

# Quiet Conversations: The Expressive Nature of Socially Responsible Investors

by Meir Statman, Ph.D.

## Executive Summary

- Few investment issues are more contentious and fraught with misunderstanding than socially responsible investing. Some planners shun investors who want to invest in socially responsible ways, or they advise investors to donate their profits from non-SRI investments to social causes.
- Part of the objection to socially responsible investing is the mixing of the utilitarian nature of investing (returns, risk, liquidity, taxes) with the expressive nature of investing (patriotism, fun, social responsibility, prestige).
- Studies have shown that from a utilitarian standpoint, socially responsible investing performs just as well, on average, as conventional investing.
- This paper focuses on the author's "quiet conversations" with eight socially responsible investors, including a Catholic nun, an environmental planner, a video producer, and the owner of military-related companies. Each investor responds to such questions as what matters most to them as socially responsible investors, do they go beyond socially responsible investments such as volunteer work, are they willing to give up returns for social responsibility, and how they assess companies with mixed SRI records.
- Financial advisors already accept many investment preferences of clients and construct portfolios reflecting these preferences, such as low-risk or "home bias" portfolios. Advisors should accept clients' preference for socially responsible investments as well.

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Few issues polarize financial advisors more than socially responsible investing (SRI). Some advisors shun socially responsible investors. One such advisor told me that when prospects object to mutual funds containing stocks of tobacco companies or companies that pollute the environment, he advises them to buy Altria and Exxon stocks, and contribute their profits to anti-smoking campaigns and efforts to preserve the environment. Other advisors embrace socially responsible investors. One such advisor told me that he attracts many clients who shun advisors who dismiss concerns about social responsibility with Altria and Exxon platitudes.

Few investment issues are as fraught with misunderstandings as socially responsible investing. In truth, socially responsible indexes, such as the Domini Index, generally do as well as conventional indexes, such as the S&P 500 index. Socially responsible mutual funds do as well, on average, as conventional mutual funds (see this month's Observer Stat Bank on page 11). And advisors can construct socially responsible separate account portfolios that are well diversified and offer returns no lower than those of conventional separate account portfolios (See Statman 2000, 2006, 2007, 2008).

Part of the objection to socially responsible investing is the mixing of the utilitarian and expressive natures of investments. Risk and expected returns, along with liquidity, fees, and taxability, are among the utilitarian characteristics of investments, and rational investors care about nothing else. But normal investors care about expressive characteristics as well. Expressive characteristics are those that convey to us and to others our values, tastes, wealth, and social class.

Patriotism is one expressive characteristic. Benos and Jochev (2007) found that portfolios of stocks with patriotic-sounding names earned positive abnormal returns when peoples' patriotic sentiment and optimism about their

country were high. “Coolness” is another expressive characteristic. Google and Apple are cool today, while GM and Ford are not. Dot-coms were cool in the late 1990s as their stocks were booming. Cooper et al. (2001) found that companies boosted their stock prices by adopting dot-com names. In the early 2000s, dot-coms were no longer cool as their stock prices went bust. Cooper et al. (2005) then found that companies boosted their stock prices by jettisoning dot-com names.

## Mixing Expressive and Utilitarian Characteristics

Almost all products combine utilitarian characteristics with expressive ones. Watches are one example. An ad in the *Economist* (2007) featured actor Nicolas Cage wearing a Montblanc watch and said, “Helping others gives success true meaning. Nicolas Cage and Montblanc have made a joint commitment to social responsibility. With your purchase of Montblanc TimeWalker you are supporting a significant donation to ‘Heal The Bay.’ Montblanc TimeWalker Chronograph Automatic self-winding mechanical movement, 43 mm. Swiss made by Montblanc.”

Montblanc watches, like watches by Patek Philippe, Cartier, and IWC, have a utilitarian characteristic: they tell time. But in ads and other marketing media, the watchmakers augment time-telling with prestige, an expressive characteristic. The Montblanc ad goes further, augmenting prestige with social responsibility, another expressive characteristic.

Mixing the expressive characteristic of social responsibility with the utilitarian characteristics of risk and expected returns elicits especially strong opinions, both pro and con. Piller, Sanders, and Dixon (2007) believe that social responsibility must be included in the investment mix. They excoriate Bill and Melinda Gates in the *Los Angeles Times*, claiming that their foundation “reaps vast financial gains every year from investments that contravene its good works.” Piller et al. describe Justice Eta, a 14-month-old Nigerian baby who was immunized against polio and measles thanks to the Gates Foundation, but who suffers from respiratory trouble blamed on fumes and soot spewing from a nearby oil plant. The plant is owned by the Italian giant Eni, whose investors include the Gates Foundation.

Entine (2007) believes equally strongly that social responsibility must be excluded from the investment mix. Entine defends the Gates Foundation in the *Wall Street Journal* and, in turn, denounces Anita Roddick, the founder of the Body Shop, who “was hailed as the Mother Teresa of Capitalization” and whose company was the “world’s most popular ‘socially responsible’ investment.” Entine claims that Ms. Roddick had stolen the name, concept, product line, and even the brochure of a San Francisco store that opened seven years earlier, and is delighted that his report on the misdeeds of the company and its founder sent its stock down by more than \$600 million, “causing great anguish to social investors.”

My focus in this paper is on social responsibility. I present quiet conversations with eight socially responsible investors who highlight the expressive nature of socially responsible investing:

1. A video producer
2. A graduate student
3. A state planner
4. A consultant
5. An environmental planner
6. A Catholic nun
7. A member of the Church of the Brethren
8. An owner of military-related companies

I asked each about their ethical, religious, and societal goals, and the experiences and ideas that led them to support those goals. I asked if they could separate investment goals from ethical, religious, and societal goals, and whether they were willing to sacrifice investment returns for their goals. I also asked how they supported

their ethical, religious, and societal goals with actions beyond investments, such as volunteer work and donations.

## **What Matters to Socially Responsible Investors?**

Social responsibility means different things to different people, and the goals of socially responsible investors indeed vary.

The member of the Church of the Brethren described a proposal that the church divest its holdings of companies involved in the sale of equipment routinely used as a weapon of destruction or death in Israel and Palestine, such as the bulldozers manufactured by Caterpillar. “There are different views on this issue within the church. Any individual within the church who would like to see the church make a change in its policies, such as the divestment resolution, first takes the issue to his congregation. If the congregation agrees, it recommends a resolution to the district. If adopted by the district, the issue is brought to the governing body of the church, where the delegates discuss the issue and make a decision.”

Human dignity is most important, said the nun from a Roman Catholic order. The order also excludes companies associated with environmental degradation. “Since the late 1980s, we have avoided any companies connected with global warming.” The current emphasis on the environment illustrates how SRI has changed over the past 35 years, said the nun. “Back in the 1970s, it was human rights and South Africa...The environment was not really on the list at that time.”

Respect for employees matters to the producer. “I don’t like big-box stores very much, but when I happen to be in one, I tune to its general ‘vibe.’ If employees are unhappy, there’s a reason for it...I am appalled by incredibly high CEO salaries, and the increasing gap between rich and poor in the U.S. People need a living wage, they need health insurance—all of that is important to me.”

The overarching goal of the graduate student I spoke with is fairness for all people, so she cares about civil rights; rights for gay, lesbian, bisexual, and transgender people; and reproductive rights. “I think we can do a much better job of educating everyone equally. I also believe there should be more equitable wealth distribution. The stratification of society that we have today is morally wrong and socially untenable. We will have a revolution in the future if nothing changes.”

In my conversation with the state planner, she said she finds it odd that so many SRI funds exclude alcohol, gambling, and tobacco companies from their portfolios because those are not what she considers social responsibility issues. “It doesn’t matter to me that alcohol is being produced, but rather the environment in which it is being produced. For example, if the company is spraying pesticides near a school, or if the workers are exposed to hazards, I can’t support that. It’s bad for the environment, but worse, it’s bad for the people.”

The owner of military-related companies distinguishes between the products of a company and its behavior. The type of company, he said, whether military, tobacco, or gambling has nothing to do with holding the board and the leadership of a company accountable for socially responsible behavior. “You can choose not to invest in companies that have products or services you don’t agree with. However, in my view, SRI should be more about supporting those companies that, based upon objective criteria, are the best—or at least very good—in their field in terms of their policies and practices.” That includes good corporate governance and policies and practices that truly value employees and treat them with fairness and openness. “Being a good corporate citizen also includes the way companies treat community issues and the environment and support the communities where they reside, not just by hiring the people but by contributing to community causes.”

## **What Inspires Socially Responsible Investors?**

Socially responsible investors draw their inspiration from religion, family, books, and their own experiences.

“I grew up on the East Coast in a very upper class environment,” said the student, “but we also had a ranch out West near a very small town where all of my friends were the children of ranchers and loggers. I went to public school there, and that world was completely different from my East Coast world. Going back and forth between two worlds gave me an opportunity to see and think about how other people live, think, and feel. Seeing the world from two different perspectives is part of what formed my interest in social responsibility.”

The student added, “I went to college in the time of civil war in El Salvador, and I joined protests in Washington. I also worked for environmental causes. But I was really galvanized by an effort to pass a state law that would have allowed discrimination on the basis of sexual orientation. In other words, my friends could have been fired or denied housing because they were gay.”

“Although I was raised secularly for the most part,” said the consultant, “my core values come from my family’s religious tradition, that is, that Jewish people believe in social justice. My grandfather emigrated from Eastern Europe when he was 14. He was one of the founders of a major union local and then went on to start his own business. When I was a teenager, I was doing some work for him when there was a strike at his business, and he told me I couldn’t cross the picket lines. My mother said, ‘You have to go to work and help him,’ but my grandfather said, ‘You can’t do that.’ Those are the experiences and the key framework that led me to emphasize feminist and workers’ rights in my investing.”

“I have an undergraduate degree in molecular biology and worked in biotech and the pharmaceutical industry for seven years,” said the state planner. “At that point, I hadn’t taken any environmental classes and didn’t even have a strong interest in the environment. My interest arose later, largely as the result of reading books, not necessarily limited to the environment, including In [Our Own Best Interest](#) by William Schulz, on human rights, and [Natural Capitalism](#) by Paul Hawken. I also began to recognize that I didn’t agree with how the pharmaceutical industry was run. I was uncomfortable with several ethical flaws ingrained in the system...Part of me recognized that it’s a business, and it’s not going to change, but I decided I didn’t want to participate any more...I eventually ended up going back to school for my master’s in environmental science and management.”

Concern for the environment also inspires the environmental planner. His love for the environment arose on road trips with his grandparents through the American West. “My grandfather was very good at explaining how glaciers form, how forests regrow after a fire...and he imbued in me a strong conservation ethic.”

## Do Socially Responsible Investors Go Beyond Investments?

Socially responsible investors regularly express their social responsibility in donations of money and time to community and volunteer work, promotion of socially responsible resolutions at shareholder meetings, and direct investments in projects such as housing and micro-credit.

“The church is involved in community work and volunteerism, much beyond investment,” said the member of the Church of the Brethren. “We have active programs underway in several countries, including the Dominican Republic, Brazil, and India, where we work directly on issues such as education, social justice, and community health...”

“We are also involved in activities such as corporate actions and proxy voting,” he added. “Our general board has an office in Washington, D.C., where we lobby on political issues important to the church, both by directly contacting members of Congress and by organizing church members to contact representatives. All of our work in these areas comes out of the unifying focus on peace.”

Beyond investments, said the nun, the order is also trying to effect change through direct action, mainly in education. “Our goal is to form leaders with socially responsible values.”

The producer received a substantial amount of money in compensation for an injury she sustained. “Since we’ve had this windfall of money, we’ve been able to put our entire nest egg in SRI funds as well as contribute to organizations that work toward social goals we want to support.” She is very involved in the “green movement” and the urban biking movement. “I’m also involved in disability issues, both with legislation and advocacy and through membership in organizations that work on these issues. I view that as part of social responsibility.” “I’ve participated in boycotts against American and international corporations in support of issues such as infant health in third-world countries and fair labor practices,” said the student. “In the last few years, I’ve also become much more conscious of the choices I make as a consumer. I buy organically and locally grown products. I’m also considering buying a car, and would prefer one that runs on bio-diesel fuel...In addition, making charitable contributions is a constant part of my life...One of my primary charities is involved in providing micro-credit in developing countries, and another advocates for the rights of women and children in policy matters such as abortion and minimum wage.

“When I quit my job in biotech, knowing that I wanted to switch careers,” said the state planner, “I started volunteering at a variety of environmental organizations. I ended up getting a job with one of them—the National Wildlife Refuge—for 18 months. Then when I went back to school, I continued to volunteer for a couple of years at a law firm that takes on environmental lawsuits that otherwise wouldn’t be prosecuted.”

## **What Do Socially Responsible Investors Hope to Achieve?**

Socially responsible investors invest as they do mostly to gain peace of mind and consistency between their values and their investments. But many also hope to improve the world.

“For our church, investing according to socially responsible principles is more a matter of integrity than making a major difference,” said the member of the Church of the Brethren. “That is, if we believe tobacco has an overwhelmingly negative influence on society, we should not profit from it. If we made money on a tobacco investment, on the whole we’re worse off, even if we took every penny we made and reinvested it in beneficial programs...I occasionally see articles by investment columnists on the ‘sin’ funds that invest primarily in tobacco and alcohol, etc., advising people to take their profits from these funds and do good with them. That argument seems completely backwards to me, because the money is already out there supporting bad things.”

The student expressed a similar view. “I think the only way to separate investing from social responsibility is to put on a blindfold. If your investments cause harm and you try to alleviate that harm by contributing your profits you do no more, and probably less, than negating yourself.”

The consultant hoped her socially responsible investments would help change the world, even if in small steps. “My peace of mind is part of what I get out of SRI,” she said, “but there’s a bigger part of trying to make a change in the world itself. I don’t expect capitalism to become a socially just system just because I don’t invest in certain companies, but I do believe that I have an impact. I think that companies change their practices because of shareholder resolutions, and if there were a larger socially responsible movement the tobacco companies could not have gotten away with what they did for so long.”

“I think every little bit helps,” said the producer. “I do believe it sends a message. The more people become involved in SRI, the more companies will realize that people make their consumption and investment decisions based on their values.”

## **Are Socially Responsible Investors Willing to Give Up Returns for Social Responsibility?**

Socially responsible investors care about their investment returns. They generally believe that they can expect returns no lower than other investors. But some are willing to sacrifice returns for social responsibility.



“My husband and I became involved in SRI early on, using the Calvert funds,” said the producer. “We didn’t have enough money then to have a portfolio manager. So we bought SRI mutual funds, which actually performed very badly at that point, and we ended up leaving them...After leaving the Calvert funds, we bought plain old Fidelity funds and looked the other way. However, we didn’t feel comfortable investing that way; I didn’t even want to look at how those funds were invested. So we always kept an eye toward returning to SRI. Then, as the result of an accident...I received a large settlement. The minute I was in a position to hire an investment manager, I said, “Let’s invest in a socially responsible way...I consider it a luxury that I now have the ability to invest more in line with my values.”

“People from the church ask us fairly regularly whether we give up anything in terms of returns by narrowing the focus of our portfolio through negative screens,” said the Church of the Brethren member. “Often it’s phrased just that bluntly: “How much does it cost me to invest with you and exclude those things from my portfolio?” On the pension side, it’s people asking about their own assets, and the implications for their retirement. On the other side, it’s more a question from representatives of the congregations, which have received donations and bequests, and the representatives have a fiduciary responsibility for those assets. They may agree with the screens from a personal standpoint, but as fiduciaries they want to think very carefully about the investment of that money. We ask our managers several times a year about how our screened portfolios compare with their unscreened portfolios. Sometimes we hear for a quarter or two that the screens really helped us, or the screens hurt us a little bit. However, when we look at our returns over time, say ten years, we are right in line with, or slightly ahead, of broad market indexes. That means that we’re not giving up a thing relative to the market.”

“Our investments have performed very well,” said the nun, “and we don’t believe we’ve had to sacrifice any returns to have a portfolio that is consistent with our values. I’ve been to conferences with the people who are doing the investing, and the theory is that either a company is going to comply with, for example, reporting carbon emissions, or else the company will go down the drain.”

“I’ve made the decision to shift my investments to socially responsible vehicles, but I haven’t yet made the actual shift,” said the student. “I brought it up with my father, who was in the financial services business, and with my financial advisor and my attorney, and the response from all three originally was that I am likely to generate lower returns. They advised me to invest where I would get the highest returns and then give away all of the money if I wanted. I didn’t have the knowledge or the information to contradict their opinions, and I didn’t have the time or motivation then to do the research myself, so I continued down the path of least resistance, which was to invest the way my whole family had always done. In the past year, however, I did some research on my own, and I learned very much. I had heard people say that studies showed socially responsible investments did not earn lower returns, and I went and found the studies, and now I know that SRI returns are neither necessarily lower nor higher.”

## How Do Socially Responsible Investors Assess Companies with Mixed SRI Records?

Companies are rarely all good or all bad. “The problem today is that most companies are into so many different businesses, so sometimes it’s all shades of gray,” said the nun. “The companies may be virtuous in one area, and not so virtuous in another. Raytheon, which manufactures missile defense systems, has wonderful ethical guidelines for the company itself and for its employees, but given the nature of the business in which it’s involved, we come to the conclusion that we don’t want to make an investment in Raytheon.”

“When it comes to investing in companies with mixed records—good in one area and bad in another, I think all of us involved in SRI are making compromises all the time,” said the producer. “There’s a company that’s setting up a large wind farm in the area where we have our summer home, which should be a good thing. However, this company has been running roughshod over the local farmers in buying land for putting up its wind turbines. So in this case, the company is not looking out for the community. It’s just an example of how you constantly have to look at the big picture and figure out where you stand and make your choices.”

“I have to balance a company’s track record on social responsibility with the many different societal and ethical goals I have,” said the student. “What matters is not so much what a company’s specific transgression might be, but rather how egregious it is. For example, I might not rule out a tobacco company if it had a really good record on the environment and diversity.”

## Conclusion

Socially responsible investors attempt to integrate their ethical, societal, and religious values with their investments. They find it impossible to separate the utilitarian characteristics of an investment, such as its risk and expected returns, from its expressive characteristic of social responsibility.

Not all values are shared by all investors and not all socially responsible investors are alike, but socially responsible investors find meaning in those words and that meaning is often lost in noisy debates between advocates of socially responsible investing and its detractors.

I present here a few socially responsible investors in their own quiet words. They tell us about their ethical, societal, and religious goals and about the experiences that led them to their goals. They also tell us about their investments and their efforts to further their goals beyond their investments. We listen to a nun saying that the most important issue to her order is human rights and human dignity, a video producer telling of the need to balance her desire for socially responsible investing with her financial reality, a student telling of growing up wealthy and awakening to social responsibility by encounters with poor children, and the owner of military-related companies arguing that SRI should be about supporting companies that have the best policies and practices rather than companies whose products we like.

Financial advisors accept many preferences of clients and construct portfolios reflecting these preferences. They accept clients’ preference for low risk by constructing low-risk portfolios. Advisors accept the home bias of clients, even if they advise against it, by allocating little to international stocks. They accept clients’ desire for status symbols by investing in hedge funds that admit only the very rich. Advisors admit clients’ preference to splurge on cruises, even if they themselves would jump overboard if forced on one. It is time for financial advisors to accept the preference for socially responsible investments as well.

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