



OPERATION MATTERS

Socially Responsible Investing: Investors Merge Morals with Money

By Sean Minogue

In the midst of the energy conservation era and an ever increasing need to do good, companies around the world are modifying their business practices to satisfy corporate governance regulations and social responsibilities. Corporations need to ensure stability, morality, and legitimacy to investors and employees alike. Investment trends have become ecologically and socially sympathetic, as an innovative realm of business ventures has recently surged. Businesses and investors are advancing their efforts toward the development of Socially Responsible Investing (SRI).

SRI involves investing in companies that share similar social or moral convictions, and avoiding those that associate with social or environmental immoralities. Investors determine which companies are using responsible technologies and practices, investing in the advancement of such pursuits. There are a range of opportunities to invest in these technologies, from solar and wind power to electric and hybrid motors. Investors are recognizing the growing demand for cleaner technologies and sustainable business practices for possible financial profits as well.

Investors engage in three basic strategies of SRI—screening, shareholder advocacy and community investing. Screening, the primary method in SRI, occurs when an investor evaluates a company's practices and portfolios and determines whether those methods meet the socially responsible criteria. Through screening, investors thoroughly examine the company's history and corporate integrity to decide upon an investment company. Shareholder advocacy is another approach in SRI where an owner or investor actively participates in the company's practices and encourages socially responsible business methods. The last method of SRI involves community investing, which occurs when investors and lenders distribute capital to underdeveloped or less fortunate markets in order to

economically stabilize and support lower income individuals or small companies. This method provides jobs, child care, homes and health care for low-income communities.

Collectively, these strategies have created staggering growths in SRI trends. According to the 2007 Report on Socially Responsible Investing Trends in the United States, SRI assets have increased 18 percent from 2005 to 2007, an alarming number compared to all other professionally managed assets which increased less than three percent over the same time period. The

SRI – A Short History

Although SRI has become popular recently, its roots can be dated back to ancient religious practices. The Quakers of the 16th century integrated their spiritual values along with their economic ideals by sustaining an economy based around their core beliefs. Primitive Jewish businesses also regulated strict moral codes within their economy.

A more contemporary history can be dated to the 1920's, when religious groups petitioned against investments in gambling, alcohol, and tobacco. The most critical era in the SRI movement was during the apartheid in South Africa: Large institutions ceased their investments in South African companies because of their failure to eliminate discrimination within their business practices. The lack of investments forced 75 percent of the South African workforce to request an end to apartheid, thus playing a significant role in an end to the discriminate system. After the South African divestiture, socially responsible investing garnered more respect and sincerity from companies and investors. Universities, colleges, churches and pension funds embraced the integration of morals and economics, and became the leading proprietors in the SRI industry.



report estimated that roughly 11 percent of all assets under professional management in the U.S. are involved in SRI, which is nearly one out of every nine dollars. These statistics reflect the recent growths in SRI. The first Report on Socially Responsible Investing Trends in the United States was written in 1995, when SRI accounted for only \$639 billion in assets. Today SRI accounts for \$2.71 trillion in assets. These staggering growths emphasize the emergence of socially responsible investing and the latest investment opportunities in SRI.

The backbone of the SRI industry consists of numerous shareholders and activists who have helped spearhead the SRI movement since its inception. Sister Susan Mika is the Executive Director of the Social Investment Coalition, a Texas-based organization comprised of like-minded shareholders and religious supporters. Mika was a leading proponent of the initial SRI movement, expressing her ideals with corporations like WalMart as early as 1982. Mika urged WalMart to complete an annual sustainability report, a yearly account of their economic, ecological, and social performance.

"You can see the impact that our work has because there is the ripple effect. If you have a company like WalMart saying they're going to do the sustainability report, and ask all of their suppliers to do the same, there are many more companies looking at sustainability for the long term," Mika says.

Sustainability reports ensure social responsibilities by explaining and documenting their non-financial, social obligations. Today, sustainability reports are a common practice for major corporations like WalMart, Pepsi Co., UPS, Dell, etc.

Mika continues to support the advancement of SRI and corporate responsibility and acknowledged the growths in SRI and its inevitable staying power.

"There is more of an awareness from groups and individuals that it does make a difference how you are making your money. This is an area that's not going to go away," says Mika.

Mary Jane McQuillen, Director of Socially Aware Investments with ClearBridge Advisors, a unit of Legg Mason, attributes the recent growth in SRI to the increased recognition by institutional investors that, as fiduciaries, well-managed SRI products can be considered viable investment options. In the past, SRI was perceived to be about “restricting the investment universe,” McQuillen says. Institutions and investors once thought socially responsible practices were merely placing limitations on their business opportunities, instead of enhancing and diversifying investment possibilities. Today, larger firms are acknowledging and participating in these opportunities; the perception has become more positive.

Numerous groups and coalitions have been formed to establish this positive perception of SRI, most notably the Social Investment Forum (SIF). With over 500 social investment practitioners and institutions, the SIF dedicates itself to the advancement and promotion of socially- and economically-integrated investments. The SIF encourages emerging managers and large institutions alike to join their network of like minded professionals. Collectively, members of the SIF produce academic research and information to disseminate the knowledge and capabilities of socially responsible investors. It also acts as a support system for the SRI community.

Cheryl Smith, Chair of the Board of the SIF, believes investors and practitioners are embracing socially responsible practices after recognizing the moral incentives and financial possibilities.

“It increases the client’s ties to the business, and so it decreases client turnover because clients are highly satisfied with this and really want this service. They’re more committed to it, they’re more emotionally involved and that’s not something that every manager can provide,” Smith said.

Previous critics of SRI argued that social investing practices could only be achieved at high costs. Smith, however, maintains that these initiatives are feasible.

“We have a significant body of academic research indicating that there isn’t a performance cost for doing socially responsible investing,” Smith added.

As SRI presses onward, companies around the world are adapting to the movement. Citigroup Inc. has announced they will allocate \$50 million to alternative energy and clean technologies through investments over the next 10 years. Chevron, along with Bank of America, has joined the San Jose Unified School District to create the largest school program dedicated to solar power and energy efficiency education. Global corporations are recognizing opportunities in social investments and initiating ethical business practices. With regards to the future of SRI, Smith, Mika and McQuillen are all in accordance with their prediction that the SRI movement will continue as long as there are moral values and gainful efficiencies within the market.