

Investor Activism and the Iron Cage of the Business Case

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This essay is concerned with the theories of personhood and value through which shareholder activists in the United States have apprehended shareholders, corporations, corporate managers, and themselves, and the consequences these theories hold for how ethical agency is construed in the context of capital markets.

We divide shareholder activism into three overlapping types: Socially Responsible Investment, Shareholder Value, and Responsible Investment. The modern *Socially Responsible Investing* (SRI) movement emerged in the 1960s and 1970s from larger struggles for civil rights in the United States and the overthrow of apartheid in South Africa. SRI activists sought to create and rationalize a sphere of investment that takes account of social and environmental values. The second shareholder practice we address cultivated a perspective of shareholder rights that sought to reassert the prerogatives of ownership in order to focus companies on shareholder return. The *shareholder value* movement, which began gathering momentum in the 1970s, promised to discipline corporate managers and restore control to the real owner of the corporation: the profit-seeking shareholder. Unlike SRI, the shareholder value movement focused its efforts not on the moral relationship of ownership to corporate behavior, but rather to the moral claims on profit which ownership brings.

After exploring the logic and consequences of shareholder value, our focus then turns to a newer wave of shareholder activism, which promises to synthesize the social values that drive SRI with the profit orientation of shareholder value. We refer to this movement, which coalesced in the late 1990s, as Responsible Investment, using the term

popularized by the United Nations Principles of Responsible Investment, although there are a number of terms, such as sustainable investment, that refer to the same trend. This category includes institutions and public figures who have been attempting to rebrand SRI in a conscious effort to broaden its appeal to larger institutional investors and high-net worth individuals who are skeptical of the moral claims of SRI. Responsible Investors make the *business case* argument that long-term investors can mitigate risk and enjoy better returns on their portfolios if they analyze the *Environmental, Social, and Governance (ESG)* performance of the corporations in which they invest. ESG analysis, these advocates claim, allows investors to identify opportunities (e.g. alternative energy markets) and risks (e.g. regulatory trends) that orthodox financial analysis typically overlooks. Responsible Investment is predicated on the idea that, over time, the interests of shareholders and society inevitably converge, and ESG analysis is a tool to identify those arbitrage opportunities that exist as markets adjust to the societal demands for social justice and environmental sustainability that attend to global supply chains, climate change, rapid urbanization, resource depletion, and so on.

As noted, these three shareholder practices are not fully discrete, and the newer wave of Responsible Investment, in particular, offers a complicated network of exchanges between SRI, mainstream investment, and shareholder value activism. In this paper we stabilize them in somewhat ideal-typical form for the purpose of distilling from them theories of personhood and value, and the relation between the two, as manifest in the ownership of corporate shares in the public equity market.

The essay grows out of our respective research interests and experience. David

Wood is a member of the responsible investing expert and activist community as the Director of the Institute for Responsible Investment, housed in Boston College's Center for Corporate Citizenship, and a board member of the Social Investment Forum. Marina Welker is an academic anthropologist who has carried out research on the Corporate Social Responsibility (CSR) industry in mining, focusing on Denver-based Newmont Mining Corporation and its Batu Hijau copper and gold mine in Sumbawa, Indonesia. Beyond our professional work, however, we also wrote this article as a means of wrestling with our own roles as typical shareholders, that is, as members of the largely passive and anonymous mass of investors whose future retirement and children's college education hinges on the performance of the corporations in our mutual fund portfolios. We work among academics who are far more likely to criticize corporations for existing to maximize shareholder profits than to acknowledge that we stand among those shareholders in whose name corporations are supposed to maximize profits. While this stance could be seen as hypocritical, we suggest that it also reflects a more general structural condition of shareholders that is worth explicating.

Shareholders are both a growing and disappearing class in the United States today. Over the past three decades, the shareholder has grown as the centerpiece of expert discourse in corporations, investment banks, and mutual funds. The number of shareholders has also multiplied, due in large part to two crucial changes in federal law and the tax code. First, the US Employee Retirement Income Security Act of 1974 (ERISA) provided tax incentives to employed individuals to save in individual retirement accounts (IRAs). Second, in the early 1980s the private sector began replacing traditional lifetime pension plans with 401(k) plans that compelled workers to manage their own

retirement assets and make contributions. Public education and non-profit institutions followed suit with 403(b) plans. Employers quickly replaced pensions with the new plans, which were initially intended only as a retirement supplement, because they cost a fraction of the traditional lifetime plan. State and corporate actors who were the architects of these new retirement policies and instruments portrayed them as democratizing investment and empowering workers to participate in the “ownership society” by creating and managing their own portfolios. If a 401(k) represented free choice, conventional pensions funds were by contrast paternalistic.

While shareholders have grown in number as well as prominence in expert discourse, they have been disappearing in different ways: as a differentiated set of actors who are embedded in social relations, motivated by a range of subject positions and social values, and somewhat knowledgeable about the companies that comprise their portfolios. In the current environment, shareholders are often thought to be alike in their desire for maximized risk-adjusted financial returns – their personal moral beliefs are held in a distinct sphere from their actions as shareholders. Much of the rhetoric surrounding this vision of shareholder motivation promises liberation of individuals as autonomous, rational, enterprising, self-governing agents, who could conduct their lives as a kind of enterprise: setting their own goals and priorities, taking prudent risks, and assuming responsibility if their savings proved insufficient for retirement (Frank 2000, Rose 1999). Beneath the rhetoric of empowerment, however, the new plans entail a tremendous degree of constraint (e.g. limits on the mutual funds employers work with), compulsion (e.g. individuals must choose whether to join, how much to contribute, how to allocate savings, when to alter and adjust allocations, how to stretch the lump sum,

accessible upon retirement, over the unknown span of the rest of one's life), as well as dependence upon experts, including mutual fund managers, credit rating agencies, financial journalists, investment consultants, pension fund boards of directors, and so on.

Acknowledging that many workers fail to exercise routine and judicious oversight of their portfolios, Congress ruled in 2006 that companies could make target-date mutual funds, rather than conservative money market funds, the default investment choice for employees' 401(k). In theory, these funds shift from aggressive to more conservative portfolio strategies as the investor's projected retirement age approaches, and therefore require no thought or intervention on the part of the investor. Yet in 2008, the stock holdings of 2010 target-date funds varied wildly from 21 to 79 percent, and some lost as much as 40% of their value the same year, calling into question the financial ability of investors to actually retire at their target date (Wayne 2009). This example of a seemingly prudent investment vehicle gone awry contains some sobering lessons about the risks of staking individual and collective futures on market performance, the fallibility of investment experts, and the hand of the state in steering individuals towards market solutions. It also sheds light on the predicament of typical investors and their powerlessness.

When we invest in mutual funds, we delegate to others, i.e. mutual fund managers, decision-making powers over what to invest in and how to vote on proxy issues. Until a new SEC regulation in 2003, mutual funds did not even have to tell investors how they voted on proxy resolutions, although voting outcomes showed that they typically voted in solidarity with corporate management. In making decisions for us, the mutual fund manager is governed by a legal obligation or *fiduciary duty* to act in the

interests of shareholders. This naturally creates a dilemma: how is the mutual fund manager to know the interests of a diverse aggregate of people? Conventional logic holds that the only thing that can be assumed for certain about a group of shareholders is that they hope for a financial return on their investment. Therefore, as long as a publicly traded corporation such as Halliburton¹ is profitable and the manager does not have specific knowledge of investor opposition to the company, the manager is obliged to consider including Halliburton in the investors' portfolio. As 401(k) or 403(b) investors, our agency is limited to selecting among the mutual funds offered by our employer-sponsored programs.

If consumers are alienated from the conditions of commodity production, most mutual fund investors are, analogously, alienated from the firms they invest in. This occurs in the first place because the marginal holdings of most investors are so slight that their ownership of the company is incidental to its management – indeed, much finance theory has been devoted to resolving the distance between investor ownership and managerial control that allow managers to increase their own profits at the expense of shareholders, a problem whose classical formulation came from Adolph Berle and Gardiner Means in *The Modern Corporation and Private Property* (1968).

The same distance between ownership and control helps explain why we often criticize corporations for maximizing profits while neglecting the fact that we are among their owners. There seems little value in taking responsibility over corporate behavior when a few shares offer so little control. Socially Responsible Investment funds offer one sort of vehicle for addressing the moral dimensions of this issue – they set standards for

¹ Halliburton is most notorious for allegedly winning no-bid U.S. contracts in Iraq due to relations with then vice president Dick Cheney.

acceptable corporate practices, and use a threshold to determine a range of investable companies. But the fact that we can now choose to allocate some or all of our portfolios to an array of responsible investment products does not necessarily imply investor sovereignty; even as the menu grows longer, employees still have little choice but to order from it. In 2007, for example, Cornell faculty and staff could select two SRI funds: TIAA-CREF's Social Choice and Domini's Social Equity. To focus on the latter fund, 30% of its shares were in IBM, J.P. Morgan Chase, Citigroup, Verizon, Hewlett-Packard, Merck, Bank of America, Goldman Sachs, Johnson & Johnson, and Microsoft. Without disputing Domini's methodology for choosing such corporations or its efforts to influence them through shareholder resolutions, we would simply point out that many investors, if they scrutinized even the SRI components of their portfolios, might reach the conclusion that they do not mirror their own beliefs about social responsibility. The advantages of joining with other investors through a shared vehicle, which brings with it at least the potential of increased leverage (through the increased number of shares) over corporate behavior, comes with the trade-off of outsourcing the decisions about standard setting to fund managers. For investors in SRI mutual funds, then, alienation may arise due to a structural lack of agency. At the same time, this alienation may be read as an active suppression of our connection with our portfolios, which bear so little resemblance to our idealized selves.

The question that arises here is whether an investment or a portfolio could be seen, like a gift in Mauss' (1990) classic contribution to exchange theory, as an extension of self. The nature of the relationship between investors and their portfolios brings us to the question of personhood and value. A rich anthropological literature on the topic of

personhood has considered numerous ways to conceptualize the person or the self, much of it focusing on relational understandings of personhood in which people do not act, and cannot be apprehended, as free and discrete agents independent of the social relations in which they are embedded. McKim Marriott (1976) coined the term “dividual” to suggest that Indian Hindus conceived of themselves as composite, made up of materials and social relations that originate outside of themselves. Ethnographers of Melanesia have extended this line of analysis in new directions, suggesting that in contrast to the “permeability” of Indian personhood to flows of substance, some Melanesians construe persons as “partible,” or open to reconfiguring as parts of their selves that are owed to others can be separated and extracted from them and replaced with other parts (Strathern 1988). Such accounts of relational personhood often appear in stark opposition to a Western notion of the person as a clearly bounded, autonomous individual who has a unique core or “self,” strives to actualize this self and realize its goals, and is open to description apart from the social relations in which she or he is embedded. The distinction between Western/non-Western and individual/dividual notions of personhood has given rise to a debate over whether this binary should be seen as a useful device for critiquing the unselfconscious presuppositions of Western social theorists (Foster 1995), or a problematic reflection of the essentializing tendencies of scholars conducting cross-cultural research on selfhood (Battaglia 1995:8). LiPuma (1998) suggests that all persons have dividual and individual facets and negotiate the tension between the two.

Several strands of scholarship on “Western” subjects have questioned the notion of the unified, coherent, bounded, self-directing agent, suggesting that subjects are formed through sustained interaction with institutions of education, religion, and reform

(Foucault 1979, Goffman 1961), or what Althusser (1971) called Ideological State Apparatuses. Freud (1960) depicted individuals as psychologically made up of the id, ego, and superego, components that could be in conflict with one another. Scholars have found multiple voices or registers in everyday speech (Bakhtin 1981, Hill 1995), and pointed to a range of linguistic, dress, and behavioral codes through which we constantly perform and adjust our identities in relation to shifting contexts, including the status, actions, and judgements of our interlocutors (Butler 1990, Goffman 1967). Ethnographers have brought such insights into a range of realms, from how internet users “cycle through” different identities (Turkle 1995) and cultivate second selves in virtual worlds (Boellstorff 2008) to how early mother-child relations (Han 2006) or markets for body fluids and organs or gene sequencing may render insecure notions of discrete bodily integrity and proprietorship (Cohen 2001, Rajan 2006).

We contribute to such traditions of scholarship by examining how U.S. shareholder activists activate different notions of personhood and value in their descriptive and normative assumptions about corporations, corporate managers, shareholders, and themselves. In the following passage, Graeber (2001:39-40) connects Strathern’s concept of the “partible” or “multiple” person to value:

People have all sorts of potential identities, which most of the time exist only as a set of hidden possibilities. What happens in any given social situation is that another person fixes on one of these and thus ‘makes it visible.’ One looks at a man, say, as a representative of his clan, or as one’s sister’s husband, or as the owner of a pig. Other possibilities, for the moment, remain invisible. It is at this point that a theory of value comes in: because Strathern uses the phrase ‘making visible’ and ‘giving value’ more or less interchangeably.

To briefly preview our arguments about how shareholder activists invoke shareholders and the question of value, we suggest that early SRI activists drew on a relational model

of personhood to posit shareholders as moral persons who see their selves reflected in their portfolios. Shareholder value activists made visible only one facet of persons as shareholders: a desire for profit. Responsible Investment converts moral into economic reason such that responsible investing will conform to the shareholder value imperative. In doing so they suggest that prudent investment can address “whole” or “complete” persons (Strathern date) in their moral values and profit desires, at least over time.

Socially Responsible Investment: Discovering the Morality in Shareowning

There is a long history of connecting ownership to morality. Various religious orders have long proscribed certain enterprises and investments as sinful. Muslims have for centuries avoided investments related to pork products and usury; Methodists were counseled in the eighteenth century by the church’s founder, John Wesley, that one should not profit from industries that would harm one’s neighbor by polluting rivers or encouraging intemperance; and the Society of Friends, consistent with Quaker principles of non-violence and human equality, opposed slavery-related investments. Religious actors also played a significant role in modern SRI, which developed in the 1960s as an outgrowth of other forms of social protest over civil rights violations and the Vietnam War. Members of various American Protestant denominations began demanding church divestment from corporations doing business in South Africa. University students, who had been protesting corporations such as Dow Chemical for supplying napalm and Agent Orange to the US military in Vietnam, also began demanding university divestment from South Africa at campuses such as Princeton and Harvard.

For the growth and institutionalization of SRI as an investment practice in the United State, the year 1971 was a watershed. Protestant church representatives mobilized by the anti-apartheid struggle established the Interfaith Center on Corporate Responsibility, and two money managers for the United Methodist Church founded Pax World Fund, the first easily accessible mutual fund for retail investors in the U.S. At the General Motors annual shareholder meeting, an Episcopalian bishop presented the first shareholder resolution calling for the company's complete withdrawal from South Africa. With only 1.29 percent of the shareholder vote, the resolution failed. But it attracted favorable attention from Reverend Leon Sullivan, an African American Baptist minister whom GM had newly appointed to its board of directors after coming under pressure from Ralph Nader and activist lawyers (Nader's raiders) to diversify the board. Sullivan subsequently backed away from calling for total withdrawal from South Africa, and began working on a code of conduct that would allow corporations to continue operating in the country while promoting apartheid reform.

The Sullivan Principles, released in 1977, called for desegregation of meals, restrooms, and work stations; equal pay for equal work; and black employee training, but remained within the South African legal framework. Many corporations signed on to placate those institutional investors (pension funds, mutual funds, universities, municipalities, and state legislatures) that were questioning whether they should be supporting business in South Africa. Sullivan asked Arthur D. Little, an accounting firm in Cambridge, to monitor corporate compliance and progress. The firm charged Sullivan signatories monthly fees of \$18,000 each for the service (Seidman 2003:394). As activists pioneered techniques such as shareholder resolutions to *alter* corporate behavior rather

than simply *avoid* certain enterprises, they also began to rationalize the field. The key elements of the modern SRI industry that emerged in the 1970s included codes of conduct, monitoring regimes, consulting firms, and socially responsible mutual funds.

At the inception of modern SRI, what were the prevailing assumptions about corporations, corporate managers, and shareholders, and how did shareholder activists build upon or alter these assumptions? Corporations, first, were still predominantly conceived as firms that produced certain goods and services, and yielded returns to shareholders based on the sale of these goods and services. Although the term stakeholder capitalism was not yet in vogue, a stakeholder conception of the corporation essentially prevailed, as corporations were seen as embedded in particular places and relations of mutual obligation with workers, suppliers, contractors, the government, and surrounding communities, as well as shareholders. The stakeholder model of corporations conforms to a relational theory of personhood, with corporations seen as dependent upon (rather than autonomous from) all of these actors. Managers figured into this model as loyal organization men who subordinated their own interests to those of the firm (Whyte 1956, Mills 1951), and whose role was to act as industrial statesmen mediating between various stakeholders (Khurana 2007). Eminent business historian Alfred Chandler (1977) famously portrayed managers as the “visible hand” in the market, and “managerial capitalism” as the inevitable, efficient, logical, and rational result of the growth of firms (see also Galbraith [1967] 2007).

While such idealized conceptualizations of corporations and their managers were beginning to erode in ways that we will examine further in the next section, SRI activists still operated within their dominant assumptions and drew on a theory of relational

personhood when they appealed to corporations as institutions with value and obligations to stakeholders. They also drew on a relational model of personhood when they sought to appeal to the conscience of fellow shareholders. They conventionally made their appeals at annual shareholder meetings, which still today remain central sites for the unfolding of social dramas around the identity, expectations, and future of corporations. Proceedings from Union Carbide's 1989 meeting in a Hyatt Regency ballroom in Texas, reproduced in Kim Fortun's *Advocacy after Bhopal* (2001:105-10), capture the dynamic of this theater. Outside of the hotel, before the shareholder meeting began, police restrained placard-wielding victim-activists protesting Union Carbide's response to the toxic release of gas from its pesticide plant in Bhopal, India, which killed thousands. Dr. Clarence Dias, a proxy for the Sisters of Charity, called upon stockholders to live up to their "moral responsibility" by supporting a proposal for divestment from South Africa that was sponsored by various religious organizations and New York State retirement funds for civil servants: "Only then," she pronounced, "can we, the stockholders of Carbide, live down the shame epitomized in the slogan... 'Exxon spills, Carbide kills'" (ibid 108). In Dias' speech, the issue of South African apartheid bled into Bhopal. Another activist proxy, speaking on behalf of the National Toxics Campaign, expressed concern over the fact that, in the eyes of various environmental, civic, and public health groups, "our company, Union Carbide, is an outlaw company, is a criminal company, is a company that poisons people for profit and does not pay the full consequences. Despite all the glossy public relations efforts of our company, this attitude damages us..." (ibid). Another proxy for the Sisters of Charity made a motion, which the CEO granted, for a minute of silence "in memory of the 10 victims who will die this week in Bhopal as you

contemplate how you will vote on this resolution” (ibid 109).

The activists referred to Union Carbide, strikingly, as *our* company. Further, they appealed to the shareholder as a person who feels shame, and feels damaged by the actions of their company and the beliefs that others hold of it. This mode of activism construed the shareholder as a social person, who holds moral values, or “conceptions of what is ultimately good, proper, or desirable in human life” (Graeber 2001:1), and seeks to ensure that the companies in which she or he invests behaves in a way consistent with these values because corporate actions are something for which, as shareholders, they bear some responsibility. These shareholder activists approach the investments and portfolios as if they were extensions, or at least reflections, of the self. By the political move of divestment, the investor could withdraw the self from a social relationship that does not reflect, and even contaminates, the selfhood they seek to realize. In considering this extension of self into the world, the investor looks not only through her or his own lens, but considers the regard of others.

If early SRI activists sought to give value to or make visible the capacities of shareholders to see their investments from a relational perspective, they saw themselves as agents of structural transformation, setting such ambitious goals as bringing down apartheid rule in South Africa. Scholars have argued that codes such as the Sullivan Principles allowed corporations to claim they were reforming or circumventing apartheid, all the while they were in fact perpetuating it by providing crucial financial support to the South African regime (Seidman 2003, Mangaliso date). It is nonetheless significant that SRI’s early advocates positioned themselves as morally-motivated agents who sought to transform the world and its rules.

Shareholder advocacy is often seen as one component of a traditional tripartite understanding of socially responsible investment – the others are standard-setting (screening) in stock selection, and community development investment (we do not treat this last in this paper).

Stock selection focuses on setting the the parameters for what investors consider morally acceptable to own. It is, in principle, a means for investors to integrate their moral concerns into their investment strategy. As Amy Domini (2001:xv), one of the founders of the modern social investment community in the United States, put it:

As a financial advisor I work and live in two different worlds. The world I live in is populated with caring people who strive continuously to make the lives of their children, their communities, and often the world at large a little bit more livable. The world I work in is populated with people who ceaselessly work to achieve superior investment results for their clients. These two worlds are occupied by the same people. When at home, they care, and when at work, they care. But what they care about in each locale is at (sic) conflict with what they care about at the other. As a result, they work long days to achieve a goal that jeopardizes all that they hold dear when at home.

The moral crisis Domini depicts is no less profound for being conventional. It illuminates the potentially schizophrenic nature of capitalism for morally concerned shareholders, whether we phrase this in terms of differentiated worlds – one rich in shareholder value, another a social and environmental dystopia – or differentiated persons experiencing themselves as divided and compartmentalized as they alternately create and inhabit a single world. Socially responsible investment offers the promise of integrating shareholder and social concerns both in the world, and inside people.

The SRI field has grown significantly since the 1970s. Large, mainstream, secular funds have also grown in number (e.g. Parnassus, Domini, Calvert, TIAA-CREF, AHA, PaxWorld) and sophistication, developing a variety of methods for investment. The larger

funds have professionalized and rationalized the SRI industry, elaborating an epistemological apparatus that includes codes of conduct, new performance indicators, social and environmental accounting firms, and specialized investment research firms such as KLD Research and Analytics. They have continued to refine their ethical filters, using *negative screening* to exclude tobacco, military contractors, US Treasury bonds that could be used for military purposes, and for-profit prisons, public schools, and health care facilities because the clients of these industries – prisoners, children, and the unwell – “are at a particular disadvantage as consumers of the services being offered” (Domini 2001:56, 60). Beyond negative screening, these mutual funds conduct *positive screening*, selecting “best-in-class” companies for investment from particular industry sectors or based on performance criteria. The theory and practice of SRI has been extended into alternative asset classes, with social venture funds, cleantech funds, urban real estate funds, and so on, all considered to be part of the SRI universe.

SRI funds continue to use shareholder resolutions in an attempt to alter corporate practices, and many also include support for community development financial institutions under the broader umbrella of social investing. SRI funds such as Domini have also sought to alter the broader political context of mutual funds by lobbying for an SEC rule mandating disclosure of how they voted proxy shares on behalf of clients. In recent years the Social Investment Forum has been increasingly active in public policy debates on issues such as financial market reform and executive compensation legislation.

The SRI universe is not limited to a core constituency of established mutual funds. Indeed, today a wealth of funds caters to the diverse moral beliefs of investors, and

there is no standard set of ESG criteria that define the field as a whole. We may exclude, for instance the Vice Fund, which was designed specifically to appeal to people annoyed or repelled by the whole idea of SRI, and so invests predominantly in tobacco, alcohol, gambling, aerospace, and defense industries. But we see other funds that may fit within the SRI space covering a wide range of moral territory. For Muslim investors, Amana Funds complies with Sharia principles, avoiding interest (riba), alcohol, and pornography. For Catholic investors, Ave Maria Mutual Funds screens out companies involved in abortion or pornography and those with policies it deems to undermine the marriage sacrament. Another conservative Christian mutual fund, The Timothy Plan avoids alcohol, tobacco, abortion, “anti-family” entertainment, and corporate recognition of gay marriage. The Women’s Equity Fund invests in companies that advance women in the workplace, and the Meyers Pride Value Fund was created to invest in companies with progressive policies for the gay and lesbian community.

The story of SRI is one of growth and institutionalization. The field has seen entrants from mainstream firms, the growth of its traditional base in mutual fund investing and retail wealth management, and the elaboration of new tactics in fixed-income and alternative asset classes. Through all of this change, however, socially responsible investment remains largely understood to be an effort to exert moral weight within the sphere of investing – through shareholder advocacy that affects corporate behavior, or through stock selection practices that both align investments with values, and that also may signal the market that investors care about more than short term profits. As such, social investment constitutes a particular view of the shareholder as person.

Shareholder Value: Ownership and Profits

Shareholder value activism, which began to emerge in the 1970s, had more immediate and far-reaching impacts than ethical shareholder activism. It rested upon, and in many respects realized, an entirely different conceptualization of corporations, corporate managers, shareholders, and shareholder activism, beginning with the core assumption that corporations exist to maximize profits for shareholders. Whereas ethical shareholders sought to activate shareholder values – pluralizing both the category of shareholders and their moral beliefs – the new activists folded shareholders into a singular, homogeneous category and endowed them with a singular purpose: profit. Behind this mono-value of profit, as Ho (2009:180, 183) notes, lives a “mission-driven cause that symbolizes the sacred identity between profits and private property” and condenses a host of values such as responsibility, efficiency, and individual proprietorship. Shareholder value activists do not dispute that shareholders themselves care about more than money – instead, they claim that the return on investment is their only concern *as shareholders*. At its heart, the shareholder value movement was an assertion of rights of ownership -- an empowerment of shareholders who viewed the managerial capitalism of Chandler and Galbraith as a violation of their prerogatives as owners, and a perversion of the duties of managers.

The *raison d'être* shareholder value activists ascribed to corporations has legal backing: in *Dodge v. Ford* (1919), the Michigan Supreme Court forced Ford to use profits to pay shareholder dividends rather than for the proposed “charitable” purpose of creating more jobs and affordable cars. Shareholder value activists drew intellectual backing from Milton Friedman (1970), who was still seen as something of a radical

fringe thinker when he voiced the shareholder value credo: “the social responsibility of business is to increase its profits.”

In order to address how shareholder activists reconceptualized corporations and their shareholders, we must first consider the historical and structural forces that enabled this new social movement. Shareholder value activism began to take root in the 1970s, a decade that saw poor corporate performance alongside the perceived erosion of US political and economic hegemony; the fraying of the social contract between capital, labor, and government; and the coining of the term “stagflation” to describe the puzzling combination of stagnant growth and inflation. Shareholder value activists blamed inefficient and complacent managers for sapping the strength and dynamism of American capitalism, and promised to restore power to investors, the true owners who had elected to risk their own capital on a firm. Shareholder value activism, however, was hardly a widespread, popular uprising. Rather, the central protagonists of the shareholder revolt were wealthy individuals, speculators, and managers of high volume institutional investments (e.g. foundations, private and public pension funds, mutual funds, banks, and insurance companies), who were themselves acting on behalf of the capital of millions of investors.

The proportion of U.S. stocks controlled by institutional investors rose steeply from the late 1970s; whereas in the 1950s institutional investors controlled less than 10 percent, they controlled over 50 percent by the early 1990s and today control some 75 percent of the largest one thousand US corporations. Due to their large size, institutional investors sought to exercise agency over corporations by “voice” (vote) rather than “exit” (selling shares) (Hirschman 1970). While institutional investors controlled significant

voting blocks, since the securities acts of 1933 and 1934, passed in the wake of the Wall Street crash of 1929, investors had enjoyed little political power and ability to act as a collective (Davis and Thompson 1994, Useem 1993). Shareholder value activists had a number of legitimate concerns about the near total control managers exercised over the composition of the board of directors, accounting firm selection, the institution of changes in governance rules, the handling of shareholder resolutions, and the state in which corporations were incorporated.

Yet the shareholder value movement could also be destructive, unleashing a frenzy of mergers that generated short-term windfalls for shareholders but often, over the long-term, eroded stock prices. The Reagan administration, which fostered a laissez-faire ideology in the executive branch and weak anti-trust enforcement, nurtured the “insurgent consciousness” of shareholder activists as they launched their “new social movement” (Davis and Thompson 1994, Stearns and Allan 1996). Armed with junk bonds,² shareholder activists used hostile takeover bids to discipline corporations that did not appear to be maximizing returns on their assets.³ Many were vulnerable because, through the 1970s, their assets had grown in value due to inflation while profits were low due to stagnant growth. Twenty-nine percent of Fortune 500 companies were subject to hostile takeover attempts during the 1980s.

In a hostile takeover, an external entity makes a “tender offer” to buy shares

² Junk bonds, or high-risk, potentially high-yield bonds rated below investment grade, were the primary financial instrument behind tender offers. Institutional and international investors as well as newly deregulated Savings and Loans increasingly bought and sold junk bonds until the market collapsed in 1989. The first President Bush forbade Savings and Loans from investing in junk bonds and reinstated antitrust powers at the state level.

³ Hirsch (1986: 806) describes the use of hostile takeover techniques during the 1950s in the American Southwest with small company takeovers, followed by its diffusion to larger takeovers in the 1960s era of corporate growth through conglomerate acquisition: “The resultant organizational form attracted substantial and widespread attention: during the 1960s the appreciation of these ‘go-go’ firms’ exceeded that of established and more traditional corporations.”

directly from the shareholders at a premium (above market value) price. Appealing directly to the owners to assume a controlling share (i.e. 51% or more of a company), the external entity bypasses corporate management and the board of directors, who may only learn of the change of ownership when they read the morning newspaper. Many of the “corporate raiders” who initially led hostile takeovers fell outside of the traditional business elite in status, religion, and class, and were viewed as disreputable outsiders and upstarts. Over the course of the 1970s and 1980s, however, the hostile takeover gained a measure of acceptance as a practice that status-equal elites could use upon one another, and major law firms and investment banks established special departments to focus on mergers and acquisitions (Hirsch 1986: 810).

Layoffs of workers and managers often ensued in the wake of takeovers as corporate assets were liquidated or reconfigured with the ostensible goal of enhancing efficiency, and “existing social arrangements such as plant and headquarters locations; product lines and services offered; union contracts; pension and retirement benefits; and contracts with local suppliers, banks, and other community organizations are all called into question” (ibid 801). Employees suffered relocations and the loss of jobs, status, benefits, and opportunities, suffering health and family problems as a result (ibid).

The takeover mania did damage to conventional notions of corporations as long-term, stable, and reliable employers of workers and producers of goods and services. All were vulnerable to being taken over. In buying, selling, breaking up, and recombining firms, shareholder activists extended a conceptual shift that had already begun in the 1960s, when managers adopted conglomeration as a growth strategy and acquired firms across numerous unrelated product lines, in the process creating a creature over which

antitrust laws, created to control familiar vertically- or horizontally-integrated monopolies, had little control. Neil Fligstein (1990) describes how managers began to conceptualize conglomerate firms in financial terms as “bundles of assets” or “diversified portfolios” open to investment strategies and experimentation. One of the consequences of the takeover mania, however, was to strip the conglomerates created during the 1960s and 1970s. Successful corporate raiders, and managers trying to preempt hostile takeovers, sold off and liquidated unprofitable business units and product lines so they no longer appeared on the balance sheets as idle or unproductive assets. In some cases, they identified a limited set of strengths as the firm’s “core competencies,” and labeled the profitable unit left over after the sell off as the firm’s “core business.” Construed as bundles of assets that existed solely for the pocketbook of shareholders, corporations were less amenable to relational theories of personhood and appeals to value.

The financial perspective on the firm as a portfolio or bundle of assets, and the growing emphasis on shareholders, was also reflected in the new prestige and prominence accorded to the discipline of *investor relations* and to the Chief Financial Officer (CFO). Where corporations had once treated financial managers as back room “bean counters” preparing retrospective tax statements, over the 1970s and 1980s, they were promoted to the apex of strategic decision-making and “spin-doctoring” (Zorn 2004). The CFO’s role was to think about the company like a stock analyst and, using this perspective, to actively manage unruly shareholders. The CEO-CFO “dynamic duo” often ascended to the helm at the expense of presidents and chief operating officers, who were traditionally more concerned with production figures than share prices (ibid).

Corporate managers more generally made shareholders the central “mythical

reference point” of expert discourse (Power 1997: 44). As layoffs of middle managers reduced bureaucratic oversight by headquarters staff, corporations pushed authority down to lower levels and instituted performance measures that were supposed to reflect shareholder value (Useem 1993). Corporate executives, as well as mutual fund managers and investment bankers (Ho 2009), devised means to apply the cultural ideology of shareholder value to themselves. With stock options and other ownership plans, executives increasingly made their compensation contingent upon share price increases and dividend gains. They became increasingly engrossed in the “evaporated property” index of stock price (Schumpeter 1942), checking their “personal report cards” ten times a day and making mental calculations of their year-end incomes. One large corporation erected a prominent display of the share price at the entry to the executive office building (Useem1993: 117-8). To inculcate shareholder value ideology among employees, corporations hired communications specialists to create audio tapes and video program series on the topic and began inserting stock price and annual shareholder meeting information into newsletters and electronic communications to employees (ibid 71-5). Corporate operations and the activities of employees were broken down such that each could be rewarded or held responsible for how they had contributed to or detracted from earnings per share.

The notion that corporate actors must have incentives such as stock options in order to align their interests with those of shareholders rested on notions of personhood embedded in agency theory. In papers published between 1976 and 1997, University of Chicago-trained economists Michael Jensen, William Meckling, and Eugene Fama provided economic justification for the takeover movement on the grounds that it

enhanced market efficiency. Further, they systematically “recast management as an agent of shareholders and shareholders as the principle authority to whom managers are responsible” (Khurana 2007:316). Agency theory treated managers as “inevitably self-interested ‘utility maximizers,’” and dismissed “the idea that executives should be held...to any standard stricter than sheer self-interest” (ibid 323). Disseminated through the financial press as well as MBA curricula, agency theory achieved hegemonic status in many business schools, with its deductive and generalizable approach displacing scholarship grounded in inductive observation (ibid 318). Jensen claimed that the “tough-minded” doctrine of shareholder primacy shook to the core the “stakeholder model” of organizational purpose that was “dear to the hearts of many of our students” (ibid 322). Agency theory naturalized and legitimated “opportunism as the dominant mode of managerial behavior,” while driving out any possibility of managers’ deriving any alternative meaning from their work, or creating meaning for others (ibid 324, 382).

As the mythical reference point and unmarked category of shareholder value discourse, the shareholder is also defined as a socially-disembedded actor with no interests outside of profit maximization – as noted above, other interests pertained to other roles a person might play. Retirement instruments such as the 401(k) and the IRA both embodied and enabled investor capitalism and the merger frenzy. As workers had to shift between jobs and companies in the insecure environment of flexible capitalism, the new retirement instruments represented portable investment products that an individual could transfer between employers or access early in the absence of employment (Harvey date, Martin date). These instruments also cost companies around a third of traditional pension plans, and thus fit into a cost-cutting era. Ironically, with their retirement

savings, shareholders could contribute to their own disenfranchisement as workers. For example, a significant internal conflict of interests arises for a GM worker who, as a shareholder with retirement savings invested in GM, might support a plan to close down US factories and open new ones in Free Trade Zones abroad, while he or she would oppose this same plan as a worker (or stakeholder) whose job would be lost by such a move. The shareholder in such cases could be described as a victim of structural violence, and as an unwitting perpetrator. Such contradictions underscore how deeply constrained shareholder agency is, and how alienated shareholders are from their own investments. As persons, we inhabit a range of additional subject positions that go beyond our identities as workers and shareholders, giving rise to a host of environmental, social, moral, and religious values that the conventional notion of shareholder value necessarily precludes.

The Growth of Responsible Investment

In recent years, there has been a concerted effort by both investment practitioners and advocates to expand the universe of social investment, to bring in mainstream investors and transform the SRI universe from a niche market to a significant component of the world's investment practice. This effort reflects the goals of many SRI investors, who frequently say things like “I look forward to the day when we no longer say ‘socially responsible investment,’ because all investment has become socially responsible, and it’s all just investment.” Social investors may refer to this as a “big tent” strategy.

This is a global phenomenon. The United Nations Environment Programme Finance Initiative and the UN Global Compact are among the key proponents of

responsible investment. Together, they coordinated the process for developing the UN Principles for Responsible Investment, which were released in 2006, and in the process, with the help of a large group of stakeholders including some of the world's largest pension funds, coined a new term to describe the practice of Responsible Investment. That practice, under this new definition, consists of incorporating Environmental, Social and Governance information into the investment process, so as to maximize risk-adjusted financial returns. ESG issues, the UN points out, "can affect the performance of investment portfolios" (UNPRI n.d.); as a corollary benefit, investment will also create social benefits.

In a report bluntly titled *Show Me The Money: Linking Environmental, Social, and Governance Issues to Corporate Value*, UNEP FI (2006) laid out what has come to be thought of as the business case for Responsible Investment. According to this report, ESG analysis is important to investors as a tool for: (1) Assessing management, as well-managed companies do not externalize their costs onto society; (2) Anticipating global trends – the increasing global integration of business activity leaves businesses more exposed to political risk, but also offers opportunities to create new products and services related to major social and environmental problems; (3) Anticipating regulatory trends – corporate social and environmental costs are likely to be taken up by political bodies and present future risk; and (4) Identifying risks to corporate reputations – advocates often argue that a corporation's intangible value (the difference between its stock price and its measurable assets) rests largely in reputation, and ESG information offers a window into threats to corporate reputation. *Show Me the Money* portrays ESG as a forward-looking discipline that offers a deeper window into corporate performance than traditional

financial analysis alone would allow.

As this report reveals, the business case for responsible investment is a powerful tool that unites the moral concerns of SRI with the narrow focus on investment returns promoted by shareholder value advocates. The business case promises to heal the divisions between the world of financial work and the world of life, simultaneously healing the divisions within persons. It does this by converting financial into moral reason. The business case holds that corporate *environmental, social, and governance* performance is not simply a matter of ethics, rather, it has *material* consequences for the financial performance of corporate stocks over time.

The business case is alluring to advocates for responsible investment for several reasons. They see the business case as the key to enlarging the industry, and thereby enlarging or “scaling up” the social impact of social and environmental issues in investing. Combining flattery and urgency, responsible investors claim that without “buy-in” from the broader investing world backed by “real money,” “real change” will be impossible. As Al Gore put it in November 2008 at a conference targeting foundation endowments exploring responsible investment: “I founded Generation Investment Management because I believed that the capital markets can be an important lever for social change.” Advocates for the field gauge its growing strength in quantitative terms such as dollars invested in public equities that include social or environmental criteria in their selection or vote percentages captured on shareholder resolutions.⁴ Responsible

⁴ For example, the Social Investment Forum reported in 2007 that \$2.7 trillion, or approximately one in every nine dollars invested in public equities in the United States, included some sort of social or environmental criteria in its selection. Sister Patricia Wolf of the Interfaith Center on Corporate Responsibility reported that, whereas her organization was once happy with 3 percent of the shareholder vote, and even three years ago only managed to get 6 to 8 percent of the vote on human rights resolutions, in 2006 human rights resolutions at the annual shareholder meetings of Boeing, Chevron, and Halliburton gained between 22 and 25 percent of the vote (Holstein 2006).

investors eagerly greeted reports on the risks and opportunities of global warming from investment banks such as Citigroup (2007), Lehman Brothers (2007), and UBS (2007) as validating them and conferring a seal of legitimacy upon their discipline. The business case also allows advocates to avoid the treacherous moral topics that mainstream investors are trained to avoid. By framing social and environmental questions in the lingua franca of materiality and shareholder value, advocates can create a seemingly unassailable case for taking such concerns seriously. The language of finance asserts that whatever is being argued for is above the fray of politics, scrubbed of the taint of interest groups.

The arguments for ESG are framed as *anticipating* the actions of others (regulators, activists) as opposed to actively *precipitating* change. The hope is that, as the business case becomes more apparent over time, responsible investment will become mainstream investment, leading to capital markets that perform well over time, as they simultaneously are transformed into tools that improve the human condition more broadly understood. In other words, by addressing a flaw in the market, which does not conventionally deal with ESG, they will eventually fix this market flaw and render responsible investment obsolescent as a distinct discipline.

Adopting a big tent approach that encompasses investors concerned with ethics as well as those prioritizing profits has led advocates to rebrand SRI and themselves. They acknowledge that people and institutions may find the idea of investing in ways consistent with their social values attractive, but they typically default to the business case mode in order to reach “skeptical or agnostic” investors, an audience that would presumably be more amenable to the rational language of profit than social values. For

instance, the Social Investment Forum, an industry trade association, adopted a new mission statement in 2006 meant to redefine social investment as a professional activity, rather than a particular set of moral goals, declaring that “critical to the responsible investment movement is the consideration of environmental, social, and governance criteria in addition to traditional financial analysis.” A newer generation of advocates often drop the word “social” from SRI, arguing for other brand labels such as “sustainable investment” or “responsible investment.” The founding members of David Wood’s own institution made a deliberate decision to omit the word “social” when they created Boston College’s Institute for Responsible Investment.

To make their case for synthesizing social and environmental values with the profit motive, responsible investors mark the shareholder as a long-term investor. Whereas corporate performance over the next half-decade or half-century holds no necessary relevance for the unmarked, profit-maximizing shareholder, responsible investors invoke a multitude of possible perils and opportunities when they insist upon this long-term temporal orientation. Responsible investors have made this long-term orientation in responsible investment synonymous with Environmental, Social, and Governance analysis, or ESG, in turn embedding ESG into the business case.

Investors who subscribe to ESG analysis claim that vital, material issues will be revealed in investment returns over the long term, invoking long-term time horizons as the fundamental measuring stick for investment acumen, even as they acknowledge that short-term time horizons are the current standard for the “mainstream.” The long-term time horizon serves two functions for responsible investors. First, it is the means by which they make the link between investment returns and socially and environmentally

beneficial outcomes, and so entice money into investments that create social and environmental benefits rather than externalize social and environmental harm. Second, long-term time horizons becomes the fiduciary justification for incorporating environmental, social, and governance information into investment decision making. These two functions are mutually reinforcing: fiduciaries can only take into account ESG issues if they affect the returns on their investments; the weight of capital markets can only be brought to bear on important social and environmental issues if those issues can be described as important to financial returns.

Responsible investors narrate the development of their discipline in teleological language, using metaphors of maturation to describe how responsible investing has evolved since the 1970s. One prominent SRI professional sought to distance the field from its roots, remarking to a conference gathering: “This is not your parent’s SRI. We have more than negative screening, with best-in-class and positive screening, ESG analysis, new players such as the UN PRI, with over \$10 trillion in assets under management, and groups like the Carbon Disclosure Project, with over \$40 trillion in committed assets.” In making the case for “Sustainable Investing as an Emergent Investment Discipline,” Joe Keefe (2008), former Social Investment Forum president, now CEO of PaxWorld, recasts the nature of social investment and adopts the UN-led rebranding of ESG analysis as the core of responsible investment:

The shift in language and emphasis—from SRI to Sustainable Investing, from the language of “values” to the language of ESG integration—is not semantic; it is *definitional*. It marks the emergence of a new investment discipline called Sustainable Investing, premised on the financial *materiality* of ESG factors and therefore the need to fully integrate them into investment analysis and decision making.

By saying that Sustainable Investing is an emergent investment discipline we are saying that it is not a “niche” marketing strategy, or an “alternative” investment category, or an asset class, or a lifestyle choice, all of which were said about SRI at one time or another. It is, instead, like other investment disciplines, or theories, or schools of thought—like value investing, or index investing—in that it has a particular viewpoint on what is the best way to achieve market performance or outperformance over the long term.

When SRI was defined in terms of values integration rather than ESG integration, it did not and could not have such a viewpoint. That’s because it wasn’t a unified investment theory. It was rather the marrying of various investment styles with various “values,” often religious in origin, typically through the use of exclusionary screens...

Though Keefe allows that a certain set of values are embedded in sustainable investment – for instance, “the desire to protect and preserve the planet, or promote diversity, to respect the rights of workers” – they are not relevant to an investment discipline. Keefe and other responsible investors seek acknowledgement that Sustainable Investing has parity with orthodox financial disciplines. In gender-laden terms, responsible investors often assert that it has equivalent strength, rigor, and robustness, words often treated as synonymous with quantifiability. Investors in the mainstream set the terms for such division, distinguishing between “hard” information like financial reports and “soft” information such as a company’s stakeholder engagement practices.

Climate change is the archetypal issue for responsible investment. The threat of climate change works better in the business case than do social issues such as human rights or living wages. First, it is seen as rooted in scientific fact rather than culturally-relative moral beliefs. Second, in the race to find the “truth” of the business case through measurable outcomes, environmental issues generally have the upper hand, as they can be related to concrete “ecoefficiency” gains whereas many social measures are negative (e.g. claims about avoiding reputation damage or liability). Climate change discourse is also

embedded in the threat of universal apocalypse. Responsible investment conferences frequently feature speakers such as Al Gore, Bill McKibben, and Van Jones, all of whom point to the fundamental existential crisis to human civilization posed by climate change. These presentations, and the discussions they engender, are framed in moral terms and scientific imperatives, with benchmarks such as achieving an 80 percent reduction in greenhouse gases by 2050. The responsible investment community is often told, and tells others, that these moral and scientific goals will be hard or impossible to achieve without the active support of the investment community, which plays so important a role in how resources are allocated in capitalist society.

But the discussion of climate change quickly moves from these moral and scientific imperatives to the business case for climate-related investment, as a conscious effort to encourage rather than alienate mainstream investors. Responsible investors focus on “speaking the language of mainstream investment,” which invariably means the language of investment returns. And climate change offers a wealth of issues that speak to both the risks to investment returns as well as the opportunities for outperformance over time. As the non-profit group Ceres (2006), which among other things manages a network of institutional investors known as the Investor Network on Climate Risk (INCR), puts it in a toolkit called *Managing the Risks and Opportunities of Climate Change: A Practical Toolkit for Investors*:

Climate Risk presents enormous opportunities for investors. Climate Risk is now embedded in portfolios, as companies worldwide face regulatory, legal, physical and competitive risks. But where there are risks, there are also opportunities. The next 50 years will require a massive shift to cleaner energy sources and technologies to avoid massive climate disruption. Legendary venture capitalist John Doerr recently called finding solutions to climate change “the biggest opportunity of the 21st century.

At the conference mentioned above, Al Gore and his business partner, former Goldman Sachs executive David Blood, went on to explain that they saw enormous potential profit in being on the right side of the climate change issue in their investment practice.

In practice, it turns out, the business case is quite pliant. Though climate change serves as the quintessential responsible investment concern, almost any social or environmental problem can be rephrased as a business risk or opportunity, and responsible investors devote a good deal of creative energy to doing just that. More traditional activists have also adopted the business case. For example, in a mock-styled supplement to Newmont Mining Corporation's 2002 annual shareholder report, Project Underground (2003), a fairly radical but now defunct environmental and social NGO, wrote "Dear Investor, Cutting corners to cut costs may lead to short term gains, but...it all adds up (sic) increased liabilities and compromised credibility. In the end, the true costs placed on the communities will be translated into real expenses for you, the investor. The best way to strengthen your investment is to hold Newmont accountable to the highest social and environmental standards..." Similarly, Sister Patricia Wolf, the executive director of the Interfaith Center on Corporate Responsibility, argued that, "Companies today can see that there are issues of reputational risk. No company wants to be tagged as a violator of human rights. From a financial point of view, that can lead to exposure and liability. Long-term institutional investors understand that" (Holstein 2006).

Because the business case is so powerful, mutable, and available, activists may find it difficult or even unethical to resist. Sister Patricia Daly, who has been involved with the Interfaith Center on Corporate Responsibility since 1977, is completely fluent in the language of shareholder value and uses it often in her role as executive director of the

TriState Coalition for Responsible Investment. After she spoke out in this language at the 2006 ExxonMobil Annual Shareholder Meeting, a retired shareholder followed her out and told her, “We get the science, and we get the investment piece. You should be talking about their moral responsibility” (Slater 2007). After losing sleep over the comment, Sister Patricia Daly decided to summon this “God card” – the language of moral values – at ExxonMobil’s 2007 Annual Shareholder Meeting. She stood up and, after discussing climate change in shareholder value terms, lapsed into the older register:

I truly believe that every one of us has a very special vocation and we’re here on this planet for a reason. We are now, this company and every single one of us, challenged by one of the most profound moral concerns. And we have the wherewithal to respond to that. We all want to be able to tell the children in our lives and have those children tell their grandchildren that we were part of the solution, not part of the real problem. . . . And that’s why we want to be able to have our company show us how we are responding to the true moral challenge, the great work for the future of this planet.

ExxonMobil’s CEO had a ready response:

We know that we have social and moral obligations as a corporate entity just as we all have personal social and moral obligations. First and foremost our obligation, because of the business we have been in for more than a century, is to continue to provide reliable and affordable energy to the world to allow the world’s economic growth to continue.

This exchange, in the semi-choreographed ritual setting of the shareholder meeting,⁵ seems to confirm the wisdom that the business case for corporate responsibility is more

⁵ Both activists and CEOs go through rehearsals of their performances for these meetings, and spend time analyzing them afterwards. After activists began showing up at meetings, Newmont began videotaping them for analysis and considered holding meetings at an industrial park facility where they would garner less attention, but decided that would be too cowardly. An investor relations executive did, however, plant into the audience several employees with straightforward questions (e.g. What are you doing to control costs?) in order to deflect time and attention from the more hostile questions of activists. In 2007, ExxonMobil also altered its rules of engagement, reducing discussion time for shareholder resolutions from 10 minutes to 3 and using a panel with green, yellow, and red lights to reinforce consciousness of time constraints among shareholder activists (Slater 2007). See Foster (2008) for an account of activism around Coke’s shareholder meeting.

difficult to refute than an appeal to moral obligations.

Yet the business case, now so hegemonic that it has turned even conventional SRI activists into responsible investors, also has its costs. In routing ethics through shareholder value, experts and activists reinforce the power and primacy of the shareholder value dogma, capitulating to a logic that leaves profit-maximization as the inviolable goal of the corporation and reinforcing a tendency to measure and interpret environmental and social problems against their real or imagined impact on share price. If environmental and social actions can be calculated in terms of value-added, they can also be prioritized on those terms as opposed to on an ethical basis. Kurucz et al. (2008: 99) argue that a “false separation” between ethics and economics “is perpetuated when we attempt to justify positive social behaviour in economic terms, rather than as valuable in itself, and as integral to a healthy capitalist business system.” Further, in making the business case, responsible investors place themselves in an ambiguous position on the question of their own political and ethical agency. Responsible investors are undoubtedly engaged in advocacy, defined “as a performance of ethics in anticipation of the future” (Fortun 2001:16). Yet the business case suggests that responsible investors (and investors more generally) should be acting in anticipation that others (e.g. activists, NGOs, governments, international institutions), rather than they themselves, will actually change the rules by which corporations must play.

Whereas the SRI activists discussed in the first section portrayed themselves as ethical agents of structural transformation, responsible investors tend to externalize ethical agency. For responsible investors, over the long-term, speculation will yield to quality, and externalities will be internalized, because otherwise, the markets are not

rational. The problem resides in the agency that will reimpose quality, and internalize externalities. The mainstreaming of responsible investment is predicated on the idea that ESG analysis will: a) help investors make better decisions over long-term time horizons, and b) simultaneously bring to bear the power and creativity of investment capital on the world's most pressing social and environmental areas. But A provides a model of a savvy investor who reads the way society is trending and changes her investments accordingly; B is the model of an active investor, invested in creating social and environmental change. If we look again at the reasons for mainstream investors to adopt responsible investment, we find that the agency of investors themselves is written out of the equation. As *Show Me the Money* explains, ESG can help identify the changing landscape of resource constraints, regulatory mandates, public investment, and consumer demand that will favor socially and environmentally beneficial outcomes. In each case, agency is externalized. Oil will be depleted, governments will regulate carbon emissions, non-profits and governments will promote urban regeneration, consumers will not buy products that are produced by oppressed or underage workers. The externalized costs will be internalized over time – smart investors will adjust their portfolios appropriately, because material information will lead them to do so. Responsible investors seek to exercise agency over corporations (get them to behave more responsibly), by denying their own moral agency and displacing it onto other actors (society and government) who set out a framework for rewarding or punishing good or bad corporate behavior. This stance does not, in fact, depart from the Friedman's (1970:33) doctrine, which allows that business must conform to “the basic rules of society, both those embodied in law and those embodied in ethical custom.”

The mainstream growth of responsible or sustainable investing comes at the expense of a marginalizing for some the purpose that drew people to SRI in the first place. Amy Domini (2001:xvi) swore a Hippocratic oath for socially responsible investors to “ask first that we do no harm.” Further, she gave two basic reasons for investors to integrate social or ethical criteria into their investment decision-making process: “the desire to align investments with values and the desire to play a role in creating positive social change” (ibid 13). The business case, however, subordinates such concerns, giving priority to how ESG issues affect investments, rather than to how investments affect the world. In practice this has not led to a necessary division – Domini Social Investments is an active participant with the UN PRI community, and maintains its distinctive SRI nature at the same time. But the big tent does at least raise to the surface the tension between ESG analysis as a way to maximize opportunities and mitigate risks, and social investing as a vehicle to make the world a better place, even as it offers the alluring promise that the shareholder can have both.

Unlike the Union Carbide shareholders who could feel shamed, even damaged by their company, the new responsible investing is painless. Investors can feel good for sponsoring more ethical capitalism while, with any luck, watching their portfolios grow. This upbeat, win-win model of social investment has a strong affinity with contemporary calls for sustainable consumption that limit the pinch of sacrifice. Identity, then, can be as comfortably linked to our investment practices as to our consumption habits. SRI activists and responsible investors have argued for some important advances with implications for how we understand the relationship between mutual funds, firms, and shareholders. These include the SEC requirement that mutual funds disclose proxy votes,

and new pressure to clarify (or rewrite) the concept of fiduciary duty such that ESG reporting is a duty for institutional investors and publicly traded companies (UNEP FI 2004). Yet these transparency mechanisms do not alter the fact that most shareholders, even as their interests are incessantly invoked, remain compelled and constrained to invest in corporations.

The business case for responsible investment suggests that corporations must be reconfigured to become more adept at responding to the risks and opportunities posed in ESG analysis. Corporations, in Michael Power's (2003) strikingly mechanical language, now process morality by installing internal control systems that manage risks. Like responsible investors, corporations externalize ethical agency onto stakeholders and recast it in terms of risk in order to take it seriously. This advances a concept of the stakeholder that "is based neither on the *rights* of individuals and groups external to the company nor on the *duties* of the company to such groups," but rather is "defined as part of the expanded risk management mandate" (ibid 153). From this perspective, "even false beliefs about environmental and social impacts of corporate activity must be taken seriously and managed in the stakeholder economy by 'upstream social analysis'" (ibid). "The responsible organization," Power concludes, "no longer requires the necessary fiction of 'good' people within it, it needs rather systems that are responsive to ethical pressures in the organizational environment" (ibid 160).

This is not to argue that within corporations people cannot seek to act on ethical values. It is to point out that the business case compels people to recast ethics in terms of financial risks and rewards. Thus, for example, it is important not to hire a security executive with a past record of human rights abuse during his military service because

this presents a risk to “reputation capital,” rather than simply a violation of corporate values. It is vital that mining geologists not trespass upon local residents’ land in search of ore samples because this could threaten the mine’s “social license to operate,” rather than simply because theft and trespass are wrong. A meeting between a corporate environmental responsibility officer and a Greenpeace activist must be documented to demonstrate “value-added,” rather than be treated as a human relationship. Almost any ethical action by corporations, it seems, can be creatively contorted and rephrased in business case terms. As more and more actions and relations get encased in a business case logic, ethical agency is displaced onto external actors such as activists, governments, and civil society.

Conclusion: The Iron Cage

The business case is more than an expedient for realizing more ethical forms of capitalism. It transforms the very ethics it is supposed to further, subjecting moral questions to new logics, rationales, and forms of calculation. In addition, it locates moral agency outside of the corporation in the threats of stakeholders like activists and state regulators, who themselves increasingly adopt the idiom of shareholder value. It may be that SRI experts are able to exercise moral values and agency more effectively by externalizing them, but the business case increasingly makes such ethical ventriloquism an imperative: every action must be justified in terms of potential value added, reputation capital deposited, and risks managed. In this sense, SRI experts are refashioning shareholder value as their own rational and dehumanizing iron cage.

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