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# Social investment: Subjectivism, sublation and the moral elevation of success

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**Abstract**

Investment products that deploy ethical values and social considerations in portfolio construction have persisted since the 1980s. Pitting Habermasian discourse ethics against Foucauldian power relations and radical institutionalism, the paper argues that socially directed mutual funds ascribe capital markets with validities of high moral magnitude, work up extant tendencies toward financial hegemony and stymie criticism of the political–economic order. Institutional pressures do not permit the exercise of an ethic stronger than an aesthetic care of the self. The balance struck between economic and social priorities is investigated by interviewing investment managers, reviewing archival material and surveying the attitudes of unit holders in retail social mutual funds.


*Keywords:* Foucault; Habermas; Capital markets; Ethics; Mutual funds; Non-governmental organizations; Shareholder activism

Investment managers claiming to deploy social considerations in mutual fund portfolios describe their practices variously as ‘ethical’, ‘green’, ‘mission-directed’, ‘sustainable’ and ‘socially responsible’. It is as convenient to use the term social funds. Social funds claim four objectives: to reform corporate behaviour by influencing corporations’ cost of capital, thus affecting their capital expenditure plans; to outperform mainstream investments by pre-empting the pricing of economic externalities (Abelson, 2002Abelson, 2002, p. 159)[1];

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[1] Abelson defines economic externalities as “any positive (beneficial) or negative (harmful) effect that market exchanges have on firms or individuals who do not participate directly in those exchanges”. Although social funds

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to supply evidence that practitioners can use to lobby for self-regulation; and, loudest of all, to provide a mechanism by which unit holders can connect financial objectives with moral principles (Haigh and Hazelton, 2004).

The latter objective demands an examination of the methods by which these mutual funds select and apply social considerations, and in particular on the influence of institutional pressures. The contribution of this paper is its investigation of moral and practical challenges encountered in this style of managed investment.

The paper divides into five sections. Section 1 outlines relevant literature and the distinguishing characteristics of social funds. An 'ideal' social investment portfolio is described. Section 2, using radical institutional theory and Foucauldian power relations, argues that social funds collectively prop up the political–economic status of financial institutions.

Section 3 examines institutional pressures that constrain the meaningful application of ethics in equity investment portfolios. The interplay between economic and social considerations is investigated by analysing the discourses of social funds. Three discursive sources are used: semi-structured interviews with managers of selected Australian social funds, a survey of unit holders and interested consumers in North American, European and Australasian markets, and archival marketing material appearing in those markets.

Section 4 identifies meta-ethical positions from which managers of social funds would select and apply social considerations. The paper offers an alternate account of practical moral reasoning that, while impartial on ethical content, would require managers to justify investment decisions on moral grounds. When prevailing institutional forces are considered, however, the model appears infeasible. Finally, Section 5 considers if social funds, despite their manifest inabilities to adopt strong forms of ethics, might be valuable to unit holders from a subjectivist perspective.

## 1. Social investment research and practice

Empirical studies comparing the economic performance of social and mainstream mutual funds dominate the literature on social investment. These studies find the economic performance, management styles and portfolio stocks of mainstream and social mutual funds to be similar (Bauer et al., in press).[2] Others examine methodological issues relating to portfolio construction (Kreander, 2001; Perks et al., 1992; Rockness and Williams, 1988). Although some writers question the methods used by social funds to assess corporations (Schwartz, 2003), the influence of institutional pressures on managers of social funds remains largely unexamined. The unannounced launches of social investment products by most mainstream investment banks over the period 1999–2003 would imply that communitarian frameworks as suggested by Kapur (1999) and Mackenzie (1997) do not inform current practice.

cannot predict that governments will recognise and price economic externalities, the claim is that investors stand to reap an eventual benefit.

[2] The results of these studies would suggest that social mutual funds investing in equities are an attractive economic prospect, at least compared to other investments thought appropriate for social investors, such as 'style-neutral' government bonds and money market funds.