



## ETHICAL INVESTMENTS—HUMBUG OR FOR REAL?

BY STAFFAN MICHELSON AND GÖREN GENNVI

In recent years, people have poured billions of dollars into so-called ethical funds—mutual funds that invest in companies that pledge to uphold certain moral standards, such as preserving the environment and treating workers well. And companies that have adopted these policies have become gilt-edged. But environmental guidelines are toothless and ethical investments just window-dressing as long as management's good intentions conflict with a company's legal obligations to pursue a profit at all costs. How can we reconcile these apparently conflicting goals?

### Shaping Tomorrow's World

Today, many people in leading positions in industrial and commercial enterprises understand the importance of taking a moral stance. They know that a society—or a company—cannot survive by operating in a way that is not sustainable over the long run, such as by squandering scarce natural resources. Fund managers, managing directors, politicians, and "ordinary" people all see that the earth's gifts are being eroded at an ever-increasing rate and that they are not being replaced at the same pace as they are being consumed. They recognize the long-term consequences of manufacturing weapons of mass destruction and the effects to a local economy of factory closings.

Currently, 51 of the world's 100 leading economic units are corporations or other groups. Thus, the management groups and boards of directors of multinational companies are more than ever determining the strategies and investments that will shape tomorrow's society, economy, and environment. This is why it is so

important for corporate leaders to take issues of morality, ethics, the environment, and social responsibility seriously.

But the sad truth is that the continuing erosion of natural resources is still virtually free of charge for companies. The societal and environmental costs of exploiting those materials is seldom represented on profit-and-loss statements. For this reason, managers who want to do their jobs well must take advantage of every opportunity to exploit "cheap"



resources, forcing social concerns and moral obligations on to the sidelines.

### The Ultimate Decision-Makers

Another force undermining corporate ethics is that executives are required to value profits over human beings and environmental concerns. A managing director who fails to maximize profits will be dismissed by the board of directors, and a board that considers anything but immediate profits will be removed by the shareholders. Thus, although a company may institute environmental programs, goals, and reports, management's responsibility to make a profit remains the fundamental motive for each and every decision.

If the company's activities, in part or in whole, have a different purpose than creating a profit for its shareholders, its articles of association must contain provisions to that effect. Such provisions are currently rare. This means that managers will be exceeding their authority and neglecting their duties if they give priority to

long-term growth and sustainability over short-term profit.

Therefore, the ultimate power to decide how capital should be managed lies with the owners of the capital. Only shareholders can decide on changes to the articles of association that are necessary to give management the authority to pursue moral obligations at the possible expense of profits. Even if they decide that a company's activities should only partially pursue values other than mere profits, they must clearly indicate this in the articles of association. Otherwise, from a legal point of view, management has neither the right nor the obligation to allow itself to be guided by moral or any other interests that may, in one way or another, conflict with the obligation to make a profit.

The lesson to be learned is that fund managers and financial advisers who recommend so-called ethical investments should carefully investigate each company's current articles of association. If the articles do not express a requirement for management to consider moral or environmental issues, then the executive team cannot be expected to take such concerns into account in its ongoing plans or everyday decision-making. And only when this kind of moral stance becomes the norm can the representatives of industry and commerce in all seriousness claim that market forces are capable of leading companies into a future society characterized by sustainable growth. ■

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