SOCIALLY responsible investing (SRI) is all the rage these days, and who could quarrel with the impetus to channel investment funds toward pro-social applications and away from antisocial ones? It is a movement that, by its very name, has an inherent claim on the moral high ground of the global economy, a claim that gives to the movement its legitimacy, its appeal, its dynamism and its growing power.

It is a claim to moral authority that deserves closer examination.

RECONCEPTUALIZING THE CORPORATION

Let us begin that task by rethinking the nature of the corporation whose behaviours are the target of SRI activism. Traditionally, economists and business people alike have thought of the corporation primarily as an engine of wealth generation—a mechanism for producing and selling goods and services for financial gain. That conceptualization carries with it a whole series of values, preferences and expectations about how corporations will and should behave, and most particularly, about the kinds of goals toward which they should progress.

But suppose we take as a starting point a rather different premise. Suppose we view the corporation as an institution in social space whose purpose is to balance precisely a large number of sometimes reinforcing and sometimes competing interests—held by the corporate stakeholders—only some of whose goals are economic in character. Think of this social space as a large sheet of an elastic material stretched out in a frame, and think of each stakeholder as a ball bearing of some variable magnitude (depending on its importance to the corporation in question) that occupies a location somewhere on the sheet. Each causes a dimple in the surface; the heavier the weight, the deeper and broader the dimple. Then mentally place the corporation—the largest ball bearing of all—at that place on the sheet where it lies closest to, but will not disrupt the locations of, its stakeholders (in other words, where its placement will not cause them to move).

Take your hands away. Don’t breathe. The system is in balance. Now very carefully move the smallest (least important) stakeholder to a slightly different location. Not much happens. But do the same with the largest (most important) stakeholder and the stability of the system is disrupted. Some other stakeholders may move as well, but what is certain is that the corporation at the centre of this figurative little grouping will have to move in the same direction as the largest stakeholder if it is to restore the balance in the system.

The SRI movement is designed to move the corporate system in precisely this way, both one company at a time and in the aggregate. It is designed to generate leverage on corporate behaviours through the pooling and application of wealth in sufficient volume to force changes in corporate governance, in corporate behaviour, and, collectively, in public policy. More than that, it is designed to take maximal advantage of the growing interconnectedness of the global economy.

RECONCEPTUALIZING SRI

Though I have been referring here to an SRI ‘movement’, at least one critic suggests that it is more appropriate to think of SRI as an industry—one whose lifeblood is a constant stream of attack messages against corporations.

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At the very least, this view directs our
attention to the centrality of anti-
corporate rhetoric in the advance-
ment of SRI interests—to the need
to power a movement not only
with affirmative appeals to moral
rectitude, but also with the con-
struction of an enemy against
which to mobilize. Claims to moral
authority, it seems, require demons
as well as angels.

SRI AND FIDUCIARY RE-
SPONSIBILITY
For more than 30 years now, vari-
obious individuals and groups have
been developing ever-more-sophis-
ticated means of pressuring corpo-
rations to behave in ways these ac-
tivists deem more appropriate,
whether with respect to workplace,
environmental, human rights, con-
sumer or other issues. Organized
labour, environmentalists and oth-
ers have taken on companies by
employing what are generally
known as corporate, or anti-corpo-
rate, campaigns. These efforts,
grounded in a technique termed
‘power structure analysis’, follow
very much the pattern described
above, which is to say, they are de-
signed to exploit vulnerabilities in
various stakeholder relationships to
move the targeted companies
through social space. Included
have been such tactics as boycotts,
community protests, regulatory and
legislative attacks, litigation and
reputational warfare. There have
been literally hundreds of such
campaigns—against banking and
insurance interests, mining and
timber companies, oil companies,
manufacturers and retailers. But
despite some successes—Mitsu-
bishi does not process salt in Baja
California, Pepsico does not oper-
ate in Myanmar—all of this activ-
ity has by-and-large failed to bring
about large-scale change. One pos-
sible explanation for this outcome
is that most such efforts have been
devoted to moving the least
weighty stakeholders.

The SRI movement addresses
that fact by bringing pressure on
those stakeholders with the great-
est clout at publicly-held compa-
nies—institutional investors. Many
companies have demonstr-
ated that they can withstand
pressure from customers, vendors,
regulators, the courts, the media
and the public—or at least that
they have the means to respond
sufficiently to rebalance percep-
tions without substantially chang-
ing their behaviours. But pressure
wrapped in a cloak of social respon-
sibility and brought by those who
own the largest portions of corpo-
rate shares is far more difficult to
resist.

To exert that pressure with
Growing effectiveness, the SRI
movement has taken two vital
steps. First, it has expanded its re-
source base in a series of stages that
have given it control over progres-
Sively larger pools of other people's
money and, importantly, of the
proxy votes that come with share
ownership. Second, it has moved
to free itself of certain shackles that
generally attend to those who man-
age other people's money.

The SRI movement has system-
atically expanded its zone of con-
trol over resources, beginning in
the 1980s with the establishment
of specialized mutual funds such as
Domini Social Investments or
Walden Asset Management. These
were created as investment vehicles
for those who sought to use their
funds to support companies and in-
dustries they regarded as having
adopted socially responsible lines of
business and business practices. The
SRI movement used their share-
votes to advance progressive poli-
cies in and through the boardroom.
This specialized mutual fund sec-
tor then expanded as mainstream
investment firms began their own
SRI funds. This created a substan-
tial base of capital to be invested
in line with SRI objectives, but in
the grand scheme of the global eco-
nomy, it was barely consequential.

The 'real' money in this arena
is that managed by union, public
employee and other pension funds
(such as CalPERS, the activist
American fund, or Hermes Pen-
sions Management Ltd in the UK),
and by such major mutual fund
managers as Fidelity Investments
or Barclay's. And that money is by
law or custom invested and voted
in a manner consistent with the
trustees' fiduciary responsibility to
the beneficiaries.

Traditionally, fiduciary respon-
sibility has been defined narrowly
as maximizing the financial return
on investment, and trustees have
been reluctant (or prohibited) to
use their shareholder power to ad-

cvance corporate policies that might
produce what some regard as pro-

social outcomes at the expense of fi-
nancial outcomes. But over the last
decade, SRI advocates have
worked to remove this limitation.
In the US, for example, they have
produced studies purporting to
demonstrate that SRI strategies
equal or out-perform more tradi-

tional approaches, and they have
begun developing explicit state-
ments of support for multiple-ob-
jective investing. The AFL-CIO
(the principal US labour federa-
tion), for example, has published
a set of Proxy Voting Guidelines for
trustees of union pension funds.
spelling out the long-term benefits of favoured workplace and environmental policies (among others) and explicitly endorsing their advancement as being consistent with the trustees' fiduciary responsibility. These moves have been accompanied by initiatives that have successfully pressured the securities regulators in the US to open the agendas of corporate shareholders meetings to more such issues and to strengthen outside influences on corporate boards of directors.

THE NETWORK STRUCTURE OF THE SRI MOVEMENT

At one level, it may be a misnomer to speak of a single, unified SRI movement, for it is comprised of several different elements. Among them are altruistic advocates of greater corporate accountability, whom we might characterize as the ‘true believers’; left-thinking opponents of the corporation and the corporate-based economy per se, or the ‘anti-corporate ideologues’; and still others who have less quarrel with the corporation itself than with their proportionate share of gains from its operation and who see the SRI banner as a flag of convenience for advancing their more prosaic interests. We can think of this latter group as the ‘pragmatists’.

But at another level, it is reasonable to argue that the SRI movement could never achieve its full potential but for the combination of these different elements. From the corporate reformers it takes its moral authority. From the ideologues it takes its energy. And from the pragmatists—most notable among them union and public employee pension funds—it takes its muscle. There are aspects of self-interest that divide each of these components from the others. But, at least for the moment, there is sufficient shared interest to draw them into common cause, and their collective weight is beginning to move the system.

There is, in fact, a visible organizational structure to this movement, both within individual countries and internationally. Figure 1, for example, shows a portion of the network that links union and public employee pension funds within the US in two principal organizations. The Council of Institutional Investors (CII) was established in 1985, and today numbers among its members 130 pension funds, mostly union and public employee funds, whose assets total more than $3 trillion, along with 125 partner organizations, some of them prime movers in the SRI movement. The group hosts conferences and other activities through which it plays a central role in advancing and legitimizing investing policies consistent with the objectives of its members. The National Coalition for Corporate Reform, established in 2003, includes a small subset of the most activist CII members, including CalPERS and several public pension systems led by activist State-level politicians.

As illustrated in Figure 2, this domestic network is connected through a series of links to its international counterparts. For example, the International Institutional Investors Advisory Group was established in March 1999 for the stated purpose of expanding country-specific corporate governance guidelines into a set of international standards. These are then advanced by the members of the Group in private negotiations and through introducing and/or supporting shareholder resolutions. Membership is limited to four organizations—CalPERS, TIAA-CREF (another influential US pension manager), Pensions Investment Research Consultants (PIRC, a UK proxy-voting advisory firm) and Hermes Pensions Management Ltd (wholly-owned management company of the British Telecom and British Post Office pension schemes). Note that all four are also members of CII. Similarly, but less exclusively, the International Corporate Governance Network (ICGN), formed in
1995 at the initiative of CalPERS and heavily influenced today by Hermes, is also devoted to developing international standards of corporate governance. ICGN links US, European and other pension funds and advisors.

An example of this networking in action—particularly between the US and the UK—is provided by a 2004 effort to force US companies to separate the roles of Chairman and Chief Executive Officer, with the former post to be occupied by a director who has never been an officer of the company in question. This is a common practice in the UK, where it is incorporated as a default in the basic law of business practice, and elsewhere in Europe, but it is uncommon in the US, where less than five per cent of companies listed in the Standard & Poors 500 Index, as an example, are governed by such a structure. Union pension funds have engaged in a campaign to advance this change at approximately 50 companies in 2004, even citing in some instances as a rationale the fact that it is common in the UK. And this Chairman/CEO division initiative is but one of a half dozen or more similarly organic resolutions—others have to do with such matters as the cumulative voting of shares—that collectively are intended by organized labour to increase its influence with corporate boards and senior management. Even as they advance the self-interest of labour, however, the packaging and legitimacy of these efforts owe everything to the moral claims of SRI.

THE BOTTOM LINE ON THE BOTTOM LINE

The question of whether investors can do well financially and do what they regard as social good at the same time and with the same resources is an important one. Should it be answered in the affirmative, the SRI movement will grow in size and influence; should it be answered in the negative, that movement will surely whither. Whether the issue is to be resolved in the marketplace, the media, the boardroom or the courtroom, however, is yet to be determined. To the extent that SRI investors are inclined, and are able, to demonize corporations, their executives and directors, they are likely to retain the upper hand, at least in some of those venues. The challenge to corporations themselves is more difficult—to demonstrate that SRI activists do not have a monopoly on the definition and advancement of responsible corporate behaviour.

NOTES
4 Based on the summary of members and their roles found at www.icgn.org/history.html on 17 May 2004 (since removed) and at www.icgn.org, 1 November 2004.

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