

# REINVESTMENT ALERT

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A Woodstock Institute Bulletin

September, 1993 Bulletin 3

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## SOCIALLY RESPONSIBLE INVESTING: INVESTOR PROFILE AND TRENDS

### What is Social Investing?

Social investing simply means taking into account the social and ethical implications of investment decisions. Growing numbers of individuals and institutions are becoming social investors: The amount of money channeled to social investments increased from \$40 billion in 1985 to over \$600 billion in 1992.

At root, social investing is an extension of political expression. Peter Kinder of Kinder, Lydenberg, Domini & Co., Inc., an expert in the field, says that social investing is "making one's investments consistent with one's personal commitments."

"Social investing is value investing," says Steve Schueth of the Calvert Group. For some, social investing means screening out investments in companies which fail to meet social criteria. Companies that assist in the manufacture of nuclear weapons are often avoided. Other social investors seek out investments in those companies which they feel positively contribute to society. Investors who believe in the importance of renewable energy for example, may choose to invest in companies that produce energy efficient light bulbs.

A common misconception about socially screened investments is that they either yield lower rates of return or are more risky than conventionally selected securities. The experience of those who use social criteria to manage securities portfolios proves otherwise.

In social investing there is a double bottom line - the first being the rate of return and competitive performance; the second being investing in a socially responsible entity. It is, therefore, the responsibility of social investment companies to acknowledge that making money will always be the first bottom line for investors. With this in mind, they must show through innovative programs and education that performance of social investment dollars is very competitive and at the same time show that these dollars are doing good for the society and are addressing the human element. "To keep social investing in the mainstream, it is the responsibility of social investment companies to connect values with investments and educate the

public that they don't have to give up performance to invest in a socially responsible way," said Steve Schueth.

### **Who is the Typical Social Investor?**

While the core of social investors is dominated by the members of the baby boom generation, experts agree that there is no "typical" investor. According to Jean Pogge, Vice President of Development Deposits at South Shore Bank, social investors were initially easy to categorize as they tended to be overwhelmingly from religious institutions and used their investments to express their value system. Over time the trend line has begun to broaden. Social investing is a growing political strategy that now embraces all sectors of the population -- from nuns to yuppies, the young and the old, liberal and conservative.

These investors have a myriad of reasons why they choose to invest their money in a socially responsible way. "The main variable that connects these groups is political orientation--all are seeking progressive solutions to social issues," said Joan Bavaria, President, Franklyn Research & Development. In other words, they tend to be conscientious, caring, value-driven individuals who see their investments as a further extension of their political beliefs.

"Individuals are motivated by trying to make their investments consistent with their commitments," said Peter Kinder. "Social investing is a way to implement other concerns." Social investors see their investments as doing good for society in a very controlled and direct way.

Although there is no typical social investor, there are, however, several common characteristics about this group of people. On the whole, women make up the majority of the socially sensitive shareholders. Statistics from a two-year old Calvert Social Investment Fund survey of social investors showed that 74 percent of the respondents were women. Several social investment companies confirmed that over 50 percent of their social investors are women.

A majority of social investors also tend to be white collar professionals with a college education or higher. Social investors tend to be concentrated on the coasts -- in the Western and New England states. Islands or pockets of social investors have arisen around colleges. It is here where education and awareness have pushed social investment to the forefront of financial activity -- where progressive people actively involved in their community are aware of what they believe and are applying it to their lives, according to Steve Schueth. The Midwest benefits in this respect with its many college communities.

## Beyond South Africa

There are different theories about the origin of social investing. One theory dates the movement back to the peace movement at the beginning of the century with the church being the primary institution promoting such progressive issues. Others believe the emergence of social responsible investing occurred in the 1960s and 1970s with issues like Earth Day, the Vietnam War, the use of napalm in that war, and President Nixon's invasion of Cambodia that created "internal dissonance" and forced people to change investment strategies.

The situation which investment practitioners agree was the most dramatic catalyst for social investing was the negative screen on investments in South Africa. The media and legislators picked up the South African issue and galvanized popular support. The result was a \$600-700 billion social investment industry, all but \$30 billion to \$40 billion of which was based on the negative screen on South Africa. Some investors think that progress toward majority rule in South Africa will stall interest in social investment. Social investment practitioners, however, argue that investment patterns developed because of South Africa have simply laid the groundwork for increased social investing.

According to David Berge, Director of the Socially Responsive Banking Fund at Vermont National Bank, social investment is a "dual-edged sword" with negative and affirmative screens. The whole concept of social investing was to encourage individuals to be conscientious of where they were directing their money and how to be responsible for those investments. The situation in South Africa became a negative screen which was very easy for people to organize around and agree on what not to invest in. With that situation changing, people are being forced to look at affirmative screening as a positive way to invest in specific issues they support.

"Future issues for social investment will revolve around the environment, urban affairs, human welfare issues and health care," says Peter Kinder.

The number one obstacle investment companies face is staying abreast on the issues which have a broad appeal, and then finding innovative ways to market those issues. "With the passage of South Africa as the primary social investment issue, there are no more issues as cut and dry, as black and white. In the future, social investment companies can not vilify corporations and must be more subtle in raising issues of social investment," said Joan Bavaria.

Social investment companies must also contend with the underlying barrier of motivating people to put their money into social investment mediums, according to David Berge. Berge would like to see the first generation of investors carry the burden of educating and spreading the word on the philosophical underpinnings of the social investment industry.

The key for social investment companies is to find issues people care deeply about and then support the front line activists who address these issues through money, information, and communication.

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