SRI as Driver for CSR?
Ethical Funds, Institutional Investors and the Pursuit of the Common Good

Michael S. Aßländer and Markus Schenkel

Introduction

In 1928 Oswald von Nell-Breuning (1928: 10) predicted that, “the stock exchange and its ethical handling are of greatest importance and maybe ... of greater timeliness than ever before” (own transl.). One year later the disastrous economic and social consequences of the world economic crisis made it clear that a market economy was not a natural phenomenon but a fragile and artificial product of mankind (Böhm, 1937), and that governmental regulation was needed to ensure the market’s efficiency and the good behavior of the market actors, especially in the financial sector. However, lessons from the 1929 crisis were not well learnt and again, during the recent economic crisis, the handling by financial institutions of their legal and ethical responsibilities became questionable. Due to dangerous speculation, dubious management of customer relations and information, risky investment and lending, and obviously irresponsible dealing with committed capital, financial institutions jeopardized not only the reputation of the whole sector but also the capability of banks for self-limitation and self-regulation (Aßländer, 2005; Aßländer and Roloff, 2004; Thielemann, 2005; Thielemann and Ulrich, 2003). Again, the question arises as to whether government regulations and the existing compliance systems are the most effective means to guarantee the ethical behavior of financial actors.

The recent crisis has highlighted that laws and regulations, although necessary, are not sufficient to ensure the ethical behavior of economic agents. Even the best governance structures cannot prevent individuals acting in their self-interest and using legal loopholes and regulatory gaps for personal advantage. It is up to the individual to decide whether or not to act in the public interest and for the common good. Even though numerous cases of
corporate misconduct took place among financial institutions (Aßländer, 2010a; Boatright, 2008), they also appear in other sectors. Recent scandals, like the ones of Enron, Parmalat or Siemens, have shown the consequences when corporate culture and management’s personal values undermine formal regulations. The financial sector has however some specific characteristics. This sector is more reliant on honest and trustworthy business behavior than any other, at the same time its abstractness and complexity (Haueisen, 2003) provide more opportunities for personal enrichment. The negative externalities generated by these self-interest behaviors can have a global reach.

However, the social responsibilities of the financial sector go beyond honest business practice: financial intermediaries can also influence the practices of their business partners by their investment policies. As Crane et al. (2008: 343) point out: “as a service provider to other organizations, the financial service industry has an important role to play in taking responsibility for its support and facilitation of responsible (or irresponsible) practices on the part of its customers.” Financial institutions, at least indirectly, influence the refinancing options of stock companies with their buy and sell recommendations, and hence define corporation business policy and the ecological and social issues those companies stand for (Scherer, 2003). By their funds policy, their credit business, and their stock ratings banks are able to support or discourage the efforts of other organizations for social and ecological sustainable business practices and thus play an important role in promoting business ethics outside their own organization.

The influence of the financial sector on corporate social responsibility (CSR) and the common good is increasingly being recognized in theory and practice (Kahlenborn, 2003). Concerned by corporate scandals and sensitized to ecological and social questions, the public demands more responsible business policy in the financial sector. Hence, a growing number of private and institutional investors have started to question the single-sided funds and investment policy of financial institutions and critically evaluate the criteria of the investment opportunities offered. These investors are increasingly interested, not only in the financial return on their investment but also in environmental, social and governance (ESG) issues, and try to influence corporation business policy and the ecological and social issues companies stand for, through their investment. As a consequence, various fund providers have reacted and now offer socially responsible investment (SRI) funds as an alternative investment opportunity, combining investors’ financial objectives with their concerns about social, environmental, ethical and corporate governance issues (Eurosif, 2008).

During the last years, the number and total amount of assets under SRI management have increased significantly, nearly constantly in almost every country. This trend is expected to continue (Neugebauer and Greutter, 2007; Eurosif, 2003, 2006, 2008, 2010) (see Figures 10.1 and Figure 10.2).