

DISSERTATION ABSTRACTS

Social Investing: The Role of Corporate Social Performance in Investment Decisions

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Social investing has been a part of the financial marketplace for the last century. Interest in this form of investing has increased steadily over the last 25 years. Recent estimates placed the value of the social investing industry at over \$600 billion. This total was projected to increase by \$100 billion a year during the next decade.

Social investing involves the ongoing analysis of the corporate social performance of individual companies. Social investment managers have developed extensive experience in the examination of the economic and social components of corporate social performance.

This dissertation examines corporate social performance within the context of social investing. The researcher examined current investing practice within the social investment industry, with the goal of identifying similarities among social investment firms, research services, and mutual funds. A preliminary model of the social investment analysis process was developed, with the goal of elaborating this model.

A convenience sample of 25 firms located along the East Coast of the United States was selected; 12 firms agreed to participate in the study. These firms included social investment research providers, socially screened mutual funds, and social investment advisers. The firms were purposively selected using several criteria, including experience in social investing, leadership and standing in the social investment industry, and firm size.

Field interviews, Q-sorting procedures, and a ranking procedure were conducted with a single manager at each responding social investment firm. These research methods were chosen to maximize the context of the findings.

The researcher developed groupings of social investment firms by performing Q-factor analysis on frequency counts derived through the content analysis of interview transcripts. Firms were classified as

- social investment research firms
- socially constrained social investment firms
- economically constrained social investment firms.

It appeared that social investment research firms focus on the quality of their investment research and their role in encouraging corporate change. Socially and economically constrained social investment firms try to balance social and economic performance to varying degrees, depending on the grouping of the firm.

The perceived importance of investment criteria was studied using Q-sorting techniques. From a list of 31 investment criteria, 5 social criteria considered the most important to practice were identified, including

- avoidance of defense or weapons contracting
- avoidance of gambling casino operations
- business operations in South Africa
- avoidance of tobacco manufacturing
- acceptance or avoidance of companies based on the advancement of minorities.

Social investment criteria were also found to be stable over time, but there were indications that new investment criteria can emerge. Examples of emerging social criteria include *maquiladora* operations and operations in countries with repressive political regimes, such as China and Myanmar (Burma).

The social investment analysis process, as elaborated in the current study, includes the separate analysis of economic and social performance. Economic performance analysis is used as an initial screen before social performance is considered. One important reason for this finding lies in the ease of analyzing quantitative economic data when compared to the highly subjective and time-consuming qualitative analysis of social performance data. The social investment analysis process is ongoing and can be performed by informal or formal groups of analysts inside or outside the investment firm.

Many of the subjects interviewed for this study were unfamiliar with the academic literature on corporate social performance. This is a potential area of concern, as it suggests that the social investment industry is largely unaware of the analytic techniques, frameworks, and theory developed by business and society researchers.

A listing of research questions and hypotheses relating to social investment practice is also presented. These questions focus on testing and refinement of the elaborated social investment analysis process model and the listings of social investment purposes, principles, and criteria. The continued growth and interest in social investment activities in the United States, the United Kingdom, and other countries provides ample opportunities for further examination of this industry and its consideration of corporate social performance.