04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 63

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Socially Responsible Investing: An Application of Catholic Social Thought

> [E]ven the decision to invest in one place rather than another . . . is always *a moral and cultural choice.*
>
> pope john paul ii, *centesimus annus,* n. 36

I. Introduction

Though the concept of investment is as old as economic life itself, economic systems and investment alike change form and acquire new characteristics with the passage of time. Over the last thirty years the phenomenon of socially responsible investing (SRI) has been changing the face of investment and corporate life, and carries with it the potential to modify a whole spectrum of relations within market economies. The relations of stockholders to corporations, managers to labor, labor to stockholders, and the corporation to the wider society all promise to undergo transformation if the practice of SRI continues to accelerate.

Socially responsible investing is, simply put, making decisions regarding placement of investment funds on the basis of concerns

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 64

not strictly financial in nature. That is, when one invests in a "socially responsible" way, one may take into account the earnings potential on the investment, but monetary return (or risk) is not the sole criterion. This definition encompasses a wide variety of investment tactics and motivations, and does not pass judgment on the morality of any particular motivation. For instance, it is conceivable that one could decide to invest solely in arms-producing firms in the belief that war is an occurrence beneficial to the human race. The morality and even the sanity of such a position could be questioned, but the action might still be considered socially motivated investing.

The mechanisms of SRI will be addressed in more detail below; a bare outline of the phenomenon will suffice here. SRI most often takes the form of individual decisions to invest, divest, or refuse to purchase shares of stock in corporations that an individual finds morally objectionable in some way. Possible sources of concern include the production of objectionable goods (e.g., nuclear weapons), the operation by the corporation in objectionable contexts (e.g., South Africa during apartheid), or objectionable internal corporate practices (e.g., discrimination against women). An important development in SRI is the systematization of these decisions in the form of mutual funds devoted to particular sets of concerns (e.g., "green" funds that refuse to invest in firms perceived as environmentally insensitive).

What then, it might be asked, has Catholic social teaching to do with investment decisions? In point of fact, the insights of the Church should be considered in all facets of life; in Pope Paul VI's words, "All things human are our concern."[1] But the Church has also spoken directly to economic issues. As the opening quotation from *Centesimus* implies, the use of wealth, including investments, is initiated in a moral context and carries with it moral implications. Earlier in the same document, John Paul affirms the important role that profit plays in economic life, but insists that profit alone cannot be the arbiter of a firm's well-being.

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 65

> The Church acknowledges the legitimate role of profit as an indication that a business is functioning well. When a firm makes a profit, this means that productive factors have been properly employed and corresponding human needs have been duly satisfied. But profitability is not the only indicator of a firm's condition . . . other human and moral factors must also be considered, which, in the long term, are at least equally important for the life of a business.[2]

The significance of this passage will be explored below, but it is sufficient to note that if profit cannot be taken to be the sole criterion for a firm's success, then there is justification for taking into account other factors when making investment decisions.

The point of these quotations is simply to demonstrate that, while papal encyclicals have not addressed the issue of SRI directly, relevant principles and statements abound. This paper aims to apply these principles to SRI in the hope that Christians and other well-meaning people will thus be able to think more clearly through the sometimes complicated moral considerations involved in this phenomenon. As part of this discussion, the corporation itself will be examined, with a view to understanding the relationship of investing to corporate governance, labor relations, and corporate social responsibility.

II. History of Socially Responsible Investing

Before engaging in moral analysis of SRI, it will be helpful to seek a fuller understanding of the topic by investigating its historical roots and development. This examination will demonstrate two facts. First, although SRI is a phenomenon with a decades-long history, it is only within the last twenty years that it has enjoyed widespread popularity. Second, the significant recent increase in assets under socially responsible management has rendered the movement a powerful economic and social force, with implications for the interface of business and ethics.

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 66

The beginnings of SRI are usually located in the establishment of the Pioneer Fund by Philip Carret in 1928. Carret was himself involved with the fund's operation until his death in 1998 at the age of 102. The Pioneer Fund was created for Evangelical Protestants who opposed the use of their investment money by firms participating in the manufacture of alcohol and tobacco. Pioneer's strong, consistent performance over the years merited it the appellation "best fund ever" by *Mutual Fund Magazine*.[3]

SRI was not an instantaneous success, however. It was 1962 before the founding of another such fund, this time by Christian Scientists concerned about alcohol, drug, and tobacco companies.[4] It was not until the next decade, moreover, that SRI received a major boost, the Vietnam conflict providing the impetus. The Pax World Fund, organized by a group of Methodist ministers, was founded in 1970. It enlisted a number of social screens, with a focus on war-related industries. Its explicit purpose was to afford a safe investment haven for those who objected to the war in Vietnam.[5]

In 1971, various churches and religious orders joined forces to create the Interfaith Center on Corporate Responsibility (ICCR). The ICCR, besides serving as a clearinghouse for investor information, facilitated the filing of shareholder resolutions. A 1942 Securities and Exchange Commission ruling had required management to provide a proxy statement informing investors of any vote at an upcoming shareholders meeting, but shareholder resolutions remained rare. The ICCR encouraged the practice, introducing a new tactic to SRI—the proactive attempt by shareholders to influence corporate activity. As might be expected, some of the first shareholder resolutions were directed against the abuses of the war in Southeast Asia.[6]

The growth of the shareholder resolution movement has been steady. In 1972, thirty "social resolutions" were filed. From 1976 to 1988 there were between 100 and 200 each year, and in 1990 over 300 were filed.[7] As SRI, in general, has continued to gain adherents,

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 67

the tactic of filing the shareholder resolution similarly has increased in frequency.

The impact of SRI remained relatively small until the 1980s, when the issue of apartheid in South Africa spurred a dramatic increase in the public awareness of SRI and in the value of assets being managed in a socially responsible fashion. In the mid-1980s, a number of states' retirement funds, including those of California and New York, took the lead in divesting from companies doing business in South Africa.

Even with the publicity on SRI from investment decisions relating to South Africa, the conventional view among many in the investment community seemed to be that the mass mobilization of investors with social concerns brought about by apartheid might be an ephemeral phenomenon. This proved to be false. In 1995, the "Trends Report" of the Social Investment Forum announced that the "common wisdom" that the fall of apartheid would lead to the fall of SRI was erroneous.[8] In fact, the late 1990s were a period of exponential growth in social investing. It is within the last five years that SRI has fully established itself as a significant facet of investment culture, and, in many ways, has presented itself as the most important investment trend of the future.

The groundwork for the SRI explosion of the 1990s was laid in the 1980s, though dating exactly the point at which SRI shifted from marginal investment activity to a serious financial trend is, of course, difficult. One work on the subject locates the beginning of the "sea change from values-laden to values-inclusive investing" in 1984, with the publication of *Ethical Investing* by Amy Domini and Peter Kinder. Domini and Kinder made two striking claims:

1. Every investment—whether in stocks or savings accounts or savings bonds—has an ethical dimension, and
2. Investors who apply their ethical criteria to investments are more successful than those who do not.[9]

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 68

Another SRI author has placed the turning point in social investing in the years 1987–88. The stock market crash of October 19, 1987, changed investors' perceptions of traditional methods: "Those uttering the conventional wisdom against ethical investing no longer appeared quite so wise when their own investments lost 25–50% in one day." The shift in investors' attitudes was confirmed in 1988, when two of the top five of the 1550 funds tracked by Lipper Analytical Services were socially screened funds.[10]

In recent years, the trend toward SRI has become pronounced. "The mid 1990s," observes one analysis of SRI, "have seen the debut of a flurry of screened mutual funds."[11] The numbers substantiate that claim. According to one count, in 1995 there were 55 socially responsible mutual funds, in 1997 there were 139, and in 1999 there were 175. By 1997, $1.2 trillion was invested under socially responsible management, and by 1999, that figure had risen to $2.16 trillion, or 13 percent of the total value invested under professional management.[12]

The explanations for the spectacular rise of SRI are manifold. Brill, Brill, and Feigenbaum posit a "millennial convergence" of coincidental factors that have led to increased interest in this kind of investing. One important development is the broadening of stock investing in general. As of 1999, more than half of all Americans owned stock. "For the first time in world history," Brill, Brill, and Feigenbaum note, "we have a mass culture of investing . . ."[13] As stock investing gains ever wider appeal, it is only natural that a wider array of interests come to be represented in the market.

At the same time, one of the strongest impulses in the SRI movement—environmental sensitivity—has continued to gain momentum as a cultural phenomenon. The obvious connections between many corporate enterprises (particularly a few large industries such as chemicals and oil) and environmental degradation combined with increased environmental concern has propelled environmental issues into the limelight as a prime motivation for social activism directed at corporations, a part of which is SRI.

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 69

Another circumstance in the millennial convergence thesis is the rise of a new population segment, the "Cultural Creatives." This group, identified by sociologist Paul Ray, has increased rapidly to nearly 25 percentof the total population. The relevant characteristic of the Cultural Creatives, with respect to SRI, is the desire to integrate moral or spiritual concerns with the rest of one's life, including the financial sphere.[14]

There is another segment, it might be argued, that the millennial convergence thesis ignores, but which is of key importance in the growth of SRI. These are religious investors. Interestingly, this group seems to be displaying the same characteristic as the Cultural Creatives, desiring to have their investments reflect their core beliefs and values. The literature on SRI tends to give short shrift to this group, however. Every historical treatment, for instance, mentions the fact that the first social fund was formed by Protestants eschewing gambling and alcohol. There is also sporadic attention paid to religion in the early days of SRI's rise, with religious groups in the lead in divesting of defense companies during Vietnam and withdrawing from businesses conducting operations in South Africa. One history mentions the founding of the Amana funds by devout Muslims in 1987.[15]

When it comes to the recent explosion of SRI, however, religious groups are paid scant attention. This is despite the fact that "religious concerns," as of 1995, were the single largest group of SRI investors, outweighing nongovernment institutions, individual investors, and government pension funds.[16] A possible reason for this lacuna may be discomfort with certain issues that might be seen as peculiar to religious groups. Brill, Brill, and Feigenbaum, for instance, admit that "Thanks to church endowments that are screened on these issues . . ." abortion and birth control represent "one of the top-five social screens in terms of moneys affected."[17] Yet, these issues receive little or no attention from book-length treatments of SRI. Even Brill, Brill, and Feigenbaum devote but one paragraph to this

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 70

discussion, while offering multiple-page analyses of various other issues, some of which are clearly less popular, in terms of moneys affected, than are abortion and birth control. The failure to deal adequately with religious concerns in much mainstream literature on the subject provides an opportunity for the present article to address this constituency.

III. Current State of SRI

As mentioned above, assets under socially conscious management passed the $1 trillion mark in 1997. Clearly, the trend has assumed some importance in the field of investing. The demand for SRI has led to an exponential increase in choices available for social investors; as one commentator has noted, "Nearly every mainstream investment option now has a value-based equivalent."[18]

How exactly is all this financial power brought to bear in the cause of morality? A number of strategies have developed over the course of SRI's history. There are four main categories under which the various approaches might be grouped: avoidance screening, affirmative screening, community investing, and shareholder activism.[19]

Avoidance screening and affirmative screening may be considered "passive" approaches to SRI. Using avoidance screening, the fund (or the individual investor) employs "screens" through which only certain corporations will pass. The most common industries avoided by funds in this way are tobacco, gambling, alcohol, and defense. Affirmative screening identifies corporations for investment because of practices the social investor view as positive. This approach mainly targets companies with good records on the environment, human rights, and labor.[20]

Community investing, the third method of SRI, involves the investor directing his assets toward a particular locale by way of community lending institutions. These CFDIs (community financial development institutions) are generally operations that have as their

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 71

raison d'être the economic development of particular economically depressed localities or regions. CFDIs, which might include community loan funds, community development banks, or community development credit unions, lend to individuals whose loan requests would normally be denied by a traditional bank.[21] The micro-credit movement, including for example, the Grameen bank, falls under this heading.

The fourth approach to SRI, shareholder activism, can itself be divided into various tactics. The first is dialogue with management. This method uses the clout that an investor attains through ownership of shares in an effort to influence the business decisions or practices of a given corporation. The Aquinas Funds, for instance, a group of mutual funds that employs both screening and dialogue and draws its criteria from the Catholic bishops of the United States, claims in its literature to have influenced six major drug companies' decisions to decline producing the RU-486 abortion pill.[22]

Another method of shareholder activism, mentioned above, is the shareholder resolution. In this approach, a shareholder can insist on a resolution being placed on the ballot to be submitted to all shareholders. Most of these resolutions fail to pass, but those that gain a significant amount of support often serve to alert corporations to concerns and to compel them to act to avert the controversy or bad publicity that the issue in question might incite.

The third division of activism, divestment, has also already been mentioned above in the discussion of South Africa. Divestiture represents the most serious disapproval by a shareholder of a corporation's activity. As seen in the case of South Africa, when a significant number of large shareholders engage in divestment, the impact can be powerful.

Some effort has already been made to explain the rise of SRI. Ultimately, it is difficult to explain the various and often mixed motivations that lead investors to select a given investment. One point does seem to be strongly substantiated by the evidence—the

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 72

popularity of SRI has much to do with its financial success. That the lure of SRI is not solely its appeal to altruistic impulses is exhibited in the literature on the subject. Ritchie Lowry, in his guide to SRI, emphasizes two conclusions from his study:

> 1. Socially responsible investing and socially responsible business practices can pay off very handsomely relative to investments and business conduct done solely "for profit," and
> 3. Social investments and socially responsible companies can weather difficult economic times better than their "profit only" counterparts.[23]

Brill, Brill, and Feigenbaum, similarly, note the dependence of SRI's continued growth on changing ideas about the compatibility of ethics and profits. "It can be surprisingly hard," they complain, "to get people to absorb this information [on the profitability of SRI]; the preconception that 'doing good' has to cost something is deeply ingrained in the modern psyche."[24] Indeed, it may be the profitability of SRI, more than any other single factor, which has propelled its expansion through the late 1990s. For the period 1971 to 1995, it has been noted, performances for socially responsible funds, with some exceptions, were below average. From 1995 on, more effort has been devoted to performance, with encouraging results.[25] This success has emboldened enthusiasts and convinced some skeptics to agree with the head of a new British fund, "in the long run, there need not be a trade-off between profits and ethics."[26]

IV. Corporate Governance and Its Relation to Investing

Before turning to an analysis of the moral responsibilities of investors, it will be helpful to review the structure of corporations, the relation of shareholders to the corporation, the relation of management to labor, and the relation of the firm to the common good.

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 73

A. Nature and Purpose of Corporations

The way one understands the nature of corporations is connected to one's beliefs about the moral and social responsibilities of business firms. For example, if one holds that corporations are private enterprises designed to make a profit, then one will likely have a narrow conception of the social responsibilities of corporations. In contrast, those who hold that corporations are servants (i.e., social organizations with an implied social contract to the rest of society) tend to have a broader conception of the social responsibilities of corporations. There are currently two dominant models used to provide an account of the nature and purpose of the corporation: the shareholder model and the stakeholder model.

1. Shareholder Model. According to the shareholder model, the corporation is a piece of private property owned by those who hold its stocks. On this model, the purpose of the corporation is to make a profit. The corporation is made up of various agents, each with its own role. The shareholders are those who own the corporation. In exchange for their investment, they receive a share of the profits.

The shareholders elect a board of directors who act as fiduciaries for the owners and whose task it is to serve the best interests of those who hold stock. The board of directors has the power to appoint or remove the upper management of the corporation, typically the chief executive officer (CEO). On this model, the managers are seen as having the social responsibility of acting in the best financial interests of the stockholders, that is, of increasing profits.

Perhaps the classic formulation of this understanding of the corporation is found in Milton Friedman's essay, "The Social Responsibility of Business is to Increase Its Profits."[27] Friedman argues that corporate executives are employees of the owners of the business. As such, the CEO has a responsibility to increase corporate profits while conforming to the basic rules of society, following the law and acting in a manner that is ethical. The force of his argument is against

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 74

those who hold that corporations have a social responsibility to improve social life by using profits for charitable causes. Friedman argues that companies whose managers contribute the corporation's money to social causes are in fact spending the stockholders' money by reducing returns, spending the customers' money by increasing prices, and spending the employees' money by lowering wages. Friedman argues that investing in social causes may be worthwhile, but that such decisions should be made by the individuals whose money is being spent or by government officials elected through a democratic process. According to the shareholder model, it is a violation of the nature and purpose of the corporation for corporate executives to engage in promoting social causes.

The major strength of the shareholder model is the emphasis it places on the responsibilities of managers to make prudent financial decisions with the money of others. It is helpful for managers to remember that they are acting as stewards of the investments of others. The major weakness of the shareholder model is that it places such a strong emphasis on the responsibility of managers to shareholders that it neglects the other responsibilities that corporate managers have. To remedy this deficiency, there has been an increased emphasis on a stakeholder model of corporate governance.

2. Stakeholder Model. According to the stakeholder model, the corporation is a servant of the larger society.[28] Historically, the vocabulary of a "stakeholder" is newer than that of the shareholder model; it emerged with an increased recognition that there is a wide range of groups and individuals who are impacted by the activities of the corporations and that, therefore, have a stake in the corporation. The stakeholder model acknowledges that corporations, while often efficient and productive forms of social organization for providing goods and services to the broader society, do not operate in a social vacuum. Many people have a stake in the activities of the corporation. In addition to the responsibilities that managers have to owners, the

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 75

law, and ethical standards (as present in the shareholder model), the stakeholder model maintains that the corporation has a range of relationships and responsibilities, some of which are not immediately obvious.

Stakeholders include stockholders, employees and employee groups, the community in which the corporation is situated, customers, suppliers, trade associations, interest groups, government agencies, etc. In short, a stakeholder is any group or individual that affects or is affected by the corporation, its organization and work performance, and its products or services.[29] The nature of the bond between the corporation and its stakeholders varies widely. Stockholders hold a place of prominence on this model, though the concerns of stockholders are not considered exclusively.

The major strength of the stakeholder model is that it provides a framework for considering the multiple responsibilities that corporations have. The stakeholder model brings to light the fact that many individuals and groups are impacted by the activities of the firm, and hence this approach helps managers understand more fully how their decisions are part of a larger social whole. The major weakness of the stakeholder model is that, by itself, it does not resolve the difficult questions concerning who has a stake in the corporation, and the degree of the stake that various competing parties may have.[30]

For example, if a company is considering moving its manufacturing operations from Tennessee to Mexico, there are many people who have a stake in the decision. The stakeholder model holds that managers should consider the stockholders (who may see an increased profit due to lower labor costs), the workers in Tennessee (who will be displaced from their jobs), the workers in Mexico (who may find an increased level of pay), the community in Tennessee (which will suffer the loss of a manufacturing plant), and the community in Mexico (which will gain a manufacturing plant). While the stakeholder model provides a way for managers to reflect

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 76

in a fuller way on the social effects of corporate decisions than the shareholder model, the stakeholder model does not, by itself, offer a way to adjudicate the sometimes competing demands of various social groups.

3. Nature of the Corporation in Catholic Social Thought. The social teaching of the Catholic Church seems to favor the stakeholder model. In *Centesimus Annus,* John Paul II states

> the purpose of a business firm is not simply to make a profit, but is to be found in its very existence as a community of persons who in various ways are endeavoring to satisfy their basic needs and who form a particular group at the service of the whole of society.[31]

On this account, "profit is a regulator of the life of a business, but it is not the only one; other human and moral factors must also be considered."[32] The business corporation is a community of persons that typically includes investors, a board that represents the interests of the investors, the management, and the employees. The social teaching of the Church recognizes that business corporations are efficient means for utilizing resources and effectively responding to needs, and that corporations act within a broader social context and in service of the common good. Since profit cannot be considered the only criterion of a firm's success, then taking into account other factors—the moral status of goods and services produced or a firm's treatment of workers, for instance—becomes an acceptable and perhaps desirable approach to investing. There are factors other than profit that are important for the life of a business.

There is a kind of mingling of interests here. One might consider the treatment of workers as a moral issue and thus refuse to invest in a company. But one might also consider poor treatment of workers as a drag on the long-term effectiveness of a company (regardless of current profit rates), and thus, such a company could be

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 77

considered a bad investment, even on utilitarian grounds. This is not to say that every morally right decision is economically beneficial. However, the stakeholder model shows how responsibilities to shareholders are one part of the overall health of a corporation.

As we will see below, the social teaching of the Church understands the corporation and the economic sphere to operate with relative autonomy, bounded by a moral/cultural sphere as well as a political and juridical order. The principle of subsidiarity is helpful in adjudicating competing claims between stakeholders.[33]

B. Internal Corporate Governance

Traditionally, most corporations have been governed by a command system that is hierarchical in nature along with varying degrees of self-governance. The typical model of corporate governance includes a board of trustees, management, and employees. In this section, we will explain the internal corporate governance structure common to many corporations.

1. Board and Corporate Officers. The board of trustees and the corporate officers typically have distinct roles. The members of the board act as fiduciaries for the stockholders. They are responsible for the determination of board policies and the general direction the enterprise should take. Board members have the task of setting performance standards for management, communicating those standards to the management team, and evaluating the performance of the top management. Additionally, the board is responsible for the selection of company officers and a plan for succession. Finally, the board has the task of communicating the corporation's goals to affected stakeholders.[34]

After there is a clear understanding of the role of the board, the implementation of those goals and the day-to-day responsibility for managing the corporation is left to the corporate officers and the management team. This system works by separating three broad

groups of decision-makers: investors, the board, and management. The investors decide whether a corporation is a worthwhile investment. The board sets the general direction and goals. The management team is left to work out the details in concrete implementation. In this way, the corporate officers are accountable to the board, and hence to the stockholders. Accordingly, the management team must act as stewards for the investors, making decisions about the proper use of others' money.

Some critics have challenged this widespread picture of the relation between stockholders, board, and upper management as oversimplified and problematic. For example, in some cases, there is no clear division of roles between the board and the corporate officers. In many firms, the president or CEO has a significant role in choosing the size and membership of the board. It is not uncommon for the corporate officers to play an active role on the board. When this is so, the board does not necessarily represent the interests of the stockholders as much as it serves to approve the decisions of the upper management. In some cases, members of boards have conflicts of interest that weaken their ability to act as fiduciaries for the stockholders. For example, board members often receive perks from the company. In recent years there has been significant debate about the makeup of boards, with many corporations attempting to move toward board membership that reflects a greater diversity. These criticisms are usually aimed at corporations where the actual practice falls short of the model outlined above, not at the model itself, which presents distinct roles for the investor, the board, and the corporate officers.

2. Management and Labor. One of the most important groups of stakeholders is the corporation's employees. While this essay can not give an exhaustive treatment of the relationship between management and labor, a brief outline will help to understand some of the issues of corporate governance related to socially responsible investing.

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 79

The traditional view of the relationship between employees and employer is that it is a free agreement, a contract between two parties for their mutual benefit. The employer has the task of paying fair wages and providing a safe work environment. The employee agrees to satisfactory job performance. As *Rerum Novarum* observed, the free agreement between employer and employee is sometimes tilted strongly in favor of the employer.[35]

Recent management policies have seen a trend moving from a command system (with decisions made by management and executed by labor) to higher levels of self-governance where employees participate more fully in decision-making and accountability.[36] This has been seen in the development of new forms of cooperation between labor and management, labor-management committees, grievance committees, social auditing procedures, conciliation boards, and new forms of employee ownership and management, including employee stock ownership plans. This trend toward employee self-governance involves treating employees more fully as persons, and as more than mere cogs in the process of production. Such organizations treat employees as problem-solvers rather than as executors of routine operations. The success of certain corporations who have used this approach to varying degrees—Southwestern Airlines and Saturn, for instance—has brought an awareness that increased employee participation in the management of the business firm can be economically beneficial. In the older model, management made decisions (following the directives of the board) while labor carried out those decisions. In the newer model, "employees together with management and owners make the decisions, moving consciously and conscientiously toward shared ownership and higher levels of self-management."[37]

This trend by corporations to treat their employees as fuller participants in the firm—more fully as persons—is of particular interest in the field of socially responsible investing. One of the growing areas of SRI, as mentioned in the preceding section on the history of

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 80

SRI, is "affirmative screening," the identification of corporations for investment because of practices that social investors view as positive. The trend toward improved relations between employees and management—with employees playing a greater role in the decision-making of the firm—is viewed by many investors as desirable. There are both moral and economic benefits to this development. Morally, this trend involves treating employees more fully as persons; this involves the employee in making decisions about improving the quality of the workplace and in having a say regarding flexibility in scheduling. Economically, there seems to be evidence that companies that have a flatter management with greater participation by the employees in managing and sharing in the profits tend not only to be more humane as workplaces but also to have greater productivity.

C. External Corporate Governance

In addition to the internal decision-making of a corporation, there are external groups and institutions that affect corporate governance. These include trade associations, customers, consumer associations, ethical codes and religious institutions, and the government.

Trade associations can form helpful and stabilizing governance structures for corporations. They are often organized by competitors in a common industry who together seek ways to promote their area of commerce through self-regulation rather than relying on government intervention. For example, as Bruyn notes,

> As far back as 1937, the National Retail Dry Goods Association proposed a program for coordinated standards, grades, and labels among manufacturers in order to make consumer goods uniform in the public interest. The program had eight principal activities: elimination of misleading information; development of a plan to provide truthful and factual information; cooperation among manufacturers, retailers, and con-

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 81

> sumer representatives in developing standard terminology; cooperation in the generation of standards for performance, durability, measurement, composition, and fiber content; definition of advertising standards; encouragement of manufacturer standards; and independent certification of tested materials.[38]

The National Retail Dry Goods Association, like many trade associations, is a voluntary association of competitors who agree on certain standards for their commercial benefit and for the common good. Many industries have formed these kinds of federations with competitors to establish industry standards and practices. While these associations can be distorted, they often have the effect of reducing the necessity for government intervention and hence of increasing efficiency. Trade associations exist not only with direct competitors, but also with suppliers and customers. Since trade associations promote social development and advance the common good, some social investors look to a firm's participation in trade associations as an affirmative screen.[39]

Individual customers and consumer associations also constitute a kind of external form of governance for corporations. One simple piece of investing advice is to place one's funds in companies where one has gotten good service. If a company is treating its customers well, it is likely a sign that it is well run and that it will be profitable, since other customers will likely have the same response. Consumer associations such as Consumers' Union (which publishes *Consumer Reports*) serve to keep corporations honest, even while making their own profit. Business reporting in the media, the Better Business Bureaus, and committees of local chambers of commerce all serve as external groups that affect the governance of corporations. Likewise, a growing number of nongovernmental associations have interests in various social causes and exert influence on corporations.

Corporations are also governed, to some extent, by ethical codes and religious institutions. A study of the mission statements of most

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 82

corporations shows a heavy reliance on codes of ethics. Additionally, various employees may be members of professional associations, which have their own codes of ethics. While these codes of ethics differ to some degree at the level of detail, there is a strong affinity among most codes of ethics, as each places a strong emphasis on treating people with respect, acting with integrity, and being fair. While corporations rarely espouse a particular religion, the decisions made by those in corporations are often influenced by religious teachings. The voices of religious leaders can exert influence on the decisions of corporate leaders and can act as a form of influence.

The governance of corporations is also affected by the political sphere. The state properly plays the role of providing a stable currency, efficient public services, the protection of human freedom, and the protection of private property.[40] The state also plays a subsidiary role by creating conditions that will sustain business activity where such conditions are lacking, and by supporting them in times of crisis. The state may intervene in the governance of corporations in extreme cases, for example when monopolies produce obstacles to development or when other external groups or business systems are too weak or just getting under way. In these kinds of interventions, state intrusion should be as brief as possible.[41]

Even the possibility of government intervention has an effect on the governance of corporations. For example, many major corporations have management officials whose task it is to ensure that the corporation does not violate government restrictions against monopolization. This constitutes a kind of self-regulation by the firm that is put in place because of the possibility of government intervention. The government's case against Microsoft as a monopoly was strengthened by the fact that Microsoft had relatively little self-regulation against monopolization.

Many corporations are affected by the increasingly global economy. For such firms, governance issues may include acting within the legal bounds of multiple governments. Additionally, globalization has

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 83

brought with it increased regional multinational trade agreements and associations such as the EU, NAFTA, ASEAN, APEC, and MERCOSOR, as well as international bodies such as the WTO that work toward trade agreements across national borders. Firms adjust their management decisions to accord with such treaties and agreements. In this way, corporate governance is affected by government regulations at local, state, national, and international levels. Firms that act in violation of such treaties and regulations appropriately may be deemed undesirable to social investors.

It follows that the governance of the corporation is influenced by multiple external institutions. At least since 1980, there has been a general trend toward destatification, with a reduced role for large government agencies and a greater role for nongovernmental institutions. This places corporations in the position of working cooperatively with competitors, suppliers, and customers, while integrating their business functions with nonprofit groups in the social sector and adjusting the policies of the firm to accord with government regulations. For example, in the field of health care, profit-minded firms must coordinate their activities with nonprofit groups, trade associations, a wide range of professional associations such as the AMA, various ethical codes of conduct and religious institutions that have an interest in promoting religious dimensions of justice and human dignity in health care, and government regulations.

This understanding of corporate governance—as including both internal governance and the influence of external groups that impact the governance of firms—is related to the concerns of the social investor. The corporate governance system flourishes when there is a healthy balance within the firm between command governance and self-governance; in corporate decisions between the economic concerns of shareholders, employees, and customers on the one hand, and the social factors of stakeholders on the other hand; between competition and cooperation; and between external influence and internal governance. In each of these, there seems to be a growing

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 84

recognition in the business community that a greater emphasis on the second element in each pair is desirable. This understanding of corporate governance shows that a healthy economy is part of an authentic social development that promotes a competitive economy with higher levels of cooperative associations. Further, a healthy firm promotes the abolition of ineffective modes of command bureaucracy, replacing it with an emphasis on communal self-direction and self-reliance. As Bruyn puts it, one role of the social investor is "to provide incentives for this matrix of organizations to cooperate more fully in the public interest and in the interest of their communities."[42]

V. Moral Responsibilities of Investing

While the social teaching of the Catholic Church includes several references to the moral responsibilities of investing, there has been no detailed treatment of the topic in the encyclical tradition.[43] There are relatively few Church documents that address the topic in detail.[44] This section will include a brief overview of some of the relevant principles of moral theology from the Catholic tradition and then an application of those principles to investing.

A. Relevant Principles from Moral Theology

Moral responsibility flows from distinctively human actions. While involuntary behavior is outside the domain of moral responsibility, every human action may be evaluated morally. Part of what makes an action distinctively human is the power of self-determination. In each action, the agent can choose his or her own immediate and long-term goals. For this reason, each person is responsible for their own actions. Human actions involve a subjective element (deliberating, choosing, and intending) as well as an objective element (the execution of the action).

In order to determine the morality of an action, the action

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 85

(including both the subjective and objective aspect) is measured against a moral norm. In the Catholic tradition, this norm, the fundamental principle of morality, is generally taken to be "Good is to be done, evil avoided."[45] Goodness is understood as the fulfillment of a thing's proper function, that is, the fulfillment of a thing's nature. While the nature of the human person is understood most fully in light of the revelation of sacred scripture and the teaching authority of the Church, the basic aspects of human nature are accessible through ordinary human experience and reason. Revelation and reason both confirm that a human being is a living animal who is rational and social. Given this understanding of human nature, the principle "Good is to be done, evil avoided," means that one should promote human life, pursue the truth, and live socially; and that one should not destroy human life, be ignorant, nor be offensive. In short, every action should promote and respect the fundamental dignity of the human person and the basic human goods of life, rationality, and sociality.

In applying these norms to the field of investing, there are two types of cases that are particularly complicated. First, there are some circumstances in which doing one action will produce more than one effect. For example, there are circumstances in which investing in a profitable company may have as a side effect driving another company out of business. To make sense of these kinds of cases, we will discuss below the principle of double effect. Second, there are some circumstances in which doing an action entails cooperating with one or more others who are doing an action that is morally impermissible. These cases are quite common and constitute some of the most common moral questions relating to investments. To make sense of these cases, we will discuss the distinction between formal and material cooperation.

To analyze cases where doing one action produces more than one effect, moral theologians in the Catholic tradition appeal to the principle of double effect. This principle can be traced to St. Thomas

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 86

Aquinas, who argues that it is permissible to kill in self-defense so long as it is defense that is intended rather than killing, and that the violence used is proportionate to the circumstance.[46] While the principle of double effect has been the object of debate among moral theologians and philosophers for centuries, the basic idea in the principle remains helpful.[47] An action that has a good intended effect and a bad side effect may be done even if the side effect is foreseen so long as

1. the intention is to bring about the good of the intended effect rather than the bad of the side effect,
3. the evil of the side effect is not a direct means to the good of the intended effect, and
4. the good of the intended effect is proportionate with the evil of the side effect.

The principle of double effect may be applied in the case of investing to untangle instances where making a certain investment will have multiple effects. For example, suppose one invests in a mutual fund that has a policy of investing in firms that may be engaged in morally questionable practices but then uses their influence as stockholders to influence the board and corporate officers to alter this immoral behavior. The action of investing in such a fund may have multiple effects, and some of those effects may be undesirable. Given the realities of activity in corporate life, the production of socially beneficial goods and services is often inextricably linked to socially undesirable or immoral practices. The principle of double effect provides a way to reason through such cases.

To make sense of cases in which doing an action entails cooperating with one or more others who are doing an action that is morally impermissible, moral theologians in the Catholic tradition draw on the distinction between formal and material cooperation.[48] The classic formulation of this distinction comes from St. Alphonsus Ligouri:

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 87

> That [cooperation] is formal which concurs in the bad will of the other, and it cannot be without sin; that [cooperation] is material which concurs only in the bad action of the other, apart from the cooperator's intention. But the latter [material cooperation] is licit when the action is good or indifferent in itself, and when one has a reason for doing it that is both just and proportioned to the gravity of the other's sin and to the closeness of the assistance which is [thereby] given to the carrying out of that sin.[49]

Germain Grisez explains this distinction using a helpful example:

> Two police officers, George and Jane, are assigned to prevent pro-life workers from talking with women approaching an abortion clinic. George, who has invested money in the clinic and hopes it will maximize its profits, carries out the assignment so the women coming to the clinic will get their abortions and not be dissuaded; Jane, a pro-life feminist, carries out the assignment solely because she is afraid of losing her job if she refuses. George formally cooperates in the abortion; Jane cooperates only materially.[50]

On the account offered by Alphonsus and held in Catholic moral theology, formal cooperation is never morally permissible. It is never morally appropriate to cooperate with an illicit moral act when one intends the act (even though someone else may be the agent who executes the act). On the other hand, following Alphonsus, there are conditions under which it is morally permissible to cooperate materially in a morally impermissible act. The above case of Jane, the prolife police officer who follows the order to provide access to the abortion clinic, seems to be such a case.

The exact conditions under which material cooperation is permissible have been the subject of debate among Catholic moral theologians. The formulation of Alphonsus identifies three conditions

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 88

that must all be present in order for material cooperation to be permissible:

1. the action must be good or permissible,
3. one must have a just reason for cooperating, and
4. the goodness of one's action must be proportioned to the gravity of the other's sin and to the closeness of the assistance given.

In the police officer case, this means that Jane's cooperation is morally permissible so long as

1. it is permissible for her to follow orders,
3. it is just for her to follow orders, and
4. the goodness of her following orders is proportioned to the gravity of the case and her closeness to the assistance given.

Much of the debate about these conditions has been focused in two areas: the role of intention in cooperation and the meaning of proportionality and closeness. Among proportionalists, there is a tendency to underemphasize or disregard the role of intention and move directly to an analysis of the consequences of the action. Further, the depth of proportionality may be extremely difficult to evaluate for someone who materially cooperates with an impermissible act. For example, by providing security at the abortion clinic, police officer Jane might

1. lead others into thinking that abortion is permissible, or
3. hinder self-reflection and promote self-deception on the part of those seeking abortions, or
4. weaken her relations with other pro-life feminists who perceive her cooperation as contrary to their beliefs, or

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 89

5. weaken her ability to bear witness to the injustice of abortion since her job entails cooperating with those doing the abortions, or
6. reduce her ability to carry out her commitments to the cause of life.

For these and related reasons, it is often rather difficult to determine whether and to what degree it is permissible to cooperate materially with impermissible activities.

There is one other principle in Catholic moral theology that is related to investing: the principle of stewardship. This includes both the responsibility to take care of things that one has been put in charge of—seeing to it that those things in one's care are improved rather than weakened or destroyed—and the responsibility to see to it that those things in one's care are used in ethical and socially appropriate ways.

Given these principles from moral theology, we will turn to an application of them to the field of investing.

B. Moral Responsibilities of Individual Investors

Individuals who invest a portion of their assets face a number of questions pertaining to the moral responsibility of their actions. In order to sort out these questions, we will divide our treatment into investments in individual stocks and investments in mutual funds.

1. Investments in Stocks. Investors who purchase individual stocks are formally cooperating with the goals of the company and hence have a moral responsibility to ensure that their funds are being used for morally appropriate purposes. Investing carries with it special responsibilities pertaining to stewardship.[51] This includes both the responsibility to obtain reasonable rates of return on investments and the responsibility to exercise ethical and social stewardship. In following the norm to "avoid evil," investors should avoid companies

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 90

whose products or policies are contrary to the authentic dignity of the human person. In following the norm to "do good," investors should seek out and invest in companies whose products and policies promote authentic human dignity. In instances where an investment carries with it particular rights and responsibilities (such as the right to vote for members of the board or trustees), investors should exercise those rights in a responsible manner. In some cases, these responsibilities may be rather minimal since most individual investors have only a very small share in a business with little or no real power in shaping the policies of the corporation.

2. Investments in Mutual Funds. Those who invest in mutual funds do not buy shares in particular corporations. Investors who place their savings in mutual funds likely intend to profit from the morally permissible activities of diverse corporations while not intending to gain from illicit or immoral activities. The investor in a mutual fund potentially cooperates materially in the activities of corporations that are involved in morally impermissible activities. Material cooperation with morally tainted corporations may be permissible provided it meets the criteria discussed above. Often, it is very difficult for investors in mutual funds to know exactly how much of their money is invested in any given corporation. Also, many investors in mutual funds are involved in a retirement savings plan through their employer and have only a few choices of mutual funds. In such cases, the investor may be materially cooperating with tainted corporations. This sort of cooperation is permissible so long as no immorality is formally intended (or perhaps even known) and the other criteria for cooperating mentioned above are satisfied.

As outlined in the preceding history of SRI, the increased use of mutual funds as an investment tool, along with the moral concerns of investors, has led to the growth of mutual funds that identify themselves as socially responsible investments. Most often these funds use negative screens but they sometimes use other approach-

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 91

es. From a Catholic perspective this movement deserves greater attention, for many of the screens that have been used have been directed against products that Catholic teaching has not traditionally deemed impermissible. Merely because a fund is identified as a "social" or "ethical" fund does not necessarily mean that it uses criteria in accord with Catholic moral and social teaching. For example, some funds screen out corporations that produce alcoholic beverages, but the Catholic tradition has taught that the abuse of alcohol, not the product itself, is a vice.[52] In some cases, criteria for screening stocks are used that are predominantly secular in character and may contradict Christian moral theology.

One possible advantage of investing in certain mutual funds is that it allows greater opportunities for shareholder activism. In contrast to individual investors who may own a very small part of a corporation, mutual funds may hold a more significant portion of a firm's stock, allowing the potential for greater clout in influencing the business practices and policies of a corporation.

C. Moral Responsibilities of Institutional Investors

In addition to questions about the moral responsibilities of individual investors, there are also questions about the moral responsibilities of institutional investors. In order to sort out these questions, we will divide our treatment into the nature of institutional investors, the possible benefits of institutional investors to socially responsible investing, some possible difficulties of institutional investing, and the social responsibilities of institutional investors.

1. Nature of Institutional Investors. Institutional investors include a wide range of groups that gather funds from various sources and then invest those funds. This includes mutual funds, pension funds, insurance companies, banks, endowments, foundations, charitable trusts, and others. Institutional investors act as fiduciaries, making investment decisions on the behalf of others. In this way, institutional

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 92

investors are intermediaries between individual investors or groups and corporations.

Fifty years ago, fewer than 15 percent of publicly traded stocks were controlled by institutional investors. Currently, more than 50 percent are.[53] At the same time that institutional investors have grown in size, they have shown a willingness to become increasingly involved in shareholder activism. This is true both of the largest institutional investors (such as large pension funds like CalPERS, the California Public Employees Retirement System, and TIAA–CREF, the Teachers Insurance and Annuity Association–College Retirement Equity Fund) and smaller investors such as Roman Catholic religious orders and the funds of Protestant groups. Historically, large institutional investors have been fairly passive in matters of corporate governance and policy, but over the last thirty years, institutional investors have grown increasingly active. This shareholder activism ranges from institutions that vote their proxies to SRI institutions that screen investments while being actively involved in proxies and even religious groups and other associations with social concerns that aggressively become involved in governance issues of corporations.

2. Possible Benefits of Institutional Investors to SRI. Institutional investors have a number of advantages over individual investors with regard to socially responsible investing. First, their mere size gives them much more leverage to influence corporations. For example, some pension funds are among the largest pools of investment money in the United States. When the managers of such funds decide to pursue certain kinds of corporations for investments or to divest in certain companies, it can have a much greater impact than if the same decision were made by individuals. Since the managers of investment institutions control a significant share of the financial market, their decisions carry greater weight.

Institutional investors increasingly have shown a greater willing-

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 93

ness to use the influence that comes with massive funds. For example, large pension funds have become more involved in corporate governance issues. This activism can be beneficial when it promotes corporate accountability and when it focuses attention on running the corporation in a socially responsible manner.

3. Possible Difficulties Faced by Institutional Investors. While this ability of managers of investment institutions to exercise influence on corporate governance and policies brings with it possible benefits, it also brings the potential for undesirable consequences. First, it places control in the hands of the managers of investment institutions without a clear system of accountability to individual investors. This opens up the possibility that investment institutions may use their influence to advance their own personal moral concerns rather than the concerns of the investors they represent. David Ratner described this concern when he wrote that the decisions of investment institutions are made by "a small group of managers on behalf of scattered beneficiaries, the great majority of whom have no idea what shares their institution owns, let alone how those shares are being or should be voted."[54] The managers of investment institutions act in a fiduciary role, but it is not always clear that there is a system of accountability between the investment managers and the investors. Hence, managers of investment institutions have a responsibility to be forthright to investors in explaining the criteria that are used to exercise their influence, especially when they are using social criteria.

For example, what are the criteria a Catholic university should use to choose corporations in which to invest its endowment? Some businesses would seem to be clearly off-limits, such as those actively involved in abortion. But what about firms that produce tobacco or military weapons? While many Catholic universities might steer away from these kinds of investments, there may be a significant number of people at the institutions who do not object to these businesses. Some of the criteria used as screens for SRI may be pru-

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 94

dential judgments made by individuals rather than strict claims of Catholic moral and social teaching. While it may be appropriate or even obligatory in conscience to exercise one's personal preferences (which may be morally charged but not representative of moral absolutes or clear and decisive Church teaching) in the case of one's personal investments, there is some question with following one's personal moral preferences when one controls the investment of an institution's resources. Without explicit disclosure, there is a possibility that a fund manager may exercise a personal preference not shared by others in the institution on whose behalf the manager has been charged to make decisions.

A second possible difficulty is one of conflict of interest. In many cases, there are already systems in place to prevent possible conflicts of interest, but with the rise of SRI, there arise new possibilities for conflicts of interest. It is quite common for large institutional investors to own significant shares of competitors' stocks; for example, to own a significant portion of both Chrysler and Ford. As institutional investors grow in size and play a greater role affecting corporate boards, it may be possible for one institution to influence the boards of competitor firms. In such a case, a single institutional investor may be in the position to affect the boards of competing companies, even in a manner that is contrary to the advantage of one of the companies or to the disadvantage of the owners of the stock. In the future, it may be necessary increasingly to develop systems of checks and balances to guard against such possible conflicts of interest.

A third possible difficulty of institutional investors is that they may gain such a large portion of a market that it becomes almost impossible to sell large portions of a stock if the managers of the institutional investment do not approve of the management policies of a firm. For an individual investor, when one is disenchanted with a corporation's policies, direction, or future prospects, the individual can sell. With large institutional investors, "their sheer size cou-

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 95

pled with fiduciary restrictions on what they can own limits their ability to increase their return on their assets through trading."[55]

4. Social Responsibilities of Institutional Investors. The managers of institutional investments have a fiduciary responsibility to the individual investors whose funds they control. This responsibility includes the task of being careful stewards of those investments, using their influence in an appropriate manner to direct the board; through proxy votes, acting in a manner that is forthright to investors so that investors may be aware of the criteria used by the institution; and working to develop systems of disclosure and accountability. When institutional investors use social screens to choose stocks, they have a responsibility to explain to investors the nature of those screens. When institutional investors engage in shareholder activism, they have a responsibility to the investors whose money they represent to explain their activism and to ensure that it accords with the principle of stewardship.

VI. Conclusion

In light of the foregoing discussion, it seems reasonable to conclude that, based on the principles of Catholic social teaching, the attitude of Christians toward the development of SRI should be cautiously positive. SRI carries with it the potential for religious investors to influence society in beneficial ways, helping to improve the prospects for a humane, just, and peaceful social order.

In general, the increasing tendency to think of investment as a moral activity is a positive development. In addition, SRI has both benefited from and fostered the idea that prosperity and morality are not unalterably opposed, but may be linked in important ways. "Even though economics and moral science each employ its own principles in its own sphere," Pope Pius XI wrote some seventy years ago, "it is, nevertheless, an error to say that the economic and moral orders are

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 96

so distinct from and alien to each other that the former depends in no way on the latter."[56] The rise of SRI has contributed to a burgeoning sense that Pius XI was correct, that economics can benefit from the wisdom of moral theology. Thus, for instance, the distinction between formal and material cooperation is a valuable aid in guiding the investment decisions of committed people of faith.

At the same time, ethical norms cannot be applied simplistically to the economic sphere. While corporate behavior can and sometimes should be influenced by the moral considerations of investors, it is important to remember the importance of the role of profit as a responsibility toward shareholders, as an indication of the health of the business, and as a goal essential to the company's survival. Even here, though, there need not be a disjunction between morality and profit, as this paper's treatment of corporate governance intimates. Those concerned (from a moral perspective) that a corporation maintain good relations with its employees may be simultaneously concerned (from an economic perspective) that the corporation maintain such relations. Corporate governance, like other screening criteria, can be at once an indication of moral well-being and financial health.

With all signs pointing toward the continued growth of SRI, Catholic social thought should exercise its influence both in promoting and guiding its development. The bountiful tradition of Catholic moral teaching provides principles that can navigate the sometimes difficult relationship between the economic and moral spheres. The social encyclicals, moreover, offer important insights into the proper structuring of corporations and the ordering of the relationship of corporations to the broader social environment. The SRI movement thus furnishes an outstanding opportunity for combining sound economic knowledge with genuine moral concern—an opportunity, in other words, for Christian social action of the best sort.

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 97

Notes

The authors wish to thank Scott Kubie, Portfolio Manager at Clarke LanzenSkalla Investment Firm, Inc., for his contribution to this article.

1. *Ecclesiam Suam,* n. 97.
2. *Centesimus Annus,* n. 35.
3. Hal Brill, Jack A. Brill, and Cliff Feigenbaum, *Investing with Your Values: Making Money and Making a Difference* (Princeton, N. J.: Bloomberg, 1999), 33–34.
4. "SRI Timeline," at www.calvert.com/investor/ind-sri-timeline.html.
5. Elizabeth Judd, *Investing with a Social Conscience* (New York: Pharos Books, 1990), 10–11.
6. "SRI Timeline;" Ritchie P. Lowry, *Good Money: A Guide to Profitable Social Investing in the '90s* (New York: W.W. Norton, 1991), 26.
7. Lowry, *Good Money*, 26.
8. "After South Africa: The State of Socially Responsible Investing in the United States," 1995 Trends Report of the Social Investment Forum, at www.socialinvest.org/areas/research/trends/1995-Trends.htm, I.
9. Brill, Brill, and Feigenbaum, *Investing with Your Values*, 51; Amy L. Domini with Peter D. Kinder, *Ethical Investing* (Reading, Mass.: Addison-Wesley, 1984). Quoted in Brill, Brill, and Feigenbaum, *Investing with Your Values*, 51.
10. Judd, *Investing with a Social Conscience*, 2.
11. Brill, Brill, and Feigenbaum, *Investing with Your Values*, 37.
12. Ibid., 38; "Socially Responsible Investing Tops Two Trillion Dollar Mark," press release, Social Investment Forum, 4 November 1999, at www.socialinvest.org/areas/news/1999-trends.htm.
13. Brill, Brill, and Feigenbaum, *Investing with Your Values*, 41.
14. Ibid., 44–45.
15. Lowry, *Good Money*, 121.
16. "After South Africa," IV. The breakdown in 1995 was religious concerns, 30 percent; nongovernment institutions (unions, universities, foundations), 24 percent; individuals, 23 percent; government pension funds, 23 percent.
17. Brill, Brill, and Feigenbaum, *Investing with Your Values*, 94.
18. Ibid., 3.
19. This categorization follows Brill, Brill, and Feigenbaum, *Investing with Your Values*, 10ff.
20. These generalizations are based on percentage figures given at www.soyouwannabe.com/site/syws/socinvest/socinvest2.htm.
21. Brill, Brill, and Feigenbaum, *Investing with Your Values*, 119ff.
22. www.aquinasfunds.com/news.html.
23. Lowry, *Good Money*, 4.
24. Brill, Brill, and Feigenbaum, *Investing with Your Values*, 54.

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 98

25. Ibid., 56–60.
26. "Morality Pays," *Economist,* 8 July 2000, 79. It should be noted that the data used for this article were collected prior to the significant stock market downturn beginning in 2000. It may be that the analysis of the profitability of SRI will have to be modified after determining how SRI fares in the context of a bear market.
27. Milton Friedman, "The Social Responsibility of Business Is to Increase Its Profits," *The New York Times Magazine,* 13 September 1970.
28. See Anthony F. Buono and Lawrence T. Nichols, "Stockholder and Stakeholder Interpretations of Business' Social Role," in W. M. Hoffman and J. M. Moore, eds., *Business Ethics* (New York: McGraw Hill, 1990), 170–75. Also see Thomas Donaldson and Lee E. Preston, "The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications," *Academy of Management Review* 20 (1995): 65–91.
29. See R. Edward Freeman, *Strategic Management: A Stakeholder Approach* (Boston: Pitman, 1984), 46: "A stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievement of the organization's objectives."
30. Donaldson and Preston attempt to answer these questions, but end up without any clear criteria.
31. *Centesimus Annus,* n. 35.
32. Ibid.
33. The classic formulation of the principle of subsidiarity is found in *Quadragesimo Anno,* n. 79:

    > Just as it is gravely wrong to take from individuals what they can accomplish by their own initiative and industry and give it to the community, so also it is an injustice and at the same time a grave evil and disturbance of right order to assign to a greater and higher association what lesser and subordinate organizations can do. For every social activity ought of its very nature to furnish help to the members of the body social, and never destroy and absorb them.

34. See Irving S. Shapiro, "Power and Accountability: The Changing Role of the Corporate Board of Directors," in Hoffman and Moore, *Business Ethics*, 219–230.
35. See *Rerum Novarum,* n. 45:

    > Let workers and employer, therefore, make any bargains they like, and in particular agree freely about wages; nevertheless, there underlies a requirement of natural justice higher and older than any bargain voluntarily struck: the wage ought not to be in any way insufficient for the bodily needs of a temperate and well-behaved worker. If, having no alternative and fearing a worse evil, a workman is forced to accept harder conditions imposed by an employer or contractor, he is the victim of violence against which justice cries out.

36. While it is not often stated explicitly and by name in these developments, this reflects the principle of subsidiarity. See note 33.
37. Severyn T. Bruyn, *The Field of Social Investment* (Cambridge: Cambridge University Press, 1987), 53.

04-logos-schmiesing-pp63-99 1/13/03 10:12 PM Page 99

38. Ibid., 58.
39. Bruyn advocates this approach; ibid., 54–69.
40. *Centesimus Annus,* n. 48.
41. Ibid.
42. Bruyn, *Field of Social Investment*, 68.
43. For brief treatments of the topic, see *Gaudium et Spes,* n. 70, and *Centesimus Annus,* n. 36.
44. See for example the statement of the National Conference of Catholic Bishops, "Socially Responsible Investment Guidelines," November 1991, available in *Origins,* 28 November 1991, 21:25 and at www.nccbuscc.org/finance/srig.htm. Also see the brief 1986 statement of the archdiocese of Baltimore, "Policy Statement on Responsible Investing," *Origins,* 29 May 1986, 16:2.
45. Thomas Aquinas, *Summa Theologiae,* I-II, 94, 2.
46. Thomas Aquinas, *Summa Theologiae,* II-II, 64, 7.
47. For a treatment of double effect by contemporary philosophers, see the essays in P. A. Woodward, *The Doctine of Double Effect* (Notre Dame: University of Notre Dame Press, 2001).
48. For a detailed treatment of this topic, see Germain Grisez, *Difficult Moral Questions* (Quincy, Ill.: Franciscan Press, 1997), App. 2: "Formal and material cooperation in others' wrongdoing," 871ff.
49. St. Alphonsus Ligouri, *Theologia moralis,* ed. L. Gaude, 4 vols. (Rome: Ex Typographia Vaticana, 1905–12) 1:357. Quoted in Grisez, *Difficult Moral Questions*, 876.
50. Grisez, *Difficult Moral Questions*, 874.
51. See the NCCB statement, "Socially Responsible Investment Guidelines," Part I, B: "Principles of Stewardship."
52. It has been suggested by some that the screening of companies that produce alcoholic beverages has more to do with objections to marketing techniques (advertising directed to underage populations, for instance) than it has to do with the morality of liquor. On that score, of course, a Catholic moral ethic would be sympathetic to the alcohol screen.
53. Peter Kinder, et. al., *Investing for Good* (New York: Harper, 1993), 220.
54. David Ratner, "Government of Business Corporations," 25–26. Quoted in Kinder, *Investing for Good,* 222.
55. Kinder, *Investing for Good,* 220.
56. *Quadragesimo Anno,* n. 42.