

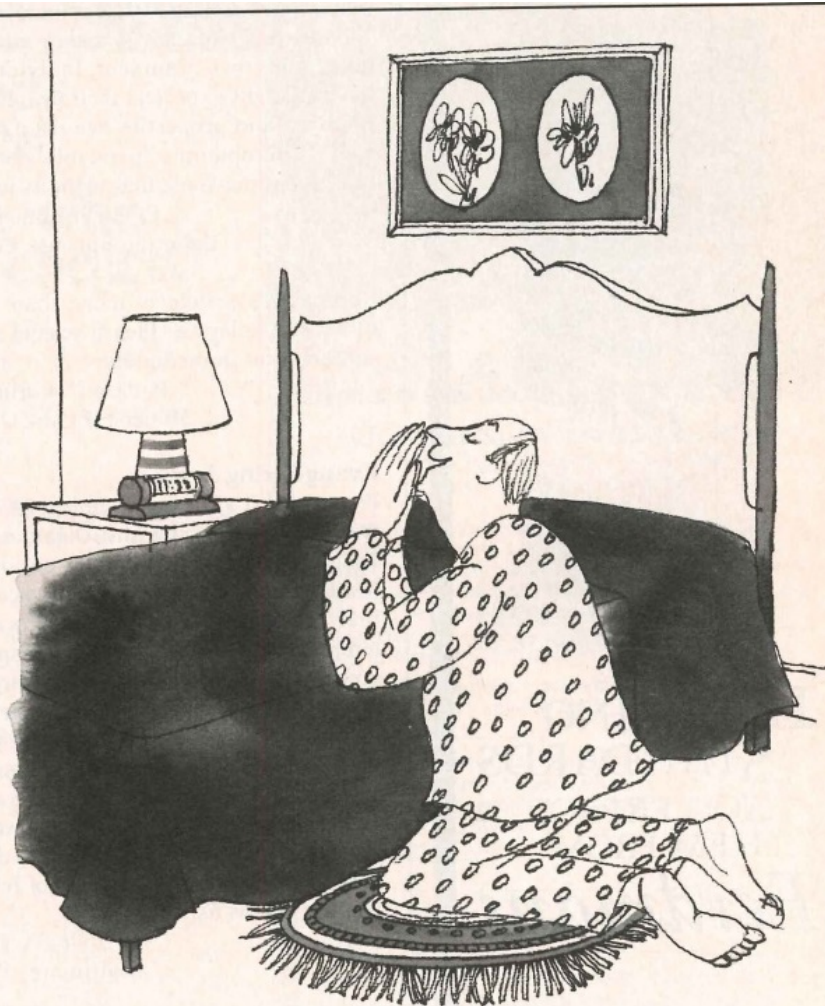
The Morality of Socially Responsible Investing

1

**JARED L. PEIFER, PHD
BARUCH COLLEGE (CUNY)**

Melding Together Morality and Money

2



"Just give me some inside information on the stock market and I'll kick back 20 percent for worthy charities."

Just give me some inside information on the stock market and I'll kick back 20 percent for worthy charities.

-Christianity Today 1985

Outline

3

- Social scientific approach to morality
- Socially Responsible Investing
- Survey of Praxis (Mennonite) Investors
- Online Experiment

Morality in the Market

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- Neoclassical economics
 - Assumes “homo economicus” or “economic man”
- "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest" (Smith 1869).
- This ideological foundation of capitalism...
 1. Justifies greed
 2. Suggests “benevolence” does not belong in the market
- My Research Agenda: Better understand how morality exists in the market

Morality

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- Pertaining to the “right” thing to do
 - “Ought”
- Prescriptive/Normative Approach
 - Theologians, Moral Philosophers, Sunday School conversations
- Descriptive Approach
 - Social sciences

Moral Commitment

6

- Moral, Believing Animals (Smith 2003)
- Morality can unleash **STRONG** commitment



Maria van Beckum, en Ursel, haers Broeders Wif. 1544.

Moral Foundations

7

- Care/harm
- Fairness/cheating
- Loyalty/betrayal
- Authority/subversion
- Sanctity/degradation

Jonathan Haidt



Socially Responsible Investing (SRI) Mutual Funds

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1. Screening
2. Advocacy
3. Community Investments

Invest in the
green revolution.

W I N S L O W
GREEN MUTUAL FUNDS

PAX
Pax World Investments

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Research Questions

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Study 1: (Peifer 2014)

1. Are socially responsible investors more loyal?
2. What kind of SR investors are more loyal?

Study 2: Online SRI Experiment (Jing Liu-coauthor)

What type of morality drives different types of investors to invest in socially responsible investment vehicles?

Praxis Mutual Funds

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- Associated with Mennonites
- Well known in SRI industry
- Military screens
- Heavily engaged in advocacy

Phone Survey of Praxis Investors

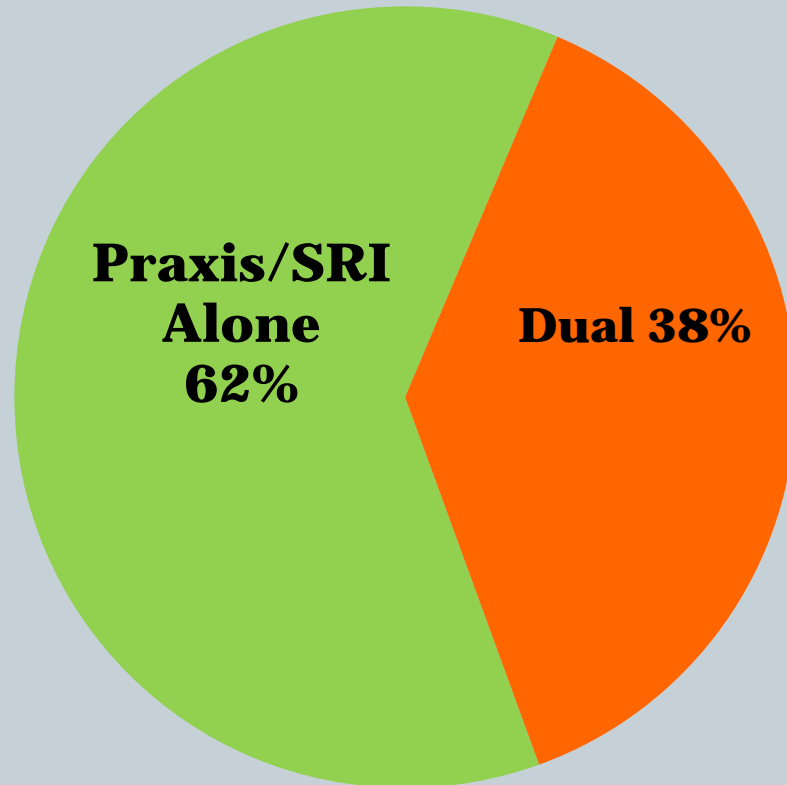
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- January-February 2010
- 502 completed interviews
- 62% response rate



Proportion of Praxis Investors (N = 499)

12



Due to the moral components of SR investments (e.g., screening and advocacy) I predict...

Hypothesis: Dual investors are more loyal to their Praxis Funds than to their conventional funds.

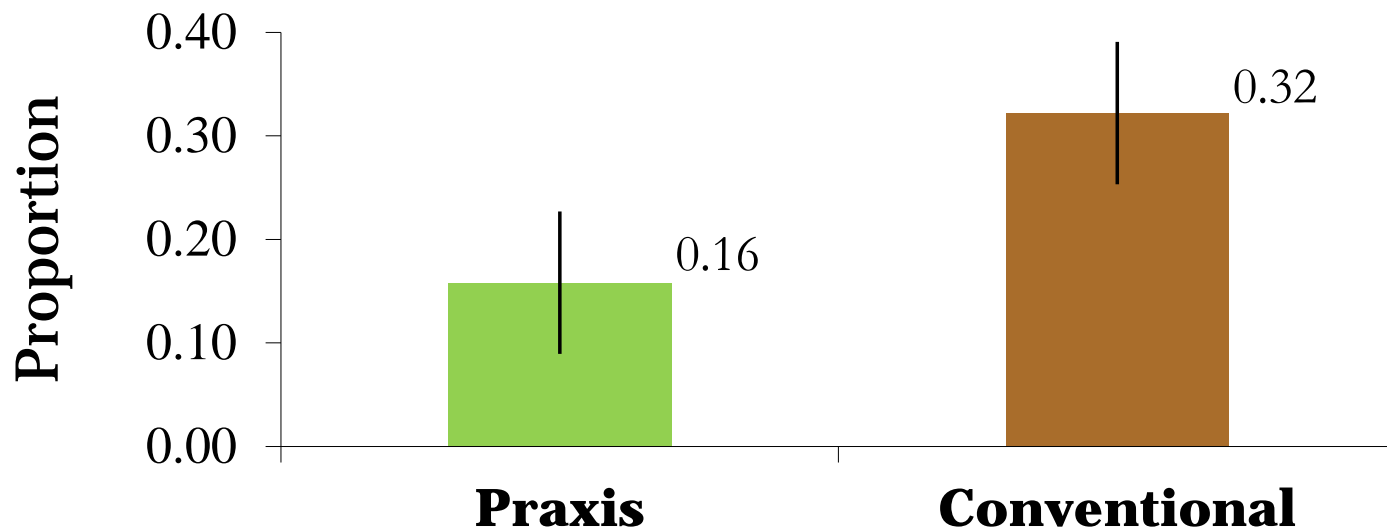
Behavioral Measure of Fund Loyalty

14

In the past, have you ever sold shares from your (Praxis/conventional) mutual fund because of low return performance?

Proportion that redeemed shares in past (n = 177)

15



$H_a: 0.16 \neq 0; z = 5.1; (p < .001)$

Punchline: Dual investors are more loyal to their Praxis fund than their conventional fund.

Research Question 2

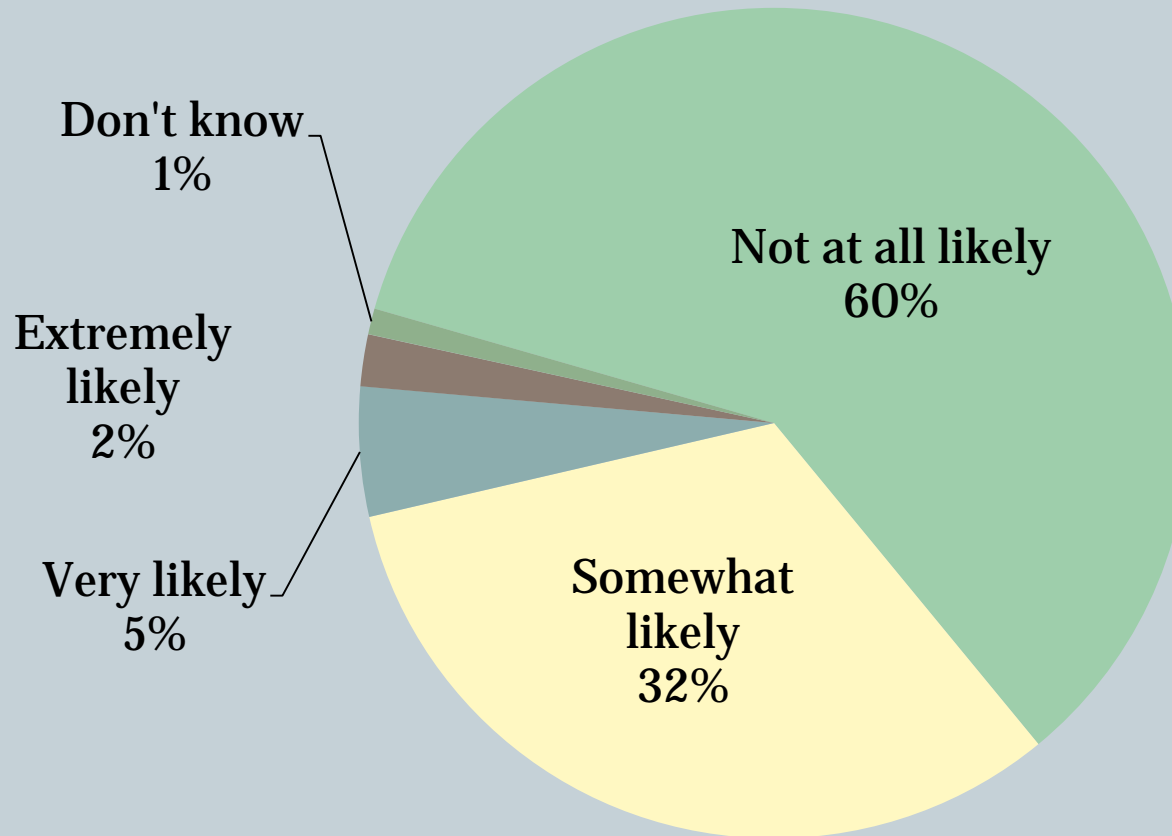
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What factors are associated with fund loyalty among SR investors?

- **Full sample (N= 491)**

If you were to learn that the return performance of your Praxis fund was usually lower than conventional funds, how likely is it that you would sell some shares for that reason?

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Descriptive Statistics (N=491)

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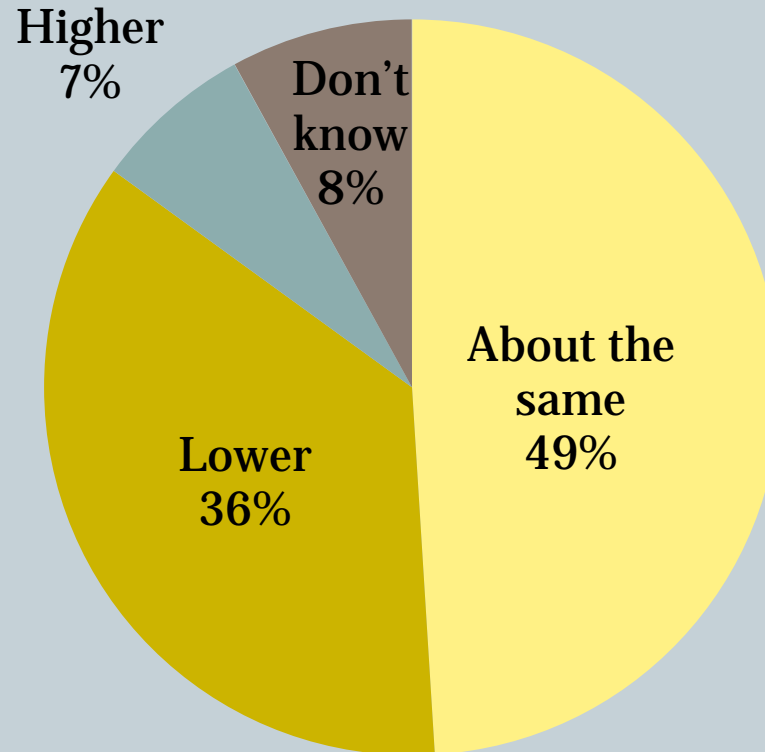
	Yes	No/Don't know
Screening	90%	10%
Advocacy	54%	46%

Screening	Purity/sanctity
Advocacy	

Screening	Purity/sanctity
Advocacy	Harm/care

...do you think that your MMA Praxis fund tends to earn **lower** returns than most conventional funds, **about the same** level of returns, or **higher** returns than most conventional funds?

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Ordered Logistic Regression of Fund Loyalty (N=491)

22

	Odds Ratio	95 % CI
Know Screening	1.0	(0.5, 2.1)
Know Advocacy	1.1	(0.6, 1.7)
Values Screening	2.2***	(1.4, 3.4)
Values Advocacy	1.5	(0.9, 2.6)
Low returns	0.7*	(0.5, 1.1)
Same/DK (referent)	-----	-----
High Returns	1.0	(0.4, 2.3)
Sense of belonging to Menno	1.1	(0.9, 1.4)
Talk to friends about Praxis	0.6*	(0.4, 0.9)
Covariates included	✓	
Wald chi sq	66.0	
Prob>chi sq	0.00	

* < .05, ** < .01, *** < .001 (one tailed test)

Note: Odds ratios are reported

Ordered Logistic Regression of Fund Loyalty (N=491)

23

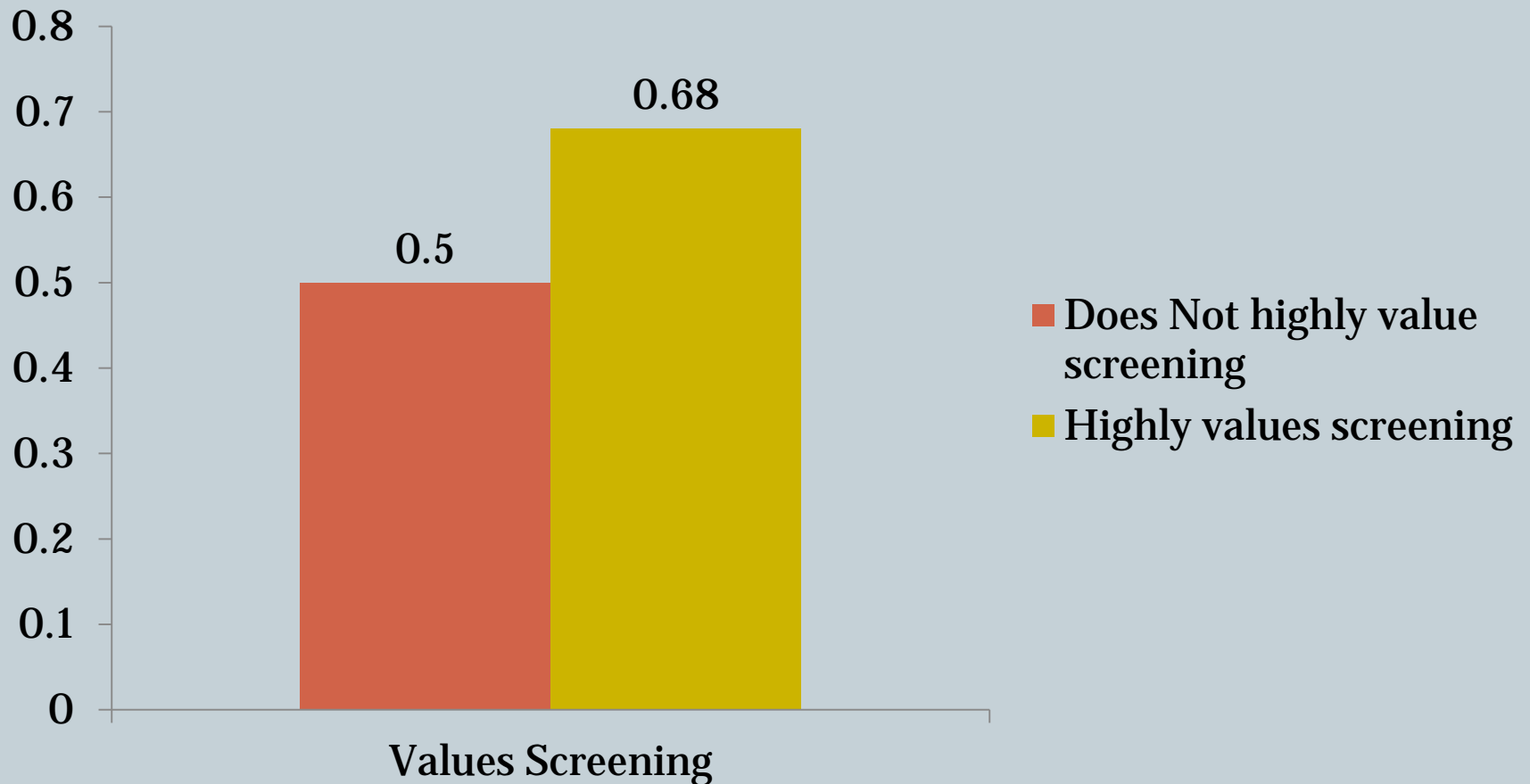
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Predicted Probability of Highest Fund Loyalty: Valuation of Screening

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Ordered Logistic Regression of Fund Loyalty (N=491)

25

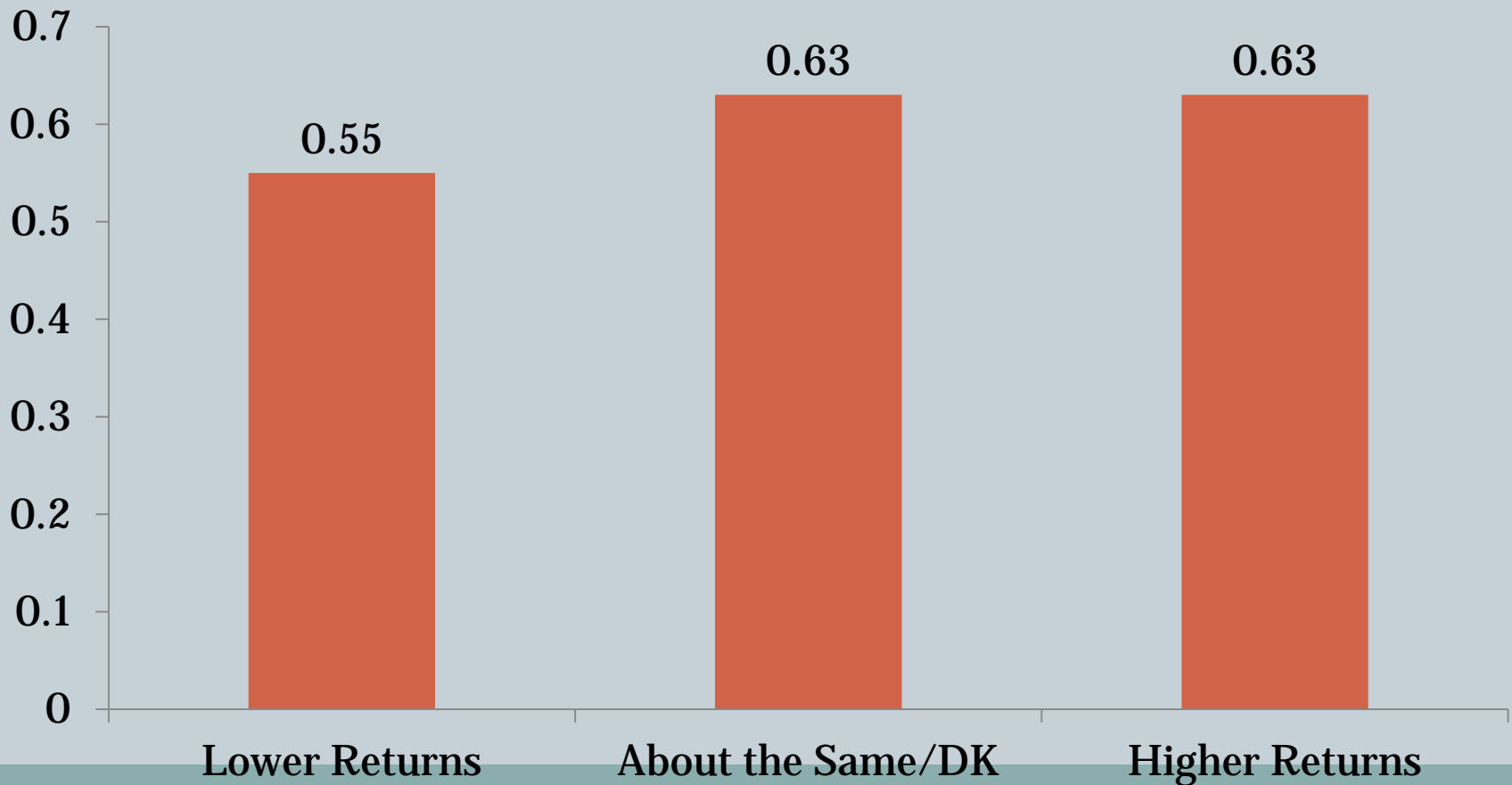
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Note: Odds ratios are reported

Predicted Probability of Highest Fund Loyalty: Perceived Cost of Praxis

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Ordered Logistic Regression of Fund Loyalty (N=491)

27

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Ordered Logistic Regression of Fund Loyalty (N=491)

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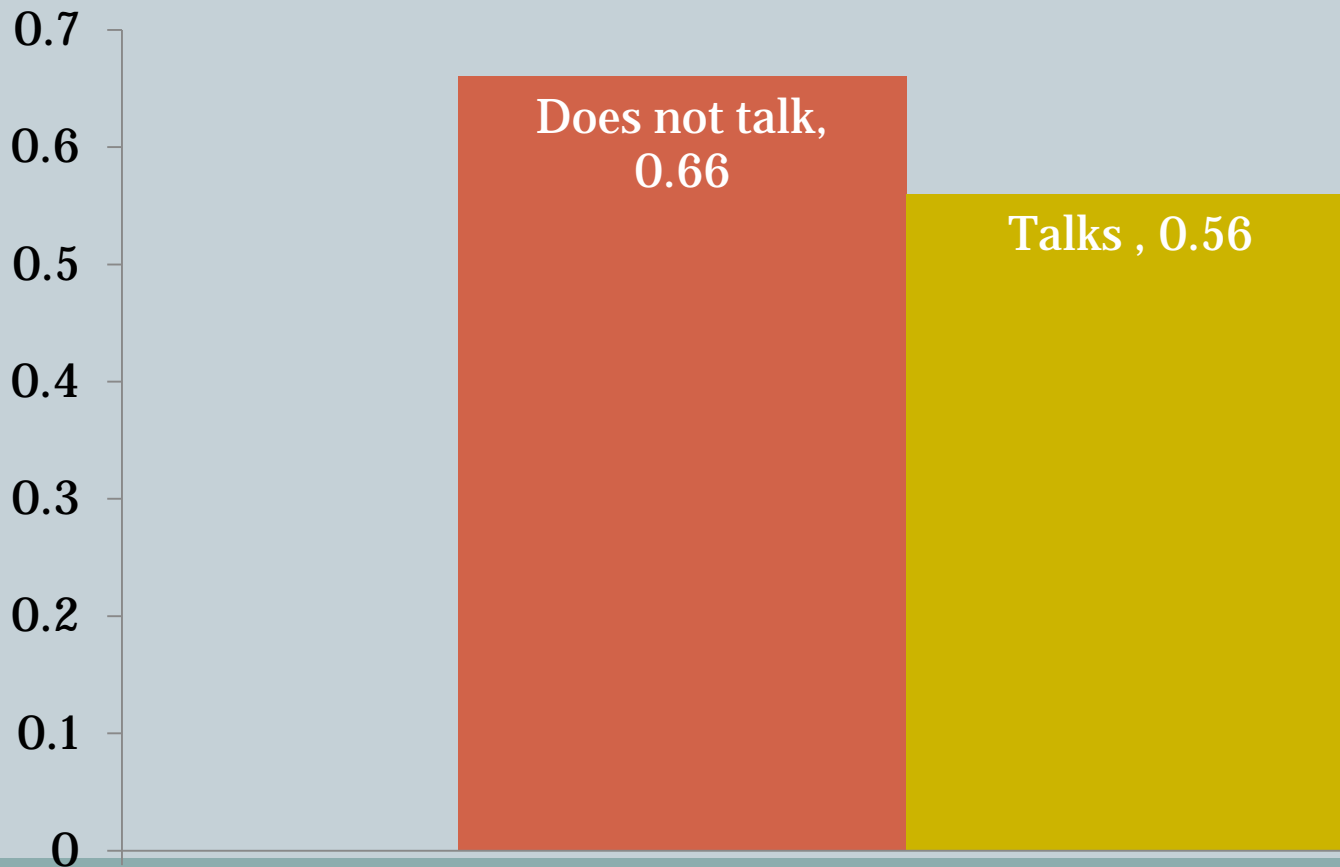
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Note: Odds ratios are reported

Predicted Probability of Highest Fund Loyalty: Talks with friends/family about Praxis

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Study 1: Summary

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- Valuation of screening matters, not advocacy.
 - Purity/sanctity moral foundation
- Perception of low return performance decreases loyalty
 - Morality AND return performance matter.
- Talk about Praxis (network effects)
 - Perhaps more negative Praxis chatter around Mennonite potlucks than positive chatter

Study 2 Research Question

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- **What type of morality drives different types of investors to invest in SR investment vehicles?**
 - Couching SR investment option in different kinds of moral language should vary amount people say they will invest.

Study 2. SRI Online Experiment

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- Online Sample (N = 1,133) of investors and non-investors
 - Amazon Mechanical Turk
- Investment scenario
 - social fund
 - conventional fund
- What percentage (of your retirement savings) would you allocate to the social fund?
 - Answers ranges from zero to 100

Study	Condition	Questionnaire Wording
Screening Study	Screening Control	
	Moral Screening	
Advocacy Study	Advocacy Control	
	Moral Advocacy	

Study	Condition	Questionnaire Wording
Screening Study	Screening Control	Sage Invest Social Fund avoids ownership in stock of corporations that have failed to meet certain social, human and environmental criteria.
	Moral Screening	
Advocacy Study	Advocacy Control	
	Moral Advocacy	
34		

Study	Condition	Questionnaire Wording
Screening Study	Screening Control	Sage Invest Social Fund avoids ownership in stock of corporations that have failed to meet certain social, human and environmental criteria.
	Moral Screening	Sage Invest Social Fund avoids ownership in stock of “ dirty ” corporations that have failed to meet certain social, human and environmental criteria. Since this mutual fund is not tainted , investors can maintain a more wholesome and pure investment portfolio.
Advocacy Study	Advocacy Control	
	Moral Advocacy	

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	Moral Advocacy	

Study	Condition	Questionnaire Wording
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Advocacy Study	Advocacy Control	Sage Invest Social Fund actively encourages corporations (in its investment portfolio) to meet certain social, human and environmental criteria.
	Moral Advocacy	Sage Invest Social Fund actively encourages abusive corporations (in its investment portfolio) to meet certain social, human and environmental criteria. By dialoguing with the management of harmful corporations, this mutual fund hopes to benefit a variety of people and create a more caring society.

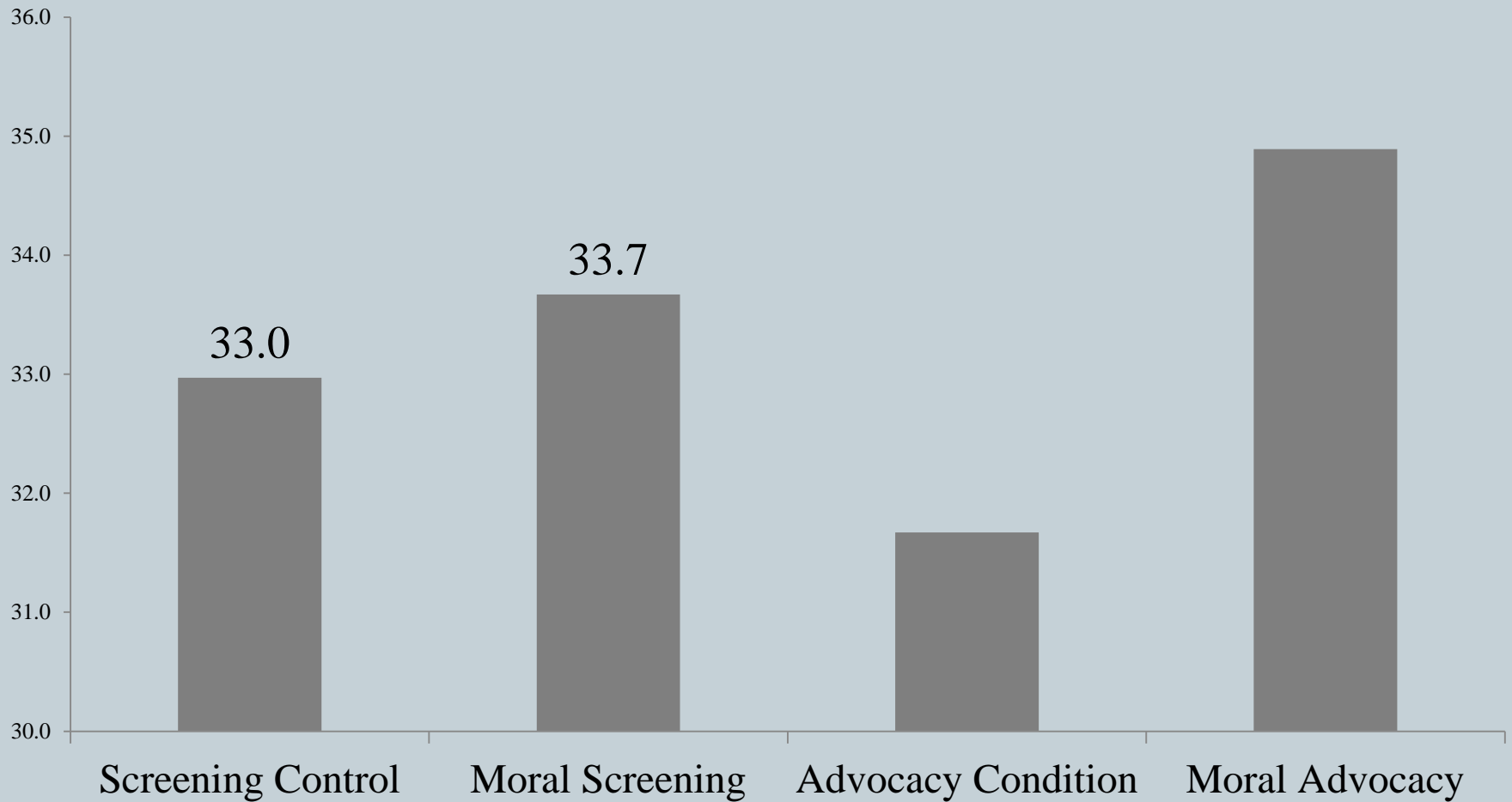
Hypotheses

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- H1. Individuals exposed to a condition that describes their SR investment's screening activity with Purity/Sanctity words will allocate more SR investment dollars than investors exposed to a control condition that describes the SR investment's screening activity using morally neutral terminology.
- H2. Individuals exposed to a condition that describes their SR investment's advocacy activity with Harm/Care words will allocate more SR investment dollars than investors exposed to a control condition that describes the SR investment's advocacy activity using morally neutral terminology.

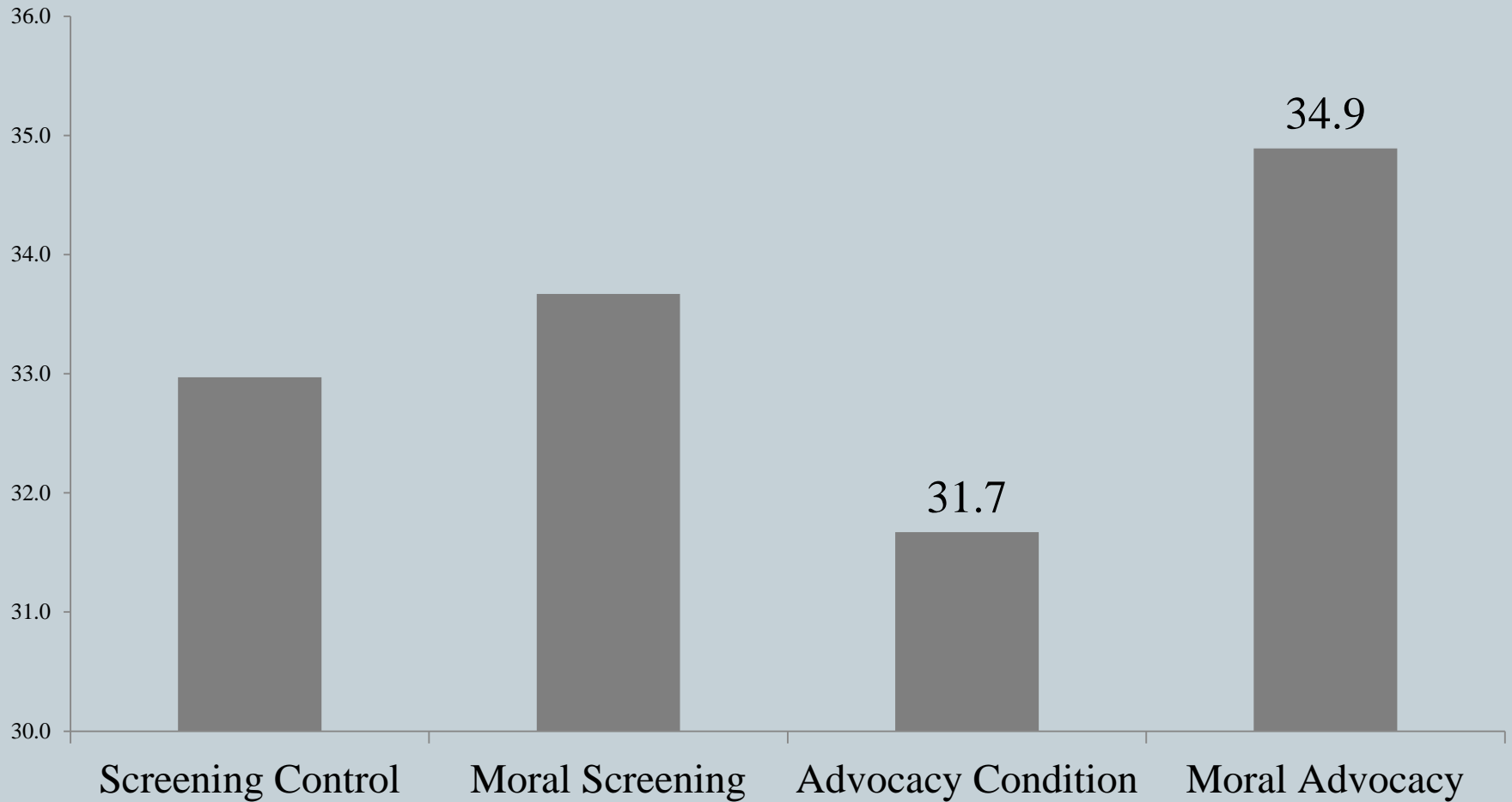
Percentage Invested by Experimental Condition

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Percentage Invested by Experimental Condition

40



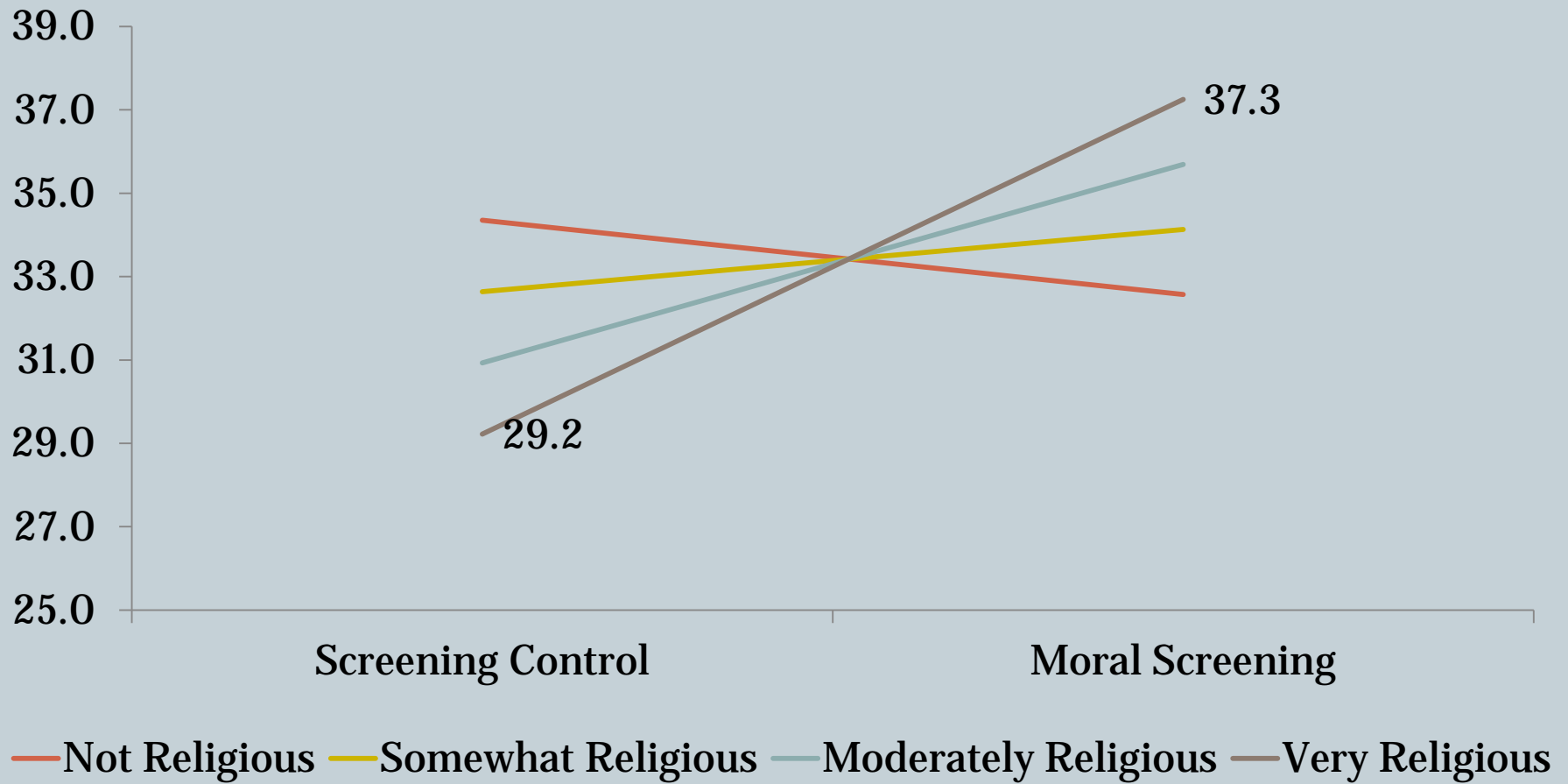
Does Experimental Effect Vary by “Religion”

41

- **Religion and Purity**
 - Sacred, holy
 - Hypothesis: Moral Screening effect should be especially strong among religious Americans.
- **Religion and “Golden Rule”**
 - Do unto others, as you would have them do to you.
 - Hypothesis: Moral Advocacy effect should be especially strong among religious Americans.

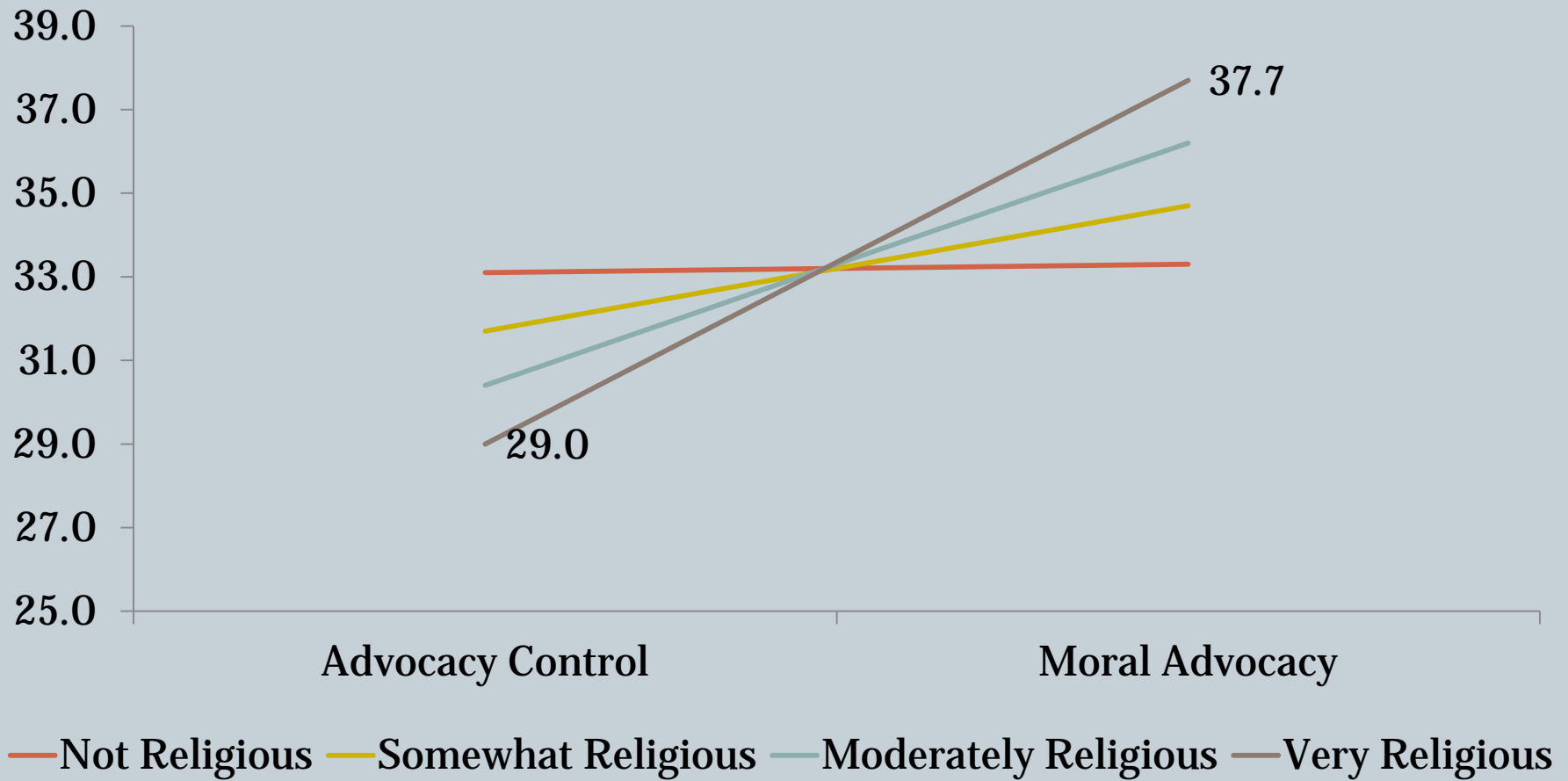
Screening Experiment: By Religiosity

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Advocacy Experiment: By Religiosity

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Summary of Studies

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- Does morality make a difference in investment behavior?
 - Yes
- Which moral foundation matters more?
 - Study 1: Purity/sanctity (screening) among Mennonites
 - Study 2: Harm/care (advocacy) among more representative sample
 - Study 2: Both experimental effects are stronger among “religious” Americans

Big Picture

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- I think we need to know much more about how morality drives economic behavior.
- The larger role morality plays in market, the more humane the market will be.
- I hope my research prods us to think more carefully about the morality of our economic activity.

Thanks!

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