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Religiously-Motivated Investing

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Religiously Motivated Investing

Religiously Motivated Investing and the Socially Responsible Investment Community

Religiously motivated investing (RMI) is a rapidly evolving core component of the larger socially responsible investment community. Understanding the contextual nuances of RMI and its placement within this community requires a brief overview of socially responsible investing itself. The term socially responsible investing (SRI) encompasses an investment strategy whereby financial contributions are placed into investment vehicles designed to combine the traditional investment philosophy favoring profit-maximization with a values-based component seeking non-financial benefits. Such non-financial benefits are often referred to as social returns. These social returns vary in scope, but may be broadly defined as corporate policies and actions that enhance a socially responsible investor's specific environmental, religious or social values. It is important to note that such enhancements may or may not have any impact on the profit-maximization component of the socially responsible investment. Therefore, a successful socially responsible investment portfolio will appreciate in value over a specific time period (when compared to an appropriate financial benchmark or to returns from a traditional and similar-situated investment portfolio) while also significantly advancing an investor's specific social values. A quasi-successful SRI portfolio may earn sub-standard financial returns but successfully advance an investor's specific social values – a result acceptable to many socially responsible investors. Although socially responsible investing is the most common term for this practice in the United States, the concept is also referred to as ethical investing (primarily in the United Kingdom and Australia), moral investing or values-based investing.

Today, major institutional investment groups such as corporations, hedge funds, insurance companies, mutual funds, pension funds, religious institutions and universities, along with the environmentally/religiously/socially motivated individual investor, are becoming increasingly involved in socially responsible investing. Similar to the traditional investment community, religiously motivated investors take advantage of three distinct investment strategies to advance their investment goals: (1) Social Screening - the affirmative investment in (or divestment of) companies meeting (or failing to meet) pre-determined social investment objectives; (2) Shareholder Advocacy – a process by which investors choose to initiate discussions with company management, sponsor or co-sponsor shareholder resolutions and/or boycott company products or services in an effort to induce company management to modify policies in accordance with specific social objectives and (3) Community Investment - where investment funds are channeled directly to communities where such resources have been historically scarce with the intention of fostering regional economic development.

At the dawn of the twenty-first century, the SRI industry claims that over \$2.16 trillion is invested in professionally-managed portfolios implementing at least one of the three SRI investment strategies mentioned previously. This figure, touted as representing one out of every nine dollars invested professionally in the United States, grew from \$1.19 trillion in 1997 and from \$40 billion in 1984. It is important to note that many scholars remain skeptical of the accuracy of these figures and towards the effectiveness and widespread use of SRI. While many peer-reviewed academic studies demonstrate that socially responsible investing earns sub-standard returns and is merely growing in pace with the traditional investment strategies, other studies demonstrate that socially responsible investing is becoming more prominent and that

socially responsible investors are increasingly able to achieve desired social objectives while also earning competitive returns as compared with traditional investment philosophies.

Three Core Classes of SRI Investors

SRI is an umbrella concept covering three core groups of socially responsible investors: (1) environmentally-motivated investors (EMI), (2) religiously motivated investors (RMI) and (3) socially-motivated investors (SMI). While all three core groups seek social returns along with capital appreciation, the major difference between these investors stems from the motivations behind their investment practices. Environmentally-motivated investors generally seek to invest in companies where corporate policies and actions either benefit, or do no significant harm to, the global or local environment. Issues such as global warming and deforestation often top the agenda of EMI. Religiously motivated investors are generally guided by issues central to their particular religious traditions. Historically, core RMI issues revolved around alcohol, gambling, and tobacco and have recently encompassed human dignity and anti-family entertainment as well. Socially-motivated investors, not specifically motivated by environmental or religious issues, generally invest in companies whose policies and practices adequately address key contemporary social issues like diversity, discrimination and corporate governance. Although these distinctions make for a clean categorization of investment motivations they are not perfect representations of the SRI community overall. For instance, the investment strategies of many religiously motivated investors may focus on issues more commonly found in the environmentally or socially-motivated investment communities. In fact, at any time, a socially responsible investor may be interested and invested in companies dealing with issues important

to all three core SRI groups. While such issue crossovers commonly occur, at any given time the majority of socially responsible investors can be classified as primarily EMI, RMI or SMI.

Religiously motivated Investing: In-Focus

Members of the religiously motivated investing community hail from diverse religious philosophies; for instance, the Catholic Sisters of Charity of Cincinnati have emerged as effective shareholder advocates while managers of the Amana Mutual Funds are expanding the practice of investing according to Islamic-investment principles. Although various world religions can stake a claim to investing according to their religious practices, the most prominent RMI investors come from the Christian, Islamic and Jewish religious traditions. Historically, a less sophisticated form of RMI emerged in America during the early twentieth century as certain religious groups – specifically the Methodists and the Quakers – expressly avoided investing in companies dealing in alcohol, gambling or tobacco also known as the “sin stocks.” The contemporary history of RMI began in the 1960s as certain groups of religiously motivated investors, opposed to the Vietnam War, screened from their portfolios companies involved in the production of weapons or military-related products. In the 1980s, religiously motivated investors joined forces with many other socially responsible investors urging divestment from companies involved in supplying products or services to or within the apartheid regime in South Africa. The tobacco-related litigation of the 1990s shed light on this key RMI issue as religiously motivated investors lobbied for additional restrictions on the production, distribution and selling of tobacco and tobacco-related products. At the turn of the twenty-first century, areas such as human dignity (sweatshop and child labor) and anti-family entertainment (graphically sexual or violent programming in television, movies or video games) are beginning to garner the attention

of the religiously motivated investment community while the traditional avoidance of sin stocks remains prominent.

RMI emerged as a specific investment philosophy as religious adherents began to realize that companies included within their investment portfolios were not operating in accordance with their religious beliefs. While continually striving to incorporate specific religious philosophies into their everyday activities, friendships, relationships and careers, these investors either were unconcerned or unsure what products and services their investment dollars were promoting. To remedy this contradiction, these investors began to incorporate their religious beliefs into their investment philosophies. Today, in order to make their investment strategies compliant with their religious tradition, RMI look for guidance to their religious philosophies, sacred texts and community religious leaders in determining the issues upon which they will focus their investment energies. Once these core issues are selected, religiously motivated investors commonly undertake a combination of the key SRI strategies of social screening, shareholder advocacy and community investment.

RMI & Social Screening

Similarly to contemporary EMI and SMI groups, religiously motivated investors utilize social screening techniques to develop their investment portfolios to meet pre-determined religiously motivated objectives. While this practice involves a small amount of screening specific companies into portfolios (positive screening), the majority of RMI groups screen from their portfolios companies not meeting their social standards (negative screening). Such negative social screening results in an investment portfolio free from companies whose policies contradict

moral principles of the particular investor's religious tradition. Today, issues such as human dignity and anti-family entertainment combine with the production, distribution and selling of alcohol, gambling and tobacco as the most common negative screens for religiously motivated investors.

RMI & Shareholder Advocacy

Religiously motivated investors also utilize common shareholder advocacy tactics, including discussions with management, shareholder resolutions and boycotts attempting to move corporate policies closer to specific religious investment objectives. While alcohol, gambling and tobacco remain potent issues for RMI shareholder advocacy, the same emerging issues found in the screening process are often subjected to advocacy practices as well. For example, major religiously motivated investors, led by a Catholic group, recently co-sponsored a shareholder resolution at the Walt Disney Company urging company executives to analyze and report how the prominent placement of smoking in television commercials and movies negatively influences society - particularly teenagers. Another Catholic investment group recently urged a major Fortune 500 company to report on the economic effects – both foreign and domestic – of its foreign weapons and weapons-related sales.

In addition to the predominantly RMI issues, religiously motivated investors are also concerned with mainstream EMI and SMI issues. A recent example of this cross-interest emerged out of the recession of 2001 and the renewed focus on corporate governance. During 2005, Baptist, Catholic and Methodist investment groups co-sponsored shareholder resolutions alongside socially-motivated investment groups advocating for the separation of the Chief Executive

Officer and Board Chairperson roles and an analysis of excessive executive compensation. Additionally, allying with environmentally-motivated investment groups such as the As You Sow Foundation, the Adrian Dominican Sisters advocated against genetically-modified organisms that may allow dangerous substances into the world's agricultural environment. These groups co-sponsored a shareholder resolution asking the DuPont Company's board of directors to review company internal controls and report to shareholders concerning the potential impact on the worldwide seed market and risk management.

RMI & Community Investment

Religiously motivated investors are increasingly joining the community investment movement by providing financial assistance in communities traditionally underserved by financial institutions in an attempt to stimulate economic development. RMI groups are among the many SRI community groups allocating funds into Community Development Financial Institutions (CDFIs) to provide affordable housing, entrepreneurial micro-loans and job opportunities where such opportunities have been historically scarce. In 2001, the Social Investment Forum – a national non-profit SRI trade association – issued the 1% Mark challenge. This challenge urged the entire SRI community to invest at least one percent of their assets into community investment programs. In 2002, The Mennonite Mutual Aid Praxis Mutual Funds became the first religiously motivated investment group to achieve the 1% Mark challenge goal.

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See also:

- Christian Ethics
- Islamic Ethics
- Jewish Ethics
- Socially Responsible Investing
- Social Investment
- Social Investment Forum
- Stewardship

Further Readings and References:

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