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Financial Markets: A Tool for Social Responsibility?

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Abstract

Objectives of socially responsible investment (SRI) are discussed with reference to the two main mechanisms of the SRI ‘movement’: shareholder advocacy and managed investments. We argue that in their current forms, both mechanisms lack the power to create significant corporate change. Shareholder advocacy has been largely unsuccessful to date. Even if resolutions were successful, shareholder advocacy may still be ineffective if underlying economic opportunities remain. Marketing material and investment prospectuses issued by socially responsible mutual funds (SRI funds) commonly contain the claim that, by affecting corporations' access to capital funding, SRI funds can change corporate practices. This paper makes a contribution by presenting the market share of SRI funds in the regions where they are most developed, being Europe, the U.S. and Australia, to show that this claim is unlikely to eventuate. SRI funds also commonly claim that they will outperform conventional active mutual funds. That the economic performances of both are similar might be explained by their similar portfolio compositions. The paper makes an innovation in the SRI literature by adopting a legitimacy framework to explain the continued presence of SRI funds. To achieve

desired social and environmental outcomes, SRI funds are urged to address issues at a more systemic level. A suggested mechanism is the collective lobbying of corporations and, especially, governments.

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