



Investing with a Socially Responsible Conscience

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When Nelson Mandela accepted the Nobel Peace prize in 1993, he thanked all those who were involved in the anti-Apartheid movement. Those thanks were directed not only to the members of the ANC and F.W. de Klerk, who accepted the prize with him. In his address to the Nobel Prize Committee, Mandela obliquely referred to all of the people who had persuaded companies like IBM and Johnson & Johnson to divest from South Africa, withdrawing their money and capital, and therefore their support from a government that had for so long enforced Apartheid policies.

That change in investment changed the world. After Apartheid ended, pundits predicted that such activist investing would diminish, but instead a thriving industry of socially responsible investing has flourished. Today, according to the Social Investment Forum (a non-profit membership association that promotes socially responsible investing), 230 mutual funds operate in the United States with an agenda to invest responsibly.

Socially responsible investing is not a new idea. In the nineteenth century, Quakers avoided money ventures that had anything to do with slaves or weapons. In the 1920s, some investors avoided the "sin stocks" of alcohol, gambling or tobacco. Investors today continue to avoid those sin stocks, but the issues that kick-started socially responsible investing in more recent times were from the 1960s—war, women's and environmental issues, and other political concerns.

Miriam Burdick, 72, is a resident of Mill Valley who says she has just started investing in a socially responsible manner. "What really made me start thinking seriously about it were two different trips to visit my daughters," she said, who both live in the Pacific Northwest. "We got an eyeful of what clearcutting can do to the landscape. And it seemed more and more that all corporations cared about was the bottom line, not people, not the world we live in." Burdick said she began to feel that, considering the non-profit educational work she does, she should be making a difference in the rest of her life as well as in the work she does. At the same time, she said, "I was sure there was some way to get returns."

It turns out that profit is possible when you invest with a conscience. Domini is one of the founders of Domini Social Investments, which also monitors how socially responsible investments hold up against other funds. The social research firm Kinder, Lydenberg, Domini & Co. maintains the Domini 400 Index. Since its inception in May 1990, the Domini 400 has outperformed the S&P 500 (500 companies tracked by Standard & Poor, tending toward the most widely held stocks that represent different company sizes and market shares).

Such returns have attracted more and more investors. The Social Investment Forum, in a 2001 statement on the state of socially responsible investing, reported that of the \$19.9 trillion managed by major investing institutions, about 12 percent, or approximately one out of eight dollars, is

“involved in socially responsible investing.” That amounts to over \$2.3 trillion, a number that increased over 40% in the last two years.

In order to direct investments to receive social benefits, and not only monetary returns, brokers and mutual fund managers apply screening processes as their main tool. Companies have emerged that verify corporate practices, ranging from whether companies hire women and are hired equitably to their use of sweatshops and the production or use of undesirable products.

Karen Kleven, a financial consultant at Salomon Smith Barney, notes that different investors may have very different concerns. Kleven says that “investors are most commonly concerned with company practices relating to environmental problem solving and innovation, workforce diversity and workplace programs, community involvement and charitable giving,” as well as human rights and companies’ foreign operations policies. An investor can also choose to avoid companies that produce or promote use of tobacco, alcohol, animal testing, pornography, weapons, or nuclear power—even genetically modified food.

But investors don’t only avoid companies with undesirable practices. They can also encourage the practices they want to see by investing in those companies that use them or with two other effective methods: shareholder advocacy and community investing.

Community investing is the practice of making loans to non-profit organizations and mission-driven companies, usually locally and often to those who would not otherwise qualify for bank loans. Mark Finser, president of the Rudolf Steiner Foundation, which has its main office in San Francisco, says his organization’s mission from the beginning was to find “where people could invest in what they were interested in,” with a very immediate impact.

Low-interest loans made by the foundation to non-profit organizations, ranging from Waldorf schools, to a homeless shelter for mothers and children, to a Buddhist center in Katmandu, are from the group’s “investors.” Admittedly, the expected returns are at a relatively low interest rate (however, rates are generally comparable to those of a basic money market fund), but the satisfaction comes in knowing investments were made in worthy, community-building causes. “If you follow where the money goes,” Finser says, “it actually changes the money.” And Finser says that of the almost \$40 million in loans granted in over 17 years, the rate of repayment has been almost 100 percent.

Shareholder advocacy can be as simple as individual investors talking to a company representative about their concerns, but it also includes participation in shareholder meetings and proxy resolutions. In May 1999, stockholders for Home Depot voted to support a resolution asking the company to purchase wood only from sustainably managed forests. The company agreed (even though it is legally not bound to follow such resolutions). Among other major investment groups, including Cornell University’s four investment companies, Domini Social Investments voted to support the resolution, in principle telling Home Depot that many of its shareholders were concerned about the issue.

Working with a broker or investment company is not the only way to be a socially responsible investor. Sue Severin, a 64-year-old resident of Marin, has used the larger funds and the help of a broker, such as Pax World Funds, Citizens Funds, and classes on socially responsible investing, but she has also taken the time to check out other avenues on her own, particularly investing in community funds.

“It’s wonderful to see what kind of help this can be to somebody,” Severin says, noting the small women-owned businesses in places like India and South America that she knows she has supported. “I want to give away money, but not so much that I’m driven into poverty. ...My money, while it’s waiting for me to spend it, is being used in a positive way to help other people.”

RESOURCES

Further Resources for Socially Responsible Investing (this listing is not an endorsement of services, only a place to start):

- Karen Kleven, Salomon Smith Barney Financial Consultant, call 415-945-3730.
- Rudolf Steiner Foundation: www.rsfoundation.org, or call 415-561-3900.
- CorpWatch, San Francisco, CA: 415-561-6568, fax: 415-561-6493, www.corpwatch.org, email corpwatch@corpwatch.org
- Social Funds: www.socialfunds.com
- Social Investment Forum: www.socialinvest.org

Of the many Bay Area organizations that support community projects and businesses two are:

- Community Bank of the Bay, based in Oakland, CA: www.communitybankbay.com or 510-271-8400
- Northern California Community Loan Fund: www.nccf.org or 415-392-8215 in San Francisco.

For information on shareholder activism: www.shareholderaction.org (Washington, DC: 202-872-5313).