moral reasons to do something which conflicts with the first kind of reason. In the case above, for instance, proponents of the avoidance strategy could claim that this is exactly what happens – if investing in a certain morally unacceptable company is the only way of counteracting some horrendous activity which it is engaged in, then the moral reasons to avoid investing in morally unacceptable companies may be outweighed. But this does not cancel the fact, proponents of the avoidance strategy may say, that it would be wrong of investors to invest in morally unacceptable companies in most other cases. Perhaps it would even be wrong to invest in these kinds of companies in *the absolute majority* of cases?[15]

[13] De George 1999, p. 479

[14] I will discuss a more direct way in which a certain principled argument for the avoidance strategy can allow for shareholder activism in section 4.1 below.

[15] To be fair, Irvine suggests an idea somewhat similar to the one above. He writes: "Given [that] it isn't necessarily wrong to buy the stock of an evil company, we must abandon the Evil-Company Principle: From the mere fact that a company is evil (in some sense of the word), it does not follow – and we are not entitled to conclude – that it is morally wrong to buy the stock of the company. Instead, we should take a conditional approach to investment ethics: It

Well, this is the kind of issue which I will be discussing more extensively in the present chapter. Compared to Irvine's very strong formulation of the evil-company principle, then, it is ideas of a *weaker* kind that I will be discussing in what follows. Furthermore, compared to the very general formulation of the evil-company principle, it should be noted, I will discuss principles that are *more specific* in a certain sense. As I noted in the previous chapter, and again above, an underlying premise of the argument from conscientiousness (or, originally, from consistency) seems to be that investing in a certain company in some way must amount to supporting it, or profiting from it, or something other of this kind. If the kind of moral fault involved in investing into areas which one morally disapproves of is supposed to be a kind of practical inconsistency, for instance, (i.e. an inconsistency between ones' principles and ones' actions), for someone opposing the sale of alcohol, say, to be practically inconsistent because of her investments in the alcohol industry, this latter relationship somehow has to make the blame of inconsistency "stick" to her. That is, it needs to be shown that her investing in the alcohol industry in fact is something quite contrary to opposing it. Now, the case is very much the same, I believe, with the kind of principled arguments for the avoidance strategy currently under discussion.

In the quote above, De George not only endorses the general position that "no one is ethically allowed to invest in an unethical operation", it may be noted, but he also suggest *why* this is not ethically allowed. "The general principle", he says, "is that if a corporation is established for an immoral end, then no one can morally *support* its activities through the purchase of its stock"[16]. Quite generally, I believe we should demand of proponents of principled arguments for the avoidance strategy in this context that they give some *explanation* of this kind of their position. Of course, it is possible to simply say that investors have moral reasons to avoid investing in morally unacceptable companies, *full stop* – i.e. without indicating more exactly what this kind of moral reason *is*. But in order for this kind of argument to be plausible, I

is morally wrong for us to buy the stock of an evil company *only under certain circumstances"* (Irvine 1987, p. 235). Unfortunately, Irvine does not appreciate the fact that exactly the kind of reasoning behind the evil-company principle, if only made somewhat weaker, could survive his argument – and that the conditionality of the wrongness of investing in morally unacceptable companies could be explained with reference to conflicting moral reasons. See further chapter II, note 48, for some comments on why I take the conflicting reasons-approach to be more fruitful than conditionality.

[16] De George 1999, p. 476, emphasis added

believe, it needs to be shown that the moral 'dirt' of the activities of morally unacceptable companies, as proponents of the principled argument imply, in fact also 'spills over to' or 'contaminates' those who invest in these companies in some morally relevant way. For this reason, I believe, plausible versions of the principled argument should be more specific, i.e. they should not only say *that* investors have moral reasons to avoid investing in morally unacceptable companies, but also *why* this is so.

Another way to put this point is the following: Surely, proponents of a principled argument for the avoidance strategy would not want to hold that everyone who, say, grows up in the vicinity of the main headquarters of some morally unacceptable company, or everyone who lives in the same world as some such company, shares some of the moral 'dirt' of the activities of these companies (or have moral reasons not grow up this way or live in such a world). But, then, why is it morally problematic to *invest* in a morally unacceptable company, but not to be (closely) associated with it in other ways? Proponents of the kind of arguments of interest here, I believe, owe us an explanation as to why this is so, i.e. an explanation as to why the relationship between a morally unacceptable company and its investors is especially morally incriminating in the respect indicated above.

According to Mackenzie, besides the idea that investors 'support' the companies they invest in, there are a lot of ideas as to what the incriminating relationship between investor and company might consist in more exactly. Most accounts from fund managers and other commentators of why it is unethical to invest in unethical companies, he says, "rest on the idea that by investing in a company you are supporting it, contributing to the harm it does, sustaining it, or otherwise helping it"[17]. Some in fact appeal to a very strong version of the 'support' argument, which Mackenzie himself rejects, assuming a quite direct causal relationship between investment transactions and the harm done by the activities of certain companies.[18] However, others would seem to share the view of Domini and Kinder indicated in the previous chapter, i.e. that the problematic relationship is that of profiting from the harm done by unacceptable companies.[19] Yet again others seem to hold that having

[17] Mackenzie 1997, p. 119

[18] Ibid. For the rejection, see p. 199.

[19] Ibid., p. 120

"*any* kind of relationship" with an unacceptable company is morally forbidden, whatever that means.[20]

In the present chapter, I will discuss three general ideas about what the morally incriminating relationship between companies and investors consists in, which I believe are the most distinct and important ones in this context. First of all, in section 2, I will discuss the idea that investors have moral reasons not to *profit* from morally unacceptable companies or, more generally, that it is morally problematic to *benefit* from the wrongdoings of others. In sections 3 and 4, I will discuss two versions of the idea that investors have moral reasons not to *support* such companies: First, in section 3, a version which understands support *causally*, roughly saying that investors have moral reasons not to *contribute* to the harmful effects of morally unacceptable corporate practices. In section 4, finally, I will discuss a version which understands support *symbolically*, roughly saying that investors have moral reasons not to *approve of* certain wrongful activities that companies may engage in. As I argued above, it seems highly implausible to take references to the wrongness of having "*any* kind of relationship" with morally unacceptable companies *literally*. In both sections 3 and 4, however, I will suggest variations of the idea that it is wrong to support morally unacceptable companies which make use of references to 'participation' and 'involvement'. In section 5, finally, I give a brief summary of the main conclusions of the many discussions of this chapter.

2. THE TAINTED-PROFITS PRINCIPLE

As indicated above, a common idea among proponents of the avoidance strategy is that it is somehow morally problematic to *profit* from morally unacceptable companies, or to profit from the unethical activities of such companies. Before evaluating this idea, I will briefly consider what role it has played in the history of the SRI movement. According to Sparkes, an idea of this kind has been highly influential in the formation of SRI as such:

> Socially responsible investment (SRI) began in the late 1960s/ early 1970s when a number of different concerns came together. One was that of churches and universities about profiting from big business's involvement in the Vietnam War. Of course, this period saw violent dem-

[20] Ibid.

> onstrations on many US campuses about the war and the draft of young men to fight in it. American universities and religious bodies questioned whether they should own shares in companies supplying war materials and whether they should use their power as shareholders to force change. [...] The churches were very much in the lead at this time. When in 1971 a group of Methodist clergy, worried about the Vietnam War, discovered that there was no investment fund available to avoid profiting from the war, they simply set one up – the Pax World Fund.[21]

Many other authors note the importance of the Vietnam War for the SRI movement.[22] It might be added that the Pax World Fund was one of the first (modern) retail funds that practiced an elaborate and systematic avoidance strategy of the kind under consideration here.[23] Obviously, then, the idea that it is morally problematic to profit from certain types of business areas or practices was highly influential in how the SRI movement got started.

Perhaps this idea is actually a central part of most religious conceptions of morality. Many writers note, along with Sparkes, the religious connotations surrounding early SRI initiatives – especially their connection to the convictions of the Methodists and the Quakers.[24] The fact that religious groupings may demand more of their investments than simply financial return is not strange, according to some, since a guiding notion for most religious groups is that of *stewardship*.[25] Because human beings are the care-takers of God's creation, this idea goes, we have an obligation to watch over all worldly possessions according to God's principles. Exactly what the obligations of stewardship are, and when these are applicable, could perhaps seem somewhat unclear here. I believe it should be noted, however, that an idea of what the notion of stewardship implies which is very interesting in the present context can

[21] Sparkes 1995, pp. 114-15

[22] Cf. Brill and Reder 1993, Cooper and Schlegelmilch 1993, Domini 2001, Guay et al. 2004, Harrington 1992, Miller 1991, Monahan 2002, Powers 1971, Schueth 2002

[23] Cf. Brill et al. 1999, Guay et al. 2004, Judd 1990, Kinder et al. 1993, Miller 1991, 1992, Sparkes 2001, 2002

[24] Some accounts suggest that practices akin to the avoidance strategy have been used for a long time by such different denominations as Buddhists, Jews, Muslims, Protestants and Catholics – cf. Domini 2001, Powers 1971, Schwartz 2003, Schwartz et al. 2007, Sparkes 2002. The investment philosophies of the Methodists and Quakers, however, seem to have had an incomparable influence on how the first ethical funds were set up – cf. Kreander et al. 2004, Mackenzie 1997, Sparkes 1995.

[25] Cf. Kreander et al. 2004, Mills 1996, Moore 1988, Vogel 1978. Not coincidentally, the first UK retail ethical fund was called 'Stewardship' – see Mackenzie 1997, Sparkes 1995. For some examples where churches stress stewardship, see Christian Ethical Investment Group 1992, United States Conference of Catholic Bishops 2003.

be found in the works of John Wesley, the founder of Methodism. Perhaps proponents of the SRI movement have actually underestimated the power of their heritage when they say that investors simply ought to refrain from investing in the companies they find morally problematic themselves.

In his sermon on *The use of money*[26], Wesley argues that "three plain rules" ought to be followed, "by the exact observance whereof we may approve ourselves faithful stewards"[27] of worldly possessions such as money. Firstly, we ought to "gain all we can"[28], i.e. make as much profit as possible, as to make the best of the possibilities that God has given us. Secondly, we ought to "save all we can"[29], i.e. not waste this profit on unnecessary pastimes or amusements, so that we don't waste God's gifts. Thirdly, we ought to "give all we can"[30], i.e. share what is left after our expenses are paid, so that others less fortunate might enjoy the fruits of the land as we do. It is the first of Wesley's rules, "gain all you can", which I think is the most interesting in this context. Quite generally, the reader may note the positivity towards the use of money expressed by this rule, as compared to what may be the popular conception of the Christian view on money. According to Wesley, good Christians ought not to avoid the use of money altogether, but to use money to do well. Money "is a most compendious instrument of transacting all manner of business", he says, and "of doing all manner of good" – at least "if we use it according to Christian wisdom"[31].

Now, in laying out the first rule, however, Wesley puts forward a number of provisos that are to ensure that the use of money is indeed "according to Christian wisdom". We ought to gain all we can, he says, but not at the expense of "our health" or "our mind"[32] – nor by hurting our neighbour in "his substance", "his body" or "his soul"[33]. A number of business areas and practices are named which are considered harmful in these senses, for example extremely hard labour (which is considered harmful to our health), gambling and excessive interest rates (which is considered harmful to our neighbour "in his substance"), the sale of

[26] Wesley 1960, originally published 1760
[27] Ibid., p. 578
[28] Ibid., p. 579
[29] Ibid., p. 583
[30] Ibid., p. 586
[31] Ibid., p. 587
[32] Ibid., p. 579
[33] Ibid., pp. 580-82

alcohol (which is considered harmful to our neighbour's health) and sexually explicit behaviour (which is considered harmful to our neighbour's soul). These business areas and practices, Wesley argues, "are sacredly to be avoided, whatever gain they may be attended with".[34]

As others have noted, Wesley's account may be regarded as an early argument for an avoidance approach to investing.[35] Since investing plausibly is an example of "the use of money", his account seems to imply that investments in areas like the alcohol and gambling industries should be avoided – because by investing in such areas, investors are profiting from businesses that are harmful to ourselves and our neighbours. So, then, what should one think of the sort of idea that Wesley lays out in this context?

I believe Irvine has idea very similar to Wesley's in mind when he writes:

> Some people will [explain why it is wrong to buy stock in unacceptable companies] by invoking what I call the Tainted-Profits Principle, which says that it is morally wrong for a person to take steps to benefit from the wrongdoing of others. According to these investors, what makes it wrong for me to buy the stock of [an unacceptable company] is the fact that its profits are tainted, so that by becoming a part owner of the company in question and sharing in its tainted profits, I myself become morally tainted.[36]

Irvine's reference to the idea about how profits received from unacceptable companies are "tainted" here, and may morally "contaminate" the investor, I believe, is highly illustrative in the present context. Unfortunately, some of Irvine's formulations in the passage above are somewhat ambiguous – according to some people, he says, it is wrong to "*take steps* to benefit from the wrongdoing of others". On one understanding of this formulation, what is criticised is not *actually* benefiting from the wrongdoing of others, but *trying* to do so, or perhaps *wanting* to do so. I believe this actually is not an uncommon way of arguing against investments in morally unacceptable companies – I will discuss ideas of this general kind in section 4. In the present section, however, I will focus

[34] Ibid., p. 580. Interestingly enough, Wesley actually seems to give room for something akin to the appeal to consistency in his account of harm. On his understanding of "harmful to our mind", a certain business practice may also be harmful to us if it is contrary to our personal beliefs – that is, if we find it morally problematic or offensive (1960, pp. 579-80). The impartiality of his other conceptions of harm, however, is enough to make this an impartial account of morally unacceptable activities.

[35] Cf. Domini 2001, Kreander 2002, Schueth 2003, Sparkes 1998, 2002

[36] Irvine 1987, pp. 235-36

on the idea that investors have moral reasons not to *actually* profit from morally unacceptable companies and, following Irvine, I will refer to this idea as *the tainted-profits principle*.[37]

This principle, or, more generally, the idea that it is morally problematic to "benefit from the wrongdoings of others", I believe, certainly has some intuitive appeal. In the following subsections, however, I will argue that it is problematic in a number of ways. In sections 2.1 and 2.2, I will argue that the practical implications of the tainted-profits principle are not what proponents of this principle generally would seem to have assumed.[38] Furthermore, I will argue in section 2.3 that, when one considers certain interesting cases, the tainted-profits principle actually collapses into the idea that it is morally problematic to *support* certain companies.

2.1 The pervasiveness of investment and the austere conclusion

In order to evaluate the tainted-profits principle, it may now be expedient to say something about what I generally think should be required of principled arguments for the avoidance strategy in the present context. One way of dealing with these issues, I believe, would be to divide the general plausibility of these kinds of arguments into two parts: first, what we might call their *theoretical* plausibility and, second, what we might call their *practical* plausibility. The theoretical plausibility of a principled argument for the avoidance strategy I understand as its plausibility *on the level of principle*, i.e. the inherent plausibility of the kind of moral principles or reasons it invokes, whereas the practical plausibility of such an argument is the plausibility of its *practical implications*, i.e. the plausibility of the recommendations of the principle in practical situations. Obviously, on the method of reflective equilibrium, both kinds of plausibility are important and perhaps cannot be discussed in complete separation from each other. For reasons of convenience, however, I will dis-

[37] Many others have expressed ideas similar to this. According to Sparkes, for instance: "It seems self-evident that it is morally wrong to make profits out of the arms trade with its ever more sophisticated ways of killing and maiming people. Likewise the profits from addictive and destructive habits such as cigarette smoking which unnecessarily kills thousands of people each year or gambling which causes huge misery, as can alcohol abuse" (1995, p. 4). According to Mills, "the righteousness of any monetary return is conditional on the absence of the exploitation of customer, workers, creditors and suppliers" (1996, p. 2). See also Irvine 2002 (where a similar idea is simply called "the Profit Principle"), Miller 1992, Schwartz et al. 2007, Simon et al. 1972, Ward 1991.

[38] I have presented some of these arguments before, see Sandberg 2005.

cuss them somewhat separately in what follows. I will discuss the theoretical plausibility of the tainted-profits principle in section 2.3. In this section and the next, then, I will mainly discuss the plausibility of the practical implications of the tainted-profits principle.

Quite generally, I believe it seems fair to say that proponents of principled arguments for the avoidance strategy seldom have bothered to spell out the practical implications of their principles to a satisfactory degree. It is generally assumed, of course, that they imply that investors have moral reasons to avoid investing in certain morally unacceptable companies – but exactly *what* companies investors have moral reasons to avoid investing in, and *when* they should do this, is seldom spelled out more exactly. For this reason, the lion's share of this chapter will be devoted to trying to spell out the practical implications of the different principled arguments under discussion. In order to further delineate this issue, I believe it can be divided into two parts: A first problem concerns exactly *what kind of companies* investors have moral reasons to avoid on a given moral principle, whereas a second problem concerns *when* investors have moral reasons to avoid these companies. With regards to the tainted-profits principle, I will consider the first of these problems in the present subsection and the second in the next.

As should hopefully be obvious to the reader by now, when I am talking generally about 'morally unacceptable companies' in the present context, I am assuming that it is possible to define this group in some more robust, or impartial, manner, i.e. in a manner which does not simply refer to the fact that certain people may be morally opposed to the activities of these companies. Now, insofar as a certain principled argument tells us to avoid investing in a special kind of companies, I believe, the argument should reasonably imply that we ought to avoid companies which actually *are* morally unacceptable in this impartial sense (or which *there is good reason to think* are morally unacceptable in this sense). If a certain principled argument tells us to avoid investing in companies which quite plausibly are not morally unacceptable, there seems to be something wrong with this principle – the basic idea of principled arguments for the avoidance strategy, after all, is that investors have moral reasons to avoid investing in exactly the companies which are morally unacceptable. Furthermore, the principled argument should reasonably imply that we ought to avoid *only these* – i.e. it should not imply that we ought to avoid investing in companies which there is good reason *not to* think are morally unacceptable in this sense.

Does the tainted-profits principle imply that investors have moral reasons to avoid investments into morally unacceptable companies of a more well-defined kind? Well, it may be noted that, although Irvine seems to capture the general idea that writers such as Wesley have defended in this context, his understanding the tainted-profits principle in this regard is somewhat different from Wesley's. According to Wesley, the basic idea is that it is morally problematic to invest in companies whose activities are *harmful* in a certain way, either to ourselves or to others. Although Wesley's list of harmful activities, and indeed his distinctions between different types of harm, may be problematic in many ways,[39] I think this general account is in line with how most of us intuitively think about these issues. According to Irvine, however, the tainted-profits principle could be formulated even more generally as the idea that "it is morally wrong for a person to take steps to benefit from the *wrongdoing* of others"[40]. I will not take a stand on which of these formulations of the principle is the more plausible in this context. Depending on what view one takes on what constitutes wrongdoing, obviously, the two formulations may or may not converge. Perhaps, however, there are salient cases of companies which should be avoided on both accounts.[41]

The most conspicuous problem for the tainted-profits principle with regards to what companies investors have moral reasons to avoid investing in, I believe, is that, irrespective of which of the two definitions of the class of morally unacceptable companies above is chosen, the principle would seem to imply that investors have moral reasons to avoid *far more* companies than these. The reason for this implication is the fact that companies make their profit in more complex ways than proponents of the tainted-profits principle generally would seem to have assumed. In order to determine what companies investors have moral

[39] What is meant, for instance, by "harmful to our mind" and "harmful to our neighbour's soul"? And what is meant by "harmful to our neighbour in his substance"? Even though the business areas and practices Wesley criticise may coincide with the ones often considered to be morally unacceptable within the SRI industry (see note 41 below), I believe we should demand a better explanation for why their activities are morally problematic.

[40] Irvine 1987, p. 235, emphasis added

[41] Interestingly enough, it may be noted that the industries most commonly avoided by so-called ethical funds actually are more or less the kinds of industries ruled out by Wesley – the most common "social screens" in American SRI funds concern tobacco (88%), alcohol (75%) and gambling (23%) (Social Investment Forum 2006). Shares in these industries are often referred to as 'sin stocks', echoing the religious connotations of early SRI initiatives – cf. Cowton 1998b, Domini 2001, Harrington 1992, Judd 1990, Monahan 2002, Munnell and Sundén 2005, Schueth 2003, Schwartz 2003, Sparkes 2002.

reasons to avoid investing in according to the principle under discussion, it is important to elaborate some on how companies actually make their profits. Now, for our present purposes, it may be enough to distinguish between two kinds (or sources) of income for commercial companies.[42] Obviously, one way in which a company can make money (or, eventually, make a profit) is by selling the products it manufactures, or by selling the services it provides, either to consumers or to other companies. In accounting contexts, this is commonly referred to as the *operating income* of a corporation, i.e. the money a company makes from its own material operations. Another kind of income completely, however, is what could be called the *financial income* of a corporation, i.e. the money which a company can make by, for example, keeping its liquid resources in a bank, or by investing in shares or funds on the stock market. The point of highlighting this second kind of income, it should be noted, is to emphasise the fact that *companies themselves can be a kind of investor*. Now, in what way may this fact make the practical implications of the tainted-profits principle more complex?

Well, if companies themselves can be a kind of investor, I believe, the picture one should have in mind when trying to cash out the practical implications of the tainted-profits principle is not one where investors only can profit from the operating incomes of different companies, and where these incomes then may be more or less morally 'tainted' depending on how morally corrupt these companies' material operations are. Rather, the profits investors can receive when holding the shares of *one* company could very well originate from the operations of a *completely different* company in which this company holds shares, or the operations of a *third company* in which *that* company holds shares, and so on, and so forth... Given the fact that most of the companies which it is possible to invest in today have financial incomes[43], and thus actually have invested their money either in other companies' shares or in bank accounts, I believe, the financial interrelations between most commercial companies are extremely complex and elusive. So, what are the practical implications of the tainted-profits principle in light of these kinds of financial interrelations between companies?

Kolers refers to the complex structure of financial interrelations outlined above, or at least what is relevant for investors in this structure, as

[42] For more on this, see Fontanills and Gentile 2001, Keasey et al. 1998, Rini 2002, Wyss 2000.

[43] Cf. Fontanills and Gentile 2001, Keasey et al. 1998, Rini 2002, Wyss 2000

the pervasiveness of investment.[44] According to Kolers, it is hard to see how the pervasiveness of investment could imply anything else than that investors simply have moral reasons to avoid investing *period*. Consider, for instance, the fact that most companies keep deposits in commercial banks and receive interest on these deposits. According to Kolers, surely we cannot treat the case where you invest directly in a company which, say, pollutes the water supply of some remote Latin American village, "causing dozens of extra cases of cancer", differently from the case where you deposit some money in a commercial bank which in turn loans resources to the exact same company.[45] Well, perhaps some would actually want to treat these cases differently,[46] but with regards to what is implied by the tainted-profits principle, I believe, Kolers is correct – proponents of this principle must say that it is equally problematic to profit from this kind of harmful activity in both cases. If this is so, however, Kolers continues, surely it must also be morally problematic to hold shares in other companies which receive interest from their deposits in such a bank. He writes:

> Banks pay interest because they use their depositors' money to invest in and lend money to third parties. The bank is essentially a go-between; it pools depositors' (that is, investors') money and redistributes it at a profit to borrowers. The investors, in turn, earn interest (a cut of the profit) on top of a guaranteed principal. So if [a commercial bank] uses my money to support businesses that in turn act immorally, we must defeasibly infer that I am partly responsible. Denying this would turn [the bank] into a money laundromat, and ethics must not respect money laundering.[47]

According to Kolers, the case of commercial banks is a telling example in the present context. The kind of reasoning invoked above spells trouble for arguments like the tainted-profits principle, since the financial interrelations between most companies, as I have said, in fact are very complex and elusive:

> Money laundering is no less immoral, no matter how many washing cycles there are. Extra cycles are just further attempts to mask causal connections. This fact suggests that investors must iterate their ethical

[44] Kolers 2001, p. 442. See also Cooper and Schlegelmilch 1993, Lang 1996, Langtry 2002.

[45] Kolers 2001, p. 442

[46] It is not obvious from Kolers' text exactly what kind of principled position he endorses in this context – while he sometimes reasons like a proponent of the tainted-profits principle, at other places he seems to endorse other kinds of principles. I will return to this below (section 4.1).

[47] Kolers 2001, pp. 439-40

> screens throughout the economy. I may invest only in companies that act ethically; these companies must invest their money ethically; the companies in which they invest must act and invest ethically in companies that in turn act and invest ethically; and so on. I would be surprised if a single publicly traded company, or ethically screened mutual fund, even comes close to the kind of rigor, thoroughness and iteration that morality seems to require.[48]

The conclusion Kolers draws from the line of reasoning above, as I have said, is that more or less *no* companies can be eligible for investment on principled arguments like the tainted-profits principle. He refers to this as *the austere conclusion* – that is, that "morality requires either total divestiture, or adherence to debilitatingly high, iterated ethical screens that would eliminate practically everything from our portfolios".[49] Certainly, if the tainted-profits principle entails this conclusion, this would be an "unhappy result", as Kolers puts it, for proponents of this principle.[50] Now, I don't think the outlook for proponents of the tainted-profits principle is exactly as bleak as Kolers says. Certainly, the tainted-profits principle would seem to imply that investors have moral reasons to avoid investing in *far more* companies than proponents of this principle generally assume. Before concluding that the principle actually entails the full austere conclusion, however, I believe it is important to turn to the second aspect of the issue of the practical implications of principled arguments for the avoidance strategy. When considering this second aspect, I believe, it actually becomes evident that proponents of the tainted-profits principle can avoid some of the force of the austere conclusion – although, perhaps, not in a way which they would appreciate.

[48] Ibid., pp. 441-42

[49] Ibid., p. 439, emphasis removed. For similar ideas, see Cowton 1998b, Powers 1971. Perhaps the austere conclusion could be reached in other ways. According to Mackenzie (1997, pp. 203-5), the simple fact that deposits in bank accounts and other more trivial investments are criticised by a certain principled argument suggests that it implies an excessively austere conclusion. According to a more technical argument from Hudson (2005), it is impossible to avoid profiting from how all other shares on the stock market fare, since the profitability of every share at least partly depends on the distribution of risk on the market as a whole.

[50] Kolers 2001, p. 440. It is interesting to note that many so-called ethical funds actually avoid investments in financial companies and banks (cf. Cooper and Schlegelmilch 1993). Perhaps this should be taken as an indication of that they are aware of the kinds of problems discussed here.

2.2 Unprofitable companies and capital gains

I am currently considering what I called the practical plausibility of the tainted-profits principle – that is, to what extent its practical implications are plausible. In order to further delineate this issue, I said it could be divided into two parts: The first of these, which I discussed above, was exactly what kind of companies the tainted-profits principle gives investors moral reasons to avoid investing in. Now, the second part concerns *when* investors actually have moral reasons to avoid investing in these companies. Quite generally, it may be noted, in order to work as arguments for the avoidance strategy, the kind of principled arguments under discussion in this chapter must reasonably imply that investors *at least under certain circumstances* have moral reasons to avoid investing in the kind of companies they classify as morally unacceptable. Unfortunately, I think the practical implications of most principled arguments for the avoidance strategy are more complicated in this regard as well. It is unclear, therefore, whether they can actually be used as arguments for the avoidance strategy as this is generally understood in the context of SRI.

A first complication for the tainted-profits principle in this context, it should be noted, is that *not all investments are profitable investments*. What does the tainted-profits principle say in cases of (sufficiently) unprofitable investments? Well, it seems hard for proponents of this principle to avoid the conclusion that it is perfectly morally permissible to invest in such companies – unless, of course, they come up with some other justification of the avoidance strategy to handle this kind of cases. That is, it would seem to be morally permissible as far as the tainted-profits principle is concerned to invest in companies which are engaged in all kinds of activities which we intuitively find morally unacceptable – like slavery, warmongering and racial discrimination – as long as the companies in question are so unprofitable that investors do not profit from their investments in them. To some extent, it should be noted, this conclusion may actually help proponents of the tainted-profits principle. The fact that it is perfectly morally permissible according to this principle to invest in morally unacceptable companies which are unprofitable is the reason why I believe this principle does not entail the full austere conclusion – that is, there *are* companies, after all, which the tainted-profits principle allows investors to invest in. To the extent that the austere conclusion should be considered a dead end for the ethics of investing, I believe this possibility should not be frowned upon. However, I believe it should be obvious that the conclusion just noted is a

complication that many proponents of the avoidance strategy would not want to welcome. The tainted-profits principle is after all, as I have said, most often regarded as a principled argument against investments in morally unacceptable companies *as such*. Perhaps we already here, then, have a good reason to abandon the tainted-profits principle.[51]

The complications in terms of *when* investors have moral reasons to avoid investing in morally unacceptable companies according to the tainted-profits principle do not come to an end with the cases above, however. In order to determine when investors have moral reasons to avoid investing in morally unacceptable companies according to this principle, I believe it is important not only to elaborate on how *companies* actually make their profits, but also to elaborate some on the different ways in which *investors* may profit from their investments. There are two main ways, it should be noted, in which investors can profit from an investment in a given company.[52] First of all, investors may receive a part of the company's profits directly, in the form of *dividends* distributed to investors on an annual basis. For individual investors who hold small amounts of shares in a company this profit will most often be marginal, as not all companies pay dividends and, even when they do, these tend to be quite low per share. A second way of profiting from investments, which would seem to be what most investors actually strive for,[53] stems from the fact that the value of the company's shares may appreciate over time, and thus be worth more when the investor sells them than when she purchased them. By selling shares when the share price is high, then, investors can, (if all things go their way), make a profit proportional to the change in value of the relevant shares – what is commonly referred to as a *capital gain*. Of course, if the investor originally has received her shares from someone else – perhaps by inheritance – this profit may be substantial. The investor then has not paid anything for the shares, and so makes a profit both proportional to the change in value and the original share price – i.e. proportional simply to the end price.

Now, should the tainted-profits principle treat both of these ways of profiting from investments in the same manner? This turns out to be a

[51] It may be suggested that the tainted-profits principle still can function as a kind of *guideline* for investors who are deciding how to invest, since most investors probably believe *beforehand* that their investments will be profitable. I will not elaborate on this suggestion here.

[52] Cf. Byström 2007, Irvine 1987, Keasey et al. 1998, Lang 1996, Rini 2002, Schwartz and Francioni 2004, Wyss 2000

[53] Cf. Byström 2007, Lang 1996, Wyss 2000

rather complex issue. A possible position in the present context could perhaps be that only dividends can morally "taint" the investors in morally unacceptable companies. It is only with regards to this kind of profit, after all, that investors receive money directly from the underlying companies and, thus, directly from the morally "tainted" activities of morally unacceptable companies. With regard to capital gain, the money which investors make by selling their shares at a profitable price does not come from the underlying companies, but rather from other investors – those who actually buy the shares on the stock market. Furthermore, what causes share prices to fluctuate, some might want to say, is most often such things as the general economic trend in the country, or people's expectations about the profitability of different sectors – things which have no direct connection with the activities of individual companies. Of course, there may be *some* connection between these things and the activities of the underlying companies, others may point out, as people's expectations about the profitability of a certain company to a large extent may depend on both its past activities and its present ones. Those who are critical of the suggestion above may also point to the fact that capital gain is a very common way in which investors actually profit from holding shares in public limited companies, including morally unacceptable ones. If it is morally wrong to profit from investments in this latter group, they may argue, it should be wrong to do it in both of the ways discussed above.

I will not take a stand on what the most plausible version of the tainted-profits principle should say in this regard. It may be noted, however, that most proponents of the tainted-profits principle fail to separate between these ways of profiting from morally unacceptable companies and, thus, they would seem to imply that both ways are equally morally problematic.[54] Now, what are the practical implications of the tainted-profits principle in terms of when investors have moral reasons to avoid investing in morally unacceptable companies, in light of the considerations above? Well, the interesting point in this context, I believe, is that the different ways of making money on investments outlined here happen at different times, or at different stages in the investment process.

[54] Cf. Domini and Kinder 1986, Mills 1996, Simon et al. 1972, Sparkes 1995, Ward 1991. Irvine (1987, p. 236) explicitly separates between these, but does not treat them differently.

As I just said, dividends are distributed to investors on an annual basis and, thus, as long as an investor holds shares in a certain company – and this company is sufficiently profitable – she may receive dividends from the company in question. However, capital gains are not made when investments are *held*, but first when they are *sold*. What does this mean more exactly? Well, if investors are morally "tainted" by receiving this kind of profits, I believe, they would seem to be the 'dirtiest' exactly when they *sell* their shares in morally unacceptable companies, since this is when they actually receive the tainted profits.[55] The present point, one may note, would seem to make the issue of how to spell out the practical implications of the tainted-profits principle far more complex than proponents of this principle generally would seem to have assumed. Again, it would seem to raise the question of whether this principle could be used as an argument for *the avoidance strategy* at all, at least considering how this strategy is normally understood by SRI proponents.

As I noted already in the introductory chapter, the general recommendations of what I have been referring to as the avoidance strategy is, first of all, that investors should refrain from purchasing shares in morally unacceptable companies. Second of all, if they find out that they already are holding shares in such companies, they should sell these shares immediately. But, if the tainted-profits principle should be taken to imply that investors have moral reasons not to profit from morally unacceptable companies also in the form of capital gains, as I have just showed it is exactly when they sell their shares in morally unacceptable companies that they are being the most immoral. So what should they do in situations of the latter kind? A straightforward suggestion may perhaps be that they should wait until the price of the shares falls under the price for which they bought them and thus sell without profit. Alternatively, they should perhaps try to give them away to someone with less moral scruples in the area of investment ethics. These are just suggestions. The first kind of strategy may work in certain situations, it should be noted, but not when the investor has not bought the shares herself but rather received them from another through, for example, inheritance or donation. In such cases, no matter when the shares are

[55] One may perhaps argue, in an economist's fashion, that one does not *make* the profit from an increased share price upon selling the shares, but rather when the share price actually appreciates. Thus, selling the shares only amounts to *cashing out* profits already made. From a moral point of view, however, this defence does not seem tenable. It must be the reception of tainted profits that may morally taint the investor, after all, and not the increased value of some of her belongings.

sold, the investor will have made a capital gain. Giving the shares away, on the other hand, while perhaps practically possible in all circumstances, may be argued not to wash away the moral 'dirt' involved – if facilitating the immorality of others should be regarded as just as morally problematic as profiting from their behaviour (a point which I will return to below). A third possibility is, of course, that there simply is nothing which the investor can do in a situation like this that does not make her morally 'tainted'.

I will not take a stand on what the most plausible recommendation in the present context is. As indicated above, however, I take the present issue to suggest that the practical implications of the tainted-profits principle are far more complex than what proponents of this principle generally would seem to have assumed. Perhaps most proponents of this principle would actually find the implications so counterintuitive that they would choose to abandon the principle altogether in light of them. Or, then again, perhaps some would choose to stick with the principle and embrace its implications (perhaps in lack of better alternatives). As I noted in the introductory chapter, the method of reflective equilibrium requires only that our moral principles and judgements about particular cases *cohere* with each other – when they do not, it is not always obvious what part of our moral thinking we should adjust. I have now said enough about the practical plausibility of the tainted-profits principle. In the following subsection, I turn to its theoretical plausibility.

2.3 Profiting versus supporting

Following the suggestion in the last passage above, it may be argued that it does not take us very far simply to show that the tainted-profits principle has unexpected practical implications. If it is possible for proponents of this principle to embrace its implications without abandoning their favoured moral foundation, then our previous considerations – far from speaking against the tainted-profits principle – could perhaps be said to have unveiled some important insights about what investors really ought to do. This line of reasoning, however, rests on the assumption that the tainted-profits principle in itself expresses a more fundamental moral insight – that is, that the kind of reasoning exemplified by this principle is theoretically sound. In this subsection, I cannot say much about how theoretical soundness should be understood more ex-

actly. However, I will discuss what I take to be a quite basic requirement on principled arguments in favour of the avoidance strategy – namely, that they are able to explain *why* investors have moral reasons to avoid investing in morally unacceptable companies (if they indeed have such reasons, that is).

In order for the tainted-profits principle to be able to present a case about why investors have moral reasons to avoid investing in morally unacceptable companies, I believe, it needs to be plausible to say that it is exactly the act of *receiving tainted profits* which is morally incriminating about investments in morally unacceptable companies. That is, there cannot be another kind of moral principle which better explains why it seems morally problematic to invest in such companies in exactly the cases where we think this is so. But, I believe there is such a principle. This point is perhaps best brought out by considering some further cases where the tainted-profits principle would seem to have counter-intuitive implications. Consider, for instance, the following variation of Irvine's own argument against the tainted-profits principle:[56]

> *The Burglary Wave*: One morning, three people – Peter, Bjorn and John – read in the local newspaper about an increasing wave of burglaries in their otherwise calm, upper-class neighbourhood. Being the kind of entrepreneurs they are, they all read the report very carefully and decide to do something about the situation. Peter decides to go into the guard business and to offer his neighbours the services of some sturdy night watchmen. Bjorn decides to go into the insurance business and to offer low-cost burglary insurances to his peers. Having a somewhat different social background from the others, however, John decides to go into the tool business and set up a sale of crowbars, glass cutters and tools fit for picking locks in the backyard of his house. Again, being the kind of entrepreneurs they are, before long, all three businesses are able to turn a profit. While out for an after-noon stroll a couple of weeks later, Peter and Bjorn happen to walk past John's crowbar sale and they are both appalled by the disrespect they feel that John exhibits towards their community. They bring this up with John, to which he only replies: "Oh, but

[56] See Irvine 1987, p. 236. I have modified the example only slightly, and mainly for reasons of presentation.

I've heard about your own little business schemes, to be sure! *nudge, nudge* Haven't we all have made a bit of cash from this dreadful burglary wave, eh?!"

What is a reasonable reaction to John's reply in this example? According to Irvine, proponents of the tainted-profits principle must accept John's line of reasoning as basically sound. Although the three people of our example perhaps could have different motivations and different views on the ethics of stealing, they are all basically benefiting from the wrongful activities of the burglars. If there had been no burglary wave in the first place, of course, none of their business schemes would have worked. Thus, according to Irvine, the tainted-profits principle must condemn the actions of all three.[57] But, he continues, "[t]his consequence [...] is counterintuitive. Most people would hold that while I may be doing something wrong if I open the tool shop described above, I won't be doing anything wrong if I go into the guard business or the insurance business"[58]. Thus, most people would intuitively disagree with the implications of the tainted-profits principle in this regard. A reasonable explanation of this intuition, according to Irvine, is that whereas setting up a crowbar sale would seem to *make it easier* for the burglars to conduct their dirty business, going into the insurance business has no such effect – and going into the guard business actually counteracts the activities of the burglars.[59] What makes it wrong for John to go into the tool business, thus, is the fact that his actions lend *support* to the activities of the burglars in a way which the activities of Peter and Bjorn do not.

According to Irvine, examples like the one above show that "it isn't necessarily morally objectionable for a person to take steps to benefit from the wrongdoing of others. What *is* morally objectionable is taking steps in a way that enables others to do wrong"[60]. I think a somewhat stronger conclusion could actually be drawn from this example. If taken literally, it should be noted, there is no real disagreement between Irvine's conclusion here and proponents of the tainted-profits principle – at least not as I have understood their view. According to my understanding of the tainted-profits principle, namely, it is not so that it is

[57] Irvine 1987, p. 236
[58] Ibid.
[59] Ibid.
[60] Ibid.

necessarily morally wrong to profit from morally unacceptable activities – under certain circumstances, e.g. when investing in a certain company is the only way of making it change its evil ways, this may be morally justifiable even according to these authors. The tainted-profits principle only holds, I have said, that investors always have at least *some* moral reason against profiting from morally unacceptable activities. But, don't the considerations above also speak against this weaker view? I think they do. When considering the example above, I believe most of us would agree that the fact that both Peter and Bjorn also in some manner profit from the activities of the burglars is something quite beside the point in the present context. When John tries to use this fact, then, to say that his critics are just as 'tainted' as himself, most of us simply don't agree.

The conclusion to be drawn from the example above is not only that it is not necessarily wrong to profit from morally unacceptable activities. What is really doing the job in cases where we find some profits morally tainted, we are now able to see, is that the behaviour of those at the receiving end of the money tends to *support* the very activities which we find morally unacceptable. Thus, the appeal to tainted profits would seem to collapse into an appeal to support – that is, the best explanation of why we find it morally problematic to invest in morally unacceptable companies, rather than involving a reference to tainted profits, starts with the supposition that investors somehow support their activities. I believe this conclusion is essentially correct. Now, some may feel that the fact that the investors involved profit from such support makes their behaviour *even worse* – I will not discuss this idea further in this context.[61] Furthermore, exactly how we should understand the reference to support in this context may not be entirely obvious – there may be more ways of 'supporting' a certain activity than to simply enable it, which is what Irvine focuses on. Most importantly, it should be noted, the idea that it is morally problematic to *approve*, or signal one's *symbolic* support, of morally unacceptable activities would also seem able to explain our intuitions in the case above. What is morally repugnant about John's behaviour, some may argue, is the fact that he would actually seem to *condone* the activities of the burglars in a way which Peter and Bjorn would not. I will discuss this idea in section 4. In the following section,

[61] Even though the tainted-profits principle perhaps could rationalise this kind of intuition, the fact that investors sometimes may profit from their investments in morally unacceptable companies is obviously not what most straightforwardly makes such investments morally problematic.

however, I turn to the idea that it is morally problematic to support morally unacceptable activities in Irvine's sense.

3. Support and the no-harm principle

The idea that it is morally problematic for investors to *support* morally unacceptable companies, according to most commentators, is an idea that has played a just as integral part in the formation of the SRI movement as the tainted-profits principle. Many writers note, for instance, the importance of the campaign against the apartheid regime of South Africa for the growth of this movement.[62] This campaign became widely known as the 'divestment' movement, or 'divestiture', since many investors – both individual and institutional – sold their investments in companies doing business in South Africa.[63] On the historical underpinnings of the SRI movement, again, Sparkes writes:

> As the 1970s progressed the campaign against the apartheid regime in South Africa led to widespread concern within the churches that their funds should not be used to support the existing regime, and to broader awareness within society as a whole of such an approach.[64]

I will not elaborate further on the historical roots of this idea in the present context except to note that, if Sparkes' account above is correct, this idea may in fact also be a part of the religious beliefs which were so influential in the early days of SRI. As indicated in the previous chapter, this idea is often an integral part of appeals to consistency or conscientiousness. According to Cowton, for instance, "it might be considered inappropriate for someone who practices and advocates teetotalism to hold shares in a distillery. [...] To many observers, passively holding a stock and making a return from it indicates some *support* for a particular activity"[65]. A similar idea would also seem to be common in much of the commercial material from so-called ethical funds. In Mackenzie's words, "[a]ccording to investors, funds, and commentators alike, by in-

[62] Cf. Brill et al. 1999, Brill and Reder 1993, Domini 2001, Domini and Kinder 1986, Harrington 1992, Judd 1990, Kinder et al. 1993, Lang 1996, Melton and Keenan 1994, Miller 1991, Monahan 2002, Taylor 2001

[63] Cf. Brill and Reder 1993, Domini and Kinder 1986, Kinder and Domini 1997, Kinder et al. 1993, Melton and Keenan 1994, Miller 1991

[64] Sparkes 2001, p. 196

[65] Cowton 1998b, p. 187, emphasis added

vesting in a company which acts unethically, one is *'supporting'* that company and, in doing so, one is behaving unethically"[66].

I have already introduced one writer who embraces the present kind of idea more systematically. According to De George, "[t]he general principle is that if a corporation is established for an immoral end, then no one can morally *support* its activities through the purchase of its stock. The ordinary public corporation does not have an immoral end. Yet by analogy we can argue that even if a company is established for a legitimate end, if it in fact has a policy of engaging in unethical practices, then no one can morally *support* its activities through the purchase of its stock"[67]. In this section, I will evaluate this idea more thoroughly – or, at least, *one (kind of) interpretation* of this idea. As I have already indicated, it is not always entirely clear how to understand references to 'support' more exactly. On some accounts, what is meant by saying that investors who invest in morally unacceptable companies in some manner 'support' these companies, I believe, has little to do with the causal relationship between the investor and the morally problematic activities of these companies. What is meant by such formulations, rather, would seem to be that investing in morally unacceptable companies somehow amounts to *condoning* the activities of those companies, or *approving of* them in some manner. I have already mentioned this idea in passing and, looking again at some of the quotes above, the reader may now see how close it is to the kind of ideas I will be discussing in the present section. Perhaps Cowton's reference to 'support' should actually be understood along these lines – it may be noted, for instance, that Cowton does not suggest that investing in a certain company *de facto* amounts to supporting it. Rather, he says that "*[t]o many observers*, passively holding a stock and making a return from it *indicates* some support for a particular activity".

I will discuss ideas about '*symbolic* support' in the next section. In the present section, then, I am primarily interested in a kind of *actual* support, or a *causal* relationship between investors and companies. Perhaps this is the kind of 'support' most of the writers above are referring to – according to Mackenzie, as indicated previously, most "accounts of why it might be unethical to invest in a company which is pursuing unethical practices rest on the idea that by investing in a company you are *supporting it, contributing to the harm it does, sustaining it, or otherwise helping it* and that

[66] Mackenzie 1997, p. 118, emphasis added
[67] De George 1999, p. 476, emphasis added

this is unethical".[68] The general idea of the kind of 'support' argument I will be considering in this section, in any case, is that investing in morally unacceptable companies in some manner *enables* these companies to do more of the bad things they do, or *contributes* to the harmful effects of their activities. Although this idea may seem fairly straightforward, a few general notes may be necessary before commencing with the inquiry.

First of all, according to Irvine, as I indicated above, what may be found morally objectionable in the present context is "taking steps in a way that *enables* others to do wrong"[69]. More specifically, Irvine defends what he calls "the Enablement Principle", which says that "[i]t is morally wrong for a person to do something that enables others to do wrong"[70]. If taken literally, I believe it should be noted, this formulation is rather loose – in fact, it is so loose that it is absurd. Is it really morally problematic to *enable* others to do a certain wrong, if they then do not also *perform* this wrong? If so, then almost all kinds of education, just to take one example, would be wrong – teaching children to talk obviously enables them to lie. To be fair, Irvine reformulates his position in a later paper to say that what is objectionable is "taking steps *in a way that increases the suffering of others*"[71]. I believe this later formulation is closer to what one should be after here – the general idea under discussion is that investing in morally unacceptable companies in some manner contributes to the harmful effects of these companies' activities, and that this is morally problematic. What seems morally relevant here, then, is the *actual* effects of a certain investment behaviour (i.e., what *actually* happens because of this) and not the *counterfactual* effects (i.e., what only *could* have happened).

Exactly what kind of actual effects are relevant in the present context? Well, it is important to note, I believe, that proponents of the idea introduced above are not interested in just any kind of effects which may be the upshot of an investor's choice to invest in a certain way. More exactly, they are not interested in any *positive* effects which investing in different companies may have. According to proponents of what I call *pragmatic* arguments for the avoidance strategy, as will become more evident in the following chapter, investors may have moral reasons to refrain from investing in morally unacceptable companies because they

[68] Mackenzie 1997, p. 119, emphasis added
[69] Irvine 1987, p. 236, emphasis added
[70] Ibid.
[71] Irvine 2002, p. 59

have a general reason to *promote the good*. That is, insofar as an avoidance of investments into certain companies has the effect of, say, making these companies change their evil ways, or changing the way people think about the moral responsibilities of corporations, investors have moral reasons to try to bring this about. Furthermore, insofar as a similar avoidance can have the effect of improving the environmental records of certain companies, or improving the working conditions of their employees, investors also have moral reasons to try to bring this about. Although there certainly are many similarities between this way of thinking and the kind of argument presently under discussion, and although I will ultimately have to postpone parts of the discussion of the present kind of argument until the next chapter exactly for this reason, I believe there are also certain dissimilarities.

The basic idea of the kind of 'support' argument that will be considered in the present section, I have said, is that investing in morally unacceptable companies in some manner contributes to the wrongful or harmful effects of these companies' activities, and that this is morally problematic. According to some writers, it is not necessary to invoke a general duty of investors to "promote the good" in order to morally criticise this kind of investing, but it is sufficient to say that they have moral reasons *not to do harm*. According to Alan Miller, for instance, the avoidance strategy could quite straightforwardly be seen as an embodiment of the rule: "First, Do No Harm".[72] According to Gregory Beabout and Kevin Schmiesing, two Catholic authors, "[i]n following the norm to 'avoid evil,' [which is distinct from the norm to 'do good,'] investors should avoid companies whose products or policies are contrary to the authentic dignity of the human person"[73]. According to Cowton, furthermore, "[i]f a duty not to impose damage or harm on other people is regarded as a minimum responsibility which runs through all morality, then it might be concluded that the avoidance of certain investments is appropriate"[74].

The distinction between promoting the good and not doing harm invoked here, it may be noted, is a well-known – although much criticised – distinction in moral philosophy, which is often used by propo-

[72] Miller 1991, p. 29
[73] Beabout and Schmiesing 2003, pp. 89-90
[74] Cowton 1998b, p. 188. For similar formulations, see Domini 2001, Lang 1996, United States Conference of Catholic Bishops 2003.

nents of deontological ethics.[75] For obvious reasons, I cannot elaborate too much on this distinction in the present context except to note that, according to many deontologists, it is normally wrong to actively (and intentionally) harm others, but it is not necessarily wrong not to prevent something harmful from happening to them (which one has not caused oneself). That is, while *doing* harm is always open for moral criticism, simply *allowing* harm to happen is not regarded as (equally) problematic.[76] Perhaps the passages above should be understood along the lines of this kind of reasoning or distinction. Somewhat irrespectively of how the present distinction is understood, I believe it should be noted that some idea of this sort is needed in order for the present argument to work as an (at least putatively) *principled*, i.e. non-pragmatic, argument for the avoidance strategy. That is, there needs to be something wrong *in itself* with giving rise to or contributing to the harmful effects of the activities of morally unacceptable companies – what is wrong here cannot simply be that one may be *allowing* such effects to happen by not "making a positive difference" through implementing the avoidance strategy. On this latter understanding, the present line of reasoning would collapse into a kind of pragmatic argument.

Perhaps saying that investors have moral reasons not to harm others is actually less controversial, as Cowton suggests, than saying that they have a general reason to "promote the good" as well. In one of the first books written on the topic of 'ethical investing', John Simon, Charles Powers and Jon Gunnemann defend the "prima facie obligations of all citizens [...] to avoid and correct self-caused social injury", which they call a "moral minimum"[77]. They explain:

> We do not mean to distinguish between negative injunctions and affirmative duties solely in the interests of analytical precision. The negative injunction to avoid and correct social injury threads its way through all morality. We call it a "moral minimum," implying that however one may choose to limit the concept of social responsibility, one cannot exclude this negative injunction. Although reasons may exist why certain persons or institutions cannot or should not be required to pursue moral or social good in all situations, there are many fewer reasons why one should be excused from the injunction against injuring others. Any citizen, individual or institutional, may have competing obligations which could, under some circumstances, override this negative injunction. But

[75] Cf. Donagan 1977, Foot 1967, Frankena 1973, Glover 1977, Kagan 1989, Kamm 1996

[76] Cf. Bennett 1995, Foot 1967, Glover 1977, Kagan 1989, Kamm 1996, Quinn 1989

[77] Simon et al. 1972, p. 21

> these special circumstances do not wipe away the prima facie obligation to avoid harming others.[78]

I will follow these writers in calling the present kind of idea *the no-harm principle* in what follows, i.e. the idea that investors have moral reasons not to contribute to or sustain the harmful activities of certain companies. Although this principle certainly would seem to have some intuitive appeal – perhaps it is even correct to say that it "threads its way through all morality"[79] – I believe it is problematic in many ways, just like the tainted-profits principle. I will not consider its theoretical plausibility in this chapter, but wait with this matter until chapter VII. The issue I will mainly discuss is whether the no-harm principle is sufficient for a plausible justification of the avoidance strategy, or if proponents of this strategy will have to invoke a more general kind of pragmatic considerations to support their view. In the two subsections below, I will suggest that proponents of the no-harm principle face a kind of dilemma when it comes to spelling out the practical implications of this principle. If the principle is taken at face value, i.e. without further restrictions on what effects it counts as relevant, it would seem to face problems similar to those discussed in relation to the tainted-profits principle (or at least so I will suggest in section 3.1). However, if the no-harm principle is restricted in order to avoid these problems (and I will discuss two suggested revisions in 3.2), because the causal connections between investors and companies are quite complicated, it is actually no longer clear whether the no-harm principle can entail an avoidance strategy at all.

Before leaving these introductory notes, it may be fruitful to introduce a further distinction which may help us understand how proponents of the no-harm principle think. The reader may note that I have yet to expand on exactly what it may mean to say that a certain behaviour 'contributes' to or 'sustains' a certain (harmful) effect. According to a quite straightforward understanding of the present line of thinking, the idea would seem to be that each individual investment tends to help a company – either financially or in some other way – and thus to make it easier for the company to conduct its business. To the extent that my

[78] Ibid., p. 18

[79] It may be noted that a similar idea is often regarded as a central tenet of what is called 'common sense morality' – cf. Frankena 1973, Kagan 1989. A principle similar to the one outlined here has also been suggested as a central principle in biomedical ethics and elsewhere – cf. Beauchamp and Childress 2001, Jonsen 1977.

investment in a morally unacceptable company is an essential part in the causal chain which enables this company to do more of the bad things it does, then, I am morally "tainted" by my causal relationship to these bad things. But, it should be noted, this is not the only possible understanding of 'contribution' and 'support' in the present context. According to another understanding of the present argument, in order for investments in morally unacceptable companies to be morally "tainted" because of their effects on the activities of those companies, it is not a necessary condition that each and every *individual* investment (or investor) helps the companies in question. According to this other idea, *being a part of a group* which *together* makes it easier for morally unacceptable companies to do more of their bad things can be equally morally contaminating.[80]

Some proponents of the avoidance strategy, I believe, reason in this way. This may often be, for instance, how one should understand references to the idea that it is morally problematic to *participate* in, or to have "any kind of involvement" with, the activities of morally unacceptable companies. Simon, Powers and Gunnemann, for example, say the following in relation to corporate ownership:

> In legal contemplation there are no owners other than the holders of equity shares. Surely an "owner" is "involved" in a transgression committed by "his" company. His "involvement," obviously, is fractional. But so, in one degree or another, is the involvement of all the other owners of the company, unless it is a one-man corporation. [...] As long as [the traditional corporate-law] doctrine is respected, all owners must be regarded as having some form of involvement and participation in whatever social injury the corporation inflicts.[81]

I will return to the idea of shareholders as *owners* of companies in section 4 below, and then more thoroughly in chapter V. Although it is not obvious how to understand references to collective responsibility more exactly – an issue I will not elaborate on until the following chapter (section 4) – I will here allow proponents of the no-harm principle to appeal to what we may call 'participatory effects' – that is, effects which

[80] In the philosophical literature, this kind of thinking is often invoked to handle cases of 'overdetermination', and also in connection with what I call collective dilemmas (see chapter IV, section 5). Furthermore, several writers have suggested this line of thinking as a solution to the problem of democratic responsibility discussed below (section 4.2) – cf. Goldman 1999, Singer 1972a. For an outstanding discussion of this kind of thinking, see Parfit 1984, chapter 3.
[81] Simon et al. 1972, p. 150. See also Langtry 2002.

are caused by groups which individual investors at least are a *part* of.[82] According to a more general understanding of the no-harm principle, then, it is morally problematic to be causally responsible for corporate harm in either of two ways – either to be causally responsible oneself for this (to *cause* the harm in a fairly straightforward sense), or to be part of a group which is causally responsible for corporate harm (even though one does not cause any harm oneself).

3.1 *The complexity of the modern corporation and the interconnectedness of the economy*

As I noted above, a critical issue for all principled arguments for the avoidance strategy, I believe, is exactly what the practical implications of these arguments are and to what extent they are plausible – what I called their practical plausibility. As with the tainted-profits principle, I will start my evaluation of the no-harm principle here with the issue of *exactly what companies* investors have moral reasons to avoid investing in according to this principle. The problem with the tainted-profits principle with regards to this issue, I said above, is that it would seem to lead in the direction of what Kolers calls the austere conclusion, i.e. that it supports the claim that investors have moral reasons to avoid investing in *far more* companies than those which we have good reasons to find morally unacceptable in some more objective sense. Now, taken at face value, I believe, the no-harm principle would actually seem to have similar implications. While the salient problem for the tainted-profits principle was what Kolers called the *pervasiveness of investment*, I will note at least two problems for the no-harm principle in the present context: the *complexity of the modern corporation* and the *interconnectedness of the economy*.

By the complexity of the modern corporation I am referring to the fact that most of today's public limited companies, i.e. companies eligible for investment through the stock market, are of such an enormous size, and are engaged in so many different kinds of operations, that it seems hard to find a company which does not engage in either wrongful

[82] The idea to understand 'participatory' effects as a kind of *effects*, which then can be plugged into a consequence-oriented setting like my present one, is most directly from Regan (1980) who distinguishes between what he calls 'marginal' and 'contributory' effects – although see also Goldman 1999, Singer 1972a. It may be noted that there is some debate about whether this is an appropriate way of understanding appeals to collective responsibility – cf. Sartorio 2004.

or harmful activities somewhere down the line. According to business scholars, partly because of the increasing amount of corporate mergers and acquisitions, both the size and the diversity of commercial companies has increased considerably since the middle of the last century.[83] Many large corporations now have a turnover that is greater than the GDP of numerous small states and, indeed, over half of the world's top 100 'economies' are large commercial companies.[84] The study of corporate diversification and the way in which many companies operate on multiple markets has become an increasingly popular topic in so-called *strategic management* or business strategy research[85] and, although it is hard to find exact figures to describe the current state of diversification, it is easy to see that most of the companies quoted on the world's stock markets have large numbers of departments and/or subsidiaries in various parts of the world – business units from which they make many billions of dollars in profit.[86]

Many SRI commentators actually seem to have appreciated the kind of complexity of the modern corporation outlined above, although they do not always say so explicitly, and agree that it seems unrealistic, if not downright naïve, to think that one can find a completely "clean" limited company. According to Jason Zweig, for instance, "[o]nce you start, it's hard to know where to stop. Look at Sara Lee Corp., which makes lots of things besides those yummy cakes, including Ball Park franks, Playtex bras and Kiwi shoe polish. So how come the [American Medical Association] named Sara Lee one of its 13 toxic tobacco stocks? A small unit of Sara Lee, Douwe Egberts, sells loose tobacco for pipes and snuff, mainly in Europe. That business makes up less than 2% of Sara Lee's $17.7 billion revenues"[87]. According to Charles Powers, in his own very early book on 'socially responsible investment', the complexity of the modern corporation – coupled with the multitude of moral issues raised in relation to the corporate sector – creates a problem for churches that wish to construct a portfolio of only morally acceptable companies:

> [A]s long as a church is concerned only about [the South Africa issue], it could [perhaps] develop a "clean" portfolio by selling and not purchasing securities in [some 275] companies. [...] But add concern about ar-

[83] Cf. Bettis and Pralahad 1983, Goldman and Van Houten 1977

[84] Cf. Steger 2003. See also Blair 1995.

[85] For an overview of some of this research, see Ramanujam and Varadarajan 1989.

[86] See, e.g., New York Stock Exchange 2007b and the webpages of the companies listed there.

[87] Zweig 1996, p. 64

> mament production to the issues which disturb the church [...], and things become more difficult. Does one defence contract defile a company? If so, then the social investor's "no-purchase list" gets very long indeed. [...] Now add the issues of (1) pollution, (2) fair employment practices, (3) wage standards in foreign countries, etc., etc., each of which involves problems similar to those already discussed, and the clean portfolio becomes an almost impossible ideal.[88]

The considerations above may seem to suggest that the problems for the no-harm principle in the present context lie mainly with larger-sized companies. Perhaps, some may suggest, it is morally permissible to invest in many smaller-sized, or single-market, companies according to this kind of reasoning.[89] To the problem above, however, should be added what I call the *interconnectedness of the economy,* namely the fact that most companies *collaborate* in some manner or other with a range of other companies, which in turn collaborate with a further set of companies, and so on, and so forth. The point of noting this fact is that, just as there are *financial* connections between most companies in a given economy, I believe, there are also (other) *causal* connections between most of these companies. The study of these causal connections (often known as *network* research) has actually become an increasingly popular topic in strategic management research as well.[90] What may the causal connections between commercial companies consist in more exactly? Well, in order to illuminate the present point, one may take a company which manufactures weapons as an example.

[88] Powers 1971, pp. 89-90. See also Brill and Reder 1993, Christian Ethical Investment Group 1992, Hollenbach 1973, Lang 1996, Mackenzie 1997, Michelson et al. 2004, Schepers and Sethi 2003, Schueth 2003, Schwartz 2003, Simon et al. 1972.

[89] Interestingly enough, the vast majority of so-called ethical funds try to 'solve' the problem above by saying that it is okay to invest in companies with a less than so-and-so percentage of their return from morally unacceptable activities or investments (cf. Cowton 1998b, Michelson et al. 2004, Schepers and Sethi 2003, Schwartz 2003, Sparkes 2002). Some funds also employ a so-called 'best in class' approach, picking out the "least bad" companies of a given morally problematic industry (cf. Eurosif 2006, O'Rourke 2003, Schepers and Sethi 2003, Sparkes 2002, Taylor 2000). It seems very hard to see how such 'solutions' could be justified from the point of view of the no-harm principle, however, or, for that matter, from the point of view of any principled argument for the avoidance strategy. As Schwartz writes: "From an ethical perspective, [the percentage] approach is clearly problematic. If an individual behaves in a morally acceptable manner the vast majority of the time, but occasionally cheats on his or her customers or employees, how should such a person be evaluated? Should they be allowed to behave in an unethical manner twenty percent of the time? Ten percent of the time?" (2003, p. 209). Now, I believe there *is* a way of justifying these practices of the ethical funds. From a *pragmatic* perspective, it should be noted, investing in the best of the morally unacceptable companies can perhaps serve as an encouragement for the others to do better. I will return to this point in the following chapter, section 2.

[90] Cf. Ahuja et al. 2007, Ford 1997, Ford et al. 2003

In order for a weapons company to work properly, it needs the supply of a lot of other products and services – e.g., weapon parts, electronics, transportation, advertisement, catering, business travelling, etc., etc. Now, most companies do not take care of all of these things themselves, but they buy products and services from other companies.[91] In order for a weapons company to work properly, then, it needs the services of a whole range of other companies – different kinds of subcontractors, electronics companies, transport companies, advertising companies, catering companies, etc. etc. Following this line of thinking, it is easy to see how most of the companies in the (global) economy are causally related to each other in some manner or the other – if company X does not collaborate directly with the weapons industry, then it probably collaborates with some company Y that does. But, then, isn't company X actually *helping* the weapons industry in some manner?

The problem for the no-harm principle in the present context is that, given the complexity of the modern corporation and the fact that there are all kinds of different causal connections between the activities of most companies in the economy, it seems hard to find *any* company which is not either doing something immoral or harmful itself or helping another with something similar.[92] Obviously, it is almost impossible to say the exact degree to which, say, a certain clothing company contributes to or sustains the harmful effects of the activities of, for example, the weapons industry (given of course that these indeed are harmful), but this degree need not be negligible.[93] The problem is augmented considerably, it should be noted, if one takes into account the kind of 'participatory' effects which some proponents of the no-harm principle would seem to appeal to. Perhaps the most straightforward conclusion to be drawn from the example with the weapons company above is that most business ventures are not isolated projects, but rather a kind of

[91] This is often referred to as the *business* (or *industrial*) market – cf. Ford 1997, Ford et al. 2003.

[92] Other writers have noted this conclusion. According to Cowton, for instance, "[o]wing to the interconnectedness of the corporate sector, it has been questioned whether purity is a feasible goal. Investors who embark on this route have been described as 'hopelessly naive,' involving themselves in an endless series of illusions and arbitrary decisions. For such investors, it might be better not to invest at all [...]. In any case, a very long list of exclusions might leave a very restricted investment universe from which to select" (1998b, p. 182). See also Powers 1971, Schepers and Sethi 2003, Schwartz 2003, Simon et al. 1972.

[93] As an interesting case in point, in her recent book, *The Travels of a T-Shirt in the Global Economy* (2005), Pietra Rivoli follows a plain six-dollar t-shirt on its road from a Texas cotton field to a Chinese factory to a used clothing market in Africa, documenting its involvement in both unfair labour practices and the support of oppressive regimes.

collaborative activity. If it is morally problematic to be a part of a group which, taken together, acts wrongly or harmfully then the activities of almost all commercial companies could probably be said to be morally problematic in a number of ways. Although the actions of our clothing company may not have any *direct* effects on the activities of the weapons industry, it is presumably part of a network of companies which *together* makes the activities of the weapons industry possible. And so are most other kinds of companies.

The upshot of the considerations above, I have said, is that – just like with the tainted-profits principle – the no-harm principle would seem to lead in the direction of the austere conclusion. Now, with regards to the tainted-profits principle, I said in the previous section that this kind of implication is mitigated to a certain extent by certain considerations concerning *when* investors have moral reasons to avoid investing in morally unacceptable companies. Most importantly, the tainted-profits principle seems to make it morally permissible for investors to invest in all kinds of morally unacceptable companies as long as these are sufficiently unprofitable. Since the issue of exactly what practical implications the no-harm principle has in terms of when investors have moral reasons to avoid investing in morally unacceptable companies is quite complicated, I cannot consider this issue fully in this section but will have to return to it in the next chapter. However, turning now to the second part of the issue of the practical implications of this principle, it may be noted that the no-harm principle in its current form is beset with another familiar kind of problem. Just like the tainted-profits principle, I believe, it is not obvious whether this principle implies our familiar avoidance strategy – or at least not all parts of it.

Since a common way to profit from investments is to sell one's shares at a higher price than the purchase prise, I said in the previous section that a problem for the tainted-profits principle would seem to be the implication that it is equally (if not more) morally problematic to *sell* one's shares in morally unacceptable companies as it is to buy or hold them. Actually, I believe, the no-harm principle seems to have similar implications. As I have already noted in passing, most investors buy and sell shares in commercial companies on the stock market and, when it comes to these transactions, they buy and sell shares mainly from and to *other investors* – either individual or institutional. Now, if one assumes that investing in a certain morally unacceptable company indeed amounts to supporting it in the relevant sense here, i.e. contributing to or enabling some of its harmful activities, the following line of reasoning

would seem possible: If contributing to harm is wrong (at least *ceteris paribus*), and therefore buying shares in companies engaged in harmful activities is wrong, then, surely, *contributing to another person's contribution to harm* would also be wrong. But, in selling one's shares in a morally unacceptable company on the stock market one is doing exactly that – one is contributing to another investor's contribution to harmful activities. To put this point in another way, if investing in a morally unacceptable company is being part of the causal chain that leads to the harmful effects of that company's activities and, thus, to be *causally responsible for harm*, then surely selling one's shares to another is being part of the causal chain that leads *that person's* being causally responsible for harm and so, once again, to be partly causally responsible for this harm oneself. If it was not for your sale of the shares, after all, the other investor could not have bought the shares he or she bought and so would not have harmed anyone. Thus, according to the no-harm principle, selling shares in morally unacceptable companies would seem to be morally on a par with buying or holding such shares.

In connection with my discussion of the tainted-profits principle, I said that, when taking considerations like the one above into account, it is no longer obvious exactly what this principle recommends investors to do. Most importantly, the principle no longer seems to recommend the avoidance strategy in all situations – at least not when one already holds shares in morally unacceptable companies. Unfortunately, the reader now sees, the no-harm principle would seem to fare no better in this respect. For similar reasons, then, it is unclear whether the no-harm principle is a plausible justification of the avoidance strategy as this strategy is commonly understood within the SRI community. Perhaps, however, the no-harm principle could be revised in a fairly straightforward way in order to avoid these problems. I now turn to this issue.

3.2 Revising the no-harm principle

According to the kind of no-harm principle considered above, I have said, investors have moral reasons not to be causally responsible for the (supposedly) harmful activities of morally unacceptable companies. More generally, I have allowed proponents of this principle to understand causal responsibility in either of two ways – either one is causally responsible oneself for a certain harmful effect, or one is *part of a group* which is causally responsible for this harm. In light of the considerations

above, proponents of the no-harm principle may want to pass on this second possibility, as the appeal to 'participatory' effects no longer seems favourable to their cause. It should be noted, however, that such a move does not take them very far – even though the interconnectedness of the economy becomes a bigger problem when participatory effects are taken into consideration, there is still a problem with individual effects – and the complexity of the modern corporation is still a problem. Furthermore, the second kind of problem discussed above does not depend on participatory effects at all. However, perhaps the no-harm principle can be revised in some way to allow proponents of this principle to avoid both of these kinds of problems. I will consider two suggestions to this effect in the present section.

It may not be intuitively obvious exactly what part of my understanding of the principle above should be considered the most problematic in this context. However, I wish to suggest that an important part of why the kinds of problems discussed above befall the no-harm principle is the fact that it is commonly not understood to make any restrictions in terms of *how long and complicated the causal chains involved can be* in order for a certain harmful consequence to affect the moral status of actions on the part of investors. With regards to the second of the problems above, I suggested that if it is morally problematic to contribute to a certain company's harmful activities, it should be equally problematic to contribute to another investor's contribution to these activities. With regard to the first problem, furthermore, even though most (smaller-sized) companies may not engage in harmful activities themselves, I said that most commercial companies probably have causal connections to other companies which engage in harmful activities. Now, proponents of the no-harm principle may wish to deny that the causal chain between the actor and the resulting harm can be of any length and complication – or, at least this is the kind of suggestions I will discuss in what follows.

A fairly straightforward way of revising the no-harm principle in the present regard, I believe, is to say that it is only being *directly* causally responsible for a certain harm which is morally criticised, i.e. *being the one who actually harms* others. Perhaps this is actually how proponents of the no-harm principle wanted us to understand their principle in the first place – it may be noted, for instance, that, according to Miller, the salient rule is "First, *Do* No Harm"[94]. According to Simon, Powers and

[94] Miller 1991, p. 29, emphasis added

Gunnemann, furthermore, very few considerations can "wipe away the prima facie obligation to avoid *harming* others"[95]. In some of the commercial material from so-called ethical funds, it is not uncommon to justify the avoidance strategy with reference to the more restricted idea suggested by these formulations. Mackenzie writes:

> Some have suggested an even more direct relationship between the harm done by companies and the act of investing. One fund claimed that ["]Many investors are causing, albeit unwillingly, serious damage to our planet by investing in companies that are harming the environment.["] And Bishop Harries of Oxford, well known in ethical investment in the UK for his campaign to get the Church Commissioners to take ethical investment more seriously, has also argued this way. ["]If you have watched your mother die painfully of cancer and are totally opposed to smoking, [with the advent of ethical investment] it is now possible to invest your money in a way which does not kill other people in the same way.["][96]

The idea that investing in morally unacceptable companies harms or kills people in this very direct fashion, I believe it should be noted, is the most straightforward way of understanding the no-harm principle as a *principled* argument for the avoidance strategy. Before considering how the revision of the no-harm principle implicit in the accounts above works on the investment-evaluative level, I will briefly consider whether a similar idea on the business-evaluative level is a good solution to the question of what kind of companies investors have moral reasons to avoid investing in. An interesting distinction in this context, I believe, is Irvine's distinction between different kinds of "evil" companies – those that are *directly* evil and those that are only *indirectly* evil:

> A *directly evil* company is a company which, in the very act of conducting its business, engages in wrongdoing. An *indirectly evil* company, on the other hand, is one which manufactures products that enable others to engage in wrongdoing. Thus, a company that uses slave labor to manufacture, say, pencils would count as directly evil, since in the very act of conducting its business it commits the moral wrong of treating people as slaves. On the other hand, a company whose main product is a poison whose only known use is to cause people horrible lingering deaths would count as indirectly evil, since it manufactures a product that enables other people – namely, the company's customers – to do wrong.[97]

[95] Simon et al. 1972, p. 18, emphasis added
[96] Mackenzie 1997, p. 119
[97] Irvine 1987, p. 234

According to Irvine, it is possible for businesses to be either directly or indirectly evil, or both at the same time. Proponents of the avoidance strategy may choose what to consider morally relevant here – either they choose only to ban companies that are directly evil and allow investments into indirectly evil companies, or they choose to ban both types (– or, which seems incoherent, they choose only to ban companies that are indirectly evil and allow directly evil companies in their portfolios). What is the most reasonable choice for proponents of the avoidance strategy here? Well, it should be noted that the first revision of the no-harm principle outlined above seems to give some direction on this issue: According to this revision, investors only seem to have moral reasons to avoid *directly* evil companies, i.e. companies whose *own* activities are harmful or unethical. After all, only these companies are those which harm others *themselves*. Now, the path most often chosen by so-called ethical funds, it may be noted, seems to be to avoid investments in both types of evil companies – companies which are perceived to be directly evil, like those which pollute the environment, are commonly avoided, but also companies which are perceived to be indirectly evil, like those selling tobacco or alcohol, are commonly avoided.[98] But according to the revised no-harm principled above, this latter practice does not seem justified. For this reason, I believe, it is unclear whether this kind of revision would be satisfactory to proponents of the SRI movement.

While the conclusion above, it should be noted, is no real counter-argument to the first revision of the no-harm principle, I will now turn to the investment-evaluative level – where I believe the real problems for this account lie. Obviously, we must accept that there is a rhetorical point in formulating the no-harm principle, and the underlying relationship between investors and different types of corporate harm, along the lines of the formulations which Mackenzie notes. The idea that it is morally problematic to directly harm or kill others is certainly intuitive. When ideas similar to the no-harm principle here are discussed in other contexts, furthermore, e.g., in bioethics, I believe it is most often a very direct form of harming and killing which is criticised.[99] I think it should be equally obvious, however, that this kind of idea in fact is inapplicable in the case of investments. Surely, buying shares in a commercial company never causes harm as directly as, for example, doctors may harm

[98] Cf. Social Investment Forum 2006

[99] Cf. Beauchamp and Childress 2001, Jonsen 1977, Frankena 1973

their patients – unless, of course, someone is deeply offended by my purchase of a certain share. Strictly speaking, it is obviously the underlying *companies* (or their managers or employees) that do the actual harming. What an investment might do is to *make it easier* for certain companies to engage in harmful activities, either through supplying them with fresh resources or through helping them in some other manner. In their role as shareholders, furthermore, investors may perhaps take part in general discussions and decisions about the future of the corporation at its annual general meetings and, thus, about general issues concerning the activities of companies. However, this hardly justifies saying that investors *themselves* harm or kill people through their investments in those companies, or even that they participate in such activities.[100] If the idea is that only very direct ways of harming others are wrong, then, *no* investment is ever wrong.

What might a more plausible revision of the no-harm principle be in the present context? Well, if there are no restrictions on what effects should be counted as relevant for this principle, I have said, we get the austere conclusion and problems with selling investments further, but if the restriction is as tough as the one above, the avoidance strategy no longer would seem to follow. Judging from these considerations, the ideal for proponents of the avoidance strategy would seem to be an understanding with a *somewhat* larger scope than the previous one, but still with a much more restricted scope than my original understanding. Now, perhaps such a position is possible. Proponents of the no-harm principle could argue, for example, that if it at least is a *fairly direct* consequence of an investor's act of investing, or holding investments, in a certain company that (more) harmful activities are performed by that company, this should count as violating the no-harm principle. Armed with some idea of this sort, they could say such things as, for instance, that while buying shares in morally unacceptable companies causes harm fairly directly, selling such shares and thus enabling others to do the same – while causing harm – does not cause harm sufficiently directly. Furthermore, selling cigarettes to smokers is a fairly direct way of causing harm, but simply transporting a cigarette company's goods to a warehouse is not sufficiently direct.

Whether a plausible conception of 'fairly directly' could be spelled out in non-circular terms – that is, without reference to these intuitions

[100] Cf. Mackenzie 1997, Simon et al. 1972

about what the no-harm principle reasonably should imply – may seem unclear, but perhaps this is not impossible. As a second revision of the no-harm principle I will consider the following suggestion: According to Earl Spurgin, a way of giving references to harm in the investment context a more robust philosophical foundation is to appeal to the principle that "if there is an ethical problem with undertaking an action on one's own behalf, there is an ethical problem with hiring an agent to do it in one's stead".[101] On what he calls "the direct model of shareholders", this principle would seem to imply something akin to the avoidance strategy. Spurgin writes:

> This [principle] speaks directly to what actions principals can expect from their agents, and applies to the relationships between shareholders and business managers. Just as clients cannot expect attorneys to act in the clients' interests by performing acts that would be immoral for the clients to perform, shareholders cannot expect business managers to increase the wealth of shareholders through actions that would be in violation of shareholders' own obligations. Imagine a client who is in serious legal jeopardy because of the potential testimony from a witness and expects his attorney to kill the witness. Obviously, it is morally wrong for the client to expect the attorney to take an action that would be morally wrong for the client to take. When the direct model applies, there is no reason to see shareholders and business managers any differently. [...] When the direct model applies, then, shareholders can rarely escape responsibility for the effects of corporate activities.[102]

While it is not clear exactly how Spurgin's suggestion here should be understood on the business-evaluative level,[103] the applicability of this kind of reasoning in the context of investing may seem straightforward enough. But, can this second revision of the no-harm principle really justify the avoidance strategy? Obviously, the plausibility of Spurgin's suggestion depends on the plausibility of the "direct model" referred to in the passage above. This is described as follows:

[101] Spurgin 2001, p. 289. For similar arguments, see Langtry 2002, Miller 1991, Schwartz et al. 2007.

[102] Spurgin 2001, pp. 289-90. It may be noted that Spurgin here speaks of *expectations* in a way which is somewhat ambiguous – for instance, "shareholders cannot *expect* business managers to increase the wealth of shareholders through actions that would be in violation of shareholders' own obligations". How should this be understood? One interpretation could be that Spurgin here refers to the idea that it is wrong to *want* companies to engage in immoral behaviour or, more generally, to *approve* of such behaviour. I will discuss this idea in section 4 below.

[103] Do cigarette companies 'hire' smokers as 'their agents' to do harm? This seems highly implausible. See further section 4 below.

> Business ethicists and economists often employ the direct model of shareholders. According to this model, shareholders research the activities of corporations and industries, purchase corporate securities based on the results of their research, attend shareholder meetings, determine the directions of corporations through their voting decisions, and reap the rewards or suffer the losses that result from those decisions. Business managers, in turn, use their expertise to carry out the wishes of shareholders as directed by voting decisions and are compensated according to their successes or failures.[104]

Now, the salient part of this "direct model of shareholders" for the present purposes of proponents of the avoidance strategy, I believe, is the part about investors attending shareholder meetings and voting on decisions – that is, the fact (already noted) that investors, in their role as shareholders, may take part in (or have a vote in) decisions about general issues concerning the activities of companies at these companies' annual shareholder meetings. Certainly, if the decisions of companies to engage in a certain activity could always be traced back to some decision at a shareholder meeting and, thus, be traced back to shareholders, perhaps proponents of the no-harm principle could have a plausible case against being a shareholder in morally unacceptable companies (and, thus, for the avoidance strategy). A fairly straightforward way in which companies could be said to be 'hired' by investors to do something in their stead, of course, would be if investors somehow were involved in setting the agenda of the companies they hold shares in. But is the direct model an accurate model of the relationship between modern investors and limited companies?

Unfortunately, not even Spurgin himself thinks that the direct model is a very good description of the modern investment relationship. If this is correct, also the second attempt to revise the no-harm principle – or, at least one version of this attempt – fails to justify the avoidance strategy. Exactly how investors can influence the activities of limited companies is a complicated matter which I cannot settle in full at the present juncture, but perhaps some hints about things to come are in order here. I believe it should be noted, first of all, that the direct model would seem to assume that all investors in fact attend the annual general meetings of the companies they hold shares in and take part in discussions and decisions at these meetings. However, experience seems to contradict this assumption – according to a recent estimate from the

[104] Spurgin 2001, p. 288

UK, only one in a thousand shareholders actually attends the general meeting of "his" or "her" company.[105] Furthermore, most of the attendants are institutional investors or their representatives – that is, very few individual investors tend to attend the annual general meetings of the companies they hold shares in.[106] It may also be noted, as Spurgin himself points out, that most individual investors invest only indirectly in company shares, i.e., they invest in unit trusts or other kinds of funds, and for this reason they are normally not even allowed to attend shareholder meetings.[107]

The considerations above already seem to suggest that the direct model is mistaken, but perhaps they can be remedied – according to many writers, as will be shown in chapter V, shareholders have a *moral obligation* to attend annual general meetings. Failing to make the most of one's rights and privileges as shareholder may of course be considered morally problematic in some manner (a point which I will return to both in chapter V and in the next section here). The real question in the present context, however, is what influence individual investors would have even if they actually attended these meetings. According to Spurgin, most individual investors who invest in companies on the stock market hold far too few shares in these companies, and thus have far too little voting power, to be able to control what companies do and do not do.[108] Although the responsibility for the general direction of a corporation could be said to rest with the shareholders jointly, then, it is hard to see how an individual investor can be held accountable for the harm which certain companies inflict. According to Spurgin, only the largest institutional shareholders could actually be held responsible in this way – "[o]nly majority shareholders have any real control over corporate activities by voting at shareholder meetings. The direct model, however, describes shareholders as directing the activities of corporations. This description, then, applies only to those few who are majority shareholders"[109].

I will discuss what influence individual investors can have at shareholder meetings more extensively in chapter VI. It should perhaps be said already at this stage, however, that I believe Spurgin's conclusion

[105] Strätling 2003. See also Blair 1995, Bottomley 2003, Kinder et al. 1993, Powers 1971.
[106] Strätling 2003
[107] Spurgin 2001, p. 291
[108] Ibid.
[109] Ibid.

above to be basically correct. Perhaps individual investors can speak up at annual general meetings and try to influence managers that way, or perhaps they can try to persuade other investors to support a certain social resolution they have proposed. It should be noted, however, that this kind of reasoning is *pragmatic* in nature – the no-harm principle, I have said, has no problem with *allowing* harmful activities, it is only *doing* harm that is criticised. Unfortunately, then, also the second revision of the no-harm principle would seem to fail. Even De George, it should be noted, seems to agree with this conclusion. As already noted, De George is sceptical about the possibilities of individual investors to influence corporate behaviour through shareholder activism. As far as I can tell, however, De George actually admits that there are similar problems when it comes to the avoidance strategy:

> Managers, strictly speaking, work for the shareholders, who are the owners of the corporation. The managers act as agents for the shareholders. Yet, any individual shareholder has in fact little, if any, control over the managers. [...] Hence, it seems farfetched to hold individual shareholders responsible for what the managers do on the basis of the claim that the owners are ultimately responsible for what the corporation does. [...] Shareholders cannot be held morally responsible for what the firm does since the shareholder is in fact *very distant* from the causal relation between an action of the corporation and its effects [...].[110]

I have emphasised the words "very distant" in the last sentence of the passage above since I believe De George's suggestion here is especially interesting in the present context. According to De George, it would seem, part of the reason for why individual investors cannot be held morally responsible for what a corporation does is the fact that the causal chain between their actions and the actions of the corporation normally is quite long and complicated – shareholders are, he says, "very distant from the causal relation between an action of the corporation and its effects". Now, this is exactly why the version of the no-harm principle currently under discussion would seem to fail – according to this revision, I have said, the causal chain cannot be too long.

While I have only considered Spurgin's own version of the revised argument for the avoidance strategy here, it should be noted that there may be other ways of spelling out the second revision of the no-harm principle. One way of avoiding the problems above, of course, would be to appeal to participatory effects again. Even if individual shareholders

[110] De George 1999, p. 476, emphasis added

have no control over the activities of limited companies *themselves*, I have admitted that they may have such control *together*. Another way of understanding the idea that investors commission (or 'hire') the activities of companies could perhaps be to talk about the effects of *investments as such*, rather than those of decisions at annual general meetings – i.e. to talk about *financial* effects. Even if shareholders are not involved in setting the actual agenda of companies, it may be argued that buying shares in morally unacceptable companies fairly directly provides these companies with *fresh resources*, resources which they then can do whatever they like with. This would actually not seem to be an uncommon way of justifying the avoidance strategy among proponents of the SRI movement – according to Domini and Kinder, for instance, "[b]y avoiding investments in 'bad' companies, you're saying, 'Not with *my* money, you don't.'"[111]. As the issue of exactly what financial effects a certain investment has and whether these are sufficiently direct as to salvage the second revision of the no-harm principle here is rather complicated, however, I will not consider it until in the following chapter.

For all I have said so far, then, there is little that proponents of the no-harm principle can do – if they want to maintain the connection between this principle and the avoidance strategy – in order to avoid the austere conclusion and the problems related to selling shares in morally unacceptable companies to other investors. In the next chapter, I will argue that not even very indirect causal chains exist between investors and companies, at least not on the individual level, and thus that no version of the no-harm principle can justify the avoidance strategy if 'participatory' effects are not appealed to. Appeals to these kinds of effects, however, come with other kinds of problems. But I will leave this kind of discussion for now.

4. Support and approval

In the previous section, I discussed the idea that investors have moral reasons not to support morally unacceptable companies in the sense of not being *causally responsible* for their wrongful or harmful activities. I said that there are a number of problems concerning how the practical implications of this idea should be spelled out more exactly, and in part this was due to the fact that the no-harm principle could be given dif-

[111] Domini and Kinder 1986, p. 3

ferent interpretations – all in all, I discussed three versions of this kind of idea. As already noted, however, the idea that investing in morally unacceptable companies amounts to *supporting* these companies may be given an altogether different interpretation and, given the problems with the no-harm principle above, perhaps proponents of the 'support' idea no longer would want to understand this causally. In this section, I will discuss a third and final kind of principled argument for the avoidance strategy – an argument related to what I have been calling *symbolic* support, or the idea that investing in morally unacceptable companies amounts to *approving* of them in some sense. Once again, perhaps it is actually more correct to talk of a group of ideas rather than a single idea here – the general idea just referred to, I believe, can be (and indeed has been) formulated in a large number of ways and I can only discuss the most important of these in the present section.

I have already noted one passage where I think the present kind of idea can be discerned – according to Cowton, "*[t]o many observers*, passively holding a stock and making a return from it *indicates some support* for a particular activity"[112]. But, perhaps the view of Simon, Powers and Gunnemann should actually be interpreted along the lines of symbolic rather than causal support as well. As I noted above, in defending the avoidance strategy they refer to the fact that shareholders are generally considered *owners* of limited companies and, because of this fact, they suggest that even individual investors could be said to be "involved" with or "participate" in the harmful activities of morally unacceptable companies. In the previous section, I understood this suggestion along the lines of so-called participatory *effects*, but perhaps this is not adequate. In one passage, Simon et al. seem to connect both their idea of participation and their concept of ownership to the argument from approval:

> The ownership concept [...] is not in favor among many modern legal commentators, who find that corporate law does not accord much respect to the ownership status of shareholders and who urge that we understand the relations between shareholder and company in terms of function rather than title. A functional analysis of the participation question, however, leads to the very same conclusion. [...] In the first place, an institutional shareholder who votes routinely for management and who otherwise fails to complain about corporate practices lends a measure of apparent *acceptance* and *approval* to existing corporate policies, thus reinforcing the management's predisposition to pursue these poli-

[112] Cowton 1998b, p. 187, emphasis added

> cies. In other words, until a shareholder ends his *acquiescence* in corporate violations of law or public policy, he *encourages* their continuation.[113]

I will consider how the passage above should be understood more exactly in section 4.1 below. It may be noted already at this stage, however, that Simon et al.'s reference to acceptance or approval here actually may salvage some of the ideas discussed at the end of the previous section. Even if individual shareholders do not always attend the annual general meetings of the companies they invest in, and even if they wouldn't have much influence over corporate activities if they were to do so, investing in morally unacceptable companies could perhaps be said to express a *symbolic* support of, or an *acquiescence* to, the activities of these companies. After all, as owners of limited companies, investors must reasonably have *some* influence over corporate activities – but those who passively invest in morally unacceptable companies and simply reap the benefits from this would seem to ignore this possibility completely. Furthermore, I said above that, on one interpretation of the kind of thinking involved in the tainted-profits principle, what was morally problematic about profiting from morally unacceptable business practices in the first place may not have been actually reaping the benefits but *wanting* to profit from such immoral practices or, more generally, thinking that it is *okay* to do so.

The most explicit exposition of the idea that investing in morally unacceptable companies amounts to approving of them, I believe, is given by Robert Larmer, in his paper "The Ethics of Investing: A Reply to William Irvine"[114]. According to Larmer, there are many problems with the way in which Irvine understands the (different) principled argument(s) for the avoidance strategy. First of all, Larmer argues, it is not possible to distinguish between "directly evil" and "indirectly evil" companies in the way Irvine does. The problem here lies mainly in the characterisation of indirectly evil companies, which are characterised as companies which "manufacture[...] products that enable others to engage in wrongdoing"[115]. According to Larmer, it seems hard to think of *any* product that people may *not* misuse for mischievous or malicious purposes.[116] So, is it always wrong for investors to invest in any company, then, on principled arguments for the avoidance strategy? Well,

[113] Simon et al. 1972, pp. 150-51, emphasis added. See also Schwartz et al. 2007.
[114] Larmer 1997
[115] Irvine 1987, p. 234
[116] Larmer 1997, p. 397

Larmer doesn't consider this possibility but seems to think it is absurd. Perhaps Irvine might say that a reasonable understanding of "indirectly evil" companies is that these are companies which manufacture products whose *primary* use is immoral. Larmer continues, however:

> This [...] highlights a second difficulty. A company which manufactures a product must be taken as *approving* and *encouraging* the use of that product. If the sole or primary use of a product is immoral the company must, on the supposition that it will be aware of the chief use of its products, be taken as approving and encouraging that use. This qualifies the company as directly rather than indirectly evil, since *to approve or encourage an immoral action is itself an immoral action* and hence a direct evil.[117]

Larmer concludes that the distinction between indirectly and directly evil companies collapses. Now, the same kind of reasoning invoked in connection with this distinction, Larmer uses in criticising the kind of argument against the no-harm principle outlined in the previous section. He writes:

> What is wrong in investing in an evil company is not that one is necessarily providing the resources whereby it can engage in wrongdoing, but that even in the absence of providing such resources, one implicitly *condones* its immoral behaviour. Irvine is correct in his claim that knowingly providing the resources by which a company will engage in wrongdoing is immoral, but he fails to realize that even in the absence of helping it to occur or profiting from it, simply *approving* of an immoral action is immoral. For this and other reasons I have mentioned, the Evil-Company Principle must be seen as more basic and fundamental than the [no-harm principle].[118]

Although Larmer here refers back to Irvine's evil-company principle, which I said earlier is a too rigid and general one (– although a good characterisation of the general point of principled arguments for the avoidance strategy), I think the more specific kind of reasoning Larmer defends is very interesting. Perhaps the principled case for the avoidance strategy is most fruitfully understood exactly in terms of approval. This understanding, it may be noted, connects nicely to the terminology of moral *dis*approval discussed in the previous chapter. According to some understandings of the appeal to consistency, I said there, investing in a distillery, for instance, would seem to indicate that one thinks it is morally permissible to support the sale of alcohol, and this is why an ardent

[117] Ibid., emphasis added

[118] Ibid., p. 400, emphasis added

teetotaller investing in distilleries should be seen as inconsistent in some manner. In what follows, however, I will discuss how the kind of argument outlined above should be understood more exactly.

Since I have already discussed the issue of *what companies* different principled arguments give investors moral reasons to avoid investing in at length in previous sections, I will focus mainly on the investment-evaluative level here.[119] My main line of argument in the subsections below will be that, even though *the approval argument* (as we may call it) fairly intuitively may be understood as an alternative to the no-harm principle discussed above, i.e. as understanding 'support' *symbolically* rather than causally, it is often actually more plausible to understand it as an argument about a certain kind of *effects*. More specifically, I will discuss three suggestions about what the salient point of the approval argument consists in more exactly. In section 4.1, I will discuss two suggestions which I believe fairly easily can be understood as appeals to indirect effects, or even pragmatic considerations. In section 4.2., I will discuss a suggestion which does not deal with effects in the most straightforward sense, but I will argue that it is an open question exactly what this suggestion entails. To a large extent, I will suggest, this depends on how other arguments for and against the avoidance strategy fare.

4.1 Causal interpretations of approval

According to the kind of idea currently under discussion, I have said, investors have moral reasons to avoid investing in morally unacceptable companies because (or *to the extent that*) investing in such companies expresses an *approval* of their activities. But how should this idea be spelled out more exactly? A first point of ambiguity is how to understand the idea that investing in a certain company *expresses* a certain attitude on the part of investors, towards this company or towards its activities. Judging from the accounts of this idea above, I believe at least two interpretations are possible in the present context: According to one idea, the kind of approval involved is the *actual* approval of the relevant investors. Larmer suggests, for instance, that "[w]hat is wrong in investing in an evil company is not that one is necessarily providing the resources whe-

[119] Judging from Larmer's critique of the distinction between directly and indirectly evil companies above, I believe there is good reason to think that the austere conclusion is a problem also for proponents of the approval argument. See further the quotes from Kolers below, section 4.1.

reby it can engage in wrongdoing, but that even in the absence of providing such resources, one *implicitly condones* its immoral behaviour"[120]. According to this idea, then, everyone who invests in morally unacceptable companies would actually seem to have some kind of positive attitude towards these companies' activities – or, at least, they do not have a sufficiently negative attitude as to avoid such investments altogether. On another interpretation of the approval argument, however, the relevant point is not whether investors *actually* approve of the activities of morally unacceptable companies. According to this idea, investments in such companies *expresses* an approval of their activities, or – perhaps better – *communicates* such an approval to others, quite irrespectively of what actual attitudes the relevant investors have. According to Simon, Powers and Gunnemann, as previously noted, "an institutional shareholder who votes routinely for management and who otherwise fails to complain about corporate practices lends a measure of *apparent* acceptance and approval to existing corporate policies"[121]. Furthermore, according to Cowton, "*[t]o many observers*, passively holding a stock and making a return from it *indicates* some support for a particular activity"[122].

What version of the approval argument is the most fruitful in the present context? Well, judging simply from the brief characterisations above, some may suggest that the latter version must be the most fruitful. After all, the supposition that all those who invest in morally unacceptable companies actually approve of these companies' activities could easily be disputed by some investors – "When I invest in the companies you speak of", some investor may say, "this is not because I particularly *like* what they do. Most of the time, I don't. I simply invest for an altogether different set of reasons." I will return to consider to what extent this kind of response is plausible, and what one more generally should think of references to investors' actual attitudes, in the following subsection. Before turning to these issues, I will suggest that there seems to be a fairly straightforward way of understanding the latter of the two versions above so that it deals with a kind of *effects*. Even though the approval argument intuitively is easily framed as an alternative to the no-harm principle, then, understanding 'support' *symbolically* rather than causally, perhaps this difference should not be exaggerated.

[120] Larmer 1997, p. 400, emphasis added
[121] Simon et al. 1972, p. 151, emphasis added
[122] Cowton 1998b, p. 187, emphasis added

According to the second version of the approval argument, I said, investing in morally unacceptable companies *expresses* an approval of their activities, or *communicates* such an approval to others, quite irrespectively of what actual attitudes the relevant investors have. Now, one might wonder how one knows that this actually is so – that is, how is one to determine what a certain action communicates? Obviously, proponents of the approval argument cannot appeal to the intentions of the agents who perform the actions themselves here if they want to avoid the kind of challenge outlined above. The most plausible story in this context, I believe, is that what a certain action communicates to a great extent is determined by what the *recipients* of the communication, i.e. those who experience or are affected by a certain communicative action, *take the action to signify*. Even though this may not be so direct – it seems possible to say that some recipients, at least under certain circumstances, may *misunderstand* what a certain action signifies (and so the action's meaning is not fixed by what the recipients take it to signify there and then, but rather by what could be called social convention) – an action cannot have a fixed (conventional) meaning if it is not at least *normally* understood to have this meaning by those who come into contact with it.[123] Now, a first worry one now might have with regard to the idea above is whether its central tenet indeed is correct – that is, is it really so common *for non-SRI people* to understand investments as expressions of *approval* of the underlying companies? More generally, one may wonder what could be morally problematic with performing an action that other people take to signify an approval of something immoral or harmful.

I suggest that the kind of reasoning involved here, at least to some degree, actually is quite close to the kind of thinking discussed in relation to the no-harm principle above – that is, that investing in morally unacceptable companies could lead to *more bad things happening*. The salient point of this version of the approval argument, namely, would seem to be that communicating an approval of a morally unacceptable activity may *encourage companies to continue with this kind of activity*, or *discourage others from stopping it*. In the passage already quoted repeatedly, it should be noted, Simon, Powers and Gunnemann suggest something very close to the first part of this line of reasoning – "an institutional shareholder who votes routinely for management", they say, "lends a measure of apparent acceptance and approval to existing corporate poli-

[123] For a classic treatment of social conventions in language and otherwise, see Lewis 1969.

cies, thus *reinforcing* the management's predisposition to pursue these policies. In other words, until a shareholder ends his acquiescence in corporate violations of law or public policy, he *encourages* their continuation"[124]. But perhaps the kind of causal chain implicitly referred to in this passage is not the only one possible in the present context. In connection with this, another way of understanding Simon et al.'s references to the fact that shareholders generally are considered *owners* of limited companies could be noted. According to Simon et al., as we have seen, investors could be said to participate in the wrongdoings of companies in part exactly because they are considered owners in this way. But how should this connection be spelled out more exactly? Well, perhaps the idea is simply that because most people generally regard the shareholders of a certain limited company as the owners of that company, investing in a morally unacceptable company conveys the message to the general public that what the underlying company does is basically okay. As Cowton says, "*[t]o many observers*, passively holding a stock and making a return from it indicates some support for a particular activity"[125]. To put this point in other terms: Investing in a morally unacceptable company could perhaps not only encourage its management to continue with what it is doing, but it could also *encourage other investors* to invest in this company (thus, of course, furthering *more* encouragement for the management), or perhaps discourage them from avoiding investing in the company for moral reasons.

The kind of effects referred to by both lines of reasoning above, it should be noted, are indirect, and mainly social, effects that investing in morally unacceptable companies could have.[126] I will discuss such effects more thoroughly in the following chapter. Before leaving the issue of (indirectly) causal interpretations of the approval argument, I believe another interpretation should also be noted – an interpretation which

[124] Simon et al. 1972, p. 151, emphasis added

[125] Cowton 1998b, p. 187, emphasis added

[126] Perhaps a third interpretation of the causal chain and the indirect effects involved here is possible. According to some writers, the problem with investing in morally unacceptable companies is not that one necessarily approves of their activities *at the present moment*. However, holding the shares of a company and making a profit from them may lead to a change of attitudes and motivations – that is, it may lead to one's *starting to* approve of the companies' activities (cf. Brill et al. 1999, Irvine 2002, Lang 1996, Simon et al. 1972). Once again, one may ask what could be wrong with this. The most straightforward answer, I believe, is that approving of a certain activity may lead to one's performing actions which are beneficial to this activity and to one's refraining from performing actions which counteract it (cf. Irvine 2002). Thus, one may in effect encourage *oneself* to do more bad things. I will not comment further on this idea here.

actually seems to go all the way towards being a kind of *pragmatic* line of reasoning. What really is wrong in the present context according to Simon, Powers and Gunnemann, as we have seen, is "vot[ing] routinely for management" or "otherwise fail[ing] to complain about corporate practices". At least, this is the kind of behaviour which they suggest communicates an approval of the activities of the company in question. But, perhaps the idea simply is, then, that investors have moral reasons to *do something more*. In order for it to be morally permissible to invest in morally unacceptable companies, investors need to complain about the activities of these companies and, in essence, (try to) reform them.

A similar line of reasoning, I believe, can actually be found in Kolers' paper. According to Kolers, the austere conclusion stands as long as investors only have two choices – either (1) investing quietly in a certain company, or (2) not investing at all. When these are the only alternatives, Kolers argues, investors should choose (2) and thus refrain from investing *period*. At one place, Kolers actually refers to the kind of reasoning put forward in Larmer's paper[127] to rationalise this claim:

> One objection [to the claim that bank deposits pass on moral contamination] is that each depositor's proportionate contribution to any loan of the sort that enables [morally unacceptable companies] to do wrong is miniscule, and so not blameworthy. One reply to this is that bank depositors implicitly *condone* the lending and investing behaviour of their bank [...]. And condoning immorality is immoral. Alternatively, we may focus on *participation*; to invest in an unethical enterprise is to participate in an unethical enterprise.[128]

In the end, however, Kolers suggests that there actually is a way for investors to avoid (the full extent of) the austere conclusion. This is because there normally is another alternative open for investors besides the ones mentioned above: (3) one can become an *activist* investor and try to reform the (at least by implicature) morally unacceptable companies one invests in. Kolers writes:

> Shareholders are empowered to propose initiatives and vote "proxies" at stockholder's meetings. This right did not always exist (and has periodically been jeopardized by corporate lobbying of regulators). Whenever and wherever it does not exist, the austere conclusion stands. For where the only choice is whether to add money to a pool, then we must avoid the *cess*pools. But as it is, shareholders frequently propose initiatives. Many of these measures are aimed not at maximizing returns,

[127] Larmer 1997
[128] Kolers 2001, p. 440, first emphasis added

> but at ethical conduct of various sorts, from mandating equal opportunity/affirmative action programs to avoiding environmental degradation.[129]

As the reader might note, we are now back to the issue of the avoidance strategy versus the activist strategy. According to Kolers, it would seem, the only thing which can mitigate some of the bleak prospects of the austere conclusion is shareholder activism – that is, the only way to *invest in a morally justifiable manner* is to invest according to the activist strategy. I take it as a positive feature of Kolers' position here that he is able to explain rather directly why proponents of the avoidance strategy sometimes should give moral room for the activist strategy – if it is possible to change a certain company's evil ways by investing in it, the standard case for avoidance is not simply *outweighed*, on Kolers' account, but it *disappears*. Now, why is this so? Kolers explains his position by way of an analogy:

> It is instructive to consider resignation in protest from government office as analogous to divestment. Consider government officials who resign after the first sign of shady dealings. We may consider such persons heroic, and say the same of those who embrace the austere conclusion. But we may also accuse these government officials of wasting valuable moral opportunities. Instead of resigning, a well-placed official can take proactive measures, and thereby contribute importantly to reform. After resigning, however, the ex-civil servant is useless to this effort. [...] Similarly, divestment is appropriate after multiple efforts have failed to reform an immoral company. But divestment is not a reasonable starting point. Especially when consumers are ill-organized or apathetic, investing may be a necessary condition for having any positive effect on a company's policy. In such a case, aloofness helps no one.[130]

I will return to this argument in the following subsection, and so some of the details of Kolers' account may be disregarded here. The point I wish to make in connection with the second version of the approval argument is simply that the following line of reasoning would seem to be Kolers' more general argument: The reason (or, at least, part of the reason) for why quietly investing in morally unacceptable companies expresses an *approval* of these companies' activities is that investors could have *done so much more* – they could have complained about the companies' activities and tried to reform them. It is this inaction which amounts to expressing an approval of immoral business practices. (As

[129] Ibid., p. 447
[130] Ibid., p. 448

Martin Luther King is quoted as having said: "The ultimate tragedy is not the oppression and cruelty by the bad people, but the silence over that by the good people.") But, how should this kind of argument be understood more exactly? Well, at least according to Kolers, the salient point of the argument is that investors – just like government officials – have moral reasons to "take proactive measures, and thereby contribute importantly to reform", at least in the cases where this is realistic.

My interpretation of the kind of thinking invoked by Kolers above is that it actually is pragmatic in a fairly straightforward sense. According to pragmatic arguments for the avoidance strategy, I have said, investors have moral reasons to avoid investing in morally unacceptable companies because they have moral reasons to *promote the good*. Now, according to the present interpretation of the approval argument, what is wrong with investing in morally unacceptable companies is basically that *not enough good is done*. Simply investing quietly in these kinds of companies, when one could have tried to reform them instead, is wrong, then, because one does not do everything that morality requires of us as moral agents. I will consider the issue of what influence individual investors can have on public limited companies in chapter VI. In chapter VII, furthermore, I will tackle the issue of how much morality really requires of us as moral agents. If the approval argument is to work as a *principled* argument for the avoidance strategy, of course, the interpretation above does not fit very well. I will now turn to what I think is a more direct interpretation of (the intentions of proponents of) the approval argument in this regard.

4.2 Virtue ethics and appropriate attitudes

According to one interpretation of the kind of argument currently under consideration, I have said, the salient point is that investing in morally unacceptable companies communicates some sort of approval of these companies' activities to others, and this is morally problematic mainly because of its *effects*. Although this sort of idea may qualify as a kind of principled argument in favour of the avoidance strategy, similar to the no-harm principle in many regards, I believe it should be noted that it rests on a somewhat unsteady foundation. Perhaps it is actually true that most investments in morally unacceptable companies have this kind of effect – but this is a contingent empirical matter. The ideal for those who wish to make the avoidance strategy a *matter of principle*, I believe,

would be if approving of morally unacceptable activities, or expressing such an approval, were somehow morally problematic *in itself* – that is, not because of some possible effects. In this section, I will discuss an interpretation of the approval argument which would seem to lead in this direction, inspired by another part of the non-consequentialist tradition in moral philosophy.

The idea that it is morally problematic in itself to approve of certain immoral activities, I believe, is fairly intuitive. According to how most of us talk and think about moral matters, the scope of things which can be right and wrong, or more generally subjected to moral scrutiny, I believe, does not only include actions but also *attitudes* and *intentions*. So, for instance, not being sufficiently charitable may be wrong, not simply because it under most circumstances is wrong not to give money away to those who need it better, but because the underlying *attitude* is inconsistent with the kind of attitudes which we believe morality requires. This kind of thinking has taken a more theoretical form primarily in the tradition of *virtue ethics*.[131] According to many proponents of virtue ethics, morality is actually first and foremost something which requires of us to be a certain kind of persons, namely *virtuous* persons, and it is only by implicature that morality requires of us to perform certain actions and abstain from others.[132] I cannot discuss the general merits and demerits of virtue ethics at any considerable length in the present context. Armed with only this brief outline of this general kind of thinking, however, I will now try to interpret the approval argument in a way which does not appeal to pragmatism or indirect effects.

Exactly how the virtue component of the approval argument is spelled out most fruitfully is perhaps not clear. In order for the argument to work as an argument for the avoidance strategy, it should be noted, surely there needs to be *some* sort of connection to morally appropriate *actions*, and not just appropriate attitudes. The understanding I suggest is the following: When an investor is confronted with the morally unacceptable nature of the activities of a certain commercial company, there is something morally inappropriate about her *not (morally) disapproving* of this company, and then also *not acting on this disapproval*. For instance, when an investor learns that a company she has invested in (or

[131] The virtue ethics tradition stems from philosophers such as Aristotle and David Hume. For some recent discussions of virtue ethics, see Crisp and Slote 1997, Hursthouse 1999, Slote 1995.

[132] Cf. Crisp and Slote 1997

can invest in) has a practice of discriminating against women, it seems inappropriate for her not to feel at least somewhat *dismayed* by the activities of this company and to react with an action appropriate to dismay – that is, to sell her shares (or refrain from investing). On this account, virtue requires two things of investors: first of all, that they should (morally) disapprove of morally unacceptable companies, and, second of all, that they should perform an action which is appropriate to such an attitude, i.e. to employ an avoidance strategy towards these companies. Although the application of this kind of thinking to the present context may be my own idea, I believe this take on what virtue requires of moral agents should be in line with how most modern virtue ethicists reason concerning such things.[133] It may be noted, furthermore, that this account could be seen as an elaboration of the appeal to conscientiousness discussed in the previous chapter, and thus should not be too far away from how many SRI proponents reason. Even though it is not necessarily wrong to invest in companies one morally disapproves of oneself, there are simply certain companies that one *should* disapprove of, and therefore also refrain from investing in.[134] Not doing so is either to fail to have the appropriate attitude towards morally unacceptable companies, or to fail to act in a manner appropriate to this kind of attitude.[135]

An advantage of the account above, I believe, is that it allows us to see how proponents of the approval argument can avoid the kind of challenge outlined in the previous subsection. A problem for the idea that everyone who invests in morally unacceptable companies actually approve of those companies' activities, I said, was that this easily could be disputed by investors themselves. Consider first a fairly straightforward attempt at meeting this challenge: Perhaps proponents of the approval argument simply could say that "actions speak louder than words" – that is, say that it is possible for investors to be *mistaken* about their own motives or likings. Even though investors perhaps may *say*, and even *feel*, that they do not like the activities of the companies they

[133] Cf. Crisp and Slote 1997, Slote 1995. For a version of virtue ethics with an even stronger focus on appropriate actions, see Hursthouse 1999.

[134] A similar argument could perhaps be developed for the supportive strategy – there are certain companies one simply *should* think favourably of and invest in. I will not discuss this idea further here.

[135] Perhaps it is reasonable to give some room for inculpable ignorance in this account – that is, virtue may not require that one morally disapproves of a certain morally unacceptable company if its moral unacceptability is not sufficiently salient. For a discussion of the limits of inculpable ignorance in the investment context, see Spurgin 2001.

invest in, their investment behaviour indicates that they actually *do* like these activities – or, at least, that they do not have a sufficiently negative attitude towards them. If an investor truly morally disapproved of the relevant companies' activities, proponents of the approval argument may say, she would simply choose not to invest in it. This way of understanding preferences is not new in any way, but is actually very common in psychology and social science, not least economics (where it is often referred to as *revealed preference* theory[136]).

Even though there is some plausibility in this suggestion and we often may be mistaken about our own motives and likings, I believe, building one's entire defence of the avoidance strategy on this kind of idea has its problems. Certainly, we sometimes do things which we afterwards wish we had not done, which in itself suggests that some of our actions connect quite badly to our motives. Furthermore, it is hard to believe that all human beings are *instrumentally rational* at every instance, which would seem to be what is required if we always are to be able to infer attitudes from actions.[137] It should be noted, however, that there is a second way of meeting the kind of challenge indicated above: namely to say, as I have done, that virtue demands *two* things in the present context. It is not sufficient to simply have the appropriate *attitude* towards morally unacceptable companies, I have suggested, but one must also *act* in a way appropriate to this kind of attitude. Even if one invests "for an altogether different set of reasons", then, and one does not particularly like the activities of morally unacceptable companies, it is inappropriate not to be moved by the immorality of these businesses to the extent that one also *takes action*. As long as one invests in morally unacceptable companies, once again, one would seem to either not morally disapprove of these companies in the way which morality requires, or not take the actions which are appropriate in relation to such a disapproval.

As I said above, I believe this argument from virtue ethics should not be too distant from how many writers implicitly understand these things. In order to further exemplify the kind of thinking involved above, it may be noted that an idea of this sort has been suggested in the context of *democratic responsibility*. According to Geoffrey Brennan and Loren Lomasky, two of the most notable writers on this issue, it seems difficult to hold individual voters responsible for the outcome of general

[136] Cf. Samuelson 1938, 1948, Sen 1973

[137] For a classic paper on some of the problems with revealed preference theory, see Sen 1973.

elections on traditional, consequentialist (or outcome-oriented), conceptions of responsibility. After all, the impact each individual vote has on such outcomes is miniscule and negligible.[138] However, perhaps there is another way of understanding responsibility in this context. According to Brennan and Lomasky, "it seems intuitively acceptable to hold up to reproach someone who voted for the Ku Klux Klan party candidate for president even though the Klandidate was not listed on the ballots of enough states to comprise a majority of the Electoral College, and hence could never win. One who registers himself as supporting the thoroughly unsavory is culpable irrespective of the tendency that such expression has to generate the repugnant state of affairs"[139]. But, why is this so? Brennan and Lomasky write:

> To cast a Klan ballot is to *identify oneself* in a morally significant way with the racist policies that the organization espouses. One thereby lays oneself open to associated moral liability whether that candidate has a small, large, or zero probability of gaining victory, and whether or not one's own vote has an appreciable likelihood of affecting the election result. Even stronger, to express such support in a forum in which no outcomes will be decided, such as in casual conversation or in response to a survey, is also odious. That is not, of course, to deny that any influence on electoral outcomes is morally relevant: To express support for *A* and to bring about the victory of *A* is worse than merely to express support for *A*. The point is not that effects on political outcomes do not matter, but they are not all that matters.[140]

According to Brennan and Lomasky, then, "[p]ersons are morally responsible not only for what they *bring about*, what they *intend* to bring about, and what they help to bring about; they are also responsible for what they *endorse* and for that with which they choose to *identify themselves*"[141]. They call this an "expressively grounded theory of democratic microethics"[142]. Although it is not completely obvious from these characterisations whether they understand endorsement and identification as *actual* or *communicated* attitudes, they go on to say that "[o]ne might indeed go further and maintain that persons bear responsibility for their characters and attitudes whether or not they choose to give them expression"[143]. I take this to indicate that Brennan and Lomasky

[138] Brennan and Lomasky 1993, pp. 175-86
[139] Ibid., p. 186
[140] Ibid.
[141] Ibid., p. 187, emphasis in original
[142] Ibid., p. 189
[143] Ibid., p. 187

appeal to an idea similar to the one outlined above and inspired by virtue ethics. I will now evaluate this line of argument.

The idea that it may be morally appropriate to have a certain kind of attitude towards morally unacceptable companies, I believe, is very intuitive. Indeed, if something could be called the *prima facie* case for the avoidance strategy[144], I believe, this is it. The problem for the kind of thinking introduced above, however, is, once again, what its practical implications more exactly are – that is, what *actions* are appropriate in the present context. From the fact that an attitude of *disapproval* may be morally appropriate, I believe it should be noted, it does not follow in any simple way that the avoidance strategy is the most appropriate line of action in relation to such companies. Perhaps, I suggest, it actually is not. According to Brennan and Lomasky, it may be noted, their expressive theory does not imply that voters simply have moral reasons to vote in whatever fashion they see fit. Rather, it implies that voters have to take an active interest in matters related to elections, seek out information about what different political parties stand for, and so on and so forth. They write:

> If the quality of expressive acts matters, it is not enough merely to go to the polls and vote any old how. Unless the act of voting is performed with the requisite preparation and attentiveness, it will not satisfy canons of good citizenship. Certainly this view accords with the message of common morality. Merely to vote, we are told, is insufficient; one who goes to the polls only vaguely aware of who the candidates are and what they stand for, and who pulls the lever closest to his hand so that he can be done with the business and return to his couch and television, stands hardly, if at all, higher than one who never left the couch. That is in part because one who votes in so desultory and absent-minded a fashion is not to be credited with taking a stand on anything. [...] One who votes should know the issues, scrutinize candidates' statements, and make up one's mind after weighing all the facts: This is how the voter's duty is often expressed.[145]

The salient point of the line of reasoning above, I believe, is that not just any kind of action would seem appropriate for the virtuous voter. Simply avoiding the real political issues does not amount to taking an appropriate stand.

It now seems appropriate to return to Kolers' remarks about the ineffectiveness of divestment noted briefly above. According to Kolers, to

[144] Cf. chapter II, section 2.
[145] Brennan and Lomasky 1993, pp. 189-90

simply avoid investing in morally unacceptable companies, or to quietly sell the shares one has in these, is often an easy way out. His analogy, the reader may recall, is with government officials – "[i]nstead of resigning, a well-placed official can take proactive measures, and thereby contribute importantly to reform. After resigning, however, the ex-civil servant is useless to this effort"[146]. Kolers continues:

> Similarly, divestment is appropriate after multiple efforts have failed to reform an immoral company. But divestment is not a reasonable starting point. Especially when consumers are ill-organized or apathetic, investing may be a necessary condition for having any positive effect on a company's policy. In such a case, aloofness helps no one.[147]

I believe Kolers here is on to something important. A number of SRI writers have noted how simply avoiding morally problematic companies could be seen as a "head in the sand approach"[148], the point of which mainly would seem to be to allow investors to "keep their hands clean"[149] of certain societal problems rather than to actually try to address them. A case could be made, I believe, for saying that virtue ethics requires more than this from individual investors. Now, surely this case requires a number of further arguments and considerations, many of which I have yet to discuss. What my present discussion indicates, however, is that the virtue interpretation of the approval argument brings proponents of the avoidance strategy no closer to a plausible justification of this strategy. Just as the appeal to conscientiousness in the previous chapter, I suggested, needs to be amended with further arguments in order to give plausible recommendations to investors, so those in favour of the appeal to virtue ethics would have to appeal to other kinds of arguments in order to explain why this appeal really implies the avoidance strategy.

But what would these other kinds of arguments be? As far as my discussion so far is concerned, it would seem, there are no promising *principled* arguments for the avoidance strategy. Perhaps, then, one has to look towards *pragmatic* considerations.

[146] Kolers 2001, p. 448
[147] Ibid.
[148] Vogel 1978, p. 150
[149] Cf. Cowton 1998b, Hollenbach 1973, Kolers 2001, Monahan 2002, Valor and de la Cuesta 2007

5. CONCLUSIONS

In this chapter, I have discussed what I have called (putatively) principled arguments in favour of the avoidance strategy. Such arguments are sometimes expressed in the simple form of "it is wrong in itself to invest in morally unacceptable companies". However, I have required that some further specification should be made as to exactly why this may be wrong – and why, say, living in the vicinity of a morally unacceptable company's headquarters, or having some other kind of (close) connection to such a company, is not wrong. I have discussed what I take to be the three most important suggestions as to how a (putatively) principled argument for the avoidance strategy could be spelled out – the tainted-profits principle, the no-harm principle and (what I have loosely called) the approval argument. Unfortunately, I have argued that none of these is completely satisfactory – at least as far as the versions of these arguments I have discussed so far are concerned.

The discussions in this chapter have covered many layers and it is therefore difficult to summarise them in any simple way. However, I have argued that a central problem with all three of the arguments outlined above is that their practical implications are far more complex than what proponents of the avoidance strategy generally would seem to have assumed. Many arguments would seem to imply, for instance, that it is equally morally problematic to sell shares in morally unacceptable companies as it is to buy them. Furthermore, most arguments lead in the direction of what Kolers calls the austere conclusion, i.e. that investors have moral reasons to refrain from investing in almost *all* companies eligible for investment. Now, perhaps these conclusions can be avoided by revising these arguments, or interpreting them in some other way, but I have suggested that in many such cases the basic implication that investors have moral reasons to avoid investing in morally unacceptable companies actually disappears altogether. Far from being principled arguments for the avoidance strategy, then, it is utterly unclear what many of these arguments should be taken to imply. There are some versions, however, which I have yet to consider.

On some understandings of seemingly principled arguments for the avoidance strategy, I have said, what is appealed to is basically a kind of pragmatic consideration. On others, what is appealed to is a kind of indirect, social effect and, on yet others, I have said that the issue of spelling out all of the relevant considerations is so complex that it is best to leave it until the following chapter. In the following chapter, then, I will

consider pragmatic arguments for the avoidance strategy – but I will also have occasion to return to a number of things left untouched in the present chapter.

Chapter IV
Making a Difference Through Screening

1. Pragmatic arguments and screening

What difference can an individual investor make through buying and selling shares on the stock market? In the previous chapter I discussed what I called (putatively) principled arguments in favour of the avoidance strategy, i.e., arguments which aimed to show that it is morally problematic *in itself* to invest in morally unacceptable companies. In this chapter I will (mainly) discuss another group of ideas, which I believe are best described as *pragmatic*. The main characteristic of these kinds of ideas is that they focus on the *effects* or *consequences* of investments in different kinds of companies, that is, they are *outcome-oriented* in a certain fashion. It may be noted that there are many similarities between this group of ideas and one idea which I have already discussed, namely the no-harm principle – most importantly, the thought that what matters is the *actual impact* on companies is central in both accounts. For this reason, I have saved some of the discussion of this principle for the present chapter. As will soon become obvious, however, the kind of pragmatic reasoning which will be my main concern in this chapter can go a lot further than the no-harm principle can. According to this kind of reasoning, what characterises a genuinely ethical investment strategy

is that it makes a positive 'difference' in terms of corporate change or socially beneficial outcomes.

As noted already in the previous chapter, the campaign against the apartheid regime of South Africa played a central role in the formation of SRI as such. Now, according to many writers, not only did this campaign have a tremendous impact on the growth of the SRI movement, but the South Africa campaign also shifted the focus of this movement. Domini and Kinder, for instance, describe the impact of the campaign as follows:

> South Africa marked the transition from divesting sin to investing for positive social change. Over the twenty years between 1969 to 1994, South Africa catalyzed a change among social investors from an inward-focused desire for consistency between one's values and one's investments to an outward-oriented expression of how society should work.[1]

Influenced by the South Africa campaign, Domini's book on SRI carries the conspicuous subtitle "Making a Difference and Making Money".[2] According to Domini, SRI is properly understood as having two goals. One of these is personal consistency (along the lines of the idea described in chapter II, section 2) and the other is "being a part of a dynamic force for the process that creates positive social change"[3]. To explain the vision behind this second goal, Domini writes:

> When a large percentage of the owners of the world's business enterprises believe that profit must not come at the loss of human or environmental justice, then companies will respond. They will serve as effective means of delivering desired goods and services to the population in a manner that does not harm their owners, who are – after all – living beings. If the owners of the economic engine of the world recognize that money doesn't help if you can't breathe, then they will create rules that allow for both breathable air and financial return. Socially responsible investors recognize that at a certain level the owners of the economic engine dictate the management of that engine. The socially managed portfolio is a part of something larger than itself; it is a part of a global reformation of the way business is done.[4]

Many other authors seem to share Domini's view of SRI as an instrument of change. Ritchie Lowry, for instance, defines SRI as "putting

[1] Kinder and Domini 1997, p. 15
[2] Domini 2001. See also "Investing with your values – Making money and making a difference" (Brill et al. 1999).
[3] Domini 2001, p. 16
[4] Ibid., p. 17

money to use in something that offers profitable returns and that actively supports and promotes a higher quality of life, welfare and social relations in society"[5]. Miller writes: "Do these approaches – *avoidance*, *alternative*, or *activist* – really have an impact on corporate behavior? We think the answer is yes, although, admittedly, at least in the case of an *avoidance* strategy, that is a difficult conclusion to document"[6].

According to Pietra Rivoli, the claim that investors can make a certain difference is perhaps one of the most controversial claims of the SRI movement. But nonetheless it is extremely common among its proponents – not to mention in the commercial material for different kinds of SRI funds:

> Perhaps the most striking claim of the SRI industry – and certainly the most appealing to many socially conscious investors and perhaps the most dubious to critics – is the claim that SRI "makes a difference" to society. Advertisements for Domini Social Investments state that "social investors are shaping tomorrow's world by investing responsibly." Material from the Friends Ivory Funds tells prospective investors that "you could help create a better world." A recent conference for the SRI industry was titled "Making a Profit while Making a Difference."[7]

A few things should be noted about these types of formulations. First of all, the possibility of influencing corporate behaviour is most often viewed as an argument for *SRI as such*, or SRI generally, and not exclusively as an argument for the avoidance strategy. In fact, some seem to say, if this is the main argument for SRI generally, then perhaps it shows that other types of strategies are also important – i.e. it is an argument for taking SRI a step further, beyond mere avoidance.[8] Remember, for instance, how Cowton argued that there are two major strands of ethical basis for SRI, one of which was the appeal to consistency (see chapter II, section 2). Now, the other of Cowton's "strands" is a quite complex story, which I will have reason to return to in the following chapter. Its main strain, however, is described as follows:

> The second discernable perspective, which can complement the first, tends to emphasize the consequences of corporate actions upon others, perhaps conceived of as different groups of stakeholders such as employees, consumers, or local communities. [...] If a duty not to impose

[5] Lowry 1993, p. 21, emphasis removed
[6] Miller 1991, p. 34
[7] Rivoli 2003, p. 273. For further examples of how this claim is expressed in commercial material from SRI funds, see Haigh and Hazelton 2004.
[8] Cf. Domini and Kinder 1986, Harrington 1992, Mackenzie 1997, Sparkes 2002

> damage or harm on other people is regarded as a minimum responsibility which runs through all morality, then it might be concluded that the avoidance of certain investments is appropriate, as under an "integrity" approach. However, a wider view of responsibilities is often taken which tends to justify supportive criteria or engagement in stockholder activism.[9]

I will only discuss the idea that SRI makes a difference in reference to the avoidance and the supportive strategies in this chapter, and hence leave the discussion about shareholder activism until the next two chapters. Arguments for the former kind of strategies from the supposed fact that they influence companies and/or society seem to have more in common than one might believe from the passage above – both lines of argument emphasise the way in which investors can make a difference *through buying and selling shares in different ways*. Of course, different writers may have different ideas as to which strategy is the more effective in this regard. As the strategies are possible to combine, however, it is actually not too uncommon for so-called ethical funds to combine the practice of systematically avoiding certain "morally problematic" companies with a practice of seeking out certain other companies with "exceptionally high moral standards".[10] I will evaluate the general idea behind all of these possibilities here, i.e. the claim that investors can make a difference through so-called *screening* – acts of buying and selling shares in different companies for moral reasons. In order to put this claim into some perspective, however, I will at one point (in section 5) also say something about what I take to be the most direct alternative to screening, namely *the philanthropic strategy* outlined briefly in the chapter I. Bringing this kind of strategy into the discussion, I believe, puts some perspective also on the principled arguments for the avoidance strategy discussed in the previous chapter.

[9] Cowton 1998b, pp. 187-88. If read literally, Cowton talks about the consequences of *corporate actions* here, and not the consequences of different *investment* strategies. However, I take it that it must be references to the latter kind of consequences that is typical of the kind of argument under discussion.

[10] This combination can be made in many different ways, of course. Cowton distinguishes between what he calls the 'two-stage approach', where morally praiseworthy companies are selected only after all morally unacceptable companies have been ruled out, and the 'trade-off approach', where an "overall score or rating for a company", including both negative and positive ethical criteria, is calculated (1998b, p. 183). For this latter approach, see also Gray et al. 1996, Schepers and Sethi 2003. It seems unclear to me if the latter approach really should count as a combination of avoidance and support. On this approach, it may be noted, very few of the effects which will be discussed in this chapter are likely to eventuate. However, see section 2 below.

The claim that screening can (or does) make a difference is certainly controversial, as both Miller and Rivoli acknowledge in the passages above. My evaluation of this claim will go along the following lines: In the following section I elaborate some on how I think the claim should be understood more precisely. Although most of the quotes above would seem to share a common ground, I distinguish (among other things) between what I call an individualist and a collectivist interpretation of the pragmatic argument for screening. In section 3, I assume an individualist interpretation of this argument, and analyse a fairly straightforward suggestion about how buying and selling shares in certain ways might make a certain difference. My main argument in this section, which is further developed throughout the chapter, is that, lacking clear evidence to the contrary, the best guess would seem to be that individual investors very seldom can make any considerable difference to companies or society by (quietly) screening in or out public limited companies. I note an important exception to this rule but, for the most part, I suggest, considerations of financial theory and experience would seem to tell against the pragmatic argument for screening.

Perhaps, however, some proponents of the SRI movement should be understood as suggesting a collectivist interpretation of the pragmatic argument. In sections 4 and 5, I analyse this sort of interpretation, and contend that investors may be able to make a difference on the collective level, at least if the relevant collective is sufficiently large. I argue against the relevance of this contention to the issue at stake here, however – i.e. the issue of how individual investors ought to behave. In section 6, I return to the individualist interpretation and analyse further suggestions about how individual investors might make a difference by screening investments in different ways. My negative conclusion is further elaborated on here, but I also indicate in what direction I think the suggestions should go in order to become more promising. A brief summary of the results of the chapter is given in section 7.[11]

2. 'Making a difference': Preliminary remarks

Justifying the avoidance strategy (or, for that matter, the supportive strategy) by reference to claims about how investors can "have an impact on corporate behaviour", or can "make a difference", certainly

[11] For an earlier sketch of some of the arguments of this chapter, see Sandberg 2007b.

seems different from invoking the kind of (putatively) principled arguments discussed in the previous chapter. In the beginning of the previous chapter, I described this kind of reasoning as *pragmatic*, or (in a wide sense) *consequentialist*. According to such a kind of reasoning, I said, the justification of the avoidance strategy lies mainly in the *positive effects* which a systematic avoidance of certain companies may have. Before I begin my evaluation of the suggestions noted above, it may be useful to say something more about these general characterisations. Is it really plausible to interpret the writers quoted above as subscribing to this kind of generally pragmatic thinking? And, if it is, how should the pragmatic argument for screening be understood more exactly?

Looking at the passages above, I believe it should be obvious to most readers, first of all, that many are quite *vague* and perhaps also *ambiguous*. It may be noted, for instance, that some writers say only that investors ought to have an "impact", or make a "difference", but not what sort of impact or difference they think is necessary in this context. I think it is obvious, however, that the idea must be that investors ought to have some sort of *positive* impact on the relevant companies – that is, either they should *counteract the immorality* or *harmfulness* of their activities, or they should *encourage the good things* certain companies do – in order to receive moral credit. Otherwise, simply influencing a company to change the colour of some product of theirs, or even influencing them to make the product less safe for people to use, would count as 'making a difference'. It hardly needs saying that this is a highly unreasonable interpretation of these writers' claims.

Another feature of the passages above, one might note, is that most writers only say that investors ought to make "a" difference, or that they ought to have "an" impact. How should this feature of such suggestions be understood? On one interpretation, this feature would seem to go against a central tenet of *consequentialism* as most philosophers understand it – namely as the idea that agents should *maximize* their positive influence on outcomes (or make outcomes *as good as they can be*).[12] Perhaps some SRI proponents would argue that as long as investors produce *some* positive effect, it is irrelevant whether or not this is the *best possible* effect – i.e. it is irrelevant whether or not they could have done something *even better*. I will discuss what I believe is the most plausible

[12] For a more stringent formulation of (and discussion about how to formulate) consequentialism, see Carlson 1995.

view on these matters in chapter VII. Until that chapter, then, I will put the issue of how to understand ideas about 'making a difference' in this respect to the side. That is, the general idea I want to discuss here is simply the idea that investors have moral reasons to invest in a certain manner to the extent that they thereby make *at least some sort of* positive difference.

This kind of idea, I believe it should be noted, is consistent also with many kinds of *non-consequentialist* moral theories – which is why I prefer to call it *pragmatic* (or consequentialist *in a wide sense*).[13] According to most moral theories, if a certain action can prevent some evil or make the world a better place in some respect, agents have at least *some* moral reason to perform this action. This is because agents have at least some moral reason to *promote the general good in society*.[14] Now, whether this is a reasonable position to take, and, if so, exactly how much weight should be given to this kind of reason, are matters which I will not address in the present chapter. As far as my present discussion is concerned, then, I am open to discuss the kind of general 'makes a difference'-claims which many other writers have discussed. Richard Hudson, for instance, describes one of the purported duties assumed by 'ethical investors' as simply "increasing the amount of good in society through the consequences of their buying and selling behaviour"[15]. Similarly, Rivoli – in trying to evaluate the idea that SRI makes a difference – poses the following question: "[D]oes SRI in fact lead to better social outcomes than conventional investing?"[16].

One may now inquire as to exactly what sort of effects are relevant to the question of whether SRI makes a difference or not. It is interesting to note that, judging from the passages above, there seems to be somewhat different ideas about this within the SRI movement. Some writers, for instance, speak in quite general terms about the effects on people and society of different kinds of investment strategies – according to

[13] It may be noted that some proponents of the Christian view on investment ethics actually go very far towards requiring maximization of the good. According to a paper by the Christian Ethical Investment Group in the UK, for instance: "In entering the world of the Stock Exchange, the Church must not imagine that it is operating in a realm of moral neutrality. Ethical complacency is no less of a danger to guard against. The Church's task is not simply to avoid the obviously objectionable investment, but to work constructively to *maximise good and minimise evil in every investment*" (1992, p. 8, emphasis added). For further discussion about the place of pragmatism in religion, see Powers 1971, p. 54-84.

[14] Cf. Kagan 1989

[15] Hudson 2005, p. 641

[16] Rivoli 2003, p. 273

Lowry, "SRI, then, is putting money to use in something that [...] actively supports and promotes a higher quality of life, welfare and social relations in society"[17]. This would also seem to how Hudson and Rivoli have understood the pragmatic argument, talking generally about "good in society" and "social outcomes". Other SRI writers, however, it may be noted, focus only on the effects on *companies* and *corporate behaviour* – as Miller asks: "Do these approaches [...] really have an impact on corporate behavior?"[18]. It is unclear whether there is any real conflict between these ways of formulating the idea currently under discussion, i.e. the claim that investors can make a difference through screening. In order to preclude some possible misunderstandings of the pragmatic argument for screening, however, I think some further comments may be necessary here.

First of all, one reason for why some may have their focus on the effects on corporate behaviour may be that they think that *corporate wrongdoings* should be considered especially problematic from an investor's point of view.[19] In the previous chapter, I said that principled arguments for the avoidance strategy often are formulated (or, at least, can be understood) in terms of how the wrongfulness of certain corporate acts *spill over* onto the investor, making investments in companies which perform such acts wrong as well. Now, from the point of view of *pragmatic* arguments for screening, I do not think that this factor should be of equal importance. One way in which investors could make a certain difference is of course through reducing the number of wrongdoings performed by certain companies. However, this does not seem to be the only, perhaps not even the most important, way of making a relevant difference. If an investor could influence, say, the slave-keeping company XYZ into treating their slaves just a little bit better, this would obviously make for a very relevant difference – even though the *number* of wrongdoings performed by the company may be exactly the same.[20]

[17] Lowry 1993, p. 21

[18] Miller 1993, p. 21

[19] Irvine seems to flirt with this idea, at least in his original article. According to his view there, the enablement principle "is concerned [...] with how our investing in [a] company will affect its ability to do wrong in the future" (1987, p. 236). In his later article, however, both the enablement principle and the tainted-profits principle are stated in terms of suffering rather than wrongdoing: "[T]aking steps to profit from the suffering of others is not necessarily wrong. What *is* wrong is taking steps *in a way that increases the suffering of others*" (2002, p. 59, emphasis in original).

[20] According to some consequentialists – for instance, act-utilitarians – the number of wrongdoings produced by a certain act is totally irrelevant. What is relevant is only how the ratio of

Generally speaking, investors may make wrongful behaviour slightly more tolerable to the people subjected to it, and they may also make righteous behaviour even better from a societal point of view. I see no reason for why effects of this kind should not be taken into consideration from the kind of pragmatic perspective currently under discussion.

An interesting implication of the previous point is of course that it would seem harder to decide what companies to invest in and what companies not to invest in on the pragmatic idea than on the ideas discussed in the previous chapter. In fact, on a pragmatic argument for screening, I believe, the issue of which companies should be avoided (or sought out) is *impossible to isolate* from the issue of what difference different investment strategies make under different circumstances. What makes this so is the fact that the moral status of the relevant company's activities plays no *direct* part in the pragmatic justification of either the avoidance or the supportive strategy – that is, it is not simply because a company is morally unacceptable, for instance, that investors may have moral reasons to avoid investing in it. If the moral status of the underlying company's activities plays any part in this kind of reasoning, it is only *indirectly*, i.e. perhaps making it more probable that a certain avoidance campaign may make some kind of positive difference.

A feature of this kind of implication which may seem problematic for SRI proponents is obviously that it does not seem clear whether the pragmatic argument supports exactly the kind of avoidance schemes employed by so-called ethical funds, i.e. an avoidance of only companies in, for instance, the tobacco and weapons industries. It does not even seem clear, by the way, that investor have any moral reasons to avoid companies in these industries. A feature of the pragmatic argument for the avoidance strategy which I take to be extremely positive for proponents of the avoidance strategy, however, is that it seems to allow them to avoid *the austere conclusion* discussed in the previous chapter. Even though all commercial companies may be morally 'tainted' in some way or another, it should be noted, investors could still have pragmatic moral reasons to avoid investing in the worst of these companies, and to seek out and invest in the best.[21] I believe it should be obvious that this

happiness over suffering in the world is affected by an act (see Gren 2004, pp. 33-35). I am not assuming this view here, but allowing that reduction of the number of wrongdoings performed by companies in itself may constitute making a positive difference.

[21] Thus, pragmatic considerations could justify the 'best in class' practice of many ethical funds – see chapter III, note 89.

feature of the pragmatic standpoint really speaks to its favour, at least compared to the absolutist ideals of the (putatively) principled arguments discussed in the previous chapter.

Now, are only the possible effects on *companies* relevant for the idea that investors can make a certain difference, or are also effects on *the larger society* relevant in this context? Well, I think it is best to leave this question open here, at least for the time being. An obvious reason for focusing on the effects on corporate behaviour, which does not involve the contention that corporate wrongdoings deserve special attention, has to do with what is often considered to be the *point* of the avoidance and supportive strategies. In the next section, I will analyse a fairly straightforward suggestion about how screening might make a certain difference, building on some suggestions noted already in the previous chapter. The idea here is that investors may influence the managers of certain companies into changing their ways, or choosing the activities of the company differently, through buying and selling the company's shares in certain ways. In section 6, I return to discuss other types of more indirect and societal effects of similar practices.

A last point before I leave the quotes above. How are we to understand the idea that "SRI" makes a difference, present in many accounts of the pragmatic argument for screening, and in what way do "investors" have moral reasons to screen their investments? In the previous chapter, I distinguished between two interpretations of the notion of 'contribution' invoked by proponents of the no-harm principle; one fairly straightforward and one involving what I called 'participatory effects'. I believe a similar distinction could be useful also in the present context. It may be noted that some writers, like Domini, seem to speak mainly of the difference that investors can make *as a collective* – "When a large percentage of the owners of the world's business enterprises believe that profit must not come at the loss of human or environmental justice, then companies will respond".[22] This understanding of the 'makes a difference'-claim seems, at least in principle, consistent with the idea that individual investors cannot make any difference on their own, but that only a large number of investors can make a difference together. However, other writers seem to support the further idea that investors can make a difference *individually*. Brill and Reder, for instance,

[22] Domini 2001, p. 17. See also Judd 1990.

comment as follows on the fact that socially responsible investing sometimes can be more demanding than its traditional counterpart:

> Certainly, as a socially responsible investor, you will need to process a bit more information than traditional investors. However, that is where the satisfaction of SRI comes in, because it is that extra step that ensures that your money is invested where it is doing both you and the society you live in some good.[23]

Unfortunately, the claim that investors can make a difference individually is seldom separated in any exact manner from the claim that investors can make a difference as a collective. In the opening paragraph of their book, for instance, Brill and Reder seem to oscillate between an individualist and a collectivist interpretation of the pragmatic argument:

> Suppose each of your investment dollars – including every dollar in your bank account – could help build the world you want for yourself and your family [...]? Well, that's exactly what your money *can* do. With every passing day, more individuals and institutions are joining the parade of socially responsible investors, which means that their influence is making even greater impacts on the marketplace.[24]

Since my main concern in this book is the issue of how *individual* investors ought to invest, I will, for the most part of this chapter, assume an individualist interpretation of the claim that investors can make a difference through buying and selling shares in certain ways. In section 4, I will return to the collectivist interpretation and discuss what implications there are from the possible fact that investors can make a difference together for the issue of how an individual investor ought to act.

3. The financial effects of screening

How could individual investors make a difference through screening, i.e. through carefully choosing what companies' shares to hold and not to hold (what shares to buy and sell)? In order to answer this question, I will begin by noting what the main *point* of screening often is considered to be. Obviously, public limited companies need investors first and foremost to *finance* their activities and to *raise capital* for new business ventures. As Domini says, "[t]he investor stands at the juncture between the engine of the world's economy", i.e. the modern corporation, "and

[23] Brill and Reder 1993, p. 12

[24] Ibid., p. 11

the fuel", i.e. money.[25] Many writers suggest that investors play a very important part in the stock market-driven world of today. Now, what could be the reason for choosing carefully what shares to hold and not to hold in light of this? Well, one reason could perhaps be to simply use the power over corporate finances one has as an investor to influence companies in a socially beneficial direction. According to Domini, again: "Why use investment portfolios to build a better world? Because, as bank robber Wille Sutton said, 'That's where the money is'"[26]. According to Monahan, furthermore, "[p]ut quite simply, socially responsible investing seeks to hit the corporations where it will really hurt, in their pocketbooks".[27] The main point of screening, according to many writers, then, is to have certain *financial* effects on limited companies.

In order to further explain the point of screening, and in what way influencing companies financially could be important from a moral point of view, many writers compare SRI to so-called ethical consumerism (or consumer activism).[28] Ethical consumerism is here understood as the practice of boycotting certain goods on the market in order to apply financial pressure to the producer or the supplier of this good and, in the end, to make the producer or the supplier change its ways in some manner (compare, for instance, vegetarianism and the fair trade movement). Perhaps the SRI strategies of buying and selling shares in different ways may be understood in a manner similar to this. The analogy with ethical consumerism, it should be noted, works better with the avoidance strategy than with the supportive strategy. Through boycotting certain shares on the stock market, this idea would seem to go, investors could put financial pressure on the managers of the companies whose shares are boycotted and, through this, they could make the companies change their ways. A roughly similar understanding of the supportive strategy could perhaps be that investors can support certain companies financially through investing in them, and through this they can also make these companies continue along the lines of their previous activities – possibly making their commitment to ethically worthwhile activities even stronger. Or, perhaps, supportive initiatives could have effects on the not-so-ethical companies as well – giving them

[25] Domini 2001, p. 13
[26] Ibid., p. 17
[27] Monahan 2002, p. 27. See also Harrington 1992, Mackenzie 1997, Melton and Keenan 1994.
[28] Cf. Brill et al. 1999, Gray et al. 1996, Miller 1991, Sorell and Hendry 1995, Sparkes 2002

incentives to change in order for them to be able to receive the support that other companies get.[29]

One may now inquire as to exactly how individual investors are thought to be able to influence companies financially. What kind of financial effects are we talking about here? Well, this is where things may start to become complicated, but I will begin by considering a rather direct kind of possible effects. I said in the previous chapter that proponents of the no-harm principle could try to sidestep some of the problematic practical implications of this principle by attempting to revise it somewhat. According to one suggested revision, the only relevant effects are those which investors cause *fairly directly*, or which it seems reasonable to say that investors 'hire' from companies. The relevant moral principle in this case, I said, was that "if there is an ethical problem with undertaking an action on one's own behalf, there is an ethical problem with hiring an agent to do it in one's stead"[30]. Now, an idea of how corporate wrongdoings are commissioned by investors, which I noted briefly in the previous chapter but did not have place to consider there, was that, even if shareholders are not involved in setting the actual agenda of companies, it may be argued that buying shares in morally unacceptable companies directly provides these companies with *fresh resources* – resources which they then can do whatever they like with. In this manner, whatever companies do, perhaps these activities could be said to be caused fairly directly by individual investors. I believe this is not an uncommon way of justifying the avoidance strategy among proponents of the SRI movement – according to Domini and Kinder, for instance, "[b]y avoiding investments in 'bad' companies, you're saying, 'Not with *my* money, you don't.'".[31]

In order to evaluate the pragmatic argument for screening, one may start by evaluating this idea about a very direct financial effect on public limited companies of buying their shares. Is it true that morally unacceptable companies do bad things *with investors' money*? Unfortunately, I think it should be fairly obvious that this is quite uncommon. As noted already in the previous chapter, most investors buy and sell shares on the stock market and, thus, from and to other investors – individual or institutional. One may now note an important implication of this way in

[29] Cf. Domini 2001, Haigh and Hazelton 2004, Mackenzie 1997

[30] Spurgin 2001, p. 289

[31] Domini and Kinder 1986, p. 3, emphasis in original. See also Beabout and Schmiesing 2003, Fehrenbacher 2001, Harrington 1992, Mackenzie 1997.

which investments work, namely that individual investors seldom buy shares *directly from the underlying companies*. The stock market is often referred to as the 'secondary' market for shares and bonds, i.e. a market where shares and bonds are sold *further* between different investors.[32] Since individual investors seldom buy shares directly from the underlying companies, these companies seldom see any of the money involved in stock market transactions and, thus, buying shares or bonds on the stock market does not generally have any direct effect on the company that has issued the shares or bonds.[33]

It may be noted that when a public limited company actually *issues* its shares, either during a new share issue or a bonus issue, of course, it receives money directly from those who buy the shares. May we then say that investors sometimes pay money directly to companies? Well, I believe there *are* cases in which this happens, but further circumstances indicate that such cases actually are *very uncommon* – at least when it comes to companies quoted on major stock exchanges. Ordinarily, the owner of the stock exchange, or some major bank, acts as what is called an *underwriter* of the new share issues of these companies.[34] This means that the bank or the owner of the stock exchange guarantees that the shares will be sold on the stock market, and, in effect, that they buy the shares in advance. Individual investors, thus, are not even in this case paying anything directly to the company. As already noted, furthermore, there is a strong tendency for individual investors to hold shares only indirectly, i.e. to invest through a unit trust or a pension fund, and, certainly, investing in such a fund gives no money directly to the underlying companies.

Perhaps the considerations above create more problems for proponents of the avoidance strategy than they do for proponents of the supportive strategy. Although buying the shares of most 'mainstream' companies, or companies quoted on major stock exchanges, may not have any direct financial effect on these companies and so does not lend any direct financial support to their activities, there might be some smaller-sized or especially risky business ventures which have no access to underwriters but need direct investment capital. The challenge for

[32] Cf. Hudson 2005, Keasey et al. 1998, Rini 2002, Schwartz and Francioni 2004, Teweles and Bradley 1998, Wyss 2000
[33] Cf. Brill et al. 1999, Hudson 2005, Irvine 1987, Lang 1996, Mackenzie 1997, Rini 2002, Schwartz et al. 2007, Teweles and Bradley 1998, Viederman 2002
[34] Cf. Irvine 1987, Keasey et al. 1998, Lang 1996, Schwartz et al. 2007, Teweles and Bradley 1998, Ward 1991, Wyss 2000

proponents of the supportive strategy, then, is to identify some such ventures which are dedicated to socially beneficial or morally praiseworthy activities (and I will discuss a class of small-scale social ventures which I think is especially promising in section 3.2 below). But the avoidance strategy is normally not conceived of as the strategy of only avoiding investments in morally unacceptable *alternative* or especially *risky* companies. Rather, the larger and more diversified a certain company is, the more likely it seems to be that this company is involved in some kind of morally problematic business area or practice (which it would be socially beneficial to counteract). So what could proponents of the avoidance strategy say here?

I think it is remarkable to see that so many SRI proponents fail to mention the considerations above. There may of course be a *rhetorical* point of formulating the no-harm principle in terms of fairly direct contributions to corporate harm and, so, the marketing dimension of much of the SRI literature (mentioned in chapter II, section 1) may come to mind once again here. Explaining exactly how the stock market works, furthermore, may be thought to be too complicated to be effective in advertising. It may be noted, however, that many academic writers have noted these considerations. Irvine, for instance, refers to the considerations above as *the old-stock objection* – "average investors, when they purchase stock, virtually always purchase *old* stock"[35]. Now, in reply to the old-stock objection, Irvine argues that even though investing in a company does not have any *direct* financial effects, a fairly obvious *indirect* effect is that on the underlying company's ability to raise capital *in the future*. The argument goes:

> Notice, to begin with, that a company's abililty [sic!] to issue new stock depends upon the willingness of investors to buy the stock when it is no longer new. In particular, no underwriter will buy a company's new stock unless there are investors who will buy it – no longer new – from the underwriter. If investors systematically shunned a company's old stock, the company would find it quite difficult to issue any new stock. Notice, too, that a company that found it difficult to issue new stock would be regarded as less creditworthy by lenders than a company that could readily issue new stock. After all, this latter company has a source of cash – viz., the sale of new stock – that the former company does not. Thus, investors' reluctance to buy a company's old stock would not only make it more difficult for the company to issue new stock, but would also make it harder for the company to borrow money. In short,

[35] Irvine 1987, p. 238

> investors' reluctance to buy a company's old stock makes it harder for the company to raise capital.[36]

I think we should grant that the kinds of indirect effects indicated here certainly are possible. As noted above, investors play an important role on the stock market in general – at the very least, we can now see, they play an important role when it comes to new share issues. If no individual investor wanted to buy a certain company's shares, then few major banks or other types of financial institutions would be ready to act as underwriters of new share issues of the company in question, and few banks would be ready to lend money to the company. And we might add other kinds of indirect effects – I will return to this below. Unfortunately, I believe the revised no-harm principle outlined above does not have access to these kinds of effects. Even though the harmful effects of a certain company's activities may be sustained by a certain increase in the its ability to raise new capital, which in turn is a consequence of a certain investor's purchase of the company's shares, it does not seem plausible to say that this is a 'fairly direct' effect of this investor's investment behaviour. Thus, proponents of the no-harm principle are back to the problems of the austere conclusion and the moral unacceptability of selling 'dirty' shares further. However, I will now leave this principle and return to the more general pragmatic argument for screening. In the remainder of this section, I will argue that even very indirect effects actually would seem absent in most cases of individual investors' screening activities. In section 3.1, I outline my main argument to this effect. In sections 3.2 and 3.3, then, I note some important exceptions to this argument.

3.1 The efficacy of market signalling

Is it true that individual investors can have the kind of indirect financial effects on limited companies which Irvine suggested above? Well, the first thing one should say about this issue, I believe, is that exactly what the effects of individual investors' screening activities are obviously is an empirical matter and so would best be decided by some hard empirical data. Unfortunately, proponents of the SRI movement seldom present anything of the kind. There seems to be two ways in which SRI proponents generally proceed when trying to explain why investing in a certain

[36] Ibid., pp. 238-39

company has indirect financial effects on the company in question: One is that they cite some *anecdotal* evidence which is taken to suggest that screening can have a positive impact either on companies directly or on society – most often, the success of the South Africa campaign is held out as unequivocal evidence of the efficacy of screening.[37] The other is that they, much like Irvine above, give *theoretical* or *a priori* reasons for why it seems reasonable to think that screening must have these kinds of indirect financial effects.[38] A more conscientious answer in the present context, I believe, is that more empirical research simply is needed. However, given our current state of knowledge, perhaps resorting to financial theory actually is the best one can do.

In what follows, I will take a closer look at some aspects of contemporary economic and financial theory and discuss how they relate to the question above (and I should perhaps already at this stage apologise to the reader for the highly technical character of most of what I will have to say). In order to answer the question above, I believe one should begin by noting the central mechanism through which the kind of indirect effects under consideration could be possible. The central mechanism which allows stock markets to regulate corporate activity, according to most economists, is the *share price*, i.e. the price buyers have to pay for different company's shares on the market.[39] This is a factor which very well could be used for the purposes of social campaigns. According to Mackenzie, for instance, it is mainly through effects on share prices that a company's ability to raise capital and borrow money could be affected.[40] Maintaining a high share price may not only allow companies to have an easier time raising capital and borrowing money, but it may also make them less vulnerable to hostile takeover bids and other problems associated with being quoted on a stock market.[41] According to Hudson, furthermore, managers are often understood as having a quite direct interest in the share price.[42] The central aim of managers, at least according to most financial models, is to

[37] Cf. Brill et al. 1999, Brill and Reder 1993, Domini 2001, Harrington 1992, Judd 1990, Lowry 1993, Miller 1991, 1992, Ward 1991

[38] Cf. Brill et al. 1999, Brill and Reder 1993, Fehrenbacher 2001, Harrington 1992, Judd 1990, Miller 1992, Ward 1991

[39] Cf. Byström 2007, Keasey et al. 1998, Schwartz and Francioni 2004

[40] Mackenzie 1997, p. 137. See also Haigh and Hazelton 2004, Heinkel et al. 2001, Hudson 2004, Judd 1990, Statman 2000, Ward 1991.

[41] Cf. Lang 1996, Mackenzie 1997, Ward 1991

[42] Hudson 2005, p. 649

maximize shareholder wealth – i.e. to maximize the share price. If investors can influence share prices, then, they may be able to give managers incentives to change their ways in a very straightforward manner.[43]

Mackenzie refers to the idea of influencing companies through share prices as the *market signalling* approach.[44] The central question I am interested in here is obviously how effective this approach can be for individual investors – that is, how likely it is that an individual investor's decision to buy or sell a certain share has any effect on the share price and, through this, has any effect on the financial and managerial activities of the company in question. To be able to answer this question, one may first consider how the price of a certain company's shares is set: According to financial theory, what determines the price of a certain company's shares is, roughly put, the balance of buyers over sellers of those shares on the (stock) market.[45] If many investors want to buy a certain share, say, but not many investors want to sell it, the price of the share will probably go up – as buyers will have to raise their offers to attract enough sellers. Conversely, if many investors want to sell a certain share, but not many want to buy it, the price will probably go down – as sellers will have to lower their offers to attract enough buyers. The price at which there are just as many buyers as there are sellers of a certain share on the market is often referred to as the *equilibrium price*.[46] According to financial theory, this is the price that a certain share will tend to have at any given time. The equilibrium price, it is sometimes said, is basically what the last investor had to pay for buying the share on the market (or what the last seller received for the share on the market).

Now, can an individual investor influence the equilibrium price of a certain company's shares? I think there are two major problems with this thought. First of all, the dimensions we are talking about here are bound to be very small. As noted in the introductory chapter, most individual investors have only a moderate amount of disposable income to invest or not invest in different kinds of financial ventures. This means that the difference a single investor can make to the balance of buyers

[43] Cf. Hudson 2005, Mackenzie 1997, Powers 1971

[44] Mackenzie 1997, pp. 136-48. Other economists refer to the idea that companies can be influenced through this approach as the 'cost of capital' argument – cf. Haigh and Hazelton 2004, Heinkel et al. 2001, Statman 2000. My argument in this subsection builds to a great extent on the arguments of these writers, although their focus is somewhat different from mine – see section 4.1 below.

[45] Cf. Schwartz and Francioni 2004, Teweles and Bradley 1998, Ward 1991, Wyss 2000

[46] Cf. Heinkel et al. 2001, Schwartz and Francioni 2004

and sellers on the market probably is very small, at best. Consider, for instance, the case of an individual investor who decides to sell his shares in a company with reprehensible business activities. The larger chunk of shares such an investor has, the larger proportion of the market his sale represents. Perhaps if he originally held a considerable part of some company's shares, he would be able to reduce the price of these shares – as he would have to lower his offer to attract enough buyers. Few individual investors, however, own (or can own) considerable parts of the shares of companies quoted on any of the world's stock exchanges. The average value of the shares of a company quoted on the London Stock Exchange was almost £1.2 billion at the end of January 2008[47], for instance, and a similar figure for the New York Stock Exchange was over $6.2 billion at the end of December 2007[48].

To be fair, some SRI proponents seem to note the problem indicated above. According to Domini and Kinder, for instance, this problem shows why the avoidance strategy is not enough on its own:

> Still, the avoidance strategy can be only a part of an ethical investing program. The sums most of us can afford to invest will not, if withheld, cripple an industry or even put a crimp in a company's stock price. Selling stock in a publicly traded corporation has no real effect on the company.[49]

It is unclear, of course, why Domini and Kinder believe that the supportive strategy scores any higher in this regard. What was said above about *selling* a certain company's share, certainly, also goes for *buying* a certain company's share.

To be entirely correct, I believe the reasoning above actually is a bit more complicated than I just said and might be broken down into two parts. One factor is the *size of the individual investor's holdings*. Another is the *liquidity of the market* for the relevant company's shares, i.e. the amount of other investors on the market willing to buy the share at different prices.[50] What makes it difficult for an individual investor to influence the price of a quoted company's shares, I believe, is often the

[47] London Stock Exchange 2008a. The total market capitalization was over £3.9 trillion and roughly 3.300 companies were quoted on the exchange.

[48] New York Stock Exchange 2007a. The total market capitalization was over $17.5 trillion and roughly 2.800 companies were quoted on the exchange.

[49] Domini and Kinder 1986, p. 3. See also Brill et al. 1999, Bruyn 1987, Powers 1971, Powers and Gunnemann 1969, Simon et al. 1972.

[50] For more on this, see Fontanills and Gentile 2001, Schwartz and Francioni 2004, Teweles and Bradley 1998, Wyss 2000.

fact that the market for such shares is highly liquid – that is, for each seller and (almost) each price there is most often a large amount of buyers willing to buy the shares at that price. Again, if the investor controlled a larger part of the market for some company's shares, the liquidity of the market for these shares might not be enough to 'swallow' the effects of a sale of that part. I think it is safe to say, however, that the liquidity of the market for most quoted companies' shares is enough to minimise the effects of a typical individual investor's financial boycott.[51] On an average day in January 2008, for instance, over £16 billion worth of shares changed hands on the London Stock Exchange[52], and a similar figure for the New York Stock Exchange was over $160 billion[53].

In the following subsection, I will note an important exception here with regard to some supportive initiatives. Before going there, however, I think it should be noted that there is a further problem with the 'other investors on the market'-factor. This second type of problem arises because, according to an influential idea in financial theory, companies are evaluated on the basis of their *'fundamentals'* – i.e. estimates of their underlying value in terms of "discounted predicted future profitability, and hence dividend yield"[54]. What this means is basically that most investors probably would evaluate a certain company on the basis of what profit they think it will make in the future. For estimates of a certain clothing company's profitability, for instance, relevant factors may be the market demand for clothes, the competence of the clothing company's management and the general economic situation in the world. These factors, we might say, are the economic fundamentals of the company.[55]

Now, estimations of these fundamentals will not change simply because of a certain transaction on the stock market.[56] Thus, if an individual investor – despite the problems noted above – actually managed to reduce the price of a certain company's shares, other investors – eva-

[51] Cf. Mackenzie 1997
[52] London Stock Exchange 2008b
[53] New York Stock Exchange 2008
[54] Mackenzie 1997, p. 140. See also Byström 2007, Keasey et al. 1998, Teweles and Bradley 1998.
[55] Cf. Byström 2007, Fontanills and Gentile 2001, Haigh and Hazelton 2004, Hudson 2005, Keasey et al. 1998, Munnell and Sundén 2005, Schwartz and Francioni 2004, Teweles and Bradley 1998, Wyss 2000
[56] Unless, of course, these transactions signal new information about a change in fundamentals (cf. Munnell and Sundén 2005).

luating companies on a strictly financial basis – will see that the shares are trading at a discount compared to their proper value, i.e. their value according to an estimation of the company's fundamentals. Thus, I believe, they will find financial reasons for buying some of the company's shares. And so, assuming that the original price was the equilibrium price based on the company's fundamentals, the situation will return to the original price before long. The slight fall in share price caused by the investor's sale of shares will be just that, i.e. a slight fall that will soon have been countered by the market.[57]

Interestingly enough, some proponents of the SRI movement seem to note also this problem. According to Miller, for instance, this is one of the reasons why it is difficult to show that the avoidance strategy really makes a difference:

> Indeed, if *avoidance* investors' decisions to sell stocks or not to buy them in the first place were secret, those decisions probably would have virtually no effect at all. Markets in these issues are so broad and so efficient that even if an *avoidance* investor's action temporarily depressed the price of a stock by some fraction of a point, other investors, unconstrained by considerations of social responsibility, probably would step into the breach quickly in order to take advantage of the selloff as a bargain buying opportunity and the stock would be right back up where it was before very long.[58]

I will return to discuss how investors could make their avoidance decisions less "secret" in section 6. From the considerations above, however, I think it is reasonable to conclude that only very rarely can individual investors affect share prices in any straightforward manner by buying and selling different companies' shares in certain ways. Consequently, only very rarely can individual investors make a difference through avoiding certain companies' shares or seeking out other companies' shares.

3.2 Community investing

It should be noted that I say "only very rarely" above, and that my arguments in the previous subsection of course were quite schematic, i.e. they pertain mainly to what I take to be the 'standard' cases of invest-

[57] Cf. De George 1999, Haigh and Hazelton 2004, Mackenzie 1997, Munnell and Sundén 2005, Powers 1971, Simon et al. 1972, Statman 2000

[58] Miller 1991, p. 34. See also Kinder et al. 1993, Powers 1971, Simon et al. 1972.

ments by individual investors. Lacking hard empirical data on the effects of different individual investors' investment decisions, it is obviously impossible to say exactly what these effects will be. In order to mitigate some of generality in the negative conclusion above, however, I believe some important exceptions to this kind of conclusion should be noted. According to Mackenzie, the kind of reasoning above would seem to indicate that investors may be more likely to be able to influence the price of shares for which the market is less liquid, and this is something which often may be the case for certain *smaller-sized* companies.[59] With regards to very small-scale companies which are not quoted on major stock exchanges, furthermore, I noted already at the outset of this section that the possibilities of giving a rather direct kind of financial support may be greater – since large-scale banks and finance institutes are less likely to act as underwriters on these companies' new share issues and loans.[60] Now, some writers have suggested that an implication of the considerations above is that investors may be more likely to be able to make a difference through employing a supportive strategy than through sticking only with the avoidance strategy. According to these writers, namely, the objects of supportive initiatives more often tend to be exactly smaller-sized companies, struggling to get by without the aid of many investors.[61] Although I cannot comment on how the funds currently employing an avoidance approach tend to reason in relation to the considerations above, I wish to mention what I take to be a very promising sort of supportive initiatives in the present context – namely the form of direct and community-based banking deals touched upon briefly in the introductory chapter.

Although it may not have been equally common in the early days of SRI, according to many writers, most modern SRI funds put a portion of their assets in so-called *community investments* – a form of investment designed specifically to support minority communities or communities with poor economic development.[62] Most commonly, assets are given as loans to small-scale banks or credit unions situated in socially problematic geographical regions, which in turn give loans to local housing

[59] Mackenzie 1999, p. 140
[60] Cf. Byström 2007, Lang 1996
[61] Cf. Brill and Reder 1993, Mackenzie 1997, Melton and Keenan 1994, Miller 1991, Sparkes 1995
[62] Cf. Brill et al. 1999, Brill and Reder 1993, Domini 2001, Kinder et al. 1993, Nixon 2002, Schueth 2002, Social Investment Forum 2006. Unfortunately, this portion is currently no more than 1% (Social Investment Forum 2006).

projects or job-creation programs, or they work together with non-profit organisations to strengthen the local community.[63] The reason for why community investing has received an increased attention in recent years, according to many writers, is because it allows investors to reach areas which otherwise are far away from the world of investment and finance. Brill and Reder, for instance, write:

> Community development investments serve vital social needs that even socially screened stocks and bonds do not touch. Through direct infusion of capital, they help provide jobs, housing, employment, business loans, and basic human services to those who have been shunted aside by the workings of mainstream economic institutions. In this way, communities of economically disadvantaged citizens are helped to transform themselves from victim economies to self-supporting economies. This, of course, also helps strengthen social relationships, making those communities much more resistant to social problems.[64]

According to some writers, although its inclusion into the SRI mainstream is a fairly recent event, community investing is actually the oldest, and may perhaps even be the most common, form of socially responsible investing since, as Domini puts it, "[l]ending pools have ancient roots. Savings banks were originally chartered for exactly the purposes that the community development financial institutions now serve: to teach the poor how to save, how to buy a home, and how to start a business"[65]. One of the most successful examples of community development initiatives, often mentioned by proponents of the SRI movement, is the Grameen Bank in Bangladesh which, together with its founder Mohammad Yunus, received the Nobel Peace Prize in 2006. The Grameen Bank has been a pioneer in offering so-called *microcredit loans* to impoverished women in the rural parts of Bangladesh and has, through the help of many international investors, become a force for alleviating much of the economic depravity experienced in this otherwise forgotten part of the world.[66]

It is often suggested that community investing is one of the most promising, or truly 'ethical', parts of the current SRI movement.[67] To a large extent, I believe, this attitude on the part of SRI writers stems

[63] Cf. Brill et al. 1999, Brill and Reder 1993, Domini 2001, Kinder et al. 1993, Lang 1996

[64] Brill and Reder 1993, p. 32

[65] Domini 2001, p. 25

[66] Cf. Brill et al. 1999, Domini 2001, Gray et al. 1996, Lang 1996, Sparkes 2002, Ward 1991

[67] Cf. Brill et al. 1999, Bruyn 1987, Domini 2001, Gray et al. 1996, Lang 1996. Furthermore, Kolers explicitly notes investments in community development banks as a kind of investments which may be compatible with the austere conclusion (2001, p. 449).

from the fact that community investing is thought to be a very promising way of actually making a difference and making the world a better place.[68] Although more and more investors may keep a part of their assets in community investment initiatives, these small-scale initiatives need every penny they can get. Domini, for instance, writes:

> Community development financial institutions (CDFIs) [...] directly connect you, the investor, with those in need. Every CDFI faces a similar challenge: The needs it seeks to meet take more funds than the institution itself is capable of providing. And that's where you come in. To do their work, CDFIs enter into partnerships with nonprofits, government agencies, enlightened citizens, and any other resources they can find. [...] Grassroots lending institutions play a crucial role in revitalizing communities globally and conscientious investors play a crucial role in supporting them.[69]

I believe Domini's characterisation of the efficacy of community investing here most probably is correct and, thus, that community investing is an important exception from the general conclusion outlined above. Now, an interesting feature of this kind of investing is that the financial returns involved are most often much lower – exactly because community investments are so direct and there is a shortage of investors (i.e. the market for such investments is highly illiquid) – compared to the larger-sized companies' shares which are more common in both SRI and traditional investment portfolios.[70] This would seem to indicate that there is a certain price attached to really making a difference through market signalling. First of all, there is the price related to the cost of finding the extra information needed to "make the ethical choice", as pointed out by Brill and Reder above (see section 2) – which will most certainly be higher with regards to small-scale initiatives in remote parts of the world.[71] Over and above this, however, there is also a price related to the choice of investment *per se*. Powers, for instance, writes:

> Direct investments in depressed areas of the economy may often involve higher than usual risks and may not offer the potential for normal yield or return. Many co-operative developments in minority areas will return much of the profit to the local community if the venture succeeds, but will leave the investor without his principal if it does not.

[68] Cf. Brill et al. 1999, Harrington 1992, Kolers 2001, Powers 1971
[69] Domini 2001, p. 108
[70] Cf. Brill and Reder 1993, Domini 2001, Gray et al. 1996, Lang 1996, Lowry 1993, Sparkes 1995, 2002
[71] Cf. Brill et al. 1999, Brill and Reder 1993, Domini 2001

Here the distinction between a "grant" and an "investment" is less clear. The social impact of such funding, however, can be very great.[72]

The fact that community investors accept a lower rate of return is, according to Sparkes, actually a reason for not including it in the concept of SRI – perhaps it could be called S*D*I instead, i.e., socially *directed* investing.[73] I will return to this suggestion in chapter VII. On a general level, however, I think the conclusion that making a difference comes at a certain price should actually not come as a surprise in the present context. As several writers note, even an avoidance strategy, in order to be effective, must come at a certain price. In order for an investor with a large chunk of shares to able to force the share price down through selling the shares, she must try to sell them all as quickly as she can – so the market has no time to repair the damage done to the share price. But, of course, selling the shares at a discount may cost the investor significant sums of money.[74] The only way to avoid this is to sell the shares off over a longer period of time, and wait for the market to recover in between sales.[75] Doing this, however, will certainly not be an effective way of making a difference through market signalling.

I will return to the issue of the demandingness of pragmatism and morality in chapter VII. In the next subsection, I will briefly note a different kind of exception to the argument presented above.

3.3 Changes in the investor base

If the issue of whether the investment decisions of individual investors have indirect financial effects on companies is to be on the basis of theoretical economic reasoning, I have suggested, the answer seems to be that this is highly improbable. As we will soon see further evidence of, most economists who have discussed the issue of whether SRI can make a difference through market signalling have agreed with this argu-

[72] Powers 1971, p. 118

[73] Sparkes 2001, p. 195. See also Sparkes 2002, pp. 25-26.

[74] Cf. Kolers 2001, Mackenzie 1997, Powers 1971, Vogel 1978

[75] This would actually seem to be how most so-called ethical funds do it. According to Mackenzie, "ethical funds have a strong financial incentive to find a way to sell their shares in such a way that *minimises* the downward pressure on the company's share price. Consequently, for example, [the largest ethical fund in the UK] does not require its investment managers to sell the shares of companies which contravene its criteria immediately, but over a six month period – giving them a chance to minimise the effect on the fund's financial performance. A skilled fund manager will be able to divest himself of a particular stock over time without having any effect on the share price at all" (1997, pp. 140-41).

ment and also answer this question in the negative. However, one exception to this should probably be noted. According to Rivoli, it is actually so that "theoretical and empirical finance research is consistent with the argument that SRI will affect firms *through its effect on the size of the investor base*".[76] While I cannot go into all of the details of Rivoli's argument here, I will briefly compare her basic idea with my negative arguments above. Rivoli's basic idea is that if some of the standard assumptions of 'perfect markets theory' are relaxed, economic theory is consistent with the claim that SRI investments really make a difference. The standard assumptions of perfect markets theory, Rivoli says, include such things as "costless transactions, full information and zero information costs, homogeneous expectations, and available perfect substitutes"[77], but many of these assumptions are rather unrealistic. The main reason for why a case could be made for SRI actually making a difference when these assumptions are relaxed is that share prices may be influenced by changes in the *size of the investor base*, i.e. how many people are interested in buying the shares. Rivoli cites empirical research that also supports the claim that the size of the investor base is relevant for share prices.[78]

While Rivoli's conclusion initially may seem at odds with my conclusion above, I think that there actually is no disagreement between these two lines of argument. First of all, my arguments above do not preclude that an individual investor's avoidance of a certain company's shares *in principle* may influence the price of these shares. If some investor controls a considerable part of the market for some share, for instance, I have said that it certainly is possible that a decision to sell these shares on her part, or not to buy them in the first place, could have a non-negligible effect on the price of the shares. Of course, if *many* investors decided to avoid the same company's shares, they might also be able to reduce the price of the company's shares *together* – that is, if the size of the investor base diminished considerably, companies certainly might be affected. I have not denied this and, for this reason, I do not think my arguments above rest on the assumptions of perfect markets theory.

The difference between Rivoli's line of argument and my own, I believe, is that my argument mainly has dealt with the effectiveness of an *individual* investor's practice of buying and selling shares in certain ways,

[76] Rivoli 2003, p. 283, emphasis added. See also Angel and Rivoli 1997.
[77] Rivoli 2003, p. 277
[78] Ibid., pp. 280-83

whereas Rivoli's result indicates that the SRI movement *as a whole* may be able to make a difference. Now, on the *collective* level, I believe, it is more reasonable to think that investors can make a certain difference – together they may control considerable parts of different companies' shares, and they might even be able to mess with the standard ideas of when to buy and when to not buy shares on the market (i.e. the 'fundamentals'-factor described above). Exactly how large the SRI collective must be in order to make this kind of difference is a matter I will return to below (in section 4.1). I will now turn to the issue of how this kind of collective possibility translates into moral reasons for individual investors to invest in a certain way.

4. Collective actions and responsibilities

As I noted above (at the end of section 2), it is often unclear exactly how to understand the claim that "SRI makes a difference", or that "screening can change the way in which businesses operate". Sometimes, the idea would seem to be that individual investors can make a difference on their own. At other times, however, the idea would seem to be that SRI *as a whole*, or that the *totality* of all investors, can make a certain difference. Even though the purchases and sales of shares by individual investors taken in isolation, then, may make no non-negligible difference to share prices and corporate practices, the idea is that larger shifts in the investor base may make a non-negligible difference. According to Domini, for instance:

> When a large percentage of the owners of the world's business enterprises believe that profit must not come at the loss of human or environmental justice, then companies will respond. They will serve as effective means of delivering desired goods and services to the population in a manner that does not harm their owners, who are – after all – living beings. If the owners of the economic engine of the world recognize that money doesn't help if you can't breathe, then they will create rules that allow for both breathable air and financial return. [...] The socially managed portfolio is a part of something larger than itself; it is a part of a global reformation of the way business is done.[79]

As I indicated at the end of the previous section, I believe we should probably agree with Domini's basic suggestion in this passage. Certainly, if a large percentage of investors were to adopt the same kind of invest-

[79] Domini 2001, p. 17

ment strategy, whatever that would be, they would be able to make a considerable difference to the way businesses are run. If a large number of investors were to avoid investing in certain companies' shares, for instance, these shares would be more or less worthless on the stock market and the companies would probably suffer dramatic financial losses because of this – probably forcing them to go bankrupt or, at least, to seriously rethink their business activities. It seems plausible to say that investors *together*, then, can create corporate "rules" which can make society a better place for people to live in. The question is, however, what this fact implies in form of moral responsibilities on the part of investors.

Most straightforwardly, I believe, the considerations above suggest that investors, or perhaps society as a whole, have a *collective responsibility* to behave in a certain way in relation to certain companies or industries. If my arguments in the previous section were correct, individual investors can only very rarely make a difference on their own by buying and selling shares in different ways. Thus, it is only *on the collective level* that they can make a certain difference in this way and, it seems reasonable to say, the responsibility to make a difference most obviously falls on investors or society together then, *as a collective*. But how should this kind of collective responsibility be cashed out more exactly? Well, according to some philosophers, the morality of 'collective actions' (i.e. the things we do *together* in some sense) need actually not have any connection with the moral status of the individual actions of which they consist (i.e. the things each of us do). According to these philosophers, it is possible, for instance, that a certain *group* acts wrongly even though no individual *member of this group* does anything wrong.[80] I will not take a stand on whether this position is plausible or not. The issue I wish to discuss in the present section is, given the more intuitive view that collectives cannot act wrongly without at least *some* individuals in this collective doing *something* wrong, how are we to distribute the responsibility of the collective to do a certain thing to the individuals of the collective?

In most cases, when most of us talk about collectives as *agents* who *do* things, I believe, we do this only metaphorically – what we mean when we say that *Sweden* ought to give more in famine relief to the nations of the third world, for instance, is most often that the *Swedish parliament* should pass a certain law making this so. This way of talking, I suggest,

[80] Cf. Conee 1983, Postow 1977, Tännsjö 1989, 1998

may in fact be quite adequate. In relation to some collective which is acting wrongly, namely, I think it seems reasonable to hold exactly those people who *have influence* over how this collective acts *morally responsible* for this. The people who decide how much Sweden should give in famine relief, for instance, are arguably the people which it is most reasonable to hold responsible for this type of collective behaviour. Now, perhaps the appeal to the collective responsibility of the totality of investors or society should actually be understood much like the kind of case just mentioned. It should be noted, first of all, that there is a *political* dimension to the moral problems of the corporate sector which I have said quite little about so far. Perhaps we should sometimes seek political, rather than individual, solutions to these kinds of problems (I will return to this point in chapter VIII). More to the point at hand, furthermore, it may be noted that individual investors perhaps can have a indirect influence over how other investors behave, and thus they could sometimes be in a position to influence what different collectives of investors do and refrain from doing on the market. It does not seem unreasonable, I believe, to distribute some of the collective responsibility of the totality of investors to screen their investments in a certain way to a responsibility on the part of individual investors to *try to make this so*.

I will return to the issue of indirect influence over other investors in section 6. In the present section and the next, I will discuss two other suggestions as to how the responsibility of the collective to do a certain thing should be translated into moral reasons on the part of the individuals of the collective to do this thing. Even though I have said that individual investors only very rarely can make a difference *on their own* by different kinds of screening strategies, it may be noted that I have admitted that they can make such a difference *together*. But, some may argue, the possible 'collective action' involved here is only the sum of all individual actions, i.e. the sum of many individual investors investing in a similar way. Isn't it plausible, then, to say that individual investors have moral reasons to, for instance, avoid investing in certain companies, because they *are a part of a collective* which can make a certain difference by doing this? That is, isn't there a fairly straightforward implication from the collective responsibility of *all* investors to do a certain thing, to a moral responsibility on the part of *each* investor to do his or her part in this collective effort?

In the subsection below and in the following section, I will discuss two rather different formulations of the kind of suggestion outlined above. Unfortunately, I think there are many problems with both of

these formulations. While it seems important to stress the collective responsibility of investors, or of all of us, to do something about the moral problems of the corporate sector, then, I suggest that this does not necessarily imply any direct moral responsibilities on the part of individual investors. Collective responsibility should rather be understood either politically or as the indirect responsibility of influential investors.

4.1 Taking part in collective actions

While individual investors rarely are able to make a difference through buying and selling shares in different ways on their own, I have said, they could perhaps make such a difference together as a larger collective – but what does this imply for the question of what individual investors ought to do? According to a first understanding of the suggestion above, the salient moral responsibility of investors here is basically that they should *join* whatever group of other investors that collectively makes a positive difference. In the previous chapter (section 3), I allowed proponents of the no-harm principle to appeal to what I called 'participatory effects', i.e. effects which are caused by a group of people to which a given individual investor belongs. We may now note that the point of this appeal basically was to distribute the moral blame which may arise from a certain collective action to those people who constitute this collective. As long as I am a part of a group which does something wrong, then, I am partly to blame for this – even though I may have been unable to change the (collective) outcome on my own. Perhaps a similar appeal is possible in the case of the pragmatic argument for screening under discussion in this chapter – to the extent that an individual investor may become part of a group which together makes a positive difference, then, the individual investor may receive some of the moral credit for this. The pragmatic argument for screening, on this new interpretation, would be that investors have moral reasons to avoid investing in (or to seek out and invest in) certain companies because they could *be a part of a group whose similar activities makes a non-negligible difference*.[81]

[81] As I noted in the previous chapter, note 82, it is a debated issue whether this kind of view can be formulated in terms of 'participatory effects'. According to some philosophers, there must actually be some kind of *individual* effects involved in cases of collective actions, because there otherwise never could be the kind of collective effects I have described. That is, if the collective makes a perceptible difference, each individual in this collective must be making

In fact, I believe this is more or less how Domini seems to reason in the present context. According to Domini, it is perhaps not so important whether or not individual investors can make a difference on their own – this is not her primary focus, in any case. The important fact is that SRI *as a whole* makes a considerable difference, and that individual investors *can be a part of this*:

> Most people care and want to do what they can. Most of us are grateful for a chance to have so much impact for so little effort. We can invest and achieve results as good as those achieved by ordinary investors, yet we can be a part of something greater than we could give ourselves. We can be a part of shaping a world of justice and of environmental sustainability and one in which simple pleasures can be enjoyed by all.
>
> When a large percentage of the owners of the world's business enterprises believe that profit must not come at the loss of human or environmental justice, then companies will respond.[82]

Domini's suggestion here certainly seems inviting – who wouldn't want to be a part of something greater than oneself? Before evaluating this suggestion, it may be noted that it perhaps is possible to understand this kind of suggestion, not only along the lines of the pragmatic argument for screening as I have done here, but also in a rather different fashion. Some philosophers have suggested an argument appealing to *fairness* rather than consequences which seems to point in a similar direction as the pragmatic argument outlined above. According to these writers, as long as some group of people is doing something socially beneficial which it is our collective responsibility to do, each other member of society has moral reasons to join this group and contribute to this socially beneficial collective effort. They have such moral reasons because it is *unfair to rely on others to fulfil our collective responsibilities*.[83] Thus, even though investors are under no obligation to 'promote the good' as I have been assuming here, they still have moral reasons to partake in the collective effort of making a certain positive difference and thus to choose carefully what they invest in and refrain from investing in. Although I cannot find references to this kind of idea in the SRI literature,

some kind of difference on their own which adds up to the collective effect. The suggestion is that these are so-called *imperceptible* effects (cf. Glover 1975, Otsuka 1991, Parfit 1984). I will not elaborate on this suggestion here as my argument against the view discussed in the text does not hinge on this matter.

[82] Domini 2001, p. 17

[83] Cf. Cullity 2000, 2004, Murphy 1993, 2000. See also Glover 1975.

perhaps this is a line of thinking many proponents of the SRI movement would be rather sympathetic to.

I will now turn to evaluate the suggestions above. In order to determine the plausibility of these kinds of arguments, I believe, the central question seems to be to what extent SRI *as a whole* makes (or has a good chance of making) a non-negligible difference. In order for it to be plausible to say that investors have moral reasons to invest in a certain way because they *can become a part* of a collective effort which makes a certain difference, namely, there either needs to *be* such an effort which already is making a certain difference, or there at least needs to *be a good chance* that such a collective effort will occur. Otherwise, it is simply not true that individual investors can become a part of a group which together makes a non-negligible difference. Furthermore, in order for investors to have moral reasons to invest in this way on the grounds of fairness, arguably, there also needs to be a socially beneficial collective effort *which investors have moral reasons to join* – an effort which it would be unfair to leave to others.[84] We may therefore here return to discuss the central thrust of Rivoli's argument above in some more detail. Exactly how much would the size of the investor base for a certain share have to diminish in order for a collective avoidance campaign to have a non-negligible, and lasting, effect on the price of this share? Well, this is obviously an extremely difficult question to answer. According to most economists, however, making a difference on the stock market is actually even harder than the considerations in the previous section suggest – even for collectives such as the SRI movement as a whole.

The central focus of most economists who have discussed the issue of whether SRI can make a difference, it may be noted, is whether so-called ethical *funds* control enough capital to be able to influence companies through the market signalling approach. Even though such funds obviously hold a lot more capital than individual investors, most writers suggest that the amount of capital they hold still is far too small to be

[84] This is so, at least, according to Cullity's version of the fairness argument: "I am not claiming [...] that fairness *always* compels deriving individual imperatives from collective ones. No doubt, there are very many things that we all ought to be doing, but are not. That does not mean that I ought to launch unilaterally into making some active contribution towards each of the goals we ought collectively to be pursuing. [...] It is unfair to rely on others to contribute to meeting a collective imperative, without being prepared to contribute myself. Obviously, where no one is yet meeting that imperative, I am not unfairly relying on other people in this way" (2004, p. 64). Perhaps some fair share theorists would disagree with this – for a discussion of an alternative idea, see the next section.

able to influence public limited companies through diminishing the investor bases of these companies. Matthew Haigh and James Hazelton, for instance, write:

> Despite their growth, SRI funds comprise a relatively stagnant fraction of total [funds under management (FUM)]. Over the period December 1999–December 2001, SRI retail mutual funds in Europe accounted for no more than four-tenths of one percent (0.4%) of total FUM. Over the period September 2000–September 2002, the proportion of total FUM represented by retail and wholesale SRI mutual equity funds in the U.S. hovered on two-tenths of one percent (0.2%); in Australia over the same period, the proportion was no more than three-tenths of one percent (0.3%). [...] Given that equity capital accounts for approximately half of total FUM, SRI equity funds at current levels cannot be expected to materially impact on company operations. [...] Put simply, SRI funds are unlikely to affect companies' capital investment programs because their holdings account for such a small percentage of the register of any corporation.[85]

The same point is made by Mackenzie: "The holdings ethical funds have in large companies are tiny. [...] It is unlikely, therefore, that at their present scale ethical funds can depreciate the share prices of large companies by selling their shares"[86]. Now, Mackenzie asks: "What if ethical funds grew much larger? What if, in a few years time, they comprise 5% of the total market?"[87]. Unfortunately, Mackenzie suggests, we have no good reason for thinking that similar problems will not persist also on the macro level: "Such a level of avoidance may well affect the share prices of companies. But, for big companies with liquid markets for their shares, the effect would be short term and arbitraged away by ordinary financially motivated investors"[88]. According to Mackenzie, then, even if the SRI movement as a whole grew considerably, the effect this would have on the investor base of morally unacceptable companies would still be too small to have any lasting influence on share prices, at least with regards to larger-sized companies. Furthermore, Mackenzie notes, such a rise in investments according to SRI guidelines, i.e. up towards 5% of the total stock market value, seems very unlikely in the foreseeable future.[89] It may be noted that Mackenzie perhaps is being fairly optimistic here – other writers have suggested that the SRI move-

[85] Haigh and Hazelton 2004, pp. 61-62
[86] Mackenzie 1997, pp. 139-40. See also Munnell and Sundén 2005, Schepers and Sethi 2003.
[87] Mackenzie 1997, p. 141
[88] Ibid.
[89] Ibid., p. 142

ment would have to control closer to *25%* of the total stock market in order to have a lasting impact on the prices of targeted companies' shares.[90] Of course, a rise to this level would seem even less likely.

In connection with this, it should be noted that some economists actually have questioned whether the so-called divestment campaign directed at the apartheid regime of South Africa really had anything to do with why this regime fell. The South Africa campaign, as I have said, is very often held out by SRI proponents as unequivocal evidence of the efficacy of screening and is probably the campaign where the largest number of both private and institutional investors have avoided a similar set of companies. In a very comprehensive study of the financial effects of this campaign on US companies with operations in South Africa, however, Siew Hong Teoh, Ivo Welch and Paul Wazzan conclude that there is little evidence for the suggestion that the campaign was financially effective. They write:

> Our article [...] examines both how prices and institutional shareholdings changed in response to social and political pressures around the voluntary divestment decisions of U.S. firms with South African operations. We document that investments by public firms in South Africa were small and so were price reactions to the announcement of pressure and divestitures. Therefore, potential lost economic opportunities through the boycott were too small to be statistically or economically significant. Further, the demand for stocks is driven by many investors (and from many countries) with many different preferences, so that the withdrawal or return of even a large number of U.S. institutions from investing in large firms or in entire sectors seems to make very little difference to stock values. The results also indicate that any potential negative spillover effects from South African investments onto total profitability were likely small. Finally, throughout the period of most intense political pressure, the Johannesburg Stock Exchange reached new highs. Overall, the evidence indicates that it is unlikely that political shareholder activism has large wealth consequences.[91]

The considerations suggest that not even SRI as a whole makes a non-negligible difference to share prices and corporate practices through the screening methods which it applies. Thus, the suggestion that investors

[90] Heinkel et al. 2001. The exact percentage here depends on a number of factors, according to these writers – under certain assumptions, the SRI movement would have to control around *60%* of the stock market in order to have a lasting impact on targeted companies.

[91] Teoh et al. 1999, pp. 38-39. In another study, some other economists suggest that the financial effect of the South Africa campaign was not visible until the end of the political sanctions – following the end of the sanctions, the stock prices of US and European firms with shareholdings in South Africa exhibited abnormal returns (see Kumar et al. 2002).

have moral reasons to screen their investments because they in this manner can be part of a group which collectively makes a difference would seem to fail. Perhaps this suggestion is implausible for other reasons as well.[92] Of course, it may still seem plausible to say that those who invest in morally unacceptable companies are part of a group which collectively supports these companies. I will return to this collectivist interpretation of the no-harm principle below. Now, perhaps it is possible to formulate the argument for a distribution of the responsibility of *all* investors to *each* investor in a slightly different way which avoids the problems above. I turn to this issue in the following section.

5. Collective dilemmas and the generalisation test

What seems relevant to Domini's version of the pragmatic argument for screening and the fairness argument discussed above, I said, is whether individual investors *actually* can be a part of some collective that makes a certain difference. Since the proportion of the total investment universe which currently applies some form of social screens is quite small (and there is little hope that this proportion will rise sufficiently much in the foreseeable future), I said that it does not seem likely that individual investors can be a part of such a collective (at least not in the foreseeable

[92] According to Regan, it is easy to see how giving individual agents moral credit for collective efforts is implausible by considering the following kind of cases: "Case 1: There are 100 agents. A benefit worth 110 units can be secured by the participation of at least sixty agents. Participation by more than sixty does not increase the benefit. The benefit which each agent can produce individually and independently of the 110-unit benefit if he does *not* participate is worth 1 unit. There are no other relevant costs or benefits. Now, if ninety-nine agents are participating in the production of the participatory benefit, what should the other agent, whom we shall call Jones, do, according to the contributory consequences approach? If he participates, he gets one-hundredth of the credit for the production of a benefit with a value of 110 units. He gets credit for slightly over 1 unit of value. If he does not participate, he will produce a benefit worth 1 unit. Therefore he should participate, forgoing the benefit he could produce if he did not participate, despite the fact that even without him there are thirty-nine more agents participating than are needed to produce the participatory benefit.

Case 2: There are 100 agents. A benefit worth 50 units can be secured by the participation of at least sixty agents. The benefit each agent can produce if he does not participate is worth one unit. If fifty-nine agents other than Jones are participating in an attempt to produce the participatory benefit and forty agents other than Jones are not participating, what should Jones do? According to the contributory consequences approach, if Jones participates, he gets one-sixtieth of the credit for a benefit valued at 50 units, or slightly less than 1 unit. If he does not participate, he will produce consequences worth 1 unit. Therefore, he should not participate, despite the fact that his participation is all that is needed to secure 50 units of benefit which his non-participation will leave unachieved" (1980, pp. 14-15).

future). But what would SRI proponents say in response to this argument? Does this argument really meet the most plausible formulation of the intuition that collective responsibility, or what would happen if everyone did a certain thing, is morally relevant? Perhaps it does not. According to another common idea about how we should think about moral matters, it should be noted, the relevant question is only what would happen *if* a certain collective acted in a certain way, or *if* more people followed a specific individual's behaviour. According to this idea, it is irrelevant whether or not other investors *currently* are screening their investments in a certain way – what is relevant is what would happen if they *would* screen their investments in this way.

Some philosophers who have defended the avoidance strategy have invoked this alternative understanding of the appeal to collective responsibility. According to De George, for instance, the suggestion that individual investors seldom can influence share prices *on their own* is hardly a reason to doubt the moral case for avoidance since "simply because someone else will act unethically in no way justifies our acting in the same manner"[93]. The writer who has invoked this understanding most explicitly, however, is Irvine. At the end of his paper, Irvine briefly discusses the issue of the negligible effects of most individual investors' transactions on share prices. He calls this the *small-purchase objection* – "the Enablement Principle will almost never classify the stock purchases of average investors as wrong because the stock purchases of average investors are almost always small"[94]. Now, in response to the small-purchase objection, Irvine argues:

> I agree that small purchases of stock do not, in and of themselves, affect the ability of a company to do its business; nevertheless, I don't think this gets the average investor off the hook, morally speaking. The real question, from a moral point of view, is not whether his one purchase affects the ability of the company to conduct its business, but rather whether his purchase, *if imitated by many other investors*, would affect the ability of the company to conducts its business[95]

The reason that Irvine cites for abandoning the kind of individualist framework assumed earlier in this chapter is the following type of philosophical examples:

[93] De George 1999, p. 480
[94] Irvine 1987, p. 239
[95] Ibid., emphasis added

> There are a number of cases in which the behavior of one person won't make any real difference to the world. Consider the standard ethical example: walking across newly-seeded grass. If one person walks across newly-seeded grass, it won't harm the grass. Nevertheless, it is presumably wrong for even one person to walk across the grass. After all, if everyone followed this reasoning – that this one case of walking won't hurt the grass – the results would be undesirable. Thus, walking on the grass is wrong, not because one act of walking in and of itself will cause any harm, but because the act is not universalizable: If everyone who was in a position to do the act went ahead and did it, harm would be done.[96]

We might call the type of cases Irvine refers to here *collective dilemmas*[97], and the type of question he proposes that we should ask to determine the moral status of actions, i.e. 'What if everyone did that?', as the *generalisation test* of actions[98]. The idea that this kind of generalisation test, or the question 'What if everyone did that?', is central to morality, it should be noted, is an idea shared by many other philosophers. According to Immanuel Kant, for instance, this kind of question lies at the heart of all morality since acting morally basically is to act on (what could be made into) *universal laws*. If it is not possible, or desirable, for all people in relevantly similar circumstances to act in a certain way, Kant suggests, acting in this way is essentially to make an exception for oneself.[99] This kind of idea can be formulated both in a consequentialist and a non-consequentialist way. Some philosophers who support a consequentialist view on morality, it may be noted, have actually defended an idea which is not too different from Kant's – according to so-called *rule-consequentialism*, what is important is not the consequences of a certain *act* as such, but rather the consequences of *everyone's following a rule* which allows or prescribes this kind of act.[100] I cannot elaborate on Kant's original idea nor rule-consequentialism in the present context. I will, however, have something to say about the plausibility of Irvine's argument for the avoidance strategy.

[96] Ibid.

[97] Similar kinds of cases have been discussed by, e.g., Cullity 2000, 2004, Glover 1975, Narveson 1976, Otsuka 1991, Parfit 1984, Tännsjö 1989. It may be noted that these cases are inspired by, but not exactly similar to, what is often called 'many-person prisoner's dilemmas' or 'tragedies of the commons' – cf. Hardin 1968, Parfit 1984.

[98] This term is from Glover 1975. Parfit calls it the "Kantian Test" (1984, p. 66) and Irvine himself says that "[w]hat I am doing at this point is invoking what ethicists call the Universalizability Principle" (1987, p. 239).

[99] Kant 2002 (originally published 1785). For an informative introduction to some of the main tenets of Kant's moral philosophy, see Nell 1975.

[100] For some recent discussions of rule-consequentialism, see Hooker 2000, Mulgan 2001.

When confronted with the fact that individual investors cannot make a difference on their own, it is my own experience that many people actually appeal to an idea similar to Irvine's here. Some react, for instance, by saying that it is too *self-centred* to care only about the difference you yourself can make – why not care about the difference we can make *together*? Others say, more straightforwardly like Irvine, that perhaps the important question is not 'what difference will it make if *I* do this?', but rather 'what difference would it make if *everyone* did this?'. I believe this reaction is justified, at least to some extent. The existence of the kind of collective dilemmas Irvine discusses is certainly something that it is important to stress in moral settings and 'solving' these is an important task for an adequate moral theory. There is also some plausibility in the kind of 'solution' which Irvine proposes - if *all* investors avoided investing in a certain company, or seek out and invest in a certain company, this would certainly have tremendous effects on the prices of these companies' shares. The *totality* of investors, thus, is surely in a position to influence what companies do and refrain from doing. In the end, however, I think there are a number of problems with appealing to the generalisation test in favour of the avoidance strategy.

First of all, consider the kind of problems which Irvine himself points out:

> There are, to be sure, any number of problems we encounter when we try to give a precise statement of the [generalisation test]. It looks, for example, as if the [test] can be used to show that celibacy is wrong, or that living in America is wrong. (How would you like it if *everyone* were celibate? Our species would soon be extinct. How would you like it if *everyone* lived in America? Think of the miserable living conditions that would result.) The [appeal to generalisation] does, however, have strong intuitive appeal, and there is reason for thinking the problems described can be overcome.[101]

I will not elaborate on the kind of problems which Irvine mentions in this passage, so in what follows we may assume that these problems can be overcome. The kind of problems Irvine mentions, it may be noted, call the *plausibility* of the appeal to generalisation in question (that is, is it really wrong to perform actions which fail the generalisation test?). But I will elaborate on a kind of problem which I think is closer to the subject matter at hand and which calls the *moral relevance* of the appeal to generalisation into question (that is, even if it is sound, what weight does this

[101] Irvine 1987, pp. 239-40

appeal carry as an argument for screening?). This critique is related to the kind of problem discussed in the previous section. What seemed relevant to Domini's version of the pragmatic argument for screening and the fairness argument discussed above, I said, was whether individual investors *actually* can be a part of some collective that makes a certain difference. The problem for these arguments was that not even SRI as a whole currently seems to make much of a difference through the screening methods it applies – but perhaps this kind of problem could be avoided. According to the idea currently under discussion, it should be noted, the relevant question is what would happen *if* sufficiently many investors screened their investments in a certain way and, obviously, this kind of formulation is not open to the criticism that enough investors *currently* are *not* screening their investments in this way. However, a related criticism, I suggest, is that appealing to this kind of *counterfactuals* seems *utterly unrealistic*.

A fairly straightforward way of formulating this criticism may be the following: Certainly, *if* all investors were to employ the avoidance strategy in relation to some limited company, this would make a considerable difference to how this company is run – but this is a big *if*. As things currently stand, very few investors are doing this, so why should we worry about what would happen *if* everyone somehow started to do so? That is, why should the fact that avoidance investors could make a considerable difference if they controlled, say, 90 percent of the stock market *be relevant to individual investors in our world today*, where in fact only less than 1 percent of investments are screened according to ethical criteria?

Some readers may feel that the lack of realism in Irvine's suggestion actually is a good thing and not a problem – after all, we are not interested in what other investors currently are *doing*, but in what they *ought to do*. Compared to the way in which most investors currently choose their investments, Irvine's suggestion may seem both radical and important. However, I believe it is vital to be clear about what Irvine's present suggestion really amounts to. Perhaps the best way of evaluating Irvine's argument for the avoidance strategy is to compare it with a pragmatic argument for *the philanthropic strategy* introduced in the introductory chapter. According to proponents of the philanthropic strategy, investors have moral reasons to invest in whatever company's shares that currently give the most dividends and prospects for capital gain and donate the profit made on these investments to some worthwhile charity. While it seems possible to combine this strategy with an avoidance of certain morally unacceptable companies or industries, I believe it is most

interesting when it is considered as a radical alternative to the avoidance and supportive strategies. According to proponents of the philanthropic strategy, it should be noted, investors may very well have moral reasons to invest in, for example, weapons shares – if the return on such shares is sufficiently high. How does the philanthropic strategy fare on the kind of pragmatic thinking discussed previously in this chapter? Well, while there is some debate on the effectiveness of charities and charitable donations (which is an issue I will not say much about here[102]), I believe it is interesting to note that, as far as my discussion in section 3 above is concerned, it may very well be so that individual investors could make a considerably greater difference to, say, the victims of war through donating investment proceeds to them *directly* in this way than through refraining from investing in weapons shares. So what could be wrong with doing this?

Well, according to Irvine's suggestion above, I have said, investors have moral reasons not to invest in certain (morally unacceptable?) companies because such investments fail the *generalisation* test – that is, the consequences of *everyone's* investing into such companies would be terrible. But the point I wish to make by introducing the philanthropic strategy in this context is that, compared to the very tangible difference investors may make to certain unfortunate people's lives by donating investment proceeds directly, it should now be easy to see how the kind of positive scenario envisioned by proponents of the generalisation test is little more than a *distant dream*. Certainly, *if* everyone refrained from investing in certain companies, this could force them out of business. But choosing avoidance over philanthropy would seem to be to *go on longing for the dream* instead of making a real difference and, in my opinion, this is far from a plausible reaction to the very real problems facing millions of people around the world today. While it may seem plausible to say that it is wrong to walk on the grass (which is Irvine's example) in a situation where only the possible (collective) effects *on the*

[102] A common argument against charity is that it fails to address the root of the relevant problem – for instance, it does not address the long-term causes of poverty and it makes recipient individuals or countries dependent on charitable donations rather than self-supporting. Another argument is that, just like the effect that a single individual investor's avoidance of a certain company's shares makes no difference to the price of these shares, a single individual's charitable contributions make no real difference to people in need. However, I take these to be arguments for choosing *certain specific charities* and designing charities *in a certain way* rather than as arguments against charitable donations *as such*. For more extensive discussions of this issue, see Cullity 2004, Unger 1996.

grass are involved, I believe it seems rather absurd to say that it is wrong to walk on the grass if, by doing so, one could save people from war, starvation, infectious disease, natural disasters, etc..

The philanthropic strategy, because it is so unscrupulous when it comes to recommendations about what companies one should invest in, I believe is very provocative to some readers.[103] My main reason for mentioning this strategy in the present context, however, is to challenge the present line of reasoning for the avoidance strategy, or for screening in general. A number of other writers have noted similar problems with similar arguments. According to some philosophers, considerations like those above raise the issue of how to formulate the generalisation test in the first place – more exactly, what kind of action or rule the generalisation test should be applied to (i.e. how to understand "that" in the question 'What if everyone did *that*?').[104] In order for the appeal to generalisation to be more plausible, it would seem reasonable to make exceptions for cases when very few actually are doing what the appeal to generalisation tells them to do, or where observation of the generalisation test would lead to very bad outcomes. The effect of such a move, however, seems to be that *rule*-consequentialism, according to many writers, actually collapses into *act*-consequentialism, i.e. (a version of) the straightforward and individualist kind of idea outlined in section 2 above.[105]

For the reasons above, I believe we should conclude that Irvine's appeal does not seem to carry much weight as an argument for a certain kind of screening. Even if there are contexts in which the generalisation test is an important moral guide, then, the investment context is not one of them. Before leaving my argument from lack of realism above, I be-

[103] While it has been suggested as an 'ethical investment strategy' by some writers (Bruyn 1987, Skillius 2002, Zweig 1996), it may be noted, it has also met with rather a lot of resistance from certain parts of the SRI movement. According to Harrington, for instance, "[m]any argue that instead of investing in a socially responsible manner, investors should seek to maximize their profits and then [...] make contributions and gifts from their gains to aid causes that they [...] consider socially responsible. [...] This argument is deeply flawed. It ignores the fact that the investment decision in itself may have created or contributed to the social problem in the first place" (1992, p. 4). However, the considerations in section 3 above would seem to suggest that it is Harrington's suggestion here that is deeply flawed. According to Kolers, another problem with the philanthropic strategy is that it is *unjust* – "the people who (primarily) benefit from 'down the road' philanthropy are usually not the people harmed by the investment" (2001, p. 442). Perhaps this problem can be avoided by requiring, for instance, that profits made from investments in weapon companies should be donated to charities directed at the victims of war. However, Kolers' argument also fails if investments in fact harm no one.

[104] Cf. Glover 1975, Juth 2005, Parfit 1984

[105] Cf. Kagan 1998, Lyons 1965, Mulgan 2001

lieve it should be noted that a problem similar to that which befalls Irvine's generalisation test is actually what I take to befall the argument for the avoidance strategy from the *collectivist understanding of the no-harm principle* mentioned a couple of times above. While my argument against the appeal to generalisation was formulated in terms of the lack of realism of this appeal, a more general argument could perhaps be formulated in terms of *focus*. I noted already at the end of the previous chapter (section 4.2) how many commentators complain that the avoidance strategy is nothing more than a "head in the sand approach", the point of which mainly would seem to be to allow investors to "keep their hands clean" of certain societal problems rather than to actually try to address them. Armed with the kind of reasoning outlined in this section, I believe, I am ready to give this kind of argument some force.

I argued in the previous chapter (section 3.1) that if the no-harm principle makes use of what I called 'participatory effects', and doesn't make any restrictions on how long and complicated the causal chain between investors and companies may be in order for corporate harm to count, it would seem to imply both the austere conclusion and the problems with selling 'tainted' shares further. And, as noted previously in this chapter (section 3), there is no way in which proponents of the no-harm principle can avoid these implications if they want to use this principle as an argument for the avoidance strategy – if there indeed is a causal link between investors and underlying companies, it is both quite complicated and mainly on the collective level. But, what should investors do in light of these considerations then? Should they simply choose never to invest and distance themselves completely from the world of finance? Or should they be prepared to 'dirty' their hands in at least some cases?

For reasons similar to those stated above, I believe choosing non-investment rather than philanthropy or activism here could be criticised on the grounds that it seems to express a certain *detachment* from and *nonchalance* towards the real world and its very real problems. While it may be true that there is no way in which one can invest with entirely "clean hands", I believe, focusing on one's own hands, or the part one happens to play in the causal chain leading up to harm, would seem rather misdirected. As I have argued above, namely, it makes no real difference if one chooses to distance oneself from playing this part – but by *playing it better* one could possibly make a considerable difference to some very unfortunate people's lives. Simon, Powers and Gunnemann, I believe, formulate this point quite nicely when they write:

> Any quest for moral purity alone [...] seems hopelessly naive. To attempt to cleanse one's portfolio of dirty stocks and to invest only in clean stocks would involve one in an endless series of illusions and arbitrary decisions. [...] Too many people, however, let the matter rest here: because one cannot avoid contamination, one cannot do anything at all. The complex organization and inter-relatedness of the world is invoked in either existentialist despair or bureaucratic indifference, and the guilt of all becomes the guilt of no one. This result is unacceptable. We may not be able to avoid the world's guilt, but we can seek to reduce the level of injury. That no course of action is untainted does not mean that no course of action is preferable to another or that we cannot choose between more and less desirable consequences.[106]

I believe Simon et al.'s point is an important one, but (since they explicitly embrace the no-harm principle – see section 3 of the previous chapter) perhaps they have not understood its full implications themselves. With the argument above, I believe, I have argued against the last outpost for proponents of the no-harm principle. If investors indeed have moral reasons to avoid investing in certain companies under certain circumstances, we may conclude, this is not because of their causal relation to harm *per se*.

Now, having said all that I have said above, I wish to emphasise again that I think it is important to stress the existence of *collective dilemmas* in moral settings. There are certainly a lot of things people do which are not too harmful in isolation but which can become harmful on the collective level. As I said above, I believe the most straightforward understanding of these things is that it is our collective responsibility to counteract such types of harm. Collective responsibility, however, does not necessarily imply any moral responsibilities on the part of all individuals who make up the collective, but should rather be understood either politically or as the indirect responsibility of the most influential members of such collectives. I will close this book with some brief comments on the politics of SRI (in chapter VIII, section 2). In the following section, however, I will turn to the issue of the indirect and social effects of screening.

6. The social effects of screening

The conclusion of the discussions in the three previous sections, I have said, is that while individual investors only very rarely can make a non-

[106] Simon et al. 1972, p. 26

negligible difference to share prices and corporate practices on their own by screening investments, a sufficiently large collective may be able to make such a difference. It may be argued, however, that the distinction between 'on their own' and 'collectively' I have been using in these arguments is at best illusory, and that I have neglected the *social* dimension of investing (or screening). No investments are made entirely in a social vacuum, and thus investments may not only have financial effects but also a kind of social ones. Most importantly, one investor's avoidance of a certain company's shares may encourage other investors to avoid this company, which in turn may encourage yet others, and so on, and so forth. In this way, individual investors' avoidance may in fact have a sort of collective effect, because they may cause a further collective to act. Perhaps this is actually what Irvine is after when he says that what matters is what happens if an individual investor's action is "imitated by many other investors".[107]

In this section, I will discuss this and other suggestions about certain social or societal effects of screening investments. Obviously, the kind of effects appealed to in the idea above are rather indirect – the effects which other people's screening choices may have on share prices and thus on corporate practices. Before discussing these kinds of effects, however, it may be appropriate to discuss an argument which appeals to a more direct kind of non-financial effects, namely social effects on the managers of limited companies.

6.1 The hypersensitivity of managers

When I introduced the argument for screening from its possible financial effects above, it may be noted, I suggested that these kinds of effects are not important *as such*, i.e. the point of the argument was not simply that screening has certain financial ramifications. On the market signalling approach, I said, the reason for focusing on the effects on share prices was that these are the central mechanisms by which the stock market can influence quoted companies, and this is mainly because the *managers* of these companies seem to care (and have reasons to care) about share prices. Remember also the analogy with ethical consumerism – according to most writers, the point of screening is to influ-

[107] Irvine 1987, p. 239. According to Glover, it is often the case that acts which initially seem to 'make no difference whether or not I did them' have *side-effects* that actually make an important difference (1975, p. 177-81).

ence companies financially *in order to influence the managers* of these companies to direct their activities in directions which are more socially beneficial. But perhaps it is actually not possible to conclude from the fact that most individual investors cannot influence the price of some company's shares in any non-negligible way, the further claim that they cannot influence the managers of the company in question to any non-negligible extent. Well, at least this is what some writers suggest. One idea here is that managers care so much about their reputation that even the smallest of boycotting campaigns against their company might persuade them to change their ways. According to Brill, Brill and Feigenbaum, for instance:

> Every day, countless investors are dumping stocks in companies they dislike. This exerts a downward force on those shares. It's hard to know how much influence this has on stock prices – it may be quite negligible. Nevertheless, corporate CEOs and their boards of directors are *hypersensitive* to anything that *might* drag their stock prices down. In the last few years, social researchers have gained the ear of upper management; companies want those good grades for corporate responsibility and are making real reforms in order to earn them.[108]

It is perhaps unclear how to understand the reference to social researchers here – I will return to this point below. The argument suggested by Brill et al. above, I believe, is very interesting – if it is true, it seems, individual investors may actually be able to influence corporate practices *despite the fact that their share purchases and sales are too small to have a lasting impact on share prices*. This is because managers simply are hypersensitive to anything that *might* affect the price of their shares, i.e. they are sensitive even to financial boycotts which for all practical purposes are doomed to fail. Should we conclude from this argument that investors have pragmatic moral reasons to avoid investing in certain companies and seek out and invest in others after all?

One may now note a dimension of the kind of reasoning discussed previously in this chapter which connects it to my discussion at the end of the previous chapter. Even though the SRI proponents and economists who have discussed the so-called market signalling approach seldom make this dimension explicit, the term market *signalling* would seem to suggest that acts of buying and selling shares could be seen as a kind of *communicative* acts, sending a certain *signal* on the market which manag-

[108] Brill et al. 1999, p. 77

ers then can pick up. This idea, it should be noted, is similar to one of my understandings of the *approval* argument in the previous chapter (section 4.1), namely the idea that investing in morally companies *communicates* a kind of approval to other people. In fact, it should be noted that we have already met with the kind of argument about effects on managers outlined above, although in another guise. According to some proponents of the approval argument, I noted in the previous chapter, expressing an approval of morally unacceptable companies may be morally problematic because it *encourages managers to go on with the bad things they are doing*. According to Simon, Powers and Gunnemann, for instance, "an institutional shareholder who votes routinely for management [...] lends a measure of apparent acceptance and approval to existing corporate policies, thus reinforcing the management's predisposition to pursue these policies. In other words, until a shareholder ends his acquiescence in corporate violations of law or public policy, he encourages their continuation"[109].

Now, the analogy between acts of buying and selling shares and communication, I believe it should be noted, suggests that certain conditions have to be met in order for these kinds of market transactions to be effective in the respects indicated above. Most importantly, of course, it needs to be clear what the investor's *message* is, so that managers can pick up the right signal. I believe there is an ample problem here, both for the present hypersensitivity argument and for the market signalling approach itself, which is closely related to Miller's observation concerning the 'secrecy' of many investment decisions (noted in section 3.1). It is perhaps clear what "social researchers" want of companies, and thus companies may respond to demands of these, as Brill, Brill and Feigenbaum suggest. But how should managers interpret the fact that some individual investor decides to sell a certain amount of the shares of their company? At any given time, there are probably thousands of individual investors selling the shares of a certain company for just about every kind of reason. On an average day in January 2008, for instance, over 3.2 billion shares changed hands on the London Stock Exchange[110], and a similar figure for the New York Stock Exchange was over 3.9 billion[111]. Some might sell their shares because of doubts about the company's profitability, some just might feel that the shares do not fit in well

[109] Simon et al. 1972, p. 151
[110] London Stock Exchange 2008c
[111] New York Stock Exchange 2008

with the rest of their portfolio, and yet others might avoid the company's shares for ethical reasons. How are managers to know exactly for what reason a certain individual investor avoids the company they manage?[112]

In response to the considerations above, it may be argued that it is fairly obvious what so-called *ethical funds* are after, and so individual investors may have reason to screen their investments through investments in such funds. Ethical funds are called so exactly because they tend to avoid certain investments for ethical reasons, and this is a fact that most managers should be familiar with.[113] I think this suggestion only takes us so far, however. Surely, even ethical funds sell certain shares for financial reasons and avoid certain other shares for financial reasons. So, even if managers of companies that ethical funds avoid might have some reason to think that they are failing in some respect of social responsibility, they can never be sure of this. There is very little empirical evidence on exactly how managers react when ethical funds sell shares in their companies – I will return to this below. As I see it, however, there is no reason to think that there is a perfect match between the intentions of the ethical fund and the interpretation of the fund's action by the managers – sometimes managers may fail to understand that a certain disposal of shares was ethically motivated, at other times they might mistake simple financial motivations for moral critique.

The upshot of the considerations above, then, is that, even if investors actually managed to influence the price of some company's shares somehow, it is not obvious what effects this would have on the activities of this company. This is because there simply is no way in which managers *automatically* will understand that they have reasons to steer their company in a more socially beneficial or ethically worthwhile direction. And the same problem, of course, arises for the hypersensitivity argument outlined above. But, perhaps individual investors can do something about this. As already noted, some writers criticise the idea of 'secretly' avoiding a certain company's shares, or "departing quietly" from

[112] Cf. Haigh and Hazelton 2004, Lang 1996, Powers 1971, Sorell and Hendry 1994. Lang notes how the avoidance strategy may backfire for exactly this reason: "After all, people refrain from investing for a variety of reasons, and unless the companies are told why, they may just think you're chasing better returns elsewhere and so they'd better attempt to sell more of their unacceptable product to attract your money back!" (1996, p. 7).
[113] Cf. Sorell and Hendry 1994

investments in a certain company.[114] Consider, for instance, Miller's idea here again. According to Miller, it is a mistake to think that most SRI investors avoid companies without making this public in some way. The main point of avoiding a certain companies' shares in the first place must reasonably be to create *negative publicity* around the company. How else could a boycott work?

> Indeed, if *avoidance* investors' decisions to sell stocks or not to buy them in the first place were secret, those decisions probably would have virtually no effect at all. [...] The fact is, however, that once these decisions are made, they are generally not kept secret, at least not by institutional investors, but are disclosed in ways intended to create maximum adverse publicity for the affected company or companies. When, for instance, Harvard University and New York City's pension plans determined to liquidate their tobacco stock holdings, these actions were heralded as front page news throughout the nation. Thus, just as the main negative effect of a consumer boycott is seldom the actual direct revenues loss but rather is the publicity surrounding the boycott, so too, the principal impact of an *avoidance* strategy on companies subjected to it is often the negative publicity that accompanies it. In many cases, this publicity can be devastating.[115]

I think Miller's suggestion in this passage is very interesting. And perhaps it could be understood as the following objection to my line of reasoning above: If it is hard for managers to know exactly for what reason a certain individual investor avoids the company they manage, the investor simply needs to be more explicit about this. Investors may write letters to the companies they avoid for ethical reasons, and explain what aspects of the companies' activities they see moral problems with. Or, they may call the local, or perhaps national, newspapers and tell them what they find morally problematic with a specific company's activities or products. Exactly what strategy they should choose could be up for discussion, but the point is that there are ways for individual investors to let the managers of the companies they avoid investing in know that they are boycotting the company's shares for moral reasons. Thus, on the appeal to hypersensitivity, there might after all be moral reasons to implement an avoidance strategy – since the possibility of changing a company's ways through (an amended version of) the avoidance strategy is greater than I previously granted.

[114] Cf. Cowton 1998b, Hudson 2005, Lang 1996, Kinder et al. 1993, Kolers 2001, Miller 1991, Powers 1971
[115] Miller 1991, pp. 34-35

The reader can here see that there is no clear cut difference between what I have called the avoidance and supportive strategies and what we might call an activist strategy. I will return to discuss the possibility for individual investors to influence companies through different kinds of activist campaigns in chapter VI. Before leaving the argument of hypersensitive managers, however, I wish to suggest that there are reasons to doubt the basic idea of this argument. Is it really so that managers are hypersensitive to anything that *might* affect the price of their shares, i.e. even to financial boycotts which for all practical purposes are doomed to fail? Once again, this is an *empirical* issue which should be supported by solid empirical *evidence* but, unfortunately, SRI proponents give very little of the kind. They give some more *anecdotal* evidence of cases where managers seemingly have changed the direction of their companies' activities after the public announcements of financial boycotts by different lobbying groups.[116] As I will suggest in more detail in chapter VI (section 2.3), however, it is very hard to draw any specific conclusions from such anecdotes.

Now, there is no clear evidence *against* the hypersensitivity assumption either, it may be noted, so there may perhaps be *some* managers who are hypersensitive in this way. If we go back to the kind of economic *theory* which many SRI proponents invoke, however, I believe there are further reasons to be doubtful about the hypersensitivity argument for the avoidance strategy. With regards to most larger-sized commercial companies, it is simply hard to believe that they would hire managers who are so hypersensitive to the whims of the smallest groups of people as SRI proponents make them out to be. As noted in section 3.1 above, on most financial models, the central aim of managers is to maximize shareholder wealth – i.e. to maximize the share price. Given this assumption, it is hard to see that very many managers would be hypersensitive to the demands of some group of social campaigners, unless of course their demands were backed up by some kind of real financial power. Even though managers may not be perfectly "economically rational" at all times, it is most often their job to try to be so.

However, perhaps the impact Miller refers to should not be conceived of as the impact of individual investors on managers and corpo-

[116] Cf. Brill et al. 1999, Domini 2001, Harrington 1992, Kinder et al. 1993, Melton and Keenan 1994, Miller 1991

rations *directly*, but rather as the impact on other investors? I now turn to this kind of idea.

6.2 The snowball argument

At the end of the previous chapter (section 4.1), I noted that, on the understanding of the approval argument which appeals to the communicative effects of avoidance on others, there were a number of possibilities as to who the thought objects of this communication could be. According to one idea, the primary objects were *observers*, or *other investors* – according to Cowton, for instance, "[t]o many observers, passively holding a stock and making a return from it indicates some support for a particular activity"[117]. I have already indicated that the suggestion that individual instances of screening may have effects on other investors also may be an interpretation of Irvine's idea that what matters is what happens if an individual investor's action is "imitated by many other investors". If individual acts of buying and selling shares in certain ways can have a kind of snowball effect, causing others to buy and sell shares in a similar way, the distinction between individual and collective effects itself would seem to crumble. Following the philosopher Donald Regan, who discusses a similar kind of argument in a similar context, we might call this *the snowball argument* for screening.[118] What should we say about this argument?

Well, before evaluating the argument above, it may be noted that this argument actually seems to present a good explanation of why *consistency* or *conscientiousness* sometimes could be important from a moral point of view. In chapter II, I discussed the idea that investors have *direct* moral reasons to refrain from investing in companies which they morally disapprove of – direct in the sense that these moral reasons were thought to stem directly from investors' disapproval of these companies. I said that there were many problems with this kind of suggestion, but we may now see how consistency could be thought of as at least *indirectly* morally valuable: If individual investors are to be able to influence other investors to avoid investing in the kind of companies they avoid themselves, or to seek out and invest in the same companies, namely, consistency between moral principles and investment practice may lend some neces-

[117] Cowton 1998b, p. 187

[118] See Regan 1980, pp. 43-52. See also Narveson 1976, where this kind of argument is suggested as a general solution to collective dilemmas.

sary *credibility*. Surely, investors will have a harder time persuading others to join their social quest if they do not even take their own recommendations seriously themselves. But the real question, of course, is whether other investors will take their recommendations seriously, and then act on them, even when they are consistent.

In response to the snowball argument, I first of all want to reiterate the worry from the previous subsection, i.e. that it would seem hard for other investors to know how to understand a given transaction on the stock market if the moral reasons behind it were not somehow made more explicit. For this reason, 'quietist' screening could probably not give rise to a snowball effect and, thus, the strategy implied by this argument would go more in the direction of shareholder activism. I will have a lot more to say about the possibilities of individual investors to influence the general public in chapter VI, where shareholder activism is discussed. Before leaving the snowball argument for screening, however, consider also the following notes: From the passages above, it is not obvious exactly *what* other investors are the supposed receivers of the communicative message that screening may send out. But to what extent this kind of communication may have non-negligible effects on corporate practices, I believe, to a great degree depends exactly on this matter. I will therefore briefly elaborate on some possible suggestions in this context.

A rather straightforward suggestion would seem to be that the supposed receivers of individual investor's market signals are *other individual investors*. If individual investors indeed have the power to influence other people's behaviour, this would most probably be people who are in a situation which is similar to theirs, or perhaps, first and foremost, the people closest to them. While it seems hard for individual investors to make a difference on their own, I have said, they may be in a position to do so *together*. Thus, while each individual investor may not be close to too many other people, perhaps one investor could actually 'get the ball rolling' and, by telling some friends who then tell *their* friends, and so on, perhaps a collective effort could arise. This kind of scenario, I believe, is the snowball effect in its most straightforward form. But is such a scenario probable? Once again, the most conscientious reply to this question would probably be that more empirical evidence is needed. Lacking this evidence, one can only speculate here. Most of us surely *want to think* that our actions have this kind of effect on the people around us. Many would probably despair, and think that their actions (or lives) were meaningless, if they felt that they were not able to im-

press even their closest friends and family members. It is unclear, however, if they have good grounds for not feeling this way. In my own experience, people often consider their financial decisions to be an especially personal matter, and it may thus be especially difficult to influence how others make these kinds of decisions. Domini and Kinder relate the following story, which I believe is quite interesting in relation to what I just said:

> At a recent seminar on socially responsible investing, one of the speakers suggested that the participants tell everyone present what they'd earned in the last year. I caught my breath. A minute later we realized her suggestion was rhetorical. I looked around and saw the same relief I felt in the others' faces. But she had made her point. Money is a deeply personal matter. Our finances are so intimate we can share them only with our spouses and our tax accountants.[119]

Since the considerations above only are speculations, let us grant for a moment that most individual investors actually may be able to influence at least some other people to join their social cause, and thus may be able to increase the group of investors who screen their investments in a certain way to at least some degree. The most salient problem for the present version of the snowball argument is not the considerations above, I believe, but the fact that, as noted previously in this chapter, the amount of investors it would take, or, more exactly, the amount of stock market power it would take, to have a non-negligible influence on share prices and corporate practices most probably is very large. Even if one investor influenced another investor to join in, who in turn influenced yet another investor, and so on, and so forth, I believe it is hard to see how this could add up to the amount of investment capital needed to bring large corporations to their knees. According to some recent estimates, private investors only control about 15 percent of the total stock market value in the UK.[120] Even in the US, where corporate ownership is more dispersed, this figure is now way below 50 percent.[121] Although there is some theoretical room for the *totality* of individual investors to influence how businesses are run by screening their investments in a similar way, then, it seems hard to see how even the most effective of social campaigns could attract the vast amount of capital needed.

[119] Domini and Kinder 1986, p. 1
[120] Mallin 2004
[121] Hawley and Williams 2002

The organisations which control the majority of the holdings on most of the world's stock markets, it may be noted, are the ones I have been calling *institutional investors* – that is, large banks, insurance companies, pension funds and other kinds of financial trusts. In the UK, institutional investors control over 60 percent of total shareholdings[122] and they stand for over 80 percent of all share trades in the US[123]. Now, according to some writers, the supposed receivers of the communicative message of a screening strategy are actually not individual investors but exactly these institutional investors. According to Powers, for instance, "[t]hose who argue the case for sale or purchase for effect rarely have in mind only the economic impact. They often consider more important the symbolic effect of one or more large institutions which do not buy stock of a particular corporation or sell specific stock in protest"[124]. It should be noted that, according to quite many proponents of the SRI movement, the main reason for why the future of this movement looks promising is also that more and more institutional investors are starting to become more active shareholders and to screen their investments according to ethical principles. According to Russell Sparkes and Christopher Cowton (in a joint paper), for instance, this development signals the maturing of SRI, or its move "from margin to mainstream".[125] Exactly what this implies for the moral reasons of the average individual investor to screen his or her investments, however, would seem rather unclear.

With regard to the possibilities of individual investors to influence institutional investors to screen their investments in a certain way, I believe it should be noted that these kinds of institutions in many ways are very much like large commercial corporations – for instance, they have managers which are hired on the basis of their leadership skills and their understanding of economics and finance, these managers are expected to live up to certain economic goals, they have principals – the trustees – which expect a certain return on their assets, and so forth. In fact, institutional investors may be more bound to the goal of maximising profits than commercial companies – according to the so-called 'prudent man' rule, a legal rule which exists in most countries, trust manag-

[122] Committee on Corporate Governance 1998, Lang 1996, Mallin 1998, 2001
[123] Mallin 1998, Schwartz and Francioni 2004
[124] Powers 1971, pp. 93-94
[125] Sparkes and Cowton 2004, p. 49. See also Bruyn 1987, Hawley and Williams 2002, Kiernan 2002, Melton and Keenan 1994, Sparkes 2002.

ers are to manage trusts in the sole (financial) interests of the trustees.[126] For these reasons, I believe individual investors do not seem to have any greater possibilities of influencing the managers of institutional investors than they have of influencing the managers of commercial companies directly, at least not through simply being explicit about their ethical screens. Perhaps they could reach institutional investors in other ways – for instance, through writing letters, organising demonstrations or going to the media. I will discuss these possibilities further in chapter VI.

Before leaving the current discussion, I will note a final suggestion about the possible social effects of screening. While it is often hard to say exactly *who* are influenced by a certain moral example, some may argue, surely it must have at least *some* sort of impact? Even though it seems hard to see how individual investors can influence institutional investors, or enough other individual investors, *directly* through their screening behaviour, many writers suggest that screening must create an increased *public awareness* of social issues and, as a result of this awareness, perhaps some investors may actually be persuaded to change their investment behaviour. Domini gives a similar suggestion in the following passage:

> One way that the integration of social criteria in investments makes a difference results from the fact that portfolio screening cannot take place without good research. The demand for corporate social research by social investors has created a large amount of information about the ways in which companies affect our lives. Never before has society tracked data on the way business copes with diversity, environmental impact, community support, or a host of other issues. We do today, thanks to social investing. This information in and of itself is an instrument for positive change [...].[127]

Comparing the references to social researchers, perhaps this is also how we should understand the argument of Brill, Brill and Feigenbaum above. An increased social awareness of issues concerning social responsibility may perhaps in itself make a difference to how companies do business. Once again, however, *social researchers* are probably in a much better position to influence the public awareness of these things

[126] Cf. Blair 1995, Bruyn 1987, Harrington 1992, Hollenbach 1973, Lowry 1993, Miller 1991, Owen 1990, Powers 1971, Ward 1991. Exactly how this rule should be interpreted is not always obvious, however, and some writers suggest that it is compatible with taking fairly elaborate non-financial concerns into account – cf. Kinder et al. 1993, Simon et al. 1972, Ward 1991.

[127] Domini 2001, p. 19. See also O'Rourke 2003.

than individual investors are. The increased demand for information about different companies' social records which an individual investor's screening behaviour creates is, arguably, most often negligible. Furthermore, even though individual investors may get some people to *think* about matters of social responsibility, it is unclear to what extent this should be counted as a substantial effect in the present context. Even though some more people may be *talking* about social responsibility, in what way is the world a better place? Being content with this kind of 'impact', I believe, is surely to set the bar way too low.

7. Conclusions

In this chapter, I have mainly discussed what I have called pragmatic arguments for screening, i.e. arguments for the avoidance and supportive strategies from the supposed fact that implementing one of these strategies can make a positive difference, either in terms of changes in corporate practices or in terms of socially beneficial societal outcomes. According to the most straightforward version of this kind of argument, screening can make a substantial financial difference to companies, either directly or indirectly, and this kind of financial power can then be used to make companies change their ways. Many SRI proponents support this argument, but I have suggested that they lack solid empirical evidence for their case. As far as economic theory is concerned, I have argued that it does not seem plausible to think that individual investors can influence companies in this way – individual investors do not have very much financial power, at least not on their own.

Some SRI proponents suggest that investors may have such power collectively, and I have agreed with this supposition. However, I have said that it is unclear what this implies in terms of what a given individual investor has moral reasons to do. According to one suggestion, from the fact that the collective of investors, or all investors together, have a certain responsibility, it follows that each individual in this collective has a certain responsibility. I have argued against this suggestion, however, mainly on the grounds that its recommendations no longer would seem sufficiently sensitive to the circumstances of the real world – as long as it is only a dream that enough investors will come together and screen their investments in the same way, individual investors do better in doing something else which really can make difference. According to another suggestion, individual investors may be able to influence the behaviour of other investors, thus creating a sort of collective action out

of this. Once again, however, I have argued that individual investors would not seem to have the power – this time the social power – to make a non-negligible difference on corporate practices this way.

I have suggested, however, that individual investors perhaps may be able to influence both the relevant companies and other investors to change their ways through more elaborate measures – for instance, through writing letters, organising demonstrations or going to the media. We are now approaching the fine line between what we may call screening and what is perhaps better referred to as shareholder activism. In the next two chapters, appropriately, it is to shareholder activism and similar strategies I turn my attention.

Chapter V

The Responsibilities of Ownership

1. Role-specific responsibilities and the relationship strategy

The ideas I have been discussing in chapters II to IV, it may be noted, have all been concerned mainly with issues of when to *acquire, hold and dispose* of different kinds of investments. According to proponents of the avoidance strategy, for instance, investors have moral reasons to refrain from investing in certain companies, and according to proponents of the supportive strategy, investors have moral reasons to seek out and invest in others. In this chapter and the next, I will discuss ideas about how investors may have moral reasons to *engage more actively* with different kinds of companies – to make contact with managers, e.g., and vote at shareholder meetings. The central strategy in this context from the perspective of the SRI movement is obviously what I have called *the activist strategy*, or *shareholder activism*. According to proponents of this strategy, investors may under certain circumstances have moral reasons to invest in companies which are otherwise regarded as morally problematic, since by doing so they may be able to have a kind of 'insider' influence on these companies (compare, for instance, the *Slaveholders Against Slavery* case discussed at the outset of chapter III). But is the activist strategy really the most preferable alternative here? In the present

chapter, I will compare this strategy with what is perhaps a more straightforward idea about how investors have moral reasons to engage more actively with the companies they invest in. I will call this *the relationship strategy*.

In order to facilitate the discussion, we may – just like with the avoidance strategy – distinguish between two broad ways in which proponents of the SRI movement (and other writers) have generally tried to justify the activist strategy. According to most SRI proponents, I believe, the reasons for why investors sometimes should become activists are intimately related to the kind of reasons discussed in the previous chapter. That is, through raising issues at the annual general meetings of certain companies, most of these writers suggest, investors may once again be able to *make a difference* in terms of corporate behaviour or societal outcomes. Consider, for instance, the following passage from Domini and Kinder:

> Some ethical investors want to do more than avoid bad companies and invest in good ones. They want to change the bad into the good. For these investors there is the activist approach. [...] The activists start from one basic fact: shareholders own the company. Supposedly management works for them. At least once a year shareholders have the right to elect directors, and to propose and vote on resolutions relating to corporate policy. If the owners fail to exercise their power to direct corporate policy, they waive a powerful means for change.[1]

We may refer to the moral reasons of investors to make a difference in this way, or promote the general good in society, as the *social responsibilities* of shareholders in what follows.[2] I will discuss the issue of whether individual investors can make a non-negligible difference through employing different kinds of activist measures more thoroughly in the next chapter. Although activists who want to make a difference, according to Domini and Kinder, "start from one basic fact" – namely that "shareholders own the company",[3] it should be noted that the connection between the *social* responsibilities of shareholders and the fact that investors are generally considered *owners* of the companies they invest in is

[1] Domini and Kinder 1986, pp. 8-9

[2] I am here using this term in a purely technical manner, i.e. as a simple abbreviation of references to the idea that investors have moral reasons to make a difference in terms of corporate behaviour or societal outcomes. It should be noted that the phrase 'socially responsible' in the wider term SRI, as is obvious from previous chapters, need not only refer to this idea about the moral reasons of investors.

[3] For similar formulations, see also Brill and Reder 1993, Lang 1996, Sparkes 2002, Ward 1991

only *indirect*. That is, it is not the fact that investors are generally considered owners *as such* which gives rise to their moral reasons to make a certain difference in terms of societal outcomes. Of course, because they are generally regarded as owners or, more specifically, because they as shareholders enjoy certain rights and privileges in relation to the companies they invest in (such as, for instance, the right to propose and vote on resolutions at annual general meetings), their social responsibilities may *translate* into moral reasons to sometimes become shareholder activists. The main point of the idea of making a difference, however, is not this point about ownership but rather something else – i.e. that investors have moral reasons to *make the world a better place*.

A second line of argument for the activist strategy, however, I believe is exactly the idea that the fact that investors generally are considered *owners* of limited companies *as such* gives rise to a kind of imperative on their part to become shareholder activists. As I noted already in chapter III, when you buy the shares of a certain company on the stock market you are generally considered a (part) *owner* of that company – but this is perhaps not only something that could incriminate you as an investor in a company of questionable moral standards (along the lines of the ideas discussed in that chapter). According to many writers, being a shareholder comes with certain *rights* and *privileges* in relation to the companies you own and these rights and privileges also give rise to certain moral *responsibilities* (or *duties*). These responsibilities are often framed exactly in terms of the responsibilities of *owners* of limited companies – the role of shareholders, many writers suggest, is exactly to act as *responsible owners* in some sense.[4] I indicated already in the introductory chapter (section 2) that, according to some writers, there are certain responsibilities which are *internal* to the *role* of shareholders. In a certain sense, I noted, these responsibilities could be said to be the only responsibilities which investors have *qua* investors (that is, if this is understood exactly as the responsibilities they have in their *role* as investors). To separate this conception of the responsibilities of shareholders from the social responsibilities discussed above, we may refer to them as the *role-specific responsibilities* of shareholders, or the responsibilities of shareholders *as owners*.

The idea that investors or shareholders have this kind of responsibilities will be the main focus of the present chapter, and the central ques-

[4] Cf. Beabout and Schmiesing 2003, Cowton 1998b, Gray et al. 1996, Mackenzie 1997, Owen 1990

tion will be: Does the appeal to the role-specific responsibilities of shareholders really strengthen the case for *shareholder activism*, or do they in fact point in a slightly different direction? As I just said, the idea that shareholder rights confer duties is commonly taken as an argument for shareholder activism by proponents of the SRI movement. According to Domini, for instance, "[s]hareholder activism is possible because as the owner of a stock you are a part owner of a corporation. In the United States, this gives you certain rights *and, arguably, responsibilities*"[5]. Consider also the following passage: At the outset of the previous chapter, I noted how Cowton suggested that pragmatic arguments for SRI in general often tend to focus on the supportive or activist strategies rather than simple avoidance. We may now have reason to consider this passage in its entirety, however:

> The second discernable perspective, which can complement the first, tends to emphasize the consequences of corporate actions upon others, perhaps conceived of as different groups of stakeholders such as employees, consumers, or local communities. *This view is often reinforced by regarding stockholders not as speculators or even investors, but as owners who not only possess rights and privileges but also have responsibilities which entail a degree of involvement.* If a duty not to impose damage or harm on other people is regarded as a minimum responsibility which runs through all morality, then it might be concluded that the avoidance of certain investments is appropriate, as under an "integrity" approach. However, a wider view of responsibilities is often taken which tends to justify supportive criteria or engagement in stockholder activism.[6]

The second "perspective" which Cowton suggests here is obviously a complex of quite different ideas. On the one hand, there is the idea that investors may have moral reasons to make a certain difference, which I said in the previous chapter could be understood along the lines of a consequentialist moral perspective (that is, a perspective which "tends to emphasise the consequences" of actions). Now, a further line of argument is the idea about investors as owners and a responsibility stemming directly from the rights and privileges of ownership – a responsibility which entails a "degree of involvement". I take this part to refer to the kind of role-specific responsibilities of owners outlined above. According to Cowton, this line of argument can obviously reinforce the former one. So there is no necessary conflict, then, between the social and the role-specific responsibilities of shareholders – both of them can

[5] Domini 2001, p. 84, emphasis added
[6] Cowton 1998b, pp. 187-88, emphasis added

be used in arguments for the activist strategy. Although I think this view is essentially correct, I believe this is far from obvious. The impetus for the appeal to responsibilities of ownership among SRI proponents, I suggest, actually comes from a discussion in the broader field of *corporate governance*.[7] In what follows, I will elaborate on a more straightforward conception of the role-specific responsibilities of shareholders which can be found in this discussion, and discuss how this relates to the vague conception outlined above.

Corporate governance has been defined simply as "the system by which companies are directed and controlled"[8] or, more generally, as the "set of legal, cultural, and institutional arrangements that determine what publicly traded corporations can do, who controls them, how that control is exercised, and how the risks and returns from the activities they undertake are allocated"[9]. In the literature on corporate governance, different ideas about what the relation between shareholders and companies should look like, how the board of directors of limited companies should function, and how the capital structure of companies is organised most efficiently, are discussed.[10] Because of the obvious connections between the field of corporate governance and the issues surrounding SRI, most importantly the issue of shareholder activism, it may be noted that the discussions about these things to some degree overlap. Some SRI proponents emphasise the close relations between the two fields[11] and, as I indicated briefly in the introductory chapter, SRI is actually sometimes understood as the kind of investing which integrates "environmental, social *and governance*" concerns in the otherwise strictly financial investment process.[12] However, there are also many dissimilarities between these two fields, I believe, especially in terms of focus.

The part of the corporate governance debate I am interested in here is primarily the discussion about the (moral) responsibilities of shareholders or owners. According to many writers in this field, I believe,

[7] Cf. Sparkes and Cowton 1994

[8] Cf. Committee on Corporate Governance 1998, Committee on the Financial Aspects of Corporate Governance 1993, Mallin 2001, Smerdon 2004, Sparkes 2003

[9] Blair 1995, p. 3

[10] For a good overview of the wide range of topics in the literature on corporate governance, see Keasey et al. 1999.

[11] Cf. Beabout and Schmiesing 2003, Rivoli 2003, Melton and Keenan 1994, Sparkes 1995, 2002, 2003, Guay et al. 2004

[12] Cf. Eurosif 2006, Kiernan 2007, Social Investment Forum 2007

these responsibilities are ultimately determined by the *role which shareholders normally play* in the more general system of governing corporations and holding management accountable. At the present juncture, however, the alleged *content* of these kinds of responsibilities is perhaps more interesting than their *justification*. According to Jonathan Charkham and Anne Simpson, for instance, the "key role for shareholders is to ensure that the board is performing effectively in its role of overseeing management and driving the company forward"[13]. Now, the most interesting part of this suggestion, I believe, is the latter part – the one about "driving the company forward". On one interpretation of the view of many corporate governance writers, it would seem, the responsibilities of shareholders are not only determined by what role shareholders normally play in the more general corporate governance system, but they are also most adequately understood as responsibilities *towards the underlying companies*. According to Christine Mallin, "[c]orporate governance is [often] seen as an essential mechanism to *help the company to attain its corporate objectives* and monitoring performance is a key element in achieving these objectives"[14]. According to a UK committee on corporate governance, furthermore, while part of good corporate governance may be to contribute to the "prevention of malpractice and fraud", the "first responsibility" of those involved in the corporate governance process is "*to enhance the prosperity of the business over time*"[15].

How does this view on what shareholders ought to do compare with the kind of activist strategy outlined above? Well, first of all, it may be noted that there actually are many similarities. Most importantly, shareholders are thought to have moral reasons to *engage more actively* with the companies they invest in on both accounts. According to Charkham and Simpson, for instance, the responsibilities of shareholders include "annually appointing auditors", "approving various alterations to the capital structure or articles of association", "tak[ing] an active interest in the nominations process which determines the selection of candidates for

[13] Charkham and Simpson 1999, p. 31. For similar formulations, see Committee on the Financial Aspects of Corporate Governance 1993, Smerdon 2004.

[14] Mallin 2004, p. 4, emphasis added

[15] Committee on Corporate Governance 1998, p. 17, emphasis added. See also Guay et al. 2004, Webb et al. 2003. Of course, I do not mean to imply that all writers in the corporate governance field agree with this view. It may be noted that there is a growing debate among these writers of what the ultimate purpose of corporations is and a growing tendency to define this in a way which includes social and ethical considerations – cf. Blair 1995, Mallin 2004, Smerdon 2004, Keasey et al. 1999.

the board", and, "when these candidates are proposed giv[ing] proper consideration to the voting opportunity"[16]. Furthermore, these actions are often described exactly as the actions which *responsible* or *involved owners* would take[17], and the object of many corporate governance writers' criticisms is pretty straightforwardly *financial speculation*, or investing for short-term gains. This kind of investing, it is generally argued, can be morally criticised since it is at odds with being an active and responsible owner of a limited company.[18] Now, it may be noted that some SRI proponents speak loosely of *active* shareholding[19], or simply *engagement* with companies[20], instead of using the term shareholder *activism* – which may signal the view that the difference between these kinds of actions and more radical forms of activism is one of *degree* rather than of *kind*. Indeed, on some writers' understanding of the term 'shareholder activism', I believe very many kinds of actions could actually qualify as a kind of activism. According to Sparkes, for instance, shareholder activism could be defined broadly as "the usage of voting rights attached to ordinary shares to assert and achieve *political, financial, or other* objectives"[21].

As I noted at the outset of this discussion (and as will become clearer in the next chapter), however, the term shareholder activism is most often used in connection with the more radical kind of shareholder campaigns designed, as Domini and Kinder put it, "to change the bad (companies) into the good". On this understanding of the activist strategy, I believe, there are obvious conflicts with the recommendations of the view above: Not only may the kinds of measures used by activists (public demonstrations, media campaigns, etc.) sometimes be very different from the measures recommended by this view, but the objectives of shareholder activists will also be quite different. As noted above, most SRI proponents defend the activist strategy with reference to the *social* responsibilities of shareholders (or, when they appeal to role-spe-

[16] Charkham and Simpson 1999, p. 32. According to Sorell and Hendry, this work may consist in, e.g., "keeping up good contacts at senior executive level with businesses in which shares are held, agitating for the presence of independent directors on boards, and exercising and enlarging voting rights carried by shareholdings" (1994, p. 116).
[17] Cf. Blair 1995, Corbetta 1994, Charkham and Simpson 1999, Mallin 2004, Moore 1988, Sorell and Hendry 1994
[18] Cf. Blair 1995, Charkham and Simpson 1999, Moore 1988, Sorell and Hendry 1994
[19] Cf. Lang 1996, Viederman 2002
[20] Cf. Domini and Kinder 1997, Eurosif 2006, Hellsten and Mallin 2006, Lewis and Mackenzie 1997, Sparkes 1995
[21] Sparkes 2001, p. 202, emphasis added. See also Gillan and Starks 2000, Strätling 2003.

cific responsibilities, these are thought to give roughly the same result), i.e. the idea that investors have moral reasons to promote the general good in society. The important difference between this strategy and the view outlined above, I believe, is that for investors who take their social responsibilities seriously, the point is not to *help the company invested in* to attain its corporate objectives – rather, it is to *help society* or *the world become a better a place*. If all a certain company does, e.g., is to pollute the environment and treat its employees badly, activists who take their social responsibilities seriously seem to have moral reasons to *outright counteract* the (morally suspect) objectives of this company.

Tom Sorell and John Hendry, two of the most prominent defenders of the view on the role-specific responsibilities of shareholders outlined above, note this last consideration. From their perspective, this part of the objectives of SRI seems troublesome. They ask:

> [I]sn't the ethical investor someone who is not, as he should be, really fully committed to the defining purpose of a corporation, namely to increase long-term owner value? And aren't the interests of ethical investors in things other than owner value going to conflict with the interests of those shareholders who *are* concerned with owner value and nothing else?[22]

According to Sorell and Hendry, responsible shareholding requires at least "a willingness to bear with a firm and to endure some of its changing fortunes"[23] – it may even require that shareholders "commit their goodwill, loyalty [and] patience"[24] to the companies they invest in. I believe the kind of active investment strategy outlined by Sorell and Hendry here is what is sometimes referred to as 'relationship investing' in the literature on corporate governance. According to Margaret Blair, for instance, "[t]here is no agreement on a precise definition of relationship investing, but advocates most often describe it as a situation in which the investing institution is responsibly engaged in overseeing the management of the company, rather than remaining detached or passive, and is committed to the company for the 'long term'"[25]. Following this terminology, I will in what follows speak of *the relationship strategy* as the main contender to the activist strategy here. According to propo-

[22] Sorell and Hendry 1994, p. 131
[23] Ibid., p. 114
[24] Ibid., p. 125
[25] Blair 1995, p. 172. See also Ayres and Cramton 1994, Gillan and Starks 2000, Melton and Keenan 1994, Monks 1994, Sparkes 1995.

nents of the relationship strategy, then, the moral responsibilities of shareholders are basically *to respect the (financial) goals of the underlying companies* and, at least to some extent, *to facilitate the achievement of these goals* by interacting with management and other shareholders in certain ways.[26]

My main focus in this chapter will be on the argument for the relationship strategy from the view outlined above concerning the role-specific responsibilities of owners – essentially an argument *against shareholder activism*. The remainder of the chapter proceeds as follows: In section 2, I discuss the issue that would seem to be the main focus of most corporate governance writers, namely the issue of speculation, or long-term versus short-term investing. By way of discussing this issue, I also give a more thorough introduction to what I take to be the most common understanding of the argument for the relationship strategy, which I call the *institutional perspective* on the role-specific responsibilities of shareholders. Although the institutional perspective is the most common understanding of the argument for the relationship strategy, I argue that it comes with certain major problems. Among other things, this perspective would seem to fail exactly on the issue of financial speculation – since the institutional framework surrounding investments in shares is so elusive, the institutional perspective could be invoked both by critics *and proponents* of speculation.

In section 3, I argue that, in order for proponents of the above line of argument to successfully criticise short-term investments, they should instead appeal to what I call the *pragmatic perspective* on the role-specific responsibilities of shareholders. Now, on the pragmatic perspective, it would seem, the argument for the relationship strategy has actually grown more similar to the arguments for the activist strategy introduced above. Judging from a certain kind of examples, I suggest in section 4 that proponents of the relationship strategy should also accept that there may be situations where shareholders have stronger moral reasons to

[26] Here are some further descriptions of the relationship strategy: According to Corbetta, "developing a governor attitude depends mainly on the willingness to assume responsibility for intervening in corporate governance processes. This stage can be reached only by abandoning the typical attitude of the investor-shareholder, disinterested in the company's affairs, and establishing a relationship with management" (1994, p. 94). According to Moore, there is actually a need for *partnership* with companies: "[Speculation] needs to be called in question from an ethical perspective, because of the divorce that has taken place between ownership and the responsibility that goes with it. Owners should surely act responsibly towards their employees and the communities in which their factories are located. [...] It should be a *partnership* between those who invest and those whose labour produces the goods or services" (1988, pp. 12-14, emphasis in original).

invest according to the activist strategy than according to the relationship strategy. But where does this leave the appeal to the role-specific responsibilities of shareholders? Well, on the best understanding of these responsibilities, I argue, there is indeed no conflict between the social and the role-specific responsibilities of shareholders. Rather than being a difference of *principle*, then, the difference between the activist and the relationship strategies is perhaps one of *appropriateness*.

A brief overview of the results of this chapter is presented in section 5.

2. SHAREHOLDERS AS OWNERS OR SPECULATORS

According to Cowton, as indicated above, a common line of argument in favour of the activist strategy is the idea that shareholders should be regarded "*not as speculators* or even investors, but", in a certain sense, "*as owners*"[27]. Interestingly enough, this is also how most proponents of the relationship strategy express their position – they argue that investors should be regarded as *owners rather than speculators* or gamblers and, as I noted above, the object of many corporate governance writers' criticisms is exactly financial speculation or investing for short-term gains. On the purpose of their book on corporate governance, for instance, Charkham and Simpson write: "This book is about [...] what reforms we consider are needed to allow (and where necessary require) institutional shareholders to behave like owners of companies, rather than traders of shares"[28]. According to Sorell and Hendry, the issue of whether to understand investors as owners or as traders is essential in many ways – not only to the question of what responsibilities shareholders have towards the companies they invest in, but also to the question of what responsibilities companies have towards their shareholders:

> Whether the shareholder is understood as an owner of a company or as a member of that company, or merely as a gambler riding on the success of that company, is of critical importance for assessing the morality of shareholding. A shareholder who acts as a gambler cannot be expected to be treated as an owner. Nor should one who has been encouraged to participate on the basis of ownership then be treated as if he were a gambler. Since a business cannot know which shareholder falls into which category, however, it has to treat them all the same way. We shall

[27] Cowton 1998b, pp. 187-88, emphasis added
[28] Charkham and Simpson 1999, p. 19

argue below that, for this reason and others, there may be strong moral grounds for not using shareholding as a form of gambling.[29]

In this section, I will discuss the argument for the relationship strategy from this conception of shareholders as owners exactly by addressing the issue of ownership versus *speculation*. In order to get a grip on this issue, we may elaborate for a while on how to understand the passages above more exactly. What does it mean, for instance, to say that investors should be "understood" as, or "considered", owners (or members) rather than speculators (or gamblers)?[30] Well, it is interesting to note here that most writers who argue that investors should be understood as owners rather than gamblers seem to admit that investors do *not* have the status of *owners* in the strict legal sense – at least not in relation to limited companies. That is, ownership of limited companies is perhaps not comparable to ownership of, say, cars and boats.[31] In the eyes of the law, limited companies are generally treated as separate legal entities, or 'persons' on their own, independent of whoever may control them or have influence over them. However, these writers argue, this does not mean that investors should not be *considered* owners in a certain *moral* sense.[32] Perhaps the absence of *legal* obligations on the part of shareholders in the case of 'limited liability' companies actually makes the case for certain *moral* responsibilities on the part of shareholders more acute.

This is a view shared also by some writers in the SRI literature. Sparkes, for instance, writes:

> We have grown up with the system of limited liability, so that it seems natural to us, but it is surprisingly modern. It is a striking fact, which deserves greater recognition, that the great Industrial Revolution which so transformed Britain from 1780 to 1820 took place without it. Limited liability companies, then called 'joint stock' companies, were made illegal in the 'Bubble Act' of 1720, passed in response to the frenzied speculation which occurred in the summer of 1720, and centred around the shares of the South Sea Company. [...]

[29] Sorell and Hendry 1994, p. 114

[30] I here take the terms 'speculators', 'gamblers', 'simple investors', 'traders of shares', etc. as being roughly synonymous. Furthermore, as the distinction between 'investors as *owners*' and 'investors as *members*' seems to be of little importance in the present context, I will not say anything more about this here. Whenever I speak of the responsibilities of ownership I believe this may be substituted for the responsibilities of membership without loss of (moral) content. See Mackenzie 1997, pp. 216-17.

[31] Cf. Blair 1995, Charkham and Simpson 1999, Mackenzie 1997, Rini 2002, Sorell and Hendry 1994, Sparkes 1998

[32] Cf. Blair 1995, Sorell and Hendry 1994

> It seems fair to state that the limited liability company was tried in the sixty years up to 1720, and found wanting. Society generally agreed with Adam Smith that limited liability encouraged rash ventures and dubious share promotions. Smith's economics was tied up with his view of ethics [...]. Small businesses, run by individual owners, would be aware of the needs of others, something a legal fiction could not be. We may ask ourselves how modern society can restore this link between ethics and economics.[33]

I think it is reasonable to conclude from the considerations above that what it means to say that investors in limited companies should be regarded as owners rather than gamblers, most often, is to say that they have (or should be regarded as having) certain *moral* responsibilities towards the companies they have invested in – moral responsibilities that are *in some ways reminiscent of those commonly associated with other kinds of corporate ownership*.[34] Now, if this is what the appeal to ownership in formulations like the ones above amounts to, however, it would seem unclear to what extent we really should *accept* the idea that shareholders should be regarded as owners rather than speculators. It is certainly common of people to *talk about* shareholders as owners and so on, but does this really imply that investors have moral reasons to invest according to the relationship strategy – and that financial speculation is wrong?

In the two subsections below, I will continue this discussion and elaborate on what I take to be the main line of reasoning from proponents of the relationship strategy in this context. This line of reasoning is outlined in section 2.1 and, in section 2.2, some problems with this line of reasoning are noted.

2.1 The institutional perspective on owner responsibilities

The question currently under consideration is: If investors in limited companies are not owners in the straightforward (or legal) sense, why should they be thought to have certain moral responsibilities similar to those commonly associated with other kinds of corporate ownership? Well, here is one suggestion: Although shareholders have no fully-fledged legal *responsibilities* towards the companies they invest in, it should be noted, there are obviously many other kinds of connections between shareholders and companies that are of a legal nature – the

[33] Sparkes 1998, pp. 22-24
[34] Cf. Klonoski 1986

rights and *privileges* which shareholders enjoy in relation to the companies they have invested in, for instance, are certainly of a legal nature. If a shareholder wants to express her opinion on how the company should be run, she has a legal right to do so through proposing and voting on resolutions at the company's annual general meeting, etc. Now, taken together, the shareholders of a limited company could perhaps be said to have total control over the company, at least in theory, in very much the same way as a sole proprietor has control over an enterprise that he or she owns.[35] If all the shareholders of a certain company wanted the company to go into liquidation, for instance, it would certainly be in their power to force the company to do so. The point of emphasising this fact would of course be that, contrary to what I said above, ownership of limited companies may in fact not be too different from other kinds of ownership after all – it is at least very similar, some may suggest, to the direct ownership of a smaller-sized company. So perhaps it is only natural, then, to say that shareholders have moral responsibilities similar to those commonly associated with ownership of sole proprietorships?

Sorell and Hendry, I believe, give an argument very similar to this. According to Sorell and Hendry, one way of bringing out the responsibilities of shareholders is through comparing investments in shares with other types of investments. Even though investing in shares on the one hand may be similar to e.g. holding deposits in a bank, when looking at shareholding *as a whole*, being a shareholder is in many ways closer to being the owner of a sole proprietorship. They write:

> [A]s opposed to some forms of investment with a fixed return, shareholding seems to require a willingness to bear with a firm and to endure some of its changing fortunes. This is reflected not only in a shareholder's accepting a variable level of dividend, dropping at times to nil, but also in the scope for shareholders having their say about the performance of the management and the composition of the board. Holding deposits in a bank requires less than shareholding, and has less scope for participation, even if the deposits are invested in turn by the bank in shares. And holding loan equity comes somewhere in between. [...] The upshot of all this is not that shareholders are less justified in expecting a return than other investors, but that they are less justified in taking the return at significant expense to the business [...]. Sharehold-

[35] According to Corbetta, ownership of sole proprietorships (or 'family-owned businesses') most obviously gives rise to the type of responsibilities of 'governor-shareholders' discussed here (1994, pp. 92-93).

> ing, in other words, may carry more responsibilities than other forms of investment – at least other things being equal.[36]

Now, it is important to understand exactly what type of argument this line of reasoning comes down to. What part of the (possible) similarities between shareholding and sole proprietorships are Sorell and Hendry referring to in this passage? Well, on one interpretation, what they are exploring in this passage seems to be what we might call the *institutional framework* surrounding investments in shares, i.e. the set of presumptions and regulations about shareholding laid down by law and social tradition. One part of this institutional framework, according to Sorell and Hendry, is the "the scope for shareholders having their say about the performance of the management and the composition of the board", i.e. the rights and privileges which shareholders normally enjoy in relation to the companies they invest in. Another part is the fact that shareholders normally can be expected to accept "a variable level of dividend, dropping at times to nil". I will not go into the specifics of these suggestions here – in what follows, we might refer to this line of reasoning as *the institutional perspective* on the role-specific responsibilities of shareholders.

On a fairly basic level, I believe, the point of the institutional perspective is actually the simple idea that shareholders should behave like owners *because they are generally regarded as such*, i.e. because this is part of the presumptions and expectations surrounding shareholding. Of course, there are a number of ways to spell this perspective out more exactly and all of these need not refer to similarities between shareholding and sole proprietorships. The more sophisticated versions of the perspective, furthermore, would probably refer the institutional framework surrounding shareholding as Sorell and Hendry do, rather than to the expectations of people on the street. Understood very broadly, I believe a lot of writers – also in the SRI literature – could be said to accept this perspective. The conception of the moral responsibilities of investors which Mackenzie finally comes to defend in his dissertation, for instance, bears a lot of similarities to this institutional perspective and, as I said in chapter I (section 4), this should not be so surprising as there are obvious connections between the institutional perspective and the kind of 'communitarian' methodology Mackenzie

[36] Sorell and Hendry 1994, p. 115

uses.[37] Most importantly, both centre on what the relevant *traditions* or *communities* say and therefore tend to reproduce a bias towards the status quo. Mackenzie suggests that "[b]y becoming a shareholder one enters into a relationship of responsibility with the company that cannot be absolved, simply by divesting. This is not a legal responsibility, but it is I think an ethical one. It arises from the historical conception of the company as a self-regulating entity, and the conception of shareholders as the ultimate source of control within this entity".[38] According to Charkham and Simpson, furthermore, it is of critical importance to understand the socio-political connotations surrounding the ownership of a certain thing (e.g. shares) in order to understand what the ownership of this thing implies more exactly:

> Notions of property [and ownership] are not 'natural' but socio-political, given force by the law and social mores ('Thou shall not steal'). The assumptions we make here in the UK are the result of long development, and some of the basic concepts which our law reflects can trace their origins back to Roman law. The penalties we exact for breaking the law have changed. We no longer deem it necessary to protect property by a law *ad terrorem* – and hang people for stealing a sheep or a lamb.
>
> Private ownership means many things, according to the circumstances.[39]

Now, what is the point of the institutional perspective on the role-specific responsibilities of shareholders? Well, a more sophisticated formulation than the one above could perhaps be that shareholders have moral reasons to invest according to the relationship strategy *because the institutional framework surrounding investments in shares contains a norm to this effect*. According to Sorell and Hendry, it is actually so that the institutional framework surrounding investments in shares has a certain (social) *purpose*. They write:

> [One] of the many defects of the analogy between the shareholder and the punter [...] is that buying shares is not only a venture in money-*making*, but also a case of participating in a public institution for money-*raising*, an institution that benefits individual firms, the economy and so-

[37] Other writers link this kind of perspective to the line of communitarian thinking found in, for instance, Michael Sandel's and Michael Walzer's work. According to Warren: "These commentators are calling for more responsible forms of share ownerships. The unencumbered liberal who exists behind a veil of ignorance, without a known identity or set of affiliations, is being pushed out into the community, and is being asked to take more responsibility for what they own and how it is used" (2002, p. 16).

[38] Mackenzie 1997, p. 214

[39] Charkham and Simpson 1999, pp. 88-89. For a similar view, see Blair 1995.

ciety in a number of easy to specify ways. Although horse-racing, too, supports a horse-breeding and betting industry, and generates considerable tax revenue, the betting analogy obscures the way in which the stock market is specially designed to bring together for the public good private sources of money and proven companies with specific plans to innovate, to save labour, and to make more efficient use of scarce materials.[40]

Although the reference to "for the public good" above may give rise to a certain ambiguity in Sorell and Hendry's line of reasoning, an ambiguity which I will return to below (section 4), I think they formulate the main point of the institutional perspective quite nicely in the passage below:

> It is true that this function of the stock market may not be before the minds of those who buy and sell shares; but this does not mean it is not the point of the institution, or that investors should not be conscious of it and respect it – even when they have rather selfish reasons for coming into contact with the institution. *And respecting the purpose of the institution means accepting the responsibilities it implies.*[41]

The main point of the institutional perspective, then, is that investors have moral reasons to "respect the purpose of the shareholding institution", which means to assume the responsibilities which this institution implies – in this context: to invest according to the relationship strategy.[42] Not doing so, for instance simply investing for short-term gains, is to fail to respect the purpose for which the institution of shareholding was intended in the first place – and *this* is why speculation is subject to moral critique.[43]

What should we think of this institutional perspective on the role-specific responsibilities of shareholders? In the next subsection I will argue

[40] Sorell and Hendry 1994, p. 123

[41] Ibid., emphasis added

[42] According to Sorell and Hendry, the responsibilities here are subject to certain conditions. For instance, they are not applicable if the companies in question do not respect *their* responsibilities – most importantly, the responsibility of full and accurate disclosure and the responsibility of giving a reasonable return (1994, p. 125). See also Spurgin 2001.

[43] Indeed, Sorell and Hendry go as far as saying that investing in this way is "investing on a basis that is at variance with the *concept* of shareholding" (1994, p. 119, emphasis added). They write: "If someone subscribes to a share offer in a privatization simply because he likes the idea of being a shareholder, [...] or even because he thinks that he can make a quick profit on the day that trading in shares begins, [...] [these] hardly seem to be reasons for an *investment* decision [...]. After all, buying a thing simply because one likes the advertising or simply because one's friends are doing it seems to be a case of buying a thing without reference to what use it is going to be to the purchaser" (ibid., emphasis in original). On this view, it seems, investing in ways which are inconsistent with the relationship strategy would simply not be *proper investing*. I will not pursue this line of reasoning any further in this context.

that it comes with a lot of problems. One of its main flaws, I will suggest, is that it cannot be used as an argument against financial speculation.

2.2 Problems with the institutional perspective

The institutional perspective on the role-specific responsibilities of shareholders has obvious connections to the kind of 'communitarian' methodology which Mackenzie defends, I have said, mainly because both lines of reasoning take certain societal practices, traditions or institutions as their starting ground. According to many philosophers, however, similar lines of reasoning are often open to criticism exactly on the interpretation of these very institutions[44] – and I think this is correct also with regard to the institutional perspective on the role-specific responsibilities of shareholders outlined above. Certainly, it should be admitted that the institutional framework surrounding investments in shares *allows* investors to commit their "goodwill, loyalty and patience" to the companies invested in (and, as will become obvious in the next chapter, to a certain extent *disallows* other ways of using one's shares), and this to a greater extent than the corresponding frameworks surrounding other kinds of investments do. I have noted repeatedly in this chapter that investors receive certain legal possibilities when they become shareholders of limited companies – most importantly, the right to vote at shareholder meetings etc.. *However*, and this is where the problems start to arise for the argument from the institutional perspective, I also noted above that the legal framework surrounding shareholding does not *require* shareholders to use these possibilities in a certain way. Now, why should it follow from the fact that a certain institutional setting *allows* a certain thing, that this thing also is *required* of those who participate in the institution?

Another way to put this problem, one which in a stronger way brings out its relevance to the issue at hand, is to point out competing institutional settings which investments in shares also could be said to be a part of. As noted above, Charkham and Simpson open up for the possibility that there are many ways of understanding ownership and property in a given society. One of the most prominent understandings of individual ownership, they suggest, is one which seems to allow for

[44] Cf. Dworkin 1985, Juth 2005, Kagan 1998

owners to do whatever they like with what they own (or, at least within certain boundaries):

> The concept of individual ownership [...] is so much a part of our heritage and everyday lives that we take it for granted; we take for granted the rights that go with ownership in regard to exclusive use and disposal so long as these do not infringe the rights and interests of others. To have laws and for these to provide a remedy against those who deprive people of what they 'own' is the mark of a civilized society as is its capacity to enforce these remedies. Legitimate ownership, in other words, gives us title to enjoy our property, and by implication denies it to others, and it allows us to deal with it as we will.[45]

Now, is it not possible to argue from this conception of ownership, in a manner similar to that of Sorell and Hendry above, that investors obviously are permitted to buy or sell shares for whatever purpose they can have, be it speculation or something else – since it is a part of the institutional framework surrounding ownership that this is permissible? In some ways, one might say, ownership of limited companies would seem to be an instance of this standard form of ownership, for example because shareholders are not required by law to act in a certain manner in relation to what they own. Because of this similarity, it may actually seem "disrespectful to the purpose of the shareholding institution" to demand that investors commit their goodwill, loyalty and patience to the companies they invest in, in order to become active owners, if this is not what the investors want themselves. On one interpretation, a similar point may be what Elaine Sternberg is after when she writes:

> There is, ordinarily, no moral obligation to be, or to continue to be, a shareholder. Being a shareholder is only one of the myriad roles open to an individual or institution, and the reasons for choosing to be a shareholder are equally diverse. Although some objectives encourage long term holdings, and others do not, all are perfectly valid reasons for owning shares. And it is the shareholder's objectives for owning shares which should determine if a particular holding is bought or kept or sold: the long term goals appropriate for a pension fund may not be sensible for an individual elderly investor.[46]

To be fair, Sorell and Hendry's vision of the responsible owner may seem preferable to Sternberg's in many ways. From the considerations above, however, I fail see that they give any convincing arguments for why we should accept their hypothesis about what the institutional

[45] Charkham and Simpson 1999, p. 88
[46] Sternberg 1992, p. 196

framework surrounding investment in shares entails rather than the view just presented here. Thus, it seems, the institutional perspective could be used both by critics *and proponents* of financial speculation. The most reasonable response to the considerations above, I believe, would be to say that there simply are no *undisputed* institutional characterisations of what ownership of a certain company implies in terms of shareholder responsibilities, and no idea about what the purpose of holding shares is that could be agreed upon by all investors. In some regards, ownership of limited companies resembles sole proprietorship more than other things, for instance because shareholders have the right to elect directors etc. In other regards, however, it is closer to other kinds of ownership, as investors e.g. have no legal obligations in relation to the companies they own. The interesting issue here, one might say, is what shareholding *ought to* imply – i.e. whether investors in fact have moral reasons to follow one of the characterisations above rather than the other.

This last suggestion, I believe, actually points to a more fundamental problem with the institutional perspective on the role-specific responsibilities of shareholders. Even if we were to contend that the institutional framework surrounding shareholding implies a very specific idea about the responsibilities of shareholders (for instance, the responsibility to invest according to the relationship strategy), why should these be thought to have any moral force? One way of describing the idea of the institutional perspective, I believe, is to say that it assigns certain *conventional* duties to certain people who occupy a specific role – namely those holding shares in limited companies. I am here using the terminology of Shelly Kagan[47], according to which conventional duties are such which are assigned to certain roles or people in an "arbitrary" fashion – i.e. they could obviously be assigned to other roles or be assigned differently in other societies or within other institutional frameworks. Conventional duties are contrasted with *natural* duties, which are assigned because "there is an essential connection between the grounding relationship and the ensuing duty"[48], for instance, the duty to keep one's promises (a duty grounded, Kagan suggests, in the relationship between promiser and promisee).

Now, why should these kinds of conventional duties be seen as having any real moral force? According to Kagan, simply pointing out that a

[47] Kagan 1998
[48] Ibid., p. 139

certain convention exists would not seem to establish any moral duties – think of, e.g., the conventions of dancing with a partner, or the etiquette of high fashion dinners. Not all conventions would seem to assign moral duties to the people who partake in them or occupy the different roles set out by these conventions. What was just said seems reasonable, I think, even when the conventions are partially sustained by the kind of institutional framework outlined above. Simply pointing out that this kind of framework exists would not seem to establish any moral obligation on the part of certain individuals to adhere to it. So why should people accept the responsibilities implied by the framework – rather than, perhaps, try to break free from the framework? According to Kagan, "[c]onventionally assigned duties only have moral force when this can be derived from something else – consequences, fairness, promising, and so on"[49]. In the next section, I will present what I take to be the most promising idea about the source of the moral force of the conventions of the institutional perspective discussed here.

3. The pragmatic perspective on owner responsibilities

There are probably a number of ways in which one could try to give some more robust moral force to the conventions of the institutional perspective outlined above, and I cannot discuss all of these here. The most straightforward way of trying to uphold most of the main tenets of the institutional perspective would probably be to appeal to the last of Kagan's suggestions above, i.e. to promises. Some may argue, for instance, that when one invests in a certain company and enters the role of shareholder, one has implicitly promised to assume the role-specific responsibilities of shareholders characterised by the relationship strategy. In this manner, the conventions referred to by the institutional perspective could receive some force from the general duty to keep one's promises.[50] However, I believe this suggestion comes with some major problems and I will therefore not make much of it here. As noted in the previous section, it is not obvious how to interpret the institutional framework surrounding shareholding, so it seems quite hard to determine exactly what investors promise when they assume the role of

[49] Ibid., p. 145
[50] For a discussion of similar moves, see Kagan 1998, p. 140.

shareholder. Furthermore, as I suggested in connection with my discussion of the approval argument in chapter III (section 4.1), one should be cautious with ascribing 'implicit' attitudes or beliefs to investors – it is extremely hard to know if they in fact embrace these and, in any case, investors could always challenge such ascriptions. On the plausible assumption that what a certain person promises depends largely on the attitudes and beliefs of the promiser herself, then, it is not so obvious that all shareholders could be taken to promise similar things.

The part of Kagan's suggestion that proponents of the relationship strategy should pursue in this context, I believe, is rather the appeal to consequences.[51] In the present section I will elaborate on how such an appeal may be designed to work as an argument for the relationship strategy, and how it relates to some of the things that proponents of the relationship strategy say. In the next section I return to the issue of how this argument fares in comparison to the arguments for the activist strategy outlined at the outset of the chapter.

What would an appeal to consequences in the context of the role-specific responsibilities of shareholders look like? Well, the institutional perspective should be contrasted, I believe, with what we might call *the pragmatic perspective* on the role-specific responsibilities of shareholders. According to this perspective, it is not the institutional framework surrounding shareholding *as a whole* which gives rise to certain responsibilities on the part of shareholders. Rather it is the simple fact that shareholders enjoy certain rights and privileges in relation to the companies they invest in and that these *can be used to do good things for these companies*, which gives rise to these responsibilities. Because of the role of shareholders as owners of limited companies, they are in a unique position to *perform certain functions which are beneficial to these companies* through utilising their shareholder powers in a responsible manner (or conforming with the recommendations of the relationship strategy) – for instance, to appoint good directors and to revise the capital structure of the companies in ways favourable to the long-term needs of a commercial enterprise. According to the pragmatic perspective, the fact that owners are able to perform these functions or, more importantly, the good that the performance of such functions brings to the relevant companies, is the reason why investors ought to invest according to the relationship strategy.

[51] Perhaps an appeal to fairness may be possible in the present context as well. This kind of appeal, I believe, would be similar to the appeal to fairness discussed in the previous chapter, section 4.1. I will not pursue this possibility further here.

Perhaps this perspective could be given slightly different formulations as well.[52] When looking closer at some of the passages from proponents of the relationship strategy already considered, I believe, the pragmatic perspective actually does not seem too far-fetched. As noted above, part of the reason for why investors have a moral responsibility towards the companies they invest in, according to Mackenzie, comes from "the conception of shareholders as the ultimate source of control within this entity"[53]. In another passage, Mackenzie writes: "In strict legal terms shareholders are not owners of businesses. [...] In any case, this objection is not a serious problem for my argument. From an ethical point of view, one of the most salient aspects of ownership is the fact that owners *control* their property"[54]. But why should the fact that investors control their property be considered morally salient, if not because of the fact that they thereby are able to influence these companies in certain ways? Consider also the following passage from Sorell and Hendry, where I believe they come very close to reasoning along the lines of the pragmatic perspective:

> To come back to our earlier example of the shareholder as a gambler, there is a fundamental difference between gambling on shares and gambling on horses. If someone places a bet on a horse race, his action has no adverse impact on the horse. Indeed it is only through gambling that horse-racing can take place at all. Any purchase or sale of shares, in contrast, does affect, however marginally, the fate of the business concerned. To purchase shares other than for the purpose for which they were intended is consequently to misuse the relationship of shareholding to the potential detriment of the business and so is morally questionable.[55]

It is obviously the appeal to "the potential detriment of the business" which I find interesting in this context. Now, considering the arguments I gave in the previous chapter (mainly section 3.1), the reader may have

[52] It should be noted that I here focus on the beneficial effects of *individual* instances of investments according to the relationship strategy. On another understanding of the pragmatic perspective, it is the fact that this approach, if followed by all or a substantial amount of investors, could have certain beneficial effects. I will not discuss this understanding here. A large part of the reason for why the following of a certain convention by a large amount of investors could have beneficial effects, I believe, would arguably be that individual instances of convention-following (at least under normal conditions, most of the time) have beneficial effects. I any case, the idea that it is morally relevant to ask 'what if everyone did that?' was dealt with at length in the previous chapter, section 5.

[53] Mackenzie 1997, p. 214

[54] Ibid., pp. 216-17, emphasis in original

[55] Sorell and Hendry 1994, pp. 118-19

some justified worries with the particular line of reasoning that Sorell and Hendry invoke in the passage above. In the previous chapter, I argued that we have reason to believe that the transactions of individual investors only very seldom are able to influence the price of a given company's shares to a non-negligible extent. This is true, I argued, even though investors under certain circumstances (for instance when employing the avoidance strategy) actually *want* their sale to affect a certain company negatively. So why should we think that the transactions of individual investors who invest for short-term gains would have greater effects? Furthermore, if there indeed *were* any such effects, it would seem, these should mainly be *positive*. As noted in the previous chapter, the equilibrium price of a certain company's shares will normally be greater the larger the number of investors which are ready to buy and sell these shares. That is, a high liquidity in the market for a certain company's shares is probably something that is good for the price of those shares, and thus (at least to a certain extent) good for the company in question. So exactly how could short-term investing actually hinder the activities of commercial companies?

Perhaps the most plausible interpretation of Sorell and Hendry's position here is one that appeals more directly to the *positive* things which active shareholders may be able to do for the companies they invest in. According to the pragmatic perspective on the role-specific responsibilities of shareholders, I have said, the main point is not that speculation is always harmful to the companies involved, but rather that investors may be able to *perform certain worthwhile functions* for the companies they invest in if they become active and responsible owners, i.e. if they invest according to the relationship strategy. According to this perspective, it seems, shareholders have quite clear moral reasons not to be engaged in financial speculation – at least if they can influence the companies they invest in to a non-negligible extent through engaging with these companies in other ways (an issue I will discuss further in the next chapter).

I believe the pragmatic perspective on the role-specific responsibilities of shareholders is the most promising argument for the relationship strategy in the present context. As we have just seen, it not only stays clear of the problems connected with the institutional perspective discussed in the previous section, but it also gives a plausible story about what may be morally problematic with financial speculation. In the following section, however, I will put this line of reasoning into perspective when returning to the issue of the relationship strategy versus the activist strategy.

4. Role-specific versus social responsibilities

As I noted at the outset of this chapter, most SRI proponents defend the activist strategy, or shareholder activism, with reference to what I called the *social* responsibilities of shareholders, i.e. the idea that investors have moral reasons to make a certain difference in terms of corporate behaviour or societal outcomes. There is also some evidence which suggests that some SRI proponents take the *role-specific* responsibilities of shareholders to give more or less the same result as this kind of social responsibilities. I shall now consider how the pragmatic perspective on the role-specific responsibilities of shareholders outlined above relates to these suggestions – i.e. how this pragmatic perspective relates to the kind of pragmatism discussed in the previous chapter. Can the pragmatic perspective outlined above perhaps be what proponents of the activist strategy have in mind when they, besides the social responsibilities of shareholders, also appeal to these kinds of responsibilities?

According to Kagan, an appeal to consequences along the lines of the pragmatic perspective is one of the most straightforward ways of explaining the moral force of the kind of societal conventions referred to by the institutional perspective. And quite generally, Kagan argues, this appeal is available to anyone who believes in *moral reasons to promote the overall good*:

> By conforming to the particular conventions extant in our society – meeting our various role based obligations, and pressuring others to do the same – we do our part in sustaining these conventions, and thus help to bring about the various and sundry goods that these conventions contribute in the production of. In short, meeting our conventional duties is one way in which we can help bring about better results overall. Thus, to the extent that we have moral reason to promote the good, we have reason – other things being equal – to act on our conventional duties.[56]

On Kagan's understanding, we might note, there is a natural connection between the *role-specific* and the *social* responsibilities of shareholders, since the former basically receives its moral force from the latter, or the idea that investors have moral reasons to promote the general good in society. Perhaps this is also how the appeal to role-specific responsibilities by certain proponents of the relationship strategy should be understood. As noted above, Sorell and Hendry explicitly suggest that "the

[56] Kagan 1998, pp. 139-40

betting analogy obscures the way in which the stock market is specially designed to bring together *for the public good* private sources of money and proven companies with specific plans to innovate, to save labour, and to make more efficient use of scarce materials"[57].

Many readers may probably have noted that, with regards to many companies, the actions sanctioned by the relationship strategy may not only have effects that are beneficial to the company in question but, because this company supplies a service that is beneficial to society, they may of course also contribute to the overall good of society. In such cases, there is certainly no conflict between the appeal to role-specific responsibilities common among proponents of the relationship strategy and the appeal to social responsibilities common among proponents of the activist strategy. According to Sorell and Hendry, it is (at least in principle) possible for investors to invest with certain political or social causes in mind and at the same time display a genuine commitment to the purpose of the company they invest in.[58] However, the most interesting cases are not the ones where there is no conflict between these things – there *may*, arguably, be cases where what is best for a certain company is not what is best for society (think, for instance, of a company whose very business concept is to pollute the environment and employ child labour in order to produce cheap export goods). What do the role-specific responsibilities of shareholders dictate in such cases? Sorell and Hendry write:

> Of course it is possible for some shareholders to show concern for other stakeholders and to show what appears to be relative indifference to increasing owner value. Is it true that in this case people go beyond the legitimate limits of the shareholder role?[59]

Unfortunately, Sorell and Hendry give no real answer to this last sort of question, but they give some indications of how they think it should be handled. Answering this question, they suggest, involves settling issues of "considerable philosophical depth", for example "the issue of how far the obligations that derive from the roles one has, including that of investor, can free one from the obligations that one is under as a human being"[60]. On one interpretation of this formulation, perhaps Sorell and

[57] Sorell and Hendry 1994, p. 123, emphasis added
[58] Ibid., p. 131
[59] Ibid.
[60] Ibid.

Hendry would want to say that, even on the pragmatic interpretation of the role-specific responsibilities of shareholders outlined above, these *role-specific* responsibilities are primarily responsibilities *towards the companies invested in*. That is, even though the pragmatic interpretation has made them more similar to social responsibilities, the role-specific responsibilities of shareholders still require that shareholders engage more actively with the companies invested in *for the benefit of these companies*. But is this position very plausible?

In order to answer this kind of question, I believe, it is time to compare the relative merits of the relationship and activist strategies. Consider, for instance, the following case:

> *The Stubborn Shareholder*: Mattias has a habit of *committing* to every project he is involved with, no matter how rational or moral he thinks they are. In recent years he has contracted a considerable amount of personal wealth, which he has invested in different kinds of shares on the stock market. One of the companies he has invested in is a company that makes cheap weapons and sells these to third world countries at war with each other. Now, some of Mattias' friends, having read some articles on SRI, point out to him that this particular investment may not be morally responsible – as a large-scale investor in this sort of company, Mattias is probably contributing to the fact that thousands and thousands of people in third world countries die each year because their countries are at war with each other. Through raising this issue at the company's shareholder meeting, furthermore, Mattias may actually be able to make the company upgrade its moral ambitions. Being the kind of person he is, however, Mattias does not do this. "I already am invested in this company", Mattias says to his friends, "so why not go all the way? Together we shall build the best goddamn armaments company the world has ever seen!"

What should we say about this case? Well, I believe most of us would hold Mattias' decision to commit his "goodwill, loyalty and patience" to the weapons company here to be morally wrong. If investing according to the relationship strategy amounts to a failure to put an end to activities like the ones in this case (which I am assuming are morally reprehensible), then we clearly have moral reasons not to do this. Of course, Mattias may be doing what he does out of pure stubbornness, but there

is still something problematic with saying that investors should be committed to the companies they invest in, irrespective of whether these companies *themselves* are dedicated to morally worthwhile activities or not. The problem for proponents of the relationship strategy, perhaps some would want to say, is that being committed to certain companies, irrespective of what these companies are doing, seems tantamount to stubbornness in the face of clear immorality.

Now, I believe there are at least two things which proponents of the relationship strategy can say in relation to cases like this. One possibility here is of course a version of the idea I have suggested several times in previous chapters, i.e. to regard the role-specific responsibilities of shareholders as just *one* source of moral reasons among others. According to Sorell and Hendry, as just noted, the important issue is "how far the obligations that derive from the roles one has, including that of investor, can free one from the obligations that one is under as a human being". What happens in the case above, perhaps they might say, is that the obligations which shareholders are under as human beings (presumably the *social* obligations of shareholders) take moral precedence over the role-specific obligations of shareholders towards the companies they invest in. From this it does not follow that there are no such role-specific obligations, however. Shareholders might still have *some* moral reason to invest with a certain loyalty to the underlying companies – it is just that, in some situations, these reasons may be overridden.[61]

For this kind of response to be available, it should be noted, *The Stubborn Shareholder* cannot rule them out completely – that is, it needs to be plausible to say that, at least in *some* sense, Mattias' stubborn commitment to the weapons manufacturer is morally praiseworthy. But I don't think this is the case and, for this reason, I don't think the kind of response above is very plausible in the present context. To see this more clearly, one may break his choice down in smaller pieces. Let's say that he, from the outset, had the choice of investing either in the weapons company, or in a company dedicated to socially worthwhile activities, for instance a medical centre. Once he has chosen what company to invest in, of course, he has the further choice of either investing in the company without caring about what it does, and investing in the company with the sort of commitment that proponents of the relationship

[61] Compare the kind of response discussed in connection with *The Principled Warmonger* in chapter II, section 4 and *Slaveholders Against Slavery* in chapter III, section 1.

strategy call for. What should we say about Mattias' choice in light of the distinctions I have made here?

It seems to me that there is a case to be made for Mattias' choosing to invest with the kind of commitment discussed here in *one* of the alternative paths he could have taken. Namely, if he had chosen to invest in the medical centre, it would have been a good thing of him to also invest with a serious commitment to that medical centre. This is because investing with serious commitment would probably increase the positive contribution that Mattias makes to the activities of the medical centre, which I am assuming here are socially worthwhile. However, if we are to rank the four alternative routes he may take, I believe, the one where he invests in the weapons company with serious commitment to its activities is actually *worse* than the one where he invests in the same company without serious commitment. That is, his commitment to the weapons company's activities, I believe, actually contributes to the *badness* of that route of action because, again, it will probably increase the contribution Mattias makes to the morally abhorrent activities of this company. It seems to me, therefore, that it is simply not plausible to say that, irrespective of what Mattias has chosen to invest in in the first place, in his second choice, he has moral reasons to invest with a certain amount of commitment. If he indeed has moral reasons to do this, this is only in the case where he has invested in the medical centre.

The second kind of response which I believe proponents of the relationship strategy could give to cases like the one above goes as follows: As some readers may have noted already, both the relationship strategy itself and the role-specific responsibilities of shareholders would mainly seem preoccupied with the issue of how to behave toward a certain company *once you have invested in that company*. The role-specific responsibilities of shareholders do not apply, for instance, until one *enters the role* of shareholder in a certain company. Now, it is a different question altogether, proponents of the relationship strategy may suggest, what companies you have moral reasons *to invest in in the first place*.[62] There might be something to the idea that you should not invest in companies that are engaged in morally reprehensible activities – in the case above, they might say, this explains why Mattias acted wrongly. Once you have invested in a certain company, however, *and investing in this company was*

[62] According to Cowton, an issue which is seldom discussed in relation to SRI in general is the issue of "the responsibilities of nonowners" (1998b, p. 188).

not wrong in the first place, you have moral reasons to behave as a responsible shareholder and commit your "goodwill, loyalty and patience" to that company.

I actually think we may accept this kind of reply. It should be noted, however, where it seems to leave the role-specific responsibilities of shareholders: On the best interpretation of these responsibilities, they indeed give the same result as the social responsibilities of shareholders. If shareholders have any kind of role-specific responsibilities, these can only come into play *on top* of their social responsibilities and *augment* these. Far from being an argument *against* shareholder activism, then, the appeal to the role-specific responsibilities of shareholders by proponents of the relationship strategy can indeed also be used by proponents of the activist strategy. And perhaps there is really little difference left between these strategies, at least in terms of their point and fundamental justification.

I suggest that, rather than being a difference of principle, the difference between the activist and the relationship strategies is really one of *appropriateness*. The kind of actions which proponents of the relationship strategy describe are actions which can do a lot of good – but only in relation to companies whose activities are not morally problematic in the first place. With regards to these companies, the actions recommended by proponents of the activist strategy would be more appropriate. However, the aim of both strategies would be the same – to promote the general good in society. Just like the avoidance and supportive strategies are similar but directed at different kinds of companies, then, the activist and relationship strategies are rather similar but should be directed at different kinds of companies.

5. Conclusions

In this chapter, I have distinguished between two sources of moral reasons which are often taken to speak in favour of shareholder activism – the *social* and the *role-specific* responsibilities of shareholders. Although the role-specific responsibilities of shareholders are often invoked in favour of shareholder activism in the literature on SRI, I have suggested, this line of reasoning would seem inspired by the discussion in the broader field of corporate governance and, according to a more straightforward conception of these kinds of responsibilities which is rather common in this field, they rather support what I have called the relationship strategy – that is, an active investment approach focusing on what is good for

the underlying companies rather than for society in general. Most of this chapter has been dedicated to analysing the argument for this approach, in order to pave the way for the discussion of shareholder activism in the following chapter.

In connection with the more straightforward conception of the role-specific responsibilities of shareholders, it is often suggested that shareholders have moral reasons to invest according to the relationship strategy because the institutional framework surrounding investments in shares contains a norm to this effect. I have called this the *institutional perspective* on the role-specific responsibilities of shareholders. Although this perspective may be the most common among proponents of the relationship strategy, I have argued that it comes with many problems – for instance, it would not seem able to criticise financial speculation in an adequate way, which is often the primary objective of proponents of the relationship strategy. Furthermore, it is not obvious why the fact that the institutional framework surrounding shareholding contains a certain norm should give shareholders moral reasons to behave in accordance with this norm.

In order to be able to morally criticise financial speculation, I have suggested that proponents of the relationship strategy should appeal to what I have called the *pragmatic perspective* on the role-specific responsibilities of shareholders, i.e. the idea that shareholders, because they are in a unique position to do so, have moral reasons to perform certain important functions for limited companies. Now, on the pragmatic perspective, it would seem, the argument for the relationship strategy has actually grown more similar to the arguments for the activist strategy introduced above. Judging from certain kinds of examples, I have suggested that proponents of the relationship strategy should also accept that there may be situations where shareholders have stronger moral reasons to invest according to the activist strategy than according to the relationship strategy. Furthermore, on the best understanding of the role-specific responsibilities of shareholders, there is indeed no conflict between these and the social responsibilities of shareholders. Rather than being a difference of *principle*, then, the difference between the activist and the relationship strategies is one of *appropriateness*.

We may now note another similarity between the role-specific and the social responsibilities of shareholders. Since both the argument for the relationship strategy and the argument for the activist strategy from these kinds of responsibilities turn on the fact that investors may influence companies through engaging more actively with them in certain

ways, the extent to which investors have any of these responsibilities, of course, would seem to depend on the extent to which they actually can influence companies in these ways. If investors only very rarely can influence companies 'from within' by, for instance, voting at shareholder meetings, then neither the relationship strategy nor the activist strategy would seem to get any support from an insistence on the social responsibilities of shareholders (nor the role-specific understood along the lines of the pragmatic perspective). The issue of to what extent individual investors can influence companies in this way is the issue I turn to in the following chapter.

Chapter VI

Shareholder Activism

1. The many facets of shareholder activism

I have noted several times already that most proponents of the SRI movement give some room for what I have called the activist strategy. That is, they agree that it may sometimes be morally justified to invest in companies which are otherwise regarded as morally unacceptable, if such investments allow investors to have a certain 'insider' influence on these companies and thereby to change their activities for the better. In this chapter I will consider to what extent investors actually have moral reasons to invest according to this strategy. It may be noted that the arguments in previous chapters at best support the idea that activism (sometimes) is morally *permissible* – according to the argument in the previous chapter, for instance, the role-specific responsibilities of shareholders do not run contrary to such a suggestion. In order to determine whether investors actually have *positive* moral reasons to invest according to the activist strategy, however, some further questions need to be answered. For instance: What kind of insider influence can activists have on limited companies? And, is it really true that individual investors will be able to exert these kinds of influence? These are the sort of issues which will be my main concern in the present chapter.

To get the discussion going, I will first introduce the ideas behind the activist strategy in somewhat more detail: I have already noted how certain social and political campaigns were influential in the forming of SRI as such and the rise of the SRI movement. I have also noted how the strategies of the SRI movement sometimes are compared to the strategies of so-called ethical consumerism (or consumer activism). In addition to the South Africa campaign previously noted, many writers hold a certain shareholder campaign directed at General Motors, and inspired by Ralph Nader's call for consumer boycotts of the same company, as one of the most influential pieces of SRI's history.[1] David Vogel, for instance, describes this campaign and its importance as follows:

> In February of 1970, a small group of young lawyers who had formed an organization called Project for Corporate Responsibility called a press conference to announce that by virtue of their collective ownership of twelve shares of General Motors, they were submitting nine resolutions to the auto company's 1.3 million shareholders. Their action signaled an important event in the recent history of citizen pressures on business. Previous challenges had not centered on the corporation *per se*, largely viewing it as an instrument for changing public policy. Campaign GM departed from this pattern; both its goals and tactics focused predominantly on the corporate sector.[2]

What started with Campaign GM, according to most writers, was the rise of so-called *shareholder activism*, or active engagement with targeted companies. The point of departure for this part of SRI, as I noted in the previous chapter, is the idea that the rights and privileges which shareholders normally enjoy in relation to the companies they invest in can be exploited as tools for social change. The rights and privileges of corporate ownership, it is often suggested, allow investors to take the struggle for an increased social awareness on the part of companies all the way into the confines of the corporate boardroom. Domini and Kinder, for instance, write:

> Some ethical investors want to do more than avoid bad companies and invest in good ones. They want to change the bad into the good. For these investors there is the activist approach. [...] The activists start from one basic fact: shareholders own the company. Supposedly management works for them. At least once a year shareholders have the right to elect directors, and to propose and vote on resolutions relating to corporate

[1] Cf. Brill and Reder 1993, Domini 2001, Domini and Kinder 1986, Gray et al. 1996, Harrington 1992, Kinder et al. 1993, Lowry 1993, Simon et al. 1972, Sparkes 1995, 2002, Vogel 1970, 1983

[2] Vogel 1978, pp. 71-72

> policy. If the owners fail to exercise their power to direct corporate policy, they waive a powerful means for change.[3]

In a similar tone, Brill and Reder put the point of departure of shareholder activism as follows:

> For investors who really take their activism seriously, one of the most exciting aspects of SRI is the ability to influence a company's behavior from within. When you purchase a share of stock in a company, you become an owner of that company. As an owner, you have the opportunity at least once a year to elect directors to the company's board and to vote on policy resolutions, because corporations are required by law to hold annual meetings of their shareholders. You also have the right to take part in discussions at the meeting. And, under certain circumstances, you can even propose resolutions that will be put before all the shareholders.[4]

It may be noted from these passages that, according to most general characterisations of shareholder activism, there are many ways in which, at least in theory, investors may be able to influence a company through becoming shareholders in, or owners of, the company.[5] Thus, perhaps shareholder activism is most adequately understood as an umbrella term covering a lot of more particular strategies. Most obviously, as I noted in the previous chapter, shareholders have the right to propose and vote on resolutions relating to corporate policy and to take part in the annual general meetings of the companies they hold shares in. But it is not obvious that this is the most interesting part of the rights and privileges of shareholders in this context. The last part of Brill and Reder's suggestions was obviously what was central in the case of Campaign GM – i.e. the possibility to send out information about resolutions to all the shareholders of a given company.

Domini prefers to speak of "direct dialogue" rather than of shareholder activism and, in part, this is probably to suggest that a wider range of options are available to investors here. The most prominent form of 'dialogue' is still the shareholder voting process but, according to Domini, many other forms are possible:

> The second aspect of socially responsible investing [apart from positive and negative screening] is direct dialogue. You can leverage your ownership of a piece of a business to gain a place at the table and to raise a broad range of issues. [...] This dialogue takes many forms. Delivering a

[3] Domini and Kinder 1986, pp. 8-9

[4] Brill and Reder 1993, pp. 21-22

[5] See also Brill et al. 1999, Lang 1996, Miller 1991, Ward 1991.

> social audit to a company for enrichment and comment is a way of alerting corporate management to issues. Letters written to gain clarification or to express either concern over or thanks for a position the company has taken can lead to good results. Consumer boycotts, selective purchase campaigns, and even lying down in front of bulldozers have been used. But the most structured and widely used form of direct dialogue with corporate management teams is the voting and filing of shareholder resolutions.[6]

I will discuss most of these types of suggestions in the present chapter. The central issue of concern when evaluating these suggestions, I believe, should be what kind of activism is the most *effective* in some sense. Judging from the standard accounts of shareholder activism above, it seems fair to say that the guiding justificatory idea, once again, is that this strategy can be an effective way in which investors can 'make a certain difference' in terms of corporate behaviour or societal outcomes. Of course, it may be noted that all of the quotes above invoke formulations about *ownership* and the rights and privileges of *owners* and, as I said in the previous chapter, such formulations could also be taken to imply an appeal to role-specific responsibilities. In the present chapter, however, ideas about the social effectiveness of activist campaigns will be my main concern and I will therefore assume that it is morally permissible to "leverage your ownership of a piece of a business" in order to achieve goals which are different from those of the underlying companies.

In order to fend off the allegation that shareholder activism is something quite different from screening-oriented SRI, Domini and Kinder describe how activism can be a necessary supplement to the supportive strategy as follows:

> What does shareholder activism have to do with ethical investing? Everything. When you invest positively, you make a statement about what you consider vital [...]. But that is not enough. If the drive for corporate responsibility is to have real force, two things must happen. First, more shareholders must become aware of their duty to influence corporate action. The proxy mechanism offers the means for creating that awareness. Second, corporations which have not responded to shareholder concerns must be compelled to face these issues.[7]

According to Domini and Kinder here, it would seem, not only is it probable that most investors can make a difference in terms of corpo-

[6] Domini 2001, p. 22
[7] Domini and Kinder 1986, pp. 192-93

rate behaviour or societal outcomes through implementing some form of the activist strategy but, interestingly enough, this strategy is also seen as the most potent part of SRI in this regard. This would actually seem to be a common idea among most proponents of the SRI movement. As noted at the outset of chapter IV, most writers who refer to the idea of 'making a difference' stress the importance of moving beyond mere avoidance and more towards the supportive strategy and shareholder activism. Indeed, according to some writers, to move more towards activism for this reason is the most important challenge of the SRI movement as a whole.[8] In the present chapter, I will try to determine to what extent individual investors can make a non-negligible difference through various activist measures.

In keeping with the preliminary considerations of chapter IV (section 2), I will understand the idea that investors have moral reasons to 'make a difference' as an appeal to pragmatic, or *in a wide sense* consequentialist, considerations. That is, any more exact philosophical understanding of this kind of idea will not be presupposed. The question of exactly what kind of difference is relevant here will also be held open – that is, while the most straightforward idea may be that activism can make a difference to corporate practices, suggestions about more general societal effects are also considered relevant. Finally, my main focus, just like in previous chapters, will be on individual investors. Although the idea that shareholder activism can make a difference obviously could be understood as the suggestion that some *collective* of activists may make a difference *together*, I will be concerned exclusively with the question of what this entails in terms of moral responsibilities on the part of individual investors.

The remainder of this chapter will roughly be divided into two parts. With regards to the first of these: Having indicated that the corporate governance view on the responsibilities of ownership is not my main concern in this context, it should be noted that many of the more specific suggestions as to exactly how investors can make a difference through shareholder activism are quite similar, at least in kind, to the suggestions discussed in the previous chapter (for instance, the suggestion that shareholders have moral reasons to vote at shareholder meetings). In section 2, I will discuss suggestions about how investors can make a difference through actions at the annual general meeting – the

[8] Cf. Mackenzie 1997, Sparkes 2002

filing of shareholder resolutions and voting on matters of corporate concern. Even though SRI proponents generally seem to imply that such actions could be effective even for individual activists, I will suggest that they give little empirical support for this view. More theoretically, my argument will be that an important prerequisite for successful shareholder campaigns is a well-functioning system of corporate governance but, even when such a system is in place, I will suggest that there is little reason to believe that campaigns by individual shareholders are able to make a non-negligible difference in terms of corporate behaviour.

In section 3, I will discuss some more radical suggestions as to how individual shareholder activists can make a difference. Apart from the different strategies open to investors in connection with the annual general meeting, it is often suggested that shareholder activism can be to write letters to managers, talk to the media or take companies to court. I will once again suggest that many of these suggestions seem difficult to utilise in an effective manner by individual investors. However, if activists are ready to become *truly* radical, perhaps there actually are some promising possibilities for individual investors here. Although I cannot say which these are more exactly, I will at least indicate what I take to be characteristics of especially promising activist campaigns. One such characteristic, unfortunately, is that successful activist campaigns probably would demand quite a lot from individual investors, both in terms of time and effort and in terms of financial costs.

A brief overview of the results of this chapter is presented in section 4.

2. Making a difference at the AGM

How can an individual investor make a difference through becoming a shareholder activist? Well, before discussing the more specific ideas of different SRI writers in this regard, it may be useful to repeat some general points about the relationship between investors and the companies they hold shares in. Although shareholders are generally regarded as owners of limited companies, it should hopefully be obvious from previous chapters that they are quite far removed from the day-to-day business of the companies they hold shares in. As I indicated already in chapter III, the most direct responsibility over the regular activities of limited companies rests with the *management* of the corporation – it is the management that decides on, e.g., the recruitment of workers, employee

compensation and different particulars concerning production. Even though they sometimes may be interested in hearing what certain shareholder representatives think about these things, managers are not obliged to consult or seek permission from the shareholders of the corporation when they make these kinds of decisions. Furthermore, as indicated in the previous chapter, the most direct responsibility of overseeing the managers' work of running the company lies with the *board of directors* of the company. It is the directors who act as the primary representatives of the owners and who review (and help with) the major decisions of managers in order to hold the managers accountable for what they do.

When taking all this into account, perhaps one should say that shareholders only come in third place when it comes to having a regular insight into corporate activities. Indeed, many writers (especially in the corporate governance literature) note the problem that it is often hard for individual investors to get relevant and accurate information about the activities of the companies they invest in.[9] If shareholders are supposed to have the ultimate say in how companies are run, some of these writers suggest, then this problem of information needs to be overcome somehow – possibly by more aggressive legislation.[10] I will leave this information problem to the side in the present context, and return to it later (in section 3.1). Of course, the central question in the present context is not what *insight* shareholders have into the activities of the companies they invest in, but rather what *power* they have over these activities. And certainly, shareholders are not powerless in relation to the companies they invest in – even though they are far removed from the day-to-day business of these companies, they have certain important rights and privileges in relation to limited companies. In this section, I will discuss the most straightforward suggestions as to how individual investors can make a difference through becoming shareholder activists.

The most straightforward suggestion as to how shareholders may influence corporate behaviour here is probably the idea that they can take advantage of their rights to propose and vote on corporate resolutions. As we saw in the previous chapter, this is also what proponents of the relationship strategy focus on. Now, this kind of suggestion, I believe we should say, takes as its starting point the more basic right of shareholders to attend the so-called *annual general meeting* (AGM) of the

[9] Cf. Blair 1995, Charkham and Simpson 1999, Domini and Kinder 1986, Schaub 2005, van der Burg and Prinz 2006, Webb et al. 2003

[10] Cf. Charkham and Simpson 1999, Schaub 2005

corporation. The annual general meeting is really the only place where shareholders can exert their direct power over the corporation, and the only place where shareholders get to meet and discuss issues concerning the activities of the company with the managers and the board of directors in a formal way.[11] Once a year, limited companies (at least in most countries) are required to hold this kind of meeting and to send out information about the meeting and its schedule to all of their shareholders.[12] I have already noted some passages where proponents of the SRI movement suggest that the AGM is the central fighting scene for shareholder activists. According to Domini and Kinder, for instance, "[a]t least once a year shareholders have the right to elect directors, and to propose and vote on resolutions relating to corporate policy. If the owners fail to exercise their power to direct corporate policy, they waive a powerful means for change"[13].

In the present section, I will focus mainly on the two lines of action which I take to be the central ways in which shareholders can be a force for social change at the AGM, namely (1) the proposal of shareholder resolutions, and (2) the voting on (shareholder and management) resolutions. These will be discussed in subsections 2.1 and 2.2 respectively, or, more exactly, I will in these subsections discuss whether investors can influence companies *directly* by either proposing or voting on resolutions. In subsection 2.3, I turn to discuss some suggestions about the possible indirect, or social, effects of such lines of action.

2.1 Proposing shareholder resolutions

How can an individual investor make a difference through proposing resolutions at a limited company's AGM? Well, a resolution in the context of corporate governance can perhaps be compared to a bill or a motion in the context of public policy making (although I will later note an important dissimilarity here), i.e. it is a proposition to the effect that the company should do something specific or that the corporate charter of the company should be amended in some specific way. For instance, the set-up of the board of directors, general operational matters and

[11] In some countries, an extraordinary (or emergency) general meeting can also be called, but this is seldom done – cf. Bottomley 2003, Maug and Rydqvist 2001.
[12] Cf. Blair 1995, Domini 2001, Domini and Kinder 1986, Lang 1996, Maug and Rydqvist 2001, Sparkes 1995, Ward 1991, Åhman et al. 2003
[13] Domini and Kinder 1986, p. 9. See also Brill and Reder 1993, Lang 1996, Ward 1991.

changes in the capital structure could all be topics for resolutions at a company's AGM. In most countries, both the management and individual shareholders can introduce these kinds of resolutions and, obviously, it is this latter possibility which is the point of departure for shareholder activists in the present context. James Melton and Matthew Keenan explain how resolutions most often are used, and how they can be utilised by shareholder activists, as follows:

> Proxy resolutions, which can be sponsored by shareholders or management, often are used to address issues, ranging from ordinary and uncontroversial "housekeeping" measures (such as minor changes in bylaws, or operations), to the creation of new classes of stock or the election of an entirely new slate of corporate directors. [But], as social activists discovered more than twenty years ago, such resolutions can also be used to call attention to a company's poor environmental record, its bad labor relations, or its involvement in countries with oppressive regimes, among other things. In recent years, more shareholders – particularly religious organizations and public sector pension funds – have effectively utilized their access to proxy ballots to make themselves heard on a wide variety of social issues.[14]

Resolutions on matters like the environment, labour issues or involvement in countries with oppressive regimes are sometimes referred to as 'social resolutions'.[15] Certainly, a successful introduction of a resolution of this sort could make a considerable difference to the way a certain company conducts its business – given, of course, that the resolution also receives the majority of votes at the AGM. If a company is asked to review its labour practices, for instance, or to consider the impact of its activities on the environment to a greater extent, then important social progress could perhaps be made. According to Peter Kinder, Steven Lydenberg and Amy Domini, in another of their books on SRI, the possibility of investors proposing shareholder resolutions presents a unique opportunity for creating social change:

> Proxy resolutions open the door to corporate management – private-sector opinion makers whom social activists could not otherwise reach. And the resolutions are surprisingly effective. This tactic is somewhat like the method generations of hillbilly humorists said Ozark farmers used to get a mule's attention: They hit him between the ears with a two-by-four. [...] A leading specialist in proxy solicitations, Georgeson &

[14] Melton and Keenan 1994, p. 45

[15] Cf. Domini 2001, Lowry 1993, Sparkes 2002. It may be noted that I use this term in a broad sense here, i.e. to refer to all kinds of resolutions that shareholder activists may wish to introduce at corporate AGMs – including proposals of directors and so on.

> Company, [actually suggests that] "it is largely through the use of the proxy process that shareholders have succeeded in capturing the attention of the corporation".[16]

Now, can individual shareholders make a difference through introducing social shareholder resolutions? Well, some seem to suggest that they can. According to Brill and Reder, for instance, of the many rights and privileges which investors 'like you and me' enjoy as shareholders of limited companies, it is the right to propose resolutions at the AGM "that is the most potent".[17] As I noted in chapter II, most books on SRI are specifically directed to individual investors and give suggestions about how individual investors should behave in relation to their investments. It may be noted, however, that almost all examples of social resolutions which are discussed in these books are resolutions which have been put forward by large organisations or shareholder lobby groups.[18] That is, even though the issue of whether individual investors can influence corporate behaviour through introducing social resolutions ultimately is an empirical issue, SRI proponents give little empirical support for their view. Lacking empirical evidence *against* their view, I can only speculate as well – but I will in what follows suggest that, if one considers the legislation surrounding shareholder resolutions in most countries, there is reason to believe that the idea that individual investors can influence corporate behaviour through introducing social resolutions is rather far-fetched.

The legislation surrounding shareholder resolutions is often quite different in different countries and it is therefore hard to say exactly what the possibilities for influencing corporate behaviour through the resolution process are for each and every investor. However, in most countries and cases, I believe, it seems very hard for individual shareholders to successfully introduce shareholder resolutions on social issues.[19] A first problem does not pertain only to individual investors, but is the same for all investors and has to do with the introduction of reso-

[16] Kinder et al. 1993, pp. 8-9

[17] Brill and Reder 1993, p. 22. See also Melton and Keenan 1994.

[18] Cf. Brill et al. 1999, Brill and Reder 1993, Domini 2001, Domini and Kinder 1986, Harrington 1992, Lowry 1993, Melton and Keenan 1994, Miller 1991, Ward 1991

[19] It may be noted that I follow the main bulk of the SRI literature here and focus primarily on Western countries with relatively well-functioning corporate governance systems (like the US, Canada, Western Europe and Australia). Obviously, the possibilities for efficient shareholder activism are even worse in many other countries where the corporate governance systems are quite different – cf. Sparkes 2002.

lutions on *social* issues specifically. I said above that the primary responsibility for the day-to-day activities of the corporation rests with the management of the company. This is not just a figure of speech – in most countries, this means that managers actually have the right to ignore resolutions that could be said to deal with the 'ordinary business' of the corporation, or there are formal rules which prohibit shareholder resolutions on such matters.[20] Exactly what should be counted as the 'ordinary business' of the corporation and what should not is, of course, up for interpretation and debate. In very many cases, however, the governmental agencies which supervise these things seem to have been more keen on granting managers exclusive control over central corporate activities than on allowing shareholders to have a say in such matters.[21] Now, as many other writers have pointed out, many of the 'social' issues activists may want to file shareholder resolutions on could often be classified as part of the 'ordinary business' of corporations.[22]

The considerations above, I believe, suggest a general problem for shareholder activists. Issues about, say, what products a certain company should manufacture (e.g. whether it should produce tobacco or not) or what production process should be used (e.g. to what extent this should be environmentally sustainable) could of course, on a certain level, be said to be 'general production issues'. And issues about discrimination, and whether or not a company should employ equal opportunity practices in their employee recruitment, could be said to be 'general personnel issues'. There are many reports on cases where social resolutions have been excluded with reference to the 'ordinary business' clause. Sparkes reports on one of the most famous cases in the US:

> Shareholder rights are not unlimited [...] as the [US Securities and Exchange Commission (SEC)] only allows 'resolutions going beyond ordinary business which are therefore suitable subjects for shareholder review through the proxy process'. Probably the most high-profile SEC decision in this regard was over Cracker Barrel in 1992. Cracker Barrel was a US store chain that was alleged to have a policy of not employing homosexuals. In 1992 the New York City Employee Retirement System attempted to file a shareholder resolution requesting the company 'to implement non-discriminatory policies relating to sexual orientation and to add explicit prohibitions against such discrimination to their corpo-

[20] Cf. Blair 1995, Kinder et al. 1993, Lang 1996, Melton and Keenan 1994, Powers 1971, Simon et al. 1972, Sparkes 2002, Vogel 1978, Åhman et al. 2003

[21] Cf. Blair 1995, Kinder et al. 1993, Melton and Keenan 1994, Sparkes 2002, Vogel 1978

[22] Cf. Kinder et al. 1993, Melton and Keenan 1994, Powers 1971, Simon et al. 1972, Sparkes 2002, Vogel 1978

rate employment policy statement'. The SEC ruled that this was a 'personnel' matter, and as such was part of the 'ordinary business' of the company, meaning that the resolution could not be filed.[23]

Already from the consideration above, it may seem doubtful that many investors will be able to introduce shareholder resolutions on social issues successfully. To this consideration, I believe, should be added that this seems especially problematic for the *individual* investor. First of all, most countries have strict rules, not only governing what resolutions may be *about*, but also governing *what type of investors* are allowed to propose such resolutions and these rules tend to rule out the smallest players in the field. In the UK, for instance, in order to be eligible for proposing shareholder resolutions you must either control at least 5% of the total voting power of all the outstanding shares of the company (which, of course, could be huge sums!), or you must get the backing of 99 other investors who each hold shares worth at least £100.[24] Obviously, these criteria are extremely strict and it seems hard for typical individual investors, with only moderate amounts of disposable income, to be able to meet them. Things are a bit easier in the US, which may explain why shareholder activist campaigns in general have been more common there,[25] but still only investors who hold more than 1% of the total voting power of the corporation, or $2000 in shares, and have held these for at least a year, are eligible for proposing shareholder resolutions.[26] The restriction on time alone, I believe, could be a serious impediment for individual investors who want to propose shareholder resolutions on social issues – not to mention timely ones.[27]

A further kind of problem for individual investors who wish to propose shareholder resolutions is that, in most countries, investors are

[23] Sparkes 2002, p. 31

[24] Cf. Lang 1996, Strätling 2003, Sparkes 1995, 2002, Ward 1991

[25] Cf. Louche and Lydenberg 2006, Mackenzie 1997, Sparkes 1995, 2002, Sparkes and Cowton 2004. An alternative explanation is that the legislation surrounding corporate social responsibility and reporting has been less strict in the US – cf. Vogel 1978.

[26] Cf. Brill et al. 1999, Domini 2001, Sparkes 2002, Åhman et al. 2003. The latter figure was increased from $1000 in 1992 – cf. Sparkes 2002. There are also other formal requirements in the US – for instance, the kind of corporate activities relevant to a certain resolution must involve more than 5% of the annual income of the company as a whole – cf. Domini 2001, Domini and Kinder 1986.

[27] Since proposals should be filed at least 6 months prior to the AGM, in reality investors need to have held the shares for at least 18 months. According to Lang, furthermore, "companies do not normally announce the actual date of the AGM until a few weeks beforehand, thus making it very difficult to dovetail the two dates (particularly since the company is unlikely to have ever received an independent shareholders' resolution before, and will almost certainly not welcome it)" (1996, p. 116).

required by law to *circulate their resolution proposals to all of the other shareholders of the corporation*.[28] In many cases, it may be almost impossible to find accurate information from second-hand sources about exactly what people are shareholders in a given corporation.[29] And, even if you somehow could get access to this information, sending out a copy of your resolution to the many thousands who most often hold shares in public companies will obviously cost loads of money.[30] In some countries, the corporations themselves are required to send out information about resolutions a few weeks before the AGM, both those proposed by management and those proposed by shareholders – this is often referred to as the 'proxy ballot' or 'proxy statement' of the corporation.[31] Certainly, if you could get the company to circulate your proposal on this statement you would fulfil the requirement that all shareholders should be notified, but, in most cases, shareholders are required to cover the costs of this service themselves.[32] All in all, some writers suggest, the costs associated with filing shareholder resolutions would seem to make this a very impractical tool for effective use by individual shareholder activists.[33]

In light of the problems discussed above, I take it that it seems rather difficult for individual investors, at least in most countries and cases, to introduce shareholder resolutions on social issues in order to make a difference in terms of corporate behaviour. Of course, this does not mean that it is entirely impossible – under certain circumstances, individual investors may actually be able to introduce resolutions that could be very potent. It should be noted once again that the legislation surrounding these things is quite different in different countries, which makes it hard to generalise too much in either direction. Now, in order to be able to influence corporate behaviour through the successful filing of social resolutions, however, these resolutions obviously need to get enough votes at the AGM (at least for the resolutions to pass formally). In the following subsection, I will discuss what power individual investors have in this process.

[28] Cf. Lang 1996, Strätling 2003, Ward 1991
[29] Cf. Powers 1971, Ward 1991
[30] Cf. Vogel 1978
[31] Cf. Brill et al. 1999, Domini and Kinder 1986, Kinder et al. 1993, Lang 1996, Lowry 1993, Melton and Keenan 1994, Strätling 2003, Ward 1991
[32] Cf. Powers 1971, Strätling 2003, Ward 1991
[33] Cf. Strätling 2003, Vogel 1978, Ward 1991

2.2 Voting on resolutions

According to many SRI proponents, as noted above, the most powerful tool of shareholder activists is the right to file *and vote* on shareholder resolutions. This would seem to suggest that the most straightforward strategy for an individual investor who wants to make a difference through shareholder activism would be to first file a shareholder resolution on some social issue, and to then try to vote this resolution through at the AGM. It should be noted, however, that there are other possibilities here as well. Even when investors are unable to propose resolutions of their own, they could vote on shareholder resolutions sponsored by other investors – under certain circumstances, perhaps other shareholder activists have successfully proposed a social resolution to be voted on at the AGM.[34] Furthermore, investors of course have the possibility to vote on (or, most often, against) different resolutions proposed by the management.[35]

I argued in chapter III (section 4.1) that, according to one understanding of the approval argument for the avoidance strategy discussed there, what is wrong with investing in morally unacceptable companies is basically that investors *could do better* in some sense. That is, to passively invest in morally unacceptable companies may be wrong because investors for instance could become shareholder activists instead. We may now note that one idea of why and how they could do better was actually that they have the possibility of voting against resolutions proposed by managers. According to Simon, Powers and Gunnemann, for instance, "an institutional shareholder *who votes routinely for management* and who otherwise fails to complain about corporate practices lends a measure of apparent acceptance and approval to existing corporate policies, thus reinforcing the management's predisposition to pursue these policies"[36]. Although it may not seem to matter much whether individual investors vote for or against management, according to Domini and Kinder, voting against management has been an important part of shareholder activist campaigns, mainly because it shows other investors "that management doesn't always know best"[37]. Domini elaborates on this point:

[34] Cf. Ward 1991

[35] Cf. Brill and Reder 1993, Domini 2001, Lowry 1993, Powers 1971, Ward 1991

[36] Simon et al. 1972, p. 151, emphasis added

[37] Domini and Kinder 1986, p. 9. See also Lowry 1993.

> Even proxy materials that do not have a resolution filed by a shareholder can give you an opportunity for action. I, for instance, reject boards of directors unless there is at least some female and/or minority representation. I even go so far as to photocopy my vote and forward it to management with a letter explaining that until they have taken at least a first step toward a board that reflects the demographics of the population at large, I will not support their slate. Responses range from silence or rudeness to solicitousness.[38]

I will in the present subsection simply discuss the efficacy of voting *as such*, and return to the possibility of writing letters to managers in section 3. Can individual shareholders really make a difference through voting on various kinds of resolutions? Well, some writers actually suggest that they can. According to Judd, for instance, "[t]he crux of [the activist] approach is that corporations operate on a one-share-one-vote principle, allowing even a shareholder with a small stake in the company to bring up questions about social issues at annual meetings and to file shareholder resolutions".[39] In a similar fashion, Domini writes: "Now that you know the impact that even a small positive vote can have, you have no reason not to read through the [proxy] material, make a decision, and cast a vote"[40]. Once again, however, none of these writers present much empirical support for their views on this matter. It may be noted that many books on SRI contain long lists of different social resolutions filed by different campaigning groups, often together with the percentages of votes in favour and against.[41] However, these lists are far from establishing the efficacy of *individual* activists' votes and, furthermore, it is interesting to see that there only very seldom are substantial percentages of votes in favour of social resolutions.[42] When considering the legislative and factual context surrounding votes at AGMs in different countries, it should also be noted, there is reason to believe that the possibilities for individual investors to influence corporate behaviour through voting on resolutions actually are very slim.

A first problem for individual investors is that not all kinds of investments in limited companies carry voting power. As noted already in

[38] Domini 2001, p. 103

[39] Judd 1990, p. 10. Other writers who emphasise the rule of one share-one vote are, e.g., Brill et al. 1999, Brill and Reder 1993, Bruyn 1987, Domini and Kinder 1986.

[40] Domini 2001, p. 103

[41] Cf. Domini and Kinder 1986, Lowry 1993, Melton and Keenan 1994, Sparkes 2002, Vogel 1978

[42] Some writers acknowledge this fact – see, e.g., Brill et al. 1999, Haigh and Hazelton 2004, Lowry 1993, Melton and Keenan 1994, Powers 1971, Vogel 1978.

chapter III, most individual investors invest only indirectly in company shares, i.e., they invest in unit trusts or other kinds of funds, and thus they obviously cannot cast votes directly at AGMs on their own. On top of this, however, it should be noted that many countries have a system of so-called 'A'- and 'B'-shares, and that these shares carry different voting rights. While the rule may be one share-one vote with regards to 'A'-shares, the situation is different with regards to 'B'-shares – often these are only one share-one tenth of a vote, or they simply lack voting power altogether.[43] While there normally is at least some trade in 'A'-shares on the stock market, the majority of shares available for individual investors are 'B'-shares.[44] Thus, in the majority of cases, the shares which individual investors deal with actually carry very little in the form of voting rights. This is of course the same with bonds and other kinds of investments available to individual investors.[45]

The considerations noted above are relatively unimportant in the present context, however, since even one share-one vote obviously makes it extremely hard for individual investors to be decisive in votes at most public companies' AGMs. The number of outstanding shares in most companies on the world's stock markets, it should be noted, are enormous – for instance, the average number of shares in a company listed on the New York Stock Exchange was roughly 150 million at the end of December 2007.[46] (The total number of shares in the largest company, Exxon Mobil, was over 8 billion.[47]) Hence, even if some individual investor were to hold a considerable number of shares in some public limited company, and thus a large number of votes, it would be extremely unlikely, even in theory, that his votes would be decisive in a vote at the company's AGM.

To this *theoretical* unlikelihood of being decisive, as we might call it, should be added that the circumstances surrounding voting power and voting procedures in most countries makes for an even larger *practical* unlikelihood of individual investors' votes being decisive. First of all, as noted at the end of chapter IV (section 6.2), so-called institutional investors control the majority of shares on most of the world's stock markets, and individual investors only control a fraction of the total

[43] Cf. Rini 2002, Rydqvist 1992, Sparkes 2002, 2003, Teweles and Bradley 1998, Ward 1991
[44] Cf. Sparkes 2002
[45] Cf. Lang 1996, Powers 1971, Ward 1991
[46] New York Stock Exchange 2007a. See also Strätling 2003.
[47] New York Stock Exchange 2007b

market value. Now, this is true also with regards to most individual companies – that is, the majority of shares in most quoted companies are controlled by a handful of large organisations. For this reason, it would actually seem totally insignificant how individual investors vote, since these large organisations can steer the company in whatever direction they want. In more than 95% of decisions at AGMs, it may be noted, the decision rule is simple majority.[48] Add to this a further way in which the voting procedure works in most countries. As noted above, companies sometimes send out information about resolutions a few weeks before the AGM, and this is often referred to as the 'proxy ballot' or 'proxy statement' of the corporation. It is called this because shareholders should be able to vote 'by proxy', i.e., they should not have to attend the AGM themselves but simply signal to the management (often by way of checking some boxes on the ballot and sending it back to the company) in what way they intend to vote.[49]

As noted already in chapter III (section 3.2), very many individual investors take advantage of their right not to attend the AGM of the companies they hold shares in and, thus, very few individual investors actually attend AGMs. What is more, however, is that very few investors use the proxy ballot to make an active vote – that is, they just sign the ballot and send it back to the company.[50] We now come to the heart of the present point: In most countries, not declaring ones voting intension on the proxy ballot gives managers the right to use these votes in whatever way they see fit.[51] Thus, one could say that the voting procedure is *rigged* in some sense to go the managers' way. According to some recent estimates in both the UK and the US, on average only about 3-4% of the votes cast at corporate AGMs actually go against the managers' recommendations.[52] And, of course, as the system works, this is only to be expected. If managers are opposed to social resolutions, which they often tend to be, then, it seems extremely hard for individual investors to vote such resolutions through at the companies' AGMs.

The considerations above may seem quite discomforting, and many writers have complained that the modern corporation is far from demo-

[48] Maug and Rydqvist 2001

[49] Cf. Brill and Reder 1993, Domini 2001, Domini and Kinder 1986, Maug and Rydqvist 2001, Strätling 2003, van der Burg and Prinz 2006, Wyss 2000

[50] Cf. Bottomley 2003, Kinder et al. 1993, Melton and Keenan 1994

[51] Cf. Brill and Reder 1993, Brill et al. 1999, Maug and Rydqvist 2001

[52] Cf. Maug and Rydqvist 2001, Strätling 2003, Webb et al. 2003. See also Zampa and McCormick 1991.

cratic.[53] Vogel relates the story of one shareholder activist, Saul Alinsky, who dreams of the following scenario:

> I want to be able to move those stockholder meetings into Yankee Stadium – and this goes for all corporations. They will have their thousand or so stockholders there, and we'll have 75,000 people from Proxies for People. I want to see the chairman of the board – in front of the cameras and the mass media, with 75,000 people voting "aye" on one of our resolutions – announce that 98% of the stock is in his hands [and] votes "nay," and they win. I want to see him look at 75,000 people and tell them that they haven't got a damn thing to say about it.[54]

The considerations above should certainly be extra frustrating from the perspective of shareholder activism – even though many individual investors may group together and try to make a company change its ways, it seems virtually impossible to get a social resolution passed at a larger-sized company's AGM. Given the poor possibilities in this regard, one may of course wonder why shareholder activists bother to propose and vote on resolutions at all – that is, why the focus has been so much on *resolutions* in the first place. In the following subsection, I will discuss one possible explanation of this.

2.3 The social dimension of resolutions

In my discussion of the possibilities for individual investors to make a difference at AGMs above, it may be noted, I have focused exclusively on the *direct* impact of proposing and voting on resolutions. Since there seems to be very little possibilities for individual investors to make a direct difference through doing these things, I said, one might wonder why shareholder activists focus so much on resolutions in the first place. The answer according to some writers, quite unsurprisingly, is that filing and voting on resolutions can have considerable *indirect,* or *social*, effects. According to Kinder at al., for instance, "[t]he [shareholder resolution] proponents' goal is not so much the resolution's passage – they rarely win – as the start of a dialogue with the company. Shareholder activists often accomplish through talk what they cannot through the ballot process".[55] As noted at the outset of the chapter, furthermore, Domini

[53] Cf. Blair 1995, Brill et al. 1999, Bruyn 1987, Cordery 2005, Lowry 1993, Maug and Rydqvist 2001, Powers 1971, Vogel 1978, Zampa and McCormick 1991

[54] Vogel 1978, p. 214

[55] Kinder et al. 1993, p. 8. See also Brill et al. 1999, Melton and Keenan 1994.

prefers to talk about "direct dialogue" instead of shareholder activism – perhaps we could understand this terminological choice (at least partly) in light of the kind of suggestion just mentioned as well.

In the present subsection, I will briefly discuss some possible indirect effects of proposing and voting on resolutions at a company's AGM. Unfortunately, I think many of the problems discussed in connection with the possible indirect effects of screening (chapter IV, section 6) re-emerge in this context. In order to categorise the different suggestions here, I will start as I did in the discussion in chapter IV, i.e. by considering who the intended receivers of the communicative message of proposals and votes are. According to one suggestion, I believe, the intended receivers are primarily *managers* and/or *directors*. According to this idea, namely, even though a certain attempt to vote a resolution through at the AGM may have little chances of succeeding, it may still have an impact on the decisions of managers and directors. Lowry, for instance, writes:

> Until 1988 concerned investors sponsoring shareholder proxies operated under the assumption that their proxies would never pass if they were opposed by management; generally that assumption was correct. Nevertheless, shareholders were content with 3 to 5 percent of the total votes and the frequent media attention their proxies received. In fact, most corporate managers take shareholder proxies seriously. They are concerned that their annual meetings run smoothly, that controversy be avoided, and that most, if not all, shareholders are supportive of company policies and practices.[56]

Brill, Brill and Feigenbaum similarly write:

> Most social resolutions fail to gain more than 10 percent of the vote; but they do bring into focus important issues that companies sometimes do not want called to public attention. The threat of exposure is often enough to motivate companies into taking actions they otherwise would not. Exposure is even more of a concern today, when information travels quickly, is easily available, and is being monitored by social investors, activist groups, the media, and the public at large.[57]

The reader may note the similarities between this suggestion and the appeal to the *hypersensitivity of managers* discussed in chapter IV (section 6.1). The reason why proposing and voting on resolutions may have a

[56] Lowry 1993, p. 27

[57] Brill et al. 1999, pp. 143-44. See also Brill and Reder 1993, Domini and Kinder 1986, Lowry 1993, Melton and Keenan 1994, Powers 1971, Simon et al. 1972, Sparkes 1995, 2002, Strätling 2003, Vogel 1978.

certain impact on managers and directors, even though there is no real chance of the resolutions' passing, would be that managers and directors are hypersensitive to the 'threats of exposure' which such acts are thought to consist in.[58] Now, once again, I believe it is possible that some managers and directors actually are hypersensitive to these things. However, SRI proponents have done little in the way of producing solid empirical evidence to the effect that this is the case for most managers. Obviously, it is hard to measure the social effects of shareholder activism in general, and the success of these kinds of attempts at influencing managers and directors in particular.[59] Some commentators suggest that even though most managers state that they are not influenced by social interest groups, parts of their behaviour indicate that they are.[60] However, this goes the other way around as well – even though some managers may state that they pay close attention to what social interest groups say, it is not clear whether this actually influences their decisions. As I said in connection with the hypersensitivity argument in chapter IV, it seems reasonable to assume that most managers and directors pay rather little attention to what individual investors do, and would only be more attentive if the 'threats' to the company were somehow backed up with some kind of real power. As long as individual investors have as little influence in the actual votes at corporate AGMs as they do, then, it would seem foolish for managers to pay very much attention to their resolution proposals and voting behaviour.

It should be noted, furthermore, that simply *proposing* or *voting on* a certain resolution in fact is something quite different from actually talking to the kind of groups which Brill, Brill and Feigenbaum discuss, or even threatening to talk to these groups. Perhaps talking to the media and spreading information to other activist groups actually are quite promising ways in which individual investors can make a difference to corporate practices – I will discuss these suggestions in the following section. At the present juncture, however, it is not ideas of this kind that we are discussing and, surely, media coverage does not follow *automati-*

[58] According to some writers, failed resolutions may have additional possibilities of influencing managers if they reach the kind of figures indicated in the quotes above, i.e. if they receive more than 3% or 10% of the votes. Under the US corporate governance system, namely, a resolution which did not pass at an AGM can be put back on the following year's proxy ballot if it receives 3% of the votes the first year. The second year it is 6% and after that it is 10% – cf. Vogel 1978, Sparkes 2002, Åhman et al. 2003.

[59] Cf. Mackenzie 1997, Sparkes and Cowton 2004, Vogel 1978

[60] Cf. Mackenzie 1997, Vogel 1978

cally from a proposal of or vote on a (social) resolution at a generic company's AGM. If the media is at all interested in some individual investors' voting behaviour, I believe this would probably be some more radical interest groups' votes rather than a single, non-affiliated investor's votes – assuming, of course, that the media comes to know about the vote at the AGM in the first place.

While the suggestion that managers are hypersensitive to the resolution proposals and voting behaviour of average individual investors seems unrealistic in most cases, another suggestion is that such kinds of behaviour may influence *other investors* to propose similar resolutions or vote in a similar fashion. As I noted in chapter III, according to Simon, Powers and Gunnemann, it is wrong to be a part of a group that supports morally unacceptable companies. But how should this be understood more exactly? At one place they write: "By failing to exercise their [...] authority within the corporate structure, [shareholders jointly] participate in the continuation of a violation. And when an *individual* shareholder fails to do what he or she (or it) can reasonably do *to bring about* such collective shareholder action, that shareholder, individually, participates in the continuation of the violation"[61]. Perhaps another interpretation of the idea of Simon et al. about how the responsibilities of *all* investors translates into a responsibility on the part of *each* investor, then, could be that each individual investor has a responsibility *to bring about a collective vote* on certain social resolutions. By voting in a certain manner oneself, it may be argued, one can perhaps persuade many others to join in on one's voting campaign and, thus, one can make a difference as a larger group of investors.

The reader may note the similarities between this suggestion and what I called *the snowball argument* for screening in chapter IV (section 6.2). Certainly, I believe we should grant that the more of other investors one is able to include in a collective voting campaign, the more likely it is that the campaign will be effective. Miller correctly notes, in relation to shareholder activism, that "[a]s a lone investor, any actions you might take might not be nearly as effective as those taken in concert with other like-minded individuals"[62]. However, it is not obvious exactly how this persuasion of other investors is supposed to work. A first problem is that the majority of votes cast at most limited companies' AGMs ac-

[61] Simon et al. 1972, p. 151, emphasis added
[62] Miller 1991, p. 328

tually are *proxy* votes[63] – that is, the majority of the voting shareholders cast their votes long before the AGM even starts and it certainly seems hard to influence these shareholders' voting behaviour by then voting in a certain way at the AGM. As I said in connection with the snowball argument for screening, furthermore, it is unclear whether even a quite successful persuasion of other *individual* investors will do the trick. Even though other individual investors probably are the ones most likely to be impressed by an individual activist's resolution proposals and voting behaviour, the real power over the corporation, as further corroborated by the considerations above, rests in the hands of the managers and the institutional investors. One may here also note a disadvantage that shareholder activists have when compared to avoidance or supportive investors. In order for a collective shareholder campaign to work, not only need all of the investors in this collective be persuaded to *feel sympathetic* to the initiating investor's social cause, but they also need to vote *on the same resolutions* and *in a similar way*. As some writers suggest, this need for *organisation* on the part of the initiating investor may in itself make proposing and voting on resolutions a difficult way of influencing corporate behaviour.[64]

The alternative route is of course to focus on *institutional* investors rather than on individual such.[65] However, I noted a problem also with this kind of suggestion in chapter IV, namely that institutional investors are very much like large limited companies. That is, if it is hard to influence corporate managers and directors to do a certain thing, it seems equally hard – if not harder – to influence the managers of large investment institutions to do this thing. To this considerations, it may be added that corporate managers and directors often work closely together with institutional investors in drafting their resolutions and setting their agenda, since they know that the institutional investors are the dominant owners of the companies and, thus, have the ability to dominate the votes at the AGM.[66] For this reason, I believe, institutional investors on their part are also more likely to want to collaborate with management than with individual investors – especially shareholder

[63] Cf. Bottomley 2003, Strätling 2003

[64] Cf. Powers 1971, van der Burg and Prinz 2006. According to Powers, it is actually unclear whether such coordinations are *legal* – they may be in violation of anti-trust laws (1971, p. 93).

[65] According to Vogel, for instance, "[t]he most important long-term impact of the Campaign to Make General Motors Responsible was that it began to erode the practice of institutional neutrality in stockholder elections" (1978, p. 94). See also Domini and Kinder 1986.

[66] Cf. van der Burg and Prinz 2006

activists which, as I have said, tend to be rather anti-management.[67] As an individual activist, then, it seems hard to influence the voting behaviour of institutional investors – at least through simply voting in a certain way or proposing certain resolutions. Perhaps activists can be more aggressive in their campaigns to try to persuade institutional investors – I will turn to this issue in the following section.

The considerations above suggest that it is hard for individual investors to influence corporate behaviour through proposing and voting on resolutions, even when the possible indirect effects of such behaviour are taken into account. Before leaving this discussion about resolutions, a final problem with focusing on resolutions as the vehicle for shareholder activism should be noted: I said at the outset of this section that a resolution in the context of corporate governance perhaps could be compared to a bill or a motion in the context of public policy making. A problem with this analogy, however, is that, unlike legislative bills, most resolutions actually are not binding. As Brill, Brill and Feigenbaum put it, "[m]ost resolutions are nonbinding requests or recommendations by shareholders to managers. Even with a majority vote, a resolution does not become company policy without management approval"[68]. We see here, then, the ultimate token of the lack of power which individual investors have over corporate practices as compared to, for instance, the managers of the corporation.

However, if resolutions basically are requests, why couldn't investors just raise their hand at the AGM, address the managers straight out and tell them what they think they should be doing?

3. More radical activist campaigns

Much of the debate over shareholder activism, as is obvious from the discussion above, has focused on the right of investors to propose and vote on resolutions at the AGMs of the companies they hold shares in. I will now leave this discussion, however, and discuss some other – potentially more promising – possibilities which are open to individual investors in this context. As I noted at the outset of the chapter, share-

[67] Perhaps there are further reasons for thinking this is so. According to Strätling: "In order not to tarnish the reputation of the companies they invest in, institutional investors are more likely to approach members of the board directly in order to raise grievances than to resort to shareholder proposals or to vote against recommendations of the board of directors" (2003, p. 76).

[68] Brill et al. 1999, p. 142. See also Maug and Rydqvist 2001.

holder activism is perhaps most adequately understood as an umbrella term covering a lot of more particular strategies, and many other ways in which one can use one's power as a shareholder to create corporate change have been suggested in the literature. Domini, for instance, writes: "Delivering a social audit to a company for enrichment and comment is a way of alerting corporate management to issues. Letters written to gain clarification or to express either concern over or thanks for a position the company has taken can lead to good results. Consumer boycotts, selective purchase campaigns, and even lying down in front of bulldozers have been used"[69].

Now, some of these suggestions are not things that one needs to be a shareholder to engage in (nor that investors can do *in their role as shareholders)*, for example, consumer boycotts and (simply) lying down in front of bulldozers. For this reason, I will disregard those suggestions in the present context. However, there are certainly a lot of things which investors *can* do exactly *because* they are shareholders or investors, and which potentially could lead to corporate change or more socially beneficial outcomes. Before discussing the strategic issue of what line of action could be the most effective for individual investors, I will simply present some of the most commonly suggested lines of action in the present context.

A first suggestion stems from the fact that the AGMs of corporations are a kind of social gatherings where managers, directors and shareholders meet, discuss and decide on important issues concerning the future of the company. In my discussion in the previous section, I focused mainly on the part about decisions – i.e. the resolutions which management or shareholders can propose and which then are voted on at the meeting. According to some writers, however, the *discussions* at AGMs are just as important as the decisions. Most importantly, all shareholders – irrespectively of how much voting power one has – have the right to ask formal questions to the directors of the companies. Sue Ward explains the formal procedure at most AGMs as follows:

> The Chair will start the meeting by making a general statement about the year's performance, and presenting the Annual Report and Accounts. The shareholders will then be asked to approve any changes to the Board and the appointed auditors, to ask questions, and occasionally to vote on resolutions.
>
> You get your opportunity to put a question after the Chairman's

[69] Domini 2001, p. 22

statement. It can be intimidating to do so, especially at a large company meeting, so practice in advance. Give your name, and say whether you are a shareholder or a proxy.[70]

Asking questions at the AGM is actually a strategy employed by many shareholder activists.[71] This strategy can be seen as a part of the more general suggestion that it is important to start a *direct dialogue* with corporate managers or directors. As I noted above, the idea that dialogue with companies is an effective way of initiating corporate change is common among SRI proponents. Kinder, Lydenberg and Domini, for instance, write that "[s]hareholder activists often accomplish through talk what they cannot through the ballot process"[72]. Other ways of starting a direct dialogue with managers and directors could be to write letters to them directly, to set up meetings with them or to simply go to their corporate headquarters and try to talk to them on location.[73] Ward writes: "As an example of what can be done, Father Patrick O'Mahoney, a Catholic priest in Solihull, wrote to about a hundred companies on behalf of the Archdiocese of Birmingham's £2.5m investment funds. Some companies tried to brush him off, but others took trouble over their replies, and in some cases situations seem to have received attention at board level, which would not have been the case without him"[74].

The lines of action suggested above could of course be used in connection with any of the investment strategies discussed in previous chapters, and also the kinds of actions discussed in the previous section here. According to some writers, the most common campaign strategy among so-called ethical funds starts with contacting the managers of the companies engaged in activities which are perceived as morally problematic and having a constructive dialogue. If the managers are not persuaded to change their ways and give up these activities, however, social resolutions are proposed and the dialogue enters a more confrontational phase. If the social resolution process also fails, finally, quite often all shares in the company are sold and further investments in the company are avoided.[75] Some writers explicitly distinguish between constructive

[70] Ward 1991, p. 138
[71] Cf. Lang 1996, Strätling 2003, Ward 1991
[72] Kinder et al. 1993, p. 8
[73] Cf. Brill et al. 1999, Domini 2001, Ward 1991. Another suggestion is that one could visit the factories or locations where the morally problematic activities actually take place – cf. Ward 1991.
[74] Ward 1991, p. 135
[75] Cf. Brill et al. 1999, Mackenzie 1997, Sparkes 2002, Sparkes and Cowton 2004

and confrontational ways of talking with companies, and discuss the merits and demerits of these lines of action in different situations. It is sometimes said, for instance, that dialogue tends to be more confrontational in the US than in the UK, reflecting different cultural and/or legislative traditions.[76]

While proposing hostile shareholder resolutions, or simply threatening to do so, may be considered fairly confrontational as compared to constructive dialogue, some writers suggest that even more confrontational methods may be appropriate. If both talking to managers and proposing resolutions (or threatening to do so) fails, one suggestion is that activists actively could try to disrupt AGMs by, for instance, organising a demonstration outside its venue. According to Peter Lang, for instance, "[s]ome organised groups, such as the Campaign Against the Arms Trade, have adopted much more pro-active stances at AGMs and have positively sought to disrupt the meetings. If you believe the company can be persuaded to change its stance through persuasion and reason, such disruption is likely to make your job more difficult. If you believe that a large company is basically ruthless and will pursue profits at all costs, then a demonstration at an AGM can focus media attention on a company and up the pressure".[77] Of course, organising demonstrations is not the only option here – another possibility may be to try to disrupt the AGM from within. Lang writes: "The presence of the press means directors need to be on their best behaviour – photographs of security staff forcibly removing shareholders does not promote the image of a caring and responsible company".[78]

The two suggestions above implicitly appeal to the power of the media, and accept that the media can play an important role in a successful social campaign. Now, I have already noted ideas similar to this in my discussion of the social dimension of resolutions. According to Melton and Keenan, for instance, "while proxy activists seem unlikely to overcome the tendency of most shareholders to vote with management or decline to vote on resolutions dealing with social issues, they can and have changed corporate behaviour. Such resolutions, *when combined with a campaign to publicly expose* the perceived 'wrongdoing' of a corporation, can bring results"[79]. Of course, rather than simply hoping that the media

[76] Cf. Louche and Lydenberg 2006
[77] Lang 1996, pp. 117-18. See also Melton and Keenan 1994.
[78] Lang 1996, p. 115
[79] Melton and Keenan 1994, pp. 49-50, emphasis added

will write about some *other* line of action they have pursued, shareholder activists could *go directly* to the media and try to influence both the managers of the company (or companies) in question and the general public to see the moral problems connected with a certain kind of corporate activity. Although not all reporters may be interested, some reporters could be persuaded to see the public interest in certain moral issues related to the corporate sector. Ward gives the following recommendations in connection with her suggestion about asking questions at the AGM above: "Send out a press release in advance and after the meeting, speak to any reporters from the financial press who are present. They may be interested in you as a 'news angle'. Take along copies of your literature, and a further press release, to give to them and any other shareholders who are interested"[80].

It may be noted that the media is not the only power outside corporations that activists can go to, and the managers and directors are not the only ones which activists can start a dialogue with. As noted previously, many writers hold the practices of institutional investors central to what goes on in the business world. Perhaps individual investors can be more aggressive in their campaigns to try to persuade institutional investors. Domini and Kinder, for instance, write:

> The willingness of big institutions to vote against management leads me to believe that more institutions can be persuaded to support social issue proxy efforts and similar campaigns. This is where the individual ethical investor can play an important role. The institutions will not move of their own accord. They respond to pressure. So it is critically important for ethical investors to know who controls their pension fund, for example. They should study the organizations in which they are involved – from colleges to charities – and see who runs their money. The right questions about their votes may yield interesting results.[81]

As Domini and Kinder indicate here, institutional investors are not the only kind of larger organisations which individual investors could contact. They may also contact charities and other kinds of activist organisations, and perhaps they may even try to collaborate further with these organisations. Brill and Reder, for instance, write:

> If you qualify to propose shareholder resolutions for one or more companies, you can become a particularly effective activist by informing

[80] Ward 1991, p. 139

[81] Domini and Kinder 1986, p. 209. See also Brill et al. 1999.

> progressive organizations whose causes you support that you will submit resolutions for them. In 1987 People for the Ethical Treatment of Animals (PETA), working through friendly shareholders, introduced resolutions at major cosmetics companies' annual meetings demanding the release of animal test data. [...] In 1990 Colgate-Palmolive became the first company to make this data public. The Council on Economic Priorities reports that Colgate-Palmolive is now a corporate leader in substantially reducing its number of animal tests and/or actively researching alternatives.[82]

The last resort if both dialogue and resolutions fail, and probably one of the most provocative possibilities, according to some writers, is simply to take corporations to court. While it should be noted that moral arguments are not always relevant in a legal context, many morally unacceptable corporate activities are certainly problematic also from a legal point of view. According to Powers, "[c]orporate law allows the stockholder legal recourse [...] if he believes that management's practices are *ultra vires* (that is, beyond the powers granted by the state charter), negligent, illegal, fraudulent or involve a clear abuse of discretion"[83]. If individual investors are successful at finding a legal case against a certain company, it is not implausible to think that taking the company to court sometimes could be very effective. Powers continues: "The following example shows where it might apply to the social investor. A company, operating in violation of state pollution laws, has not yet been prosecuted by the public authorities. The stockholder can bring a derivative suit in order to force the management to comply with the pollution laws. Again in this case, the initiative and not its ultimate success in court, could bring the desired result, since the action might persuade management to comply in order to avoid prosecution or harmful publicity, or might force the public authority to take action to force compliance"[84].

3.1 Some positive suggestions

So far in this section I have only attempted to describe in some more detail the most common suggestions as to what shareholder activists may do apart from proposing and voting on resolutions. Now, what should we say about these suggestions? Obviously, they are of quite different character, and the suitability for use by individual investors may

[82] Brill and Reder 1993, pp. 22-23. See also Domini 2001.
[83] Powers 1971, p. 107. See also Brill et al. 1999, Ward 1991.
[84] Powers 1971, p. 107

vary to a great degree between different suggestions. First and foremost, I think we should conclude that much more empirical research is needed in relation to all of these suggestions. While the shareholder resolution process is discussed at some length in many books on SRI, it should be noted, many of the suggestions noted above are only appealed to as last resorts when the problems connected with proposing and voting on resolutions are discussed. If proponents of the SRI movement want to build a strong case for the idea that SRI really makes (or can make) a difference, however, some stronger evidence than simply the anecdotal one is needed. In the remainder of this section, I will simply indicate what I take to be some general characteristics of the kind of campaigns that I believe are the most promising in the present context. While most of my conclusions above have been negative, I believe it is important not to neglect the real possibilities that individual investors actually may have for creating positive social change through more radical activist campaigns.

Although it is hard to say exactly what kind of activist campaigns have the greatest potential for social progress here, a first general characteristic of especially promising campaigns, I believe, would probably be that *forces* or *powers outside the corporations themselves* are used to put pressure on companies to change. One kind of thinking that is close at hand but which I think shareholder activists should focus less on is the appeal to the hypersensitivity of *managers* and *directors*. If the talk of 'direct dialogue' and asking questions at AGMs is taken at face value, I believe, the idea once again seems to be that individual investors can influence managers to change their companies' ways, either by way of moral argumentation or through some kind of threats of exposure. However, as I have suggested many times above, it is not very likely that managers actually will listen to individual investors if their threats are not also backed up by some kind of real power – financial or otherwise. Other writers share this pessimism. According to Brill, Brill and Feigenbaum, for instance, "[i]nvestors with small holdings have only a slim chance of reaching the ear of upper management"[85]. As long as most activist campaigns explicitly go against the recommendations (and interests) of managers, I believe this situation is likely to continue. According to Lang, some managers have actually developed quite elaborate strategies

[85] Brill et al. 1999, p. 141

which allow them to counteract individual investor's asking questions at their AGMs:

> As some shareholders and pressure groups have begun to use AGMs to put public pressure on companies, directors have adopted some subtle procedures to exert control of the AGM. Some companies will direct investors who hold single shares to sit together – possibly even corralled in by security staff. The chair of the meeting can then try not to call anyone sitting in that block. [...] Other companies attempt to reduce the effectiveness of questions by controlling the sound system, so questioners seen as troublemakers are seated where they don't get the opportunity to speak through a microphone. [86]

I will not elaborate on these observations here. The point I wish to make is simply that individual investors' activist campaigns are much more likely to achieve their goals if forces *outside* corporations are used to put pressure on these companies. As we have seen, the managers and directors of the modern corporation have immense powers over these corporations and their activities, and thus they also have immense powers over societal activities in general and over people's lives. In order to influence managers and directors, I believe individual investors need to appeal to forces which can *balance* this kind of corporate power. When I say 'forces outside corporations' I am thinking primarily of the following kind of forces: *large organisations* (commercial or not), *the media*, *governments* and *the legal system*. If individual investors were to get one or more of these forces on their side, I believe their social campaigns could become a whole lot more effective.

Exactly what individual investors should do in order to get these kind of outside forces on their side is certainly not obvious. Maybe writing letters to institutional investors, sending out press releases or taking companies to court could work. The idea that governments are forces that social campaigners can appeal to, I believe, is an idea that is not as frequent as the others in the literature on SRI (although Powers talks about influencing "the public authority to take action to force compliance"). To the extent that social campaigns can put pressure on government agencies or officials to make some relevant legislative changes, however, I think this indeed is a great power to be reckoned with. I will return to this suggestion briefly in the concluding chapter (chapter VIII, section 2).

[86] Lang 1996, p. 117. See also Harrington 1992.

Now, a second characteristic of especially promising campaigns, I believe, is that they probably would have to be *self-sacrificing* in a very real way – that is, they would probably cost both a lot of money and a lot of time and effort. Many writers note the enormous costs which often come with taking influential companies to court. Powers, for instance, writes:

> The impediments to successful derivative suits are truly monumental. For example, in some cases (though dependent upon relevant state law), if the shareholder holds less than five percent of the outstanding stock of the corporation or his stock has a market value of less than $50,000, he must post security to cover the "reasonable" legal and other costs incurred by the company in its legal defence; if the stockholder loses, he forfeits the security. Of course, the litigant's own legal expenses in the drawn-out legal process common in this type of suit will be substantial. The investor should also be advised that success rates in this sort of suit are low.[87]

More generally, however, I think we should conclude that *any* successful activist campaign on the part of an individual investor is likely to be both extremely time-consuming and quite costly. To see this, consider first the following line of reasoning: Even though the lines of action discussed above certainly are open to investors *as investors*, or *as shareholders*, some readers may feel, there is nothing in these lines of actions which depend on the fact that the agent in question is an investor. That is, also non-investors can write letters to institutional investors, send out press releases and demonstrate outside some company's AGM. So what is the reason for holding out these things here, and not discussing, e.g., consumer boycotts and other kinds of more progressive lines of actions open to activist civilians? Well, the reason given by most SRI proponents, as should be rather clear by now, is that investors are in a better position to use the first group of actions in effective social campaigns. Exactly because investors are *shareholders* in, or generally considered (part) *owners* of, commercial companies they have certain rights and privileges in relation to these companies that they can use to influence these companies' activities in a way which non-owners cannot.

Now, if the line of reasoning above is to work for the kind of actions currently under discussion, I believe, it must be the right to extensive *information* about (and perhaps the publicly accepted *affiliation* to) the company they hold shares in that put shareholders in a better situation

[87] Powers 1971, pp. 107-8. See also Ward 1991.

than others to influence companies through, e.g., writing letters to institutional investors and sending out press releases. However, we may now return to the information problem noted at the outset of section 2. As I said there, many writers (especially in the corporate governance literature) complain that it is often hard for individual investors to access relevant and accurate information about the activities of the companies they invest in. Investors may be in a better situation than non-investors when it comes to having access to information about the companies they have invested in, but it is often extremely time-consuming and costly to get a hold of this information.[88]

Here we see, then, one reason for why I believe most successful activist campaigns need to become quite self-sacrificing and accept different kinds of costs. In order for letters to institutional investors or press releases to the media to be sufficiently appealing to these forces, individual investors would probably have to gather quite a lot of information about the relevant companies and build a strong case about a certain moral problem related to their business activities. As noted above, Domini and Kinder suggest that asking institutional investors "*[t]he right questions* about their votes may yield interesting results"[89]. Furthermore, Ward says about media exposure: "They may be interested in you as a 'news angle'. Take along copies of your literature, and a further press release, to give to them and any other shareholders who are interested"[90]. Surely, asking the right questions and presenting a sufficiently interesting news angle takes a lot of preparation. And preparation is also important for making a strong legal case against some company.

There are further reasons to think that the more self-sacrificing a certain activist campaign is, the greater potential it has to influence corporate behaviour. Of course, simply printing out information material to a large number of investors or reporters may be quite costly. Ward summarises the points above quite nicely by saying that "[t]he costs of running a campaign could be heavy, especially since you will get much further if you make your presentation well argued and researched, easy to read, and interesting and attractive enough not to go straight into the bin"[91]. One of the main reasons for why I think the most successful

[88] Cf. Charkham and Simpson 1999, Cowton 1998b, van der Burg and Prinz 2006, Webb et al. 2003

[89] Domini and Kinder 1986, p. 209, emphasis added

[90] Ward 1991, p. 139

[91] Ibid., p. 133

social campaigns by individual investors will be rather self-sacrificing, however, is because I think many of the suggestions discussed above will be *actively countered by the targeted companies*. Some writers note that giving extensive information to reporters, although an effective way of influencing the public opinion, may open activists to libel charges. Lang, for instance, writes:

> 1995 saw the start of one of Britain's longest running libel trials when Greenpeace London protesters were sued by the hamburger chain McDonalds for libel after they wrote a leaflet connecting the company with cutting down of the rainforest – an allegation McDonalds have repeatedly denied. In Austria the head of the country's largest electricity company took a Greenpeace campaigner to court for defamation because he had said that building a new coal-fired power station was tantamount to wilfully killing people because of the additional deaths which would result from the greenhouse effect. The Austrian campaigner won, but at the time of writing the critics of McDonalds were still in court.[92]

The kind of repercussions described above, I believe, are only to be expected. As suggested repeatedly throughout this chapter, corporate managers and directors have immense powers, and also vast resources at their hands, and they can use these to circumvent the initiatives of individual investors or to try to put the pressure back on the shareholder activists. However, this is something that I believe shareholder activists must accept if their campaigns are to become really effective.

Of course, all self-sacrificing stunts pulled by shareholder activists will not be effective in getting powers outside the corporation to influence certain companies to change their ways. I should emphasise again that, given the available (lack of) empirical evidence, it is hard to say in any more detail what individual investors should do to make a considerable difference in terms of corporate practices or societal outcomes. Through devising a radically self-sacrificial activist campaign and receiving help from powerful forces outside the corporate sphere, however, perhaps individual investors could able to push for corporate change – at least if these campaigns are sufficiently well-planned and carried out with sufficient efficiency.

[92] Lang 1996, pp. 42-43

4. CONCLUSIONS

According to most proponents of the SRI movement, investors who really want to make the world a better place should become shareholder activists and try to influence morally unacceptable companies 'from within' to change their ways. In this chapter, I have discussed different suggestions as to what this recommendation might mean more exactly, and evaluated these suggestions from the point of view of the individual investor. Unfortunately, SRI proponents present little empirical evidence of the efficacy of different kinds of shareholder activist campaigns for individual investors. Judging from certain general characteristics of the corporate governance systems in place in different countries, however, I have suggested that it once again seems quite difficult for individual investors to make a non-negligible difference by taking a social stand in this way. Since the laws and power structures surrounding the decision-making at corporate AGMs give individual investors so little power, I have suggested that they should seek more radical but indirect ways of trying to influence companies.

Some of the suggestions that I consider fairly promising are the suggestions that individual investors could write letters to or make contact with institutional investors and try to make them vote differently on resolutions, alternatively they could send press releases to the media with extensive information surrounding some morally problematic activities. Another suggestion is that they could try to charge the companies with unlawful behaviour and bring them to court. Unfortunately, these suggestions would probably have to be rather time-consuming and costly for individual investors in order to be effective. They may also make individual investors open to counter-charges from the companies in question, which may be extremely detrimental to both the reputation and the wallet of individual investors. This raises the question of how much morality demands of individual investors – would it be wrong of investors to refrain from doing these things, simply because they are *too* self-sacrificing? This is the issue I will turn to in the following chapter.

Chapter VII

Making Money or Making a Difference?

1. The insistence on profits

How substantial are the demands which morality imposes on individual investors? In previous chapters I have noted that an important, if not the most important, idea within the SRI movement on what constitutes genuinely ethical investing is the idea that investors ought to 'make a difference', or to promote the good – understood either in terms of progressive corporate behaviour or, more generally, in terms of socially beneficial outcomes. I have argued that, for the most part, it is not easy for individual investors to make a non-negligible difference through adopting the kind of investment strategies generally proposed by SRI proponents. However, even individual investors may be able to make a considerable difference under certain circumstances. Investing directly in certain small-scale business ventures designed to support minority communities or communities with poor economic development, for instance, could make a certain difference – or at least so I have argued. Through devising a radically self-sacrificial activist campaign and receiving help from powerful forces outside the corporate sphere, perhaps individual investors are also able to push for corporate change – at least if these campaigns are sufficiently well-planned and carried out with sufficient efficiency. Furthermore, donating (part of) the proceeds re-

trieved from one's investments directly to socially worthwhile causes, as the philanthropic strategy suggests, is still a fairly straightforward way of making a very tangible difference. The needs of many people, primarily in the third world, I believe, are so great that even very small contributions by individuals here can mean the difference between life and death.

As suggested in previous chapters, a general characteristic of the lines of action just referred to is that they seem to *demand more* of investors than the strategies more commonly proposed by SRI proponents do, both in terms of direct monetary losses (or forsaken investment returns) and in terms of time and effort. In this chapter, I will turn to the issue of how to understand the idea of 'making a difference' more exactly in this respect. The main question I am interested is: *How much of a difference are investors morally required to make?* Although I said briefly in chapter IV (section 2) that most moral theories contain the idea that moral agents have at least some moral reason, at least under certain circumstances, to promote the general good, I did not pursue the issue of to what extent this is a *plausible* idea any further there. Furthermore, I did not pursue the issue of whether to interpret the appeal to 'making a difference' as a full-fledged *consequentialist* appeal or not, i.e. I did not decide whether it implies that investors *always* ought to produce the *best possible* effects – as opposed to the idea that they at least *sometimes* ought to produce *some* good effects. It is this dimension of what some have called the issue of *the demandingness of morality* that I will explore in the present chapter.[1]

Exploring the issue of the demandingness of morality is important, I believe, because it allows us to raise two questions which are fundamental to the whole idea of 'ethical investment' within the SRI community yet which, perhaps for reasons having to do with the marketing dimension of much of the SRI literature (noted in chapter II, section 1), seldom have been explored in this context. One such question is the

[1] Cf. Cullity 2004, Eriksson 1994, Mulgan 2001. It should be noted that I understand this issue in a fairly wide sense here – mainly because I understand *morality* in a fairly wide sense (see chapter I, section 2). Some philosophers distinguish between how demanding the *content* of morality is, i.e. whether or not agents have moral reasons to sacrifice certain personal values for the sake of promoting the general good, and how demanding the *authority* of morality is, i.e. whether moral reasons always trump reasons of, say, prudence or personal need (cf. Cullity 2004, Scheffler 1992). Since I count all such reasons as *moral* reasons, however, this distinction is inapplicable here. Furthermore, I think this distinction indeed is rather strange (which is why I have chosen to understand morality in this wide sense). No matter how we frame the issue at hand, I believe, it is the same kind of considerations which are at stake. I return to this point below – see note 58.

following: If making a considerable (or maximal) positive difference through one's investment behaviour is very 'costly'[2], is this *a sacrifice that investors are morally required to make*? I noted in chapter II that one of the most prominent features of SRI as it is commonly portrayed is a focus on individual investors' *own moral views* on issues such as the sale of alcohol, tobacco, weapons and pornography – indeed this focus was visible, I said, already in the titles of most books on SRI. Now, an almost equally prominent feature, I believe, is a focus on the idea that *ethical investing is consistent with substantial financial returns on investments* – i.e. that ethical investing does not have to 'cost' investors anything. Some notable titles are "Ethical Investing – How to make profitable investments without sacrificing your principles"[3], "Investing with your conscience – How to achieve high returns using socially responsible investing"[4], "Investing with your values – Making money and making a difference"[5] and "Investing with a social conscience – Everything you need to know to make socially conscious investments that will still make money"[6].

Most of these books contain substantial chapters on the issue of the financial costs of different kinds of SRI initiatives, and the point is almost without exception to suggest, or even to try to prove, that 'ethical' investments fare financially just as well as, or perhaps even better than, conventional investments.[7] According to many writers, this profitability is an essential part of what is advantageous with SRI – SRI "is not for martyrs" as Brill, Brill and Feigenbaum put it[8]. Some writers even suggest that SRI should be *defined* partly in terms of profitability – according to Lowry, as we have seen, "SRI [...] is putting money to use in something that offers profitable returns *and* that actively supports and promotes a higher quality of life, welfare, and social relations in society"[9]. According to Sparkes, in a similar vein, community investing is not a proper part of SRI, but could perhaps be called S*D*I, socially *directed* investment – "the essence of SDI is that SDI savers deliberately accept below market returns in order to help others; this is certainly not the

[2] I am here using 'cost' in a wide sense which incorporates both direct monetary losses and forsaken monetary gains.
[3] Domini and Kinder 1986
[4] Harrington 1992
[5] Brill et al. 1999
[6] Judd 1990
[7] Cf. Brill et al. 1999, Brill and Reder 1993, Camejo 2002, Domini 2001, Fehrenbacher 2001, Kinder et al. 1993, Lowry 1993, Sparkes 1995, 2002
[8] Brill et al. 1999, p. 21
[9] Lowry 1993, p. 21

intention of SRI"[10]. Kinder, Lydenberg and Domini are quite to the point and say that "passing a social screen should never be the sole ground for investing: An investment *must* make financial sense. Social screens must *always* be integrated with financial screens"[11].

It is not obvious, however, how passages like these should be understood. According to Brill, Brill and Feigenbaum again, perhaps the two foci noted above could go together:

> Every [SRI investor] must come to terms with the very personal subject of investment performance. We've seen that ethical values can be included in a portfolio without sacrificing return. This is great news, and we hope all of our readers will do their part to let the uninitiated know the facts.
>
> Although the [studies referred to earlier] make a powerful case for [SRI], numbers can blind us to even deeper questions. What if you want to invest in something that really moves your soul, something you believe can make a positive difference? And what if this investment has less profit potential than other opportunities? Would you be willing to sacrifice some financial return for the satisfaction that making your heartfelt choice could bring? [...]
>
> [SRI investors] align themselves along a purity spectrum that runs from "I won't give up a dime in order to include my values" to "I don't care at all about return; I want to do good." This is one of the most important questions to clarify right at the start, as it influences virtually every aspect of building a portfolio.[12]

I will return to discuss how the ideas expressed in the quotes above should be understood more exactly below (section 3.1). Quite generally, I believe it is striking how most writers, both within the SRI community and in academic contexts, consider the issue of the financial costs or benefits of SRI as such an exciting issue. As indicated in the introductory chapter, an overwhelming majority of the research made on SRI or 'ethical investing' within the academic community concerns the financial side of investments in ethical funds or other SRI vehicles. Indeed, some claim that the issue of whether ethical investments are financially sound investments or not is the most critical issue for the SRI movement as a whole.[13] I fail to understand the excitement surrounding this issue, however, especially with regards to a movement that so explicitly sets out to shift the focus in investment decisions away from simple financial con-

[10] Sparkes 2001, p. 195

[11] Kinder et al. 1993, p. 47, emphasis in original

[12] Brill et al. 1999, p. 65. See also Bruyn (1987), who separates between three types of investors along this spectrum – the 'conservative', the 'liberal' and the 'alternative'.

[13] Cf. Camejo 2002, Schepers and Sethi 2003

siderations. Compare, e.g., the formulations above with what Domini says in the following quote, about the urgency of making a fundamental change in how modern corporations are run:

> A change is needed. We no longer can accept the adages that "the business of business is business" and that "the rising tide will lift all ships." It hasn't, it won't, and it cannot without a rewriting of the definition of success. Business is run on a set of rules that solely values making money for the few owners. [...] The investments we make today shape the world we will live in tomorrow. If our investments are made in a vacuum, without consideration for the social or environmental impact they may have, the result will be a continual slide toward rewarding that which is profitable at the cost of that which is life enhancing. [...] The fundamental belief that socially responsible investors share is this: that the way we invest matters.[14]

Although this passage is open for interpretation, I believe it is safe to say that most SRI proponents, at least sometimes, give (and probably want to give) the impression that the values which ethical investments strategies can realize (e.g., the difference which such investments can make) are *morally far more important* than the possible values for the investor of sizable investment returns. If this was not a part of the moral make-up of these writers, I believe, they would most probably not be proponents of the SRI movement in the first place.[15]

That the conflict between the ethical and financial goals of SRI is more far-reaching than most SRI proponents assume, I believe, has been vindicated in my discussions in previous chapters. In this chapter, the question of what moral import the costs for individual investors have will be discussed more thoroughly. A second question that will be discussed, which I also believe is fundamental to the whole of idea of

[14] Domini 2001, pp. 2-4

[15] Later in Domini's book, in a comment on the low profitability of so-called community investments, she continues the line of reasoning introduced above. Although investments in community development financial institutions (CDFIs) may demand some level of sacrifice, she argues, maybe one should do it simply because morality demands it? "Community economic development investments suffer under a cloud of below-market returns because many loan funds can offer only below-market interest rates. Even credit unions and banks are unable to provide investors with the long-term upside that equities or bonds can return. But that is an unfair comparison. [...] CDFIs make good investment sense for several reasons. It is the right thing to do; it's safe; you'll be a more involved investor; you might be saved other expenses; and it stretches your giving budget. [...] Sometimes a person should make an investment because it is the right thing to do. Many are rich enough, or care enough, to lend resources to enable these extraordinary grassroots organizations to do their work. [...] If we take individual responsibility for the future, then we recognize that the right thing to do is to support CDFIs with our investment dollars, with our voting policies, with our volunteer hours, and with our charitable contributions" (2001, pp. 173-74).

'ethical investment' within the SRI movement, is the issue of *what to think of conventional*, or *'non-SRI'*, *investments* – i.e. investments that do not purport to take ethical or social considerations into account but are chosen on strictly financial considerations. As noted in the introductory chapter, some writers suggest that at least part of the reason for why the term 'socially responsible investment' (or SRI) sometimes is preferred over the term 'ethical investing', may be a discomfort among SRI proponents and practitioners about what the latter term implies for conventional investments. As Lang notes, "[u]sing the term [ethical investing] raises another difficult question: are investments which don't take into account ethics therefore unethical?"[16]. Well, interestingly enough, not many writers say very much about this issue, except for what the discussion of the costs-issue above may be taken to imply. In fact, I think it is fair to say that this issue is *actively ignored* by most proponents of the SRI movement.[17]

While they do not say very much about this, one may perhaps infer what the view of most writers is by noting some other things which they *do* comment on. An interesting circumstance is, first of all, that most books written to entice investors into 'socially responsible investments' not only contain chapters on the (lack of) financial costs attached to different SRI initiatives, but frequently also include a number of chapters on the *strictly financial side* of investing. That is, many books contain in-depth explanations of what different investment vehicles are available on the market, what the different terms used in connection with stock market trading mean, what levels of financial risk may be suitable for different types of investors, etc. etc..[18] This could perhaps be taken to indicate that a certain application of 'conventional wisdom' to one's investments is at least not something that is frowned upon within the SRI community – maybe it is even thought to be sensible.[19] There is actually

[16] Lang 1996, p. xii

[17] An exception to this may be Lang himself, although I find it hard to understand what his position really amounts to. Lang answers the question above ("are investments which don't take into account ethics therefore unethical?") by saying: "Well, many probably are, but not all of them by any means: the answer is rather to be found in the presumption that ethics should be an integral part of investing, and the highest ethical standards should be sought by all of us" (1996, p. xii).

[18] Cf. Brill et al. 1999, Brill and Reder 1993, Domini and Kinder 1986, Lang 1996, Ward 1991

[19] Some writers certainly seem to imply this – see, e.g., Kinder et al. 1994, Ward 1991. According to Miller: "It must be remembered [...] that if something is a poor investment, for example in terms of risk or bad market choice, then the fact that the investment in socially responsible does not make it any better. SRI is an additional consideration in investment, not a substitute for sound commercial judgment" (1992, p. 243).

some evidence which suggests that most financial advisers who specialise in advice on SRI initiatives also frequently advise their clients to choose non-SRI financial products. A factor that may upset the balance away from ethical investing, some suggest, is when SRI products simply don't fit the needs of particular clients. Relating the views of Pat Meehan and Giles Chitty, investment advisers at two of the largest SRI-specialised consultancy agencies in the UK, Sparkes writes:

> Pat feels very strongly that ethics in investment advice necessitates starting with the client and his/her needs – which are paramount. While he is a keen advocate of responsible investment, he also feels that there are times when ethical products are not the best, and therefore there are times when they have to be advised against.[20]

> For Giles, ethical investment is part of a way of life. [...] [He says: "]At the same time, our job is to give the best financial advice possible. That is why we don't only sell ethical products – there are times, such as when someone is coming up to retirement, when they need a traditional with-profits scheme and there simply isn't an ethical product available.["][21]

I will not address the issue of the ethics of *investment advice* here,[22] but I believe it should be obvious from the considerations above that the question of what to think of conventional investments is a somewhat sensitive issue within the SRI industry. And perhaps this is understandable. To be able to answer this question, it would seem necessary to go beyond the confines of the discussion of the (strategies of the) SRI movement as such, and to engage in a more general discussion about the demandingness of morality. Even if this is an issue that SRI proponents have clear ideas about, discussing this issue may scare away the investors who are equally motivated to invest in SRI as in non-SRI vehicles.

In this chapter, however, I will discuss both of the questions outlined above. In order to be able to flesh out some possible answers to these questions, I will import what I take to be central parts of the more philosophical discussion on the issue of the demandingness of morality. My argument will be that morality actually is far more demanding than most SRI proponents seem ready to acknowledge – at least in the context of

[20] Sparkes 1995, p. 67

[21] Ibid., p. 64

[22] To some extent, I believe, saying these things may obviously make *strategic* sense – that is, it may entice investors to *at least sometimes* invest in SRI vehicles. I will not pursue this idea further here.

the ethics of investing. More exactly, I think we have reason to believe both that morality requires *substantial sacrifices* of individual investors, *and* that the same goes for *all investors* – that is, independently of whether they have heard of the SRI movement or not. Although this conclusion may seem too harsh at first sight, once we take a step back and consider the specifics of the investment context, I believe, we will see why it is not. Now, taking a wider perspective on the specifics of the investment context will also allow us to see how some of the assumptions introduced in chapter I actually are rather arbitrary – in real life, of course, we are not only investors but can also fulfil the requirements of morality in other ways. At the end of the chapter, I will discuss what my position on the demandingness of morality implies for the question of whether we have moral reasons to become investors in the first place. Although this may not always be so, I will suggest that investing along the lines of some of the investment strategies discussed in previous chapters actually may be an outstanding way in which affluent people can make the world a better place.

The chapter will proceed as follows: In section 2, I introduce a line of reasoning which some philosophers have taken to suggest that moral agents have a *general moral requirement* to promote the good. This line of reasoning is connected to the ethics of investing and I suggest that it presents a kind of challenge for SRI proponents – unless there are some kind of mitigating circumstances, individual investors would seem morally required to give up all of their investment proceeds to help people in dire need. In section 3, I discuss various ways in which different philosophers have argued against a general moral requirement to promote the good and, thus, ways in which SRI proponents could argue that there indeed are mitigating circumstances. Most importantly, I discuss the idea that morality cannot require of individual agents that they dedicate their entire lives to serve others. Even though this idea may be plausible in the grand scheme of things, I argue, it does not work to mitigate the requirement of *investors* to make considerable sacrifices, since investments after all are *luxury products* which affluent people very well could do without.

In section 4, I make some comments on the problem of delineating the sphere of 'requirements on investors' from the sphere of requirements on individuals in general. I discuss one way in which my previous conclusion could be made stronger – perhaps demands of the sort imposed on individual investors here, I suggest, actually befall all of us who in a certain sense *could become* investors. At the end of the section, I

discuss what my position on the demandingness of morality implies for the question of whether we have moral reasons to become investors in the first place. Finally, in section 5, a summary of the main arguments of the chapter is given.

2. The challenge: A general requirement to promote the good

As I said above, most moral theories contain the idea that moral agents have at least *some* moral reason, at least *under certain circumstances*, to promote the general good in society[23] – and this is also something that most SRI proponents would seem to agree with. But under what circumstances is this so, and how much weight should be given to this kind of reason? Unfortunately, beyond the very weak formulation given above, there is no real consensus among philosophers on these issues. While some philosophers actually disagree already with this idea (I will return to this in the next section), the really interesting debate starts when one asks to which extent promoting the good is a moral *requirement* – i.e. to what extent it can be *wrong* of an agent *not* to promote the good to a certain extent. While proponents of the SRI movement seldom use the terminology of moral requirements, some recent parties to the philosophical debate on promoting the good have not hesitated to use this terminology. According to these philosophers, it is actually so that all of us have a *general* requirement to do *all we can* to promote the general good – i.e., it is indeed wrong of agents not to promote the good to *a maximal extent* in *(almost) all circumstances*.[24] In this section, I will introduce a line of reasoning which is often taken to support this view and suggest how it can be connected to the issue of the ethics of investing. This line of reasoning, I believe, creates an important challenge for those propo-

[23] If this is not formulated in terms of reasons to promote the (general or overall) good, it is sometimes formulated as the importance of *beneficence* or *benevolence* – some philosophers talk, for instance, about *duties of beneficence* in a way which strongly resembles my discussions in previous chapters. Others talk about the morally praiseworthy characteristics of taking a *benevolent attitude* towards fellow humans and animals. Cf. Cullity 2004, Frankena 1987. Without further qualifications of these things, I think it is fair to say that the idea that it is morally relevant whether or not a certain line of action exhibits a certain benevolent attitude or is in line with some duty of beneficence is accepted by most writers from both the consequentialist and the deontological camp, and also most virtue theorists, contractualists, egalitarians and libertarians. For some further characterisations of these theories and how the issue of the demandingness of morality is relevant for them, see Mulgan 2001, Murphy 1993.

[24] Cf. Kagan 1989, Singer 1972b, Unger 1996, Tännsjö 1998

nents of the SRI movement who are hesitant about talking about moral requirements.

Exactly how the general requirement to promote the good should be spelled out need perhaps not bother us here. Even proponents of a general requirement to promote the good may accept that there are *certain* circumstances in which promoting the good to a less than maximal degree is morally permitted (and so the requirement only applies in *almost* all circumstances). It may seem reasonable, namely, to allow for certain *constraints* that may interfere with the general requirement to promote the good – one should not promote the good by, for instance, killing or torturing people[25]. However, my present inquiry does not concern this type of cases. According to the most straightforward proponent of this kind of requirement in any case, whenever a certain action does not promote the good to the greatest degree, i.e. whenever there was something else that the agent could have done in the situation which would have promoted the good to a greater extent, performing the first action is morally wrong. Although this position may seem extreme at first sight, some philosophers argue that most people actually have certain moral intuitions (or, perhaps better, certain cases can bring out these intuitions in them) that strongly favour the view outlined above. Consider, for instance, the following case suggested by Peter Singer:[26]

> *The Child in the Pond*: As you are walking down a forest path, you come across a small pond in which a child is about to drown. The pond is very shallow and you would be able to wade out and rescue the child quite easily. However, the child is unable to reach the bottom itself and has yet to learn how to swim. You realise that if you enter the pond you will get your clothes dirty from the muddy water but, of course, if you do not enter the pond, the child will drown. Still, you care so much for your clothes that you decide to ignore the child's cries. You carry on with your walk and, a few minutes later, the child drowns.

[25] For a discussion of such constraints and how they are consistent with a general requirement to promote the good, see Kagan 1989, pp. 8-9.

[26] The classic and most famous statement of this case is in Singer 1972b, p. 231. However, he has restated it in a number of more recent publications (cf. Cullity 2004). For appeals to similar cases, see, e.g., Cullity 2004, Unger 1996.

What should we say about your behaviour in the case above? According to Singer, a vast majority of us would say that your behaviour in the case above is morally *wrong*, or, perhaps even stronger, morally *repulsive*.[27] Although it would cause you some slight inconvenience to save the child – you would have to soil your clothes in the mud – it would be wrong of you not to make this small sacrifice. Of course, one may assume here that you had nothing to do with how this child ended up in this particular pond. One may also assume that you have no other special relation to this child, and you haven't promised anyone to save drowning children on your walks through the forest or anything like that. Still, according to most people, it would be very wrong of you not to save this child.

Our reaction to this kind of cases, according to some philosophers, is a reason to believe that there is a general requirement to promote the good. Singer's central concern, for instance, is the issue of what moral responsibilities people "like you and me", i.e. people in relatively *affluent* countries, have towards those in relatively (or even absolutely) *poor* countries where lack of food, shelter and medical care is common. According to Singer, considering cases like *The Child in the Pond* is very informative in this context for the following reason: Unless there is a morally relevant difference between failing to save someone that you know or can see (say, a child which is drowning right in front of you) and failing to save someone which you don't know or can't see (say, a child plagued by starvation in some remote part of Africa), it seems plausible to say that it is *just as wrong* not to give money to, e.g., famine relief as it was not saving the child from the pond![28] A lot of people tend to ignore such great world problems as, e.g., starvation and lack of medicine in the third world, Singer notes, and the aid that most developed countries give to these developing countries has only very seldom risen above an embarrassingly low level per capita.[29] But all this needs to be changed – "indeed, the whole way we look at moral issues – our moral conceptual scheme – needs to be altered", Singer argues, "and with it, the way of life that has come to be taken for granted in our society"[30].

Singer's suggestion here is as interesting, I believe, as it is radical. According to Singer, our *whole moral conceptual scheme* needs to be altered,

[27] Singer 1972b, p. 231
[28] Ibid., pp. 232-33
[29] For some further facts about these world problems, what little people of developed countries have done to help and how easy it would be to do more, see Cullity 2004, Unger 1996.
[30] Singer 1972b, p. 230

first of all, because we normally conceive of charitable giving as just that, i.e. as something *charitable* and *generous* that is 'beyond the call of duty'. But if the line of reasoning outlined above is correct, to give money to famine relief is "not charitable, or generous", Singer says. "Nor is it the kind of act which philosophers and theologians have called 'supererogatory' – an act which it would be good to do, but not wrong not to do. On the contrary, we ought to give the money away, and it is wrong not to do so"[31]. Furthermore, *our whole way of life* needs to be altered because, according to Singer, it seems reasonable to infer the following principle from our reaction to *The Child in the Pond:* "if it is in our power to prevent something bad from happening, without thereby sacrificing anything of comparable moral importance, we ought, morally, to do it"[32]. According to Singer, this principle not only gives us moral reasons for giving money to charities to save *one* child but, as long as we can make a morally relevant difference for some people without sacrificing anything of comparable moral importance, we are morally required to go on giving our money to charitable causes to save the lives of *many other* children. Indeed, Singer argues, not many things which we in the Western part of the world are dedicated to in our daily lives is really of comparable moral importance to saving people's lives. Thus, the present principle implies that we ought, morally, "to be working full time to relieve great suffering of the sort that occurs as a result of famine or other disasters"[33]. On Singer's view, we may conclude, morality demands that we give up almost all of our time and effort, plus all of our money, to save the lives of people in the third world.

Although Singer's view is not directly a view on the ethics of investing, I will now explain how I believe the line of reasoning above is relevant to this kind of discussion. In previous chapters, I have argued that it is not easy for individual investors to make a non-negligible difference through adopting the kind of investment strategies generally proposed by SRI proponents. However, even individual investors may be able to make a considerable difference under certain circumstances. Through investing directly in certain community development organisations, or through devising radically self-sacrificial activist campaigns designed to make companies with morally problematic activities change their ways, even individual investors can make a considerable difference to many

[31] Ibid., p. 235
[32] Ibid., p. 231
[33] Ibid., p. 238

people's lives. Now, are they morally required to do this, i.e. would it be wrong of individual investors not to invest in these ways? According to the line of reasoning outlined above, the relevant issue is the moral importance of the needs of the people that can be helped in comparison to the cost to investors of helping them. And it does not seem implausible to assume that many people whom investors can help through investing in the ways above have needs which are far more important from a moral point of view than the slight inconvenience it would cause investors to help them. According to this kind of reasoning, then, it would indeed seem wrong of investors not to invest in a way which allows them to make a considerable difference. But which investments strategy should they choose?

Part of the reason for why Singer's example appeals very strongly to our intuitions, it may be noted, is probably because it involves saving the life of a small child. Once we start to discuss other ways in which one could make a difference to people, or to society in general, the kind of reasoning above may lose some of its hold on us. So, for instance, some philosophers have argued that, although most people agree that it is wrong not to save a small child's life, it is not be equally obvious that it would be wrong not to save, say, a person's finger or leg.[34] According to some other philosophers, it is far from equally obvious to most of us that it would be wrong not to promote a certain *positive* good – say, to make certain already well-off people even more well off.[35] This is something that an adequate idea of the moral responsibilities of investors needs to take into account. Some of the goods which investors can promote may certainly be of this less salient kind – in many cases, perhaps, the good an investor can promote is 'only' that already affluent employees are paid a bit more or that certain already well-off people are not discriminated against in the workplace. However, I believe there also are cases where investors actually can save lives and alleviate serious pain and suffering in others. Here two of the investment strategies, which I have found particularly efficient in my earlier discussions, actually seem to stand out from the rest – namely *community investing* and *the philanthropic strategy*.

Investing according to the philanthropic strategy, it should be noted, is obviously very similar to giving money directly to famine relief (which

[34] For an extensive discussion of this issue, see Kamm 1993.
[35] For discussions of this issue, see Glover 1977, Ohlsson 1979.

is the line of action Singer argues for). By investing in whatever company's shares that give the most dividends and prospects for capital gain and then donating the profit made on these investments to some worthwhile charity, investors can sometimes make the difference between life and death for certain people in dire need of, e.g., medical assistance or food. Although there is some debate on the effectiveness of charity[36], collaborating with particularly effective charities – which are already well established and have well worked-out plans for how affluent people can help the poor in very effective ways – is probably one of the most potent possibilities for people in our part of the world who want to make the world a better place. Furthermore, that community investing can alleviate serious pain and suffering in people whose situations otherwise are neglected by most mainstream financial and political institutions, I believe, should also be fairly obvious by now. As Brill and Reder write:

> Community development investments serve vital social needs that even socially screened stocks and bonds do not touch. Through direct infusion of capital, they help provide jobs, housing, employment, business loans, and basic human services to those who have been shunted aside by the workings of mainstream economic institutions. In this way, communities of economically disadvantaged citizens are helped to transform themselves from victim economies to self-supporting economies. This, of course, also helps strengthen social relationships, making those communities much more resistant to social problems.[37]

If the line of reasoning above is correct, then, failing to invest in a way that makes a considerable difference is roughly on a par, morally, with failing to save a child from a nearby pond. And if this is so, it does not seem implausible to say that investors are morally *required* to invest in this way – that is, that it would be *wrong* of them *not* to do so. But, according to some philosophers, this line of reasoning is actually not correct. In the following section, I will discuss some common counterarguments to this line of reasoning.

3. Some common counterarguments

As Singer himself acknowledges, most people tend to think that the idea of a general requirement to promote the good is too extreme. According

[36] See chapter IV, section 5, note 102.
[37] Brill and Reder 1993, p. 32

to what is often called "common sense morality", there is a sense in which, as long as I fulfil certain other duties I might have (e.g., the duty not to do harm), and perhaps as long as I promote the good to a certain minimum degree, it is indeed 'beyond the call of duty' to promote the good to an even greater extent.[38] Although promoting the good beyond the call of duty certainly would be nice of me, or even morally admirable, it is at best *supererogatory* (to use Singer's word) – that is, it can never be *wrong not* to do this. But why is this so? The line of reasoning above, I believe, presents a certain *challenge* for those of us who accept this kind of view. If we are to achieve coherence between this kind of 'moral conceptual scheme' and our moral judgements in particular cases, as the method of reflective equilibrium dictates, we must do one of three things: Either (1) we change our judgement about the case at hand (and say that saving the child from the pond is only supererogatory after all), or (2) we change our moral conceptual scheme (and accept that there is a general requirement to promote the good), *or* (3) we come up with some further kind of reasoning which could explain why we are not forced to do either (1) or (2) here. In what follows, I will discuss some common ways in which different philosophers have tried to mitigate the extreme conclusion outlined above. In section 3.1, I will elaborate on what I take to be the most interesting counterargument in this context – given what SRI proponents commonly say about how SRI "is not for martyrs".

While it seems fair to say that *most* moral theories contain the idea that moral agents have at least some moral reason, at least under certain circumstances, to promote the general good in society, as I indicated above, some philosophers actually disagree with this idea.[39] I will not elaborate on the views of these philosophers here, but it may be interesting to note one way in which such a position could be rationalised which has some bearing on my previous discussions. When I introduced the no-harm principle as an argument for the avoidance strategy (in

[38] Cf. Kagan 1989, Tännsjö 1998. Of course, even on Singer's kind of view, it should be noted, there is a limit to how much one should dedicate one's life to the needs of others. Beyond a certain limit, leading a more self-sacrificial life may actually impede one's ability to be of assistance to those in need – thus, according to this view, one should not be dedicated to promote the good to a degree beyond *effectiveness* (cf. Kagan 1989, Mulgan 2001, Singer 1972b). However, common sense morality probably goes beyond this view.

[39] Kagan calls this the 'minimalist' camp and suggests that it includes "egoists (who believe that one is never required to sacrifice overall self-interest), nihilists (who believe that everything is morally permitted) and extreme libertarians (who recognize the validity of constraints, but deny that there is a moral requirement to provide aid)" (1989, p. 5 n.).

chapter III, section 3), I discussed the distinction between promoting the good, on one hand, and *not doing harm*, on the other. According to some SRI proponents, I said, while *doing* harm is always open for moral criticism, simply *allowing* harm to happen is not equally morally problematic. Now, if someone suggested that allowing harm actually is not morally problematic *at all*, I believe, he would be defending the kind of view currently under discussion. In one sense, it may be noted, this is obviously a kind of 'solution' to the challenge above – this kind of reasoning suggests that we can take route (1) and say that it would not be wrong to fail to save the child in Singer's example. But, surely, although it may be plausible to claim that it is morally permissible to fail to promote *certain* goods under *certain* circumstances, it is hardly plausible to say that it would not be wrong to fail to save the child in the example above. I think most SRI proponents actually would disagree with this view – even those who suggest the distinction above. For this reason, I will disregard this kind of view in what follows.

The more sensible route to take for those who are critical of a general requirement to promote the good is certainly (3), i.e. to try to come up with a reason for why cases like *The Child in the Pond* do not necessarily imply a *general* requirement to promote the good. Several such reasons have been suggested in the philosophical debate, but I will only elaborate on some of the more notable ones here. In order to see their relevance to Singer's line of argument, we should distinguish between two steps of this argument: The first step is the idea that unless there is a morally relevant difference between failing to save someone that you know or can see and failing to save someone which you don't know or can't see, it seems plausible to say that it is just as wrong not to give money to famine relief as it is not saving the child from the pond in his example. Now, a fairly straightforward way of trying to counter this line of reasoning would of course be to say that there really *is* a morally relevant difference between failing to save people right in front of you and failing to save people at a certain distance. Although this idea surely sounds preposterous, there are actually some philosophers who have supported this idea.[40] However, I will not consider this idea further in

[40] Cf. Kamm 2000, Smith 1990, Trusted 1995. For a very instructive discussion of similar ideas, see Unger 1996. The issue at stake here, it should be noted, is whether distance *per se* can make for a morally relevant difference. Even proponents of Singer's kind of view admit, of course, that there are *some* differences between *The Child in the Pond* and the case of famine relief. Some of these may also be morally relevant – it is not equally certain, for instance, that

the present context – the idea that also the needs of very distant people are morally relevant is hardly controversial within the SRI movement. If investors indeed can make a difference to certain people's lives, it is probably very seldom people they know or can see directly.

I believe critics of a general requirement to promote the good do better, then, by attacking the second part of Singer's argument: namely the idea that we not only are morally required to give *some* of our money to famine relief but, as long as we can make a morally relevant difference for some people without sacrificing anything of comparable moral importance, we are morally required to *go on* giving our money to famine relief. According to Singer, I said, it seems reasonable to infer the following principle from our reaction to *The Child in the Pond:* "if it is in our power to prevent something bad from happening, without thereby sacrificing anything of comparable moral importance, we ought, morally, to do it"[41]. Now, this principle may seem intuitive enough but, according to some philosophers, it is actually unclear whether it can be used to support the sort of conclusion that Singer defends. Consider first a kind of argument that appeals to *fairness* in a way similar to the idea discussed in connection with collective responsibility and screening earlier (chapter IV, section 4.1). According to some philosophers, Singer's own formulation of this principle is actually very informative, although Singer may not have meant it like that himself – the plight of the needy in the third world is something that *we* ought to care about and that gives rise to a requirement on *our* side. According to these philosophers, the general requirement to promote the good is most accurately regarded exactly as a *collective* requirement.[42] But what does this collective requirement imply in terms of requirements on the part of individual agents? Well, the most natural implication is not that individual agents are morally required to do *everything they can* to relieve serious suffering in the world, according to these philosophers. Rather, it is that they are required to do their *fair share* of the collective requirement to relieve this suffering. That is, if we calculate the total cost required to, say, eradicate starvation worldwide and divide it by the number of affluent people

one's donation to famine relief will save a distant child as it is that you will save the child in the pond if you wade out. Cf. Cullity 2004, Singer 1972b.

[41] Ibid., p. 231

[42] Cf. Cohen 1981, Murphy 1993, 2000

who are morally required to help, individual agents are only required to contribute this much.[43]

This is an interesting argument and, as I said in chapter IV (section 2), there is some basis for thinking that many SRI proponents conceive of the appeal to making a difference as a *collectivist* appeal. However, I think I have said enough to counter this line of argument in my discussion of the generalisation test in chapter IV (section 5). A brief recapitulation of my main argument there may warranted: The central problem for this kind of ideas, I believe, is that they only seem plausible exactly on the collective level and *in an ideal world* – that is, *if everyone* were to do his or her fair share, of course, much good would be done. As things currently stand, however, *very few people are actually doing their fair share* and, given this state of the world, it seems rather implausible to say that it is morally permissible to fail to do more. After I have done my "fair share", a lot of people will still be dying of starvation in many parts of the world – so why should I not help them? According to Garrett Cullity, the most plausible version of the fair share view should actually accept that individual agents have a further moral requirement to help, beyond that specified by their original "fair share". Once it becomes obvious that some have failed to do their fair share and, for this reason, some people are still in dire need, namely, *another* collective requirement appears. This is the requirement on the agents who are left to help to do their fair share in helping *these people who are still in need*:

> In other words, more than one collective requirement applies to groups of people to which I belong. First, there is what *all* of those who are able to help ought to be doing by way of helping the people who need it. But, because there are plenty of non-compliers with this first requirement, there is a second. This is what those of us who have already helped ought to be doing to help those who are still vulnerable, thanks to the non-compliers. [...] Once I have done my fair share in discharging the first collective requirement, the second still makes it wrong for me to stop giving.[44]

I believe this argument is sound and, thus, that we should reject the idea that individual investors only are morally required to make a difference to the extent that a "fair share" calculation dictates.[45] In the following subsection, I will turn to discuss what I take to be the most interesting

[43] Cf. Cohen 1981, Murphy 1993, 2000

[44] Cullity 2004, p. 77

[45] For some further arguments against the fair share view, see Cullity 2004, Mulgan 2001, Rachels 1979, Singer 1972b.

counterargument to the idea of a general requirement to promote the good in the context of the ethics of investing.

3.1 The appeal to overall cost

As I noted at the outset of this chapter, according to many proponents of the SRI movement, an important feature of SRI, or 'ethical investing', is that it does not have to 'cost' investors anything. According to Lowry, for instance, "SRI [...] is putting money to use in something that offers profitable returns *and* that actively supports and promotes a higher quality of life, welfare, and social relations in society"[46]. According to Brill, Brill and Feigenbaum, SRI "is not for martyrs"[47] and "[e]very [SRI investor] must come to terms with the very personal subject of investment performance"[48]. Exactly how these passages should be understood is not clear. On the one hand, some SRI proponents seem to be saying that it simply is *unwise* – perhaps even *unethical* – to sacrifice investment returns in order to make a further difference (this is not 'ethical investing' as some SRI proponents understand it, it should be noted). On the other hand, some SRI proponents seem to be saying that this is an issue that is up to the individual investor – if the investor him- or herself *wants* to make a further difference by sacrificing investment returns this is surely *admirable* but it is not *required* – that is, it is *supererogatory*. This latter position is obviously the more intuitive one. But why is it only supererogatory, why is it not morally required?

In the previous section, I said that Singer's line of reasoning in support of a general requirement to promote the good in fact would seem to imply that certain sacrifices on the part of investors are morally required. It does not seem implausible to assume that many people whom investors can help through, e.g., a community investment scheme have needs which are far more important from a moral point of view than the slight inconvenience it would cause investors to help them. That is, from a moral point of view, it seems profoundly strange to keep talking about the cost *to investors* when the cost, even to an individual investor, of helping *just one person* certainly is quite low compared to the *cost that this person would incur if he or she was not helped*. But I will now say more about this argument. Some philosophers have argued against Singer's

[46] Lowry 1993, p. 21
[47] Brill et al. 1999, p. 21
[48] Ibid., p. 65

line of reasoning above in a way which also questions whether he really can use the kind of principle he presents to support the sort of conclusion he defends. This kind of argument, however, does not appeal to collective responsibilities.

The kind of argument I am thinking of can be introduced as follows: According to Cullity, Singer's argument really has a kind of *iterative* structure, i.e. the requirement to *go on* giving money to famine relief is never argued for *as such*, but the appeal is always to the greater moral importance of the needs of starving people when compared to the cost of an affluent agent *to make this certain sacrifice*. Cullity writes:

> For any endangered life, it is the disparity between what this person loses if I do not help and what it costs me if I do that makes it wrong for me not to help. No matter how many lives I may have saved already, the wrongness of not saving the next one is to be determined by iterating the same comparison. So, for each further life-saving donation I could make, I am required to make it as long as the cost of that donation itself is small – irrespective of any donations I have previously made.[49]

Now, a fairly straightforward way of responding to this argument would obviously be to say that the *overall* costs to the agent who can promote a certain good somehow need to be weighed in in the moral calculus. According to this line of argument, while the line of reasoning above certainly shows that other people's needs are worthy of our attention, we cannot be expected to *dedicate our entire lives* to serve other people. Exactly why this is so could perhaps be spelled out in different ways. According to Bernard Williams, for instance, the idea that we ought to dedicate our entire lives to helping other people leaves us unable to pursue many of the personal projects which, in a certain sense, makes us into the people we are. Thus, Singer's extreme conclusion could be said to threaten our moral *integrity*, and also our *identity* and sense of *meaning of life*.[50] According to Samuel Scheffler, any plausible moral theory has to reflect the "nature of persons", and part of this is the fact that most people care not only for other people but also, and most often more so, for their own well-being.[51] According to a similar thought from Thomas Nagel, any plausible moral theory must incorporate some appeal to the

[49] Cullity 2004, p. 71
[50] Williams 1973, 1981
[51] Scheffler 1992, 1994

"personal point of view" of individuals.[52] I will not elaborate on the details of these variations of the present argument here.[53] Following my general formulation of this line of argument above, we might call it the '*appeal to overall cost*'.[54]

This is the most interesting counterargument to Singer's line of reasoning in the present context, I believe, for a number of reasons. First of all, it would actually seem to be the most common way in which philosophers have argued against the idea of a general requirement to promote the good.[55] To some extent, it should be noted, it would also seem to underpin the other arguments against this idea – although the arguments above did not address the issue of overall cost directly, part of the point of these arguments, I believe, is exactly to permit agents to do other things in life than simply promoting the good to a maximal extent.[56] More to the point, however, the appeal to overall cost seems to capture the way in which SRI proponents emphasise the issue of the (lack of) *cost* of investing in SRI vehicles. If there is a certain threshold of beneficence, beyond which agents are not morally required to promote the good to a greater extent, there could be a sense in which sacrificing investment returns in order to make a further difference to people in need is indeed supererogatory. However, I do not think this is the case – that is, I think the appeal to overall cost fails in the context of the ethics of investing.[57]

My argument against the appeal to overall cost in this context goes as follows: Compared to the very general philosophical debate that I have imported arguments from – a debate, in essence, on what the most important project of moral agents should be – the issue of what *investors*

[52] Nagel 1986

[53] For more extensive discussions of these variations, as well as some other arguments against the general requirement to promote the good, see Eriksson 1994 and Mulgan 2001.

[54] Kagan discusses a similar line of argument, which he simply calls 'the appeal to cost' (1989, pp. 21-24, 231-33). It should be noted that this is not the argument which Cullity himself ultimately directs against the general requirement to promote the good. Rather, Cullity introduces what he calls an "argument from the presuppositions of beneficence" (2004, pp. 128-46). Although this is an interesting argument, it would take me too far from my subject to discuss it here.

[55] Many philosophers reject pure consequentialist theories directly, for instance, because they have the counterintuitive implication that agents ought to dedicate their entire lives to promoting the good. Eriksson refers to this objection simply as "the objection from too heavy demands" (1994, p. 13-17) and Mulgan calls it "the Demandingness Objection" (2001, pp. 3-4).

[56] This is fairly explicit in many cases – see, e.g., Cohen 1981, Cullity 2004, Murphy 1993, Trusted 1995.

[57] For a more general discussion of the appeal to overall cost, see Kagan 1989, chapters 7-9.

ought to do, or how we ought to *invest*, is set in a very specific context. As I said in the introductory chapter, on my understanding of the question 'What ought investors to do?', the issue is not 'What ought *these people*, who now happen to be investors, really to do?', but rather 'What ought investors to do *qua* investors?' or 'What ought they to do *in their role as investors*?'. That is, throughout the book, I have only been concerned with issues surrounding the ethics of different *investment* alternatives and strategies, and not the ethics of other lines of action. Furthermore, by 'investors', I have mainly understood *typical non-professional individual investors* – that is, regular people with only moderate amounts of disposable income available for investments.

The reader may now note a feature of this kind of focus, or these assumptions, which is very interesting in the present context. A typical characteristic of financial investments is exactly that they are investments of *disposable income*. That is, the money which most investors stand to loose (or perhaps can come to multiply if they invest successfully) in the typical investment situation is money *for which these agents do not have any direct need in their day-to-day life*. Obviously, not all investments need to be investments of disposable income, and sometimes people can invest money which they later may come to need quite desperately. However, as I just said, this seems to be a typical characteristic of investments. How does this characteristic affect the plausibility of the appeal to overall cost? Well, if the only thing that a certain agent stands to loose when she is considering whether or not to help certain unfortunate people are things *for which this agent has no direct need in his or her day-to-day life anyway*, I suggest, the appeal to overall cost looses all of its moral force. It seems deeply implausible to deny that it would be wrong for us not to sacrifice these kinds of things, if we by doing so can alleviate serious pain and suffering in others.[58] Even though the appeal to overall cost could be plausible as an argument against a general requirement to promote the good, then, it is not plausible as an argument against a general requirement on (most) *investors* to promote the good.

To further establish this point, consider the following variation of the example above, suggested by Peter Unger[59]:

[58] It may be noted that it seems to make no difference whether this issue is framed in terms of the demandingness of the *content* of morality or of the *authority* of morality (see note 1 above). The argument simply suggests that it would be wrong for investors not to sacrifice things for which they have no direct need, *irrespective of whether the appeal to overall cost is framed in terms of moral, prudential or some other kind of considerations*.

[59] Unger 1996, pp. 135-36

> *Bob's Bugatti*: Having been a successful car engineer for all of his life, Robert R. Roberts could look forward to a quite comfortable retirement. However, wanting to live life to its fullest for a couple of more years, he has decided to invest most of his fortune in one of the world's few mint-condition Bugatti automobiles. This is not an unfavourable investment as such: Although the car is uninsurable, market price for a vintage Bugatti will with all probability appreciate by at least 20% per year. The fact that the Bugatti is such a nice investment, however, is only part of why Bob bought it: Taking this car for a ride is all he can think about each morning when he wakes up. Now, one day when Bob is taking his Bugatti for a ride, he is somewhat careless about where he parks. As he is walking back to the Bugatti, he discovers that he has parked on a set of train tracks and that, some distance away, a child is stuck in the mud of another set of tracks. Suddenly Bob sees a giant train coming with enormous speed around a bend in the tracks. As he looks down at the tracks, he realises that he is standing right next to a lever that he can pull and direct the train's way with. He looks up again and realises that the train is actually not heading for his Bugatti but instead heading straight for the immovable child. Of course, if he wanted to, he could pull the lever and redirect the train towards his Bugatti, thereby saving the child. But, not wanting to see his Bugatti destroyed, Bob does nothing. And, while the child dies, Bob enjoys a comfortable retirement.

Once again, according to Unger, most of us would say that Bob's behaviour in this case was *morally wrong*, or even morally horrendous. We would not simply say that it would be admirable or heroic of Bob to save the child – if he doesn't save it, we would say, he has failed to do what morality requires of him. Once again, it makes no difference that he may not know this particular child, and that he has had nothing to do with how the child ended up in the mud of the train tracks (which we should assume that he hasn't). Nor does it matter, I believe, that he stands to loose very much by saving the child. Without his Bugatti investment, we may assume, Bob will have to go back to work for a couple of years more before his retirement and, in any case, his retirement will be quite lousy by Western standards.

The case of *Bob's Bugatti* is interesting, I believe, for two reasons. First of all, it should be noted that it is not *iterative* in the way that Singer's

argument is[60] – that is, the idea that Bob is morally required to give up his whole retirement safety is not justified by a *series* of comparisons of goods and costs but rather from our reaction to Bob's behaviour *directly*. Furthermore, the sacrifice Bob is required to make is indeed substantial. Shouldn't the fact that Bob has spent most of his fortune on his beloved Bugatti, at least according to proponents of the appeal to overall cost, make us think that it is only supererogatory to save the child? Well, perhaps some people could actually be persuaded to accept such a conclusion. For most of us, however, here is a story which I think we would agree with, and which could explain our response to the case above: Even though Bob has spent most of his fortune on his beloved Bugatti, and risks loosing his comfortable retirement when it is destroyed, there is an important sense in which Bob's comfortable retirement is a *luxury good* – that is, this is a good that Bob could easily do without. Even though Bob will have a considerably less comfortable retirement, he will not be totally destitute and be forced to live on the street, nor will he soon die in some fatal disease like a lot of children in present Africa. According to Unger, in order to accept the conclusion that it would be wrong for Bob not to save the child, we need not go as far as accepting the principle invoked by Singer above (i.e. the idea that "if it is in our power to prevent something bad from happening, without thereby sacrificing anything of comparable moral importance, we ought, morally, to do it"). The following principle would do just as good:

> *Pretty Cheaply Lessening Early Death*: Other things being even nearly equal, if your behaving in a certain way will result in the number of people who *very prematurely lose their lives* being less than the number who'll do so if you don't behave so and *if even so you'll still be at least reasonably well off*, then it's seriously wrong for you not to so behave.[61]

At least to me, it seems extremely hard to deny the principle above. But, then, it would seem to follow that it is very implausible to deny that it would be wrong for most investors not to sacrifice the possible profits they can make on their investments, if by doing so they can alleviate serious pain and suffering in others. In a certain sense, we might say, being able to become an *investor* is *itself* a kind of luxury. Most of the world's population could probably not afford to spare the kinds of

[60] Cf. Cullity 2004
[61] Unger 1996, p. 58

money that even my small-time typical individual investors can for investment purposes.

The conclusion to be drawn from the discussion above, I believe, is that it is hard to deny the idea that morality is very demanding, at least in the context of investing. If we accept this conclusion, it would seem, there is an important sense in which our whole *conception of ethical investment* needs to be altered. According to many proponents of the SRI movement, I have said, sacrificing investment returns to make a difference is at best *supererogatory* – that is, if the individual investor him- or herself wants to do so this is admirable but it is not required. But I have now argued that this view is implausible. Far from it being supererogatory, then, it is *morally required* of (most) investors to make such a sacrifice, and it would be wrong of them not to do so. If we accept this conclusion, I believe, our whole way of life would not have to change, but our whole *standard way of investing* certainly would. No longer can we accept the distinction between ethical, or socially responsible, investments and '*non*-ethical', or '*non*-SRI', investments. Investments which fail to make a considerable difference to people in great need, I have argued, are clearly *un*ethical and wrong. No longer can we go on investing the money we don't need on the stock market simply to slightly increase our living standards. As long as people in other parts of the world are starving and dying while we could easily have helped them, our primary concern should be their basic needs and not our luxuries.

So much for the argument of the present section. In the following section, I will give some further reflections on the line of reasoning presented here.

4. BEYOND THE ETHICS OF INVESTING

My argument against the appeal to overall cost above, I said, was not that this appeal was implausible as such, but simply that it was implausible *in the context of the ethics of investing* – that is, even though this kind of appeal could be plausible as an argument against a general requirement on moral agents to promote the good, it is not plausible as an argument against a general requirement on most *investors* to promote the good. But what does this mean more exactly? Some readers may now feel that the central question which I outlined in the introductory chapter actually is somewhat imprecise. My main concern throughout this book has been the question 'How ought one to invest?', or, 'What ought investors to do?'. However, considering the interrelatedness of this issue with many

other kinds of moral issues which my discussions – not the least in this chapter – have illustrated, it is not obvious whether the question 'How ought one to invest?' really can be separated from the more general question 'How ought one to live?'. Before concluding this chapter, I will have a quick look at what would happen if we widen our view somewhat and drop some of the specifications or assumptions outlined in the introductory chapter.

To see more clearly how the interrelatedness of issues within the moral sphere could be seen as a problem, consider the following possible response to my argument against the appeal to overall cost above: What I have been discussing is only the moral merits of different *investment strategies* and nothing else – that is, I have only been considering the difference which investors can make *through their investments,* or *when they are investing.* Now, if this dimension is taken in isolation, it may perhaps not seem too implausible to argue that investments which do not promote the good to a considerable extent are unethical, and even to argue that most mainstream investments in this sense are unethical. However, the isolation of this investment dimension is, in an important sense, *artificial.* Lots of investors may obviously do a lot for their community, and also for the people in Africa, in other parts of their life. When evaluating an individual's *life as a the whole* with regards to, for instance, how much she contributes to the welfare of others, it should be noted, it is not as obvious that we should criticise all agents who invest to make a less-than-considerable difference or who keep other kinds of mainstream investments. In fact, retaining most of the returns on one's investments for oneself could in certain cases support certain individuals' *other* (moral) projects – projects which in other ways could be making the world a much better place to live in. We must conclude, then, that it is not really wise to praise or condemn certain people's behaviour when focusing only on *a part* of what they are doing. If we want to praise or condemn people's behaviour, we must take also these other parts of their lives into account.

What should we say about this response? Well, I believe it essentially is *correct* – that is, there *is* an important sense in which an isolation of the investment dimension is artificial. All too often, the issue of the ethics of investing is discussed in isolation of considerations that many of us take for granted in other areas of our lives – for instance, that it is wrong not to help people in need and that a portion of our savings should be given to the less fortunate. By subjecting the presuppositions of the SRI movement to a more thorough philosophical analysis as I

have done here – not least in the present chapter – I hope that much of this isolation should have been done away with. One of my aims throughout the book has been to discuss the moral merits of the strategies of the SRI movement in a way that should be fairly accessible and interesting to so-called 'regular people' who are concerned about the ethical responsibilities of investors. Having said this, however, it is important to be clear about what the *central* aim of my present inquiry has been – that is, to discuss the ethics of *investing*. If one wants to discuss this issue, I believe, there is an important sense in which isolating the investment dimension actually is *necessary*. Even though the *considerations* that are relevant to this question often are quite general considerations, the *question itself* concerns only what investors ought to do *qua investors*, or what *investment strategy* is recommended from a moral point of view. Even though investment decisions are only one type of decisions which moral agents make, then, and it seems strange to isolate the part of us that could be called '*the investor*', my concern has only been with the *relative moral merits of different such decisions*.

Another thing that it is important to be clear about is the inability of the response above to allow agents to avoid the kind of conclusion outlined in the previous sections. Some readers may be attracted to the kind of response above because they think that it allows them to simply choose *not to become an investor*. The only thing I have discussed is the ethics of different investment strategies, and I have argued that it would be wrong to choose an investment strategy that does not make a considerable difference to people in need simply because this may involve considerable sacrifice. But if one cannot invest ethically without giving up a lot of one's investment capital, a particularly sceptical reader may suggest, why not simply refrain from investing altogether and do something else? Although my primary concern indeed has been with the ethics of different investment strategies, I will now note a way in which my argument in the previous sections of this chapter actually goes beyond the ethics of investing. To the extent that we are justified in our belief that it would be wrong not to sacrifice certain luxuries to help people in dire need, I believe, we have reason to believe that this is so also in contexts other than the context of investments. Nothing in my argument above really hinged on the fact that I have only been interested in the context of investments – what it really hinged on, we can now see, was the idea that investment proceeds are a kind of luxury products, and that it does not seem implausible to say that affluent people are morally required to sacrifice their luxuries if they, by doing

so, can alleviate serious pain and suffering in others. So what is really the upshot of this line of argument?

Well, the more general upshot of this line of argument is the following: We should probably say that the moral requirement to make a considerable difference to less fortunate people does not only rest with (most) people who actually *are*, or are *thinking of becoming*, investors. A similar requirement rests on all individuals who in a certain sense *could become* investors of the type discussed above, i.e. everyone who has a fair amount of *disposable income* that they could either invest for themselves or do something else with. For all these people, it is true that their money could save a lot of lives if directed towards some adequately efficient charities and, thus, it would be seriously wrong of them to simply keep the money to themselves because they care more about certain things that are closer to them. Now, this is not only a more *general* conclusion than the one above but also a *stronger* conclusion: It is wrong not only for *investors* to fail to make a considerable difference to people in less well-situated areas, but probably for *most of us in the Western world*.

At this point it may be noted, of course, that it is not obvious exactly how the moral requirement to make a difference should be met by most of us. An interesting question which readers may have asked themselves during the discussions above is: If we take this idea of the moral importance of promoting the good seriously, should we ever *invest* in the first place? Perhaps we could promote the good to a much greater extent if we did something completely different – say, donated our money *directly* to the kind of charities I have been talking about. By doing this we may, for one thing, be able to avoid the obvious monetary risks involved in stock market trading. So perhaps we should donate our money directly in this way, then, rather than becoming investors? Or perhaps we should do something completely different?

These are all valid questions, and questions to which I can present no good answer in the present context. Before concluding this discussion, however, I believe it is interesting to note that, according to some proponents of the general requirement to promote the good, becoming a philanthropic stock market investor may in fact be exactly what some of us have most reason to do. According to Unger, for instance, to be able to maximize our contributions to the most needy, it is important that we choose a way of contributing which allows us to *keep on* contributing over a longer period of time. Now, this may be quite hard for some of us, Unger suggests. But for a few, perhaps those with larger amounts of disposable income, this means more: "Perhaps by legally binding him-

self to do so, or perhaps in another effective way, a successful entrepreneur must commit his profits to a judicious mix of efficient business investment and efficient lessening of serious suffering; then, he'll do all he can to lessen the serious suffering of others, taking good account of both the shorter and longer terms".[62]

Perhaps this view on the effectiveness of philanthropic investing is too optimistic. To be sure, however, the returns on stock market investments have far exceeded the returns on many other types of business ventures during the last couple of decades.[63] Thus, even for those interested in philanthropy, the stock market seems to present opportunities for raising capital far more promising than many other markets. Perhaps *philanthropists should simply become capitalists* to a greater degree than they have become in recent times, and *capitalists should certainly become philanthropists* on a greater scale than they are now. The promises for a better world through such cross-fertilization, I believe, are quite substantial.

5. Conclusions

In this chapter, I have discussed the issue of the demandingness of morality. According to many proponents of the SRI movement, an important feature of SRI, or of 'ethical investing', is that it does not have to 'cost' investors anything. This would seem to suggest that promoting the good, or making a considerable difference to people's lives, – because it requires a good deal of sacrifice from individual investors – really is only *supererogatory*. That is, if the investor him- or herself *wants* to make a difference by sacrificing investment returns this is surely admirable, but it is not morally required. However, I have argued against this view and suggested that it indeed is required – that is, it would be *wrong* of individual investors *not* to make a considerable difference to people in need.

I have done this my importing a line of reasoning which some philosophers have taken to suggest that moral agents have a *general moral requirement to promote the good*. This line of reasoning starts with our reaction to cases where one can save a nearby child from drowning. Unless there is a morally relevant difference between failing to save someone

[62] Unger 1996, p. 143
[63] Cf. Brill et al. 1999, Fontanills and Gentile 2001, Harrington 1992, Keasey et al. 1998, Teweles and Bradley 1998, Wyss 2000

that you know or can see and failing to save someone which you don't know or can't see, it continues, it seems plausible to say that it is just as wrong not to, e.g., give money to famine relief as it is not saving such a child. Furthermore, as long as we can make a morally relevant difference for some people without sacrificing anything of comparable moral importance, we seem to be morally required to *go on* giving our money to famine relief. I have suggested that this line of reasoning easily could be translated into the idea that investors are morally required to invest in a way which allows them to make a considerable difference, even if this involves considerable financial sacrifices on their part.

Several common counterarguments to the line of reasoning above have been discussed. Most importantly, I have discussed the idea that the overall cost to the agent him- or herself needs to be weighed in – that is, we cannot be expected to *dedicate our entire lives* to serve other people. However, I have argued that this counterargument fails in the context of the ethics of investing – investments are a kind of luxury products after all, and it does not seem unreasonable to require that such things should be sacrificed if one thereby can help people in greater need. Finally, I have discussed what my position on the demandingness of morality implies for the question of whether we have moral reasons to become investors in the first place. Although this may not always be so, I have suggested that investing along the lines of some of the investment strategies discussed in previous chapters actually may be an outstanding way in which affluent people can make the world a better place.

In the following chapter, I will summarise my main conclusions throughout the book. I will also go beyond the ethics of investing in another way and discuss the political dimension of the moral problems of the corporate sector.

Chapter VIII
Concluding Remarks

1. General summary

The ethics of investing is a rather new, but certainly exciting, field of inquiry and there seems to be no limit to the kinds of intriguing philosophical issues it gives rise to. In this final chapter, I will first give a general summary of the main conclusions of my many previous discussions. Thereafter, I will try to put some further perspective on these conclusions by introducing the political dimension of the ethics of investing. This dimension, I believe, presents an interesting alternative way of analysing and addressing the kinds of issues discussed throughout this book. The main question I have tried to answer in this book has been *How ought one to invest?* or, more specifically, *What ought individual investors to do?*. I have tried to answer this question by going back and forth between quite straightforward and particular *suggestions about what investors have moral reasons to do* (in specific circumstances) and more general *moral principles*, or conceptions of the ethical responsibilities of investors, which commonly are brought to bear on the kind of questions at hand. In order to avoid the accusation of "ivory-towerism" often directed at philosophical treatments in business ethics, I have tried to make my discussion sensitive both to facts about *how financial investments and stock markets actually work* and to the views of the relevant "*practitioners*

in the field". The starting ground for discussion, for this reason, has most often been ideas about the ethical responsibilities of investors suggested by practitioners in or proponents of the already existing *'ethical'* or *'socially responsible investment'* (SRI) movement.

While the SRI movement as such is far from homogenous in many respects and proponents of this movement do not always agree about how to characterise it, let alone about how to justify it, most accounts of SRI revolve around a limited set of *investment strategies* which are generally thought to carry some important moral merit. These strategies have also formed the focus points for the many discussions in this book. The strategy most commonly employed by so-called 'ethical funds', and perhaps also the one most commonly associated with 'ethical investing' among the general public, is what is often called *the avoidance strategy* – i.e. the strategy of refraining from investing in companies that are engaged in business areas or practices which in some manner are considered morally unacceptable (as well as selling investments already held in such companies). Since this strategy not only is so commonly employed, but the ideas of what morally justifies its employment also are so diverse in both the SRI and academic communities, my discussion of the moral merits of this kind of strategy has been rather extensive (spread out over chapters II to IV). The conclusion of this discussion is actually that the avoidance strategy only very seldom seems to be morally recommended for individual investors. That is, I think it is unfortunate that the SRI movement has focused so much on simple avoidance.

A first point of discussion with regards to the avoidance strategy (discussed in chapter II) is how the class of morally unacceptable business areas or practices should be defined more exactly, i.e. exactly what companies investors have moral reasons to avoid investing in. A common feature in much of the literature from SRI proponents here is the suggestion that it is the *individual investors' own moral views* about this which should take centre stage. With regards to the avoidance strategy, the most common argument in this context is what I have called the *appeal to consistency*, i.e. the idea that it would seem *inconsistent* to invest in companies whose business areas or practices one morally disapproves of oneself. Assuming that most individual investors have certain business areas or practices which they find morally problematic, then, they would have some kind of reason to avoid investing in certain companies. However, I have suggested that it remains rather unclear how the inconsistency appealed to in this argument should be spelled out more exactly. A more promising line of argument, I have suggested, would be

an appeal to *conscientiousness*, or *moral seriousness*. But, as long as also this kind of appeal allows for the possibility of investors with totally outrageous moral views – who few of us would say ought to avoid investing in what *they* consider to be morally unacceptable – the kind of moral justification it gives to avoidance investing seems comparably weak. In order for the case for the avoidance strategy to get off the ground, then, the idea must be that investors have moral reasons to avoid investing in companies whose business areas or practices are morally unacceptable in some more impartial sense.

A second point of discussion with regards to (the case for) the avoidance strategy (discussed in chapters III and IV) is exactly *why* it would be morally problematic to invest in companies whose business areas or practices are *morally unacceptable* in some sense (or, formulated in terms of the previous idea, why investing in companies whose business areas or practices one morally disapproves of should be regarded as inconsistent). Many writers would seem to think that this is a *matter of principle* – that is, the fact that a certain company's activities are morally problematic is *in itself* thought to make it morally problematic to invest in this company, or the moral problems connected with the company's activities are thought to *spill over* to the act of investing in it. I have (in chapter III) discussed three more elaborate ideas about how this 'spilling over' works. According to what I have called the *tainted-profits principle*, what makes investments in morally unacceptable companies problematic is that it is morally problematic to *profit* from immoral or harmful business activities. Unfortunately, this idea does not really work as a principled argument for the avoidance strategy, I have argued, since it is not always so that one actually profits from one's investments in morally unacceptable companies – and, even when one does, the fact that one often profits the most when one *sells* one's investments would seem to suggest that it can seldom be morally justified to *sell* investments in morally unacceptable companies as proponents of the avoidance strategy suggest. When studying cases of *profiting but not supporting* morally unacceptable activities, furthermore, these do not strike us as morally problematic and, thus, it is probably more promising to understand the 'spilling over' in terms of *support* than in terms of profit.

Compared to the reasoning underlying the tainted-profits principle, the idea that it is morally problematic to *support* morally unacceptable companies (or activities) is much harder to spell out in detail, but I have discussed two versions of this kind of idea. According to one version, which I have called the *no-harm principle* (discussed in both chapters III

and IV), it is morally problematic to support morally unacceptable companies in the sense of *sustaining* them, or *contributing* to the harmful effects of their activities. A problem with this principle, I have suggested, is that it is actually much more complicated than most SRI proponents have assumed to determine exactly what investment strategy it recommends – mainly since the causal chain from investment to corporate harm (if there indeed is such a chain) is bound to be both long and complicated. If the principle is understood as only dealing with rather direct harm, financial investments only very seldom (only in new share issues, for instance) could be said to cause such harm. If the principle is taken at face value, however, problems similar to those of the tainted-profits principle re-emerge – for instance, it can seldom be morally justified to sell investments in morally unacceptable companies. Perhaps the most reasonable solution for proponents of the avoidance strategy here is not to try to revise the no-harm principle in some other way but to abandon it altogether and instead appeal to a kind of *pragmatic* argument, focusing not only on harm but on *overall benefits*.

According to another version of the idea that it is morally problematic to support morally unacceptable companies (discussed in chapter III), the salient sense of support is that of *expressing a symbolic support*, or *approving* of morally unacceptable business activities. This idea, I have suggested, would in fact not be too different from pragmatic arguments (or, for that sake, the no-harm principle) if the idea is that it is morally problematic to *encourage others* to invest in morally unacceptable companies. On a more straightforward interpretation, the idea could be that morality requires of investors that they have certain *attitudes* towards these companies – certain business activities, that is, are simply unacceptable and should be morally disapproved of. But from this idea, I have argued, it does not follow that refraining from investing in such companies is the appropriate way of *expressing* or *acting on* such an attitude. A general implication of all three of the arguments above, i.e. all putatively principled arguments for the avoidance strategy, seems to be what has been called *the austere conclusion*, i.e. that investors have moral reason to avoid investing in almost *all* companies eligible for investment. But to choose non-investment when one instead could try to make an important difference, I have argued (in chapter IV), seems to express a kind of *detachment* or *nonchalance* with the real world's problem which is far from morally advisable.

The last outpost for proponents of the avoidance strategy, then, is the kind of pragmatic arguments which appeal exactly to the possibility of

making a difference (discussed in chapter IV). Here I have said that proponents of the avoidance strategy would need to support their claim that avoidance investing actually has an impact on morally unacceptable (or any other targeted) companies with solid empirical evidence. Lacking clear evidence of this, considerations of economic and financial theory suggest that it is very hard for individual investors to make a difference simply through boycotting certain companies' shares. With regard to possible financial effects on share prices and corporate financing, *the liquidity of the stock market* (among other things) makes this hard. With regards to possible social pressures on managers or other investors, *the lack of financial power* with which to back up an attempted pressure, plus *the lack of financial power wielded by individual investors as a group*, would seem to make this hard. In conclusion, then, it seems very hard for individual investors to influence companies simply through an avoidance of their shares, and thus only very seldom would the avoidance strategy seem to be morally recommended for individual investors.

A strategy different (although not *too* different) from the avoidance strategy, which some so-called ethical funds employ, is what is sometimes called *the supportive strategy* – i.e. the strategy of seeking out and investing in companies engaged in business areas or practices which are *morally praiseworthy*, or *exemplary*, in some sense. Compared to my extensive discussion of the avoidance strategy, I have not said even nearly as much about this kind of strategy. Since the structure of this strategy is rather similar to that of the avoidance strategy, however, I have suggested (in chapter IV) that many of the problems regarding the possibilities for individual investors to influence companies through simply buying and selling shares befall also the supportive strategy. Only very seldom can individual investors help companies by simply seeking out and investing in them and, thus, only very seldom would the supportive strategy seem to be recommended for individual investors. However, I have argued (in chapter IV) that an important exception here is so-called *community investing*. Since the kind of initiatives community investors can support tend to be rather small-scale, and there is a shortage of investors in these initiatives, this is an especially promising part of the supportive strategy. Unfortunately, community investing is usually not as profitable as investments in larger companies with a higher turnover and for which the market is more liquid.

A third strategy, quite different from both the avoidance and supportive strategies but fairly commonly employed by so-called ethical funds, is what is often called *shareholder activism* – i.e. the strategy of investing in

companies engaged in morally unacceptable business areas or practices and *using one's shareholder influence to try to make them change their ways*. This strategy has also received quite an extensive treatment in this book (mainly in chapters V and VI). Besides the idea that investors can make a difference through employing this kind of strategy, a common line of argument for shareholder activism among SRI proponents is the idea that investors, as shareholders in the companies they invest in, could (or should) be regarded as (part) *owners* of these companies and, *as such*, they have moral reasons to engage more actively with their affairs. However, I have suggested (in chapter V) that, on a more straightforward understanding of this idea – common in the literature on *corporate governance* –, this idea seems to support what I have called *the relationship strategy* more than it supports shareholder activism. According to proponents of the relationship strategy, investors have moral reasons to engage more actively with the companies they invest in *for the benefit of these companies* rather than for the benefit of society (directly).

The most common argument for the relationship strategy in this context is what I have called *the institutional perspective on the role-specific responsibilities of shareholders*, i.e. the idea that the institutional (legal and/or social) framework surrounding investments in shares contains a norm to this effect. However, because of certain problems with this argument – for instance, that the institutional framework surrounding investments is rather elusive – I have suggested that a more plausible argument for the relationship strategy is a *pragmatic* perspective on the role-specific responsibilities of shareholders. And, when we compare this perspective with ideas about the *social responsibilities of investors* (their moral reasons to promote the general good), the controversy between the relationship and activist strategies more or less disappears. This is because role-specific responsibilities seem to get their moral force exactly from considerations of the general good. The argument for the relationship strategy discussed in this context, then, is no real obstacle for or argument against shareholder activism.

When it comes to the idea that investors can *make a difference* through engaging in some kind of shareholder activism (discussed in chapter VII), SRI proponents tend to be very optimistic about the efficacy of this kind of strategy (or, better, this group of strategies). Once again, however, I have suggested that we should demand a lot more empirical evidence before we adopt this kind of optimism. General considerations about how the *shareholder resolution process* and *votes at limited companies' annual general meetings* work seems to suggest that it is very hard for indi-

vidual investors to influence corporate policies through shareholder activism. Perhaps there are some more promising possibilities if investors are ready to become activists in a more *radical* sense – they could make contact with institutional investors, send aggressive press releases to the media or try to take companies to court. Unfortunately, these kinds of campaigns would probably have to be quite costly for individual investors in order to be successful.

A final strategy which at least some Swedish ethical funds employ and which I have tried to bring out in this book (e.g. in chapters IV and VII), but which many SRI proponents are rather critical of, is what I have called *the philanthropic strategy* – i.e. the strategy of investing in whatever one can make the most profit from and then *donating* (part of) *the proceeds* to socially worthwhile charities. If individual investors' choice of what companies' shares to hold and dispose of on the stock market makes as little difference as indicated previously, I have suggested (in chapter IV) that the philanthropic strategy should not be as morally problematic as it is often made out to be. Donating money directly to socially worthwhile charities certainly seems to be a rather direct way of making a very tangible difference to the lives of people in need. One reason for why SRI proponents have been critical of this strategy may perhaps be the idea which some of them have that SRI "is not for martyrs" (discussed in chapter VII), i.e. that there is a genuine difference between 'socially responsible investing' and charity. A quite general conclusion of my discussions throughout the book, however, is that there is a greater conflict between making money and making a difference than what SRI proponents are ready to admit. How should this conflict be resolved?

Well, although my discussion most often has remained sympathetic to the goals of the SRI movement (indeed, my attempt at avoiding the "ivory-towerism" mistake calls exactly for a sensitivity to these goals), I believe it is necessary to go beyond the thinking of most SRI proponents on this last point. I have argued (in chapter VII) that it does not seem implausible to say that (most) investors actually are *morally required* to invest in a way which helps people in need, even when this is very costly for him- or herself – that is, it would be *wrong* not to choose making a difference over making money. Even though it may seem implausible to say that morality requires of all agents that they dedicate their entire lives to serving others, I have suggested that investments and investment proceeds are a kind of *luxury products* which we very well could do without – and it does *not* seem implausible to require that we

should sacrifice these kinds of luxuries to help people in dire need. The exact nature of this kind of moral requirement will obviously differ a lot depending on the investors' specific circumstances. I noted at the end of the previous chapter that this suggests that the specifications on which my whole discussion have rested to some degree may be considered artificial. The question I have considered has been how one ought to invest, *given that one actually is going to invest* in some manner. But one may of course fulfil one's requirement to help people in need in other ways than through becoming an investor.

In the following section, I will note some further ways in which the issues which the ethics of investing gives rise to could be said to transcend the confines of my previous discussion.

2. The political dimension of the ethics of investing

The question I have focused on in this book has been how people "like you and me" ought to invest, or the ethical responsibilities of typical non-professional individual investors. That is, I have focused exclusively on the investment choices of *individual agents*, or what we might call *private morality*. Part of the motivation behind the choice of this focus was that more and more 'regular people' today are becoming investors, either directly or indirectly, and that there thus is a need for many people to think more thoroughly about the ethical challenge which this presents them with. As I have tried to show throughout the book, furthermore, many of the initiatives of the 'ethical' or 'socially responsible' investment movement would seem to be directed at or designed exactly for individual investors – it is their support which is sought, or at least their investment money is wanted. However, we may now try to go beyond this focus. As I noted already in chapter I, my choice of focusing on individual investors should not be taken as an indication of a conviction on my part that this is the most *fruitful* kind of focus in a context like this – at least not if one wants to come up with the *most effective solutions* to the kind of ethical problems which the SRI movement seeks to address. In this section, I will briefly comment on some general features of my previous conclusions which seem to indicate that *political*, or *legislative*, solutions actually may be more suitable for many of these problems.

There has actually been a growing debate about the role of governments and the public sector in the academic literature related to the SRI

movement in recent years. As indicated earlier (in chapter IV, section 6.2), the main reason for why the future of this movement looks promising, according to many writers, is that more and more institutional investors – including public pension funds and insurance funds – are starting to become more active shareholders and to screen their investments according to ethical principles.[1] This development, some writers say, signals the maturing of SRI, or its move "from margin to mainstream".[2] Exactly what such characterisations imply in terms of in what direction these writers think that the debate about SRI should go is perhaps not always clear. It is interesting to note, however, that there is a growing debate, not only about the role of (public) institutional investors, but also about the role of direct legislation in this effort of 'mainstreaming' SRI, i.e. of making SRI more attractive to mainstream institutional investors (or simply making SRI *the mainstream investment alternative*).[3] A number of writers write very positively about the recent pension reforms in the UK, for instance, where pension fund trustees are asked to disclose to what extent they integrate 'social, environmental or ethical considerations' into their investment practices. Sparkes writes:

> [I]t is my belief that history will consider the day the UK's SRI pension fund regulations came into effect, 3 July 2000, as a momentous day in the evolution of investment management. It was a date of global rather than of local importance. For the first time ever pension funds, the building blocks of the world's capital markets, were legally obliged to consider non-financial issues in setting their investment policy. [...] Social scientists sometimes talk of 'a paradigm shift' in public awareness, when a belief that is generally accepted becomes obviously outmoded and rejected. A good example would be the relative importance of the Earth and the Sun; before Galileo it was universally accepted that the Sun rotated around the Earth, after him everybody knew that the reverse was true. I believe that we are now in a similar situation regarding institutional investment, and that ultimate beneficiaries such as pension schemes and charitable foundations are now starting to question the conventional wisdom that the sole purpose of investment is the maximisation of short-term financial returns.[4]

[1] Cf. Bruyn 1987, Hawley and Williams 2002, Kiernan 2002, Melton and Keenan 1994, Sparkes 2002, Sparkes and Cowton 2004

[2] Cf. Kiernan 2002, Sparkes and Cowton 2004

[3] Cf. Dunfee 2003, Haigh and Hazelton 2004, Institute for Sustainable Futures 2005, Sparkes 2002

[4] Sparkes 2002, pp. 4-5. See also Hellsten and Mallin 2006, Institute for Sustainable Futures 2005, Kreander 2002, Louche and Lydenberg 2006, Mallin 2004.

While I cannot discuss the details of the UK pensions reform in this context (nor the possible similarities between this reform and progress in our knowledge of astronomy), Sparkes would seem to be on to something here and it is probably a good idea to reform pension systems along the lines that they have done in the UK. But one may also wonder how far this really takes us. Even though similar reforms perhaps could change the *climate in the investment sector* to a certain degree, some writers argue, simple disclosure requirements are a long way from *solving the kind of problems in the corporate sector* which often are the starting points for the whole discussion surrounding SRI – continued environmental pollution, the use of sweatshops, weapon sales to countries at war, etc. etc. On the effect of imposing 'ethical' or 'social' disclosure requirements directly on companies, for instance, Vogel writes:

> The analogy between the impact of the mandatory disclosure of financial data and that of social data is a deceptive one. The first category of information goes to a small group of people who have a direct and unambiguous stake in its impact and who, most importantly, are readily able to translate it into a form that corporate executives take extremely seriously – the price of their stock. In contrast, reports of corporate social performance would presumably be for the benefit of the "public." It is true that public opinion can be an important political force, but there are limits to the public's attention span. How much more knowledge about the social conduct of the hundreds of corporations that dominate the American economy can the public be expected to absorb and act on politically? The public can react to occasional scandals, but can we really expect citizens to pay as close and continuous attention to reports of corporate social performance as the investment community does to that of corporate earnings?[5]

According to Vogel, as long as the responsibility for holding commercial companies socially accountable rests only with individual investors or citizen activists, the corporate accountability movement is virtually powerless against the extremely influential and elusive corporations of today's world. The only times the corporate accountability movement has been really successful, interestingly enough, Vogel suggests is when it has been backed by political sanctions. He writes:

> Direct pressures on business can change corporate behavior, but they are capable of doing so primarily to the extent to which their demands on business expand or complement those required by law. The central premise of citizen activism – namely that corporations have become, in effect, public institutions exercising a degree of power closely connected

[5] Vogel 1978, p. 224

> to or rivaling that of the state – is actually contradicted by the history of the corporate accountability movement itself. Paradoxically, its successes are due primarily not to the individual or collective efforts of citizens, but rather to the support of the state – the very institution whose alleged domination by business led to direct pressures in the first place.[6]

Vogel concludes that corporate activists, "[a]t best, [...] can *supplement* government regulation; what they cannot do is *substitute* for it. In the final analysis, who governs the corporation is less important than who controls the government"[7]. I think this actually is a correct analysis of the situation. But exactly what kinds of political solutions or sanctions does this call for, and how do these relate to the current practices of the SRI movement? Taking a step back and looking at my previous discussion as a whole, I believe it should be noted that there are many ways in which legislative changes or political sanctions could support the efforts of SRI investors. Quite generally, namely, the success of many SRI initiatives would seem intimately connected with the legislative and societal framework surrounding the corporate sector and investments in shares, much like Vogel points out. As long as the laws governing the shareholder resolution process (discussed in chapter VI), for instance, and the votes at companies' annual general meetings are as undemocratic – and biased in favour of management – as they currently are, it is hard for individual investors to make a non-negligible difference through proposing or voting on resolutions. Furthermore, as long as it is legally permitted to buy and sell shares in weapons companies at the national stock exchange, and as long as the profits of such companies are not in jeopardy because of other kinds of government sanctions, (as discussed in chapter IV) it is hard for individual investors to make a non-negligible difference simply through screening investments, since there will always be a market for profitable companies' shares. But perhaps political solutions should not only *complement* the efforts of socially conscious investors and organisations – perhaps there are also cases where political solutions can come into *conflict* with (the premises of) such efforts but where the political solutions are *preferable*?

There are several points in my previous discussion, it should be noted, where the political dimension has popped up quite naturally, and where legislative solutions actually have seemed more promising than individual, or voluntary, ones. In my discussion concerning the inability

[6] Ibid.

[7] Ibid., p. 225, emphasis added

of individual investors to make a difference through screening (chapter IV, section 4), for instance, I suggested that a fairly straightforward understanding of some SRI proponents' argument for the avoidance strategy is that the totality of investors, or perhaps society as a whole, has a *collective responsibility* to behave in a certain way in relation to certain limited companies. It is only *on the collective level* that investors can make a difference by buying and selling shares in different ways, after all, and perhaps we should say, then, that the responsibility to make a difference most obviously falls on investors or society *together*, exactly *as a collective*. Now, I suggested that a fairly straightforward understanding of collective responsibility is exactly a *political* one – perhaps collective *problems* also may need collective, i.e. legislative, *solutions*.[8] Politicians, we may note, have the possibility of influencing how commercial companies operate, either through giving legislative incentives or through imposing some kind of direct political sanctions. So perhaps *increased regulation of the corporate sector directly* should actually be welcomed by proponents of the appeal to collective responsibility.[9]

Another place where political solutions have popped up in my discussion was in my treatment of more radical activist campaigns (chapter VI, section 3.1), where I suggested that governments and legislation (through the legal system) may be some of the most important *forces outside the corporation* that could counter the immense powers of modern companies. If shareholder activists could somehow get the attention of the public authorities and get them to make the relevant legislative changes, perhaps shareholder activism could actually be a powerful tool – even for individual investors (although it would not be easy for them to get this attention). But the power to create social change here obviously rests *with the public authorities* most directly, and thus this may also be where the greatest responsibility lies. If the government were to make it illegal to sell weapons to countries at war, for instance, this would probably have an immensely greater and more direct impact on weapons companies and the armaments industry than individual investors could even dream of – even if they banded together and tried to introduce anti-weapons resolutions as a collective at some companies' annual general meeting. So, perhaps increased regulation of the corporate sector

[8] I take this to be the classic solution to the kind of 'many-person prisoner's dilemmas' referred to in chapter IV, section 5, note 97. Cf. Hardin 1968, Parfit 1984.

[9] Similar points have been made by Haigh and Hazelton 2004, Owen 1990, Statman 2000.

directly should also be welcomed by proponents of shareholder activism.

While certain kinds of political solutions can complement the goals and practices of the SRI movement, it may be noted, the ones discussed above would actually seem to challenge the whole set-up of this movement. An interesting observation related to this is the fact that many SRI proponents openly embrace the kind of market setting in which 'ethical funds' operate (as noted in chapter II, section 1) – it is up to individual investors to choose what kind of fund they want to invest in and it is up to the different financial services actors (even the different SRI actors) to compete for these customers. Even when legislative solutions are up for discussion, as just noted, this is so – that is, most SRI proponents only discuss *disclosure* requirements and fail to mention more thorough-going political regulations of the corporate sector or stock markets directly. According to Thomas Dunfee, for instance, an interesting question relating to the future of SRI "pertains to the issue of what types of public policies are necessary in order to support and sustain an environment in which social screening is a viable option *for those so inclined*".[10] Furthermore, he says that "[b]ecause this is a financial market phenomenon, only policies *essential to the operation of open, competitive markets* are relevant".[11] Commenting on this phenomenon among social activists generally, Vogel writes: "[i]t is true that shareholder activism can be seen as a contemporary variant of nineteenth-century populism; for in both instances the preservation and expansion of *private property rights* are the basis of a challenge to the prerogatives of the corporation"[12].

Quite generally, however, one might wonder why SRI proponents seem so keen on allowing individual investors to choose whether they want to invest 'ethically' (or in a 'socially responsible' manner) or not.[13] If the companies that sell weapons or tobacco really are as unethical as they are made out to be by these writers, wouldn't the most straightfor-

[10] Dunfee 2003, p. 251, emphasis added

[11] Ibid., emphasis added

[12] Vogel 1978, p. 222, emphasis added. See also Bruyn 1987, Gray et al. 1996, Haigh and Hazelton 2004.

[13] Haigh and Hazelton suggest a rather pessimistic explanation here: "As the viability of SRI funds' marketing strategies depends on drawing a distinction between SRI and conventional managed investments, resolving social problems might present a strategic problem. SRI fund managers can differentiate themselves in the market only as long as they continue to identify socially *undesirable* investments" (2004, p. 67, emphasis in original).

ward solution simply be to ban them from the stock market entirely, or to impose other kinds of sanctions which effectively put them out of business? Or are such regulations problematic for some other reasons? If increased regulation of the corporate sector directly is a plausible response to the kinds of ethical problems in this sector which the SRI movement seeks to address, I believe it should be noted that my discussion of the ethics of investing here seems to have come *full circle* in an interesting sense. I noted at the outset of the book (chapter I, section 1) that the general trend towards corporate deregulation and privatisation in many parts of the Western world, according to many commentators, is an important explanation of the last couple of decades' growing concern over ethical issues in relation to financial investments. But perhaps the most straightforward way of coming to terms with the ethical problems we see in the corporate sector of today, then, is exactly a *re-regulation* or *renationalisation* of (some parts of the) corporate sector. Perhaps proponents of the SRI movement should focus less on the details of private morality and more on the larger structures of national and international politics.

The issues which the political dimension of the ethics of investing gives rise to are obviously both far-reaching and important. Unfortunately, I can only introduce some of these here – a full treatment of the politics of business and investments would require another book.

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