WHY WINE IS NOT GLUE:

THE UNRESOLVED PROBLEM OF SOCIALLY RESPONSIBLE INVESTING

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ABSTRACT

The purpose of socially responsible investing (SRI) is to: 1) allow investors to reflect their personal values and ethics by investing in funds that avoid companies that are not in accordance with their belief system, and 2) encourage companies to improve their ethical, social and environmental performance. In order to achieve these ends, SRI fund use negative screening, or the exclusion of companies involved in "sinful" industries.

We argue that there are problems with this methodology, both at a theoretical and at a practical level. As a consequence, current SRI offerings cannot accurately reflect the values and ethical beliefs they propose to represent. Moreover, the use of a priori criteria is potentially misleading, as we show by discussing examples of glue and wine making. Applying this flawed approach SRI funds fail to influence the direction of the firms they deem most in need of re-directing.

Rather than engaging in the simple a priori assumption that some industries are "saints" while others are "sinners" (Freeman, 2007) we suggest a new framework upon which the SRI screening methodology could be grounded. Embracing the philosophical tradition of American pragmatism, we suggest that SRI methodology could be improved by engaging in a analysis based on 1) the actual impacts of the company's products and services, 2) the company's relationships with its specific, real stakeholders, and 3) the

contingent environment (social, economic, political, legal and cultural) in which the business operates.

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INTRODUCTION

Are certain products and industries themselves morally corrupt, bereft of any societal benefit, or is this a simplifying assumption that leads to easy answers and a lack of thoughtfulness? Can we say that any company producing alcohol is not socially responsible, while those that produce seemingly innocuous products such as school supplies, soft drinks, and glue are inherently socially beneficial? To most thoughtful people, the answer would seem obvious; yet, this is the underlying assumption upon which the Socially Responsible Investing (SRI) industry operates, particularly in the United States.

While much of the research around SRI funds has focused on their relative performance, or on the impact the fund has on society (Laufer, 2003) we focus in this paper on the underlying assumptions of the criteria employed for screening. While SRI funds use multiple strategies for determining which firms to invest in, according to the Social Investment Forum (SIF) the majority of funds use negative screening to "*avoid investing in companies whose products and business practices are harmful to individuals, communities, or the environment*" (Social Investment Forum Industry Research Program, 2006).

In this paper, we argue that negative screening is neither an ethically justified nor an instrumentally effective mean to meet the goals outlined by the SRI industry, as it is based on an assumption which is conceptually flawed and practically not useful. First, conceptually, the use of negative screening is flawed as it rests on a modern version of the

fact-value dichotomy, a fallacy that philosophers such as Dewey (1927), Rorty (1991) and Putnam (2004) have eloquently addressed in their work. It can be expressed as the wrong idea that it is useful to distinguish between "objective facts" and "subjective judgments", and apply general, a priori criteria to assess the consequences of human action. As a consequence, current SRI offerings are selected with a flawed methodology and cannot accurately reflect the values and ethical beliefs they propose to represent. Second, and perhaps more importantly, at the practical level the use of a priori criteria is potentially misleading, as we show by discussing an example of glue and wine making. Applying this flawed approach SRI funds fail to influence the direction of the firms they deem most in need of re-directing. If any company operating in a "sin" industry is not entering in the assessment for positive criteria applied by SRI fund managers, how can SRI provide them with an impetus to improve?

The structure of our argumentation is the following. First, we review the purpose of SRI funds through examining the industry's history and stated goals. We then examine some critiques that have been given against the SRI framework and current SRI methods. Through multiple examples, we demonstrate that a priori criteria based on the product or service offered by a firm does not serve to meet the goals of investors. We discuss the implications of our analysis for understanding the concepts of SRI and corporate social responsibility (CSR). Finally, we conclude by offering an alternative, pragmatic, framework which would allow SRI funds to truly represent their investor's moral beliefs as well as engage constructively with *any* company, including those operating in the industries they identify least likely to embrace societal and environmental goals.

THE PURPOSE AND METHODS OF SRI

SRI has been defined as "a set of investment-related strategies (portfolio screening, shareholder advocacy and community investing) aimed at (1) identifying and setting standards for corporate social and environmental performance and (2) leveraging changes in company behavior and impact" (Gay and Klaasen, 2005).

SRI funds first appeared in 1971 (Hawken, 2004). Since then, a myriad of funds have been created to cater to investors who wish to reflect their moral beliefs in their financial choices; in 2005 there were over 200 funds operating in the US, managing assets of over $179 billon (Social Investment Forum, 2007). These funds represent a variety of religious and ethical views ranging from Catholicism to human rights to environmentalism.

The concept of socially responsible investing pre-dates today's complex investment instruments. Religion has historically been the primary driver of "ethical" investing. For example, there are specific precepts on investing within Jewish law (Hawken, 2004), while Christians and Muslims have also carefully considered the alignment of economic activity with moral beliefs. These beliefs became explicit in colonial America when Quakers and Methodists often refused to invest with firms involved in the slave trade (Social Investment Forum Industry Research Program, 2006). The earliest formal investment policies were organized around avoiding "sinful" companies, those producing alcohol, tobacco and gambling.

The Pioneer Fund (PIODX), the first fund to engage in "sin-stock" screening was established in 1928 and began screening in 1950 to help Christian investors avoid "involvement in industries of vice" (Social Investment Forum Industry Research Program, 2006). The Pioneer Fund operates today utilizing the same "sin" screens for its

investments. SRI in its current form is viewed as a direct outgrowth of the growth in social and environmental concern during the 1960s. The Vietnam War, the civil-rights and feminist movements, and a heightened sense of environmentalism, as well as an increasing belief that corporations bore responsibility for these issues, created a new demand for investment tools which would reflect the moral, as well as economic goals of investors.

The first SRI mutual fund was the Pax World Fund founded in 1971 by Luther Tyson and Jack Corbett who had actively worked on a variety of projects for the United Methodist Church (Hawken, 2004, ; PaxWorld, 2007). The impetus for the fund came when a parishioner asked Tyson how they could invest without supporting the Vietnam War; when he found that there was no fund screening on such a criteria, he enlisted Corbett and two businessmen to start a fund (Hawken, 2004). Tyson and the other founders' goal was to "…make it possible for invest in keeping with their values … to challenge corporations to establish and live up to specific standards of social and environmental responsibility" (PaxWorld, 2007). The Pax World Fund and the Dreyfus Third Century Fund, which opened the following year, were the first funds to engage in negative screening of "sin" stocks as well as nuclear power and military and defense contractors (Social Investment Forum Industry Research Program, 2006). Both funds continue to operate today, under slightly different names, but with a continued focus on SRI.

During the 1980s SRI funds evolved to include negative screening to ensure investors could avoid supporting apartheid, or firms that contributed to environmental catastrophes such as the Exxon Valdez oil spill and the Bhopal and Chernobyl disasters. The popularity of SRI funds has swelled in subsequent years. According the SIF's 2005 Report on Socially Responsible Investing Trends in the United States, from 1995 to 2005

“socially responsible investment assets grew four percent faster than the entire universe of managed assets in the United States. SRI assets rose more than 258 percent from $639 billion in 1995 to $2.29 trillion in 2005, while the broader universe of assets under professional management increased less than 249 percent from $7 trillion to $24.4 trillion over the same period”(Social Investment Forum Industry Research Program, 2006).

From this brief overview of the development of the SRI industry, we can see that the purpose of SRI mutual funds is two-fold:

1) To allow investors to reflect their personal values and ethics by investing in funds that avoid companies that are not in accordance with their belief system, and

2) to encourage companies to improve firm’s corporate social responsibility (CSR) and sustainability performance—both directly through active shareholder advocacy, and indirectly via inclusion/exclusion in the SRI funds.

While we understand that there are multiple SRI funds with a myriad of goals, we believe that the two purposes we outline provide an accurate, but broad, definition of what SRI investments are trying to achieve.

To achieve these goals, SRI adopts as its main tool a screening methodology that directly “punish” those companies that engage in harmful industries by withholding investment (Hawken, 2004, ; Social Investment Forum, 2004, ; Social Investment Forum Industry Research Program, 2006) . We now turn to the means employed by SRI funds to achieve these ends.

SRI Means and Methods

According to SIF "Today, nearly one out of every ten dollars under professional management in the United States is involved in socially responsible investing. $2.3 trillion out of $24.4 trillion are in professionally managed portfolios utilizing one or more of the three core strategies that define socially responsible investing: screening, shareholder advocacy, and community investing" (Social Investment Forum Industry Research Program, 2006). The three SRI strategies are:

1. *Social Screening* – Social screening is the original and still dominant strategy of SRI. Screening can be negative (i.e. avoiding alcohol, tobacco and firearms) or positive (employment diversity, renewable energy, sustainability). Negative screens are the simplest for firms to use, and may be extended to include a companies suppliers or customers. We examine the use of negative screens in more detail below. According to SIF, social screening is the dominant means employed by SRI funds, representing 73% of the total SRI investment.
2. *Shareholder Advocacy* – Shareholder advocacy strategies seek to influence senior management through the accumulation of a significant ownership position in a firm. Through the annual meetings and proxy votes, investors in a firm can theoretically lobby for greater social or environmental responsibility. Shareholder advocacy funds represent 26% of total SRI investments.
3. *Community Investing* – Community investing involves directing funds toward "underserved" communities that do not typically receive financial interest. The goal is provide credit, banking and other basic financial services to

communities lacking them. Community investing makes up 1% of SRI in the in the U.S.

As our focus in this paper is on the effectiveness of the means engaged towards the achieving the stated ends, and the primary strategy employed is social screening, we center our argument primarily on the use of negative screening, and secondarily around positive screening and shareholder advocacy.

DO THE MEANS ACHIEVE THE ENDS OF SRI?

Social screening is the predominate tool of choice for SRI funds in managing their investments. Although the usage of positive screens has grown in the past 10 years, the majority of screened funds utilize negative screening. For example, alcohol screening, defined as, "The exclusion or partial exclusion of companies involved in the production, licensing, and/or retailing of alcohol products, or the manufacturing of products necessary for production of alcoholic beverages, as well as ownership of or by an alcohol company," is used in 121 US funds, with more than $134 in total assets, affecting 75% of all assets in socially screened funds (Social Investment Forum Industry Research Program, 2006). Other popular screens include firearms, pornography, biotechnology, animal testing, gambling and faith-based screens. In the following section we ask how, if negative social screening is the primary tool employed by SRI fund managers in their fund selection, can SRI as a whole achieve its goals of: 1) helping investors reflect their values, and 2) helping companies to improve firm's CSR and sustainability performance?

Enabling Individuals to Invest with their Morals?

Do SRI funds allow investors to invest in reflection of their moral beliefs? There have been multiple critiques brought against SRI screening methodologies. They are too broad and include companies that they should not (Hawken, 2004), they are not ethically justified by the funds using them (Schwartz, 2003), and they do not properly utilize the data and tools available to them (Willis, 2003). Hawken's recent critique has generated a wide public debate, notably inducing the Social Investment Forum itself to reply point by point to Hawken's criticism, in order to "correct its gravest misrepresentations and omissions" (SIF, 2004). Hawken's critique is based on an empirical study which examined 602 funds in an international setting. The overall findings would emphatically claim that SRI funds do not allow investors to reflect their values because the screening criteria allow virtually any publicly held company to be included; over 90% of Fortune 500 companies were included in SRI portfolios (Hawken, 2004).

Perhaps even more disturbing to the would-be ethical investor, the fund names and literature may not accurately reflect the investment strategy of fund managers. For example, Muslim investors may not be happy to find that the Dow Jones Islamic Index Fund includes Halliburton. Although this fund screens out companies engaged with alcohol, weapons, firearms or pornography, "corruption, profiteering and war-mongering are not included as criteria" (Hawken, 2004). Perhaps even more puzzling, the Global Eco Growth Fund, which screens only on environmental impact, includes Exxon Mobil, a company widely derided for its poor environmental record. Fund brands that one would assume to be a clear choice for environmentalists, such as the Sierra Club Stock Fund, include no renewable energy companies, and invest in companies producing everything

from steakhouses to urban-sprawl (Hawken, 2004). One of Hawken's proposed solutions for the dilemma is to change screening criteria to more accurately reflect the fund's marketed purpose and values because "using broad and diffuse screening criteria results in selecting companies with widely divergent social and environmental performance" (Hawken, 2004).

As mentioned, SIF was quick to respond to Hawken's research with some "talking points" issued to its members. Their primary claim was that Hawken fundamentally misunderstood what SRI was about, that "SRI is not as Mr. Hawken implies, about anointing some companies as 'socially responsible' by virtue of their inclusion and others as socially irresponsible by virtue of their exclusion from one mutual fund or another" (Social Investment Forum, 2004). Rather, "SRI is a series of strategies utilized by investors to focus their power as shareholders on improving corporate citizenship and improving the quality of life for all" (Social Investment Forum, 2004).

Despite the fact that SIF recognizes in its reply that "there are no companies with no problems", the use of negative screening implicitly assumes, in our view, that SIF also holds the problematic belief that *there are some companies with no virtues*: if you happen, for example, to be a wine maker, your belonging to the 'sinful' alcohol industry. The industry in which you operate automatically (and without any further assessment) excludes you from the majority of SRI funds. In other words, on the one hand SIF recognizes that even the best (positive) SRI screening cannot allow investors to be 100% sure that companies they invest in are "good"—that is, fully reflect their moral, religious or environmental beliefs. Yet, on the other hand, SIF fails to recognize that the use of negative screening cannot be an effective mean for investors to align their investment

choices with their personal ethics, as it does not even look at the corporate social responsibility of those companies operating in "sinful" industries.

One could argue that what SRI fund managers do is simply offering tailored products for clients with special values and interests. For example, if an investor is only interested in not investing in tobacco, then there are SRI products designed to meet her need. There is no ethical problem in this, and we would defer to Milton Friedman that "if people want to invest that way it's their business. In most cases such investing is neither harmful nor helpful" (Laufer, 2003). We agree with Hawken's criticism in this regard; we believe that language matters, and the SRI movement should take particular care in the way they communicate and promote their products, to avoid any misunderstanding or, worse, the risk of misleading investors choices. If SRI funds are just individually tailored products what is the justification to call such instruments SRI—*socially* responsible investing? If, for example, a particular individual investor requires, according to his personal values, to only invest in funds that exclude alcohol and include fire-arms, whose '*social'* context are we talking about? This particular 'SRI fund' might equally appeal to an American citizen working at the US Defense ministry, as well as to a Muslim Al-Qaeda terrorist. Perhaps instead of SRI, such product should be more adequately called IRI—*individually* responsible investing—or, in the case funds apply screening criteria that are not just individually-based, but reflect a particular religion, one should speak of RRI—*religiously* responsible investing.

Hawken's proposed solution goes precisely in the same (wrong) direction, even reinforcing the mistakes of negative screening. Hawken's first recommendation to the SRI movement is to change its screening criteria: "The single most important criterion for a

company is whether its products or services should exist at all" (Hawken, 2004). But this would only increase the current shortcomings of SRI in meeting its stated goals—as it would further limit the sphere of influence of SRI by excluding *more* companies, rather than making SRI more effective.

In summary, both those who criticize the effectiveness of current SRI screening methodology and those who defend them believe that *negative screening criteria are (or can be) morally justified and instrumentally effective*. In the remainder of this paper we challenge this underlying assumption. We now turn to the SRI industries purpose, which is to influence the direction of firms towards CSR and sustainability.

Promoting CSR practices and the sustainability of business

Negative screening is prevalent in SRI. Despite the critiques raised against the effectiveness of SRI screens, the fact remains that 88 percent of the assets held by SRI funds are withheld from tobacco related companies and 75 percent are withheld from alcohol related companies (Social Investment Forum Industry Research Program, 2006). This leads us to a simple question; if the primary goal of SRI is to promote the adoption of CSR and sustainability practices by the corporate world, by "consciously using their position as company shareholders to work from within to push for change and continuous improvement" and, at the same time, "traditional 'sin' stock categories" are not invested in, *how can SRI influence the direction of those firms it deems most harmful?*

The application of a priori criteria that deems industries and/or products as "sin" leads to an inability for SRI to be an effective tool in changing the behavior of those firms. By whose definition are these industries deemed 'sinful'? Since no ethical justification

supporting the use of criteria and specific tools for negative screening is provided, we are compelled to believe that the current SRI reliance on negative screening resides in the religious roots of the concept. A simplifying dichotomy of saints and sinners is being applied wholesale, despite the fact that this approach inherently works against the stated goals of SRI. The problem with this type of simplistic thinking is that it grinds innovation to halt instead offering a false panacea to those who would seek to influence the direction of corporate America. As the philosopher Hilary Putnam says about dichotomous belief systems, "The worst thing about … dichotomy is that in practice it functions as a discussion stopper, and not just as a discussion stopper, but as a thought stopper" (Putnam, 2004).

Our argument is simple. The exclusion of firms based on a priori criteria which identify them as the most socially harmful firms means that SRI cannot effectively achieve its goal of improving quality of life for all. To put it simply, to effectively engage with companies, one must first become an active stakeholder: silence does not pay.

Although the SIF and SRI funds do not use this language, it would seem that the only logical rationale for the engagement in negative screening is to "punish" those firms engaged in the production of a priori labeled socially and environmentally harmful goods and services. In the next section, we examine the problems with the idea that some industries are inherently "bad" and should be excluded by socially responsible investors.

Punishing the Evil Doers

Can we accurately decide that an industry is engaged in "sin" or that specific products are socially harmful? Several business ethicists have eloquently argued that we

cannot. Schwartz has argued that "other than tobacco and possibly, alcohol, one is hard pressed to find ethical principles that clearly render the activity unethical" (Schwartz, 2003). His concern is that SRI screening methodology is not based on clear ethical principles, and therefore cannot be normatively supported. A key question he addresses is the idea that engaging in advertising, specifically advertising that makes an emotional appeal to the investor's moral beliefs (i.e. pictures of environmental devastation, sweatshops, and appeals to our children's future) implicitly induces potential investors to think that investing in these funds will help to stop these events from happening. As Hawken has shown, the screening does not succeed in excluding firms that engage in questionable actions, as the composition of SRI portfolios still contains most Fortune 500 companies and screening criteria are largely based on broad categorization of firms by industry. It follows from this logic, that SRI fund managers must believe that through their actions they will "punish" firms that engage in producing products and services deemed socially harmful.

Schwartz makes a strong argument that of the top negative screens, only tobacco can be clearly ethically justified "due to the necessary physical harm (even if long-term) sustained by the users of the product, its addictive nature, and the lack of sufficient justification for its use" (Schwartz, 2003). Schwartz find little to no ethical justification in screening companies involved in alcohol, gambling, military, nuclear power, animal testing, or pornography. In a commentary on Schwartz's analysis, Strudler disagree and argues that even screening out *tobacco as a product* cannot be justified from an ethical perspective, as many smokers to make a voluntary and informed decision to smoke; to

negate their choice is the worst kind of paternalism. However, Strudler does believe that there can be a moral foundation for screening the tobacco industry:

> I think that the tobacco industry aggressively pursues a market of people who are not in a position to knowingly and voluntarily assume relevant risks…If, as I suggest, the moral problem with the tobacco industry is not that selling its product is inherently wrong, *but instead that the industry wrongly markets and distributes* these products, then one might suspect that similar problems attach to the other industries that Schwartz identifies….reflection on these practices may provide a reason for screens independently of whether the involved industries make *inherently objectionable products*. (Italics ours)

We can therefore safely state that the "punishing the evil doers" option has been already adequately addressed within the business ethics literature, and scholars have already shown that it is *not the product* that a company produces and sells that inherently generates an ethical problem. Rather, it is *the manner in which a company operates* that is worthy of moral assessment.

In other words, as the title of our paper suggests, making wine or glue should not be a valid reason for any difference in the ethical assessment of a company on an a priori, product based assessment that does not consider the way its management produces, advertises and markets wine or glue, and the way it takes care of the impacts generated by the company's products on its specific stakeholders. By screening based on the product type, SRI funds may be accomplishing their goal of withholding some funds from a few companies that engage in unethical business practices, however, we believe that it is just as likely that they are withholding funding from ethically preferable companies. By engaging in the simple logic of "product X is sinful" SRI funds are limiting their ability to be effective in achieving even the simplest goal of not funding unethical companies. Even

worse, they may be missing investment opportunities to support companies that support cultural and societal norms in powerful manner.

In summary, while some critics believe that SRI funds do not help investors align their economic and ethical interests, because the criteria used are too broad to effectively screen companies, we believe that the use of negative screening is a bad idea in se, and making these criteria more stringent would generate worse shortcomings than those already affecting the current situation. Also, because screening is done at industry level, SRI funds refuse to engage in a positive, active dialogue with all the companies that operate in the industries they deem most harmful to society, no matter whether their management operates according to principles that are aligned with the practices of CSR and sustainability that SRI aims to promote. Finally, SRI funds cannot be dole out effective punishment to unethical companies, because negative screening on industries and products does not accurately identify those firms engaged in ethical business practices.

To further illustrate our argument, we turn now our attention at the real world of entrepreneurial value creation. We explore the key elements of the wine making industry, and we discuss a few examples of firms that, in our view, operate in socially responsible manner, but produce alcohol, and therefore would not pass the SRI screening. We then examine the case of a company that produces glue, a product that has no problem passing SRI screening, yet its management failed, in our view, to operate according to socially responsible principles.

THE GOOD, THE BAD, AND THE UGLY

What is the ethical basis for excluding alcohol producers from SRI funds? It is not made clear by SRI fund literature; SIF defines the screen as "ALCOHOL**:** The exclusion or partial exclusion of companies involved in the production, licensing, and/or retailing of alcohol products, or the manufacturing of products necessary for production of alcoholic beverages, as well as ownership of or by an alcohol company" (Social Investment Forum Industry Research Program, 2006). While this is a fine definition of what SRI funds do, it does not provide any ethical justification of the reasons upon which they decided to do this.

Clearly, there are many relevant health and social problems related with excessive alcohol consumption such as liver damage, drunk driving, birth defects, sexual assault and alcoholism related abuse. As the World Health Organization points out, overall there is a causal relationship between alcohol consumption and more than 60 types of disease and injury. Moreover, alcohol is estimated to cause about 20–30% of liver cancer and cirrhosis of the liver, homicide, epileptic seizures, and motor vehicle accidents worldwide. It is estimated that only in Europe alcohol consumption was responsible for over 55,000 deaths among young people aged 15–29 years in 1999. Additionally, alcohol has been shown to be a significant risk factor for family violence (WHO, 2004).

On the other hand, moderate consumption of alcohol has been related the health benefits, especially to heart and cholesterol related conditions. While some religions ban the use of alcohol, others include its use as part of their practice, for example the Christian tradition of taking wine as the blood of Christ. As Schwartz points out, the logic for an ethical exclusion of alcohol from investment is fuzzy at best. Given the lack of an ethical

argument for wholesale exclusion of alcohol producers from SRI funds, we ask if an industry or company that produces alcohol *can* operate in a socially responsible manner. The examples below provide, in our view, a positive answer to this question.

About Wine Making: Just a Sinful Business?

While we acknowledge that the consumption of wine (or, more precisely, its abuse) can generate the serious health and social problems indicated above, we want to present here the positive side of wine making, focusing on the motives and values of the wine making business. Our intention is not to deny that health and social issue exist and should be taken into consideration, on the contrary, in the approach we will present in the conclusion of this paper that is precisely what we recommend. However, we argue that we need a richer story to be able to capture all the relevant elements of the wine making industry, both positive and negative. In the following illustrative case studies, we look at some examples of entrepreneurs in this industry, to describe the way they operate, the values and purpose they pursue, and some challenges they face, in a globalized economy.

The Wine Culture in France and Italy

If one looks at what the wine making industry represents in countries such as France and Italy, and in their many different regions that are world-famous for their top quality wines, such us Bordeaux, Chianti or Amarone, it is impossible not to recognize the deep historical and cultural roots connected to wine making within these societies. In *Mondovino* (a literary invention tying together the two Italian words for "World" and "Wine"), a 2004 documentary film written and directed by American film maker Jonathan

Nossiter, traditional French and Italian wine makers express a deep sense of an entrepreneurial activity that has deep roots in the way human beings live together with each other, and together live in harmony with the natural environment, sharing some common fundamental values. As a French wine maker in the Bordeaux Region says, "The wine has been for millennia the expression of a special relation between humanity and the environment (the 'territoir', the air, the sun, and the water). You need to respect the environment to produce a great wine". On the same position, another wine entrepreneur adds: "Where there is a vineyard, there is civilization."

While modern commercialization and aggressive marketing techniques emerging from the globalization of markets may induce some producers to abandon this balanced approach with the human and natural context (for instance, aggressively re-shaping hills to extend the size of the wineries, at the risk of compromising the stability of the terrain and the beauty of the landscaping), other wine makers may not be willing to adapt their way of operating, if this alters that idea of human and ecological harmony that is part of their tradition and express a key element of their organizational mission. In the words of an Italian wine maker interviewed in Mondovino: "Behind the cultivation there is an ethical stance…a savoir-vivre." These few quotes begin to illustrate a wider understanding of what wine making is about—and, maybe surprisingly, we do find some ethics in a business that is excluded from socially responsible investing.

One controversial aspect in the modern wine making industry is the so-called issue of the globalization of taste and the accusation that this is in some way artificially induced by big wine businesses, instead of spontaneously emerging from the individual choices of wine consumers. This can be seen as a peculiar version of the wider debate on the

homogenization of global taste and, on the other side of the coin, the issue of respecting and preserving local tradition, cultures, and taste. For a French traditional wine maker, again quoted from Mondovino, the predominance of commercial interests on the global scale is undermining the authenticity of wine making, and it is basically a departure from a socially responsible way of doing business: "The idea to create an homogeneous global taste, is like when the Christian missionaries tried to convert the Chinese Confucians…it's ridiculous."

Interestingly, globalization works in many ways. On the other side of the Ocean, an American young couple of wine makers, Jerry and Lauren Bias, recently started a family-owned winery in Virginia that seems to fully embrace the same values expressed by the most traditional wine makers in France and Italy. With the help of environmental management professors of the nearby University of Virginia (UVA), Jerry and Lauren Bias established in 2001 the Sugarleaf winery in the Monticello valley, the region surrounding Thomas Jefferson's historical house. Jerry designed the winery with the help of UVA's Environmental Sciences Department. This included climatology analysis, and several measures of the different types of soil in the property to assess the land characteristics and potential for quality wine making. The vision for the creation of the winery, as can be read on the company's website, resonates very closely with the principles of respect for the territory that are paramount in the traditional French and Italian wineries: "The design of the winery was inspired by our trips to wineries around the world, architectural magazines, and our desire to maintain the integrity, character and country coziness of the surrounding 126 acre estate. It was very important to us that we incorporate the minimalist gravitational pull method of production into the winery's architectural plan so that we could preserve

the natural qualities of the fruit during processing, but we also wanted the winery to remain a quaint and inviting space that overlooked the vineyard" (www.sugarleaf.com, 2007).

The few quotes reported above, both from traditional European and young American wine makers, provide us with a richer understanding of the true elements of the business of making wine. This does not deny that wine, as a product, can have health or social harmful consequences. However, it cannot be ignored that many entrepreneurs that continue the tradition of wine making, from generation to generation, or even start brand new wineries in non-traditional wine making places, in most cases integrate in their business model a number of ethically sound principles, such as the respect of the natural and social environment, a sense of beauty of natural landscapes, and the passion for quality.

More Sinners? About Beer Making

But wine makers are not the only ethical producers of alcohol. There is a rich tradition of monastic beer brewing in Germany, Austria, the Netherlands, and particularly Belgium. One may ask "why should they make a product which, according to some misguided souls is a product of the devil – a worldly temptation which leads one to hell" (Rajotte, 1992). In the 17th century, an offshoot of the Cistercian monks, the Trappists formed around the idea of strict observance of the monastic lifestyle. The Trappists were required to support themselves through manual labor, and thus made and sold various crafts, but beer brewing was common to all Trappist monasteries. At the time, water was of doubtful quality, and caused a variety of diseases; beer on the other hand was considered a safe beverage because the water is boiled in the brewing process, and the alcohol in the

finished product prohibits the growth of bacteria. Today there are five Trappist breweries left in Belgium and one in the Netherlands. While obviously the inclusion of alcohol or not in SRI funds is quite irrelevant to monasteries, we use this example to illustrate the dubious dichotomy between beer and social benefit, both religious and health oriented.

A modern example that could be impacted by a lack of investment would be the New Belgium Brewing Company of Fort Collins, CO. New Belgium was founded by two friends after a bicycle tour of Belgium to bring the unique flavors of Belgian beer to Coloradoans. By Studler's criteria of the way products are marketed and sold, New Belgium would seem to meet the social responsibility grade. On the company's website, the following message can be read:

> The New Belgium Brewing Company web site, like our beers, is only for the enjoyment of those of legal drinking age. If you are not yet of age to enjoy New Belgium beers, then we respectfully ask you to not visit our website until you reach your 21st birthday. Thanks in advance for honoring this request (www.newbelgium.com, 2007).

The breweries commitment to ethical business practices extends far beyond their marketing. From its inception it has been an employee owned firm, and today ownership is granted to employees at their one-year anniversary. The commitment to engaging employees extends into the companies philanthropic activities, as the donations are guided by an employee managed committee. For every barrel of beer sold, New Belgium donates $1 to philanthropic causes in the states their beer is distributed. Since it's inception, New Belgium has donated over $2 million to a wide variety of organizations including environmental groups and search and rescue teams (www.newbelgium.com, 2007). New Belgium's commitment to philanthropy and employee equity is impressive, but the brewery is a true innovator in the realm of environmental sustainability.

New Belgium has a fulltime “Sustainability Goddess” on staff and is the world’s first 100% wind powered brewery. The conversion to wind power was funded through a voluntary reduction in employee bonuses. Through water reclamation projects the firm uses ¼ of the water typically used per barrel of beer produced. Since 2002, all brewery operations participate in the United States Green Building Council’s Leadership in Energy and Environmental Design for Existing Buildings (LEED-EB). The commitment to environmental sustainably and social responsibility suffuses every aspects of New Belgium’s activities.

About Glue Making—Just Good Business?

Our two narratives on wine and beer making helped to highlight how some concrete elements of ethical practices, sustainability and corporate social responsibility are being considered even in “sinful” industries. We now turn our attention to another industry, and a specific company: the glue making H.B. Fuller. Founded in 1887, the Minnesota based chemical corporation H.B. Fuller is currently the second largest producer of adhesives worldwide. Among its product, a best-seller in the 1980s was Resistol, a “contact cement glue, widely used by shoe repairers, and available at household goods stores everywhere” (Donaldson et al, 2002). H.B. Fuller has never had a problem passing the SRI screening criteria, and has always been included in many ethical funds, also in light of it its generous sponsorship of charitable and educational causes, including support of the Minnesota orchestra. Moreover, the corporate mission statement strongly emphasizes the firm’s commitment to corporate social responsibility; “H.B. Fuller will

conduct business legally and ethically, support the activities of its employees in their communities, and be a responsible corporate citizen" (Donaldson et al., 2002).

In the 1980s, however, the company faced severe criticism from human rights and children protection groups concerning its behavior.. In Latin America, particularly in Honduras, so many street children were sniffing Resistol, H.B. Fuller's top selling glue, that the term "Resistolero" had become synonymous for street children in Honduras, whether they were using inhalants or not. Health representatives and social activist workers were concerned that the abuse of the glue as a drug was causing severe brain damages to the children, potentially even leading to death. Letters started to reach the H.B. Fuller headquarters in Minnesota, urging the company to take immediate action to improve the situation. For a number of years, however, H. B. Fuller seemed to adopt a wait-and-see approach on the issue, arguing that there was no easy solution to the problem. The main strategy by the corporate communication and public affairs department was to put pressure on the local authorities in Honduras to improve education. Eventually, the protest also mounted against the SRI managers that were keeping HB Fuller in their funds. Despite all of this, the company took no concrete action to deal with the problem.

In 1992, after the images and videos of children in the streets of Honduras sniffing Resistol were broadcasted in the United States by a popular news program, the company's management suddenly changed its position, and the CEO publicly announced that H. B. Fuller had decided to "discontinue the production and marketing of Resistol glue in Honduras." After this announcement was made public criticism immediately disappeared, not only from the U.S. media and social activists, but also from the SRI industry. The company's management was widely praised for this "responsible decision" and in the

following weeks and months H. B. Fuller won several ethics awards. However, after one year some of the same journalists who had denounced the sniffing problem went to Honduras to review the situation, and to their sad surprise found out that there were still plenty of children sniffing Resistol in the streets. After further investigation, they documented how the company's announcement had resulted in only minimal removal of small cans from hardware stores; in other words, the company's CEO had lied. Trying to get H.B. Fuller's reply to these incredible and disturbing findings, the reporters were told in May 1993 by H.B. Fuller public relations representative that the company's July 1992 announcement of withdrawal may have included "an unfortunate choice of wording on our part."

Now, keeping in mind the purpose of our work, we do not want to discuss in detail this famous case here (interested readers can find it already discussed in many business ethics textbooks, e.g. in Donaldson et el. 2002). We just want to use this case as an illustrative example to support our point, that is, that no company, based on its industry, can be said to be socially responsible a priori.

Many other examples can be shown of seemingly innocuous products causing social harm; everyday newspapers are full of stories of management decisions that raise multiple concerns for their consequences on employees, clients, local communities and other stakeholders. At the same time, many counter-examples can also be made, to show that using negative screening criteria is not achieving its aims and leads SRI fund managers to face many uncomfortable questions. If, for example, we take into consideration another 'sinful' industry, pornography, we can easily see that there is another contradiction: while SRI negative screens exclude the pornography industry, this

does not prevent many large US corporations from profiting from pornography and while being included in SRI funds. Examples include AT&T, which profits from on-demand adult programs sold via their network, GM (4 millions of US homes watch a porn movie every month via DirectTV, a satellite tv distributing adult channel owned by GM) and major hotel chains, such as Westin, Hilton, Marriot, who profit from the pornography industry offering adult movies in their hotel rooms. Some estimates show that up to 10% of hotel revenues is due to porn movies bought in hotel rooms (source: PBS Frontline special report "American Porn"). Do SRI investors know this?

On the other hand, with the examples of wine and beer making given in the previous sections we have highlighted that even in industries that the SRI methodology categorizes as 'sinful', there can be positive examples of ethical behavior and social responsible practices.

In light of these considerations, we believe that there is a clear need in the SRI field for a new approach to the whole concept of corporate social responsibility, which we suggest developing from a pragmatic perspective that does not look at a priori criteria and definition, but takes a more flexible and realistic look at the way business operates.

CONCLUSION: A NEW, PRAGMATIC APPROACH TO SRI (AND CSR)

As we have argued, SRI funds cannot effectively meet their stated goals because their methodology does not offer investors good choices, does not engage in effective dialogue with the companies they aim to influence, and does not properly identify companies engaged in unethical or socially responsible behavior. In order for SRI funds to effectively promote the adoption of socially responsible practices and the sustainability of

any business, they will have to give up the easy equation of product-based criterion. As the business ethics literature argues, and our examples further demonstrate, it is not useful, and even worse, nonsensical to define what socially responsible behavior is on the basis of the particular product that a firm produces.

We want to conclude by offering our positive contribution to deal with this criticism, and improve the SRI effectiveness in achieving its own aims, by redirecting its screening methodology. We agree with Schwartz that the interesting question about SRI is *how can the means employed by SRI funds help them achieve their stated ends* (Schwartz, 2003).

We believe that a new approach, rooted in the Pragmatist philosophical tradition, can offer a better perspective for engaging in SRI—that is, a perspective that can more effectively enable SRI fund managers to achieve their stated aims. While we do not aim at laying out a detailed program for revamping SRI, we do believe that we can outline a clear shift in the underlying assumptions of SRI, which would help to engage in a more productive and impactful method of investing.

We suggest that issues of corporate social responsibility and sustainability are to be identified, analyzed and discussed precisely in terms of this new, pragmatist perspective. Its starting point is to require that SRI screening methodologies should be re-calibrated to abandon the use of a priori criteria and definitions.

In essence, the key elements of our suggested approach would focus on the following aspects of a firm's activities:

- ***Product Impacts:*** *Understanding the social, economic, psychological impacts (expected or unexpected; positive and negative) generated by the company's product and services on its users (and abusers), and other stakeholders affected;*

- ***Stakeholder relationships:*** *Focusing on the real network of the company's stakeholders in the various communities it operates—not in abstract terms of 'client', 'supplier' and other general categories, but in the real terms of human beings with names, faces and families (McVea and Freeman, 2005), to understand what are their expectations and assess how the company is creating value for them;*

- ***Contingent Environment:*** *Analyzing the specific dimensions of the external environment in which the company operates, including its own management culture, the culture of the local community, and the social, economic, political and legal aspects that affect its operation and influence the consequences of its action and decisions, in order to understand—based on this experimental assessment—the meaning of 'social responsibility' in that specific context*

Take in Figure 1

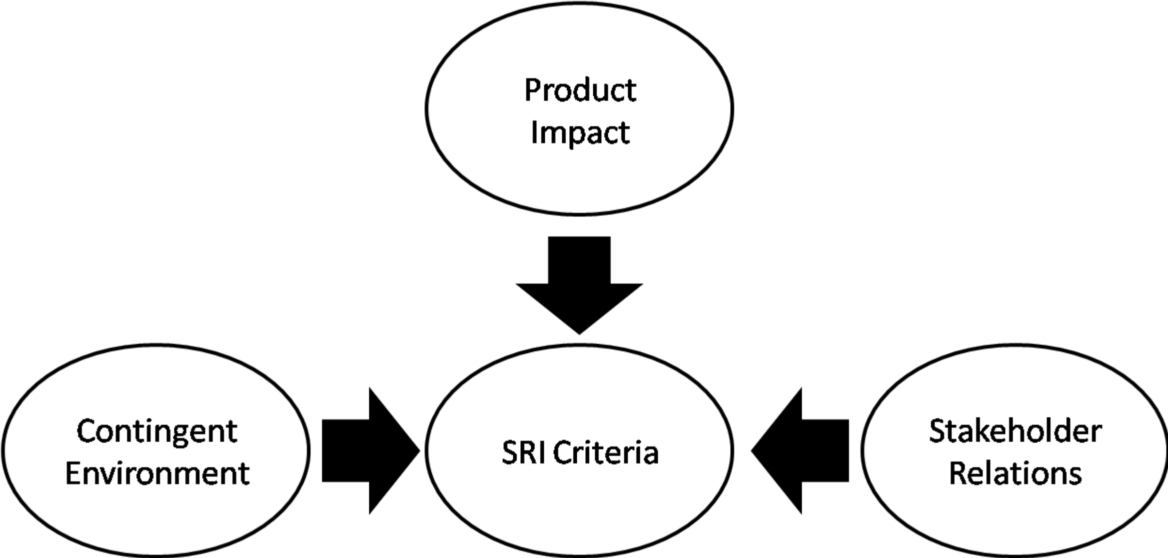
As the figure points out, we call our perspective the PRO.CE.ST approach (Product-Contingent Environment-Stakeholders). It encourages SRI fund managers to consider abandoning the use of negative screening, to embrace this new perspective that,

we believe, would enable them to provide more meaningful and effective solutions to socially responsible investors.

Embracing our pragmatist approach to SRI would mean that the screening criteria become the experimental result, ex-post, of the assessment of the relevant characteristics of the company's **product**, including its unforeseen impacts, the identification of the **stakeholders** relationships and the understanding of the **contingent environmental** conditions in which a company operates.

In conclusion, we have argued a very simple point: glue and wine makers, as any other entrepreneur, have to face a number of economic, ethical, social and environmental issues. Most of the time, these issues are so interconnected that it does not make any sense to separate them. The specific issues each business faces are unique to the key elements of that business, the impacts it generates, the relationships it has with its stakeholders, and the contingent social, economic, political, legal and cultural environment it deals with. Since the problems and opportunities faced by wine producers and glue producers are different, so should be the criteria upon which we evaluate them when we seek to invest in a socially responsible manner. Irresponsible business behavior, such as marketing alcoholic products deliberately to induce teen-ager consumption, should lead to exclusion from SRI. Similarly, absence of action to cope with the issue of children damaging their health by sniffing the company's product, should lead to exclusion from SRI. What is important is to assess a company's social responsibility, not the simple fact that one company produces wine, and that another one that produces glue, but the way the management of the company deals with the specific product impacts it generates, on its real stakeholders, in the contingent environment in which it operates.

Figure 1 – A New Approach to SRI: The PRO.CE.ST Model



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