The Arnold and Caroline Rose Monograph Series of the American Sociological Association

The field of social investment

The field of financial investment is undergoing a quiet revolution as fiduciaries are beginning to use social criteria in allocating capital in the U.S. economy. This social practice is authorized by pension funds, churches, universities, insurance companies, banks, and mutual funds, as well as wealthy individuals. Social investment of this kind alters the traditional reasons for allocating capital, and the professional basis for investment decision-making can therefore no longer be rooted solely in the disciplines of economics and finance: it now requires the addition of sociology and related social sciences. It is such an addition that Severyn Bruyn undertakes in this book.

The book is concerned with the theory and practice of social investment as a profession. Professor Bruyn interprets the meaning of social investment, describes current investment practices, and proposes a theory of social investment based on these practices. He reviews empirical studies supporting new directions in investment policies, and shows how they affect developing countries. He also provides guidelines for fiduciaries, based on the best available knowledge of corporate behavior, and presents researchers with key hypotheses to follow in gathering data for the evaluation of social investment norms.

The study uniquely offers a basis for defining social investment as a field of knowledge, and will interest all readers concerned with its practice or analysis.

Cambridge University Press
978-0-521-40776-2 - The Field of Social Investment
Severyn T. Bruyn
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The Rose Monograph Series was established in 1968 in honor of the distinguished sociologists Arnold and Caroline Rose whose bequest makes the Series possible. The sole criterion for publication in the Series is that a manuscript contribute to knowledge in the discipline of sociology in a systematic and substantial manner. All areas of the discipline and all established and promising modes of inquiry are equally eligible for consideration. The Rose Monograph Series is an official publication of the American Sociological Association.

The Editor and Board of Editors gratefully acknowledge the contributions of William F. Whyte of Cornell University and Tom Koenig of Northeastern University as expert reviewers of this book in manuscript.

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Cambridge University Press

Cambridge
New York Port Chester
Melbourne Sydney

Published by the Press Syndicate of the University of Cambridge
The Pitt Building, Trumpington Street, Cambridge, CB2 1RP
40 West 20th Street, New York, NY 10011, USA
10 Stamford Road, Oakleigh, Melbourne 3166, Australia

First published 1987
Reprinted 1988
First paperback edition 1991

Printed in the United States of America

British Library cataloguing in publication data

Bruyn, Severyn T.
The field of social investment. –
(The Arnold and Caroline Rose monograph series of
the American Sociological Association)
1. Investments – Social aspects
2. Investments – Economic aspects
I. Title II. Series
332.6 HG4515

Library of Congress cataloguing in publication data

Bruyn, Severyn Ten Haut, 1927–
The field of social investment.
(The Arnold and Caroline Rose monograph series of
the American Sociological Association)
Bibliography
1. Investments – Social aspects – United States.
2. Investments, American – Social aspects.
3. Industry – Social aspects – United States.
I. Title. II. Title: Social investment. III. Series.
HG4910.B77 1987 332.6 86–26393

ISBN 0-521-33292-3 hardback
ISBN 0-521-40776-1 paperback

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Preface

The field of financial investment is undergoing a quiet revolution as fiduciaries are beginning to use social criteria in decisions concerning the allocation of capital in the U.S. economy. This social practice is authorized by churches, universities, unions, insurance companies, banks, and mutual funds as well as wealthy individuals. The significance of this trend is indicated by the amount of money that is socially invested today and by signs that still more funds will be so directed in the future. For example, pension funds constitute over $1 trillion today and are expected to reach over $4 trillion in the 1990s. The AFL–CIO has mounted a campaign to persuade members to increase their control over the social direction of these funds. But there are billions of dollars in other institutions whose fiduciaries are becoming conscious of "the social factor" in the economic allocation of funds. The amount of capital involved suggests the potential power of social investors to alter the shape of the economy in the decades ahead.

This book is about the theory and practice of social investment as a profession. Its purpose is to offer a conceptual foundation for investment policy and research. It contains guidelines for fiduciaries based on the best available knowledge of corporate behavior in the context of society. For researchers, it contains key hypotheses to follow in gathering data for the evaluation of social investment norms.

Social investment alters the traditional reasons for allocating capital. The professional basis for decision making can no longer be rooted solely in the disciplines of economics and finance; the new dimension of investment policy requires the addition of sociology and related social sciences. The rationale for financial decisions now requires social theory supported by empirical research.

The book has three parts. The first part is designed to interpret the meaning of social investment, describe current investment practices, and propose a theory of social investment based on these practices. The second part interprets this theory and practice more systematically at different levels of the economy and points to empirical research supporting the new direction in investment policy. The third part reviews empirical studies that assess the impact of international investment policies on developing countries. We combine the results of these studies with our principles of social investment to recommend guidelines for investment at the global level. Finally, the epilogue is a review of the trend toward social investment and its relationship to solving problems in the U.S. economy. Our assessment of this trend becomes the basis for suggesting new financial and governmental policies to treat these problems in the coming decade.

Part I: The idea of social investment

The first chapter examines the meaning and legal framework of social investment within which capital is allocated in the United States, providing the background for chapter 2, which reviews the practices of social investors of different interests and values. Chapter 3 draws on ideas from these investment practices to advance a theory guiding investment decisions from a broader perspective. The theory is formulated around the idea that the economy is socially governed at different levels of organization: the workshop, the corporation, the industry, and the economy as a whole; the global economy and the local community are variations. A basic assumption is that each level is in the process of social development. The key hypothesis is that the corporate economy is evolving a social foundation to govern itself relatively independently of outside controls at each level, but the foundation has only begun to develop and is not yet sufficiently stable to be reliable over time. The business economy experiences cycles of depression and inflation that make it vulnerable to government intervention and controls. Providing a more secure foundation for social self-regulation requires a process of social-economic development promoted by investment policies.

Social-economic development is a complex process that calls for innovative theory and research, and the cultivation of both human and material resources within the levels of the corporate economy. At the level of the firm, development can mean cultivating new skills and responsible authority among people in departments, office systems, and workshops. At the level of an industry, it can mean promoting creative relationships between trade associations in the public interest and between labor and management. At the international level, it can mean helping to build a social foundation for the economy of a developing nation. Development, then, demands not only the best investment wisdom but also long-range research to anticipate the impact of decisions on people and the economy. This is the reason for constructing a professional field of social investment.

Part II: Social criteria and research

The second part of the book describes how social investors can begin to apply the normative principles underlying the theory at different levels of the economy. The chapters review policies of investment based on current empirical studies at the level of the corporation, the industry, and the community.

The most significant idea for social investors and researchers may be what William Foote Whyte has called "social inventions." Social inventions occur when a new element in organizational or interorganizational structures is established, when new social procedures are formulated, or when a new set of roles is formulated in a social system. Social inventions can make a difference in corporate productivity and profits and also in terms of fulfilling human values and social development in the economy. Investors have always looked toward technological inventions that promise profits and new directions for economic development, but now investors can add social inventions to enhance the probability that human values can be cultivated in the process. New patterns of social development become a critical part of the subject matter of this new field of financial investment.

The theory of social investment is conservative in its goal of reducing government regulations while enhancing self-regulation, but it is also paradoxically liberal and radical in its methods. For example, in chapter 4 the theory supports liberal investors who are recommending that corporations consider their "stakeholders" to be as important as their stockholders. The argument is that stakeholders who are affected by the firm – labor, management, consumers, and local citizens – are closely related to the firm's capacity to be productive and make profits. Social investors are therefore interested not only in how managers maintain profits by keeping an eye on the market and the development of new technology but also on how they remain accountable to their constituencies. The theory is thus in concert with current policies of investment that stress corporate accountability. Chapter 4 outlines a "social frontier" for radical alternatives in corporate development. This frontier involves experimenting with new structures of social accountability in keeping with economic efficiency that guide the private firm to function increasingly in the public interest without government controls.

Although social investors do not normally support whole industries today, a concern has developed in this direction through unions and the use of pension funds. The concern has also arisen among economists who have witnessed the destructive impact of declining industries on employment and the economy. Industrial decline has been studied by economists of different persuasions, such as Lester Thurow, Barry Bluestone, Charles Reich, Samuel Bowles, and Paul Lawrence. In chapter 5 we interpret their findings within a sociological framework and recommend a new pattern of investment policy to treat the social and economic problems of industrial decline.

The criteria for investment at the industrial level are sufficiently complex that we take chapter 6 to discuss directions for social research on these issues. Special attention is given to the role of nonprofit federations in providing the basis for industries to thrive with a minimum of government controls. One proposition offered is that institutional investors can encourage corporate leaders to experiment with new systems of legislative and judicial practice within the private sector to avoid government intervention. The conceptual framework leads investors to think about a creative mix of values in the ideologies of laissez-faire and economic democracy.

The basis for utilizing social criteria to invest in local communities is dealt with in chapter 7. Using the "frontier" criteria described earlier, we formulate a conceptual framework for investing in a decentralized economy. Social investment policy at this level would strengthen local economies while avoiding problems of provincialism and local elitism. The proposed policy includes experimenting with socio-legal inventions like land trusts, worker-owned firms, community banks, and community development corporations. Such entities democratically increase the power of local people to manage their own affairs without government controls while at the same time offering opportunities for trade at national and global levels. The final issue is how future economies can become local and global at the same time. The answer suggested is through social inventions that federate firms and optimize local power in the context of the larger corporate community.

Part III: Global social investment

The need for social investment at the global level is most dramatically demonstrated by the failure of international banks to solve poverty and hunger in Third World nations. These problems persist despite enormous amounts of capital spent to eliminate them. Chapter 8 contends that the reason rests in the continued use of solely economic criteria in banking policies. Our argument is that the economic problems underlying hunger and poverty are caused by social problems that need to be addressed directly in banking policies. In chapter 9 we provide examples of social investment criteria for the World Bank, multinational corporations, and international funding agencies.

In sum, this book provides a conceptual framework for the study and practice of social investment. It offers a basis for developing a professional field of study that integrates social and economic criteria in the practice of financial investment. It is designed to be of practical use to investors and at the same time to serve as a guide to social scientists and economists who must conduct the critical research needed to correct and redirect the investment process.

I want to thank my colleagues in the department of sociology at Boston College for their helpful conversations and their support of the graduate Program in Social Economy and Social Policy, where this book achieved its inspiration. Special thanks to Professor Charles Derber for commenting on some draft chapters and to Professor Ritchie Lowry for his interest in discussing ideas in this field as well as his persistence in the practice of social investment in his own corporation. I also want to thank the graduate students in this Program for the opportunity to share ideas with them and a special thanks to James Meehan for typing some chapters with a fine editorial eye. The professional editorial assistance of Betty Seaver was extraordinarily helpful, as was the assistance of Cambridge University Press. Finally, I want to express my appreciation to all the social investors who are challenging tradition and making innovations in this field of finance. Without their courage and imagination, this book could not have been written.