AMERICAN UNIVERSITY

W A S H I N G T O N, D C

Department of Economics

Working Paper Series

Socially Responsible Investment and Pro-social Change

By:

Martha Starr
Associate Professor
Department of Economics, American University

No. 2007-23
July 2007

http://www.american.edu/academic.depts/cas/econ/workingpapers/workpap.htm

https://doi.org/10.17606/7pm8-nq62

Socially Responsible Investment and Pro-social Change

Abstract

Socially responsible investment (SRI) refers to investing in companies based on financial and social performance, where the latter includes such concerns as the environment, sweatshop labor, and animal testing. This paper argues that SRI strongly resembles pro-social behaviors and social dynamics found in experimental settings. The role of *fairness-related sanctioning* is emphasized, wherein companies that treat their various stakeholders "fairly" are screened into SRI portfolios, while those treating them poorly are screened out. It is argued that, because SRI creates opportunities for businesses to thrive relative to their competitors by improving social performance, it creates some scope for pro-social change. Still, the magnitude of changes that can be expected from voluntary changes in business behavior remains to be determined.

JEL Codes: M14, D63, D64, G11
Keywords: Social responsibility, pro-social behavior, fairness, investment decisions, corporate culture

Please address correspondence to:
Prof. Martha Starr
Dept. of Economics, American University,
4400 Mass. Ave. NW, Washington, DC 20016, USA.
Email: mstarr@american.edu
Tel. (202) 885-3747
Fax (202) 885-3790

Martha A. Starr is a faculty member in the Department of Economics at American University in Washington, D.C. email: mstarr@american.edu. She would like to thank Deb Figart, Ellen Mutari, Mark White, seminar participants at the 2007 annual meetings of the Eastern Economics Association, and especially Adam Seitchik of Trillium Asset Management for valuable comments on earlier versions of this paper.

I. Introduction

Beginning with 1980s activism intended to stop foreign investment in South Africa, there has been a rise in “socially responsible investment” (SRI) in the U.S. and Europe. While definitions vary somewhat, SRI generally refers to the selection of investments based on both traditional financial criteria and also on key dimensions of firms’ social performance. Commonly identified aspects of social performance include: producing safe and useful products; minimizing adverse environmental impacts; implementing workplace practices that favor workers’ well-being; adopting labor standards for overseas operations; and contributing positively to surrounding communities. SRI may also involve engaging in dialogue with companies about ways to improve their social performance through shareholder advocacy and resolutions.

While there has been a considerable amount of financial and business research on socially responsible investment and the related phenomenon of corporate social responsibility (CSR),[1] social responsibility has attracted much less attention in economic research. This is unfortunate both because the idea of social responsibility poses a number of problems for core economic ideas, and because it is a phenomenon of sufficient empirical importance as to have some potential to re-shape patterns of production and consumption in the global economy. The basic mechanism via which businesses are induced to show greater concern with social dimensions of performance is activism by socially-concerned groups, including religious organizations, interest groups oriented to specific issues (environment, labor, human rights, animal welfare, etc.), consumer activists, and institutional investors and mutual funds that practice SRI. Upon expression of concern about a business’s practices, many businesses voluntarily take actions to address identified problems, not out of social concern *per se* but rather to minimize adverse publicity, stem loss of sales, and/or mitigate adverse effects on the stock price. The change in the business context then, wherein businesses can anticipate having problematic aspects of their social performance come under scrutiny, creates incentives for them to address problems preemptively, at least when the expected benefits are sufficiently high to offset the costs. It is conceivable at least, that if the pressure exerted by newly evolving norms of social responsibility are sufficiently strong, they could produce a “race-to-the-top” wherein companies compete along social and financial dimensions, in contrast to the “race-to-the-bottom” wherein profits are exclusively prioritized, that has been of much concern in recent years.

The phenomenon of SRI poses a number of interesting problems for core economic ideas. For one, as much as the idea of “moral sentiments” has been a part of economic thinking since

[1] For a valuable overview, see Vogel (2005).

Adam Smith, there has been little rigorous work until recently on the nature and composition of *social preferences* – that is, preferences towards ways in which social and economic life are patterned.[2] It is increasingly recognized that, contrary to predictions of standard economic theory, people often behave in "other-regarding ways," that is, as though they are concerned about the implications of their actions for the wellbeing of others. Thus, for example, much recent research finds that, in experimental situations, people often interact according to norms of fairness, rather than pursuit of individual gain.[3] Other work claims to identify basic social preferences common among people, such as "inequity aversion," wherein people seek to reduce inequalities within a group, even at a cost to themselves. Certainly such "social preferences" - as institutional and social economists have long argued – should be seen not as hardwired into human cognition, but rather as reflecting complex combinations of psychological predispositions and institutional and cultural processes, where both are evolutionarily shaped.[4] Yet at a conceptual level it remains poorly understood how social preferences arise and what sustains them; and at an empirical level, apart from the limited senses in which they are investigated in the lab, it is poorly understood what common patterns of social preferences are or how they could be identified in a given context. The case of socially responsible investment is interesting in this regard: because SRI is motivated by the desire to reduce the distance between social life *as it is* and social life *as it should be*, it yields interesting insights into what one group of people – admittedly of a socially concerned bent – thinks about the latter.

Another other core economic idea for which SRI poses a challenge concerns the issue of social welfare maximization in an economic system dominated by private, profit-seeking businesses. Traditional economic theory holds that social welfare will be greatest when businesses are allowed to operate relatively freely, save for the occasional intervention to correct problems of externalities, public goods, and other market failures. But it is the *government* that is expected to address these occasional deviations between private and social optima, in part on the grounds that collective action can be enormously hard to initiate and sustain in "large n" social problems. In socially responsible investment, however, as in the social-responsibility movement in general, small numbers of people seem to be able to induce notable changes in

[2] Note that the notion of "social preferences" used here is broader than that used in the experimental literature. For example, Fehr and Fischbacher (2002: C2) say that a person exhibits social preferences if she "not only cares about the material resources allocated to her but also cares about material resources allocated to relevant reference agents." Camerer and Fehr (2004) define social preferences as referring to "how people rank different allocations of material payoffs to themselves and others."
[3] See Meier (2006) for a valuable review.
[4] See also Hodgson (2007) for discussion. A clear illustration of this is that fairness-related behaviors in games vary across cultures, reflecting social traditions and features of the economic environment (Heinrich et al. 2004).

corporate behavior, even in situations where the government seems unable to address concretely problems of broad-based public concern (e.g. sweatshops). This by itself presents a puzzle in terms of the standard economic view of government's role in market economies. It also raises the question as to whether responsibility-oriented actions have sufficiently strong effects on corporate behavior as to be able to close gaps between private and social optima, rather than just narrowing them: because it is up to corporations to decide what dimensions of social responsibility to address and how much action to take, there is no guarantee that their voluntary social improvements will be welfare-maximizing.

The purpose of this paper is to examine the phenomenon of socially responsible investment, with a view towards evaluating whether it has potential for promoting pro-social change. The next section discusses conceptual aspects of the idea of "social preferences" and the role they may play in SRI, drawing ideas from recent research on fairness-related behavior in games. It is shown that the principle of "reciprocal fairness" -- wherein people treat kindly those people who have treated them well, but treat negatively those who have treated them poorly – is quite important in SRI. Specifically, decisions about what stocks to include in an SRI portfolio are largely a matter of *oblique reciprocal fairness*, wherein companies are selected into or out of the portfolio based on how they treat their various "stakeholders," including customers, workers, surrounding communities, all those affected by the company's ecological footprint, as well as shareholders. The third section examines the specific criteria used to select stocks for SRI portfolios, using them to derive insights into the "revealed preferences" of SRI investors. Their preferences suggest strong aversions to certain business practices, including: cultivating and profiting from harmful dependencies rooted in addiction, profiting from and facilitating the use of deadly force, and callously profiting from the desperation of the poor and the helplessness of animals. The fourth section argues that SRI should be understood as part of a broader effort to shift social norms governing businesses and their relationships to society. It is argued that part of why social-responsibility actions have potential to succeed where government efforts may be less effective is that they work from within the dominant business logic: because they affect businesses' profits, such actions, in combination with forces of competition, can impel businesses to "care" about social performance, creating some scope for pro-social change.

I. Social preferences and their relation to SRI

The role of social preferences in investment behavior has not been much explored. The standard paradigm for understanding stockholders' behavior frames them as caring only about pecuniary risks and returns.[5] However, given that material gains and losses are not the only things about which people care, there is no *a priori* reason to assume that their decisions about selecting and managing financial assets are not influenced by other factors. Of course, in the mainstream of the investment world, social and moral values above and beyond those spelled out in laws or financial regulations would seem to play an ignorable role in the everyday financial conduct of investment professionals and individual investors.[6] Still, as Milton Friedman himself pointed out, this does not mean that typical shareholders are devoid of interest in how the companies in which they hold stock perform socially:

> In a free enterprise, private property system, a corporate executive … has direct responsibility to [the owners of the business]. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law *and those embodied in ethical custom* (1970:17, italics mine).

That is, they may not care much about social performance as long is it remains pretty much in line with prevailing social norms – although Friedman does not elaborate.[7]

In contrast, social considerations are treated as a central aspect of investment decisions in the SRI sub-sector. Yet what exactly these considerations are and how they should be conceptualized are not clear. A standard paradigm for thinking about the role of "social preferences" in economic behavior would be that of Gary Becker, who has portrayed prevailing social norms as shaping individual preferences, such that they then affect how people go about maximizing utility. In this frame, people whose upbringings emphasized social values may invest in ways that seem to promote the interests of others as well as their own; still, they do so because raising the utility of others raises their own utility, so in a sense its motivation is not selfless at all.[8] This requires some element of "irrationality," however: as with voting, the investment decisions of a single individual (except perhaps Warren Buffet) or even a single institution (except perhaps CalPERS) are too small to have an effect on market-level outcomes, so the anticipation of contributing to social amelioration cannot be the motivation for doing it. An alternative, then, is that SRI investors prefer socially responsible portfolios to others

[5] For example, the classic treatments of Markowitz (1952) and Tobin (1958).
[6] See Zalewski (2003: 504-505) for discussion of disadvantages, even to shareholders, of narrow-minded focus on shareholder wealth.
[7] On this point, see also Champlin and Knoedler, who discuss J.M. Clark's (1916: 219) view that on, the contrary, unregulated, profit-driven business activity amounts to a "system of *ir*responsibility" –- not at all one which the businessperson's "struggle for financial success" fulfills the "whole duty that society can reasonably impose upon his business hours" (italics mine).
[8] See Meier (2006) for discussion.

because they feel better about investing in companies with good social-performance records; in Andreoni's (1994) terms, perhaps they get a "warm glow" from holding shares in companies that are well-regarded corporate citizens, but feel a "cold prickle" if they hold shares in companies that earn their profits in problematic ways.

Of course, there is much wrong with this paradigm, including its assumption of a rationally deliberative agent who maximizes his own utility subject to preferences that are stable and exogenously-constituted. For one, as institutional economists have long emphasized, "preferences' –- understood in the general sense of Bowles (1998: 78) as "reasons for behavior, that is, attributes of individuals that (along with their beliefs and capacities) account for the actions they take in a given situation" –- are far more fruitfully understood as arising from the interaction of biological and socio-cultural variables, wherein "institutions … frame our cognitions, enabl[ing] some behavioral options and constrain[ing] us from others" (Hodgson 2007: 331), but where people are also understood as having agency to decide how to act.[9] For another, as the booming recent literature on social norms and cooperative behavior in social contexts makes clear, the view of the person as inexorably self-interested is simply not borne out empirically. Much experimental evidence shows that people often behave in ways that, rather than narrowly maximizing their own self-interest, implicitly promote pro-social outcomes, even if it means foregoing personal gains.[10] Notably, they tend to split windfall gains in even ways even if they stand no chance of benefiting from doing so, and they tend to punish people who split gains "unfairly." These findings are sufficiently strong to suggest to some that people are better conceptualized as homo *reciprocans* than *homo economicus* (Bowles and Gintis 2002).

As plausible as it is that evolutionary advantages may have etched pro-social tendencies into human psychology, it is also clear that there is nothing mechanistic about how, when, and why people behave in other-regarding ways. Thus, for example, in game situations, fairness-related behaviors have been found to vary along several dimensions: they vary across cultures, they are not uniform among people within a given culture, and they may differ according to how the "game" is framed (Heinrich et al. 2004). Again this is consistent with the idea that social preferences, like other types, are a product of both "biological and social heritage" (Hodgson

[9] See Hodgson (2007: 329, 336) and references given therein. Thus, as Veblen (1898: 195) put it, while it is what people do habitually that "decides what they can think and know easily," they are not slaves to habit: "man mentally digests the content of habits under whose guidance he acts, and appreciates the trend of these habits and propensities" (Veblen 1898: 188).

[10] See, for example, Elster (1989), Etizioni (2000), Ostrom (2000), Fehr and Schmidt (1999), Fehr and Gächter (2000), Charness and Rabin (2002), Fehr and Fischbacher (2002), Camerer and Fehr (2004), Henrich et al. (2004).

2007: 331). Nonetheless, it is possible to identify certain patterns of pro-social behavior that tend to emerge in experimental settings, and are probably indicative of common socio-cultural values upon which people tend to act.[11] Fehr and Fischbacher (2002) identify four different types of pro-social behaviors in this regard: (a) *reciprocal fairness*, in which people respond kindly to those actions perceived to be kind, and hostilely to actions perceived to be selfish; (b) *inequity aversion*, in which people increase the material payoff of a person whose payoff is below some equitable benchmark, but reduce the payoff if it exceeds it; (c) *pure altruism,* in which people value the material payoff to a relevant reference agent positively and will not do anything to reduce it, and (d) *envy or spite*, in which people value the material payoff to the relevant reference agent negatively and will take actions that decrease it. From manipulation of experimental conditions it is also clear that people behave in these ways even when there is no chance that their action could be rewarded or when a personal cost is involved.

Nonetheless, consistent with the idea that social preferences reflect various socio-institutional influences and individuals' own ways of processing them, recent work also suggests that people are not uniformly or consistently pro-social in their behavior towards others: some are consistently pro-social; others behave pro-socially along some dimensions but not all; some are erratic in pro-social behavior; and a substantial fraction consistently behaves in a purely selfish way.[12] But an important finding from game settings is that the presence in social dilemmas of people who behave consistently pro-socially can have important effects on outcomes because, as Fehr and Fischbacher (2002: C4) underline, "the presence of reciprocal types often changes the material incentives for the selfish types which induces the selfish types to make 'non-selfish' choices." Thus,

> … a selfish person is deterred from behaving opportunistically if the person expects to be punished by the reciprocators. Likewise, a selfish person may be induced to behave in a co-operative and helpful manner because she expects the reciprocators to return the favour. Since the presence of reciprocal types changes the pecuniary incentives for the selfish types, the reciprocal types often have a big impact on the aggregate outcome in markets and organizations (p. C4)

An alternative way of thinking about SRI, then, is that socially responsible investors have relatively strong pro-social inclinations, which leads them to aim to manage their investments according to an oblique extension of reciprocal fairness: they react positively to companies that are notably fair in dealing with their various "stakeholders" – i.e. workers, customers,

[11] This latter point is developed in Section IV below.
[12] See Fehr and Fischbacher (2004a) for discussion and data.

shareholders, surrounding communities, and all those affected by the company's ecological footprint – and react negatively to those that are notably unfair while making good profits.[13] This oblique reciprocal fairness differs from the "regular" variety identified in game situations in that what is getting reciprocated is not companies' fairness towards investors themselves but rather towards other stakeholders.[14] Examples of notable fairness could include adopting rigorous environmental standards or pro-worker labor standards, contributing positively to community development, or limiting the chief executive's salary. Examples of unfair dealings could include using sweatshop labor, selling unsafe products, skimping on employee benefit programs, or failing to control harmful emissions. Here investors' positive or negative sanction of the company concerns primarily the decision about whether to buy or sell its stock; it may also concern a decision to participate in shareholder advocacy directed towards changing poor practices. In both cases, public declaration of the rationale for the decision is essential to the sanction.

At issue here is whether such fairness-related sanctioning actually has potential to bring about appreciable changes in corporate behavior. On one hand, as experimental work shows, the ability of "reciprocal types" – people with strong tendencies towards pro-sociality - to move social outcomes in pro-social directions dissipates quickly as the number of participants increases, and as the share of "selfish" agents rises. Certainly the number of participants in U.S. equity markets is huge, including 7,500 publicly-traded corporations, 2,000 institutional investors, and tens of millions of individual investors. Moreover, SRI represents a small segment of the equity market, with its holdings estimated at around $2 trillion in 2005, versus a total stock-market capitalization of about $18.3 trillion.[15] Many of those controlling the rest of the investment dollars may be low in pro-social preferences, so that their interest in social performance would be limited to whatever predictive value it has, if any, for expected profits. Thus, some critics view SRI as cultivating an ethical image to attract investment dollars, but without any real ability to influence social outcomes.

On the other hand, direct effects in equity markets are only one of the avenues via which SRI may alter the incentives faced by corporations. As mentioned above, SRI actions are often part of broader social-responsibility campaigns that target specific issues, companies, or practices of broad concern. Of particular effectiveness are campaigns that attract the attention of the general public, like those targeting a major corporation (e.g. Nike) and/or tackling an issue of

---

[13] See Stanfield and Carroll (2004:364-365) on the subject of stakeholder theory.
[14] Fehr and Fischbacher's (2004b) refer to oblique extensions of fairness-related behaviors as "third-party sanctions".
[15] Figures from U.S. Census Bureau (2007), Social Investment Forum (2006), and the Federal Reserve Board (2006).

common social concern (sweatshops).[16] In this case, corporations often act as though their profitability could be substantially affected by a loss of the public's good will, and they can be prompt in taking measures to address identified problems as though to stave off loss of sales. While the extent to which such actions bring about meaningful improvements in social performance -- as opposed to changes with public-relations value but little substantive effect -- remains to be established, the fact that SRI's fairness-related sanctioning takes place in the context of multiple projects to raise social responsibility gives it a potential impact out of proportion with its possibly rather modest capital-market effects.

II. <u>The "revealed preferences" of socially responsible investment</u>

In this section, we look at the "revealed preferences" of socially responsible investment, aiming to relate them to the idea of oblique reciprocal fairness – wherein SRI investors negatively sanction companies judged to be treating their stakeholders unfairly, and positively sanction those judged to be treating them well. As used here, the term "revealed preferences" refers to those issues in the relations between companies and their stakeholders about which SRI investors feel sufficiently strongly as to want to use their investments to signal their positive or negative judgment of the firm's behavior. Thus, we expect such preferences to reflect constellations of social and ethical values that are sufficiently widespread and important among segments of the investor community, as to give rise to investment products that accommodate or advance them. In this sense, characterizing the ways in which SRI funds are constituted provides important insights into those social and ethical issues that give SRI investors reason to act.

(a) *Fundamental objective of normal returns*

As discussed above, an aspect of reciprocal fairness apparent in experimental situations is that people tend to punish those who treat them unfairly and reward those who treat them well, even if they incur a personal cost to do so. However, SRI as presently practiced is specifically intended to avoid imposing costs on investors; SRI investments aim to perform well financially *and* socially, earning pecuniary returns that are at least as attractive as a regular portfolio. This seems like a problematic promise given that (a) companies strong on social responsibility might be expected to have lower profits than less responsible counterparts, assuming that responsibility-oriented measures may add to costs (e.g. extra expenditures on abating pollution, providing decent health insurance, avoiding use of sweatshop labor, etc.); and (b) selecting investments using social as well as financial criteria requires extra research effort,

---

[16] Rock (2003) provides econometric evidence that adverse publicity about labor conditions adversely affects garment-companies' stock prices.

which raises expense ratios and eats into returns (Geczy, Stambaugh, and Levin 2003). However, in empirical studies comparing the returns of SRI and non-SRI investments, the most common finding is of insignificant differences in their risk-adjusted returns.[17] While possible reasons for this finding remain contested, for present purposes the salient point is that SRI investors are able to participate in fairness-related sanctioning without personal cost; they do seem to be able to "do well while doing good."

Survey data provide some insight into what investors think about possible trade-offs between financial returns and social performance. One large investment firm, TIAA-CREF, conducted a survey of 501 investors in its SRI fund and 501 of its other investors (Greenberg-Quinlan-Rosner Research 2006). As shown in Table 1, financial returns were a clear priority for the SRI investors: 85% agreed with the statement that "When making investment decisions, financial return is most important to me," which is not much below the share for other investors (92%). Yet SRI investors seem to place an equal priority on social considerations, with 83% also agreeing that "my personal values about social and environmental impacts" are "most important" in making investment decisions. When asked hypothetically whether they would be willing to allocate some part of their portfolio to "investments that may result in lower returns but that can do some good in this world," willingness among SRI investors is much higher than among others (81% of SRI investors say that they would, versus 64% of others). But they do not seem to think that this is what SRI actually involves: a majority of SRI investors viewed financial returns to SRI as "about average," with roughly symmetric shares viewing its returns as "above" and "below" average.

Interpreting what this says about social preferences is not necessarily straightforward. In experimental situations, people's willingness to incur costs identifies whether their behavior is "really" pro-social or not. Thus, a simple interpretation of SRI investors' interest in financial returns is that they "don't really care" about social factors, but just prefer investments with a pro-social gloss. However, such an interpretation moves too directly from the experimental finding to observed behavior, without taking into account the fact that the latter reflects both preferences and context. Whereas in game situations the kinds of losses that players incur are realistically trivial, in the investment world the "players" have important financial obligations that must be met through returns to their investments, especially saving for retirement for retail investors and financing for pension claims and other commitments for institutional ones. As such, their *ability* to sacrifice returns to invest pro-socially has non-negligible limits.

---

[17] Notable studies include Hamilton, Jo, and Statman (1993); Guerard (1997); Stone, Guerard, Gultekin, and Adams (2002); Bello (2005); Goodmacher (2006).

Furthermore, it is not clear that sacrificing returns is actually required. Especially given that social-responsibility measures are strictly voluntarily, the expected profits of firms adopting them could be at least as good as those of less responsible counterparts; perhaps they are even better, if the benefits of becoming more responsible (e.g. long-term cost reductions in energy costs, lower risks related to litigation or regulatory encumbrance, and/or an improved product market position due to the good will of the public) offset the higher costs. While the empirical evidence on this point is mixed, it is fairly well-established that firms rated high on environmental criteria tend to have superior financial performance -- a finding known as the "eco-efficiency puzzle."[18] Thus, if SRI portfolio managers are able to identify firms pursuing responsibility in a profit-neutral or –increasing way, the empirical trade-off between returns and pro-sociality that SRI investors face may indeed not be very sharp.

(b) *Summary exclusions of companies in certain sectors*

The most longstanding, and still most common, practice in SRI is negative screening by exclusion – wherein policies governing the investment portfolio rule out holding stock in companies involved in producing, selling or developing specified types of products. As mentioned, the most commonly excluded sectors are tobacco and alcohol. As shown in Table 2, which tabulates information on the SRI practices of 95 retail mutual funds, over 90% of funds in the group excluded from their portfolios stock of companies centrally involved in producing tobacco products, and about three-quarters excluded companies centrally involved in producing alcohol (where a precise definition is usually used to permit investment in companies with minimal, tangential involvement in these products, e.g. earning less than 3% of their revenues from their production or sale). Other sectors also commonly subject to exclusion were gaming and weapons/defense, found among 73% and 63% of funds respectively. While not so common overall, almost all funds with Catholic or Christian identification almost always completely exclude companies with any involvement in abortion, contraception, cloning, stem cell research, and/or pornography.

What exactly do these restrictions reveal about the social preferences of SRI investors? It is a source of confusion that stocks of the primary excluded sectors are known as "sin stocks," given the multiple interpretations of the word "sin." In the early 20th century, when this term

---

[18] Among studies examining relationships between environmental and financial performance, see Diltz (1995), Feldman; Soyka and Ameer (1997); Russo and Fouts (1997); Dowdell, Hart, and Yeung (2000); Cohen and Konar (2001), and Derwall et al (2005). Butz and Plattner (2000) and Ziegler, Rennings, and Schroder (2007) find that firms with strong environmental performance tend to have superior financial returns, but there is no significant effect on returns of strong performance in terms of other social criteria.

was coined, consumption of alcohol was viewed by religious and social-reform groups as sinful, and they worked to have it made illegal. It was in this era that "ethical investment" started, with certain religious groups excluding alcohol and tobacco from their organization's investments on the grounds that investing in a sector that facilitates sin is by extension a sin of the investor.[19] Presently, however, very few contemporary religious or moral systems would regard consumption of tobacco, alcohol or gambling *per se* as "sinful" in the sense of being a "deliberate transgression of religious or moral law." Rather, the only common exclusions grounded in this particular understanding of sin are the reproduction-related exclusions in Catholic and Christian funds and in some cases the exclusion of weapons producers and defense contractors.

But in the cases of tobacco, alcohol and gambling, it is in most cases not consumption of the product *per se* that is seen as morally or socially problematic, but rather producing and selling a product whose usage can be rooted in lack of self-control.[20] Companies whose profits come at least in part from sale of addictive goods extract a rent from people who have fallen into dependency such that their demand for the good has an involuntary dimension; as such, companies both take advantage of and reinforce people's weakened condition. This can be seen as "sinful" in the sense of running counter to "brotherly love" – but also in the more general sense of the word "sin" as "something regarded as being shameful, deplorable, or utterly wrong." The sanctioning in this case seems to involve two elements: (a) *oblique reciprocal fairness* wherein investors punish companies for earning profits "unfairly" by exploiting demand from people not in a position to break free from their need, and (b) a sort of *inequity aversion* wherein investors symbolically undo the undue power of companies over those pathologically dependent on them, by sanctioning negatively the former on the latters' behalf.

The other sector warranting consideration here is weapons/defense contracting. Although not quite as widespread as exclusions on alcohol, tobacco, and gambling, provisions related to weapons/defense are also widespread: as Table 2 shows, 60% of retail SRI funds on which the Social Investment Forum reports have summary exclusions on weapons and/or defense, while 25% have restrictions. In most cases, the intention is to rule out investments in any company with significant involvement in producing weapons and defense goods and services, where

[19] Thus, for example, the investment policies of the Christian Brothers Investment Services (CBIS) states that, "Companies whose activities are so fundamentally in conflict with the faith-based values of Catholic investors that we cannot in good conscience profit from their activities are ordinarily excluded from CBIS investment portfolios."
http://www.cbisonline.com/page.asp?id=161.

[20] Of course, addictive consumption can be seen as having moral dimensions, in that it involves transgressions of key virtues (like temperance, prudence and fortitude) and surrender to key vices (like gluttony and sloth).

again "significant involvement" is often carefully specified in the fund's investment policies.[21] Some funds exclude or restrict investment not in the weapons business generally, but in specific aspects of it, like production of weapons of mass destruction or manufacture and sale of handguns.

The strong, common objection to investments in weapons and defense is that the goods and services produced in these industries contribute integrally to the use of violence and deadly force as principle means of addressing conflicts between people. The view here is not at all that of Von Mises [1996(1949): 300], who argued that "The existence of the armaments industries is a consequence of the warlike spirit, not its cause." Rather, it is consistent with the argument made by Engelbrecht and Hanighen (1934) in *Merchants of Death* -- that the armaments industries, while not causing war or violent conflicts, not only benefit financially from them but also, by virtue of their close interdependence with the government, may influence military and political decisions so that deadly force is used in situations when peaceful means should be explored.

For some SRI investors coming from religious or formal moral frames, the sanction is rooted in part in the idea that investing in a sector that facilitates sin is by extension a sin of the investor. For other investors, it is not clear that their objection is as much to the use of violence *per se*, as it is to the great concerns about a bias towards its use that is fostered by the profit motive. To this extent, the exclusion also entails a form of "inequity aversion" – i.e. aiming to rebalance power between those with vested interest in violence and towards those who favor peace – along with some amount of "spite," in that investors negatively value the welfare of weapons/defense companies and are willing to act to reduce it.

(c) *Positive and negative screening*

The aspect of SRI that has been rapidly evolving in the past 10-15 years is screening based on social criteria. Here the idea is that, among companies having acceptable expected financial returns and producing products which are not of and within themselves socially problematic,

[21] For example, the Pax World Funds -- which were set up during the Vietnam war to provide people with weapons-free investment instruments -- do not invest in securities of "(i) companies engaged in military activities, (ii) companies appearing on the U.S. Department of Defense list of 100 largest contractors … if 5% or more of the gross sales of such companies are derived from contracts with the U.S Department of Defense, (iii) other companies contracting with the U.S. Department of Defense if 5% or more of the gross sales of such companies are derived from contracts with the U.S. Department of Defense." The funds also avoid investing in U.S. government bonds when they are being used primarily to finance weapons programs.

some have far better social performance than others. Companies are selected into or out of the portfolio on the basis of positive and negative "screens," which spell out the rules or guidelines used by the fund to determine whether a stock should or should not be included in its portfolio. Some funds have quite detailed screens, while others describe general principles only; to determine how a company does in terms of established screens, many funds subscribe to databases that provide information on social-performance variables (notably, KLD and Innovest), and/or engage in dialogue with the company.

Table 2 again shows information on the prevalence of screens of different types among SRI mutual funds, while Table 3 provides examples of specific screens. The most common categories for screening are: whether the firm produces safe and useful products, whether its product lines and business practices have adverse environmental effects, whether its workplace practices favor employee well-being, whether it has labor standards for its overseas operations, the respect it shows for human-rights considerations, the ethics of its corporate governance (especially whether its executive pay is moderate), and the value of its contributions to surrounding communities.

In a broad sense, the screens can be seen as embodying three types of sanctioning -- again all forms of oblique reciprocal fairness. The first is sanctioning related to how a company treats its "stakeholders" who have no voice or choice: animals subjected to testing and inhumane husbandry practices; people whose poverty drives them to work in sweatshop conditions for extremely low pay (including children); and/or "future people", whose survival and quality of life depends integrally on actions taken today to improve environmental sustainability. Fairness related to sweatshop labor is of particularly intense concern to SRI investors, as it is to the general public – as was shown in the case of U.S. television personality Kathie Lee Gifford, whose clothing line sold through Wal-Mart was found to be manufactured in sweatshops in Central America and New York City, triggering off frantic efforts by corporations to check on their own labor conditions and clean up their acts. At stake here is the ability of the company and its principals to profit from treating badly those who have no power to walk away from arrangements that are "unfair," i.e. in which the strong party can realize substantial gains due to the weak party's lack of agency, degrading the life of the latter.

The second type of sanctioning concerns perceived norms of how businesses should treat their employees and surrounding communities. It is widely thought that the past 20 years have seen a steady deterioration in job opportunities for the average American worker, where a contrast is often drawn between post-War decades when assembly-line workers were sufficiently well-paid and covered by benefit programs that they could buy homes, afford health care, and retire comfortably, without worrying that their job would be outsourced –- and the race-to-the-bottom present dominated by low-pay, no-future jobs in big box retailers. Thus, SRI screens may aim to sanction negatively those employers that seem to be using the "Wal-Mart model" for human-resources management (i.e. providing poor benefits, paying wages below industry norms, pushing the law in terms of poor working conditions and imbalanced promotion policies, etc.) – while sanctioning positively those companies that seem to favor traditional norms, i.e. paying workers more than is strictly necessary and offering them accommodations that show respect for their lives and enhance their security (health and retirement benefits, work/family flexibility), in the interest of behaving fairly and creating good will.[22]

The third set of sanctions concern the company's apparent sensitivity to the environmental consequences of its operations, wherein companies whose products and production-methods contribute notably to continued degradation of the biosphere (e.g. lax control of toxic emissions or greenhouse gases) are negatively sanctioned, while those that work to slow or reverse it (e.g. through adoption of environmentally-oriented codes of conduct, systematic recycling, green construction, etc) are sanctioned positively. It is notable that the precise screens used for environmental factors vary tremendously across SRI investments: some cover many areas and are precisely-defined, while others simply indicate a preference for companies showing some concern for the environment or at least not obviously disrespecting it (for example, by having a repeated pattern of violations of environmental regulations).

A criticism of the screening process is that screens can be vague and they are not always consistently applied, which can sometimes result in SRI portfolios that look little different from regular ones. Vocal SRI critic Paul Hawken (2004) points out that, when a list of the 30 companies most commonly held in SRI mutual funds (as of December 2003) is placed next to a list of companies included in the Dow Jones Industrial Average, it is not obvious which list is which. Almost two-thirds of the companies on the SRI list are also in the Dow Jones (including ExxonMobil and Wal-Mart); the other one-third are also all well-known Fortune 500 companies not necessarily known (outside of SRI circles) for social conscientiousness (PepsiCo, Target, Bank of America, Comcast) (p. 17). Thus, Hawken's view of SRI is that it helps investors "avoid bad actors in the corporate world" (p. 16), but that otherwise its "broad and diffuse screening criteria result in selecting companies with widely divergent social and environmental performance" (p. 28).

What then does *this* tells us about social preferences: Are ultimate claimants of SRI investments (as opposed to investment managers) unaware or unconcerned that their portfolios are not necessarily much different from regular portfolios, or are they aware and concerned

[22] Note, however, that Wal-Mart *is* included in many SRI funds; see below.

but not so much as to return to regular investing? Discussion above and the literature on pro-sociality in experimental situations suggest the answer would be: “both.” As mentioned above, because tendencies towards pro-sociality are socially constituted and a function of human agency, we should expect them to vary among investors, even among those inclined to invest socially: the values with which they were raised and which they consider to be important may differ, their perceptions of how values are at work in a given case may differ, their belief in the efficacy of their actions may vary, etc. Thus, the fact that screening is at times porous does not imply that social investment is only or largely about pro-social gloss, without real interest in reducing the scope of socially irresponsible corporate behaviors. Rather, it reflects the fact that, within a large population that is culturally heterogeneous and economically stratified, people vary in the extent to which given types of socially irresponsible corporate behavior concern them, and in the extent to which such behaviors inspire them to act.

IV. Fairness norms – longstanding principles and evolving applications

Table 4 summarizes the main issues of fairness and unfairness that socially responsible investment practices single out as being worthy of positive or negative sanction. As argued above, all can be seen as forms of oblique reciprocal fairness, wherein unfair treatment of certain classes of stakeholders is negatively sanctioned and fair treatment is sanctioned positively. In some cases, it is clear that what is considered “fair” or “unfair” reflects values with deep and broad socio-cultural roots. Certainly the summary exclusion of dependency-related stocks and widespread restrictions on sweatshops and child labor reflect very strong disapproval of earning profits from exploiting the pronounced lack of power that certain people have in certain transactions, by virtue of their urgent need for the good or their urgent need for livelihood. Restrictions on usury in Judeo-Christian, Muslim, and Hindu heritage reflect in good part the concern that, whatever the laws may say about money lending, profiting excessively from people’s desperate need for money was simply morally wrong. Similarly, the exclusion of arms producers and defense contractors can also be interpreted as reflecting deep-rooted socio-cultural and moral objections to violence. Here it is notable how closely these facets of social preferences resemble key moral propensities underlined by Adam Smith (1759, II, ii, *iii*, 125): “… to protect the weak, to curb the violent, and to chastise the guilty.”

At the same time, the social preferences inherent in SRI practices also have strongly contemporary elements, suggesting that norms concerning the social responsibilities of businesses – while perhaps having deep roots – can evolve quite rapidly and may be much more like “putty” than like “clay.” Notably, while fairness-related concerns about animal welfare and the environment are sometimes construed as being culturally ancient – with hunter-gathers and early farmers being framed as having understood the need to respect the delicate balance between humans and nature in a way that we in the modern, industrial era have forgotten – they clearly reflect specific objections to the ways in which contemporary high-production, high-consumption capitalism has treated animals and nature: as resources to be exploited to maximize profits, without regard for their intrinsic worth or value to future generations. Similarly, the idea of positively sanctioning employers that show respect for ideals of positive work life and healthy communities is rooted in a hazy rosy view of what work life was like in the two decades after World War II; the material lifestyle of the typical worker may have been more secure in those decades, but much of that security was won by unions, not given by corporations out of respect for traditional values. Instead it would seem that these ideals resonate because they relate to more fundamental ideas about human dignity and "brotherly love" (i.e. respectful treatment of others), applied creatively to problems of contemporary social life. In this sense, it is far more appropriate to view the fairness standards being advanced in the social-responsibility movement as norms in the process of being *crafted* – rather than (just) deeply rooted cultural norms being defended through pro-social behavior.

In this sense, the social-responsibility movement represents an interesting case wherein prevailing norms supportive of dominant interests come to be challenged by a competing set of norms that would re-prioritize the interests of a broader set of groups. The past 25 years of "market ideology" placed businesses in a heroic social role, wherein their unrestrained quest for profits was recurrently framed in political discourse as having generated vast improvements in socioeconomic life. The discourse of social responsibility can be seen as an attack on the *imbalance* of this world view: To a large extent, it accepts that profit-oriented corporate capitalism is a fine way to organize economic activity, but it profoundly doubts that its social gains would be maximized without pro-social challenges of the many instances in which corporations would favor profits over social welfare. Thus, for example, in replying to Paul Hawken's criticisms of how very mainstream the SRI industry is, industry pioneer Amy Domini (2003) argues that SRI is not "defrauding the public" or "otherwise a farce" because SRI portfolios contain "impure" companies; rather, it should be seen as:

> … address[ing] the need to bring investors -- and with them the financial services industry, the most powerful global institution on the planet -- into active dialogue on better defining the role corporations must take if they are to continue to dominate our lives … We are not applying eco-fundamentalism to investments, we are entering the belly of the beast of the financial/corporate juggernaut and we are shaping it.

Given the prevalence of pro-market thinking since the Reagan/Thatcher years, it is curious that the social-responsibility movement would be able to mount a notable challenge to the exclusive focus of businesses on profit maximization: in the political arena, for example, there is little or no pressure for government to take back up the mantle of bending business activity to society's will, although it would seem to be the natural place to reconcile conflicts between social values and the corporate economy. The reasons for low government involvement here are complex and worthy of further study; probably they reflect combined effects of: market ideology having reduced the public's sense that government can or should tinker with market mechanisms to address social problems, a sense of "business capture" of the political domain (Reich 2006), and a record of government ineffectiveness in tackling such social issues as global warming and sweatshops.

In contrast, the social-responsibility movement takes for granted that the profit-oriented capitalist economy has many advantages and accepts that, whether or not one likes it, we can expect it to be the dominant mode of economic organization for the foreseeable future. As such, it does not seek to fundamentally alter the logic of business activity (as more activist government intervention would) – but rather aims to work within and make use of this logic to address the problematic elements of what corporations would do if left to their own devices. Its frame, however, differs from the standard thinking that - barring problems with public goods, externalities, and market power – businesses should be allowed to operate freely, on the grounds that this generates maximum returns to society's scarce resources which could then be redistributed to address problems of equity and social values. On the contrary, in the social-responsibility frame, it makes no sense to let companies generate returns through ethically problematic practices and then redistribute them: not only are the practices themselves wrong, but they also help *cause* the problems that the resources thereby generated would need to be used to address. Thus, for example, it is hard to see how using taxes on tobacco-company profits to fund health-care costs of people with cancer would be preferred to reducing tobacco addiction in the first place. This is not to say that the social responsibility movement expects its actions to solve *all* social problems with normative dimensions (e.g. unequal access to education, rising income inequality, etc.), or that it would disagree with the idea of channeling some of the high-returns of business activity into solving them – but only that it views "ill-gotten" gains as not worth having in a social sense.

At the same time, the acceptance of the logic of private business activity is critical for understanding why the fairness-related sanctioning in which SRI engages is effective; it targets precisely that about which corporations care: expected profits. To the extent that negative sanctioning adversely affects profits by lowering sales, reducing the stock price, or increasing the risks of legal or regulatory encumbrance, firms have incentives to respond to complaints promptly and/or fix them preemptively. One must wonder how much individual corporations would change their behavior if the issue was just the individual sanctioning actions to which they are or may be subject. But the issue is that responsibility-oriented groups have been sufficiently insistent about the importance of CSR in business life that it has become one of the bases on which firms compete. Thus, Target and Costco, by virtue of their better workplace practices, can gain market share at Wal-Mart's expense; Reebok's sales and stock price can gain over those of Nike if it commits to decent pay and working conditions in its overseas operations; or PetSmart can expect its stock price to sink relative to that of PetCo if it fails to address animal-rights activists' concerns about its sale of small animals.

To this extent, it is fruitful to view social-responsibility groups as, in effect, using businesses' obsession with profits as a means of subverting the obsession with profit: by negatively sanctioning profit-maximizing when, by broad-based fairness-related standards, it may be at odds with social welfare, SRI and related movements create opportunities for firms to gain market share and improve their relative stock-price performance by outdoing their competitors in terms of social performance. In this sense, insistence upon social responsibility, in combination with forces of competition, has good potential to trigger off sustained gains – or even "arms races" of improvements -- in corporate social performance.[23] This suggests good reason to believe that SRI has good potential to encourage pro-social change. Still, many questions remain about the magnitude of the influence that it can have, including: whether voluntary actions by corporations go anywhere near far enough in areas where there are critical gaps between private and social optima (e.g. global warming), and whether social optima are being properly identified when it is the social concerns of those who wield investment dollars and consumption dollars that influence what issues of social performance companies choose to address. These questions need to be tackled in future economic research.

[23] Bagnoli and Watts (2003) present a theoretical model that explores this point.

Table 1. Survey of TIAA-CREF investors		
	SRI investors	Other investors
% of investors saying they agree or strongly agree with the following statements:		
When making investment decisions, financial return is most important to me	85	92
When making investment decisions what is most important to me is ensuring that my investment decisions reflect my personal values about social and environmental impacts	83	67
I am willing to have some portion of my investment portfolio dedicated to investments that may result in lower returns but that can do some good in this world	81	64
% of investors who would rate the overall financial performance of SRI funds, compared to other funds, as:		
Better than average	18	8
About average	55	44
Worse than average	14	14
Don't know	13	35

Source: Greenberg Quinlan Rosner Research (2006: 3, 6).

Table 2. Percent of SRI mutual funds having the indicated type of exclusion or restriction

	Exclusion	Screen		
		Negative	None	Positive
Tobacco	91.7	4.8	3.6	0.0
Alcohol	76.2	3.6	20.2	0.0
Gambling	72.6	4.8	22.6	0.0
Defense/weapons	63.1	25.0	11.9	0.0
Animal testing	2.4	70.2	27.4	0.0
Products	0.0	6.0	11.9	82.1
Environment	7.1	8.3	9.5	75.0
Human rights	0.0	3.6	17.9	78.6
Labor relations	0.0	4.8	19.0	76.2
EEO	0.0	9.5	10.7	79.8
Community investing	3.6	0.0	43.4	53.0

Source: Social Investment Forum, "Mutual Fund Guide: Screening and Advocacy," accessed electronically at http://www.socialinvest.org/areas/sriguide/mfsc.cfm, on Feb. 20, 2007.

Table 3. Examples of negative and positive screens used in SRI funds		
Category	Negative screens	Positive screens
Safe and useful products	• genetic engineering or genetically modified products • Pornography • Violent video games	• Programs that make life-sustaining drugs available to people in low-income communities and countries at reduced, affordable prices • Products that enhance the health or quality of life of consumers • Prompt response to problems with product safety
Environmental impacts	• Significant environmental fines or violations • Responsibility for environmental accidents • Nuclear power producers • Refusal to change harmful methods or practices when alternatives are available • High toxic emissions relative to peer group • Use of ozone-depleting and agricultural chemicals	• Good environmental compliance record • Development of innovative products and services • Alternative energy sources • Commitment to recycling and reducing waste • Embrace and advance sustainable development • Initiatives for energy conservation • Programs to reduce greenhouse gas emissions
Animal welfare	• Use of animal testing for cosmetics • Use of animal testing in excess of legal requirements • A pattern of violations of the Animal Welfare Act • Inadequate care for animals in pet stores, factory farms, research laboratories, and other environments	• Development of alternatives to animal testing • Commitment to minimizing distress of animals under care • Full compliance with established standards for treating animals humanely
Workplace practices	• Serious labor-related legal actions • Pattern of denying opportunities to women or minorities • Notably low pay • Poor benefits coverage	• Safe and healthy work environments • Fair negotiation w/workers • Opportunities open to women & minorities • Generous benefit programs • Work/family accommodations
labor standards for overseas operations	• Use of sweatshop labor • Use of forced labor or child labor • Unacceptable working conditions	• Treatment of workers with dignity and respect • Safe and healthy working conditions
Human rights and other international	• Support for repressive regimes • Operational support for the government of Burma • Disregard for human rights considerations • Overseas use of chemicals, pesticides, drugs, etc. that would be banned in the U.S.	• Appropriate observation of human rights standards • Respect for indigenous peoples
Governance	• High executive compensation	• Low-to-moderate executive compensation • Diversity on governing boards
Contributions to surrounding communities		• Commitment to community affairs • Strong charitable giving • Encouragement of employee volunteerism

Sources: Prospectuses for retail mutual funds and investment-policy descriptions for institutional investments.

Table 4. Summary of fairness-related sanctioning in SRI funds		
	Unfairness worthy of negative sanction	Notable fairness worthy of positive sanction
Tobacco, alcohol, gambling	Cultivating and profiting from harmful dependency rooted in lack of self-control	xxx
Weapons/ defense	Profiting from and facilitating the use of deadly force	xxx
Sweatshops, child labor, animal rights	Callously profiting from the desperation of the poor and helplessness of animals	Voluntarily taking actions that respect the identity and dignity of powerless stakeholders
Workplace, EEO, community	Hastening the destruction of the ideals of positive work life and healthy communities	Taking actions in favor of the ideals of positive work life and healthy communities
Environment	Pursuing profits at the expense of the earth's fragile ecosystems	Taking actions that help protect or restore the earth's fragile ecosystems and promote sustainability

References

Andreoni, James. "Warm-Glow versus Cold-Prickle: The Effects of Positive and Negative Framing on Cooperation in Experiments." *Quarterly Journal of Economics* 110, 1 (1995):1-21.

Bagnoli, Marc and Susan Watts. "Selling to Socially Responsible Consumers: Competition and the Private Provision of Public Goods." *Journal of Economics and Management Strategy* 12, 3 (2003):419–45.

Bello, Zakri. "Socially Responsible Investing and Portfolio Diversification." *Journal of Financial Research* 28, 1 (2005):41–57.

Bowles, Samuel and Herbert Gintis. "*Homo reciprocans.*" *Nature,* Jan. 10 (2002):125-128.

Butz, Christopher, and Andreas Plattner. "Socially Responsible Investment: A Statistical Analysis of Returns." Working paper, Sarasin Sustainable Investment, Jan. 2000.

Camerer, Colin and Ernst Fehr. "Measuring Social Norms and Preferences using Experimental Games: A Guide for Social Scientists." In *Foundations of Human Sociality: Ethnography and Experiments in 15 Small-Scale Societies,* edited by Joseph Henrich, Robert Boyd, Samuel Bowles, Herbert Gintis, Ernst Fehr and Colin Camerer, 55-95. Oxford and New York: Oxford University Press, 2004.

Champlin, Dell and Janet Knoedler. "J.M. Clark and the Economics of Responsibility." *Journal of Economic Issues* 38, 2 (2004):545-52.

Charness, Gary and Matthew Rabin. "Understanding Social Preferences with Simple Tests." *Quarterly Journal of Economics* 117, 3 (2002):817-69.

Clark, John Maurice. "The Changing Basis of Economic Responsibility." *Journal of Political Economy* 24, 3 (1916):209-29.

Cohen, Mark A. and Shameek Konar. "Does the Market Value Environmental Performance?" *Review of Economics and Statistics* 83, May (2001):281-89.

Derwall, Jeroen, Nadja Guenster, Rob Bauer, and Kees Koedijk. "The Eco-Efficiency Premium Puzzle." *Financial Analysts Journal* 61, 2 (2005):51-63.

Diltz, J. David. "Does Social Screening Affect Portfolio Performance?" *Journal of Investing* 4, Spring (1995):64-9.

Domini, Amy. "Letter to the editor." *GreenMoneyJournal.com* Feb./Mar. (2003). http://www.organicconsumers.org/organic/hawken032403.cfm (accessed Feb. 20, 2007).

Dowell, Glen, Stuart Hart, and Bernard Yeung. "Do Corporate Environmental Standards Create or Destroy Market Value?" *Management Science* 46, 8 (2000): 1059-74.

Engelbrecht, H. C. and F. C. Hanighen. *Merchants of Death: A Study of the International Armaments Industry*. New York: Dodd, Mead, 1934.

Elster, Jon. "Social Norms and Economic Theory." *Journal of Economic Perspectives* 3, 4 (1989):99-117.

Etzioni, Amitai. "Social Norms: Internalization, Persuasion, and History." *Law & Society Review* 34, 1 (2000): 157-178.

Federal Reserve Board of Governors. "Flow of Funds Statistics Accounts of the United States," Z1 statistical release (Dec. 7, 2006). http://www.federalreserve.gov/releases/Z1/Current/ (accessed Feb. 20, 2007).

Fehr, Ernst, and Urs Fischbacher. "Why Social Preferences Matter: The Impact of Non-Selfish Motives on Competition, Cooperation and Incentives." *Economic Journal* 112, 478 (2002): C1–C33.

____________________________. "Social Norms and Human Cooperation." *TRENDS in Cognitive Sciences* 8, 4 (2004a): 185-190

____________________________. "Third Party Sanctions and Social Norms." *Evolution and Human Behavio*r 25 (2004b):63-87.

Fehr, Ernst and Simon Gächter. "Cooperation and Punishment in Public Goods Experiments." *American Economic Review* 90, 4 (2000):980–94

Fehr, Ernst and Klaus Schmidt. "A Theory of Fairness, Competition, and Cooperation." *Quarterly Journal of Economics* 114, 3 (1999):817–68.

Feldman, Stanley, Peter Soyka, and Paul Ameer. "Does Improving a Firm's Environmental Management System and Environmental Performance Result in a Higher Stock Price?" *Journal of Investing* 4, 4 (1997): 87-97.

Friedman, Milton. "The Social Responsibility of Business is to Increase its Profits," *New York Times Magazine*, Sept. 13, 1970, 17.

Geczy, Christopher C., Robert F. Stambaugh, and David Levin. "Investing in Socially Responsible Mutual Funds." Working Paper, Wharton School of Business, May 2003.

Goodmacher, Chris. "The Effects of Ethical Screens on Socially Responsible Fund Performance." Working Paper, Oxford University, 2006.

Greenberg-Quinlan-Rosner Research. "Socially Responsible Investing: An Understanding of How SRI is viewed by TIAA-CREF Participants." Report on a survey conducted for TIAA-CREF (July 2006). http://www.tiaa-cref.org/about/press/pdf/sri_memo.pdf (accessed Feb. 20, 2007).

Guerard, John. "Is There a Cost to Being Socially Responsible in Investing?" *Journal of Forecasting* 16, 7 (1997): 475-90

Hamilton, Sally, Hoje Jo, and Meir Statman. "Doing Well While Doing Good? The Investment Performance of Socially Responsible Mutual Funds." *Financial Analysts Journal* Nov./Dec. (1993):62-66.

Hawken, Paul. "Socially Responsible Investing: How the SRI Industry has Failed to Respond to People who Want to Invest with Conscience and What Can Be Done to Change." Research report, Natural Capital Institute, 2004. http://www.responsibleinvesting.org/database/dokuman/SRI~Report~2010-04_word.pdf (accessed Feb. 20, 2007).

Henrich, Joseph, Robert Boyd, Samuel Bowles, Herbert Gintis, Ernst Fehr and Colin Camerer, eds. *Foundations of Human Sociality: Ethnography and Experiments in 15 Small-Scale Societies*. New York: Oxford University Press, 2004.

Hodgson, Geoffrey M. "The Revival of Veblenian Institutional Economics." *Journal of Economic Issues* 41, 2 (2007): 325-340.

Markowitz, Harry M. "Portfolio Selection." *Journal of Finance* 7, 1 (1952):77-91.

Meier, Stephan. *The Economics of Non-Selfish Behavior*. Northhampton, MA: Edward Edgar, 2006.

Ostrom, Elinor. "Collective Action and the Evolution of Social Norms." *Journal of Economic Perspectives* 14, 3 (2000): 137–58.

Reich, Robert. "Don't Blame Wal-Mart: Making Sense of Corporate Social Responsibility." Plenary address to the Association of Social Economics, annual meetings of the Allied Social Science Association, Boston, MA, Jan. 5, 2006,

Rock, Michael. "Public Disclosure of the Sweatshop Practices of American Multinational Garment/Shoe Makers/Retailers: Impacts on their Stock Prices." *Competition and Change* 7, 1 (2003): 23-38.

Russo, Michael and Paul Fouts. "A Resource-Based Perspective on Corporate Environmental Performance and Profitability." *Academy of Management Journal* 40, 3 (1997): 534-59.

Social Investment Forum. *2005 Report on Socially Responsible Investing Trends in the United States: 10-year review*. Washington, DC: Social Investment Forum, 2006. http://www.socialinvest.org/areas/research/trends/sri_trends_report_2005.pdf (accessed Feb. 20, 2007).

Stanfield, James Ronald and Michael Carroll. "Governance and the Legitimacy of Corporate Power: A Path for Convergence of Heterodox Economics?" *Economic Inquiry* 38, 2 (2004):363-70.

Stone, Bernell, John Guerard, Jr., Mustafa Gultekin, and Greg Adams. "Socially Responsible Investment Screening: Strong Evidence of No Significant Cost for Actively Managed Portfolios." Working paper, Brigham Young University, Oct. 2002.

Tobin, James. "Liquidity Preference as Behavior towards Risk." *Review of Economic Studies* 25 (1958):65-86.

U.S. Census Bureau. *The Statistical Abstract of the United States*. Washington, DC: General Printing Office, 2007.

Veblen, Thorstein. "The Instinct of Workmanship and the Irksomeness of Labor." *American Journal of Sociology* 4, 2 (1898):187-201.

Vogel, David. *The Market for Virtue: The Potential and Limits of Corporate Social Responsibility*. Washington, DC: Brookings Institution Press, 2005.

Von Mises, Ludvig. *Human Action*, 4th edition. Irvington, NY: Foundation for Economic Education, [1949] 1996.

Zalewski, David. “Corporate Objectives: Maximizing Social versus Private Equity.” *Journal of Economic Issues* 37, 2 (2003):503-9.

Ziegler, Andreas, Michael Schröder and Klaus Rennings. “The Effect of Environmental and Social Performance on the Stock Performance of European Corporations.” *Environmental and Resource Economics*, forthcoming, 2007.