

KATINKA C. VAN CRANENBURGH

# Money or Ethics

Multinational corporations and religious organisations operating in an era of corporate responsibility



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Multinational corporations and religious organisations operating in an era of corporate responsibility.

# Geld of ethiek.

Multinationale bedrijven en religieuze organisaties in een tijdperk van maatschappelijk verantwoord ondernemen.

Thesis

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*‘Het verband tussen de dingen ben ik zelf’*, Remco Campert, 2012.  
Freely translated: *‘The connection between the things is me’*





## SUMMARY

It is a general assumption that Religious Organisations (ROs) are driven by religious beliefs and values, whilst multinational corporations (MNCs) are considered to be concerned about their profits, their share price and their reputation. When ROs invest in capital markets, they participate in modern economy and thereby enter a sensitive spectrum of ethical dilemmas. Since ethics is the core business of ROs, they cannot maintain a situation in which their investment portfolio would be in contradiction with those ethics. MNCs on the other hand are operating in the same modern economy, whereby - in their aim for profits and growth - they too have to deal with the ethical dilemmas that occur due to the nature and expansion of their business and the different cultural contexts in which they operate. Business managers and religious investors struggle to define the roles and responsibilities of MNCs when the products and/or activities they provide or invest in have considerable impact on society. The common assumption would be that - in an era of Corporate Responsibility (CR) – the two types of organisations can be positioned at the different ends of the scale from money to ethics. This study provides insight into the struggles of MNCs and ROs and builds on theory that can be used by business and investment managers that have an influence on society through the means of their activities. The study does not compare MNCs with ROs but demonstrates how MNCs - being *confronted* with social issues - and ROs, being *concerned* with similar social issues and investing in MNCs, deal with these issues in an era of increased CR. This dissertation is a compilation of several sub-studies that - as a whole - provide insight into the black-box of decision-making of managers and investors in the context of business ethics. The popular assumptions are validated and a more sophisticated understanding of the two different actors manoeuvring in the fields of finance and ethics is provided throughout this doctoral thesis.



## NEDERLANDSE SAMENVATTING

### (SUMMARY IN DUTCH)

In het algemeen mag verondersteld worden dat Religieuze Organisaties (ROs) gedreven worden door hun religieuze opvattingen terwijl multinationale corporaties (MNCs) gedreven worden door hun winsten, aandelenkoers en reputatie. Wanneer ROs op de kapitaalmarkten investeren participeren zij in de moderne economie en betreden daarmee een sensitief speelveld vol ethische dilemma's. Aangezien ethiek de *core business* is van ROs, verwacht men dat hun investeringsbeleid synchroon loopt met hun ethische waarden. MNCs opereren in dezelfde economie en, in hun streven naar winst en groei, worden zij eveneens geconfronteerd met ethische dilemma's. Deze dilemma's ontstaan in relatie tot de aard van de bedrijfsactiviteiten en groeien met de internationale expansie van bedrijven.

Bedrijfsmanagers en religieuze investeerders worstelen met het definiëren van hun rol en verantwoordelijkheden die gepaard gaan met respectievelijk hun product-en dienstverlening en hun investeringen. In een tijdperk waarin maatschappelijk verantwoord ondernemen (MVO) groeiende betekenis krijgt, positioneert men MNCs en ROs veelal aan weerszijden van de imaginaire schaal van geld en ethiek.

Deze dissertatie geeft inzage in de worstelingen die bedrijfsmanagers en religieuze investeerders ondervinden en bouwt voort op bestaande theorie. In de dissertatie worden MNCs en ROs niet met elkaar vergeleken, maar wordt er beschreven hoe MNCs, *geconfronteerd* met maatschappelijke problemen, en ROs, *begaan* met maatschappelijke kwesties, handelen in tijde van groeiende aandacht voor MVO. Deze dissertatie is een compilatie van verschillende sub-studies die inzage geven in de bedrijfsethische overwegingen die ten grondslag liggen aan de beslissingen van managers en investeerders. In deze dissertatie worden de algemene uitgangspunten gevalideerd en een verfijnd beeld van de twee verschillende actoren in het spanningsveld tussen geld en ethiek wordt geschetst.



## **Chapter 1**

### **Multinationals and Religious Organisations in an era of Corporate Responsibility: an introduction**

#### **The intersection of Multinationals and Religious Organisations**

Religious Organisations (ROs) have often expressed a concern about how to harmonise the values they preach, the activities they pursue in the area of social justice and the techniques of earning money. As investors in Multinational corporations (MNCs), they are challenged to the extreme as MNCs are under increasing pressure from society to help resolve the world's social and environmental challenges. Expectations are not limited to ensuring that their products and services do not harm society, but also relate to a projected contribution MNCs should make to societal development. Amongst the growing groups of demanding corporate stakeholders is the Responsible Investment (RI) movement, including institutional and individual investors that aim for a social and environmental return on their investments alongside financial return. In the last 50 years, the RI community has been growing exponentially, both in the USA (US SIF, 2012) as well as in Europe (Eurosif, 2012). RI finds its roots in the religious world (Gray et al, 1996; Louche et al, 2012) and UN Secretary General Ban Ki Moon has called the religious sector 'the third largest group of investors in the world' (UN, 2009). When ROs invest in MNCs they become co-owners of these companies, making them to a certain extent jointly responsible for the impact those companies have on society.

When reviewing the tension between money and ethics at MNCs and ROs, mixed motives and ethical decision-making processes can help understand the actual actions managers and RO representatives take. Although interesting, this dissertation does not aim to interpret or evaluate multiple and mixed motives, which are extensively described in literature (for example by Di Norcia & Tigner, 2000); it merely frames the actors in this dissertation as intrinsically and extrinsically motivated actors for the purpose of the introduction only. Intrinsic motivation refers to doing an activity simply for the sake of the activity itself, whilst extrinsic motivation has an instrumental value (Ryan & Deci, 2000). An imaginable scale based on the neo-classical distinction between extrinsically motivated and intrinsically motivated actors could classify and order all stakeholders in the Corporate Responsibility (CR) environment, whether they are institutions or individuals. As ROs are formed by a group of individuals gathered together around a shared set of beliefs in a transcendent being, their foundation lies in their intrinsic religious thinking. When members of ROs take up societal responsibility one can expect them to refer to the set of values or beliefs stemming from their religious background. In contrast, an MNC generally reviews its responsibility to

society as taking up the required legal, ethical and social responsibilities to enhance the organisation's reputation and strategic need to coordinate and control its activities over a large number of countries and constituencies (Mamic, 2005). Although organisational membership does not discharge individuals from their personal responsibilities, organisations cannot point to their agents or members as being liable for the sum of actions of the organisation. Despite several exceptions, MNCs and ROs can be generally positioned at the two extreme ends of the scale as regards extrinsically and intrinsically motivated, respectively.

For MNCs, CR is of growing importance to their business strategy. MNCs' involvement in CR is often described in the context of stakeholder responses and strategies: responding to social, environmental or ethical concerns raised by external bodies such as governments, non-governmental organisations, international institutions, shareholders (individual and institutional) and activists, in order to preserve reputations and maintain the so-called licence to operate. MNCs are expected to comply with what is required by law as well as with social expectations or obligations (Van Tulder, 2008). ROs, at the other end of the scale, are commonly known for their strong beliefs and religious values and are regarded as intrinsic drivers for creating 'a good way of living' and providing a foundation or framework for 'a way of life'. This is often viewed as going beyond what is required and relates to a set of ethical principles that flow from foundational confession. Although initially the connection for ROs to CR seems less obvious, ROs have been frontrunners in debating and challenging the models and practices commonly accepted in the business world and the ethics, culture and accepted practices in the workings of financial and capital markets. Also, ROs have been at the forefront of responsible investing.

Understanding companies' and their investors' approaches towards CR has been my key research area and has resulted in the articles that make up the chapters of this dissertation. My interest in the two actors and their CR approach is closely connected to my business career. As programme manager in the health affairs department of Heineken (from 1999 to 2008) I was involved in healthcare provision, initially predominantly focused on employees and later extending to supply chain workers and communities. After the research for chapter 2 on employee healthcare and its impact on responsible investors in 2008 and 2009 was complete, new insights had been found on both the company and the investor sides. The company formalised a foundation for community healthcare provision, which I worked for from 2009 to 2013, resulting in research that led to chapter 3. Whilst being commended for its work on health care and in particular HIV/AIDS in Africa, the company was attacked by human rights activists for its practices regarding female beer sellers in Cambodia. It seemed the pro-active CR approach of the company on one side of the world actually triggered the activists to provoke change in a different but related area on the other side of the world. That caused me to perform the organisational ethnography from 2000 to 2008 (chapter 4) around the topic of CR decision-making amongst MNC managers and social activism. The religious

investors had similar interests to the activists but approached the company as concerned investors: in my role as project leader of the female beer promoters' project in Cambodia (from 2003 to 2008), a religious investor group from the USA sent a letter to the CEO expressing its concerns about the human rights situation of these women. The impact of this one letter was such that I wanted to better understand this stakeholder group. It resulted in my research concerning the roles and features of ROs when investing and engaging with MNCs (chapters 5 and 6). Whilst this dissertation started from an internal drive to reflect upon and learn from the limits to the responsibility of an MNC in solving social or 'people' issues, it expanded with the impact the ROs seemed to have on MNCs. The urge to understand both players' approaches with regards to CR provided the drive that resulted in the chapters of this dissertation.

Whilst a lot of scientific literature on MNCs' CR is available, little is known about ethical and managerial decision-making of managers of corporations regarding CR. In this respect, the first part of this dissertation adds to the theory. Even less is known about the investment practices of ROs, despite the significant presence of ROs as investors in MNCs (Kreander et al, 2004). Whilst the external pressure on MNCs to 'do good' is growing, a significant group of co-owners of these MNCs, i.e. religious investors, is hardly questioned or investigated concerning investment practices and their influence on CR. The second part of this dissertation therefore addresses this gap and builds upon Kreanders' research (2004) into how ROs evaluate and act upon the responsibility of the corporations they invest in. I do not compare MNCs and ROs and have chosen to keep the sources of data separate. The intersection of MNCs and ROs is found in the social issues they are confronted and concerned with, respectively. Whilst MNCs are generally supposed to have an extrinsically motivated approach towards responsibility, ROs are supposed to be intrinsically or value-driven. I juxtapose the seemingly dissimilar actors in the final chapter (chapter 7), demonstrating how they both manoeuvre in the fields of tension between money and ethics.

## **Multinational Corporations and CR**

Corporate focus on Corporate Responsibility (CR) has never been more evident in practice and literature than at the start of the 21<sup>st</sup> century. When trying to define CR, one can observe the grandeur of viewpoints and potential outcomes. When Milton Friedman (1970) stirred up the discussion of what the social responsibility of businesses should entail by publishing his article 'The social responsibility of business is to increase its profits' in the New York Times magazine in 1970, he could probably not have foreseen the debate which has grown over the past decade. Many 21<sup>st</sup> century papers (Van der Voort, Clac and Meijs, 2009; Valente & Crane, 2010; Maak, 2009) reveal a much broader cycle of responsibility for corporations than had ever been stated before. It seems that the limits to the responsibility of CR are stretching from the fiduciary duty of a business manager towards the owners of the



company, to the corporation and its managers taking up responsibilities that had earlier been earmarked as political, governmental or state responsibilities. Therefore, in addition to the responsibility of companies to comply with the law and with a certain level of ethics, they were to take up responsibilities that had been viewed as state responsibilities. These responsibilities included various ethical, environmental, social and governmental (EESG) topics, which historically belonged to the public rather than the private domain. With the assumption that the private sector was also responsible for some of these public responsibilities, a different and more critical review of companies' operations emerged. Since the private sector has been regarded as jointly responsible for public matters, companies have been under close scrutiny by other actors. Some actors considered the public-to-private shift a risk, some an opportunity, and clearly the type of industry involved shaped the degree of appreciation. The shift in responsibility amongst the actors in the field of CR did not change abruptly, even if the speed in which the changes took place was significant. Between 1970 and 2010, a period of only forty years, companies continuously needed to adapt and respond to increasing expectations with regards to their responsibility. Without engaging in the discussion about whether companies acted responsibly or irresponsibly, societal interest in corporate behaviour increased significantly in just these few decades. This explains the terminology: 'the era of corporate responsibility' in the title of the dissertation. The term refers to the increased awareness on different levels and in relation to different types of corporate responsibility, including irresponsible business behaviour. In this era, companies became acquainted with the risks and opportunities of their social and financial performance and with the criticism that arose from viewing CR as a financial business stimulant. After the disclosure of various scandalous business practices, distrust amongst consumers in the business sector and other stakeholders increased. The benchmarking of 'good and bad businesses' increased and became more professional; the activism against 'the bad' expanded and the responses of investors led to corporations being pressured to deal with CR in a transparent, responsible and pro-active fashion.

A significant amount of scientific literature describes the evolution of responsibilities for EESG from-public-to-private in relation to the corporations' reputational and financial situation. With a large part of CR-literature focusing on the relation between Corporate Social Performance (CSP) and Corporate Financial Performance (CFP) (Griffin & Mahon, 1997; Margolish & Walsh, 2001; Orlitzky et al, 2003; Allouche & Laroche, 2005; Barnett & Salomon, 2006) pervasive attempts have been made to translate EESG issues into financial results, thereby bridging CR back to Friedman's position that practicing CR is part of the corporation's management obligation to provide profits and dividends for the corporation's owners. The CR literature, linking the responsibilities of businesses to profitability or financial performance, as well as literature focusing on the relationship between competitiveness and CR (Porter & Kramer, 2006; Vilanova et al, 2008) place CR in the context of business risks and opportunities. This classifies the CR of corporations in an institutional self-interest perspective rather than an intrinsically motivated domain. MNCs

viewed in the context of being merely financially self-interested has affected consumer trust, resulting in a general public distrust in businesses. Corporations practicing CR would do so for the ‘wrong’ reasons and the aim to make profits would prevail in the event ethical dilemmas would occur. According to the Edelman Trust Barometer, public distrust in business is low, and has been so over time: fluctuating around 55% between 2009 and 2015<sup>1</sup>. In 2012, the Edelman study covered more than 30,000 people in 25 countries and revealed that half of the respondents said governments do not regulate businesses sufficiently; a quarter of respondents felt corporate behaviour needed to be regulated.

Corporate scandals and revelations of corporate malpractices further increased growing distrust in businesses and their managers. Whether it concerned leaks of toxic gases at Union Carbide’s operations in India, dolphins stuck in fishing nets of Starkist Tuna, Exxon’s environmental damage at Exxon-Valdez, Nike’s connection with child labour in Asia, Shell’s oil spills in the Niger Delta, Enron’s gambling on the financial markets or Apple / Fox Conn’s association with employees who committed suicide, all led to public suspicion towards businesses.

With an increasing number of corporate malpractices becoming public, the number of activists and activist groups aiming for a change in corporate behaviour increased. Some activists, including the Clean Clothes Campaign, took the ‘naming and shaming’ approach by exposing and publishing bad practice. Those activists who worked through multi-actor platforms, such as fair-trade labels, promoted good standards and praised sound achievements (Fombrun, 2005). The overall aim was not only to change corporate behaviour but also to bring about field-level or societal change – either through higher standards or through the eradication of low performance (Guay, Doh and Sinclair, 2004; Rehbein et al, 2004; Rowley & Moldoveanu, 2003). The strategy of raising specific issues of interest to society through the exposure of highly visible corporations became increasingly common in advertising-intensive consumer markets. This was often done by using corporate symbols and logos out of context and transforming them into an emblem of the activist’s cause (Den Hond and De Bakker, 2007; 910). There are ample examples such as the use of the British Petroleum logo placed in the context of whale-killing. Another example is an ‘advertisement’ for Nestlé’s KitKat, produced as part of Greenpeace’s campaign to protect the rainforest from the production of unsustainable palm oil and using reframing Coca Cola’s ‘Diet Coke’ into ‘Die Coke’, referring to their alleged discriminative activities in providing HIV/AIDS treatment. These campaigns were designed to undermine the economic value of

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<sup>1</sup> [www.edelman.com](http://www.edelman.com), as well as an email conversation between the author and Kisha Stokes of Edelman. The Edelman survey study in 2015 reached out to over 33,000 people in 27 countries. The question used is “Please indicate how much you trust business to do what is right using a 9-point scale (1= “do not trust them at all”, 9 = “trust them a great deal”. The % refers to the % of respondents who selected 6, 7, 8 or 9 on a 1-9 scale. Outcomes: 50% in 2009, 54% (2010), 56% (2011), 53% (2012), 58% (2013 & 2014) and 57% (2015).

a company's brand or product value through clever use of mass media, combined with demands to change practices.

With the growth of social activism, corporations were obliged to respond. They became better experienced and professional in dealing with CR issues. Managers became more aware of the role of their stakeholders and the continued changing context they operated in. Together with managers' understanding of CR as an unofficial but social license to operate (and essential to the continuation and survival of the organisation) came professionalism in CR. Management responses through sensing, policies, coordination, control and implementation activities changed CR into a key element of businesses, whereby the corporations retained their economic purpose and rationale. Corporations developed CR policies, implemented related activities and reported and communicated results. Whether defined as a risk avoiding or opportunity seeking exercise, CR increasingly became more tangible, allowing for companies to measure their needs as well as the impacts of their CR activities. Companies shifted from being inactive to reactive or from reactive to active.

Whilst social issues such as the impact of poverty or HIV/AIDS on the corporation may seem difficult to measure and are still mainly defined as non-quantifiable risk components falling in the area of reputation and business ethics, some scholars have pointed out the potential calculability of these social risk areas. Understanding social impact measurement questions, for example the cost implications of HIV/AIDS when operating in developing markets, are becoming increasingly quantifiable due to enhanced investment research. Bernstein (2008) shows the increased range of data sources dealing with corporate social behaviour. Investment researcher organisations such as Goldman Sachs, RiskMetrics, KLD and various labour and human rights research companies are constantly refining databases, looking for improved sources to fill their databases and interpreting the data in a quantifiable manner. According to De Jongh (2004), corporate social impact will be increasingly integrated in mainstream risk areas such as financial and operational risk. The potential of measuring risk components that had been defined as non-quantifiable would even further open the path to increased focus on CR.

With the growth of CR activities and communication, as well as rating and industry benchmarking of CR, MNCs expanded, increased and professionalized their CR policies and practices. Monitoring and reporting the CR of MNCs as well as their subsidiaries and suppliers enabled the creation of the Global Reporting Initiative (1997), the SAM Dow Jones Sustainability Index (1999) and the FTSE4Good. Corporations could not get away with nice words; they had to provide data and proof which would then be audited and reported by independent specialised EESG auditors. Window-dressing or green-washing would be more easily revealed whilst companies with high-impact social and environmental contributions to society could be rewarded.

With the growth of measuring, auditing, reporting, rating and benchmarking, the Responsible Investment (RI) movement increased, a movement that partly depended on EESG research. Whilst RI started as ethical investment (Laufer 2003), originating largely from religious groups screening out 'sin stocks' from their portfolios, it grew into a relevant and still emerging investment market with various tools and possibilities for various types of investors. The rating of businesses and creation of indexes allowed investors to practice positive screening – investing in industry leaders in the EESG areas of their interest. Investors also became more aware of their ownership status: holding shares provided them legal ways of intervening with management, not only for financial gain as was done by the early-days hedge funds, but also for prioritising EESG issues. Lastly, they turned part of their portfolios into impact investing, taking away investments from the conventional stock exchanges and directly investing it into corporations and projects, focusing on alternative energy forms, affordable housing, microfinance or other green and social investments. Today, the first ever Social Stock Exchange is operational ([www.socialstockexchange.com](http://www.socialstockexchange.com)). With the increase of RI, the 'circle of CR' is complete, as some scholars claim that RI would be the major driver of CR (Sparks & Cowton, 2004; Scholtens, 2006). With the religious investors being at the basis of RI, research into this group of early inspirers of responsible investment and corporate responsibility will bring further understanding of their (potential) impact on company's behaviour.

The above described phases did not follow consecutively and nuances can be made in each period and actor-group. However, the increase, refinement and sophistication in CR knowledge, practices, behaviours and actors took place on a significant scale and corporations, particularly headquartered in developed countries or mature business markets, were affected to a large extent.

## **Religious Organisations and CR**

Religious focus on CR has a long history and goes beyond preaching moral business principles and behaviour. Religions have always expressed a concern about how to harmonise the values they preach and the realities of commerce through business activity. When discussing CR for ROs one can also discuss management of ROs; the way they purchase goods and services, maintain their buildings, travel, recycle and many more organisational aspects. Moreover, ROs such as the Catholic Church have been called MNCs themselves (Kelly, 2003), whether non-profit or for-profit, with the Vatican as headquarters of a multi billion-euro empire, operations all over the world, over a billion customers and a million employees and many more corporate characteristics with a history and scale that many MNCs can only dream of. However, for the purpose of this dissertation, I will focus on the role ROs take up as investors of corporations. Although limited in numbers, research (Kreander et al. 2004; Sparks & Cowton 2004) has shown that religious leaders believed

that investing in corporations was not a neutral activity, but that it implied certain values. In 1973, Hollenbach described the challenge for American religious orders to address the relationship between social responsibility and investment practices of key significance for the future shape of the church-society relationship (Hollenbach, 1973). Indeed, ROs have been described as pioneering in what today is known as Responsible Investment (RI). During the period of apartheid in South Africa in the 1980s and early 1990s, Catholic religious orders in the U.S. struggled with setting criteria and strategies for addressing their concerns about the corporations they invested in (Wokutch, 1982). Their concern about how to combine the moral principles that flow from their beliefs with investment practices goes back at least several hundred years (Domini 2001). It can in actual fact be traced back to the Jewish tradition 3,500 years ago. In the Catholic tradition this is rooted in the biblical understanding of justice and the teaching on social and distributive justice. As expressed by Pope Benedict XIV in 1745: 'If equality is not maintained, whatever is received over and above what is fair is a real injustice'.

One of his successors almost three centuries later, Pope Benedict XVI, stated in his 2011 'Caritas in Veritate', a guideline for all bishops, priests and Catholics around the world, that business models must shift from shareholder to stakeholder models, whereby he emphasized that multi-form business models, aiming for more than profit, are not only more civilised but are also more competitive. He argues that one should place the 'human purpose' of business above 'professional activity' (41). He also warned for abuse of the term 'business ethics' and suggested to develop a sound criterion derived from the church's social doctrine, based on man's creation 'in the image of God' (Gen 1:27) so as to ensure that the term 'ethics' cannot be used to lead to choices that are contrary to justice and human welfare (45). In the view of Pope Benedict XIV, '*... those [businesses] capable of viewing profit as a means for achieving the goal of a more humane market and society, must also be pursued in those countries that are excluded or marginalized from the influential circles of the global economy*' (47), thereby referring to an additional CR role for businesses operating in developing countries or weak-governance zones.

The practical implications for religious involvement in CR are found in the activity of investing. Over time, various popes have expressed their viewpoints towards what is acceptable according to their religion. John Paul II taught that '*... investment always has moral, as well as economic significance*' (1991), something that was reiterated by the Vatican in 2011, adding that capital can do good but requires due consideration for the way in which the capital is generated and that no harm to individuals should be done. In the Caritas in Veritate (Benedict XVI, 2011) we can also read that '*What should be avoided is a speculative use of financial resources that yields to the temptation of seeking only short-term profit, without regard for the long-term sustainability of the enterprise, its benefit to the real economy and attention to the advancement, in suitable and appropriate ways, of further economic initiatives in countries in need of development.*' (40).

The United Methodist Church, a protestant movement, offers their grassroots ‘The Book of Discipline (2008)’, a work developed over 200 years, outlining the most contemporaneous position on how United Methodists agree to live their lives as a community. One paragraph is dedicated to RI and reads:

*‘... in the investment of money, make a conscious effort to invest in institutions, companies, corporations, or funds whose practices are consistent with the goals outlined in the Social Principles; and endeavor to avoid investments that appear likely, directly or indirectly, to support racial discrimination, violation of human rights, sweatshop or forced labor, gambling, or the production of nuclear armaments, alcoholic beverages or tobacco, or companies dealing in pornography. The boards and agencies are to give careful consideration to shareholder advocacy, including advocacy of corporate disinvestment.’*

Whilst religious focus on CR has been expressed by all Abrahamic leaders and whilst religious leaders have stood up to publically address malpractices in business, religious guidelines for investing according to one’s faith are limited to Sharia compliance guidelines in the Islamic tradition and a handful of Christian guidelines such as the Catholic and Methodist examples highlighted above. Even less is known about the actual investment significance and practices of religious organisations. Their combined investments could create change for society in such a significant way that it is surprising how little is known about their practices. One might expect that due to their prevailing intrinsic religious motivators ROs would act proactively, also through means of their investments. It is not clear whether ROs indeed invest according to their beliefs. Can they actually ‘translate’ their religious beliefs in their investment portfolio and if so, which decisions do they take? Do they screen out ‘sin stocks’ or do they apply other RI tools such as positive screening, meaning they benchmark companies within an industry and only invest in high performers on EESG aspects? Do they raise their voice as shareholders when they have doubts about business practices of the companies they invest in? As and when they engage with business leaders in the field of CR, what features influence their engagement and can those features be traced back to the religious nature of their being? Do they use part of their capital to invest in high social-impact companies or projects aiming to actually do good instead of doing less bad? As it were, do they practice what they preach?

## **Required versus Desired**

In their article in the *Journal of Business Ethics* (2008), Van Tulder et al. address the fact that corporations, in the absence of laws and in the maze of international standards or as a signal for ethical behaviour, develop self-imposed codes of conduct. These business codes of conduct are categorized from intrinsic as well as extrinsic motivations. The four resulting CR approaches defined by Van Tulder et al (2008) refer to (1) Friedmans’ (1970) classical

notion that the only responsibility companies have is to generate profits; the in-active approach, (2) responding without making mistakes; the re-active approach, (3) ethical values and virtues; the active approach, and (4) a pro-active approach that involves stakeholders right from the beginning. See table 1.

Table 1: Four CSR Approaches

IN-ACTIVE	RE-ACTIVE	ACTIVE	PRO-ACTIVE
Corporate Self Responsibility	Corporate Social Responsiveness	Corporate Social Responsibility	Corporate Societal Responsibility
legal compliance and utilitarian motives	moral (negative) duty compliance	choice for responsibility and integrity; virtue	choice for interactive responsibility; discourse ethics
inside-in	outside-in	inside-out	in-outside-in/out
doing things right	don't do things wrong	doing the right things	doing the right things right
doing well	doing well and doing good	doing good	doing well by doing good
what is required		what is desired	
economic responsibility [wealth oriented]		social responsibility [welfare oriented]	
narrow (internal) CSR		broad (external) CSR	
Multinational Corporations (MNCs)		Religious Organisations (ROs)	

Based on: Van Tulder et al. (2008)

Organisations cannot be statically positioned in this table. There will be movements following extrinsic or intrinsic drivers. A company that is challenged by activists might move from the in-active to the re-active stage and companies entering the relatively new alternative energy market will start on the pro-active phase. However, MNCs would be generally plotted on the ‘what is required’ side of the scale, using CR as an instrument for their strategy and management and responding to external drivers, whilst ROs could be regarded as to act from a ‘what is desired’ standpoint, interpreting theology and following the example of their God or spiritual leader. In his position paper called ‘With great power comes great responsibility’ (Van Tulder, 2010); the author builds upon the above model using power dimensions as game changers of CR. The presumption that MNCs merely respond to legal requirements and liability risks as well as have utilitarian motives rather than pro-actively use power they have gained by their presence will be explored in chapters 2, 3 and 4 of this dissertation. Also, the idea that ROs would apply soft powers such as stewardship and moral duty aiming to achieve societal responsibility, will be topic of research as in turn ROs have fiduciary duties towards their members and organisation. The



presence of MNCs in developing countries as well as the presence of ROs as investors in those MNCs are powers to be taken seriously, just as well as the power that comes with the threat of an MNC exiting a society or the RO exiting the MNC. In chapters 2 to 6, presence and (threat of) exit will be closely reviewed, both from the viewpoint of the MNC as well as the RO.

## **Aim and outline of this thesis**

This thesis focuses on for-profit Multinational Corporations (MNCs) and Religious Organisations (ROs) as they are both faced with the ethical challenges of being involved in international business. Particularly in developing markets or weak governance zones, MNCs are *confronted* with social problems such as poverty, human rights and healthcare issues, including diseases such as HIV/AIDS. Whilst producing and selling products in developing countries, businesses are confronted with societal issues that strongly influence the way in which they do business. Corporations are not only confronted with social risks but also have to address issues relating to national governments' socio-political imperatives, all of which have an impact on corporations' risk profiles (De Jongh, 2004). Vice versa, MNCs operating in developing markets tend to have large influence on the societies in which they operate (Bloström & Kokko, 1998).

Religious Organisations have always been and still are *concerned* with these social and socio-political problems and have been active in tackling them. Early missionaries were not only concerned about bringing their religious values to populations in developing countries; they were also very much involved in improving living standards of the poor. Healthcare and education were the main areas of interest whilst being led by their Holy Scriptures' missionaries. Today, religious-based groups still regard it their responsibility to help those in need. With the increasingly aging population within ROs and the need for ROs to maintain their staff and serve their grassroots, ROs rely on their investments in capital markets to continue their activities more than ever before. Referred to as the third largest group of investors in the world (UN, 2009), they certainly have a significant impact on businesses and society at large through their investments, whether they utilise that influence or not. Investing directly through holding shares in MNCs or indirectly through funds, stocks, savings or other financial products, ROs are co-owners of MNCs and thereby hold tools to influence corporations operating in the same settings where the ROs have a presence and social purpose.

This dissertation includes five sub studies that will provide a better understanding of the challenges MNCs and ROs face in the era of CR and how they deal with them. The first three studies are case studies of an MNC operating in developing countries. The last two sub studies dig into ROs and the ways in which they utilise their investments to influence



corporate behaviour. All of the sub studies are presented as chapters whereby each chapter was written and published as an individual paper. This means that there will be similarities in setting the stage for each chapter's distinct analytical task. The background and benefit of the stand-alone studies is that they have been published at academic, double-blinded, peer reviewed journals, known for their academic rigour and listed as having an impact factor in academic research. In sum, I draw upon five different sources of data and employ qualitative methods of analysis in positioning the two seemingly distinct actors. Individually, all five chapters will touch upon the tension between money and ethics at MNCs and ROs. Combined, they will provide answers to the overarching research question:

*How do two presumably dissimilar actors, Multinational Corporations and Religious Organisations, square money and ethics in an era of Corporate Responsibility?*

Chapter 2, 3 and 4 are based on the case of a marketing-focused multinational beer brewer headquartered in the Netherlands, Heineken, brewing and selling beer and soft drinks in developing countries in sub-Saharan Africa and Asia. The brewers' activities in the field of CR are highlighted by studying the actual activities of the MNC with regards to company healthcare provision for employees, family members, supply chain and communities. Chapter 2 concerns a study on the impact of Heineken's healthcare provision for employees and their family members. Chapter 3 is a four-year organisational ethnography, covering the period from August 2008 to July 2012, describing and analysing the company's healthcare activities towards communities. Chapter 3 provides insight into motivators and ethical boundaries of the company's healthcare provision system and the strategic and moral business dilemmas that arise when being confronted with social issues such as poor public health. It provides multiple ethical perspectives into the analysis of real business dilemmas.

The fourth chapter focuses on management responses to social activism. It concerns a longitudinal study (2000-2008) during which I collected published and company material through participant observation after which validation took place by two co-authors triangulating the data, the findings and the perspectives. As with chapters 2 and 3, chapter 4 demonstrates that managerial response to stakeholders' claims are key to understand how business dilemmas are approached by managers and how responsibilities are evolving and effected by external forces. It approaches management responses from a 'systems' level, whilst describing it on a micro-level applying the cybernetic model to the MNC when confronted with a controversial CR business practice amongst its business partners in Cambodia.

The last two sub-studies are related to ROs and their investment practices. ROs are particularly interesting as, due to the nature of their organisation, they are expected to have a significant interest in company behaviour and company societal impact. Chapter 5 gives a general outline of ROs as investors. Based on a survey with over 100 respondents and complemented by interviews, I investigated religious organisations' attitudes towards responsible investment, including opinions, practices and the impediments for implementing faith-consistent investing. The paper sheds light on the ROs' practices in the four main responsible investment tools; negative screening, positive screening, impact investing and shareholder engagement. Chapter 6 responds to Kreander *et al.*'s (2004) call for challenging the sacred-secular divide of ROs and their financials commonplace in literature by presenting how the religious nature of three ROs influence their social shareholder engagement practices. Studying the similarities and differences between literature and ROs practices resulted in the introduction of three new influencing features of social shareholder engagement that are particular to the religious nature of ROs.

In each chapter, I will address a unique spark that is created by the friction of business practices and investments in a social context. At times, those sparks might be viewed favourably for the social issue at hand. In other instances, I draw out the challenge of combining money and ethics, both for MNCs as well as for ROs. In the final chapter (seven) I will elaborate on this tension, providing a more detailed view of the presumably dissimilar actors on the scale from money to ethics based on the findings in the sub-studies.

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## **INTRODUCTION TO CHAPTER 2**

Chapter 2 is the first of three chapters that looks into the black-box of decision making of management from a marketing-focused multinational beer brewer headquartered in the Netherlands, Heineken, brewing and selling beer and soft drinks in developing countries in sub-Saharan Africa and Asia. Management faces cross cultural and ethical challenges of being involved in international business. Particularly in developing markets or in weak governance zones, Heineken is confronted with social problems such as poverty, human rights and healthcare challenges, including diseases such as HIV/AIDS. Chapter 2 concerns a study on the impact of Heineken's healthcare provision for employees and their family members. The chapter highlights the impact of the global health burden on the private sector and the motivators and ethical boundaries of Heineken to develop and maintain a healthcare provision system in emerging markets. Finally the relationship between the multinational's healthcare system and investment decisions of socially responsible investors is explored. The Heineken case shows that different ethical motivations are involved when starting and continuing healthcare programmes. Also, the impact of global epidemics and chronic diseases on the private sector are increasingly alarming. These affect the private sector's bottom line and therefore the need for corporate healthcare provision increases. The case also shows a considerable positive impact of a corporate healthcare system within the field of human resources (healthy employees, talent retention and employee motivation) and corporate relations (good reputation) as well as socially responsible investors (increased awareness, significance in decision-making). This chapter focuses on ethical decision making around healthcare for employees. The dissertation then expands to communities (chapter 3) and supply chain (chapter 4).



## **Chapter 2**

### **Healthcare Provision of a Multinational Company Operating in Emerging Markets:**

### **Ethical Motivations, Benefits of Healthcare Investment and the Impact on Socially Responsible Investors**

Katinka C. van Cranenburgh, Daniel Arenas and Laura Albareda

*Published Book chapter: Innovative CSR, from risk management to value creation. 2010; 11(241-263)*





## **Introduction**

The financial community's interest in extra-financial aspects such as environmental, social and governance issues (ESG) is growing rapidly. Socially responsible investment communities originating from faith-based or spiritual backgrounds have matured from mainly excluding 'sin' stocks such as alcohol, tobacco or weapons into organisations with extensive ESG databases ranging from 100 to 250 ESG criteria in order to refine their investment decision-making processes. Some mainstream investors, such as pension funds and institutional investors, are also integrating ESG aspects into their portfolio analysis.

One of the reasons for the mainstream financial community's interest in socially responsible investment (SRI) comes from the prospects of positive financial results, despite the lack of any conclusive empirical evidence. In their view, corporations that conduct their operations from a complex stakeholder view rather than a short-term shareholder view are regarded as more sustainable and therefore less of an investment risk. Following the banking industry crash of September 2008, this line of socially responsible investing could now find a more receptive market.

Of the range of ESG practices, the social aspect is the least quantifiable and therefore the hardest to measure or use for benchmarking. Environmental results, for example, are presented in the form of CO<sub>2</sub> emissions, water or energy use and other measurable factors, as well as having clearer regulation. Governance practices are similarly solid; a board member also being a member of the supervisory board sets off loud alarm bells among governance auditors. But valuing social aspects, including labour issues such as health and safety and employee healthcare, is still very much a grey area for many business managers, investors, NGOs and activists.

The lack of quantifiability of the 'S' in ESG becomes obvious when making a link to economic performance. Can healthcare provision by the private sector lead to employee and consumer bonding? Can it lead to increased returns, and therefore more investors?

Another point is that when embarking on social initiatives or even designing their social strategies, companies do not always prioritise the interests of the financial community, or maximise value for the company. How do social strategies arise? What are the motivators and the dilemmas facing companies? There are ethical issues involved that play a role at different stages of social strategy development, which are essential to a full understanding of the context and background of the situation.

In this chapter, the authors will attempt to give an insight into the benefits of healthcare investment by using a case study of the international beer brewer, Heineken. An

understanding of the Heineken healthcare provision system, the motivators and the boundaries of responsibility are presented in the following section. The main input for this section comes from the experience of one of the authors, who has been part of the Heineken Health Affairs Department for over eight years. The next two sections focus on the effects the global healthcare situation has on the private sector, and the effects that a healthcare system has on employees, managers and consumers. An extensive review of existing literature was used in this section. The impact of Heineken's healthcare system on the financial community, including mainstream, socially responsible and faith-based investors, is described using input from a survey conducted by the authors in 2007. The final section covers the authors' general considerations.

### **Heineken's healthcare strategy: Motivators and boundaries**

Dutch beer brewer Heineken has the widest global presence of all international brewers, with 125 breweries in more than 70 countries, employing over 65,000 people worldwide. With total sales of over 150 million hectolitres in 2008, Heineken is also among the largest brewers in the world. Heineken's sustainability agenda consists of seven chapters: energy (consumption and CO<sub>2</sub> emission); water (consumption and wastewater discharge); safety (of employees and installations); agriculture (quality and availability of raw materials); supply chain responsibility; responsible beer consumption; and impact on developing markets.

Heineken has a long history of operating in many sub-Saharan countries such as Congo, Democratic Republic of Congo, Rwanda, Burundi, Nigeria and Sierra Leone. Heineken's ongoing growth in these countries is based on strong local operations selling local brands to local bars and restaurants. The local operations have either been acquired over the last 70 years, or built up by the brewer itself. And the acquisition and development of new breweries is ongoing (2009 in Congo and South Africa).

In these sub-Saharan countries, the public healthcare system deteriorated rapidly during the two decades following decolonisation. Currently the public healthcare system is very limited. Heineken runs its own clinics with a staff of doctors, nurses, lab technicians, midwives and pharmacists. Heineken employees and their family members are entitled to various types of healthcare, ranging from treatment of work-related illnesses and accidents, to treatment of complex diseases such as malaria, tuberculosis and HIV/AIDS (Van der Borgh *et al.* 2006). In sub-Saharan Africa alone, almost 35,000 people have access to the services offered by Heineken. Healthcare has grown into an HR benefit and increasingly a key priority on Heineken's global corporate responsibility agenda. The motivators for starting up the healthcare system differ from current motivation for maintaining the system. The boundaries of the healthcare system are constantly in need of review, based on various stakeholder and social issues. Investors understand the need for a healthy workforce in order

to run a (financially) healthy business. With the growth of faith-consistent investing (FCI) and socially responsible investing (SRI), interest in healthcare provision in developing countries is worth studying.

### **Heineken's motivations**

So why is Heineken offering healthcare to employees and families? If labour is cheap and abundant, one could cynically argue that there is no economic need for healthcare provision. Is Heineken, then, a unique company in which managers conduct business according to high ethical standards? Motivations and intentions, and their status are, to say the least, complex subjects in the fields of psychology, ethics and management. There are usually several possible motivations and intentions involved when making a decision; there can be covert motives that decision-makers are unwilling to admit even to themselves, and intentions can change during the course of an action. Collection of suitable evidence and conclusive testing to determine which motivations were actually involved can be difficult or even impossible. Post-event questionnaires and interviews of players can be unreliable, as the players tend to rationalise what actually happened after the decision. This is particularly the case when the test of time has shown that decisions have been questionable, and have led to attack or criticism. Even pre-event views are not completely reliable. In our approach, we can do little more than put forward a few hypotheses supported by some preliminary evidence taken from the work experience of one of the authors of this chapter, who has spent eight years in the Heineken Health Affairs Department, combined with interviews<sup>2</sup> and analysis of speeches at a Heineken Health Symposium in 2007 (Rijkborst 2007; Van Boxmeer 2007).

At the most general level, Heineken's social strategy is related to the Universal Declaration of Human Rights. The Declaration states that:

Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control (Wynhoven and Senne 2006).

Through the Global Compact as well as the Millennium Development Goals, the United Nations has emphasised that business has a role in promoting human rights (including the

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<sup>2</sup> Numerous Interviews with H. Rijkborst conducted by Katinka van Cranenburgh, between May and September 2007.

above article on health and well-being), and that this role is particularly important in countries with limited state capacity to ensure human rights. The duties for the companies are, however, not completely clear, and mechanisms to enforce them are not in place. The national regulations of developing countries have hardly any laws concerning this, at least not in such a way as to make them clear to the business community. There is also a lack of auditing compliance with the law. In most developing countries, Heineken follows better practices and has stronger policies than those set down in the legal and regulatory environment.<sup>3</sup> In particular, it gives formal rights to employees and their dependants on healthcare support, as part of the employee remuneration package. However, it is unclear just how far this right to healthcare extends, since the policies are based on global outlines that can be adapted locally.

A company's motivation for going beyond national standards and actually contributing to the expansion of human rights might lie in their focusing on business opportunities and risks, then gaining competitive advantage and thereby accessing international capital markets. Despite extensive research on the connections between corporate social performance and corporate financial performance (Griffin and Mahon 1997; Roman *et al.* 1999; Margolis and Walsh 2003; Orlitzky *et al.* 2003; Allouche and Laroche 2005), the conclusions reached do not go much further than the fact that corporate social performance has a positive impact on corporate financial performance, but that this positive impact largely depends on geographical area and the type, disclosure and theme of the social action. In the case of healthcare provision by corporations, opportunities could include the reduced costs of replacing people who are off sick, training new people, hospitalisation fees, funerals, alternative doctors and many other costs involved when no action is taken. The reason for offering an in-house healthcare service might also be to avoid absenteeism due to long hours spent waiting at the national health doctor, counsellor or pharmacist.

But apart from the instrumental considerations, was Heineken driven by any ethical considerations? A distinction can be made between starting up and continuing a healthcare system. Instrumental considerations seem to become prevalent when one needs to defend existing healthcare provisions. But at the start, Heineken's expatriates in sub-Saharan countries simply felt that peace of mind was impossible when they had such enormous

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<sup>3</sup> Heineken adheres to the OECD guidelines, the Global Reporting Initiative (GRI) reporting guidelines, the Millennium Development Goals and the Global Business Coalition objectives among other standards. As well as all external guidelines, Heineken has set up a number of policies that are compulsory for all consolidated Heineken plants worldwide. These include the HIV/AIDS policy, the business code of conduct, the promotion girls policy and—not yet endorsed—medical principles. All these internal documents have a direct relation to the provision of healthcare.

healthcare advantages compared with the local staff.<sup>4</sup> Heineken's managers saw the company at that time as morally responsible for delivering a minimal set of living standards to employees, which, in countries with limited public healthcare, automatically involved a certain level of company healthcare provision. These feelings and perceptions arose from moral considerations grounded in a number of ethical principles and theories. Thus, from a deontological perspective, they based their decisions on the ethical responsibility or obligation to 'do what is right, just and fair and avoid harm'. According to Doctor Rijckborst,<sup>5</sup> this moral duty argument for providing healthcare had been the main basis for starting clinics in Africa in the late 1980s. This initial reaction coincides with the view held by some proponents of the stakeholder theory of the firm (Evan and Freeman 1983) who have insisted on the need to take stakeholders as ends in themselves rather than merely as means. In this case, considerations about intrinsic human dignity, and what people are entitled to, seem to have played a role, quite apart from any instrumental considerations that there may have been.

Although it does not seem that Heineken managers formulated the idea in this way initially, it needs to be considered whether utilitarian ethics also played a role. If this is the case, providing healthcare for employees in emerging countries would be the alternative that maximised utility; that is, provided most welfare for most people, regardless of costs and difficulties. The problem in taking ethical utilitarianism as the basis of the initial decision to start up an in-house healthcare service is that it might lead to questioning why Heineken does not do more to increase the social welfare of more people, beyond employees and their families, in the areas where it operates, or even beyond that. In his public speeches, Heineken CEO Jean-François van Boxmeer (Van Boxmeer 2007) showed acute awareness of the problem of limitations, which mainly came about through fear of intruding on governmental competences, the impossibility for a single company to tackle the immensity of the health problem in a whole country, and possible conflict with fiduciary responsibilities towards shareholders. In other words, one needs to take into account the environment of constraints in which actions take place; that is, how other stakeholders would be affected if Heineken went too far, how much they would be willing to accept, and where one can really be effective in one's efforts. It is possible that these types of calculation concerning the welfare of different groups and individuals affected by company decisions, as well as the total social welfare created, were taken into consideration by those people involved in the decision. But

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<sup>4</sup> Interview with H. Rijckborst conducted by Katinka van Cranenburgh, May 2007.

<sup>5</sup> Dr Rijckborst MD was international medical adviser for Heineken International from 1986 to 2007 and was responsible for defining a healthcare strategy at Heineken Headquarters and for building an infrastructure that provides healthcare for employees and families in sub-Saharan Africa. He also integrated healthcare strategy into the company's business strategy.

it is more likely that they began not long after the initial reaction, so it was a second step, after the actors' critical analysis of their own initial intuitions (Singer 2002).

Indeed, Heineken's managers did realise that they could engage in healthcare issues in the community, beyond employees and their families, but that this could best be done through partnerships with NGOs and governments. They also announced generous community healthcare support by Heineken through the Health Insurance Fund.<sup>6</sup>

At any rate, beyond ethical motivations, more was needed to develop a social strategy in a professional and integrated business system. Approaches based on economics or finance, corporate law, organisational theory and sociology all contributed to developing such a system. In the next section we will look at the consequences in the economic sphere which, after the initial considerations, currently set the tone for decision-making on healthcare in newly acquired Heineken operations. One can start by setting up clinics from a moral or ethical standpoint, but a business cannot run a full strategy of healthcare in developing countries based on ethical considerations alone.

## **Boundary questions**

Medical science and technology, expansion of multinationals in developing countries and increased communication and information technology have driven Heineken into questions about the limitations of the healthcare it should provide and how the boundaries are to be determined. How far do the responsibilities of a company with respect to its own employees stretch? Does this include their dependants, families or extended families? Or does responsibility go beyond the employee and his or her family? Does the level of locally available public care set the standard? Does a budget made available to an individual or collective indicate the boundary? And who establishes that budget; or should the level of care that has been established over time be sustained? In the past, local management's actions towards their employees were based on best knowledge and a sense of enlightened paternalism. Local doctors also contributed to this development. They concentrated on the patients' interests rather than on anything else (finance/budgets). Medical provision gradually grew over the years. Developments in medical science as well as in patient access to information (mainly via the Internet) also played a part. A Heineken nurse in Congo made this obvious to Heineken's headquarters by asking for an IVF (*in vitro* fertilisation) fertility consultation in Amsterdam as she had read on Internet that it was free. A human resources manager in Eastern Europe asked for HIV/AIDS medication for an HIV-positive colleague,

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<sup>6</sup> The Health Insurance Fund is a foundation that provides private health insurance to low-income groups in sub-Saharan Africa. The insurance covers quality basic healthcare including treatment for HIV/AIDS ([hifund.org](http://hifund.org)).

as she understood Heineken was treating patients for AIDS in sub-Saharan Africa. Rapid access to local information on a global scale consequently means Heineken is continuously reconsidering the boundaries of the care it provides (Van der Borcht *et al.* 2006).

As these new types of difficulty come onto the scene, utilitarian ethics increasingly come into play. There are more concerns about the feasibility of new demands and the consequences of new programmes. Even before taking economics into account, managers need to evaluate the social costs and benefits of decisions for society overall and for the different stakeholders in particular. This does not contradict the ideal of impartiality that is at the basis of duty-based ethics. According to this ideal, our own kin, and those closest to us, should not take precedence over unrelated and unknown third parties. Anything we see as ethically correct should be applied equally to all situations without discrimination. Heineken follows this ideal insofar as it explicitly declares that it would like other companies, as well as governments, to do more in relation to healthcare as expressed by its CEO as well as the former head of health affairs (Rijckborst 2007; Van Boxmeer 2007). In fact, it is Heineken's duty to encourage other companies and the government to do as Heineken does in relation to healthcare.

However, does the ethical demand for impartiality and universality make it Heineken's duty to expand its own healthcare programmes to non-employees, beyond family members? Is partiality towards one's own employees and their immediate families ethically justified? There are critics of impartialism who claim that we cannot be impartial in every aspect of life; that often the ethical thing to do as an individual is first to take care of those closest to you—your parents, spouse, children, friends. They contrapose two types of moral language, each with its own sphere (Walzer 1994), the thin language of impartiality and a thick language of partiality. From a company perspective, giving preference to one's employees can be understood as thick morality. However, according to utilitarian ethics it is also possible to find an impartial justification for partial preferences. Given the constraints in everyday life and the difficulties in foreseeing the consequences of all our decisions, it makes sense to privilege those on whom we have good reason to believe we can have more effect. Our contribution to general welfare is greater with some degree of partiality (Singer 2002).

Overall, the development of the Heineken healthcare system was initially not connected to the financial value of the company, and was not treated as a core factor for wealth maximisation. Moreover, it was not a one-off decision, but rather a gradual growth of investments. However, what do investors think about their money being spent on non-core business? They might adopt Milton Friedman's standpoint (Friedman 1970) that the only responsibility of business is to do business for the sake of the profits for shareholders. If so, they might think that Heineken is stealing from its investors by making expenditures that do not necessarily contribute to making profits. However, can healthcare provision also be a source of value for both the company and for its investors? What is the reaction of the rapidly



growing number of faith-based and socially responsible investors? Will they rank Heineken higher on their investments? What Friedman in fact wrote in his article was a defence of profit maximisation while ‘conforming to the basic rules of the society: both those embodied in law and those embodied in ethical custom’ (Friedman 1970). So investors might feel that providing medical treatment to employees and their families affected by AIDS in sub-Saharan countries is today among ‘the basic rules of the society...embodied in ethical custom’, even if not required by law.

This chapter will analyse the possible sources of value, including the effects on employees in general, managers in particular and consumer appreciation. Before we get on to that, we will dedicate the next section to the external factors or ‘outside-in linkages’, which refer to external social conditions that influence businesses (Porter and Kramer 2006). They refer not necessarily to external stakeholders, but to the significant forces of external conditions. Some scholars also refer to ‘triggers’ (Grayson and Hodges 2004). Here, we investigate the ‘triggering’ global health burdens that affect society as a whole and corporations in particular.

## **The global health burden**

The worrying global healthcare situation needs to be taken into account by the private sector when setting up a business strategy for working in developing countries. What does this mean for private sector decision-making on healthcare provision, for its boundary setting and for its communication strategy? Can there be more opportunities taken from existing healthcare systems such as Heineken’s? This section describes the global increase of chronic and infectious diseases and the expected consequences for businesses and management.

Chronic and infectious diseases spread through the world with enormous magnitude and speed. In both developing and developed countries the burden of global diseases is increasing rapidly. Chronic or non-communicable diseases such as cardiovascular disease, cancer, chronic respiratory disease and diabetes account for over half of the health problems in developing countries and almost 80% of the health burden in high-income countries. Infectious or communicable diseases such as HIV/AIDS, malaria and tuberculosis are the main burden in developing countries and to a lesser extent in the developed world (Suhrecke *et al.* 2006; WHO 2008). All studies on the impact of healthcare on micro, meso and macro levels reveal the global burden of diseases as a major challenge for world society. Africa is hit hardest (WHO 2008). Low household incomes, labour productivity and social mobility are resulting in lower labour supply and bringing forward retirement. According to Suhrecke *et al.* (2006), employers absorb a significant portion of the economic burden of diseases through absenteeism, presenteeism, reduced productivity and increased employee turnover.

Several researchers have produced negative forecasts for the private sector. In Gupta and Taliento's 2003 report entitled, 'How Businesses Can Combat Global Disease', the authors not only highlight the effects, but also the role that businesses need to play: 'Multinationals are directly affected by the global epidemic. It can't be controlled without them'. This statement calls on corporations to take some responsibility in sharing the global burden of diseases. The essence of corporate involvement is approached from the ethical, deontological idea that one should use the means at one's disposal to do good. Gupta and Taliento refer to the fact that corporations could provide intellectual property, marketing skills and public relations channels, pharmaceutical development, distribution and project management. In addition to these in-kind donations, multinational corporations also provide natural platforms where large target audiences can be assembled and addressed. The workplace can provide a critical access point for healthcare, prevention messages and treatment clinics. As an extension to the workplace, families of workers could be reached by organising special family days or communicating directly with the family. For example, enclosing disease prevention messages with workers' wage slips would result in health messages going directly to the residential address of the employees' family. While in some countries places of worship such as churches, mosques or synagogues fulfil such a role, the workplace is far superior in terms of scale and bounded structure. Although the trend of corporations outsourcing workers is growing rapidly, the possibilities of reaching communities via corporations remains a very attractive one for healthcare workers.

However, most corporations are not collaborating with healthcare workers or opening up their doors to them. The reasons vary. Gupta and Taliento (2003) regard the passive position of managers towards healthcare workers as the result of managers being unaware of the impact that their companies could have on the public health sector. He accuses managers of, on the one hand, myopically trying to pursue the benefits of globalisation while, on the other hand, not accepting any responsibility for helping to manage the global health crisis. Being an actor in the global markets implicitly means a moral, strategic and financial responsibility in combating global diseases. This insight is based on the assumption of long-term company strategies and visionary management. However, the performance management systems found in most corporations today lead to priority setting by managers based on targets that rarely exceed three-year periods. Managers 'rotate' jobs within companies at such a high speed (more than three or four years at one function is becoming less and less common) that, in combination with the bonus-performance structure and related evaluation systems, a manager is hardly ever called on to put any time or effort into disparate programmes such as contributing to disease control activities. Moreover, managers do not get the time to develop the necessary expertise that enables them to deal appropriately with non-core business matters. Even though it is highly likely that a large number of managers have a deontological background of 'wanting to do good', the top-down pressure for performance on volumes, sales and financials does not provide the manoeuvring space to fully take up these types of responsibility.

The impact of global epidemics on the private sector is increasing dramatically, correlating with the expansion of the private sector into the developing world and existing healthcare provision possibilities in the developed world. The impact of the burden of chronic diseases on the private sector is also increasingly alarming, correlating with the behaviour and expenditure patterns of workforces and the increasing technical possibilities in healthcare. The private sector, at least if it is to survive, cannot get away from a certain level of reaction and responsibility. The typical excuse of multinationals that they are not charitable organisations is simply not acceptable anymore. There is a growing awareness among global actors that dealing with global social misery is everyone's responsibility.

## **Effects on employees, managers and consumers**

While understanding the ethical considerations behind Heineken managers' investment in healthcare in the early 1980s, it is increasingly important to measure the value of private sector healthcare provision today and tomorrow. From among the various identifiable stakeholders, employees, managers in particular and consumers are being highlighted in this section. Although we realise a section could be written about all stakeholders, we have chosen employees, managers, consumers and—in a later section—investors, for the following reasons: employees have a huge personal stake as the public healthcare system in most emerging markets is poorly arranged and quality care is not widely available or comes at a high cost; managers are confronted more and more with responsibilities that go far beyond their core businesses, into activities that are more complex than what they were taught at universities or business schools;<sup>7</sup> lastly, consumers, certainly from Western countries, increasingly hold multinationals responsible for global catastrophes. Above all, consumers themselves are increasingly being held responsible for many of the world's disasters, and consumer groups for fair-trade products are growing rapidly.

## **Employees and their dependants**

As employees and dependants receive healthcare from Heineken, they obviously have an important stake in the valuation of the healthcare system. The question of whether the healthcare system will lead to increased company loyalty, or benefit recruitment for the local brewery has been measured in several ways. The World Business Council on Sustainable Development (WBCSD 2006) refers to recent research which indicates that companies that

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<sup>7</sup> During the first decade of the 21st century, universities and business schools have been increasingly paying attention to sustainability in management education. The Principles of Responsible Management Education (PRME) reflect the importance a growing number of universities and business schools (243 in July 2009) place on educating future managers in such a way that they not only have positive impact on the business of their future employer, but also on society ([www.unprme.org](http://www.unprme.org), accessed 16 December 2009).

invest in healthcare provision tend to benefit from increased productivity and morale, as well as from lower absenteeism and sickness costs. The WBCSD encourages corporations to provide healthcare for their employees by highlighting the positive experiences of Volkswagen, Unilever, Lafarge, Philips and others. Unpublished research carried out in the Heineken operating company in Pointe Noire, Congo (Van Mameren 2006), questioned employees and dependants on the importance of the healthcare system. This field research required both employees and their spouses to rank the reasons for working for the company. Respondents received a ten-point list to rank: 1) training and education possibilities; 2) salary; 3) healthcare; 4) status; 5) career perspectives; 6) other (specify); 7) international environment; 8) the product produced; 9) good working atmosphere; and 10) job security. The research showed that healthcare ranked first among spouses of employees, and second (after salary) among employees. Clearly provision of healthcare by Heineken is a major retention factor. Even if further research is also needed among trade unions—stakeholders who often have considerable power—it all seems to confirm the view that companies with a good reputation in social areas improve current employees' goodwill, which in turn may improve productivity and financial results.

## Managers

In their meta-analysis of the relation between corporate social performance (CSP) and corporate financial performance (CFP), Orlitzky *et al.* (2003) state that, first, market forces do not generally penalise companies that are high in corporate social performance, so managers can afford to be socially responsible. On top of that, if managers believe that social performance leads to corporate financial performance, they may actively pursue social matters such as healthcare provision, because they think the market will reward them for doing so. Top managers would then have to learn to use social performance as a reputational lever and be aware of the perceptions of third parties, such as market analysts, public interest groups and the media. Lance Moir (2007) suggests that the connection between social and financial performance should be clear to managers because of its impact on value drivers. If managers understand the impact of ESG on sales growth, operating margins, cost of capital and competitive advantage, they will better understand the opportunities and risks of social involvement. They would then have the financial arguments for shareholders to support acting in a responsible manner. This underlines the need to view business and society as being interdependent (Porter and Kramer 2006). This approach does not take the view of society solely as a group of various stakeholders, but emphasises the fact that there are triggers to incorporate ESG issues, both inside-out as well as outside-in (Grayson and Hodges 2004; Porter and Kramer 2006). The problem that a company such as Heineken faces is that managers are not trained or retained on aspects of ESG, or the effect ESG can have on the financial results. Also, the skills required to organise and implement this knowledge is not part of their training curriculum. Lastly, little attention is given to the

relation between social and financial performance in the leadership programmes of middle and top management.

## **Consumers**

African or Asian consumers within the community of the Heineken breweries do not have access to the Heineken healthcare system and might not be aware of the fact that it exists. The stake they have may be defined as indirect; if they are impressed by the ethics of the company behind the brand, then they might also show a change in consumer behaviour. This is actually not expected, as the concept of corporate responsibility in general in developing regions has not proved to be correlated to consumer behaviour. However, for consumers in industrialised countries this might be different. In Western countries, research has demonstrated (GlobeScan, 2009) that consumers' brand preference and brand loyalty is influenced by the company's ethics and social performance.

However, if one were to study the impact on Western consumer behaviour of Heineken's healthcare system in developing countries, the outcomes would most probably be nil. The reason for this is that consumers are not aware of Heineken's actions in this field; communication on this point has hardly ever been targeted to consumers. To measure if the healthcare system has value among Western consumers they would first have to be informed.

Heineken's healthcare system will also affect stakeholders other than employees and consumers. Local communities, governments, non-governmental organisations, international institutions, project financiers, shareholders in Heineken International and many more will also be interested in this aspect of the company's decision-making. In this section, we have chosen to highlight the stakes of employees, managers and consumers as these stakeholders are most directly connected with the financial performance of the company. In the next section we turn to the financial community; the shareholders.

## **Impact of socially responsible investors**

Socially responsible investment (SRI) has been an important trend in the financial markets since the 1970s when the first SRI mutual funds were created in the USA and later on in Europe. Some researchers point the fact that SRI is one of the major drivers of CSR (Cowton and Sparkers 2004; Scholtens 2006). SRI allows investors to reflect their personal values in their financial choices (Eurosif 2003). The origin of SRI comes from ethical investment (Laufer 2003). The objectives of ethical investors are to screen 'sin industries' from portfolio management, and exclude sectors such as tobacco, alcohol and pornography.

Nevertheless, the evolution of the demands of socially responsible investors during recent years has moved SRI to a new pragmatic approach. This new approach comes from the embedding of accountability and sustainability into portfolio management and financial analysis (Eurosif 2003). As a consequence, SRI strategies have moved forward to promote the adoption of socially responsible and sustainable practices among firms (Prakash Sethi 2005).

SRI fund managers have based new strategies on seeking new criteria to analyse firms' value and risk management (Barnett and Salomon 2006). Among these new strategies are the best-in-class approach, company engagement and shareholder activism. During recent years, the maturing of SRI is related to the integration of the analysis of the impact of the external environment in which companies operate, including the culture of the local communities, and the social and legal aspects that affect its operation and influence the consequences of its actions and decision (Colle and York 2009).

These new approaches have also changed the way in which SRI investors and managers engage with alcohol firms. Historically alcohol was often seen as a 'sin-stock' (Schwartz 2003). As mentioned above, when it comes to SRI, an immediate link with alcohol is made (Laufer 2003). In the past, alcohol-producing companies were often excluded from ethical portfolio management. Nevertheless, during recent years, alcohol firms have been analysed from a broader perspective. SRI managers evaluate the way a firm deals with the impacts of its product, on its stakeholders, and in the contingent environment in which they operate (Colle and York 2009). Beyond the exclusion, there have been efforts to justify and advance the financial results of those firms which are motivated by societal needs and concerns (Margolis and Walsh 2001).

In the Netherlands, the SRI issue in banking and financial markets dates back to the early 1960s (Scholtens 2007). Today, the Dutch financial market is build under a rich spectrum of SRI financial products and it is among the countries with the highest number of SRI products and services. The research done shows how Dutch investment funds take a passive approach to firm engagement and screening policies. Just two out of seven SRI mutual funds had an active dialogue with senior management and executives of firms in their portfolios and they are predominantly engaged with the Dutch firms.

Heineken is listed on the Dutch Stock Exchange AEX. Its shareholders comprise an extremely varied group of individuals and financial institutions: mainstream investors, socially responsible investors, active and passive shareholders, known and unknown shareholders and Heineken family member shareholders (through a holding company).

If alcohol were still a reason to exclude Heineken from the portfolios of investors, then there is little point in considering the socially responsible investor as a stakeholder. Recently, however, a change has taken place. In the Netherlands, only two out of ten large SRI funds have alcohol as an exclusion criterion (van Cranenburgh 2007). As also indicated in the VDBO (Association of Investors for Sustainable Development) report (VBDO 2005), all socially responsible investment funds in The Netherlands require alcohol-producing companies to comply with a minimum set of standards. Fund managers and analysts only discarded alcohol as an exclusion criterion after companies met the minimum criteria imposed on them.

When alcohol production and sales are linked to Africa, the issue can become even more sensitive. According to Karnani (2007), alcohol consumption is a financial drain for the poor. He refers to research that indicates that poorer people spend a greater percentage of their income on alcohol than the better off. Aside from the direct financial cost, he mentions the relation to the cost that alcohol abuse adds to other economic and social costs such as diminished work performance, health, accidents, domestic violence and child neglect. The criteria that alcohol beverage companies have to meet in order to be included in the previously mentioned Dutch SRI funds do not relate to geographical/GDP matters. In general, Heineken's Investor Relations Department perceives the alcohol sector as 'not an easy sector to begin attracting SRI' and this might explain the still limited growth of interest that Heineken takes in the SRI market<sup>8</sup>.

However, some growth of interest within Heineken for SRI has taken place since the inclusion of Heineken in the Dow Jones Sustainability Index (DJSI) in 2004. There was a consensus that SRI was important for risk reduction, and the strategy is therefore to ensure ranking in the DJSI World STOXX, FTSE4Good and other major SRI indexes.<sup>9</sup> At the current stage for investor relations, SRI is being 'followed with interest' and, although this interest is not formalised, Heineken is weighing up the opportunities and risks of social performance for its financial community. The interest and related strategy of the investor relations department with regards to SRI is restricted to: 1) risk reduction; 2) ranking in the sustainability indexes; 3) sharing the index rankings with mainstream shareholders; 4)

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<sup>8</sup> These points of view were expressed in the interviews conducted with Mrs Bergamini, investor relations officer and Mr Van der Merbel, Head of Heineken Investors Relations Department, in March 2007.

<sup>9</sup> The financial benefits of being included in these indexes cannot be quantified. Heineken lost its ranking in the DJSI in 2005 and retained it in 2006 but this cannot be directly connected to the low share price in 2005 and the high share price in 2006, as too many other factors contribute to the price of the shares. As with most aspects connected to ethical and social issues, costs can be calculated, but benefits are hardly quantifiable. For the investor relations (IR) department SRI is becoming somewhat more important. The IR department believes the reasons for SRI limited volumes is related to the high commission the SRI funds ask from their clients (approximately >3% compared with mainstream equity at about 1%), the lower liquidity (fewer companies to invest in due to social, ethical and environmental limitations) and the performance. IR notices an increase of performance by SRI funds but states that it remains below the performance of the mainstream and certainly the hedge funds averages.

complying with CSR reporting criteria; and 5) organising one or two SRI meetings per year. The number of investor meetings organised with the SRI sector is low compared with the 80 to 100 investor presentations and workshops held annually for standard investors. Besides all the above, the number of social questions raised during the AGM has grown over the last few years.

## **Socially responsible investors and the impact of Heineken's healthcare system**

As mentioned in the introductory part of this chapter, the social aspect of ESG is the least quantifiable and therefore the most difficult to measure and benchmark. Therefore, employee healthcare is not only a grey area for many business managers, NGOs or activists, but clearly also for investors. Given the impact healthcare provision has on stakeholders of the private sector (see section on the global health burden), combined with the expected and alarming impact the global health situation will have on corporations (see section on the effects on stakeholders, above), what are the risks, and what are the opportunities for investors in this field?

In formulating this question for the Heineken case, we focused our research on learning how healthcare provision developed by Heineken can lead to increased financial returns, attracting the financial communities that perceive the company as more reliable and less of an investment risk. In addition, we also focused on learning about the impact on SRI investors and faith-based organisations that strive to invest their money in businesses that serve their goals of creating a fair and sustainable world.

In 2007 the authors conducted a quantitative and qualitative research study among the SRI community. The research questions were divided into four areas. First, respondents were questioned on the existence of criteria for private sector healthcare provision in developing countries, and were asked to share details. Second, a short description of Heineken's healthcare provision in developing countries was given, and respondents were asked if they knew about the particular health programmes and how significant they thought they were compared with other health and safety aspects. They were also asked to put themselves in the position of investors in Heineken, and answer the following questions: 'If Heineken stops employee healthcare provision in developing countries, what would your reaction be?' and 'If Heineken's employee healthcare provision is conducted in some developing countries in which Heineken operates, but not in all of them, what would your reaction be?' A scale of possible answers ranged from 'disinvestment from Heineken' through 'shareholder activism' to 'no impact'. The third part of the questionnaire referred to the sources of information that the SRI community uses to understand private sector healthcare provision.



The last part of the survey related to investing in alcoholic beverage companies, Heineken in particular.

The research covered 14 fund managers and analysts (12 from Dutch institutions, one from a UK institution and one from a Belgian institution), five large investment funds and five rating agencies in the Netherlands. Half of them stated they either owned Heineken shares, or advised their clients to incorporate Heineken shares into their portfolio, 43% stated Heineken was not included in their portfolio and 7% did not want to disclose their status. To understand the value and the awareness of Heineken's healthcare system, 10 out of 13 respondents (77%) answered that they indeed were aware of the fact that Heineken has a programme for health in developing countries.

Respondents were asked to indicate their awareness of several aspects of Heineken's healthcare system in developing countries. Most of the respondents (69%) were aware of Heineken's health and safety programmes for employees, their employee healthcare provision and their employee health education programmes. Eight out of thirteen of the respondents (62%) were aware that Heineken discloses information on health and safety performance, and 54% knew that Heineken also provides healthcare for employees' families. Specific programmes covering selling beer safely for beer promoters<sup>10</sup> and the global Alcohol & Work programme<sup>11</sup> were known by fewer investors (38%) (see Fig. 1).

When asked how significant the aspect of employee healthcare provision in developing countries was in relation to the other above-mentioned health and safety aspects, the respondents answered that Heineken should emphasise this programme (see Fig. 2).

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<sup>10</sup> Selling Beer Safely (SBS) for beer promoters refers to a specific health and safety programme for (female) workers, either employed by Heineken or via a third party, to sell beer directly to consumers in bars, beer gardens and restaurants. The goal of SBS is to improve the working environment of beer promoters, to empower them and to educate them on health and safety matters.

<sup>11</sup> Heinekens' Alcohol & Work or Cool@Work programme is aimed at employees drinking responsibly, knowing the company's alcohol policy and understanding the (health) effects of alcohol.

Figure 1: Awareness of Heineken's healthcare programmes

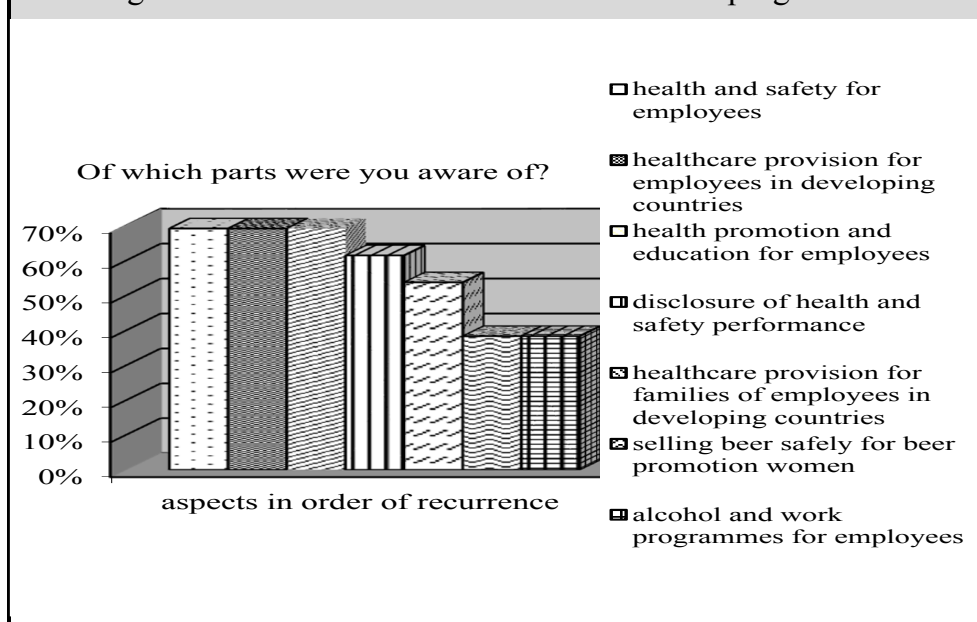
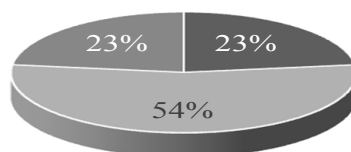


Figure 2: Healthcare provision versus H&amp;S aspects

How significant is healthcare provision for employees in developing countries in relation to other health and safety aspects?



■ Neutral   ■ Significant   ■ Very Significant

For Heineken it will be helpful to bear the findings in mind when setting up a healthcare strategy. The SRI community is very much aware of Heineken's healthcare system in general, and fund managers and analysts give high significance to Heineken's healthcare provision in developing countries. However, they are not aware of the specific employee

programmes covering responsible alcohol use at work (Alcohol & Work) and health and safety while promoting and selling beer (Selling Beer Safely). If Heineken wishes to take the growing SRI community seriously, it needs to communicate its efforts in the field of health and safety in such a way that the SRI community is aware and constantly updated. As we will see later in this chapter, SRI fund managers use this information for industry benchmarks, the results of which are used in the investment decision-making process.

## **SRI fund managers' decision-making strategies**

The general tendency within financial institutions to regard ESG as profitability factors will most probably lead to healthcare considerations being included in their investment decisions. Although environmental and governance measurements are currently much more quantifiable and more easily benchmarked than social factors, the 'S' in ESG will gain ground. Bernstein's research (Bernstein 2008) shows the increased range of data sources dealing with corporate social behaviour. Goldman Sachs, RiskMetrics, KLD and other labour and human rights investment researchers are in the constant process of refining databases, looking out for improved sources to fill the databases, and interpreting the data. All investment researchers include health and safety and employee healthcare provision as a social indicator.

This led us to ask what might stop investors incorporating healthcare provision into their investment decisions. The research concluded that one of the most important criteria for companies in relation to SRI investors is to understand the way fund managers make decisions when investing in listed companies, and how analysts rate organisations on social and environmental aspects. Literature on SRI indicates that there are many common practices in decision-making methodology: in/exclusion, benchmarking, competitive advantage and so on (Eurosif 2008). Examples of individual SRI-related financial institutions from the USA, the UK and the European continent provide insight into the details and differences between decision-making methods. Although most decision-making is based on fixed procedures, in the end it is the clients of the financial institution who decide whether or not to include the highest-rated organisations in their portfolio. As well as the procedural decision-making, some analysts use narrative information as input for their decisions. If a company communicates a certain 'best practice' in social performance, some analysts might then use this as a basis to create an industry benchmark on this particular issue.

Within SRI, health and safety is one of the major indicators in the various methods used, and - mainly for companies working in developing countries - healthcare provision is a focus area for investors. Expectations from increasing external pressure from governments (e.g. investment transparency regulations), and from international institutions (e.g. Millennium Development Goals) as well as the general health situation (considering epidemics such as

HIV/AIDS) form a basis for financial institutions to further define and expand their healthcare criteria. All indicators show the need for private sector companies striving to financially out-perform others to have a solid social, ethical and environmental performance. Health and safety is one of the main priorities and—for companies working in the developing world—healthcare provision is growing in importance.

## **Final considerations**

The objectives of this chapter were: 1) to understand motivators and ethical boundaries of Heineken's development and maintenance of a healthcare provision system in emerging markets; 2) to provide an insight into the impact of the global health burden on the private sector; and 3) to explore the relationship between Heineken's healthcare system and investment decisions of socially responsible investors.

First, by studying this case we have seen that there are ethical motivators at the start of healthcare programmes in the developing world, and that these are to be found in a deontological ethics perspective much more than in a utilitarian ethics perspective. However, the utilitarian ethics perspective comes to play an important role in dealing with issues that arise once the healthcare programmes start, and once one needs to deal with boundary questions. From this perspective it could be argued that privileging one's own employees and their families is not necessarily against the ethical ideal of impartiality. A company facing constraints and uncertainty of consequences should be focusing on the alternative that produces the best outcomes in terms of benefits for society overall, encouraging other actors to face up to their own responsibilities.

Second, we have seen that the impact of global epidemics on the private sector is growing dramatically, in correlation with the expansion of the private sector into the developing world and existing healthcare provision possibilities in the developed world. The impact of the burden of chronic diseases on the private sector is also increasingly alarming, correlating with the behaviour and expenditure patterns of workforces, and the increasing technical possibilities in healthcare. The private sector, at least if it is to survive, cannot escape certain reactions and responsibilities. The private sector will be confronted with healthcare matters that will affect its bottom line. This situation, as we have seen, affects different stakeholders –employees, managers and consumers – in different ways.

Third, one of the most important stakeholder groups in this matter (as in many others) is investors. Because of the attention given to social, ethical and environmental issues by investors, corporate awareness of ESG may increase. As health and safety is a major aspect in the 'S' in ESG, attention to healthcare investments is also likely to grow. There is a need for more proof that investing in healthcare can actually create value for the firm and lead to

financially positive results. Even though quantitative proof is not yet available, this qualitative example makes good business sense. It seems reasonable to presume that businesses will increase healthcare investments.

The results of our research on investors points to a correlation between Heineken's healthcare system and the potential market value of the company, which goes beyond the oft-mentioned considerable positive impact within the field of human resources (healthy employees, talent retention and employee motivation) and corporate relations (good reputation). In Heineken's case it has become clear that health and safety, and in particular healthcare provision, has an impact on stakeholders who are directly related to the company's financial performance: socially responsible investors. Although we cannot generalise, it makes good business sense to believe that this case can be a lesson for other companies.

The research concludes that there are two main challenges for a company such as Heineken in relation to SRI investors: first, to improve SRI investors' awareness of health and safety programmes for employees; and, second, to improve SRI fund managers' understanding of ESG decision-making processes. As we have seen, the general tendency within financial institutions to regard ESG as profitability factors will also lead to healthcare being included in their investment decisions. Although environmental and governance measurements are currently relatively much more quantifiable and more easily benchmarked than social factors, the 'S' in ESG will also gain ground, especially in terms of how to include health and safety and employee healthcare provision as a social indicator.

The combination of the worrying global healthcare situation, the increasing use of communication technology, the advance of medical science and the shareholder knowledge and awareness of healthcare effects on business will lead to a growing need for business managers to include healthcare issues in their business strategy. Arguing the need and the justification for private sector healthcare provision may shift between utilitarian and duty-based dimensions, but in any case, it will increasingly become part of business practice.

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## **INTRODUCTION TO CHAPTER 3**

Chapter 2 touched upon the ethical motivators around Heinekens healthcare program for employees and family members. We continue with the ethical decision making processes at Heineken in relation to the communities. Chapter 3 is a four-year organisational ethnography, covering the period from August 2008 to July 2012, describing and analysing the company's healthcare activities towards communities. It illustrates the dilemmas facing Heineken in meeting social challenges and stakeholder expectations in Sub-Saharan Africa. It also discusses the purpose, responsibilities and limitations of business involvement in social development. From a business standpoint, social challenges in developing countries differ greatly from those in nations where governments or markets effectively provide for the population's health needs. This chapter illustrates what led a multinational to set up a corporate foundation and focuses on three strategic and operational dilemmas it ran up against. The case discussion shows that the ethical issues intertwined with these dilemmas are best understood using a variety of ethical approaches. We also show that Ethics of Care are just as relevant to analysing CR and corporate philanthropy as the Deontological and Utilitarianism theories commonly used in business ethics.



## **Chapter 3**

### **Strategic & Moral Dilemmas of Corporate Philanthropy: Heineken in Sub-Saharan Africa**

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## **Introduction**

With rising numbers of corporations taking up quasi-governmental roles (Valente & Crane, 2010) in developing countries, managers are confronted with operational, strategic, and ethical decisions that were formerly the preserve of government. This study gives a glimpse into the black box of decision-making by the managers of a corporate foundation operating in Sub-Saharan Africa. In this case, the corporate foundation is closely linked to its sponsor, a large multinational beer brewer. The firm set up the foundation as a result of its growing role in society. Managers faced operational and strategic dilemmas concerning the host-countries' poor public healthcare provision and in coming up with effective solutions. Unique access to the Foundation Board's decision-making let us analyse management through the lenses of several Business Ethics theories.

This chapter falls into four parts. The first part is a literature review on problems encountered by Corporate Foundations ('CF' hereinafter) in general and in the developing world in particular. It discusses how these problems can be solved and what the underlying ethical, strategic and operational perspectives are. The second part covers methodology. The third part looks at Heineken and the Heineken Africa Foundation ('HAF' hereinafter) in Sub-Saharan Africa and their healthcare initiatives, highlighting three operational dilemmas facing the Foundation's managers. The fourth part contains the discussion, providing the authors' view on: the dilemmas found in the case; the boundaries of private and public responsibilities; the underlying ethical principles guiding managers when dealing with social issues. In the last section we review the main contributions of the paper, briefly discuss its limitations, and make suggestions for future research.

## **Corporate philanthropy in developing countries**

This section presents literature bearing on the status of and challenges in corporate philanthropy in general and the problems encountered by corporate foundations dealing with development aid, how these problems can be solved and the underlying ethical, strategic and operational perspectives.

### **Corporate philanthropy**

Literature on Corporate Social Responsibility (CSR) generally distinguishes between two approaches. The first calls for the integration of CSR programmes in the company strategy with a view to boosting both the business' 'bottom line' and to bringing social and environmental benefits for society at large. Rather than stressing companies' and managers' ethical duties towards society, this approach sees CSR as part of the drive for corporate competitiveness (Lee, 2008; McWilliams & Siegel, 2001; Wood & Jones, 1995). This has

been called ‘Strategic CSR’ (Baron, 2001; Burke and Logsdon, 1996). Craig Smith (1994) used the concept of ‘shared value’, in arguing that philanthropic and business units should join forces to pursue charity strategies that would give their firms a big competitive edge. More recently, Porter & Kramer (2011) stressed the nexus between corporate philanthropy and business strategies and linked social and environmental gain to profits. They argued that fostering this nexus could boost the competitiveness of both society and companies. Expectations go beyond just ensuring that firms’ products and services do not harm society to embrace the notion that firms should contribute to society’s general welfare and development (Valente & Crane, 2010). Either way, for many businesses, philanthropy and CSR are increasingly underpinning their business strategy. Growing corporate interest in CSR often stems from pressure from stakeholders —governments, NGOs, international entities, shareholders (both individual and institutional) and activists. Through stakeholder management, companies aim to enhance their reputations and maintain their ‘social licence’ to operate. Companies are expected to both comply with the Law and meet social expectations or duties (Van Tulder *et al.*, 2008).

The second approach is to see corporate philanthropy in terms of activities that serve society and entail little or no business gain—which could be called ‘altruistic CSR’ (Lantos, 2001) or ‘philanthropic responsibility’ (Carroll, 1991). In turn, philanthropy can also be conducted strategically, as highlighted by the Erasmus Centre of Strategic Philanthropy<sup>12</sup> (ECSP). The ECSP defines philanthropy as ‘voluntary action for the public good’ (Meijs, 2010). Meijs notes the impact of both philanthropic time and money, and mentions ‘controlled grant-making endowments from operating organisations’ as one of the planks of modern philanthropy. Whilst ‘corporate philanthropy’ is variously defined, we will focus on corporate foundations as institutions serving society for little or no business gain.

Discussing the challenges of CF implies a wider-ranging debate on corporate lobbying. Over the years, Arnoe (1980; 2007) has criticised CF for meddling in public policy and subverting the democratic process. Arnoe (2007) researched three large CF in the US and found that *‘whilst those foundations claimed to attack the root causes of ills of humanity, they essentially engaged in ameliorative practices to maintain social and economic systems that generate the very inequality and injustices they wish to correct’* (2007; 389). Arnoe found that the main criticisms levelled at CF are their lack of public accountability, tax breaks, impact, and the way they concentrate power into the hands of the few. According to Arnoe (2007), CF pursue their own ends in lending support to civil society actors. If this

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<sup>12</sup> The Erasmus Centre for Strategic Philanthropy (ECSP) aims to contribute to the overall performance and effectiveness of the philanthropy sector. ECSP addresses the challenges and needs of all philanthropic organizations in Europe, which annually contribute over €50,000 m to a large variety of projects. The services are backed by an academic research program focused on practical and impact-oriented issues within philanthropy. (<http://www.erim.eur.nl/research/centres/strategic-philanthropy/>).

were not damning enough, there is strong, growing criticism that philanthropic activities only benefit their sponsors. Smith (1994) noted various examples of social initiatives undertaken by corporations that make great PR but yield no social change. On the one hand, the private sector is under pressure to shoulder some of the world's burdens such as HIV/AIDS, poverty and reaching the Millennium Development Goals (to mention just a few). On the other, it is criticised for playing *Prima Donna* and/or pursuing its own narrow aims. Most people would agree that a private company or its foundation cannot and should not usurp government's role in providing public healthcare. However, over the last couple of decades there has been an unprecedented shift towards greater private sector involvement in achieving public goals (Maak, 2009; Valente & Crane, 2010). According to Kolk and Tulder (2002), multinationals must not only serve as role models in their specialist business fields in developing countries but also take a much more generalist, all-embracing approach. In countries where the State is weak and conflict rife, governance problems are the most pressing ones (Kolk & Lenfant, 2012). The absence of effective government bodies and the limited capacity of NGOs have put pressure on large multinationals to step into the breach (Valente & Crane, 2010). However, usurping government powers and crowding out the State may have negative consequences for the corporation. As Arnoe (1980; 2007) noted, foundations can be accused of interfering with national approaches to and governmental strategies for public healthcare provision. Where do the company's responsibilities end and the government's begin? The question remains open.

The criticisms that CF wield excessive influence and are ineffectual in achieving their social goals pose practical challenges for carrying out and managing philanthropic activities. Meijs (2010) identified two challenges CF face in trying to play a strategic role: (1) making philanthropic engagement more sustainable; (2) careful execution of operations, projects and activities to ensure they make an impact. Let us take a closer look at those challenges and review the pros and cons for different actors.

The first challenge relates to practical issues in managing philanthropic activities so they have a long-term impact and money can be harvested now and in the future (Meijs, 2010). Sustainability requires long-term commitment and tight project implementation and monitoring. Longer-term commitments may also encourage other donors to pitch in. In some sectors such as healthcare and education, financially self-sustainable business models have proven well-nigh impossible, especially in underdeveloped countries. When funding running costs of projects, a corporate philanthropy organisation would commit support to the recipient over a longer period of time. This makes life more predictable for recipients and makes it likelier their work will prove effective. Funding running costs means the recipient can focus on getting the job done instead of grubbing for money. It also gives recipients greater leeway and means they no longer have to fret about when the donor will turn the aid tap off (Barder, 2009). Arguments made against funding of running costs are that less funds will be available for new projects and that on-going funding on fewer projects could lead to



fewer local initiatives, and less local capacity-building. Fewer projects may dishearten company staff (nothing new to 'sell'). Commitment to long-term projects also limits a foundation's scope for manoeuvre (no way out). By avoiding funding operational costs, one can avoid the dependence often created by development aid (Valente & Crane, 2010). Yet many authors have also claimed that cross-sector collaboration is key (Kolk & Lenfant, 2012; Valente & Crane, 2010; Selsky & Parker, 2005), which implies longer term commitments.

Meijs' second challenge concerns the need for proper execution to increase operational effectiveness. One might reasonably think that strong involvement of corporations' subsidiaries raises the chances of proper execution and hence of project success. If a subsidiary is closely involved in the execution of philanthropic activities, a sense of ownership can develop — which motivates staff and spurs greater involvement. Furthermore, subsidiary managers and staff are often better-placed to grasp the local community's specific needs than are the foundation's managers, who wander from country to country or are headquarters-based. Therefore, on-the-spot managers and staff can play a vital role in making projects more responsive to local needs. Allowing local decision-making shows the donors' respect for local managers, cuts down on red tape and boosts local capacity-building (Barder & Birdsall, 2006). Arguments against local management of philanthropic activities relate to local human resource limitations. Furthermore, CSR in general and philanthropy in particular may motivate some business managers but not others (De Renzio & Woods, 2008; Rodrigo & Arenas, 2008).

Another problem is defining and measuring success. Philanthropy can have different functions (Frumkin, 2006) and its success has been measured in terms of efficiency as well as effectiveness (Gordon *et al.*, 2009; Stork & Woodlilla, 2007). One can express effectiveness in terms of social impact (Burdge & Vanclay, 1996; Latané, 1981; Freudenburg, 1986). It is a challenge to strike the right balance between spending on measuring results and keeping overheads low. Measurement of results helps when deciding strategy, funding, delivery, and communication. External pressure might be another reason for measurement, as aid organisations are increasingly pressed to demonstrate their effectiveness (Ebrahim & Rangan, 2010; Saxton & Guo, 2011; Murray, 2005; Carman & Fredericks, 2010). It could also help the recipient because rigorous reporting would attract future donors and allow them to see what works and what does not. Time scale is an important factor and scholars stress the need to measure long-term effects (Maas & Liket, 2011).

## **Developing Countries and Aid**

It is worth focusing on developing countries because multinationals are expanding there (Kolk & Lenfant, 2012) and many CF focus on development and aid (Arnove, 2007).

In the late 2000s, there was growing criticism, especially in The Netherlands, of ‘North-South’ philanthropy, charity and development aid (Easterly, 2001; Moyo, 2009; Murray, 2005; Carman & Fredericks, 2010). The general public, as well as policy-makers, questioned the effectiveness of pouring tax revenue and donations into development aid. Taxpayers and politicians are less willing to give aid when they cannot see results in far-away countries of which they know next to nothing. According to the critics, the millions of Euros lavished on aid did not raise GDP in recipient nations one iota.

There is fierce debate on the barriers facing developing countries and little agreement on how to overcome them. Many see weak local government as the cause for underdevelopment (Bauer, 1972), while others focus on: rampant corruption (Sachs, 2005); lack of control (Reinikka & Svensson, 2004); the failure of economic and political institutions (described in Acemoglu and Robinson’s book ‘Why Nations Fail’ (2012). Of one thing we can be sure — many parts of the world are cursed with: social, economic and political unrest; poverty; weak, unfair international systems; poor healthcare and education systems; woefully inadequate infrastructure. The developed world has been responding to these challenges in different ways.

The ‘from aid to trade’ credo gained ground in developed countries, particularly in The Netherlands and many dismissed aid and philanthropy as old-fashioned<sup>13</sup>. Yet multinationals have been doing ever more business in developing countries (London & Hart, 2004; Kolk & Lenfant, 2012), greatly broadening both the challenges and scope for corporate philanthropy. Businesses came under increasing pressure from society to help solve Earth’s social and environmental problems, especially in The Third World. The next section presents a case study of a corporate foundation set up in response to societal demands. Although unique and not generalisable, the challenges faced by this foundation will prove relevant for scholars and practitioners studying and pursuing corporate philanthropy in developing countries. Before looking at the case, we shall outline the methodology used in this study.

## Methodology

This case study is based on material gathered during a four-year organisational ethnography, covering the period August 2008 to July 2012. The ethnography was conducted by the first

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<sup>13</sup> After her visit to Ethiopia in March 2013, Dutch minister of Development Aid, Liliane Ploumen was quoted in *De Volkskrant* [Dutch newspaper] of the 2<sup>nd</sup> of March 2013 as saying that ‘trade works better than aid’, pointing out to investments leading to job creation, stable incomes and provision of food.

author in her role as a manager of the Heineken Africa Foundation (HAF), a position created by Heineken when HAF was founded. She had unique access to the internal and external stakeholders at both headquarter and subsidiary level. Her unique position spanning actors in the company and the whole chain from the corporate centre to a clinic in Africa provided both deep engagement with the project and full access to qualitative and quantitative data. The authors are fully aware of the risk of bias and did their best to be impartial. Even so, System Thinking Theory tells us that all researchers and authors are biased to some extent since they are all shaped by the system. Speaking of academe's role, Roome (2011) noted: *"We also become part of the system. This means I am not simply describing the system, rather I am 'constructing' the system."*

The study data comprised: internal documents from the Heineken Africa Foundation (16 Minutes of advisory and trustee board meetings; 9 country visit reports; 73 general documents; theory of change; impact measurement; thematic discussion papers; decision flowcharts; organisation & structure discussion papers; articles of association; governance descriptions; financial reports; quarterly project reports; audit reports; project submission, reporting and evaluation templates; publicly-available documents, as well as a video and published material from the Heineken Health Symposium of the 3<sup>rd</sup> of October 2007 (Heineken, 2007)). We also used a documentary on Heineken's healthcare provision in Nigeria by the Dutch TV programme *2Vandaag* as well as numerous publicly available documents from (research) organisations, media publications and websites.

Ethnographies can be classified under a spectrum of descriptors ranging from 'full observer', 'observer as participant', 'participant as observer' to 'full participant' (Hammersley & Atkinson, 1997). The scale moves from the so-called 'fly on the wall' observer to full involvement and subjectivity as participant in the activity under study (Hammersley & Atkinson, 1997). The data collection used for our case might best be labelled as a 'retrospective organisational ethnography', in which the first author's role could be described as that of 'full participant'. In his definition of ethnographies Van Maanen (1988: ix) includes the need for a recorded set of observations made *in situ*. In this case, the researcher kept notes of events and had access to meetings, reports and minutes and reflected on the social processes at play inside the company and HAF. While the role of a 'full participant' can create lack of distance between researcher and research subject, the supporting data and the joint analysis of the two authors of the paper strikes a balance between proximity to and distance from the subject. The case has been reconstructed and presented into a narrative form<sup>14</sup> and the identified strategic and operational dilemmas are

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<sup>14</sup> After collection of data a teaching case was developed primarily for business ethics and corporate responsibility courses at the undergraduate and graduate levels. It has been successfully used in class room settings in MBA courses. After each trial, the case was revised and detailed by the authors taking into account the feedback of both the students that participated as well as the course managers and professors in charge.

presented at the end of the case description. In the discussion section we use three ethical theories to provide further insight into these dilemmas as well as into the wider role of a multinational corporate foundation in a developmental context.

## **The Case**

In June 2012, after a few years of working on improving health standards in Sub-Saharan Africa, the Heineken Africa Foundation (HAF) was re-evaluating its strategy and performance. It faced three big dilemmas related to project funding, project monitoring and participation by Heineken subsidiaries. The answers to those dilemmas would help shape HAF's overall strategy and future. At the same time, discussion of these dilemmas could not be untangled from ethical issues on multinationals' responsibilities in developing countries.

Heineken had set up the foundation as a trust fund so that it would not be affected by the business' fluctuating profits. HAF's mission was improving healthcare in the communities in the vicinity of Heineken's subsidiaries in sub-Saharan Africa. Heineken had great confidence in HAF's trustees (supported by a committee of expert advisors) to make the right choices and was not pressing for an evidence-based or objective-oriented approach to planning. However, several external stakeholders (such as NGOs, governmental agencies, and academic institutions) were asking for a clearer view of the Foundation's impact and its stance on development.

Even though HAF was (and still is) a legally-independent entity, it depended on Heineken's subsidiaries for the execution of its activities and therefore any strategy had to carefully weigh up the subsidiaries' organisational culture, opportunities, and constraints. Decisions could not be taken lightly given that HAF clearly represented Heineken —a company with one of the most valuable global brands and a world-wide presence.

Given growing healthcare needs in the developing world and rising expectations of corporate behaviour, HAF had to make some strategic decisions. This meant choosing from among diverse options, each with its own implications. HAF faced three big issues: (1) the scope of its involvement in HAF-funded projects; (2) the level of involvement of the local Heineken subsidiaries; (3) how much should be spent on measuring impact. In seeking ways out of these dilemmas, more fundamental issues concerning business ethics and business taking up quasi-governmental roles emerged.

## **Heineken: History and Background**

Heineken was the world's most international brewer, with a wide network of breweries and distributors and was one of the leading brewers in terms of sales, volume and profitability. The Group owned and managed one of the top portfolios of beer brands with Heineken® as the main international brand but also with over 250 premium, regional, local and specialty beers and ciders. The story of Heineken started in a small Amsterdam brewery founded in 1867 by Gerard Adriaan Heineken. His vision of fostering a 'beer culture' among Amsterdam's elites quickly came to pass. Demand for high-quality premium beer grew apace wherever Heineken set up its breweries. The firm grew fast, first in The Netherlands, then in Germany, France, and other European markets. By the mid-20<sup>th</sup> Century, it had become an international company. The core values upon which it was built — consistent top quality, engaging people through their own culture, social awareness — allowed the company to renew itself again and again.

Early on in its history, the company was plagued with labour disputes as trade unions beefed up their shop-floor presence. The unions demanded wage increases and better working conditions. Stress on workers safety and health became the norm as The Netherlands moved into a new era of worker rights at the end of the 19<sup>th</sup> century. This early social awareness came to the fore during The Great Depression of the 1930s when Heineken decided no workers would be fired. The firm set up The Heineken Staff Foundation in 1937 to give workers hit by the slump a helping hand. This initiative lasted and adapted to workers' changing needs over time. At the end of 2011, Heineken had 70,000 staff working at 140 plants in 71 countries.

Heineken's international expansion was boosted by buying up local breweries. The firm forged long-term, deep-rooted relationships with local communities so as to ensure sustainable sourcing, production, distribution, and business success. Heineken invested in Asian, Latin American and African countries despite the economic problems many of them were going through at the time. By the end of 2010, these regions represented 68% of the company's beer sales and 57% per cent of its EBIT (Earnings Before Interest and Taxes). These investments continued to be part of an overall strategy for growth.

Heineken had been listed on the Dutch Stock Exchange AEX since 1939 and its shareholders comprised an extremely varied group of individuals and financial institutions: mainstream investors, socially responsible investors, active and passive shareholders, known and unknown shareholders and Heineken family member shareholders (through a holding company). In 2011 its revenues came to €17,123 million<sup>15</sup>.

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<sup>15</sup> [www.annualreport.Heineken.com](http://www.annualreport.Heineken.com) (visited 19 October 2011)

## **Heineken in Sub-Saharan Africa**

Heineken was one of the few multinational companies that had enjoyed success in Africa for over a hundred years. The company owned breweries and had substantial market positions in several African countries. As well as brewing a variety of local brands, it also brewed and exported the Heineken® and Amstel® brands across the region. Most of Heineken's African subsidiaries also produced and marketed soft drinks that appealed to local tastes.

As of 2011, Heineken operated in 15 African countries, out of which 11 were in Sub-Saharan Africa. The African markets were a significant source of revenue for Heineken — €1,900 million in 2010, making up almost 13% of total revenues.

The economies of these countries were growing fast while those in traditional markets (such as Western Europe) were sluggish. So Heineken focused more effort on boosting sales in the new markets. However, given the fragile socio-economic conditions in several sub-Saharan countries, Heineken found itself acting as both an agent of social and economic change and decided to earmark resources so that it could fulfil these roles.

Heineken invested in fostering responsible business policies throughout its African subsidiaries. Areas covered included moderate drinking, ethical standards, and responsible sourcing. All CSR managers in the Sub-Saharan region received training in Heineken's CSR policies and had a corporate mandate to train staff in CSR at their respective subsidiaries.

Several of the Central and West African countries where Heineken operated were amongst the world's poorest nations. Major challenges included infrastructure, healthcare, and education in Burundi, Rwanda, Democratic Republic of Congo, Congo, Sierra Leone, Nigeria, South Africa and Namibia. Heineken's CSR policy mainly focused on healthcare (public healthcare system is very limited in these sub-Saharan nations and private care is very dear).

## **Heineken's Healthcare System**

According to a study by Bloom (2006), in countries with an HIV-AIDS prevalence of between 5% and 20%, less than half of companies in Sub-Saharan Africa said they had an HIV policy in 2005. Only 26% of the corporations that had HIV policies provided anti-retroviral treatment to their workers in 2005 (Bloom *et al.*, 2006). Most employers chose to refer staff to government-supported healthcare programmes, whose coverage and implementation were woefully inadequate. A sense of moral duty sparked Heineken's healthcare initiatives in Sub-Saharan Africa. The consciences of Dutch expatriates were

pricked when they saw they enjoyed huge healthcare advantages compared with local staff. Heineken's managers at the time felt the company should guarantee a minimum quality of life to staff. In countries with limited public healthcare, that meant providing company healthcare (Van Cranenburgh *et al.*, 2010). Heineken's subsidiaries increasingly provided health services to ensure healthy, motivated staff. This was especially important in many African countries where HIV-AIDS was (and is) endemic.

Besides moral considerations, Heineken also grasped that a thriving business needed a healthy workforce. Proper healthcare can slash: sick leave, replacing workers who are ill, training new people, hospital fees, funerals, paying for 'alternative medicine and so on. Having an in-house healthcare service also cut down on absenteeism arising from the need to trek to outside doctors, wait at their clinics, etc. In-house healthcare service means workers stayed on the spot — something that facilitated quality control, supervision, and continuous improvement. It might also slash staff turnover, boost productivity and morale and make it easier to recruit workers<sup>16</sup>. Furthermore, responsible investors were showing growing interest in Heineken's health initiatives and how they fitted into the company's strategy (Van Cranenburgh *et al.*, 2010). As a result, health and safety-related indicators were incorporated into managers' bonus system. Heineken's healthcare system was formalised in the 1990s when its network of in-house clinics with their attendant doctors, nurses, lab technicians, midwives and pharmacists became part of Heineken's regular staff.

Having set up the healthcare system, Heineken needed to decide how far it was willing to go. Some internal and external actors felt that the system widened the gap between the 'haves' (those with access to the health benefits — staff, their spouses and children) and 'have-nots' (outsiders living in nearby communities). Yet others considered general health care to be a government responsibility. Given stakeholder pressures, new social demands (mostly by NGOs and international institutions), and government failures, there seemed to be a need to review the boundaries of Heineken's healthcare system. Widening the health gap between the haves and the have-nots was an unwelcome result. If Heineken wanted to bring prosperity to local communities, it needed to find a way of helping those living close to the company's plants but who were denied the benefits enjoyed by Heineken staff.

Heineken's managers realised that they could tackle broader healthcare issues through partnerships with NGOs and governments. The first move in this direction was in 2008,

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<sup>16</sup> Unpublished research carried out in a Heineken operating company in Congo, questioned employees and dependents on the main reasons for working for the company, healthcare was the third most important reason after training and salary.

when Heineken announced generous community healthcare support<sup>17</sup> through the Health Insurance Fund set up by PharmAccess International<sup>18</sup>. As health became a bigger part of the corporate agenda, agreement was reached on the need to address health issues in local communities. Heineken established HAF to this end.

### **HAF's beginnings and its relationship with the company**

Heineken set up HAF at the end of 2007 as an independent legal entity to administer a €10 million company-funded endowment. In 2010, Heineken made another €10 million donation. By creating an endowment fund rather than providing grants based upon profits and losses, Heineken aimed to prevent short-term economic conditions derailing their long-term commitment to improving the quality of life for local communities. HAF's mission was to improve the health of those living in Sub-Saharan African communities where Heineken was active. Its articles stated that it was to pursue its aims by funding health-related projects to be implemented by local partners. The model used Heineken subsidiaries given their considerable local experience, knowledge, and cultural understanding — all vital factors for partnering with local NGOs. It was also a way of keeping overheads low. Subsidiaries would also be better-placed to judge the most effective responses in each local setting and decide whether to lobby government for better public healthcare or enlist its support in private health initiatives.

Heineken gave HAF's three-member Board of Trustees free rein to take decisions and follow them up. Two of the Board members had previously worked at Heineken. An independent Advisory Board with the requisite knowledge and experience in tropical medicine, NGO work and development initiatives in Sub-Saharan Africa was set up. The Advisory Board and Board of Trustees often held joint meetings. HAF's new manager had worked at Heineken headquarters for over thirteen years, of which the last eight had been spent in the Global Health Affairs department, implementing workplace HIV/AIDS and Health and Safety programmes in Africa and Asia. The first projects were approved in the second half of 2009.

The relationship between HAF and Heineken was taken further through the "Brewing a Better Future" plan, launched in 2010. With this 10-year sustainability agenda and goals, Heineken set out the role it should play in creating a better future for local communities. The agenda focused on improving the environmental impact of brands and businesses,

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<sup>17</sup> Support was given through a €500,000 donation

<sup>18</sup> PharmAccess International is an international organization fostering access to affordable quality basic health care in low-income countries in Africa ([www.pharmaccess.org](http://www.pharmaccess.org))



empowerment of employees and communities and promoting drinking in moderation or, as it was called by the company, “responsible consumption”. There were twenty three programmes altogether, covering the three focus areas. Each programme had its own set of aims and measures for the next ten years. Heineken positioned healthcare provision and HAF as part of the ‘Heineken Cares’ area (see Table 3.1) within ‘Brewing a Better Future’. HAF’s remit fitted nicely into the aims set out in the ‘Heineken Cares’ chapter.

**Table 3.1: Heineken Cares. The strategy of “Brewing the Better Future”**

1) Procurement through local sourcing for a majority of agricultural products, because locally produced ingredients shorten the supply chain and reduce risk which is both beneficial to local farmers and suppliers as well as for Heineken.
2) Commitment to sustainable agriculture, which is key given that beer is produced from natural products. Heineken needs sufficient, high quality raw materials, which is why it views farmers as strategic partners who must be paid a fair price.
3) Environmental Impact Assessments should be conducted in order to measure the company’s economic contributions or potential negative impacts to the communities in which it operates. The results should enable Heineken to take informed decisions in order to maximize positive impacts.
4) Focus on health: Heineken aims for all employees and dependents to have access to basic medical care, it understands that doing business in developing countries requires different skills, thinking, approaches and services than in developed countries which is why it strives to combat the endemic poverty diseases (malaria, tuberculosis and HIV/AIDS) in order to guarantee the continuity of its operations in these countries.

**The HAF projects**

Between 2009 and June 2012, HAF made eight calls for proposals. It had thirty-six projects approved with a total budget of €3.5 million. Local Heineken subsidiaries (partnering with NGOs and/or local governments) submitted funding requests to HAF. The subsidiaries provided a broad spectrum of support to local partners in the form of expertise in the purchasing, management, and financial fields. All projects had to meet HAF’s qualifying criteria (Table 3.2).

**Table 3.2: Heineken Africa Foundation's Initial selection criteria**

<i>1. The proposal must be directed at serving the health of the people who live in the environment of a Heineken Sub-Saharan African organization.</i>	The geographical criteria of operating only in the near surrounding of Heineken organizations was made (1) to engage with the community surrounding the local operation as part of a wider stakeholder engagement approach, (2) to form a 'connectedness' with the local employees, and (3) to gain reputational benefits for the local organization.
<i>2. The proposal must include a partnership between the local Heineken operation and a non-governmental or governmental organization.</i>	This criteria was added as a means to (1) ensure availability of expertise, (2) diminish resources needed from the local Heineken operation, (3) build local capacity with the argument that communities must be end-responsible for their healthcare, and (4) take advantage of the resources available at Heineken breweries that could be used for maximizing the project's impact.
<i>3. HAF's exit from the project must be guaranteed and the proposal has to demonstrate how the project will continue to run after funding ends.</i>	The aim of this criterion was two-fold: (1) to see sustainable continuity of the project, and (2) to ensure a clear conclusion of HAF's direct involvement in the project (between 1 and 3 years).
<i>4. The project must be able to demonstrate that it can have an effective positive impact.</i>	This criterion relates to the expected results of the projects for affected individuals. Clear metrics had to be established from the offset to understand what will be measured and how.
<i>5. Commitment of the General Manager of the local Heineken operation is required.</i>	This criterion was included to (1) increase the chances of success because of the involvement of Heineken local staff, (2) promote employee motivation, and (3) guarantee close levels of monitoring and control.

HAF had also developed tools and services for healthcare project design, application, approval, implementation, and communication (and, to a limited extent, for their monitoring and evaluation). Projects included anti-malaria campaigns, local production of bed mosquito

nets, HAART resistance detection<sup>19</sup>, building of clinics, training of medical staff, medical care and health promotion for farmers. HAF stressed local capacity-building in the form of training and education support for public healthcare staff. HAF preferred projects in smaller cities or villages and funding requests had to be directly linked to the community’s specific needs. Apart from involving Heineken subsidiaries and forming partnerships, one of the criteria was that the projects had to be self-sustaining after HAF bump-starting. The average funding was €100,000 per project and the average timeframe about three years.

In the first stage, HAF focused on setting up its structure and qualifying criteria. The next stages covered ensuring impact through projects with a clear end-point and on developing an attractive project portfolio (see Table 3.3). A project in Burundi stood out as an example of a HAF project. With €80,000 in funding and in partnership with the government and the local community, the project sought to build and equip a health centre and dispensary, and stock a pharmacy in Bugendana in the rural province of Gitega. This project was considered appropriate as there was no primary health care facility serving this community and the HAF-funded facilities would allow the government to provide local primary health. The land for the health centre and the salaries of qualified health staff were to be provided by the government. The next challenge was to define the period over which HAF would provide clinic supplies and who would be responsible for keeping it stocked in the future.

Another project was the ‘Mister Sister’ project for providing healthcare services to remote, rural farming communities in Namibia. It was a partnership between HAF, Namibia Breweries Limited<sup>20</sup> and PharmAccess Foundation Namibia. HAF agreed to spend €225,000 for three mobile clinics providing primary healthcare services for scattered settlements. The core target group for this programme was farmer hands and their dependents in rural areas; their employers contributed through an annual subscription and premium contributions. In addition, communities in resource-poor settings, pensioners, orphans, and vulnerable children on the clinic’s route were also covered by the scheme through additional contributions made by The Ministry of Health, donors and corporate sponsors.

**Table 3.3: Summary of running HAF projects (per June 2012)**

#	Name	Country	Type
1	HIV prevention	Congo	HIV/AIDS

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<sup>19</sup> HAART is “Highly Active Antiretroviral Therapy” for people diagnosed as HIV positive.

<sup>20</sup> Namibia Breweries Limited is a joint venture between Heineken and the Ohlthaver & List Group of Companies.

2	Kill Malaria Dead	Nigeria	Malaria
3	Community Health Centre	Burundi	General
4	Bednets to Control Malaria	Rwanda	Malaria
5	Blood Bank Unit	Dem Rep of Congo	Sickle Cell
6	Prenatal Equipment	Sierra Leone	Paediatric
7	Benets	Nigeria	Malaria
8	VVF Clinic	Nigeria	Fistula
9	Midvaal Mobile	South Africa	Mobile Clinic
10	Mister Sister	Namibia	Mobile Clinic
11	Panzi Paediatrics	Dem Rep of Congo	Paediatric
12	St Gerard	Nigeria	General
13	VVF Training	Nigeria	Fistula
14	SCF Haemoglobin Laboratory	Nigeria	Sickle Cell
15	SCF Genetic Counselling	Nigeria	Sickle Cell
16	SCF Prevention of Stroke	Nigeria	Sickle Cell
17	Blood Transfusion Centre	Dem Rep of Congo	Sickle Cell
18	Wellington	Sierra Leone	General
19	Community Health Centre	Nigeria	General
20	Farmers & Families Health	Sierra Leone	General
21	King's Hope	South Africa	General
22	Bonnes Routes!	Dem Rep of Congo	General
23	PASER	Nigeria	HIV/AIDS
24	Ergo therapy Simama	Dem Rep of Congo	Physiotherapy
25	Jaundice in Babies	Nigeria	Paediatric
26	Radiography Equipment	Nigeria	General
27	Eziama Health Centre	Nigeria	General

28	Physical Rehab Christina	Burundi	Physiotherapy
29	CT Scan St Gerard	Nigeria	Trauma care
30	New Storey SCA clinic	Dem Rep of Congo	Sickle Cell
31	Hygiene for Health	Dem Rep of Congo	Hygiene
32	Managing HIV in workplace	Burundi	HIV/AIDS
33	Dialysis Machines	Nigeria	Kidney
34	Traumatic patients wards	Dem Rep of Congo	Trauma care
35	Finkele Health Centre	Ethiopia	General
36	Teachers against sexual abuse	Dem Rep of Congo	Sexual health

### **HAF's dilemmas**

After getting some results on project implementations, the HAF boards reflected on HAF's activities and *modus operandi*. HAF would need to pin down what constituted effective use of its endowment fund and how to get 'the most bang for the buck'. Three main dilemmas were discussed by The Board of Trustees and The Advisory Board.

#### *Dilemma 1. The autonomy of HAF-sponsored projects: Should HAF fund operational costs?*

The first dilemma bore on the long-term autonomy of HAF-sponsored projects. HAF's goal was to select projects likely to be financially self-sustaining in one to three years. However, in many countries where HAF operated, sustainable business models were a pipe dream. In highly-impovertised areas such as the Bugendana region of Burundi, it was unrealistic to expect local villagers to pay for medical treatment. In addition to adults not buying medicine, the HAF-funded Bugendana clinic was making losses on medicines because the national regulations stipulated free medicine for children under five. HAF had delivered the clinic, the equipment, and the first batch of medicine and the local government paid staff salaries. However, the recurring cost of medicine meant the clinic would never be financially self-sustaining. Given this context, it was unclear whether HAF should stick to its initial criteria of selecting self-sustaining projects or agree to fund operational costs and if the latter, for how long. One possibility could be to make the criteria more flexible and categorise countries and projects as short-term funding versus long-term programmes. On the other hand, adopting flexible criteria could add complexity to the organisation and cause grievances.

The HAF Board was split on the issue. One option was to identify one or more local and international NGOs that HAF could support on a long-term basis. However, this option

might make Heineken subsidiaries lose interest given that they would play a lesser role in drawing up projects and selecting partners. Less commitment by subsidiaries was not to be taken lightly. Another option was to look at projects that had been shown to work (for example, primary health clinic projects) and replicating them where possible and needed. Lastly, the boards also had to consider whether they would accept project ‘lock-in’ given that subsidiaries’ capabilities and long-term presence easily outstripped those of governments and NGOs. In 2012, HAF chose to make more commitments to fund running costs and prolong successful partnerships.

*Dilemma 2. The level and type of involvement of the local subsidiary: Should HAF projects become compulsory and part of the measurement of local management performance?* The second dilemma concerned the level and type of involvement by subsidiaries in project selection, implementation, and monitoring. In most countries, HAF depended on Heineken subsidiaries and their interest, expertise, knowledge, and motivation. This reliance may have caused delays but it also ensured quality and professionalism. Moreover, HAF costs could never have been so low without subsidiary support. Some subsidiaries felt strong ownership of their HAF projects, while others had to be pushed to take the next step, act, report, and communicate. Although all managers wanted ‘their’ projects to succeed, managers had plenty of other duties to perform and HAF projects were not the highest priority.

The Board had to bear in mind that HAF activities were voluntary. Making HAF initiatives compulsory might alienate leaders in the subsidiaries. Yet it was unclear how and where to boost commitment. Some of the questions that needed answering were: Should Heineken include project indicators in calculating bonuses as a way to ensure commitment?; Would such bonuses lessen motivation to take part in socially-oriented projects?; Could brewery managers handle the added burden of monitoring social projects and do so competently?; Should they be put in full charge of the funding (which would mean changing from a single corporate foundation structure into several local foundations adopting local criteria)? In 2012, HAF carried on its initial strategy, leaving the decisions up to subsidiary management and providing support rather than exerting pressure.

*Dilemma 3. The difficulty in defining and measuring success: How long should project performance be measured and who should do the measurement?* The third dilemma was the difficulty in defining and measuring success. An important criterion for project selection was that the project had to have a positive impact on healthcare. Yet with the pressure to keep overheads low and with a limited budget and time frame, to what extent should HAF spend time and effort on measuring performance? Considering the cost and resources involved in monitoring results, what needed to be measured, if anything? Measuring the outputs (for example, the extent to which a clinic building meets quality standards and time frame), outcomes (for instance, can one detect improved care or behavioural change?) and impact (for example, has malaria been reduced in the targeted community?) would imply a

great deal of research and resources. If the Board decided to measure all levels of output, outcome, and impact, it would probably mean the kind of randomised control trials used by medical and development research teams (Banerjee and Duflo, 2011). Besides the depth of measurement, there was the issue of time frames and (in)dependence. If HAF decided to engage in long-term projects, should it work with independent external research organisations to develop different measurement methodologies and tools for each kind of project?

HAF had to ensure that its work improved local healthcare while avoiding over-burdening Heineken headquarters and its subsidiaries with measurement requirements. Even so, keeping overheads low (the aim was under 5%) only made sense if the rest of the money (95%) was well spent. In 2012 a tool was introduced to measure projects at the levels of output and outcome.

## **Business Ethics Discussion**

This case outlines the main challenges arising from the growing societal role of corporations when operating in countries and regions characterised by weak governance. Heineken considered the poor public healthcare system as a significant problem in the developing countries it operated in (a problem worsened by epidemics such as HIV/AIDS). This posed a challenge requiring a different approach to the so-called 'Strategic CSR', which looks for opportunities to combine social performance and economic competitiveness. Rather, the situation led the company to engage in what has been called 'Direct corporate humanitarian investment' (Dunfee and Hess, 2000) (which also differs from 'passive corporate philanthropy' in that more than just money is given towards a good cause). This case reflects the practical challenges for managing philanthropic activities as stated by Meijs (2010): ensuring sustainability, execution of activities, and optimisation of the foundation's work. The HAF managers agreed to tweak their strategy to allow for longer-term commitments, flexibility on subsidiary involvement and measurement of success in terms of outcomes and outputs rather than impact, as described in the case.

HAF also had to think about the effectiveness of aid to developing countries — something that is widely debated. The HAF manager received requests from various stakeholders (such as NGOs, governmental organisations or academic institutions) to furnish information on the Foundation's impact and to share its views on development. In March 2011, the Dutch State Secretary for Economic Affairs, through The Netherlands' Social and Economic Council (SER), asked HAF to share its vision on how Dutch businesses foster economic development that leads to social progress. Meanwhile, the Erasmus Centre for Strategic Philanthropy asked if HAF measured its philanthropic activities and demonstrating the

impact of its activities. These requests challenged HAF to find good arguments to justify its allocation of resources to stakeholders and society at large.

In addition to operational and strategic decisions, this case study begs the broader ethical question as to the nature of CSR and corporate philanthropy and how a multinational should act in a developing country with grave health problems. Given the absence of institutional solutions, what are the ethical principles driving Corporate Foundations to improve social conditions in the countries in which the mother company operates? The answers proposed here link the case with two ethical theories commonly used in the field of business ethics: Deontological Ethics and Utilitarianism. In this paper, we contribute a third —The Ethics of Care. We shall illustrate that Ethics of Care is just as important when applying business ethics to corporate philanthropy. The discussion based on these theoretical frameworks is not exhaustive, since other perspectives could be added. Yet the preliminary discussion in this paper shows the need to adopt different ethical approaches if one is to fully grasp what underlies the challenges faced by Heineken and HAF in Sub-Saharan Africa.

## Deontology

Let us first consider Deontology or ‘Duty Ethics’, which has been used by various business ethicists (Bowie, 1999). It argues that the moral value of one’s actions does not come from its rewards or outcomes (such as higher profits, social approval, reputation, or the happiness and self-satisfaction of those making the decisions). Moral judgement should not be influenced by an external party (for example government, NGOs) but rather stem from the moral principles of agents (in our case, managers or the corporation as a whole) (Smith & Dubbink, 2011). Deontological Ethics, and in particular Kantian moral philosophy, also contends that the moral value of one’s actions lies in making decisions according to the moral law that says one should assess one’s conduct “*in the light of it becoming a principled way of living that others also accept*” (Kant cited by Smith and Dubbink, 2011, p. 209). In this case, the expatriate managers of Heineken working in Sub-Saharan subsidiaries felt that the difference between their access to health care and that of local employees and surroundings was at odds with their moral principles and that something had to be done. The workplace health provision programme (the first stage in Heineken’s scheme) did not arise from outside pressures to change the *status quo*, nor did it come about because either the firm or its managers hoped for any reward. It stemmed from the Deontological ethics of expatriate managers.

Boatright (1999) however argues that managers cannot operate from a moral perspective “*because the economic aim, contractual origin, and bureaucratic nature of business conflicts with the individual motives and sense of responsibility required for genuine moral management*” (Smith, 2005, p. 130). Our case provides a more optimistic view that managers



and firms will act in a morally responsible way where systematic institutional rules and explicit contracts are incomplete and do not guide decision-making. Kostova and Zaheer (1999) distinguished between the legitimacy of the corporation as a whole and that of its parts, while Smith (2005) stated that addressing the moral failures of business requires morally-responsible managers as well as institutional solutions—that is to say, both 'moral markets' and 'moral managers'. Personal values have been found to make a difference in the adoption and implementation of CSR by companies (Hemingway & MacLagan, 2004). For HAF, the ethical dilemmas became apparent at the individual and organisational levels, whereas legislation and the institutional context in general did not provide clear answers.

The case also shows that Deontological Ethics is not meant to provide an unthinking application of principles to all given circumstances. Rather, it requires *"the creative use of judgment to apply principles in specific cases to render a decision about what principles mean and how they interact with one another in the midst of particular circumstances"* (Smith and Dubbink, 2011, p. 210). Heineken's expatriate managers had to spend time and resources to put their views on healthcare into practice, think and reflect on those views and, at a later stage, how to apply them to local communities. However, even if Deontological grounds can explain that managers feel that something needs to be done by the firm in difficult social contexts, it does not seem able to give justifications about how much the company needs to do. Other ethical perspectives can be helpful here.

## **Utilitarianism**

Utilitarianism is often used to discuss the ethical grounds of CSR and Corporate Philanthropy and is one of the main theories used in the business field (Beauchamp *et al.*, 2012). In Utilitarianism, the guiding principle for any decision by individuals, governments or private organisations is the maximisation of overall good or happiness in quantitative terms. There is a debate within Utilitarianism as to whether the maximisation of happiness necessarily implies strict impartiality as to the beneficiaries. Some argue that it is consistent with a duty to help one's nearest and dearest first or, put another way, that there is an impartial justification for partial affections (Singer, 2002). So should corporate programmes be limited to staff or be extended to the communities where the firm operates and in which people's needs may be greater than those of company staff and their families? Would this entail costs and difficulties that would endanger the 'good' or utility provided by the company as an economic agent? Might it help mitigate the firm's business risks? How can these different ways of bringing about social good be reconciled? Our case study will not settle the issue one way or the other but it does underscore why it is hard to overlook the sum of the consequences of company actions. This is despite the fact that the initial workplace healthcare provision initiative taken by Heineken's expatriate managers was not based on any calculation of costs and benefits. At any rate, the Utilitarian perspective became

more evident in addressing HAF's dilemmas. The arguments on funding running costs and on the level of autonomy for HAF-sponsored projects took place against the need to strike the right balance between inputs and outputs and to think about the boundaries of HAF's involvement. The extent to which management in subsidiaries should be involved was left up to those on the spot, who knew what other pressures they were facing. The measurement issue in our case study is an example of a debate within the utilitarian perspective. Thus, Utilitarianism bore on many aspects of the discussion of HAF's operational and strategic dilemmas.

Philosophical literature has discussed the problem that ethical theories make unreasonable demands on individuals, which they can never wholly fulfil (Williams, 1981, pp. 17-18). In business ethics, there are not only limits in terms of costs but also of potential conflict with the firm's fiduciary responsibilities towards shareholders. In addition, a corporation should bear in mind where it could most effectively focus its efforts. Given daily constraints, the impossibility of foreseeing the consequences of all one's decisions, and stubborn social problems, it makes sense for the firm to coddle those it can influence most — namely, its staff, and then the communities closest to the facilities or those that the local staff thinks they deserve more attention. However, even if Utilitarianism explains how a corporation might go about making decisions concerning its philanthropic activities, it does not provide a way out to all the dilemmas seen above. In particular, the dilemma concerning HAF's long-term involvement with the projects is best analysed according to the perspective of the Ethics of Care.

### **Ethics of Care**

The Ethics of Care is a third major approach and one that is highly applicable to CF. It stresses the care-giver's responsibility to others with whom he or she is connected and focuses on their needs rather than on the giver's interests. It has been described as a mode of responsiveness rather than a form of decision-making (Liedtka, 1996) — a feature it shares with Deontological Ethics. Yet, it is often portrayed as a more flexible approach to specific problems (French and Weis, 2000). In fact, it criticises deontology for being disengaged and abstract, and contends that not all rational individuals have the same moral meaning to each of us. At the same time, it departs from Utilitarianism insofar as it refuses to make calculations as to which alternative maximises overall welfare. By contrast, the Ethics of Care is based on the notion of 'nurturing' as the basis of ethical relationships (Liedtka, 1996), which, as it has been argued, is not intended to foster dependence but, on the contrary, to encourage autonomy based on respect: *"The best care-taker offers a combination of challenge and support. To be nurturant is not always to concur and comfort, to stroke and flatter and appease; often, it requires offering a caring version of the truth, grounded in reality"* (Bateson, cited by Liedtka, 1996).

These concepts are highly relevant to corporate philanthropy and lead to searching questions: What does it mean to be ‘a caring organisation’? What is the appropriate ‘care circle’ for an organisation? How can a corporate foundation be a caring organisation without fostering community dependence and foster autonomy? These questions are closely related to the strategic issues concerning the self-sustaining of projects funded by HAF, the long-term involvement of the corporate foundation, and the measurement of caring relationships. The ‘Ethics of Care’ approach might be likened to a mother who cares for her child but who also wants him to mature. From this perspective, the question here is not about maximising overall social utility (as it was in Utilitarianism) but rather about focussing on what is best for the particular recipients and beneficiaries. When HAF management made the decision to commit to longer term support of projects and project partners, it realised that more time was needed for healthcare provision to mature. It opened the door to remaining involved for a period closer to a person’s lifecycle instead rather of cutting off support while the project was in its infancy. Given that HAF refrained from setting fixed time-boundaries to its involvement and instead made an open-ended commitment to funding running costs, it could be argued that the decision was based on Care rather than on Deontological Ethics or Utilitarianism.

Debate rages on what is best for recipients’ self-development and on whether corporate social initiatives bring about social advancement and are self-sustaining. Some scholars doubt whether the principles triggering company managers to act can become universal (Arnove, 1980, 2007). One of the main claims is that CF shape public policy through their activities without ever having been democratically elected to do so. HAF needs to consider this challenge, which would affect the task of any NGO. However, in the context of weak government and weak civil society, corporations are increasingly expected to shoulder responsibilities that elsewhere are seen as the preserve of the State (Valente & Crane, 2010; Maak, 2009). It is true that companies need to be careful not to overstep the mark — not only because this would incur excessive costs but also because it could prove politically counter-productive. To avoid this risk and to boost efficiency and develop countries’ social capital, Meijjs (2010) has stressed the need for collective governance in the philanthropic sector. In the absence of governance structures, corporate foundations like HAF are likely to continue encountering dilemmas like those discussed above and will continue to make decisions based on different theories of ethics. Whilst Deontological and Utilitarian Ethics are often stressed in business literature, through this case study we show that the Ethics of Care is a third theory that needs to be taken into account when studying corporate philanthropy.

## Concluding Remarks

This case study illustrates three of the main strategic and operational challenges to CF working in developing countries: (1) making social initiatives and projects self-sustaining; (2) involvement of the company subsidiaries; (3) resource allocation and impact measurement. It also emerged that these challenges are intertwined with ethical debates on the role of business in society — upon which greater light is shed if one adopts a variety of ethical approaches. Whether philanthropy is regarded as strategic to the business or altruistic, managers of corporate foundations have to deal with practical challenges that affect the strategy of the foundation and impact development aid. Whilst the debate between the benefits of development aid versus trade grinds on, managers are confronted with the consequences of operating in weak governance zones and have deontological, utilitarian and caring reasons to take up and continue quasi-governance tasks. Whilst the business ethics literature mainly stresses utilitarian and deontological ethics for CF, our study contributes by highlighting the concepts of nurturing and caring and their relevance for corporations and their managers.

In terms of the methodology and findings from the research, some important limitations should be mentioned. Our case study serves us merely for illustrative purposes, rather than explanatory ones. In addition, this study focuses on the case of one corporate foundation as seen from its perspective. We know the case and the analysis could have been cut many other ways – from the viewpoint of the recipient, the grant-maker, the company and its subsidiaries, the field as a whole, a comparison of the viewpoints of the actors in the field and so on. Another angle would be to research the nature of the company, given that many scholars have identified the brewing industry as controversial (Wilson & West, 1981). Each of these approaches has its own research purposes, methodological opportunities and limitations. Furthermore, this study presents a limited set of statements about the ethical grounding of CSR and corporate philanthropy programmes. The authors have chosen to limit the study to the three main ethical theories; Deontology, Utilitarianism and Ethics of Care, whilst including the ethical grounding for moral markets versus moral managers.

In the absence of other studies, this paper is a first attempt to present results from a longitudinal study of the challenges facing a given corporate foundation from the standpoint of the foundation's management and boards. We make no claims about the generalisability of our findings but it is highly likely that other corporate foundations face similar challenges. Although our case is unique, our findings are far from trivial. Given the dearth of theory and empirical evidence on the subject, we sought to explore one case in depth. Our observations should help scholars add similar cases and so lay the foundations for a 'grounded theory' of strategic corporate philanthropy in developing countries. Our paper will also help practitioners and researchers wishing to compare our case with others. One could study

whether the identified ethical approaches are relevant for analysing other corporate foundations with similar or different dilemmas. Moreover, the ethnographical methodology used for this case study could be applied by other practitioners with an academic background or purpose.

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## **INTRODUCTION TO CHAPTER 4**

From debating ethical decision making around the boundaries of responsibility of a MNC related to employees (chapter 2) and communities (chapter 3), this chapter describes the unfolding of the internal processes over an 8 year period, including the role played by different managers and the tensions in the decision making processes when being confronted with social activism around the responsibilities of the MNC towards employees of one of its business partners. Social activism against companies has evolved in the 50 years since Rachel Carson first put the US chemical industry under pressure to halt the indiscriminate use of the chemical DDT. Many more companies have come under the spotlight of activist attention as the agenda social activists address has expanded, provoked in part by the internationalization of business. During the past fifteen years companies have begun to formulate corporate responsibility (CR) policies and appointed management teams dedicated to CR, resulting in a change in the way companies interact with social activists. This chapter presents findings from a longitudinal case-study of managerial responses to social activism targeted at Heineken, a company with relatively well-advanced CR practices and reputation. The findings emphasize how values and beliefs in the company interact with economic arguments, and how those are mediated through functions and relationships in the company and beyond. This chapter shows how critical managers' understanding of the motivations of activists behind the campaign is in shaping their actions. It reveals the paradoxical outcomes that can result from social activism at the level of the firm, the industry and the field. As with chapters 2 and 3, chapter 4 demonstrates that managerial response to stakeholders' claims are key to understand how business dilemmas are approached by managers and how responsibilities are evolving and effected by external forces. It approaches management responses from a 'systems' level, whilst describing it on a micro-level applying the cybernetic model.

The scene shifts from Africa to Asia, somewhere between company and community, where Heineken was confronted with a controversial CR business practice amongst its business partners in Cambodia.



## **Chapter 4**

### **Management Responses to Social Activism in an Era of Corporate Responsibility: A Case Study**

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## **Introduction**

The history of corporate responsibility (CR) is replete with examples of social activism where specific companies or sectors were put under pressure by means of highly visible campaigns and/or boycotts to change practices. One of the earliest examples was the campaign against the indiscriminating application of the chemical DDT in the USA, started by the publication of Rachel Carson's book *Silent Spring* (Carson, 1962). The issue was then taken by the Environmental Defense Fund and, after a number of years of claims and counter claims and litigation, it ended with a ban by the Environmental Protection Agency on most uses of DDT in 1973 (Environmental Defense Fund, 2012). Since then there have been an increasing number of activist campaigns across a growing array of environmental, social and governance issues. Examples include the boycott of Nestlé products in 1977 following concerns about the sales techniques and the consequences arising from using baby formula in parts of Africa, and the campaign against Shell oil company's operations in South Africa and Namibia in the late 1980s, arising over concerns about operating within the context of the Apartheid regime.

Companies face activism in relation to a wide array of social and environmental issues associated with all aspects of their activities – from the sourcing of raw materials, labor and human rights abuses at company level and in the supply-chain, environmental impacts, environmental issues arising from productions methods, and issues in distribution and sales. These issues range from company level concerns about whether the organization of labor unions is permitted, to geo-political questions of whether a company should disengage its operations in countries with dictatorial or repressive regimes.

The outcomes of some of these issues can be traced over time. As an example, the sinking of the Exxon-Valdez in 1989 led to the so-called CERES principles developed by the Coalition for Environmentally Responsible Economies (CERES) for which companies were encouraged to sign up for. This led to a call for better reporting standards, resulting in activists developing and encouraging companies to join the Public Environmental Reporting Initiative (PERI) established in 1994 (Davis-Walling & Batterman, 1997). A daughter of PERI is the Global Reporting Initiative (GRI) that since 1997 develops guidelines for environmental, social and governance reporting, followed by an increasing number of companies as an integral part of their CR practices (Levy et al, 2010). As Levy et al argued 'the strategies of NGOs have the power to shift the nature of corporate governance' (Levy et al, 2010).

It is patently clear that these events, issues, and the lines of action and interaction, radiate from a point of contention: a claim and pressure by an activist about a company. These do not unfold in a vacuum. What is hidden in these examples is the complex, often very long

and dynamic cycle of interactions between activists and companies that follow an initial event or campaign. This cycle can lead over time to impacts on the company and the industry of which it is part, with major implications for the way business and society articulate with one another. What unfolds is a function of circumstance, the issues activists choose to pursue, the ways and means through which activists target companies, the companies they select, the competences within the company, and the responses managers make to the activists concerns. In turn, all the above influence the dynamic relationship between the company and the activist and shape the outcomes for the company, the activist, and for society at large. This makes the question of what is happening around the interaction between activists and companies and their managers a multi-level, multi-actor (organizational and individual actor) puzzle. Whilst the outcomes of the interaction are often clear it is less clear how and why they happen.

This chapter presents the case of a company targeted by social activism. It explores how the company responded to the demands of social activism. It begins with a brief introduction to the wider context of the case, addressing how targeted social activism and company responses to this activism have developed over the past 50 years. With this background two main questions are addressed (1) what does the in-depth case tell us about the way in which a company with a recognized position of leadership on CR, responds to the demands of targeted social activism? And (2) what does this case tell us about the decision-making of managers as they draw on company values and policies and make economic assessments in relation to the demands of activists?

This particular focus is chosen because we seem to be entering a period where activism is increasingly targeted against companies that have developed recognized positions on CR. This creates a new dimension in the interaction between social activists and companies because companies' reputations are now affected or even based on their CR practices, and companies have developed dedicated managerial competencies to shape responses to activists' targeting them. Beyond that specific focus we have very little empirical evidence from inside companies of how the managers in these companies create responses to the demands of social activism despite calls for research of this kind (Spar & La Mure, 2003). In addition to the lack of cases that look inside the black-box of decision-making of (either one of) the parties involved, our search of the literature identified a further gap in previous empirical work. While targeted social activist campaigns often develop over a lapsed time of many months or years and involve dynamic interactions between activists and companies, there are no case studies of how these interactions unfold in 'real time'. This chapter sets out to address this gap.

In structure this chapter moves from a macro-level perspective on social activism that provides a context to the case to a micro-level exploration of the case of worlds' largest beer brewer Heineken and the working lives of Beer Promoters in Cambodia. The macro-level

perspective introduces existing literature as well as provides a context for the case that follows. It also serves to explain why the case is valuable on a theoretical level beyond the unique insights it provides into the dynamics of the organizational and managerial responses to social activism. The case is introduced and analyzed with relatively novel methods to uncover the black box of decision-making, split in two phases that unfolded over the 8 years of the case. The chapter concludes with formulating answers to the main questions posed, and highlights areas for future research.

## **Context – Social Activism and Business in Society**

Scholars have already charted some of the major trends that shape the interactions between social activists and companies. In the 1980s social activism was characterized by geopolitical concerns about companies in repressive regimes as well as concerns about the environment. This provoked the agenda for sustainable development (United Nations, 1987) which overlapped with the economic globalization and internationalization of business. Multinational corporations followed the pathway to global production and global markets, moving to new production locations, out-sourcing supplies to developing economies, or penetrated new markets (Roome, 2011). Globalization thereby brought more attention to operational and supply-chain issues including labor and human rights, public health, education, illiteracy, malnutrition and AIDS (Margolis & Walsh, 2003; Matten & Crane, 2005). Often multinational corporations operated in countries where there were administrative deficits, poor provisions of social support, or lower social standards and expectations than would be found in their home countries; therefore multinational companies encountered and had to adjust to issues previously not familiar to their managers (Halme et al, 2009).

Activist attention to companies increased as their focus shifted from pushing governments to introduce stronger policies and regulations to placing more direct demands to promote higher industrial standards and company practices (Van Dyke et al., 2004; Walker et al., 2008; Rao, 2009). Simultaneously governments moved toward market liberalization with less state-control, towards the adoption of a broader mix of policy actions based on regulation, the use of economic instruments and support for voluntary self-regulation (Aguinis & Glavas, 2012). In response, leading companies, industrial sectors and coalitions of actors began to develop self-regulatory frameworks (for example the Responsible Care Program of the Chemical Industry, 1985, see King & Lennox, 2000) while other companies deployed new international voluntary codes and standards such as ISO 14001, SA 8000, GRI G3 reporting guidelines. Consequently these initiatives functioned to codify standards of practice (see for example, Delmas & Montiel, 2008).



These codes and standards were often adopted within the framework of modernized CR policies and practices in companies. Moreover, they were accompanied by the deployment of dedicated teams of managers with competence to contribute to the management of this area and the issues raised (Wood, 2010; Peloza & Shang, 2011; Aguinis & Glavas, 2012). Some of these codes and standards were set through platforms that brought company managers in contact with social and environmental interest groups, labor unions and various levels and departments of public administration (Fombrun, 2005; for a review see Jenkins, 2001). CR moved from its earlier emphasis on philanthropic giving by corporations and their foundations to a more strategic concern about the management of risks and/or as a driver of business opportunities (Porter & Kramer, 2002; Saiia et al, 2003).

Since the 1990s social activists sought to bring about change by targeting companies directly. Literature suggests that the motivation for activist campaigns can be to change corporate behavior, but also to bring about field-level or societal change – either through the promotion of higher standards or the eradication of companies with low performance (Guay et al, 2004; Rehbein et al, 2004; Rowley & Moldoveanu, 2003). Scholars have studied the variety of different tactics that have been used by activists (Doh & Guay, 2006; King & Pearce, 2010; Rehbein et al, 2004; Rowley & Moldoveanu, 2003). Activists often aim to raise awareness of specific issues by targeting highly visible corporations that operate in advertising-intensive consumer markets. The increasing accessibility of Internet and social media have enabled activists to materialize consumer power (Den Hond & De Bakker, 2007; Doh & Guay, 2006; Rehbein et al, 2004; Rowley & Moldoveanu, 2003) often by using corporate symbols and logos out of their normal context and transformed into emblems of the activist's cause (Den Hond & De Bakker, 2007; 910). Some have argued that the same technologies enabling companies to create global recognition of their logos and brands are available to activists to expose these assets to negative claims thus making those companies more vulnerable (Roome et al, 2006). Companies with visible brands and poor standards attract the attention of activists as was the case with the inconsistencies between the use of child labor in the Nike supply-chain and the image Nike was promoting to its customers (Knight & Greenberg, 2002).

Also, campaigns have been directed against companies with the lowest standards and no clear policy or commitments to CR. Examples include the Clean Clothes Campaign based in the Netherlands or its daughter organization Rena Kläder in Sweden. These activists target companies in the garment industry and their suppliers with the lowest standards of human rights and labor conditions to raise public awareness and to encourage the poorest performers to raise their standards (Egels-Zandén & Hyllman, 2006).

The emergence of codes and standards for CR and the development of company CR policies, practices and management, have created new targets for activist strategies. Campaigns focus on companies which have CR policies but where there are patently false claims about

responsibility, or, where there are major inconsistencies between policies and practices often because organizations are made up of groups of people and performance is uneven. Wagner et al (2009) suggested that companies which actively communicate on CR attract the attention of activists.

Activists also direct their campaigns at companies with established CR policies coupled to leadership positions on CR, identified through third party assessments or endorsements. Examples include the campaign by Greenpeace against Unilever's Dove brand in April 2008 (Greenpeace, 2008). The campaign occurred even though, or possibly because, Unilever was acknowledged to have made significant progress in its approach to sustainably sourced commodities such as tea (Pretty et al, 2008) and had been an active promoter of initiatives such as the Marine Stewardship Council together with the World Wildlife Fund (WWF) (see Constance & Bonanno, 2000).

More recently Greenpeace directed a campaign against Nestlé's purchase of palm oil from unsustainable sources. Nestlé had developed a position on CR through its commitment to the concept of shared value (Porter & Kramer, 2006). The Greenpeace campaign was designed to push Nestlé to deploy its market-power to change the industries that use palm oil grown in developing economies and rainforest zones. The campaign was possible because one of the Indonesian palm oil producers that supplied Nestlé, PT-Smart, was managing its Sinar Mas palm oil plantations in breach of company guidelines and the commitments it had made through its involvement in the Roundtable on Sustainable Palm Oil (Nestlé, 2010). The targeted campaign was aimed to promote change at Nestlé and also across the industry and the field including companies such as Cargill, a major shipper of palm oil, as well as other palm oil producers and users. The campaign had the effect of stimulating Nestlé and Cargill to engage more closely with environmental NGOs such as WWF (see for example Cargill, 2010 and Nestlé, 2010).

Research on business responses to social activism is less extensive and limited in the methods it has used. There is a growing literature on social movement theory and social activism around CR issues (Den Hond & Bakker, 2007) which deals with the macro and meso-level of analysis. There are some studies of cases of shareholder activism (see Rehbein, et al, 2004; or for a review, Sjöström, 2008) and some longitudinal studies of the interactions between activists and companies but these have been based on documentary evidence and post-hoc interviews (Spar & La Mure, 2003). There are few 'real-time' studies of targeted social activism aimed against companies that consider the micro-level.

The evidence from the studies of shareholder activism (Vandekerckhove et al, 2008) suggested that when companies are faced by claims about specific issues or breaches of convention they tended to deny any form of misconduct. Further responses are based on

responsibilities, values and norms as well as beliefs (Vandekerckhove et al, 2008; 18). These authors suggest that dialogue between companies and activists must necessarily move beyond the ‘truth-value’ of claims to look at ways for resolution. Research on activist campaigns by Spar and La Mure (2003) identified that company responses to activism involved a blend of factors including economic assessments of the implications of responding or not reacting to activist demands, based on trade-offs between reputational value, loss or gain of market opportunities, implications for share price combined with the personal motives of senior managers. These authors argue that “Social activists force firms to make decisions in new ways, factoring variables that once could be ignored” (Spar & La Mure, 2003; 97). While Spar and La Mure (2003) call for more cases of the way companies respond to activist concerns the situations they reviewed were based on companies that did not have policies in place on the issues that activists used in their strategies.

With this background the focus of this chapter is on the corporate and managerial responses to targeted social activism aimed at a company with a well-established reputation for CR and with a strong organizational commitment to leadership in CR, elaborate CR policies and practices, and people with extensive CR competencies. This situation creates the ground for a much more complex and dynamic interaction between social activism and the company management. The activist campaign has the potential to impact the targeted company as well as the industry and the field in which the targeted company operates. The case examines the managerial response to the activist campaign following events over more than 8 years in ‘real-time’.

## **The Case**

The subject of the case is the –managerial response to the targeted criticism leveled at Heineken, the worlds’ most international brewer, in relation to female beer promoters (BPs) who promote Heineken beer in bars and restaurants in Cambodia. In their working environment BPs can face categories of risk – these include physical violence, alcohol misuse, and sexual harassment by customers. If there is sexual activity between BPs and their clients it is also linked to the possibility of contracting sexually transmitted diseases including HIV/AIDS. At the time of the case, Heineken had been widely recognized and praised for its anti-discrimination and health care treatment for HIV positive employees and their families in the company’s operations in sub-Saharan Africa. In other words Heineken had a leadership approach towards HIV/AIDS among its workers and had gained a positive reputation for this work and had developed considerable expertise. The case that follows is written from the perspective of the company and its management facing these criticisms, rather than from the viewpoint of the social activist. It was not possible to have access to the activist in real time as the events unfolded as the relationships were antagonistic and

involved tactical positions. However, the focus of the case is on how a company with a leadership CR position responds to pressure.

The case is used to explore the two main questions remaining: What do we learn from an in-depth case of a company that has a recognized position of leadership on CR, as they try to respond to the demands of targeted social activism? And, what does this case tell us about the decision-making of managers as they draw on company values and policies and make economic assessments, and how are those decisions mediated through the company's functions and wider relationships with organizations in its industry and the field in which it operates?

The case draws out the outcomes of the case for the company, the industry and the field – understood as beer retailing in bars in Cambodia – and the BPs. Following Spar and La Mure's (2003) we also see this as a completely new territory for research because it cuts to the heart of *how* business decisions are made in an era when the economic rationale of the firm alone does not serve to determine the optimum choices to take in a business situation. Exploring managers' decision-making (what Spar and La Mure (2003) refer to as 'personal motives') and economic considerations (referred to as 'cost-benefit calculations') as managers respond to the activist's campaign is not sufficient though to deal adequately with the dynamic aspects of the case – its evolution over time, the interactions between the company and the activist, between different groups in Heineken and between Heineken and its agents and other beer providers and retailers in Cambodia – all has to be considered.

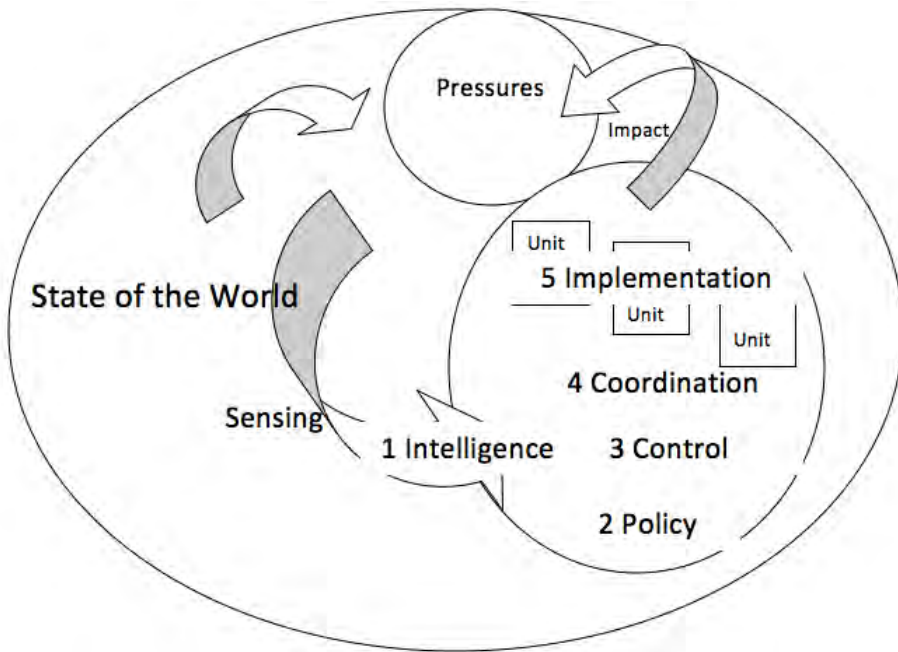
In respond to this complexity the Heineken's promotion of beer in Cambodia is described as a narrative of the BPs situation in Cambodia, analyzed through the use of a cybernetic model of CR that runs through two cycles from initial recognition of the social activist pressure on the company, its first responses, to a reformulated social pressure and then on to further CR responses by the company and other actors. The chapter focuses on the managerial decision-processes, not simply the outcomes of those decisions.

The case material is presented in two stages. First, background information about the beer market in Cambodia is presented as a historical narrative. Second, the cybernetic model is used to analyze the way responses to the BP issue were constructed by managers at the company over the two cycles of interaction with the activist. Before introducing the case the cybernetic model used to frame the case is introduced and explained followed by a description of the research methods. The findings are presented and discussed followed by conclusions, limitations and the identification of areas for future research.

## **The model**

The cybernetic model of CR (Roome, 2012) is adapted from the work of Stafford Beer who was interested in understanding the key elements of any functional organization or viable system (Beer, 1984). The model was originally developed to provide insight into the functioning of organizations as their managers' sense and adapt to the pressures exerted on the organization by a changing context. The model was therefore seen as wholly consistent with leadership or strategic CR – where CR is seen as the policies and practices needed to contribute to the continued survival of an organization. The model is based on an existential view of the firm. While the firm has a purpose or economic rationale, the firm's ability to deliver on that purpose depends on the capacity of its managers to respond to a range of relationships and changes - these appeal more to motivations, beliefs and values held by managers or expressed as company values or principles. These two categories of factors are mediated through the five elements of a viable organization. They are shown in Figure 1 below.

The first function of the model, 'Intelligence', refers to the capture of knowledge and the capacity for adaptivity, as the ability to sense and make sense of change. The function 'Policy' refers to many related concepts that either define the direction of action into the future such as vision, ambition, strategy, purpose, and intent or involve organizing concepts like structure and design. 'Coordination' is the function that involves the connection of value adding tasks or activities that protect value that take place in a company. The negotiation of resources by organizational units or departments and the instructions given to sub-units and sub-departments who then provide reports make up the fourth function in the cybernetic model: 'Control'. The fifth function, 'Implementation as Action', constitutes the tasks that create or add value or protect the value that has been created (Roome, 2012).

**Figure 1 “Five Functions of the Viable Systems Model” Source: Roome, 2012**

This existential view simplifies the framework within which managerial choices are played out. The model has the advantage that it is concerned with relationships between the organization and its managers, its context, the actors in that context as much as with the organization’s purpose. Moreover, these relationships are normally very complex. They are not all economic and not all signaled by markets. They are informed by beliefs and values and the understanding of the world possessed by managers and other actors. The continued existence of the firm, its survival, depends on the ability of managers in the firm to maintain these relationships.

Moreover, within any organization managers interact with other managers and with external actors; meaning that firms do not operate as one unit but in multiple, different and possibly contradictory or paradoxical ways. Indeed this interaction between managers ‘is the organization’ while their interaction with others ‘defines the organization’. Finally, any action by the organization creates change that influences the organization and its external environment, leading in turn to further iterations of action and reaction.

In the cybernetic model CR is understood as ‘strategic’ – that happens when a firm reviews its relationships to the environment around its activities in a systematic way and then adapts its activities by adding new dimensions to what it previously did (Roome, 2012).

This can lead an organization into a continuous cycle of adaption that runs from sensing, learning, through doing new things in new ways (innovating) that leads to a new cycle. That said the model should not be understood in any instrumental sense – the five functions of a viable organization say nothing about whether the functions are well conceived or acted out. The model should not be regarded as a view of reality but as a ‘lens’ that helps to describe how actors act and interact. As with all lenses it is the construction of those that use it to manage or to gain insight into management through research. In this way the model has properties in common with actor network theory of Latour (1987).

The following sections briefly outline the research methodology, followed by a short account of the context of the case, and then a detailed account of the company interaction and responses to the targeted campaign of the social activist.

## **Research Methodology**

This case study is based on formal and informal material gathered during a longitudinal study, conducted as an organizational ethnography over the period January 2000 to September 2008. The material was collected by the first author, in her role as a project leader, a position created by Heineken in response to the issues that arose with the BPs in Cambodia. She held this position until September 2008. The information was gathered in real-time through participant observation supported by documentary material, notes on meetings as well as formal documented material. This author also had unique access to BPs in Cambodia, their clients and managers as well as the owners of the outlets where beer was sold. The position provided access to the full hierarchical reporting line; from sales representatives, through line managers, country managers in Cambodia, the regional manager up to the executive committee members at Heineken HQs in Amsterdam. The position spanned actors inside the company, and across the value chain from the corporate center to a bar in Cambodia. This provided a unique vantage point from which to gather qualitative and quantitative data.

Hammersley and Atkinson (1997) have classified organizational ethnographies on a spectrum from ‘complete observant’, ‘observer as participant’, ‘participant as observer’ to ‘complete participant’. As the engagement with the organization deepens so the level of subjectivity increases (Hammersley & Atkinson, 1997). The data collection for the case in question arose from a retrospective organizational ethnography, where the first author could be described as a ‘complete participant’. In Van Maanen’s (1988: ix) definition of ethnographic research he clearly states the need for a recorded set of observations made *in situ*. To this end the researcher kept notes of events and had access to meetings, reports and minutes, and also reflected on her experience of the social processes at play inside the company and around the issue of BPs. The process of moving from data set out in notes and

documents only began once the first author was no longer directly involved in the case. As the role of a ‘complete participant’ can create problems associated with lack of distance between researcher and research subject, the supporting data and joint analysis shown by the authorship of this chapter provides for a mix of detailed proximity to the subject together with some degree of analytical distance.

In addition to the data arising from proximity, the research also drew on sources that would be available to a study based on documents and interviews. This included 8 advice and coordination documents, 5 internal memos, 33 progress reports, 15 visit reports to Cambodia and 22 documents on industry meetings. These were analyzed by each author individually. In addition to this company data, external public documents from the NGOs and numerous other (research) organizations, media publications and websites were sourced, read and analyzed.<sup>21</sup> The combined method thus draws on participant observations gained in ‘real time’ over a period of 8 years, and a review of internal documents and external material. This chapter also balances the views of the three authors allowing triangulation of the data and triangulation of perspectives as a whole as a way to improve the validity of the findings (Yin, 1984; Eisenhardt, 1989).

## **Beer and Beer Promotion in Cambodia**

Cambodia has a relatively low annual consumption of beer in liters per capita compared to the rest of the world, although according to the WHO consumption has been increasing steadily in the last decade (World Health Organisation, 2011). An estimated 40 beer brands were sold in Cambodia in 2009 consisting of both domestic and imported brands. When ordering a beer in Cambodia it is not a barman, behind a bar, or a waiter or waitress who serves you at a table, and taking your order from a menu card. In Cambodia at a bar, hostesses provide a traditional welcome. Beer Promoters (BPs) in branded uniforms then promote and sell the beer brand they work for directly at the tables of customers. BPs representing different brands are found in the same bar. BPs are the way by which beers are sold in restaurants, beer gardens, BBQs and karaoke bars. Only a small percentage of the beer in the country is sold in premium bars (where there are barmen or waiters at the table as found in North America or Europe) or off-trade markets (e.g. supermarkets).

BPs are employed directly by domestic breweries. BPs working for imported brands are not employed by international breweries but by local or regional distributors. On average BPs earn between 90 and 150 US\$ per month. This is above the average per capita GDP in

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<sup>21</sup> All the data and documents are available upon request

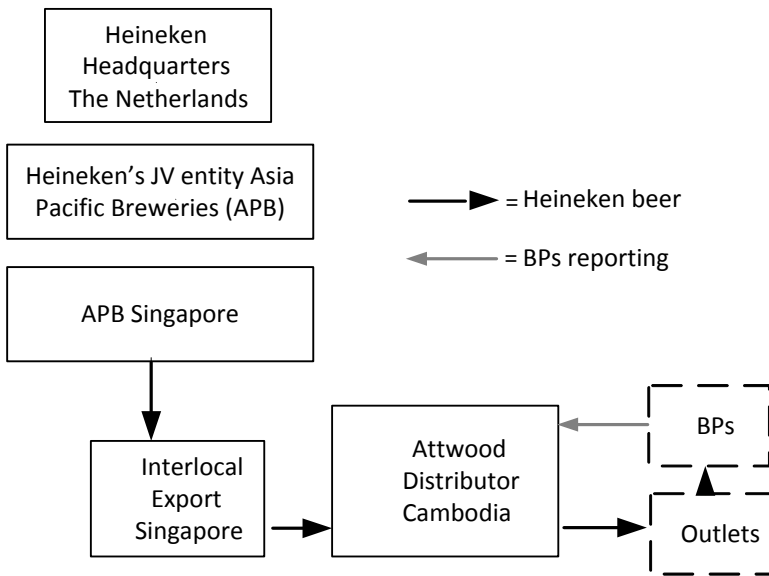


Cambodia and in line with the Cambodian Labour Union Federation requirements. While pay is relatively attractive, the BPs work environment means they represent a vulnerable employment group. Employees working with alcoholic drinks always face occupational risks, familiar to brewers, and most of them have policies and actions to deal with these issues. There are additional risks for BPs because they do not work behind the relative safety of a physical 'bar' between them and their clients. Moreover, the competition between brands also results in competition between BPs selling different products. Furthermore, if there is any unexpected or uncontrolled behavior by clients that are under the influence of alcohol or the illegal use of drugs, there is less protection for the BPs.

Furthermore, the situation needs to be framed in the cultural context of Cambodia. In Cambodian society there is great gender inequality. As with many Asian countries, it is mostly men that go out drinking while most women stay at home during the evening. Men meet for an evening out in one of the many entertainment areas in Phnom Penh, Siem Reap or other Cambodian cities. Violence is widespread. Often they carry weapons for self-protection. This means BPs work in male dominated settings, drinking without other women present, and subject to risks from unpredictable behavior and exposed to potentially intimidating and violent situations.

Heineken beer sold in Cambodia is brewed in Singapore at Heineken's joint venture Fraser and Neave Ltd through Asia Pacific Breweries Singapore (APBS). The beer goes to Cambodia through the Singaporean export organization Interlocal Ltd and is distributed by the Cambodian distributor Attwood Ltd (see figure 2 below), who conduct all the marketing and promotion activities for the Heineken brand (alongside the other alcohol beverages they distribute). Attwood Ltd is the direct employer of all Heineken branded BPs.

**Figure 2 Organizations involved in the brewing, distribution and promotion of Heineken beer in Cambodia**

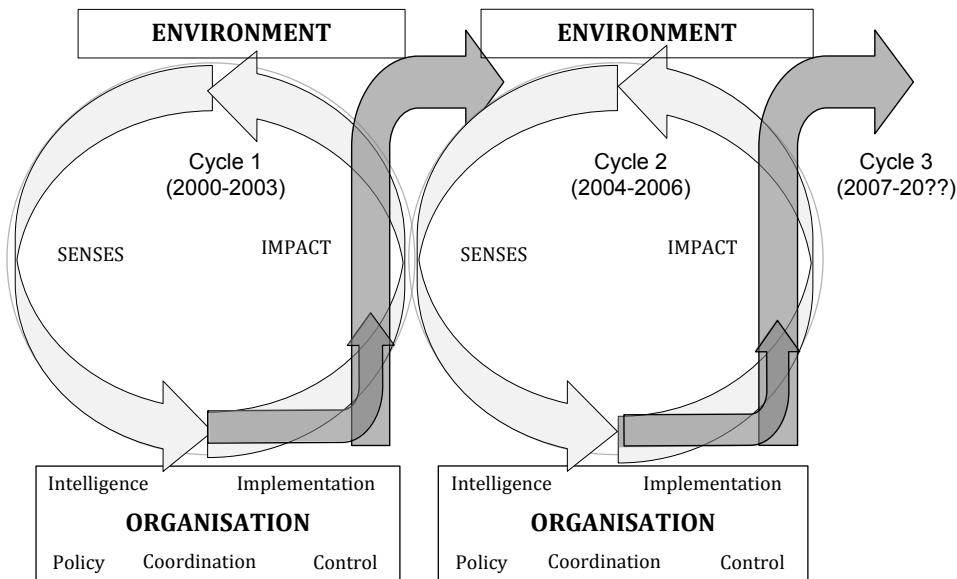


Heineken is positioned as a premium brand, targeting at mid-level and up-market consumers. Other premium brands on the Cambodian beer market include Beck's, Budweiser and Stella Artois (ABInbev), San Miguel and Carlsberg. Distributors in the premium-beer segment mainly market their products through events and advertisements, whereas BPs are used more commonly in the mid- and lower level beer markets. Heineken does not target the lower level market, although it has a significant share of the total market in Cambodia. Heineken's local distributor, Attwood Ltd, only employs a relatively low number of BPs (from over 200 before 2005 to 76 in 2011). Thereby the number of BPs promoting Heineken beer has moved from 5% to less than 2% of the estimated total number of 4000 BPs in Cambodia in 2003 (Quinn, 2003).

### Analysis using the Cybernetic Model

The cybernetic analysis of the two cycles in the Heineken beer promotion case begins with pressures on the company leading to Heineken's organizational response (figure 3 below). For each cycle, the individual cybernetic functions are addressed. The narrative below is also divided into phases.

Figure 3 The Interactive Systems of the Environment and Heineken in the BPs Case



1. First Signs of Pressure (2000 – 2003)

Scientific studies in the early 2000s addressed the spread of the HIV in Cambodia. As with many other countries in the region it was viewed as an emerging epidemic. At this time some of the NGOs involved in HIV/AIDS work in Cambodia (e.g. NCHADS, Sirchesi) labeled BPs operating in bars as ‘indirect sex workers’ (Lubek, et al., 2009) these were not the only occupations labeled in this way. This identified a link between BPs, sex work and HIV/AIDS but placed BPs in a different category to the women who worked directly in the sex business. The Los Angeles Times (Schiffrin, 1998) and the Wall Street Journal (Marshall & Stecklow, 2000) made reference to the worrying HIV/AIDS statistics affecting indirect sex workers in Cambodia, including BPs. An activist, who works as a professor and as an NGO worker, followed up on these concerns, scrutinizing the activities of BPs and the companies that produced and distributed beer in Cambodia. Messages about BPs were presented through an NGO called Sirchesi - the Sirchesi website stated that “alcohol over-consumption amongst the beer promotion women has been fuelled by competition amongst the beer promotion women hired, but then underpaid, by the major international beer companies”. The activist’s websites developed a specific focus on Heineken, using pictures of Heineken branded BPs. It followed up with emails that were sent to Heineken stakeholders.

### 1. 1. Intelligence at Heineken

Heineken learned about the accountability pressures it faced through its routine media screening activities. It picked up the statements from the social activist about BPs as indirect sex workers and the links to Heineken. In terms of numbers of followers the activist was of little significance to Heineken, but he was highly dedicated and had access to specialized knowledge through the NGO he had set up in Cambodia. The activist had access to mass media and the actions with stakeholder groups including company shareholders revealed expertise in lobbying. Heineken asked its regional and local partners in Cambodia for comment on the claims. They stated that the environment for BPs who promoted Heineken products was not perceived as unusual or problematic in the Cambodian context. Nevertheless, the belief was shared amongst the departments at Heineken headquarters (HQ) that it was best to provide a response that demonstrated the company's willingness to take its social responsibility to the public and also to its BPs, despite the company's limited sphere of influence over the BPs issue in Cambodia. A visit report from April 2003 written on Cambodia by a member of Heineken's Global Health Affairs team mentions that it would be useful "to clearly show that Tiger and Heineken are the initiators of a program (*sic aimed at BPs*) and that other brewers will be welcome to join in a later stage..." (page 1). Internal consensus was reached at Heineken that it should make an initial response to this issue on its own to show a clear position and maintain its legitimacy.

### 1. 2. Policy

Any response had to be informed by Heineken's<sup>22</sup> existing policies. Three core values inform the way Heineken manages its internal operations or its impacts on the communities surrounding its breweries: 1) Respect for the individual, society and the environment, 2) Enjoyment, and 3) Passion for quality. Heineken also has a supplier code, applicable for Heineken affiliated companies where Heineken owns 50% or more of the shares of that company. Attwood Ltd was under contract by Heineken to distribute Heineken beer in Cambodia, so the BPs were not employed by Heineken nor by a Heineken owned or part-owned company. In these circumstances the supplier code did not apply.

In the absence of a policy that applied the Corporate Affairs department set about drafting a policy specifically for BPs (at the time called the 'Promotion Girl policy'). This covered Human Resource issues including selection, contracts, working conditions, medical care and privacy. The new policy also included work organization issues including supervision, transport to and from work, and uniforms. It addressed training and information, including ways to deal with difficult customers, alcohol-related issues, drugs, and other topics related

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<sup>22</sup> For more information see Heineken International website [www.heinekeninternational.com](http://www.heinekeninternational.com), accessed on October 31, 2011.

to the BPs work environment. It set out implementation and monitoring structures including the roles to be taken by corporate departments at Heineken and Heineken's subsidiaries.

### 1. 3. Coordination

Activists at Sirchesi had presented the BPs issue predominantly as a health issue. In response Heineken's Global Health Affairs (GHA) department took a leading role in formulating the company's response. Managers in GHA have long experience of working on health issues with Heineken employees and family members in Sub Sahara Africa including matters linked to HIV/AIDS. They were committed to addressing health issues in a structural way, through training, advice, support as well as policies and systems. However, as BPs were not directly employed by Heineken, GHA had to align its approach with other departments that had the authority to influence the supply chain and contractee - Attwood Ltd. Given the absence of appropriate levers for control or to influence the field in which the company operated in Cambodia, it became an organizational challenge for GHA to create alliances with other departments within the company or to gain commitment through CR actions.

At this time, the Human Resource (HR) department at HQ was strongly focused on the development of the top 500 managers. The Marketing and Sales department emphasized their lack of influence on the route to market of the product. Heineken's regional office in Singapore stressed that this was the way beer was sold in Cambodia and that this limited their ability to influence practices in the field as a whole. As there was no local Heineken presence in Cambodia, and no health department on the ground, GHA at HQs established direct contact with the distributor's manager in charge of conducting Heineken sales and marketing as well as with the export company manager for Cambodia.

### 1. 4. Control

GHA made a budget request for initiatives on BPs, which was approved by the executive committee at HQs. It allowed for the creation of a project team; a GHA middle-manager who was appointed project leader, a GHA medical advisor who previously worked for an NGO in the brothels of Phnom Penh, and the GHA director who had extensive experience of public healthcare in developing countries. A manager from the Corporate Affairs department drafted the BPs policy based on the findings written up by GHA and set out in visit reports.

### 1. 5. New intelligence

The concerns of the activist and the reports from the field did not provide sufficient material for evidence-based management. New intelligence was sought. BPs representing the Heineken brand as well as BPs working for other beer brands were interviewed. Field studies were done where BPs were 'shadowed' with their consent during working hours. This was done to increase the understanding of their work behavior, work conditions and interactions

with outlet owners and customers. The shadowing involved the whole working period to take account of different levels of interaction and beer consumption by customers. Representatives of public sector and NGOs such as the National AIDS Authority of the Government of Cambodia, UNICEF, the Reproductive and Child Health Alliance (RACHA), Reproductive Health Association Cambodia (RHAC), CARE International, and Médecins Sans Frontières were invited to provide input from their experiences and knowledge. Data was gathered from health surveys and on the system of public healthcare provision in Cambodia with a focus on HIV/AIDS.

### 1.6 Implementation as Action

GHA, in consultation with the regional office, requested the Singaporean exporter Interlocal Ltd and the distributor Attwood Ltd to help implement changes seen as necessary to improve the working situation of BPs as highlighted by Sirchesi and as found through this extensive field work. The regional Heineken office dealt with new contracts with Attwood Ltd and Interlocal Ltd. These included new requirements related to BPs health and safety at work. A partnership between GHA and CARE International was legalized through a Memorandum of Understanding that entailed a 160.000 USD 2-year training program titled ‘Selling Beer Safely’ - developed for BPs. Selling Beer Safely involved a 3-day training on topics such as relationships between men and women, contraceptive methods, sexual health facts and information, behavioral skills for sexual health, identifying and dealing workplace harassment, alcohol and drug use and health care options. Attwood Ltd was also required to revise the BPs’ employment structure. Amongst other changes it was agreed that BPs would report to a female BP supervisor, work facilities were upgraded, a BPs meeting room was made available, health insurance was provided, a fee was granted for transportation to identified health care services and BPs were allowed to visit the medical centers during working hours. Moreover, BPs were informed that they were not expected to take orders from the owners of outlets as they worked for Attwood Ltd. A grievances procedure was established and communicated.

### 2. Outcomes and New Pressures (2004 – 2006)

An evaluation of the Selling Beer Safely program by the partner CARE International indicated that it was highly successful in improving the knowledge, attitudes and practices of BPs with regard to HIV/AIDS and other sexually transmitted diseases (Quinn, 2003). The revised employment structures implemented by Attwood Ltd, resulted in a significant improvement of the BPs labor conditions, including (paid) leave and written contracts in compliance with Cambodian labor law. However, the evaluation showed that rates of harassment experienced by BPs were still high and they continued to be pressured by customers to drink alcohol (Klinker, 2005: 2-3). Overall the approach created a better work environment for the 200 BPs promoting Heineken’s products but had no effect on the 4000 other BPs working for other companies. For them their work was largely unchanged.

Despite the improvement made for Heineken BPs the activist strengthened efforts to put Heineken under pressure. A series of more concrete demands were formulated – a doubling of BPs' salaries, introduction of methods to reduce their alcohol consumption and for Heineken to provide HIV/AIDS treatment. It is important to note that HIV/AIDS treatment is readily available at no charge through the Cambodian public healthcare system. A letter by the activist was published in the *Lancet* in which Heineken was accused of 'gender-specific discrimination'. This was substantiated by comparing the provision of HIV/AIDS treatment to Heineken's employees and their families in Africa (where there is no treatment available through public health services) (Van der Borgh et al, 2006) as against the situation for BPs in Cambodia, who were also described as Heineken employees (Van Merode, 2006). The international media<sup>23</sup> took up these allegations referring to the claims by the activist about the Heineken-BPs –HIV/AIDS connection.

## 2. 1. Intelligence

This negative media attention framed a second cycle of pressures on Heineken, leading to a new response. Managers collected intelligence through NGO progress reports and visits described in past and new visit reports. These were used together with the information available in the media. It was understood that the claims had moved from a focus on the health of BPs to their working conditions and apparent differences between BPs and other employees linked to Heineken products.

## 2.2. Policy

Managers at several HQ departments felt it time to consider a more structural strategy to tackle the BPs issue. This would seek to influence the field within which Heineken operated in Cambodia rather than the just the BPs who promoted Heineken beers. Two elements were seen as essential to this strategy: 1) it required increased knowledge about the cultural context in both traditional Cambodian and modern Western lifestyles, including better cultural understanding of gender (in)equality, the Cambodian regulatory context, corruption levels throughout society together with other contextual factors, and 2) the need to develop partnerships and a shared policy framework with other actors across the beer sector - the field in Cambodia.

## 2.3. Coordination

An inter-departmental steering group staffed by senior managers was created within

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<sup>23</sup> Deng, June 2004 (Belgium), Cambodia Daily October 2005, May 2006, Development Weekly June 2006 & November 2006, Phnom Penh Post August 2005, (Cambodia), Straight Times March 2004 (Singapore) The Amsterdam Times March 2004 , NRC Handelsblad February 2003 & February 2004, Trouw May 2003 (The Netherlands).

Heineken. It included Corporate Relations, GHA, HR, Legal Affairs and Marketing and Sales. While all members of the steering group acknowledged the moral importance of the topic, they identified perceived barriers to action. The key point of disagreement was over the extent to which a structural approach would be hampered by the lack of management control over BPs. GHA actively tried to change its position in this steering group from leader to that of contributor because the issue had turned from a health issue for BPs to a wider question of CR – the relationship between Heineken and other actors in the field to affect the working lives of BPs not connected to Heineken products. GHA was unsuccessful as there was little desire from other departments to take the lead role on the issue.

#### 2.4. Control

The steering group identified four possible control responses. They also assessed the major issues around each of these options. The options were:

##### I. Option - Stop selling Heineken beer in Cambodia.

The issues identified and assessed were - By stopping sales entirely, BPs would not necessarily be better off, as nothing in the beer market or the beer consumption practices in Cambodia would change, beyond loss of the presence of Heineken beers and BPs. It was felt that the loss of employment opportunity as Heineken BPs would either push these women to look for work with other companies with lower standards or to seek possibly more risky work. There was a risk that parallel imports carrying the Heineken label would be sold through BPs or through non-Heineken related distributors to satisfy unmet demand – and this would not remove the association between the Heineken brand and the situation of BPs. Finally, at the time it was unclear to what extent the practices among BPs in Cambodia were to be found in other Asian countries. Withdrawal from Cambodia might set a precedent for retreat from other markets in Asia.

##### II. Option - Sales and promotion activities could be changed, so that BPs would no longer promote Heineken beer.

The issues identified and assessed were – As with the former option this approach would not create much positive impact on the field because of the small percentage of BPs working for Heineken relative to those working for other brands. For Heineken this option was essentially the same as stopping the sale of Heineken beers in Cambodia because at the time BPs had become the primary mechanism through which Heineken beer was sold.

##### III. Option – Heineken could set out to meet the new demands set by the NGO and activist.



The issues identified and assessed were – The activist's demands included the doubling of BP's salaries. Heineken had already improved work conditions and benefits and adjusted salaries upward. Salaries were considered to be in line with the job level, the working hours (BPs work part time), the labor market and labor laws. Departing from current levels would create inconsistencies with the company's business practices elsewhere in the world as well as eroding differentials. It was also not considered sensible, logical or consistent to provide HIV/AIDS treatment for BPs when this was publicly available in Cambodia. Moreover, in Sub-Saharan Africa employees were directly contracted by Heineken in Cambodia BPs were not. Any agreement to provide HIV/AIDS treatment to the BPs would set a precedent for calls for HIV/AIDS treatment for anyone in the World performing activities connected in some way with Heineken branded products – whether or not HIV/AIDS treatment was available in their health care system.

- IV. Option - Activities aimed to improve the working standards and conditions for BPs could be continued and scaled up across the market in Cambodia.

The issues identified and assessed were – Improving the working conditions of BPs would require a shift of behaviors among all those involved in the promotion and consumption of beer in bars in Cambodia. That would require the active promotion of an industry-wide approach designed to lead to behavioral change among outlet owners, customers and involving other beer producers. Implementing this option would aim for cultural and behavioral change. It was understood this was not an easy option due to factors beyond Heineken's control, it ran the risk of failure unless there was complete participation and the alignment of key actors in Cambodia. It would take considerable time to raise awareness, design policy, control, coordinate and implement. It would imply that Heineken was acting as a leader for other actors in the Cambodian beer market including 'competitor brand owners'. However, it was anticipated that only this option would lead to the required changes in the field.

### 2.5. Implementation as Action

The steering group chose to implement option IV, to improve the working conditions of Heineken BPs and to scale that up to all BPs in Cambodia. A regional Sales and Marketing staff member was appointed to coordinate with the exporter and the distributor. All Heineken-related organizations (JV entity, exporter and distributor) agreed to make a joint self-regulation statement. Various other brewers were approached. Only two joined the initiative: Carlsberg (owning local-based brewer Cambrew) and Diageo. Together, they created the Beer Selling Industry Cambodia (BSIC). Although there was initial interest for creating an industry-wide approach from brewers such as Anheuser Busch, Asahi, Bavaria, Boonrawd, Fosters, Imbev, Singha and others, this interest did not translate into membership of the BSIC.

The two main reasons for the reluctance of other potential partner companies to join the initiative was that they noted that Heineken faced the problem over BPs, in part, because it had taken a public stance and had acquired a reputation as a result of its work on HIV/AIDS in Sub-Saharan Africa and its promotion of a wider social debate on the BP issue in Cambodia. Despite what was seen as Heineken's good intent others also noticed the company being constantly under attack despite its work. The other brewers also noted that Heineken's first round of self-regulation had decreased the mechanisms it had available to incentivizing BPs to sell its products. The brewers that chose not to join the proposed industry-wide initiative recognized that by staying outside they retained the possibility to use incentive systems that would make their BPs more receptive to consumers' demands in order to earn more money through tips.

In December 2006 the members of BSIC signed a self-regulation agreement based on nine statements. These related to compliance with Cambodian labor law of 1997 and provided regulation on: a fixed basic salary for BPs, clear supervision structures and grievance procedures, branded uniforms, transportation and driver policies, Selling Beer Safely and life skill training, zero tolerance of harassment, no alcohol consumption during working hours and monitoring of compliance and impact by an independent party. The BSIC stated in its formation document "BSIC recognizes its responsibility to improve the health and working conditions of beer promoters selling beer in the Cambodian consumer market. The industry body has agreed to industry standards and will use its influence to ensure that other stakeholders also comply with these standards."

The group initiated various coordinating activities with a spectrum of other actors in the field. BSIC organized workshops and conferences inviting NGOs, other brewers and beer sellers, the Ministry of Labour, the Ministry of Women Affairs, the national police and various other relevant constituents to participate. Heineken's distributor Attwood Ltd initiated marketing and sales campaigns that emphasized the dignity of BPs operating with the BSIC partners. BSIC developed awareness messages through sponsored TV and radio messages and undertook campaigns in beer outlets through education, information and awareness activities. Compliance with the BSIC self-regulation statements was monitored together with evaluations of the impacts of the initiative through various independent research organizations.

Heineken also reviewed the practices of its agents in Cambodia. Efforts were made at HQ to respond to numerous media requests arising out of the BPs issue. Regional managers and Corporate Relations managers collected more information on the cultural context of the BPs issue and explored the possibility for cooperation with other actors. Following in the footsteps of the GHA managers, they visited Cambodia and consulted with local actors. The steering group reviewed the effects of the company's top-to-bottom interlinked sales incentive system on the BPs' environment and work practices. The number of BPs

promoting the Heineken brand was reduced. By 2011 Attwood Ltd reported having 76 BPs promoting the Heineken brand, compared to more than 150 BPs in 2010 and close to 200 BPs in August 2005<sup>24</sup>. Attwood Ltd was urged to stop employing BPs that were not under their direct sphere of influence (for example BPs operating in smaller towns and working for owners of outlets). Despite the widespread view that the letter to the Lancet that stimulated this second round did not accurately reflect the situation of Heineken BPs, the steering group decided to make no public response.

### Postscript

According to the latest Indochina research report from September 2011 (Indochina, 2011) the working conditions for BPs who promote the brands of members of the BSIC have improved significantly during the period of 2008 - 2011. The number of harassment incidents for Heineken BPs was reduced; the use of alcohol during work is largely eliminated. Transparent and fair working conditions for BPs covered by the initiative have been implemented. The numbers of incidents or serious complaints of any kind decreased from 44% in 2008 to 6% in 2010 across the BSIC BPs who operate in Phnom Penh and Siem Reap. Improvements in conditions of employment, employment contracts, respect shown to BPs, the presence and awareness of grievance procedures and an ombudsman in the case of disputes have been recognized. All BSIC member companies had a positive response to the initiative. In contrast the BPs working for the non-BSIC members are still receiving extra tips for sitting down and drinking with clients, as a result of which they face significantly more sexual harassment from clients. These BPs report that their employers did not provide transportation to home after work.

The BSIC initiative had other, unpredicted effects. Immediately after the formation of BSIC, and the launch of its new self-regulation statements, Sirchesi renamed one of its websites 'BSICambodia'. This acronym 'Beer Sellers in Cambodia' uses the same BSIC acronym that stood for 'Beer Selling Industry Cambodia'. Web search using BSIC can direct the searcher to the activist website rather than the official website about BSIC members and their activities. Sirchesi has pressed workers' unions to confront Heineken with questions related to alcohol use, HIV/AIDS and BPs. This link between the overall BPs issue in Cambodia and the Heineken's HIV/AIDS programs in Sub-Saharan Africa is maintained despite the relative standards for BPs promoting Heineken and BSIC brands as against other companies. Ethical investor groups have been approached to ask questions related to the BPs issue at several of Heinekens' Annual General Meetings. Sirchesi reported their private

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<sup>24</sup> Internal Heineken documentation received 23 November 2011.

dialogue and public actions towards the brewers and Heineken in their annual newsletters (2005, 2006, 2007, 2008 and 2011) and on websites<sup>25</sup>.

In 2010 the Financial Times.com recognized the effectiveness of the BSIC. The article mentioned that the “Treatment of beer promotion girls in Cambodia has markedly improved in recent years as a result of a successful partnership between the government, local non-government organizations, funded in part by the UN, and The Beer Selling Industry Cambodia, which represents Heineken and Carlsberg among others” (Moore, 2010, page 1). The initiative and this report have not brought any significant reputational benefits for Heineken. Non-BSIC members have remained under the radar and received no adverse publicity. No reference can be found to any action undertaken by Sirchesi or any other actors linked to Sirchesi that set out to address the situation of non-BSIC members. There is no scientific evidence of positive actions by Sirchesi to improve the working conditions or well-being of BPs through their own action with other partners, except through the campaigns against Heineken and BSIC.

## **Discussion**

As background this chapter argues that we are experiencing a form of social activism in which the strategies of activists are targeted at companies that have leading positions in CR. These companies have policies, practices and people in place to address a wide range of aspects of responsibility, including issues raised by activists, and their reputations are partially or largely shaped by their leading CR positions. That development brings forward important questions about the way in which managerial responses to targeted forms of social activism are created, given that the company’s reputation is at stake. It also raises numerous interesting questions about the extent to which a company targeted by a social activist’ campaign can accomplish change inside the company, its industry or the field in which it operates, given its CR leadership position.

The case shows how interactions between the company and activist evolved. As Heinekens initial company-centered activities did not satisfy the activist, the stakes became higher. Heineken explored the activist claims and identified three economic boundaries or limits. The management team determined that withdrawing from Cambodia would set a precedent that could be used to argue withdrawal from any country without Western-style bars. Raising BPs salary to the level advocated by the activist was seen as undermining the reward structure of the business in Cambodia and beyond. Providing HIV/AIDS medicines and

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<sup>25</sup> [www.beergirls.org](http://www.beergirls.org), [www.ethicalbeer.com](http://www.ethicalbeer.com), [www.bsicambodia.com](http://www.bsicambodia.com), [www.angkorwatngo.com](http://www.angkorwatngo.com), [www.Siemreapngo.com](http://www.Siemreapngo.com), <http://portal.psychology.uoguelph.ca/research/lubek/cambodia/index.html>

treatments to all those linked to the company's products was seen to set a precedent for a huge number of people who would become eligible to receive healthcare treatments following from any heightened risk of HIV/AIDS associated with the sale or consumption of Heineken products. These 'economic' concerns were less about the costs to the company of meeting the activists' demands in Cambodia but more about their possible effects on the company in terms of its future operations in other countries. These assessments led to the conclusion that the only way to respond to the demands of the activist was by taking steps beyond the conditions of BPs involved with Heineken products by focusing on creating industry and field level change. However, limitations to this approach arose when trying to create the pan-industry consortium needed to bring about that industry and field-level change.

Heineken promoted the BSIC option as a way to make a difference based on its values and economic judgments. However these values and economic judgments were not commonly held among other key business players in the industry operating in Cambodia. There was a mismatch between the assessments on the value of the BSIC approach to different companies. Heineken's competitors did not want to give up their organizational space for maneuver over economic considerations such as the incentive systems for BPs. The judgment by competitors on whether to participate in the BSIC initiative seemed to be based on an economic rationale about the market value of remaining outside the initiative. Also, it is possible to argue that Heineken's position of leadership in CR and its competence in the area gave rise to the activists concerns to promote field-level change, thereby undermining its ability to get other industry actors to participate. The height of the bar and the visibility that was being set by BSIC made it too risky for most other companies to participate. Finally most beer sellers in the industry did not sign the industry self-regulation that would establish policy, implementation, control and coordinating mechanisms on industry level. Better to stay under the radar screen of the activist by remaining outside BSIC than join and be associated with a visible controversy. Collaboration with Heineken would create the risk for competitors of targeted social activism aimed at them too.

Indeed the case suggests that social activism targeted on a leading CR company did not necessarily raise the performance of the field despite the efforts of the targeted company to provide leadership for industry and field-level change. That finding raises important questions about the ability of some types of targeted activism to affect change. It raises questions about the extent to which the motivation, strategies and outcomes of activism are aligned and are evident to the actors that are targeted and that shape the current field. The case suggests that when the motives and purpose for a social activist' campaign are unknown to the company that is the subject of the campaign, managers face large challenges in developing a response. As there might be discrepancy between the demands of an activist and his true motives, it is hard for the company to formulate a response in the absence of constructive and open dialogue between the parties involved. By using the cybernetic model

this chapter attempts to understand the interaction between the activist and the company in absence of this open dialogue. It shows how company values and policies were used in combination with economic analysis of the situation to arrive at actions that then resulted in a further targeted response from the activist. The dynamic interaction caused Heineken's managers to move from a series of in-house actions that affected Heineken and its agents to field-level actions that Heineken stimulated through the industry initiative in Cambodia. This development changed the unit of analysis of the cybernetic model used to analyze the case from 'the company and its agents' to 'the field'. This was an important shift: the effect of the activist's pressure pushed Heineken into seeking to promote field level change.

Whilst Heineken's move from a company-centered response to a field-centered response changed the nature of the game, it did not seem to change the focus of the activist. In the first round the activist targeted Heineken and it could be understood as a confrontation between the activist and the company. During the second round the activist remained the focus and increased the claims on Heineken. Since Heineken judged that the root cause of the issues faced by BPs was at the field and societal level and it had limited possibilities to impact that situation on its own, the company pushed for field-level change involving multiple competing companies.

The outcome was that the company and the activist to date have not converged on solutions; rather they diverged from one another in their framing of the issues and in their responses. The case suggests that Heineken's managers tried to make sense of the motivations behind the activist campaign whilst not knowing or misunderstanding them, with the effect that the dynamic interaction between the activist and the company seemed to produce perverse outcomes for the company, the field and even for the activist. There was no forum within which the truth claims of the activist and the company could be shared and judged and there was no mechanism through which demands could be mediated.

There is no evidence on the conditions or pre-conditions for convergence and divergence of targeted social activism against companies from the existing literature. However, there have been studies of long-standing intractable disputes between companies or public agencies and the opponents of proposed infrastructure projects (Lewicki et al, 2003). These studies suggest that in at least some circumstances there is no interest on the part of the opponents to converge on mutually agreed solutions, even despite attempts at independent dispute resolution. In some cases actors can become 'entrenched' as their identities are shaped by their opposition to the other actor. It seems that this is because the activist has invested significant time and resources in developing knowledge of the issue and their opponent. Moreover, they may have made gains in their social or financial status stemming from the dispute. This can provide a motivation for wanting to see a dispute perpetuate rather than to see it resolved. Similarly, seminal work on environmental groups in the political processes

has examined the interrelation between a group's internal form and their external mission and functions (Lowe & Goyder, 1983).

This work distinguishes between groups that promote their interests against others, groups that push a particular area of interest within the political or social system, and groups that challenge policies and assumptions of the system. Lowe and Goyder's work already highlighted the tactics of some groups to use a masque, for example by using claims about the importance of an issue to society while really being interested in their own more territorial interest(s). Obviously, these observations imply a fertile ground for future research on the dynamics of targeted social activism, company responses and the conditions and dispositions that lead to resolution or not.

Finally, we set out to understand more about the decision-making of managers as they responded to targeted social activism. In particular we analyzed how company values and policies on the one side and economic considerations on the other influenced decision-making and how these were mediated through basic organizational functions and relationships within Heineken and its agents, its industry and the field in which it operates in Cambodia.

In contrast to the work by Spar & La Mure (2003) which emphasizes the importance of economic analysis (based on cost-benefit or risk-benefit analyses) combined with the personal motives of senior managers in leading to responses to activists concerns, in the Heineken case it was the interpretation of existing company values and policies by senior managers that determined the broad direction of the company's response. That response involved a commitment to allocate resources to understand the real nature of the problem brought to the company's attention by the activist. It also caused the senior management team to look at the companies' policies and to review its structural ability to respond to the issue through control or co-ordination mechanisms it already had in place. This resulted in a revelation of a gap in the current policies as they had only been defined for employees directly employed by the company where it had managerial control. This meant that the company could not raise its own bar over the working conditions of BPs without putting in place appropriate policies and mechanisms for control and coordination that were agreeable to the distributor of its products. Resources were allocated to put in place a team capable of identifying and understanding needs of BPs and making the new guidelines for BPs work in Cambodia. Implicitly the economic considerations implied that the benefits to the company of consistency with its values and the maintenance of its reputation outweighed the direct costs attributed to setting up this team, the time devoted to creating and implementing new policies, the costs of those policies and the possible effects on market share of the actions that were taken in relation to BPs. This economic assessment was 'implicit' simply because the assessment of financial costs and benefits was not made in any explicit way by Heineken at any point in time. What was explicit was that the company maintained consistency with

its values and standards and the responses to the activist were regarded as a cost for the company of doing business in Cambodia. Thereby the case shows a far more complex set of factors is at play in the process of decision-making by Heineken than is suggested by the work of Spar and La Mure (2003). It indicates the important role of evidence, codified company values or business principles, managerial interpretations of those principles and a number of economic considerations. The case also points to the importance given to the assessment of the adequacy of existing policies, and mechanisms for control and coordination, as well as looking for ways to implement change. The formulation of new policies, and the means for the control and coordination of actions implied some managerial innovations.

How economic assessments and corporate principles combined with policies, controls and coordination mechanisms in the work of management teams set up to respond to responsibility issues and how their assessments are argued with the senior management and boards of companies are not just matters of serious interest for future research, but it will shape the future of business and society. Indeed the evidence from cases of this kind not only informs scholarship, but it influences the choices and actions of managers and activists and can make its way into the development of managers in business schools and other centers for management education and development.

## **Conclusions**

We are entering a new period of social activism targeted on companies with high level commitments to CR with staff who are more dedicated and knowledgeable than ever before. This chapter explores the factors that contribute to this development and considers some of the implications for business and society, companies, management, and research. Despite calls for more case research looking at managerial responses to social activism we identify that there is precious little empirical research that has studied the interaction between activists and the decision-making of managers, and the consequent outcomes for business and for the individuals and organizations that surround the social issues that provide the focus of activism. Existing cases predominantly look back at events through interviews and documentary evidence. The view taken by those papers is often from the vantage point of the activist and less from the viewpoint of the company and its managers. Our research has looked at managerial decision making in companies confronted by these issues through a longitudinal study that took place as events unfolded.

The case differentiates between the contribution of company values and policies and economic considerations as factors in decision-making as well as the capacity to effect change through policies and mechanisms for coordination and control. It illustrates the way company values and policies are used in combination with economic factors to influence



managers in the options they assess for future action. It goes further by suggesting that other factors also conditioned the decisions made and in turn influence outcomes – these factors center around the basic functions of any organization – sensing and making sense of changing contexts and the motivation(s) of activists, the policies that are in place or that are needed in relation to the nature of the problem, assessment and ability to actualize structures available for control and for co-ordination and those used to take action. This chapter also illustrates how these factors connected with other actors beyond the targeted company and the case gives some indication that industry and field level change needs willing collaborators with shared commitments to resolution of the issues.

The study indicates that it is not easy for managers to know what the motivation is for social activism. While activist claims are normally clear, the reasons for those claims are often obscure and remain obscure. Moreover, the case suggests that paradoxical outcomes can arise from targeted activism. From a company perspective progress can be made on the issue at hand yet reputations can still be tarnished. Campaigns can fail to deliver field-level change paradoxically because the company targeted to leverage change is a leader in the area of CR.

In terms of the methodology and findings from the research some important limitations have already been mentioned. This study focuses on the case of one beer seller in Cambodia as seen from the company's perspective. We know the case and the analysis could have been cut many other ways – from the viewpoint of the activist, the company, the activist and company, the field as a whole, a comparison of the response of two companies in the field and so on. Each of these approaches has its own research purpose, methodological opportunities and limitations.

In the absence of other studies what was done empirically and reported in this chapter is a first attempt to present results from a longitudinal, multi-level study of the effects of a particular social activism strategy looking out from the management teams that were formed in response to the activist's pressure. We do not make claims about the generalizability of our findings. This type of case seems to be relatively rare but the more recent Nestlé palm oil issue of 2010 suggests that it is highly likely that similar examples of campaigns targeted on leaders in CR will occur in the future. However, while the case is presently unique what is suggested by the findings of the case is not trivial. And given the poverty of theory and empirical evidence at this level of study our intent was to explore the case in depth and capture its essence so that in time other scholars might add similar cases and in that way provide a foundation for the development of 'grounded theory' of managerial decision-making in response to social activism and CR.

Despite the limitations of this single case we suggest that the approach used offers the reader the possibility of real insight into the complex, dynamic, ragged and uneven process of interaction, decision-making and change. Processes that will become more important and more evident into the future of business and the social and environmental concerns businesses raise for society. We also acknowledge that the use of the cybernetic model of CR has enabled more insight to be gained about how matters unfolded than has been possible from previously published cases. In fact this case represents the first occasion that this model has been used to structure a company's response to a CR issue.

The findings from using the model in association with the case method suggest that the model deserves to be applied in other situations where companies are responding to changing settings and activist demands.

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## **INTRODUCTION TO CHAPTER 5**

Whilst the previous three chapters focused on managerial responses to social and socio-political problems, the second part of this dissertation reviews the era of Corporate Responsibility from the perspective of a stakeholder group that is concerned with these problems and have been active in tackling them: Religious Organisations (ROs). Given the beliefs of ROs, one might expect them to act in accordance when investing. The last two chapters are therefore related to ROs and their investment practices. This chapter gives a general outline of ROs as investors whilst the next defines what features of ROs are beneficial for shareholder engagement. An important question for ROs is how to make investments in, and to earn returns from, companies and activities that are consistent with their religious beliefs or that even support these beliefs. Religious organisations have pioneered responsible investment. Yet little is known about their investment attitudes. This chapter addresses this gap by studying faith consistent investing. Based on a survey complemented by interviews, we investigated religious organisations' attitudes towards responsible investment including opinions, practices and the impediments for implementing faith consistent investing. Although our results cannot be generalised because of the non-random character of our sample, six main characteristics of faith consistent investing are drawn: investing is not perceived as being in contradiction with religious values but respect to faith is key; religious values are important drivers; there is a strong community around faith consistent investing; religious investors are pioneering impact investing; implementing faith consistent investing is not without difficulties; and practices vary across regions. The survey also reveals that faith consistent investing has many commonalities with secular responsible investors.





## **Chapter 5**

### **From preaching to investing: Attitudes of religious organisations towards responsible investment**

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## Introduction

Religions have always expressed a concern about how to harmonise the values they preached and the realities of commercial or business activity. More concretely, their concern about how to combine ethical virtues and different investment practices goes back at least several hundred years (Domini, 2001). For example, efforts to reconcile religious beliefs and investment can be traced in the Jewish doctrine of 3,500 years ago or in the Catholic tradition with regard to the practice of taking interest on a loan and in other types of contracts: ‘if equality is not maintained, whatever is received over and above what is fair is a real injustice’ (Benedict XIV, 1745).”

Religious organisations, especially in Europe and North America, are important investors with sometimes substantial investment volumes. It seems therefore reasonable and legitimate for religious organisations to raise and address the question of how to make investments in, and to earn returns from, companies and activities that are consistent with their religious beliefs or that even support these beliefs. As a result, religious organisations have pioneered modern forms of responsible investment (RI) (Kreander et al., 2004; Sparkes and Cowton, 2004) in that they believed that investing was not a neutral activity, but implied values. For example, they shunned “sinful” companies whose products conflicted with their basic beliefs. The 1999 Trend Report of the US Social Investment Forum stated:

“In the mid-1900s, the founder of Methodism, John Wesley, emphasized the fact that the use of money was the second most important subject of New Testament teachings. As Quakers settled North America, they refused to invest in weapons and slavery” (US SIF, 1999).

In 1971 the Methodists in the US established the Pax World Fund which avoided investment in businesses involved in armaments, alcohol and gambling. Also, Islamic banking and finance has grown rapidly in the last years (Kinder and Domini, 1997; Schwartz, 2003; Statman, 2005; Kettell, 2008).

Although the significant role played by religious organisations in the field of RI has been recognised by practitioners and academics, little is known about their investment beliefs and practices. RI in general has gained considerable attention in the literature, but the focus has mainly been on the financial performance of RI funds (e.g. Diltz, 1995; Statman, 2000; Bauer et al., 2005; Barnett and Salomon, 2006; Bauer et al., 2007; Amenc and Le Sourd, 2010), the operation of RI funds (e.g. Sparkes and Cowton, 2004; Graaf et al., 2009; Sandberg et al., 2009), RI investors’ behaviour (e.g. Anand and Cowton, 1993; Lewis and Mackenzie, 2000; Lewis, 2001; Keller and Siegrist, 2006; Glac, 2009), shareholder engagement (e.g. Hoffman, 1996; Graves et al., 2001; Clark and Hebb, 2004; Clark et al., 2008) and on the

information stream (e.g. Nilsson et al., 2010; Rhodes, 2010). This reflects the general lack of research into religious organisations investment and accounting practices (Booth, 1993; Duncan et al., 1999; Kreander et al., 2004).

This paper addresses this gap by studying the attitudes of religious organisations towards responsible investment. Attitudes can be defined as “learned predispositions to respond in a consistently favourable or unfavourable manner with respect to a given object” (Fishbein and Ajzen, 1975), or in other words as a positive or negative evaluation of an object of thought. Attitudes are abstractions; they are hypothetical or latent variables rather than an immediately observable variable (Green, 1953). According to Green (1953), the concept of attitude does not refer to any one specific act or response of an individual, but it is an abstraction from a large number of related acts or responses. In this paper we study the opinions and practices of religious organisations towards investing in general and more especially towards responsible investing. Opinions and practices are both expressions of attitudes (Katz, 1960), one being verbal and the other behavioural. Opinions refer to the cognitive component of attitude, that is the thoughts and beliefs people hold about the object of the attitude, while practices refer to the behavioural component of attitude, that is the dispositions to act in certain ways toward an attitude object (Breckler, 1984; Crites et al., 1994; Ostrom, 1969; Rodrigo and Arenas, 2008). In this paper, religious organisations’ attitudes are investigated through a survey. This study brings insights into not only an important RI player but also one of largest groups of investors in the world<sup>26</sup> that can play a significant role in creating change towards sustainability through their investment practices.

The paper is structured as follows. First, it reviews background on RI and its link to religious organisations. Second, it presents the methodology of the study. Third, it details the results of the survey and the main findings. In the final section, it provides conclusions and discussions in which research and managerial implications are outlined.

## **Background**

### **Responsible Investment**

Although there is considerable debate as to what truly constitutes RI (Cowton, 1994; Sparkes, 1995; Cowton, 1998; Sparkes, 2001), it can be described as a product, a practice and a process (Louche and Lydenberg, 2011). Responsible investment is an investment product in the sense that in addition to financial factors, investors acquire, hold, or dispose of companies’ shares on the basis of environmental, social, governance (ESG) factors as

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<sup>26</sup> According to His Excellence Mr Ban Ki-moon, United Nations Secretary-General, speech at the Celebration of Faiths and the Environment in Windsor in November 2009.

well as ethical factors. It is a practice in the sense that RI is a way to identify companies with strong corporate social responsibility (CSR) records and to engage with companies to encourage improved CSR performance. And RI is a process through which investors try to influence corporations' behaviour on a range of social, environmental and ethical issues.

Responsible investment manifests itself in many ways and, not surprisingly, goes by many names—it is variously referred to as socially responsible investing, ethical investing, sustainable investing, triple-bottom-line investing, green investing, best-of-class investing, ESG (environmental, social, and governance) investing, impact investing, and most simply and more recently responsible investing. These different names reflect in part the evolution of the RI field over time. If RI started as a marginal movement in the United States several hundred years ago, today it is known and practiced throughout the world. Although precise figures are difficult to come by, there has been a significant growth of assets under RI management since the late early 2000s. In the United States, RI assets under management were at \$3.07 trillion in 2010, representing 12.2 percent of the \$25.2 trillion in total assets under management (US SIF, 2010). RI assets increased by 380 percent from 1995 to 2010. In Europe from 2002 to 2010, RI asset under management has been multiplied by almost 15. Eurosif has placed the value of the RI market at €5 trillion as of December 31, 2009 (Eurosif, 2010). However its understanding, practices and the actors involved have changed over time. Louche and Lydenberg (2010; 2011) have identified five phases in the development of RI.

- *Roots phase, 18<sup>th</sup> Century.* This is the very early stage of RI. The main actors were religious institutions.
- *Development phase, 1970s to late 1980s.* This phase marks the beginnings of RI in the contemporary sense of the term during which RI was transformed from a faith-based activity into an activity promoting a public awareness of the social responsibility of corporations (the self-conscious phenomenon of RI) (Sparkes, 2001). During this phase RI is particularly driven by political and protest movements of that time such as the anti-Vietnam War and anti-apartheid in South Africa (Louche and Lydenberg, 2006). In the 1980s, RI also took root in Europe (The Friends Provident Stewardship Unit Trust in 1984). Simultaneously, a number of RI support organisations were created, such as the Interfaith Center on Corporate Responsibility (ICCR) in 1971.
- *Transition phase, 1990s.* During the early 1990s, RI began a gradual transition to a less confrontational approach with a strong growth in environmental concerns. During this period emerged the so-called green funds, especially in Europe. This period also saw the number of social rating agencies and RI indexes grow rapidly.

- *Expansion phase, 2000s.* The beginning of the twenty-first century heralded a turning point for RI in both its approach and its growth. Professionalisation and growth characterise this period. RI began to find acceptance in the mainstream investment community, leaving behind its more activist image and becoming a more commercially viable endeavour (Déjean et al., 2004; Louche, 2004).
- *Mainstreaming phase? 2010s.* Around 2010 RI stood at a crossroads. Its increasing acceptance by institutional investors was marked by such events as the launch of the Principles for Responsible Investment (PRI) in 2006. By 2010, the PRI had grown into a coalition of more than 800 of the largest institutional investors and asset managers worldwide, representing some \$22 trillion under management. This current period could well mark the mainstreaming of RI.

Gradually the role of religious organisations in the different phases became less and less dominant to become secondary today. Religious origins are still found in the secular RI community, although their presence is less obvious. As RI has been adopted by mainstream financial institutions, they have become the main actor both in the discourse and practices of RI but also in academic research. Nonetheless religious organisations are still active RI actors through what we call in this paper Faith Consistent Investing (FCI). Networks like ICCR and 3iG, which promote responsible investment among religious organisations, are quite representative of the interest of this group of investors.

## **Religious organisations and RI**

If one wants to study the investments made by religious organisations themselves, it is important to understand the characteristics of religious organisations and to have an historical perspective on the involvement of religious organisations in the activity of responsible investment. We begin by providing a description of religious organisations and then we present the role and engagement of religious organisations in the RI movement.

### **The nature of religious organisations**

A precise definition of religious organisations can be elusive. Indeed there are different definitions and the scope of the concept might vary creating potential problems for interpretation. As expressed by an Israeli Internal Relations Professor talking about Jerusalem:

“The question is: what is a religious institution? Is it just a church or also a monastery or a hospital? Is it just a synagogue or also a private mikve [ritual pool] or yeshiva [Talmudic academy]? Is it a church library, a church-run women’s club?

What about other Christian denominations, the Muslims, the Druze and Bahai? There is no end to it. In the 'Holy Land', everything is someone's religious institution." (Cohen, 2010)

In short, what constitutes a religious organisation is not self-evident. Even within a religion, the legal and organisational structure may vary as well as the decision-making process. Those variations are of importance as they may produce different decision making processes and thereby directly influence the practices of religious organisations towards responsible investment. Some religions establish corporations to facilitate business activities, while others operate through unincorporated associations. Even religions as established as the Anglican or Catholic Churches do not have an easily identified legal existence (Gordon Pole, 2005) and often consist of multiple organisation forms. For example when considering the Catholic Church, there are at least three kind of organisations one might encounter in the universe of investors: the diocese, the religious order and the non-profit organisations like universities and hospitals. These organisations might be legally subordinate to a bishop or a religious order but also be governed by a lay board of trustees, which is often the case at universities and colleges.

In the field of business ethics, Valor et al. (2007) define 'a religious group' as any religiously inspired organisation, which includes a very broad range of organisations. According to the sociologists Stark and Bainbridge (1987) a religion must be based on some "supernatural assumptions", that is related to things that are not immediately available, to distinguish it from secular thought. In their view religions involve "systems of general compensators based on supernatural assumptions" (1987). By compensators they mean whatever people regard as rewards whether or not they are immediately apparent (Stark and Bainbridge, 1987). Thereby, the core task of religious organisations is the provision of supernatural compensators (e.g. religious doctrines) as well as temporal rewards (e.g. church membership). Another important characteristic of religious organisations based on Durkheim's definition is that they involve collective actions (Durkheim, 2003).

For the purpose of this paper, we have defined religious organisations as organisations whose structure and membership criteria is derived from a certain body of doctrine and belief and are devoted to cultivate among their adherents or followers (and sometimes promote among others) a particular form of religious practice and worship that is expressed in ritual forms. These organisations are clearly distinguished from government, public or private secular associations or institutions and corporations. One could also distinguish them, in a narrow sense, from other institutions that religious organisations may sponsor like NGOs, charity organisations, schools or universities, which are established to realise a specific priority of the religious tradition or mission. Yet, in practice, the boundaries between a narrower and a broader sense of the term are not easily drawn and our study includes both.



## **Religious investment and responsibility**

The first RI funds were launched by religious organisations both in the United States and in Europe (Louche and Lydenberg, 2006). In the early 1900s in the United Kingdom, the Methodist Church set up a fund that avoided investments in certain sectors and in 1984 Friends Provident, a Quaker-affiliated insurance company, launched its socially screened Stewardship Fund. In Sweden, the Church of Sweden established the Ansvar Aktiefond Sverige in 1965. In France, Nouvelle Strategie Fund, the first RI fund, was launched in 1983 by Nicole Reille, the finance officer of the Notre-Dame Order in Paris. In 1990, the Netherlands saw its first RI fund created by ABF, Het Andere Beleggingsfonds, an initiative of Church groups and environmental movement. In Finland, the Church of Finland was involved in launching the two first ethical funds; in Germany, early ethical funds were launched by local Church banks such as the KD Fonds Ökoinvest in 1991. And in the United States, the Methodists and Quakers set up the Pax World Fund in 1971.

Religious organisations also have been very active setting up organisations that have played an instrumental role in the development of RI such as rating agencies. For example, Ethical Investment Research Service (EIRIS) was created in 1983 jointly with the Quakers, the Church of England, the Church of Wales, the Methodists, the Presbyterian Church of Ireland and the Society of Friends and some charities (Mackenzie, 1997). In the US, religious groups initiated the Interfaith Center on Corporate Responsibility (ICCR) in 1971 in response to a concern for the situation in South Africa. In 1972 a group called the Christian Concern for Southern Africa (CCSA) was founded in order to campaign and lobby banks and investors on the apartheid issue. In 2005, the International Interfaith Investment Group 3iG was set up to promote interfaith cooperation in the investment sector.

This brief historical review shows the importance of religious groups in stimulating and launching the field of RI. Their main objective was to put religious beliefs into practice, to harmonise the spheres of values and business, and to use any available tools to have a positive social impact. Because of this specific goal, directly linked to their beliefs, RI practiced by religious organisations is called 'Faith Consistent Investing' (FCI) (Rossetti, 2005). One of the characteristics of FCI has been the "avoidance strategy" or what is also referred to as the exclusion of "sin stocks" such as tobacco, gambling, pornography and alcohol. This approach corresponds roughly to the motivation of avoiding companies engaged in businesses or practices regarded as unacceptable or unethical. The underlying moral principle here is "do no harm".

Today religious organisations are still very active. One needs just to look at religious indexes launched in the last fifteen years such as the FTSE Global Islamic Index Series in 1998, the Dow Jones Islamic Market Index family launched in 1999, the India Islamic Index in 2008,

the Dharma Indexes in 2008 or the STOXX Europe Christian Index in 2010. There are also many examples of FCI initiatives taken by religious organisations. The Church of England created in 1994 the Ethical Investment Advisory Group, a group of religious and investment specialists that debate issues relating to the church and ethical investment<sup>27</sup>. The international Roman Catholic Missionary Oblates of Mary Immaculate has set up investment committees on local and central levels to ensure their investment activities are guided by Catholic Social principles. This same religious community uses also very actively its shareholders rights to promote “a more equitable and sustainable world”<sup>28</sup>. The Union for Reform Judaism resolution of 1997 states “.... Socially responsible investment policies and practices are not an optional commitment. They are an organic expression of our core beliefs”<sup>29</sup>. The Protestant Methodist movement has large RI funds through their UK-based Central Finance Board of the Methodist Church<sup>30</sup> and the US-based General Board of Pension and Health Benefits that supervises and administers retirement plans, investment funds, and health and welfare benefit plans<sup>31</sup>. The US-based National Jesuit Committee on Investment Responsibility, besides having a RI policy for its institution, also calls upon its followers to practice RI, by means of “staying informed, praying, proxy voting and information sharing”<sup>32</sup>.

Despite the historical role of religious organisations in developing RI and the many current FCI activities, little is known about religious organisations attitudes towards responsible investment. Many scholars have studied the role of religion in the broader field of CSR and business ethics (Acquier, 2005; Brammer et al., 2007; Van Buren, 2007; Hui, 2008; Ramasamy et al., 2010; Williams and Zinkin, 2010). A special issue of the Business Ethics Quarterly (Vol. 7, N°2, March 1997), for example has been devoted to religion and business ethics. But very few have focused on FCI. The few existing studies have a limited scope. Some of them focus on a specific country like Valor and de la Cuesta (2007) who investigated investment demands from religious groups in Spain, or Kreander et al. (2004) who looked at the UK market. Other studies have focused on a specific RI activity like Van Buren (2007) who examined religious shareholder activism in the United States. A third set of studies looked at some specific religions. For example Schwartz et al. (2007) examined RI from a Jewish perspective; Kreander et al. (2004) studied stock market investment practices of the Church of England and UK Methodists; and several articles are focusing on

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<sup>27</sup> For more information see the Church of England’s website, [www.cofe.anglican.org/info/ethical](http://www.cofe.anglican.org/info/ethical), accessed on February 26, 2011.

<sup>28</sup> For more information see OMI Justice and Peace/ Integrity of Creation Office’s website, [www.omi-usajpic.org](http://www.omi-usajpic.org), accessed on February 26, 2011.

<sup>29</sup> For more information see Union for Reform Judaism’s website, [www.urj.org](http://www.urj.org), accessed on February 26, 2011.

<sup>30</sup> For more information see The Central Finance Board of the Methodist Church’s website, [www.cfbmethodistchurch.org.uk](http://www.cfbmethodistchurch.org.uk), Accessed on February 19, 2011.

<sup>31</sup> For more information see The Central Finance Board of the Methodist Church’s website, [www.cfbmethodistchurch.org.uk](http://www.cfbmethodistchurch.org.uk), Accessed on February 19, 2011.

<sup>32</sup> For more information see [www.jesuit.org](http://www.jesuit.org), Accessed on February 19, 2011.

Islamic mutual funds (Naughton and Naughton, 2000; Al-Amine and Al-Bashir, 2001; Archer and Karim, 2002; Delorenzo, 2002; Forte, 2007). To our knowledge, only one study, Ghoul and Karam (2007), made a comparison of Christian, Islamic and RI mutual funds. Finally a last set of research concentrates on issues related to risks, return and performance integrating religious principles in investment strategy (Girard and Hassan, 2008; Hood et al., 2009).

## **Method**

For the purpose of the research we conducted an online survey among religious organisations worldwide and addressed to all types of religions. The next paragraphs present the sample, the questionnaire and the limitations of the study.

### **Sample**

As mentioned above the aim of this paper is to provide insights into attitudes of religions organisations towards responsible investment. One of our first challenges was to create a database with a broad scope of religious organisations both in terms of geographical spread and religion. To our knowledge, such database does not exist. Two approaches were used to reach our targeted sample.

The first approach was based on Internet search. The aim was to collect contact information from religious organisations around the world. This was done religion by religion. The Internet search led to a database of 316 Christian, 142 Baha'i, 133 Buddhist, 13 Shinto and 13 Hindu representatives of organisations. Through this mean, we managed to create a database of 614 e-mail addresses.

The second approach was more targeted. We asked several Religious Investor Groups (RIGs) around the world to co-operate with us on this research project. Five RIGs responded positively, namely Interfaith Centre for Corporate Responsibility (ICCR) based in the USA, International Interfaith Investment Group (3iG) and Oikocredit based in the Netherlands, the Ecumenical Council for Corporate Responsibility (ECCR) in the UK, and the Shareholder Association for Research and Education (SHARE) in Canada. Many of those organisations have an international reach in terms of members although Anglo-Saxon members remain dominant. Through this second approach the survey was sent to 513 religious organisations' representatives. Databases of the Religious Investor Groups overlapped slightly. As a result some members of the targeted group have received the survey request from several RIGs. Note that only one representative per organisation was allowed to answer.

In the second approach we were sometimes provided with the full database but many times the RIGs sent the survey themselves. Such approach implies losing control on the database as the RIGs took full responsibility in sending the survey and reminders.

In total the survey was sent to 1127 people. However the first approach to reach our targeted sample was not very successful as many of the e-mail addresses were not active anymore and bounced back when we sent the survey or were never opened (459 in total). We have to recognise that Internet sampling may lead to sampling errors and poses special problems for sampling target populations. Internet is vulnerable in inducing invalid response (Best and Krueger, 2004). Therefore we can consider that the survey was sent to 668 people. Based on those calculations, we can approximate the response rate at 15.42 percent. The submission period for completing the online survey was from 20th October 2009 to 5th January 2010.

## **Survey**

### **Design and testing**

Prior to the survey, we conducted two focus groups on the 16<sup>th</sup> of July 2009. In total twenty five representatives from different religions --Jewish, Christian, Islamic-- participated in the focus groups. The representatives were all involved directly or indirectly in the financial management of their respective organisation. The objective of the focus groups was to get insights into the beliefs, practices, gaps, barriers and incentives bearing on faith consistent investing as well as grasping the vocabulary used by religious organisations when talking about RI. The focus groups were tape recorded and transcribed verbatim.

A first draft of the survey was designed based on the inputs from the focus groups and the literature review. The survey was tested on over ten experts, from various institutions, religions and countries. The test group included academics –especially experts in survey designs –, practitioners from religious organisations and experts in responsible investing. The aim was to get detailed feedback on the survey on content, format, length, and style/wording. This feedback was especially important because the questionnaire was to be sent to a very broad range of religious organisations in different countries.

Representatives of the sampled religious organisations were contacted by email and asked to fill in the online questionnaire. The questionnaire was only available in English.

In addition, we had access to 3iG's data and knowledge. Throughout the project, from the conception of the survey to the analysis of the results, we had regular discussion with 3iG's team and some of 3iG members. 3iG's insights and experience has been extremely helpful

and useful also for the analysis of the results, in order to contextualise, reflect and make sense of the data.

## **Questionnaire**

The questionnaire was organised in four sections: opinions towards investing, existing RI practices, impediments/facilitators for investing in RI and finally general information on the institution represented and the respondent. The design of the questionnaire was based on previous academic research such as Guyatt (2006), Glac (2008), Lewis and Mackenzie (2000), Schaefer (2004), Juravle and Lewis (2008), and Amaeshi (2010), practitioner reports such as Eurosif (2010) and US SIF (2010) and practices from social rating agencies such as EIRIS, Sustainalytics, and SAM. Valor and de la Cuesta (2007)'s paper has been an important source for structuring the questionnaire. Table 1 provides an overview of the variables used to build the questionnaire and the sections below detail the four first dimensions.

## **Opinions**

Participants were questioned on their opinions about the activity of investing. The objective was to explore the opinions of religious organisations with regard to the activity of investment in general and more especially RI and FCI. Do religious principles prohibit or inhibit investment? Is the activity of investing disconnected from religious beliefs? Do they perceive potential positive impacts between their investment activities and societal wellbeing? But also are there some RI practices that are more appropriate or acceptable than others?

The representatives of religious organisations were asked to indicate the extent to which they agreed with 16 statements. The statements related to the potential impact of investment practices on society in general, and on business activity in specific. There were also statements linking investment practices and respondents' faith. Last, respondents were asked to state the degree to which they believed they should be active owners of their shares (in other words, to what extent they felt they should be engaged shareholders).

## **Practices**

In this section, participants were asked about their current investment practices. We investigated four main aspects: negative screening, positive screening, engagement and impact investing. The three first categories represent the three dominant strategies in the RI field. Negative screening refers to the avoidance strategy approach. It seeks to avoid investing in companies engaged in businesses or practices regarded as unacceptable or

generally harmful to society. It can be based on the exclusion of certain sectors or of certain activities. Positive screening refers to what is often called ‘best-in-class’ approach or also relative selection. This approach aims at selecting sector leaders on environmental, social, and governance (ESG) criteria. It invests across all industries and sectors, selecting the best-performing companies in each. It is often based on numerous indicators related to aspects on the environment, corporate governance, business ethics, employees, contractors and customers, and community involvement. The third approach, engagement, refers to shareholder activism or dialogue. It aims at entering into a dialogue with companies and engaging with them to voice shareholders’ concerns on ESG and ethical issues. The engagement approach can be done via either confrontational or soft actions.

Impact investing is a new upcoming approach in the field of RI (Cordes, 2010; O’Donohoe et al., 2010; Van Cranenburgh, 2010). The definition in its most simplified way is “investments intended to create positive impact beyond financial return” (O’Donohoe et al., 2010). Impact investing can be described as investments that explicitly aim to solve social or environmental challenges or promote community development while generating financial returns. It focuses on investing solely in initiatives, projects or companies that have a clear and direct positive social and environmental impact, rather than industry-benchmarked companies according to certain environmental, social and governance criteria. Religious institutions have historically been at the origin of this approach although, as with their contribution to RI in general, their role tends to be neglected in the literature. For example, the 2010 report co-produced by Global Impact Investing Network (GIIN) and J.P.Morgan (O’Donohoe et al., 2010) does not mention religious organisations at all. Nonetheless Methodists, Catholics, Mennonites, Baptist and Jewish organisations have been involved in impact investing over decades (Bugg-Levine and Goldstein, 2009). While for a long time impact investing did not attract much interest and remained a very marginal activity, these last years the movement is growing and starts to attract a wide range of investors (O’Donohoe et al., 2010). Among religious organisations, some of the most recent examples include the Positive Social Purpose Lending Programme focusing on housing, education, health and microfinance, the Global Solidarity Forestry Fund (forestry in Mozambique), the Catholic Health Initiative and the cleantech and microfinance fund in Paraguay named Saron Risk Capital Funds. Also on an interfaith basis, religious organisations have joined forces to create social impact, as in the Isaiah Fund, focusing on community development and affordable housing (Van Cranenburgh, 2010).

In total, participants were asked 12 questions, the purpose of which was to supply evidence on the actual investment practices of religious organisations. In addition, information was captured on who makes decisions and whether there are written investment policies.

### **Impediments/facilitators for investing in RI**

Several studies in the field of RI have focussed on the impediments for responsible investment (Guyatt, 2005; Amaeshi and Grayson, 2006; Guyatt, 2006; Juravle and Lewis, 2008). Jurvale and Lewis (2008) identified three types of obstacles: individual (cognitive biases and belief systems); organisational (internal structures, processes and cultures); and institutional impediments. Examples of this last type are the structure of the investment value chain, regulatory and mimetic pressures on trustees and fund managers, and financial market inefficiencies. Valor et al. (2007) found that “unlike individual investors, institutional investors [they are talking about religious investors, although in a very broad sense] do not think that the main constraint on investing ethically is the lack of economic performance of RI products”. It also found that “if offered a product closer to their needs, they would increase the amount invested ethically by over 15%”. In addition, they identified a lack of information available in the Spanish market as one of the major obstacles. In other words, the main obstacles in that context appeared to be institutional rather than individual or organisational.

Our questions were designed based on those insights. However, the individual types of impediments were left out as it was already tackled in the attitude section. Respondents had to react to 14 statements that explored the factors that may hinder or stimulate change in their investment practices. The objective was to identify barriers and incentives for aligning religious organisations’ investment practices and religious beliefs.

We designed questions about the way respondents perceived the process of FCI. They were asked a series of questions about whether or not they thought they had a control into the way money was invested. For example, this section of the survey included a question about the role of the financial advisor but also questions about their perception of investment products in terms of complexity. They were questioned about the adequacy of the investment products offered, whether or not they were aware of RI and whether or not those products responded to their needs and demands. Some questions addressed the issue of the perceived financial profitability and risks of aligning investment strategies to their faith principles.

In addition participants were asked about the features that could stimulate (or inhibit) FCI in their organisations. The questions addressed aspects related to financial returns, societal impacts, companies’ behaviour, and tools available.

In Table 1, we summarise all the factors and dimensions as well as the variables that formed the survey used in this study. We also point to the academic sources that served as references to design the survey.

**Table 1 – Overview table of the variables**

Factors/Dimensions	Variables	Inspirational sources
Opinions towards investing	Religious prohibition or limitations on financial investment About impact of investment on society About social impact of RI About financial impact of different RI practices and strategies	Glac (2008), Lewis & Mackenzie (2000), Schaefer (2004)
Existing RI practices	Negative screens Positive screens Impact investing Engagement Responsibilities and leadership Explicit written policies	Eurosif (2010a, b), US SIF (2010), Social rating agencies such as EIRIS, Sustainalytics, SAM
Impediments / facilitators for investing in RI	Organisational (internal structures, processes and cultures) Role of financial advisor Adequate products available Profitability Risks Evidence of social impact Evidence of change in company behaviour Tools available Complexity of RI products	Guyatt (2006), Amaeshi (2010), Juravle, C. & Lewis, A. (2008), Valor & de la Cuesta (2007)

### Limitations

The methodological choices and constraints are not without consequences on the results. We would like to discuss three main limitations that are of particular importance when analysing and interpreting the findings.

It is difficult to ascertain how many religious organisations there are in the world. Hence, it is also difficult to know what an appropriate size of sample would be for a study like this.



Clearly, the Internet research to identify religious organisations worldwide bore little fruit. This led us using the existing religious investor groups that, by their very nature, included religious organisations that were already interested and involved in FCI. This resulted in a non-random sample; hence, all statements and conclusions should be used with extreme caution. It may be said that this is purposive sampling: the survey was directed to those probably already knowledgeable on the topic.

The second and third points relates to the geographical and inter-religious scope. The second important limitation is language. The study was conducted in English, which has certainly kept potential respondents from participating despite our efforts to try to involve religious organisations in countries like France, Belgium, Spain and The Netherlands. The language was a crucial obstacle and limited the geographical spread of the sample. As a result our sample is highly biased towards English speaking countries.

A third limitation is the variety of religions represented in the sample. Although we intended and tried to get a mix of religions, our sample ended up being highly biased towards Christianity, mostly from North America and Western Europe. This bias maybe explained by the networks we used to construct our database, the RIGs. Indeed the RIGs that have helped us with distributing the survey were for most of them based in North America (ICCR, SHARE). The majority of the members of those RIGs are Christians even if they target all faiths. At any rate we should conclude that certain religions are more involved than others in FCI.

Despite these limitations, the survey and its analysis offers a first provisional overview of some of the attitudes of religious organisations towards responsible investment, which will contribute to further studies.

## **Results**

In this part of the paper we present and analyse the results of the survey. The results are organised into four parts: ‘opinions’ in which we present what religious organisations think of the activity of investing as well as the appropriateness of the different RI approaches; ‘practices’ in which we portray the reported RI practices of religious organisations; ‘barriers/facilitators’ in which we report on the perceived impediments for religious organisations to practice FCI; and ‘regional differences’ in which we address the issue of regional specificities. Before going into the core of the survey, we start by describing the respondents.

### **Respondents**

## Geographical and religion distribution

Responses were received from 103 organisations, of which 57 were from North America, 22 from Europe, 4 from Africa, 3 from Asia, 1 from Oceania and 16 unknown (as they didn't answer to the question on national origin). The responding organisations can be roughly divided into three main categories which, although different, are all steered by trustees that are expected to guide their organisation in accordance to their religious beliefs: (1) a large majority (78.8%) were religious institutions with the mission of continuing and spreading their religious beliefs such as churches, diocese, congregations, and orders; (2) a smaller group (12.1%) consisted of either financial organisations managing directly religious organisation's funds or for a very small number organisations specialised in services to religious organisations with regard to responsible investment; and (3) a last group (9.1%) represented institutions that are religiously inspired but the religion serves as a guide for reaching certain objectives (health / fair trade / education) rather than being the objective in itself.

The majority of respondents (90%) were of the Christian religion, and within Christianity, most respondents were Catholics (68%). Out of the 103 respondents, 81% completed the whole survey. Although we aimed at having a very diversified sample in terms of geographical scope and religions represented, our sample is biased towards one specific religion, namely Christian, and respondents are dominantly from one region of the world, 55% are from North America. Moreover, the 21% respondents from Europe are dominantly from the UK. Those indications are important to keep in mind when analysing the data.

## **Respondents' profile**

89% of the respondents were directly involved in the investment decision process within their respective organisations. Although the implementation of the investment policy might often be conducted by investment managers, the respondents of our survey were in charge of the investment policy as their positions in their organisations show: treasurers (17%), members of the investment committee (16%), heads of the institution (14%), members of the board of trustees (13%), financial advisors (7%), or theological advisors (2%). Out of the 31% mentioning they had another position in their organisation, five were responsible for CSR, four mentioned they were directors, two worked in the area of 'justice' and two contracted for responsible investing. Only 4% of the religious organisations involved theological advisors (Rabbi, Imam, Monk, Priest et cetera) in investment decisions. In most organisations, investment decisions were made involving several representatives, including boards of trustees (57%), heads of institutions (20%), investment committees (69%), treasurers (37%) and financial advisors (38%).

Because religious organisations can be either very centralised or on the contrary very decentralised, we asked the respondents to give us an indication of the geographical scope of their organisation. Most of the religious organisations which answered the survey operated on a country level or beyond (continental or global level). Only 17% of the respondents indicated they operated on a provincial or village level.

The gender ratio between respondents was fairly even: 52% were female and 48% male. With regard to the age distribution, 65% of respondents answered that they were over 56. None stated an age under 25.

### **Institutional networks**

In the survey, respondents were asked whether or not their institution was member of one or more RIGs or other RI specific networks. Most of the religious organisations that responded to the survey were affiliated to religious investor groups such as the ICCR (66%), Oikocredit (24%), 3iG (17%), ECCR (10%), CIG (5%), CCLA (3%), SHARE/Kairos (6%). By contrast, very few of the organisations were affiliated to secular or general responsible investment initiatives, groups or networks such as Social Investment Fora (SIF) (13%), the UN Principles of Responsible Investment (UNPRI) (6%) or the Carbon Disclosure Project (CDP) (7%).

### **Opinions**

#### **Opinions on investment activity**

In general, the activity of investing did not seem to be in any manner conflicting with religious principles, although 6% of the respondents felt that they should avoid investing on the stock market altogether. For a large majority, investing and religious principles should not be disconnected. 86% of the respondents did not see investing as a separated financial matter but indeed wanted their beliefs to be reflected in their investment decisions. Investing neither was regarded as a 'neutral' activity, nor as a way 'to feel good'. Respondents believed that investment was a way to influence corporate behaviour (90%) and positively impact society (92%).

#### **Opinions about investment practices**

In general religious organisations did not see any of the RI practices in contradiction with their faith. Be it negative screening, positive screening or engagement, all three approaches were perceived as appropriate. However we found some nuances in the perception of those different approaches.

When integration of religious beliefs into investment decisions was practiced, religious organisations often found it more appropriate to avoid investments in certain activities or products (86%), than avoiding companies in certain countries (only 58% found it an appropriate approach). It seems that country avoidance was a more sensitive issue. This might be due to the fact that avoiding countries can have political impacts beyond religion which can create tension with the concept of separation of church and state, a concept that has been adopted in a number of countries.

Among the engagement approaches, we saw fewer differences. Both the more confrontational and the less confrontational approaches were highly rated (all between 69 and 91%). However the most confrontational methods like engaging in public debate when in disagreement with the activity of a company or divesting were regarded as slightly less attractive (respectively 78% and 69%) than other strategies.

Our results show that a large majority of the respondents found all the aforementioned strategies appropriate. As we will see in the next section, similar findings were found with regard to institutions' actual practices.

### Opinions on the impact of integrating religious beliefs

The impact of integrating ESG factors into investment decision has been the object of ongoing debate and extensive academic study. Many studies have argued that ESG factors can help investors avoid risks and help them identify high quality corporate management (Camejo, 2002; Derwall et al., 2005; Bauer, 2006; Edmans, 2010), while others have argued that any restriction on a universe of potential investments may increase undiversified risks and reduce risk-adjusted returns (Rudd, 1981; Kreander et al., 2005; Barnett and Salomon, 2006; Bauer, 2006; Renneboog, 2008)<sup>33</sup>. Many authors however tend to indicate that ESG screening does not hurt a fund's financial performance (Statman, 2000; Bauer et al., 2005; Benson et al., 2006; Bauer et al., 2007; Amenc and Le Sourd, 2010). For example, a review of 31 socially screened mutual funds from 1990 to 1998 found that on average they outperformed their unscreened peers, but not by a statistically significant margin (Statman, 2000). Similarly, a 2001 academic review of 80 studies on the links between CSR and financial performance found that 58 percent of the studies observed a positive relationship to performance, 24 percent found no relationship, 19 percent found a mixed relationship, and only 5 percent found a negative relationship (Margolis and Walsh, 2001). Research also

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<sup>33</sup> For those interested in an extensive annotated bibliography of academic studies on this topic, see the web site maintained by the Center for Responsible Business, [sristudies.org](http://www.sristudies.org) ([www.sristudies.org](http://www.sristudies.org)).

provides evidence that RI investors hold very diverse beliefs regarding the financial returns of RI (Lewis and Mackenzie, 2000).

Our survey revealed that the same ambiguity exists among religious institution. Indeed, respondents' opinions on the impact of integrating religious beliefs in investments varied significantly. 69% of the respondents believed that religious considerations can negatively affect investment returns but, at the same time, over 87% believed that it can positively affect investment returns.

## **Practices**

After presenting the opinions of religious organisations on faith and investing, we move to their actual practices. A large majority of them practiced one or another form of RI: 88% practiced shareholder engagement, 87% practiced negative screening, 79% practiced positive screening and 77% practiced impact investing. These results are not entirely surprising since most of the respondents were members of RIGs whose purpose is to stimulate and encourage RI practices among religious organisations. However the high rate of religious organisations practicing impact investing was unexpected since this activity is more innovative and by far less mainstream. We can therefore assume that our respondents are among the most aware and advanced investors with regard to RI practices. Only two of the respondents used none of the RI approaches. One of them strongly believed that faith should be reflected in investment practices while the other one had no opinion on this issue. However, the two saw all the RI approaches as appropriate practices; they just did not practice them. They both believed that there were not enough financial products to reflect their religious beliefs in their organisations' investments. One said that it was not possible to design an investment approach that reflected their religious beliefs. Even if it is not statistically significant, it is interesting to note that the two respondents were the two sole Jewish respondents. It might indicate a lack of financial products that can accommodate Jewish beliefs, or that Jewish investors fail to provide guidance on what financial products should entail.

Table 2 provides an overview of the most common practices (negative and positive screens, engagement and impact investing projects) among the religious organisations that responded to our survey. The next paragraphs detail those practices.

### **Negative screens**

According to the survey, the negative screens most used by religious organisations are the following: nuclear weapons (70%), military armaments (68%), tobacco (62%), pornography (60%) and abortion (51%). Screens such as human rights violations (50%) and related topics

like slave-or child labour (44% and 40% respectively) were slightly less used. 13% of respondents did not use any negative screening, which aligned with the response earlier in the survey where 86% of respondents indicated that they avoid investing in companies whose activities or products were considered inappropriate. It is important to note that the religious organisations not using those negative screens might well be engaging on those issues with the companies via other means such as for example shareholder engagement. Indeed negative screening is only one of the strategies to exert pressures or voice concerns with the companies.

Although it was not part of the survey, these results raise an interesting question with regard to where the criteria for negative screening come from in the case of religious organisations. Through the focus groups we conducted, our exchanges with 3iG team and some of its members combined with Internet search, we can provide some elements of answer. For the Catholic tradition, negative screening of activities related to arms, tobacco and human rights violations is derived from its “understanding [of] the common good and wellbeing of people and society”. The Catholic Missionary Oblates of the Mary Immaculate exclude 7 to 10% of the US stock listed companies based upon these principles. They emphasised that not only the Holy Scriptures themselves have led them to those screening results, but also “reflections and contemplations” published by the Vatican Catechism and Compendium played an important role in their decision making process (Compendium of the Catechism of the Catholic Church, 2005; Catechism of the Catholic Church, 1993).

One of the Jewish representatives we talked to highlighted the following: “We need to take every reasonable step to make sure that the things we own do no harm”, (Rabbi Mordechai Leibling, cited in 3iG, 15th November 2007). According to him, this can be regarded as the Jewish reasoning for screening. For example, the Jewish religious institution Shoresh Charitable Trust excludes hedge funds based upon the Jewish ban on gambling. Concrete guidelines on negative screening are also found at the Methodist social principles that state: “Trade and investment should be based on rules that support the dignity of the human person, a clean environment and our common humanity. Trade agreements must include mechanisms to enforce labour rights and human rights as well as environmental standards” (The Economic Community, 2008).

Our discussions with religious organisations active in responsible investment has also revealed that many of them apply negative screening based on their religious principles but that it is not always straight forward and easy. On the contrary, many of them highlighted the many dilemmas they were facing in the implementation of the criteria and the complex, sometimes stretched link between criteria and faith principles. Pornography may be one of those difficult screens. One may want to distinguish between the making and the selling of pornography. It may be rather easy to exclude companies on the pornography making criteria, but much not so obvious when considering pornography selling which is the case in

the hotel industry. The exact percentage of revenues derived from pornography selling is often hard to find and companies are not transparent about it.

Comparing our results with the negative screens used by the secular responsible investment community revealed a variation in interests. According to different studies, the secular RI community has shifted from focusing highly on tobacco and gambling in 2003 (US SIF 2001) to screening on weapons in 2008 (Eurosif, 2008). In 2008, 'norms-based screening' was in the second position; according to this approach the yardstick is companies' compliance with international standards and norms such as those issued by OECD, ILO, UN, UNICEF, etc. It might come as a surprise that religious investors focus less on norms-based screening. On average, they showed less concern about human rights violations, slave labour, and child labour (45%) than tobacco (62%), pornography (60%), abortion (50%) and gambling (46%). Whilst 60% of the religious investors screen for pornography (#4 on the list), pornography is less vital for secular responsible investors and it is not found in the top 5 exclusionary screens most commonly used by secular responsible investors (US SIF, 2001).

In short, the secular RI community and religious organisation have a common negative screen, namely the weapon industry. But their priorities are slightly different on other screens: the religious organisations focus more on avoiding certain products and services, whilst the secular RI community focuses on norms-based screening.

#### Positive screens

When asked what positive criteria religious organisations used (investing in companies that show evidence of corporate social responsibility), environmental policy and programs was the screen mentioned most frequently (by 61% of the respondents). Employee welfare and rights was the second most important positive screen with more than 50% of the respondents using it. 21% of respondents did not use positive screens. These results are not entirely surprising as various Holy Scriptures refer to environment, human welfare and human rights, social justice and good stewardship or as Rev. Dr. Séamus P. Finn puts it "each religious tradition has as horizon of reference the human-divine, the human-human and the human-earth relationships" (Finn, 2010). Indeed, already in 1970, Pope Paul VI (1970) had mentioned the ecological problem together with unemployment and discrimination among others as some of the main challenges of post-industrial society (Rossetti, 2005).

When comparing positive screens to the secular RI community, we can notice that environmental concerns are also the most used positive criteria in Europe, while employee issues come third (SRI Compass, 2003). This suggests that there are few differences in positive screening between the secular RI community and religious organisations.

## Impact investing

Respondents were asked several questions related to impact investing. A first question was about the type of projects they support through impact investing. Community development (53%), microfinance (47%) and affordable housing (42%) were the most frequently used types of impact investing projects. Perhaps surprisingly religious investors were far less involved in health (17%), agriculture (15%) or forestry (7%) and 23% did not practice impact investing at all. Some religious organisations have a very broad approach to impact investing. For example the Church of Norway' impact investing policy strongly focuses on enterprises that have microfinance as one of their business areas, and in enterprises whose policy is to promote fair trade or to make direct investment in developing countries (Opplysningsvesenets fond, 2003).

We then asked religious organisations about the return rate of impact investing. More precisely, we asked whether or not they were ready to accept below market rate for this specific type of investment. Whilst six respondents mentioned that impact investing did not give a below-market rate return, almost one third of religious investors mentioned that 10% of their impact investments gave a lower rate of return. Eight respondents accepted a lower rate of return for all their impact investing. Oddly enough, 33% of respondents did not know what percentage of their organisation's impact investing yielded a lower market rate return. This seems to suggest that, at least for now, many religious organisations do not subject impact investing to the same degree of financial scrutiny as they do with other types of investments.

Finally we asked participants about the value of their assets currently invested in impact investing. The survey mentioned figures in Euros and the exchange value in US Dollars. A big difference in asset allocation was observed in this connection, ranging from 22% investing less than half a million Euros (less than 0.73 million US\$) to 9% investing over 50 million Euros (over 73.3 million US\$). In addition, a rather large number of respondents preferred not to disclose the figures (13%) or did not know how much their institution invested in impact investing (14%).

Overall, despite these differences, impact investing was widely practiced amongst religious investors. This is in line with a study of 3iG in 2010 (3iG, 2010a, b). Religious investors seem to be pioneering this new development in the RI field.

## Shareholder engagement

As suggested already by previous answers to this survey, there seems to be a strong belief among religious investors that they should be active shareholders. Mainly legislative tools



and shareholder-management communication were thought to be appropriate. Several respondents indicated that they practiced shareholder engagement via religious investor groups. For example the services of organisations like ICCR in the USA or the German Catholic Bishops' Organisation for Development Cooperation in Europe are used by religious organisations to exercise their shareholder rights. Proxy voting, writing letters and shareholder resolutions filing were used by over 50% of respondents. 13% did not engage as shareholders.

Shareholder engagement practices are quite diverse among religious institutions. For examples the General Board of Pension and Health Benefits of The United Methodist Church (GBOPHB) and the Missionary Oblates of the Mary Immaculate (OMI) practice active shareholder engagement (interview with Mrs V. Bullock, Board member of GBOPHB and Rev. S. Finn, Board member of OMI and 3iG Board). They do it both directly and through a religious investor group. In most of the cases, the GBOPHB proceeds as follow: when an issue comes up, the GBOPHB first writes a letter to the company or companies concerned to ask for clarification on the policies and practices in regards to the issue. If the company does not want to be cooperative, the next step is to meet company's representatives to discuss the issue more in-depth. In case the company does not reply or provides an insufficient response, GBOPHB files a shareholder resolution to formally begin the active shareholding process. This resolution is either filed by GBOPHB directly or through organisations like ICCR for Food and Water sector and Labour standards; Ceres for Environment and Climate related issues; and Social Investment Forum. Finally, if the discussion with the company is not fruitful or if they don't show any response, GBOPHB raises the issue at the company's Annual General Meeting. As for the OMI, resolutions are used only if the issues are not solved through dialogue with the companies. Meetings might be ongoing for 3-4 years before resolutions are made, which is the case with the mining industry for example. The OMI withdraws its resolution if they feel that the discussions with the management are developing positively.

According to the Eurosif 2008 annual survey, proxy voting is also the most common form of engagement among the secular RI community (over 40%), followed by direct private engagement (including writing letters and holding meetings with company representatives) (Eurosif, 2008). However, comparing the Eurosif study with our survey, direct engagement and filing shareholder resolutions would be significantly less used by the secular RI community (10 to 15%) than by religious organisations (56% and 50%).

Once again those results have to be understood in light of our sample which is dominantly based in North America. As other studies have shown, North America especially the USA has a longer history of shareholder activism and is more inclined to engage as shareholders (Louche and Lydenberg, 2006).

**Table 2 - The most common screens, engagement practices, and impact investing areas used by religious organisations**

<b>Negative screens</b>	<b>Positive screens</b>	<b>Engagement</b>	<b>Impact investing</b>
1. Nuclear weapons	1. Environmental policy and programmes	1. Proxy Voting	1. Community development
2. Military armaments	2. Employee welfare and rights	2. Writing letters	2. Micro-finance
3. Tobacco	3. Diversity and inclusion	3. Shareholder resolutions filing	3. Affordable housing
4. Pornography	4. Transparency	4. Having meetings with company's representatives	4. Fair trade
5. Abortion	5. Supply chain labour practices	5. Divesting	5. Clean energy or environmental management

### Research process

Practicing FCI requires religious organisations not only to develop criteria and policies but also to collect information about companies' activities, practices, and behaviour.

Through our interviews and focus groups, we found two important characteristics with regard to the research process. First the religious organisation representatives we have talked to were in general very reticent in using company's public reports. They favour other independent sources. For example important and decisive sources of information for the Jewish Shores Charitable Trust are "reputable" newspapers and information given by asset managers.

Second, similarly to the secular responsible investment community, some religious organisations use the services of social rating agencies such as for example KLD,

Sustainalytics, Riskmetrics, ISS, EIRIS and others. For example, the Methodists Board of Pensions and Mary Oblates in the USA use the screenings from KLD. However independent rating organisations are mainly used by large religious organisations. Religious organisations with a smaller investment portfolio tend to use other sources such as the media information.

In general, the research process used by religious organisation remains rather obscure. Religious organisations' website do not provide extended information on their methodology and methods for screening companies. Even the methodology used for the STOXX Europe Christian Index provides little information.

### **Barriers/Facilitators**

The survey clearly pointed out that in general respondents tended to reflect their beliefs in their investment practises. However, to what extent is this possible? Are there any barriers or facilitators to practicing faith consistent investing? We are going to explore these questions with a special focus on the barriers in this part of our analysis.

Religious organisations were enquired whether religious beliefs were reflected in investment approaches on a scale from 1 to 7, where 1 meant that their religious beliefs were not reflected at all in their investment approach, while 7 meant a high connection between the two. The average response was high, 5.46, which is rather high. And almost all of them agreed that it was possible to design an investment strategy that aligned with their religious principles (only 7% disagreed on this statement). Yet, when entering more into details, religious organisations mentioned that they encountered various obstacles in trying to put faith consistent investing into practice. They would actually be inclined to invest more according to their faith beliefs if certain tools and services were available to them. 37% of the respondents felt that changing existing investment practices of the mainstream investment community is something difficult. However integrating religious principles or CSR dimensions requires changes and adjustments (Louche & Lydenberg, 2011). The investment community is engrained in a strong and dominant logic which may be highly resistant to change. If religious organisations wish to add criteria or innovate in terms of investment strategy, to better align their principles of faith to their investment practices, it may well be difficult to get heard by the financial community and even more difficult to get religious organisations' requirements or demands implemented. However, when responding to the question on their power of influence with regard to investment strategy, only a small minority (8%) believed they could not exert any influence. Our results showed a small contradiction that would be worthwhile to explore further. On the one hand religious organisations felt it is difficult to change existing practices, but on the other hand they felt they did have certain power on investment decisions. Note that 50% of the respondents

followed the advice of their financial advisor. This highlights the potential key role of financial advisors in the investment process of religious organisations but also in changing mainstream finance.

To better understand the obstacles and impediments for changing existing investment practices, the participants had to react to several statements. In general, there seemed to be a great need for a less complex investment market with tools and services more appropriate for religious investment purposes. 29% of respondents felt that investing was so complicated that it was difficult to comprehend all the products and tools that were offered and 26% mentioned that there was a lack of financial products enabling their organisations to reflect their religious beliefs in their investments. Indeed, 2 respondents said that it was not possible to design an investment approach that reflected their religious beliefs.

In the survey, we also asked religious organisations what support was needed to make investments more faith-consistent. 50% of the respondents mentioned they would significantly increase their investments (assuming they had the necessary financial resources) if their investment manager were able to offer an option for aligning investments with their religious beliefs. Furthermore, 51% said they would be inclined to invest more if there were reliable tools for developing and maintaining an investment fund that reflected their religious beliefs.

When asked what evidences were required to increase investments in a faith consistent way, several religious organisations focused more on evidence of a positive impact on society and on company behaviour rather than on avoiding the risk of poor financial performance.

Overall, there seem to be some difficulties in putting religious beliefs into investment practice. Religious organisations cannot implement faith consistent investing alone; they depend on the offerings of financial institutions. The current investment market is not fully equipped or willing to provide tools and services that are required by religious organisations. Religious organisations also require a less complex investment market. Customised religious investment products could attain this. Customisation and simplification would attract more religious money into the global responsible investment market. However religious organisations are not a homogenous group. They represent many religions with each its own and different requirements that can probably not be translated in one single tool but rather requires a variety of approaches.

### **Regional differences**

Whilst no significant differences were noticed in the opinions of US versus non-US respondents, the practices differed between the two groups. Our sample consisted of 61%

religious organisations based in the United States of America and 39% from elsewhere around the world.

When looking at differences in practices, some topics should be highlighted. The first focus was on negative screening. US religious investors placed greater emphasis on abortion (60% USA versus 41% non-USA), while pornography was a more important exclusionary screen among the non-US respondents than among US respondents (54% USA versus 67% non-USA) (see Table 3).

**Table 3 – Tope 5 negative screening practices USA/ versus non-USA**

USA	Non-USA
1. Nuclear Weapons	1. Pornography
2. Military armaments	2. Military armaments
3. Tobacco	3. Nuclear weapons
4. Abortion	4. Tobacco
5. Pornography	5. Abortion

When looking at the usage of positive screens, US-based religious investors were more interested in diversity and inclusion than non-US investors (58% versus 39%) but were less concerned with transparency than non-US religious investors (31% versus 48%) (see Table 4). Furthermore, US respondents generally showed more interest in positive screening than did non- US ones.

**Table 4 – Tope 4 positive screening practices USA versus non-USA**

USA	Non-USA
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1. Diversity and inclusion	1. Employee welfare & rights
2. Employee welfare & rights	2. Transparency
3. Supply chain labour practices	3. Diversity and inclusion
4. Transparency	4. Supply chain labour practices

When it comes to impact investing, the differences between US-based religious investors and non-US religious investors were sharper. More than double the USA-based respondents practiced community development (71% in the USA versus 33% non- USA) and affordable housing (60% versus 22%) than non- US, whilst non-US respondents formed the majority of investors in clean energy or environmental management (see table 5).

**Table 5 – Tope 4 impact investing activities USA versus non-USA**

USA	Non-USA
1. Community development	1. Clean energy & Environmental management
2. Microfinance	2. Micro finance
3. Affordable housing	3. Community development
4. Fair trade	4. Affordable housing

The value of religious organisations' asset allocation to impact investing varied widely. Some respondents did not know; this went for 7 out of 43 US-based investors and 3 out of 26 non-US based investors. Nine US-based respondents indicated they did not disclose information on impact investing asset allocation. Although the opinions of religious organisations towards investment practices in the USA and outside the USA did not differ significant, there were interesting regional differences in practices.

## **Conclusion and Discussion**

The aim of this paper was to study faith consistent investing. In this process, we investigated religious organisations' attitudes towards responsible investing. We more especially explored religious organisations' opinion about investing, their investment practices, and the potential impediments for matching faith beliefs and investing.

To examine those questions, we conducted a survey among religious organisations. Given the growing interest in responsible investment, the fact that religious organisations are possibly, when taken together, the third largest group of investors in the world but also the exemplary, educational and advisory role these organisations play for their members, this survey contributes in shedding light on a research field of a major importance. In light of the results of the survey, six main findings are presented. Thereafter we provide some potential directions for further research.

### **Main findings**

***Faith consistent investing is possible.*** Religious organisations do not see any contradiction between the activity of investing and religion. Investing is a fully accepted activity as long as it is done respecting faith beliefs. The faith dimension is a factor that increases the religious organisations' sensitivity and awareness towards the non-financial impact of their investment activities. The research also highlights a certain alignment between religious organisations' beliefs and actions. The responses show that faith consistent investing is highly practiced. Nonetheless we ought to put the results into perspective, as our sample is not fully representative of the religious organisations community and biased towards organisations that are already active in FCI.

***Beyond financials.*** Our results highlight the fact that religious organisations go beyond the financial aspects of investing. They seem to be highly driven by the impact they can have on companies' behaviour or society and therefore do not limit the purpose of investing to purely financial returns. As noted by Rev. Dr. Séamus P. Finn in his oration to the Ninth Harvard University Forum on Islamic Finance (March 27<sup>th</sup>, 2010): "Faith traditions provide both the principles and the moral compass to evaluate a financial system in terms of its contribution to the well-being and future of both people and planet" (Finn, 2010). Although important, the market-rate returns did not come out as a determining factor to increase their investments but rather as a minimum requirement. However the tensions between the finances and the principles seem to remain a critical debate and to pose dilemmas for religious organisations, as much as within the financial community where there is not yet a clear answer.

**Religious Investor Identity.** An interesting characteristic of FCI is that religious investors have set up their own specific networks where only (or dominantly) religious organisations are members. Although a few of them have joined secular RI networks, such as the UNPRI, most of the religious organisations limit their membership to FCI networks. Is it for historical reasons? Is it related to divergent views on RI? Is it a search or a need to strengthen an ‘identity’? Our results do not allow us to give a full explanation. However, we can hypothesise some elements for an answer. There are probably organisational reasons related to the way religious organisations operate and are structured. There are most probably reasons related to some principles which may be felt as stronger and sharper among religious organisations. Cultural reasons can also play a role as religious organisations may share a vocabulary, worldview and ways of working, which distinguishes them from secular RI actors. But maybe more importantly religious organisations can be regarded as collective of multiple organisations or individuals who are conscious of forming a group (Rowley and Moldoveanu, 2003) and with a collective identity that articulates their shared interests and goals (Klandermans, 1984). Certainly more research is necessary to find out why there are not only different but also separate networks for FCI and secular RI.

Yet, whilst religious organisations have created their own networks, it seems that the practice of RI does not differ significantly from those of the secular RI community, for example in terms of the negative screens used or the engagement practices. The reason for this might be the absence of specific religious-based financial tools and services compared to the availability of secular RI products. Another potential reason, and an interesting line for further research, is that the secular RI community is more religiously inspired than it might realise.

**Impact Investing Revitalised.** Impact investing has been practiced by religious organisations for a very long time. Indeed impact investing may be an investment activity that best fits religious organisations’ principles and objectives. The interest of religious organisations for impact investing comes from the fact that they have a slight preference for investing in projects or companies that do a clear a direct social good, rather than adopting “best in class approaches” (i.e. they ‘choose the best within the limitations of capitalism’). Therefore impact investing comes as an activity with fewer ideological tensions than other FCI practices.

This is quite well illustrated by the vision of the Jewish values-based investment guide: “Money is not merely a means to increasing wealth, but can itself be a way to advance important social goals. In Jewish tradition, the highest form of charity is to make a business partnership with a potentially needy person; conversely, investments that patently promote antisocial activities are prohibited” (Meir, 2009). However, in the past impact investing was never defined as a responsible investment activity. It is only recently that it has been slightly reshaped and redefined to enter the field of responsible investment. On the one hand, it is



being revitalised among religious institutions, and on the other hand it is emerging as an interesting field among mainstream financial institutions. One may ask whether, once again, religious organisations are pioneering a new development in this area of investment. This leads to the question of whether religious organisations can foster change in the financial system or play the role of ‘norm entrepreneurs’. Norm entrepreneurs are actors who seek to actively persuade other actors that a new norm is superior to the existing standard of appropriateness (Sjöström, 2010).

**Beliefs versus Practices.** Practicing FCI does not come out as an easy and straightforward activity. Indeed our research points at some impediments. Religious organisations cannot implement faith consistent investing alone; they depend on the offerings of financial institutions. If the investment market does not provide tools and services integrating the needs and requirements of religious organisations, it makes it difficult or almost impossible to fully practice FCI. Our research also highlighted that religious organisations do not always managed their investment by themselves alone, but do it in collaboration with a financial manager. Another hurdle is then to convince the financial manager to apply and respect the religious principles in the investment activity. Whether financial managers have the right incentives and the adequate skills to do so remains an open question. Our research also showed that religious organisations often find investment products too complex and therefore difficult to fully comprehend and maybe to control.

Because of different principles of faith, customisation is another issue which could facilitate FCI and attract religious organisations to practice it. This leads to another debate, outside the scope of this paper, about common and diverging principles among the different religions. Some argue that there are ‘root differences’ between religions (Fehrenbacher, 2001) and others claim that there is a greater commonality of religious values as opposed to other types of values, for example, national values (Inglehart and Baker, 2000). Moreover it remains crucial to raise the question of whether all religious principles are applicable and should be implemented in investment activities. Our research already triggered questions on controversial consequences of integrating faith beliefs in investing. For example certain religious funds screen out companies on behalf of their religious principles like Wyeth for manufacturing birth control pills, Merck & Company for foetal tissue research, Procter & Gamble for donating to Planned Parenthood and Amazon.com for officially recognising gay and lesbian groups. It raises the questions of the universality of the principles and the purpose or the objectives of using certain screens. Those questions are certainly not limited to FCI but might be more pressing with regard to specific criteria like the ones mentioned above.

**Regional Differences.** Although there are no major differences between religious organisations in the USA and outside the USA, some variations are worth mentioning. When excluding products and services, USA religious investors placed more emphasis on abortion than non-US religious investors, whilst pornography was screened more by non-US religious

investors. Of the positive screens, diversity and inclusion was relatively more important in the USA whilst non-US religious investors focused more on transparency than USA ones. Evidence on impact investing research showed a significant higher interest in community development and affordable housing by the USA investors. Finally US religious investors practiced impact investing more than their religious co-investors outside the USA do. Again more research is needed on regional differences as well as on intra and inter-religion. The characteristics of our sample limited our capacity to carry a comparative analysis.

## **Directions for further research**

This study provides important insights into faith consistent investing. Despite having historically pioneered many RI initiatives, little is known on religious institutions' beliefs and practices towards investing today and FCI. This survey is a major contribution to this under-researched field. It can serve as a basis for further research, as we highlight in the following.

Our study highlights regional differences between US and non-US religious organisations. However the scope of our sample did not allow us to fully investigate those differences and especially did not allow going more into details into the different regions. But we have strong indications that religious organisations do not have the same FCI practices in the different regions of the world. It would be valuable to study more in-depth those geographical differences around the world. There are also inter- and intra-religious differences that are worth studying. Although it was not the objective of our survey to study intra-religious differences, our discussions with religious organisations revealed that within a same religious group views differ. For example the creation of the STOXX Europe Christian Index in 2010 was an intense and sometimes difficult process to come up to an agreement on the criteria that should be applied.

The survey provides an overview of the religious organisations FCI practices but many questions remain and further research is required to better understand those practices. We would especially make a call for more research on two specific activities, namely impact investing and shareholder engagement. More fine-grained research is needed on how they are practiced, the drivers for practicing those activities but also in terms of the impact they have.

The relationship between religious values and investment strategy needs be better understood. Obviously the religious organisations of our sample and the ones we talked to tried to link their investment practices with their religious principles. But the link is not always obvious and the articulation values and investment practices remains relatively unsophisticated and vague. For example, one could ask what exact religious conviction

determines the exclusion of tobacco. Moreover, a variety of other factors, next to religious values, most probably impact investment strategies and affect the influence of those values. A more qualitative research based on interview and discourse analysis could help to better understand and characterise this relation.

The decision making process with regard to investment policy but also to the final investment decisions remain a black box. Little is known about who sets the investment policy and who has the decision power within religious organisations. A previous study (Ross, 2005) showed that financial issues remain a topic of ‘fear’ among religious actors and for an important part delegated to external professional advisers. The importance of the external advisers is also something we noticed in our survey. This black box needs to be open to better understand the decision making process with regard to FCI and the factors that influence those decisions.

Finally the paper raises the issue of identity for FCI and the FCI network. As highlighted in the results, religious organisations have their own networks and don’t seem to mix with the RI community. A promising line of research would be to use social movement theory, as it has been suggested by Arjaliès (Arjaliès, 2010), to explore the group dynamics of religious organisations practicing FCI and how they are affecting and are affected (or not) by the broader responsible investment community.

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## **INTRODUCTION TO CHAPTER 6**

The former chapter provided an overview of the investment practices religious organisations. It showed the ways in which ROs utilise their investments to influence corporate behaviour; through means of negative screening, positive screening, impact investing and shareholder engagement. Particularly with the latter, more research was called for as little is known of ROs and their social shareholder engagement (SSE) practices. In this chapter, I will identify the features influencing SSE practices of ROs and indicate how these features relate to the religious nature of ROs. This explorative qualitative multi-case study used interviews, observations, and documentation to investigate a Quaker, Catholic and Anglican organisation that has achieved recognition in SSE. Within these organisations I identified three significant features that relate to their religious nature and affect their SSE: having a structured belief system, a grassroots network and a long term perspective. The findings respond to Kreander's (2004) call to challenge the sacred-secular divide between ROs' religious beliefs and their investments so commonplace in literature. Through this chapter I aim to deepen the discussion about ROs' potential to practise their faith by means of their investments.



## **Chapter 6**

### **Religious Organisations as Investors: a Christian Perspective on Shareholder Engagement.**

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## Introduction

Various Religious Organisations (ROs) strive to make the companies they invest in more socially responsible by practising social shareholder engagement (SSE). The extent to which the religious nature of ROs comes into play when they undertake SSE remains unclear (Booth, 1993; Duncan *et al.* 1999), despite their sizeable financial investments and their stress on practising SSE (Louche *et al.*, 2012). Thus, the following question guided the exploratory qualitative case studies of three ROs of the Christian denomination engaging in SSE presented in this chapter:

*What are the features influencing the SSE practices of Christian organisations and how are these features related to their religious nature?*

By answering this question, we challenge a dichotomy that is commonplace in literature: the so-called sacred-secular divide of ROs religious beliefs and their financials. The first section sets the context by exploring the features of ROs, including the main Christian sources on investing and SSE. The section further outlines the features influencing SSE found in the literature, and lastly establishes a relationship between the actors (Christian organisations) and the topic (SSE). The next section covers methodology, data gathering and analysis. The way the religious nature affects Christian organisations' SSE practices is discussed. Conclusions are then drawn, the limitations of the study identified and suggestions made for future research.

This chapter makes two major contributions. First, we showcase three Christian organisations where religion and investing are intertwined — thus responding to Kreander *et al.*'s (2004) call to challenge the assumed sacred-secular divide of religious organisations and their financials. Second, this chapter presents similarities and differences between the influencing features of SSE found in our empirical study and those in the literature, highlighting three features that indicate the potential for Christian organisations to practise their belief through means of their investments: having a structured belief system, a long term perspective and a grassroots network, all of which stem from their religious nature.

## Setting the Context

Religious investors have been called the third largest group of investors in the world (UN, 2009); yet, surprisingly little is known about their investment practices. While religious leaders believe that investing implies values (Kreander *et al.*, 2004; Sparkes and Cowton, 2004) and ROs are known to consider SSE as a tool for investing responsibly (Louche *et al.*, 2012), the link between the religiosity of ROs and SSE remains unexplored. As ROs are an



important part of the worldwide investment community, we help redress the relative lack of knowledge on faith consistent investing.

### **Religious Organisations**

ROs vary in several ways, not least in religious traditions, denominations, geographical presence and governance structures. Generally, ROs' main tasks are the upkeep of places of worship, managing (religious) staff, providing guidelines for living and spreading the word of God(s). They do these activities thanks to a certain infrastructure. In the sociological literature, ROs are considered to exemplify organisations with significant social capital which is thought to underpin the community and benefit its members (Leavey and King, 2007). In the religious literature, Stark (1996) stresses the ROs' doctrine as justification for their authority as well as the considerable commitment shown by members of the religious communities. The early Christians had a communal understanding of shared ownership and stewardship, derived from the Acts of the Apostles, stating "*The community of believers were of one heart and mind. None of them ever claimed anything as his own; rather everything was held in common*" (Acts of Apostles, chapter 3, 2:44). For a long time, accumulation of wealth and using money for the sake of gaining interest was not accepted and seen as shameful. Commercial partnerships were set up equally whereby failures or successes in investments were equally shared amongst the partners (Noonan, 1957). In this way, the dilemmas occurring with the concept of usury and interest were avoided and sharing risks and responsibilities was a community or partnership exercise that was in compliance with the religious beliefs. As economic activity and capitalism evolved, religious reformers limitedly but increasingly allowed financial constructions that resulted in individual profits. Max Weber (1920), writing on Protestant ethics and capitalism, elaborates extensively on Richard Baxter's (1825) 'A Christian Directory', seen as religious ethical guidelines for practical and economic life. Baxter (1825; p122) mentions "*that if God provides chances for gaining profit, He must have his reasons for doing so*" *Profits should be made without damage to the soul or to others and should be legitimate*". This is actually a 'calling' that should be adhered to in being a proper steward of God. Weber frames proper stewardship in terms of labour, whether practised by an artisan or a business man, as long as one works hard and does not misuse wealth gained by labour. One should accept his gifts [the profits] as a form of grace and be willing to utilise them when and if God wants it. Thus, from an original total ban on usury the religious community slowly but steadily accepted different forms of financial products. Church members could earn money and generate wealth, provided that it was not to satisfy ego but for the glory of God.

Similarly, in Judaism, we find that the source of a person's wealth is not morally neutral, although the acquisition of wealth is seen as a legitimate activity in itself. The Torah reads it is unacceptable to make money from lending on interest to a fellow Jew. Similarly in the Islamic tradition, according to the Quran interest ('riba') is prohibited. The Quran says "God

deprives interest of all blessings but blesses charity”. Cornuel et al (2010) refer to the historical and continuous debate between the uncompromising orthodox trend and a liberal reformist approach towards money and religion. ROs continue to struggle formalizing their opinion about the limitations of financial investments (Louche, *et al*, 2012) but the route towards the liberal approach has gained momentum.

Today, ROs are funded by economic activities, membership fees, donations and legacies. ROs may establish pension funds, healthcare insurance and funeral funds for their staff and members. While the financial structures vary greatly, funds are also used for various purposes (staffing, housing, places of worship, serving members and deprived communities). Managing large sums of money implies investing, which in turn raises the question of responsible and faith-consistent investing. A Methodist Church for example, might easily exclude investments in arms based on its non-violent peace-oriented faith principles; however, it also can apply values of integrity arising in the banking sector, fairness in terms of executive remuneration, human trafficking in the hospitality industry, responsibility in the extractive industry and various other values to its investment portfolio. With a fund size around 400 million euros in the UK alone (Central Finance Board, 2013), the Methodist Church, with an expected 75 million community members worldwide (Cracknell and White, 2005), manages money in several states around the world.

### **Features Influencing Social Shareholder Engagement**

In this study we focus on the features influencing SSE. We use the word ‘features’ rather than ‘factors’, ‘resources’ or ‘characteristics’ to be as inclusive as possible. Also, we chose to be consistent with Arjaliès (2010) who studied how socially responsible investment movements can bring concerns into financial institutions. She identified four features namely having a collective identity, sharing individual resources in the pursuit of a common purpose, aiming to change existing institutions and providing a new orientation for society (2010; 59). We adopted this term without necessarily categorizing ROs practising SSE as a form of social movement.

SSE represents roughly €2 trillion in Europe and the same again in the US (Eurosif, 2012; USSIF, 2010). One of the main objectives of SSE is to influence companies’ social, environmental, and ethical issues (Eurosif, 2006; Goodman, *et al*, forthcoming) and it includes practices such as shareholder resolutions, private and public dialogue between management and shareholders, as well as initiatives by coalitions of shareholders (Lydenberg, 2007). Threatening with divestment — the sale of shares by dissatisfied shareholders — is also viewed as an engagement tool (Admati and Pfleiderer, 2009). The number of actors involved in SSE has increased in recent years and covers a broad range: pension funds (Barber, 2007; Clark & Hebb, 2004), NGOs (Guay, *et al*, 2004; Riyanto and

Toolsema, 2007; Waygood and Wehrmeyer, 2003), ROs (Proffitt and Spicer, 2006), and unions (Anderson *et al.*, 2007; Marens, 2004).

The various features influencing SSE within the socially responsible investment communities have been studied widely by scholars adopting a variety of perspectives. Table 1 shows the main features identified in literature.

**TABLE 1: Features influencing SSE – Literature Overview**

<b>Author</b>	<b>Feature</b>
<b>Den Hond &amp; De Bakker (2007)</b>	1) involving consumers through communication and education 2) firm and industry characteristics 3) activist tactics
<b>Goldstein (2011)</b>	1) doing one's homework prior to engagement 2) making sure "the right people" are taking part 3) being open-minded and willing to listen to the other side 4) building relationships through transparency and credibility
<b>Hoffman (1996)</b>	1) influence and power of the shareholder 2) corporate culture and degree to which shareholder request is in line with that culture 3) political environment
<b>Lee &amp; Lounsbury (2011)</b>	To target firms which can incur higher disruption costs and depend more on reputation. Costs incurred by: Disruption of routines – to get the attention of management Framing of issues – to align movement objectives with target firms' economic interests Mobilisation of relevant, powerful constituents
<b>Logsdon &amp; Van Buren (2009)</b>	1) address an issue meaningful to both 2) parties involved must be flexible 3) both must understand each others' needs and constraints

<b>Monks et al (2004)</b>	The ability to keep a proposal on the proxy statement raises awareness amongst other shareholders and increases pressure on management. Regulatory changes to improve shareholder rights: transparency and accountability. CSR proposals couched in corporate governance language
<b>O'Rourke (2003)</b>	Comprehensive and sustained campaign including dialogue and engagement
<b>Proffitt &amp; Spicer (2006)</b>	1) duration of the campaign 2) political force of sponsors 3) relevance to and popularity with broader society 4) degree of success that similar proposals have had
<b>Sjöström (2010)</b>	For shareholders to be successful as norm entrepreneurs they need to encourage corporations to promote new norms, the use of issue networks and organisational platforms to increase the resource base
<b>Vandekerckhove et al (2007)</b>	1) balancing power asymmetries 2) acknowledging critical rights 3) negotiating converging and conflicting interests 4) Importance of the respondents' position/department 5) dialogue must move beyond 'truth-value'

It is challenging to narrow the large number of features influencing SSE down into broad categories. The literature also contains a bewildering variety of features: reasons for engaging; influence of shareholders on the engagement process; ways of understanding success in SSE; the people involved; the nature of the organisation; and access to knowledge and information, to name just a few. Over half of the scholars stress the importance of identifying those calling the shots (the so-called 'who question') (Goldstein, 2011; Hoffman, 1996; Lee and Lounsbury, 2011; Logsdon and Van Buren, 2009; Proffitt and Spicer, 2006; Vandekerckhove *et al.*, 2007). This is understandable since powerful constituents (Lee and Lounsbury, 2011; Goldstein, 2011) in both the company and on the activist side can shape how SSE is tackled. For example, Vandekerckhove *et al.* (2007) note that those responding to letters written by shareholders are frequently from communications or investor relations departments rather than core business management. Their study suggests that a response

from the CEO indicates that the shareholder is seen as ‘strategic’ rather than ‘general’, which surely affects the engagement process.

The ‘who-factor’ also bears on: actors’ knowledge and capabilities; addressing issues (Logsdon and Van Buren, 2009); being well informed on issues (Goldstein, 2011); being able to take discussions beyond mere assertions (Vandekerckhove *et al.*, 2007); being able to balance power asymmetries; acknowledge rights; negotiate converging and conflicting interests (Vandekerckhove, *et al.*, 2007); campaigns on fair wages and other matters (O'Rourke, 2003). Matters bearing on shareholder rights and the use of corporate governance language (Monks, *et al.*, 2004) are also critical. Last but not least, the importance of collaboration and building relationships is also stressed (Vandekerckhove *et al.*, 2008).

### **Religion, Investing, and Social Shareholder Engagement**

Some religious teachings give particular guidance or advice to ROs for their investing activities. The Catholic, Methodist and Quaker faiths stand out among Christian churches for relying on texts directly linked to the non-financial aspects of investing and shareholder engagement. As with all Christian traditions, the Catholic tradition goes back to the biblical teachings on social and distributive justice. This concern was emphasized again by Pope Benedict XIV in 1745: *‘If equality is not maintained, whatever is received over and above what is fair is a real injustice’*. One of his successors almost three centuries later, Pope Benedict XVI, stated in his 2009 *Caritas in Veritate*, a guideline for all bishops, priests and Catholics around the world, that business must shift from the shareholder to the stakeholder model and that business models seeking more than just profit are not only more civilised but also more competitive. The *Caritas in Veritate* is the most recent amongst the eight encyclicals that have described the Church’s development in social approach and deals with corporate responsibility, ethical investment and finance (Melé and Naughton, 2012).

From the first encyclical in 1891 to the most recent topics such as trade-unionism, subsidiarity, globalization and the concept of free markets have been discussed (Cornuel *et al.*, 2010). Practical implications for investing are also found in theological scriptures and their posterior interpretations. John Paul II taught that “... *investment always has moral, as well as economic significance*” (1991), something that was confirmed by the Vatican as still being valid in 2009, adding that capital can do good but requires due consideration for the way in which it is generated and that no harm to individuals is done. In *Caritas in Veritate* (Pope Benedict XVI, 2009) we can also read that “*What should be avoided is a speculative use of financial resources that yields to the temptation of seeking only short-term profit, [...] and attention to the advancement [...] of further economic initiatives in countries in need of development.*” (40).

The United Methodist Church, a Protestant movement, draws heavily on ‘The Book of Discipline (2012)’, developed over 200 years and outlining how United Methodists agree to live their lives together. One paragraph covers responsible investment: “... *in the investment of money, make a conscious effort to invest in institutions, companies, corporations, or funds whose practices are consistent with the goals outlined in the Social Principles*”. This is further elaborated in practical terms with these words: “... *endeavour to avoid investments that appear likely, directly or indirectly, to support racial discrimination, violation of human rights, sweatshop or forced labour, gambling, or the production of nuclear armaments, alcoholic beverages or tobacco, or companies dealing in pornography*”. Besides these guidelines for weeding out unethical investments, The Book of Discipline also includes statements on shareholder engagement: “*The boards and agencies are to give careful consideration to shareholder advocacy, including advocacy of corporate disinvestment*” (United Methodist Church, 2012).

Among the actors practising SSE, ROs are consistently found to be the most active filers on social and environmental issues (Sjöström, 2010). A study by Louche *et al.* (2012) among over 100 ROs, found that SSE was the most used responsible investment strategy alongside negative screening, positive screening, and impact investing. In particular, 88% of respondents in the study indicated that they engaged with companies. Recent research shows that 90% of religious investors believe that active ownership of shares can influence corporate behaviour (Van Cranenburgh *et al.*, 2010). ROs engage with companies through proxy voting, writing letters, filing shareholder resolutions, meeting company representatives, and divesting (Louche, *et al.*, 2012). SSE by ROs is often carried out in partnership with like-minded faith organizations, grouped in religious investor associations. The Interfaith Center on Corporate Responsibility (ICCR) in the USA is the largest network, with over 300 members representing \$100 billion in invested capital. Another significant group is the UK-based Church Investors’ Group (CIG), with combined assets of £12-13 billion. Their collaborative strategies make them highly relevant to management (Glac, 2010). An oft-cited example is SSE during Apartheid in South Africa in the 1980s and early 1990s. However, collaboration also entails challenges. For example, it has been reported how Catholic religious orders in the U.S. struggled with setting criteria and strategies for pursuing their concerns with the corporations they invested in (Purcell, 1979; Wokutch, 1984).

A few studies have addressed the specific features of ROs and the way they shape the approach to SSE. ROs are known for their patience as well as their collaborative and persistent approach in SSE (Clark, *et al.*, 2008; Proffitt and Spicer, 2006; Rojas, *et al.*, 2009). Besides, ROs are driven by their moral beliefs and religious values (O’Rourke, 2003; Sparkes and Cowton, 2004; Tkac, 2006). These references to a set of beliefs suggest that ROs, when practising SSE, may be at an advantage compared to other investors. This study sheds light on the religious features influencing ROs’ SSE practices.

## **The Religious Organisations Studied**

Having reviewed the link between SSE and ROs according to the existing literature, in this section, we describe briefly the three ROs used in this study.

The Quaker-based Joseph Rowntree Charitable Trust [hereinafter referred to as *The Quakers*] is a relatively small UK-based trust with an endowment of £150-200 million but which is noted by experts in the sector as being at engagement's cutting edge. The endowment is invested through an independent investment management company chosen because of its willingness to put in practice The Quakers' ethical investment policies and engagement criteria. Key ethical decisions and engagement activities are undertaken by an investment committee, which comprises six Quaker trustees and a co-optee experienced in finance. More routine engagement falls to The Head of Finance. Quakers are particularly concerned with peace, equality and integrity issues. Besides these issues being reasons to engage, the main source of engagement initiatives comes from reflection on Quaker testimonies and on those current issues they consider to be most pressing.

With headquarters in Rome, The Missionary Oblates of Mary Immaculate is a global international missionary congregation belonging to the Catholic Church, which is present in 67 countries around the world and has trusts and endowments totalling \$450 million assets under management. The US Oblates for Justice, Peace and Integrity of Creation office [hereinafter termed *The Oblates*] based in the US, co-ordinates the Faith Consistent Investing Program and is responsible for shareholder engagement and advocacy activities focussing mainly on the US. It is widely recognised to be very active in terms of engagement. The decision to wield influence through investments was based on Catholic teachings from The Second Vatican Council and the 1971 Synod of Bishops "Justice in the World" and it has led to a focus on social justice.

The Ethical Investment Advisory Group of the Church of England is responsible for directly engaging with companies as well as developing and advising on ethical policy for the three main investing bodies of the Church of England. These bodies manage combined assets of around £8 billion. It sees itself as an institutional investor, making a sharp differentiation between its position and the more activist position taken by other engagers such as The Oblates. A comprehensive ethical investment policy has been developed in line with the values of the Church for key issues such as the environment, corporate governance, and HIV/AIDS. The Ethical Investment Advisory Group of the Church of England [hereinafter referred to as *The Church of England*] brings together investors, theologians, members of the General Synod and Archbishops Council. It firmly believes in acting as good stewards and as responsible investors.

## Methodology

We adopted a qualitative exploratory approach using seven cases of engagement by ROs. A descriptive case study approach permits the researcher to explore more meaningful aspects of real life behaviour in the particular context they occur (Yin, 2003). Particularly for enriching understanding of the processes in responsible investment and for complex and long-term shareholder engagement, case study research is valuable (Sparkes and Cowton, 2004; Sjöström, 2008). We did not aim to study the differences of the ROs beliefs and SSE practices but rather we focused on what they had in common. The study focused on creating knowledge from best practices. The analysis was done at the organisational level as well as case-by-case which implies the multiple embedded case design as described by Yin (1994). The research on organisational level provided a richer picture of the individual cases and ensured they were analysed in the context of the ROs. This chapter balanced the views of the four authors, allowing triangulation of perspectives as a way to improve the validity of the findings (Yin 1994; Eisenhardt 1989).

## Sample

For the purpose of this study we selected three Christian Organisations: a Quaker organisation, the Joseph Rowntree Charitable Trust; a Catholic organisation, the Missionary Oblates of Mary Immaculate; and an Anglican organisation, the Church of England. We chose those three organisations because experts recognized them as examples of relevant ROs involved in SSE. They all had over 20 years of experience in engagement with companies on social and environmental issues. Despite the significant difference of assets under management, ranging from £150 million to £8 billion, they all had an organisational separation between financial decision-making and social decision-making. The social screens and engagement was organised after financial decision-making had taken place. Therefore, as described above, these organisations did not renounce profits *per se*; it only means that higher returns were not their major concern.

By analysing their cases of engagement, we could confirm their SSE was indeed influenced by several features that closely link to their religious nature. We analysed the features influencing their SSE practices and found that they considered their religious features as contributors to creating social change.

## Data Collection

Interviews, follow up conversations, investment statements of the organisations and related organisations' websites, annual reviews, resolutions, engagement progress reviews,



recommendations from NGOs, press releases and other archival data<sup>34</sup> sources were used to secure validity and accuracy and to build evidence-based cases. Data collection was done over a one-year period, from mid-2011 to mid-2012. Two researchers conducted a total of five interviews with shareholder engagement experts familiar with the work of ROs in Europe and the US and held six semi-structured interviews with the main representatives responsible for engagement within the ROs studied<sup>35</sup>. The literature (Sparkes and Cowton, 2004; Sjöström, 2008) was used as a basis for drafting the interview protocol. The interview protocol was developed based on ‘how’ and ‘why’ questions and was reviewed by peers familiar with the topic and refined several times to incorporate their feedback. Simultaneously, reports, resolutions, press releases, statements and other publically available data of the three ROs as well as the related organisations were investigated to enrich the data. Sample questions were sent to the ROs via e-mail before the interviews. Archival data from religious investor groups, the ROs involved, and the related media publications on the cases contributed to the reliability and verification of the study and familiarisation with the subject matter. Follow-up conversations were held with all three organisations to review and complete the missing information. These follow-up conversations were done with additional staff members involved in engagement as well as the interviewees themselves. Triangulation of sources was done to corroborate the facts o(Yin, 1994).

The ROs represented comparable but differing characteristics which is in line with Eisenhardt’s (1989) emphasis on theoretical sampling. Details of these organisations, the cases, and those interviewed are given in Table 2.

TABLE 2: Selected Case Summaries

	<b>Joseph Rowntree Charitable Trust, UK</b>	<b>Missionary Oblates of Mary Immaculate, US</b>	<b>Ethical Investment Advisory Group, Church of England, UK</b>
<b>Denomination</b>	Quaker	Catholic	Anglican

<sup>34</sup> All the data and documents are available upon request.

<sup>35</sup> We have had interviews with representatives of the religious organizations we studied and with experts. In total we had 11 interviews, involving 9 different people. We had two series of interviews with each of the three ROs bringing the total of interviews with the case study representatives to 6. In one of the ROs, The Quakers, we interviewed two representatives, the Head of Finance and the Chair of the Investment Committee. Therefore we had 6 interviews with 4 interviewees from ROs and 5 interviews with experts in the field of faith investing.

<b>Congregation</b>	UK based, Quaker worldwide	Italy/US based, worldwide	England based, Anglican worldwide
<b>Engagement experience</b>	formally since 1970s	formally since 1980s, (engaged since 1970s)	formally since 1994 (engaged prior to this)
<b>AUM (approx.)*</b>	£150-200 million	\$450 million	£8 billion
<b>Investment focus</b>	UK and European listed, small-mid cap.	US listed, small-large cap.	Mostly UK listed, small-large cap.
<b>Companies held</b>	100	600	2000
<b>Annual engagement (approximately)</b>	5-10 companies	resolutions voted, 45 letters, 60 company engagements	resolutions voted, 200 letters (UK), 50 company engagements
<b>Social Shareholder Engagement Cases studied</b>	<p><u>1) Reed Elsevier Publishing</u>: to stop involvement in arms fairs.</p> <p><u>2) Vedanta Mining</u>: meeting human rights and environmental standards at Orissa plant, India.</p>	<p><u>1) Goldman Sachs</u>: to become more transparent on the risks of financial products.</p> <p><u>2) Newmont Mining</u>: to report on social impact and engagement with communities.</p> <p><u>3) Bank of America</u>: to develop and implement ethical criteria for lending.</p>	<p><u>1) Supermarkets</u>: to gain fairer treatment for small farmers on industry level in the UK.</p> <p><u>2) Vedanta Mining</u>: to meet ethical social standards at Orissa plant, India.</p>

<b>Interviewed</b>	Head of Finance and the Chair of the Investment Committee	Director of the US Justice, Peace and Integrity of Creation office	Chairman of the Ethical Investment Advisory Group
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\*AUM = Assets Under Management

We structured the interviews in seven parts, starting with questions on case details, then covered the decision-making process and the reasons behind the decisions, followed by questions on religious beliefs and structures that may have shaped events. Next, we discussed the interviewees’ objectives and processes in relation to the target company. Last, we asked interviewees to argue why the case was successful or not. The cases discussed were chosen by the interviewees. Prior to the interview, we asked them to select two or three cases which were either successful or not.

Data Analysis

The analysis focused on the interviews and was triangulated with archival data. Coding of the interview transcripts enabled identification of the most frequently-mentioned and stressed features influencing engagement processes. The qualitative analysis software package used, Nvivo 9, facilitated fast, rigorous processing of the vast amount of information gathered and transcribed (Easterby-Smith *et al.*, 2002; Seale, 2003). The analysis enabled us to identify the dominant features that played a role in the engagement processes. The features were defined by having three researchers independently analysing and categorizing the data using different software (amongst which NVivo 9) and coding techniques without having discussed potential categories beforehand. After several iterations and agreeing on the categories, the three independent researchers coded the interviews, achieving a high inter-rater reliability, providing confidence in the value of the classification process.

Findings

The following five features influencing the SSE of ROs were identified: collaboration, contact with top management, structured belief system, grassroots network, and long-term perspective. The first two features were already identified in previous research (see table 1) while the last three are new and can be linked to the religious nature of ROs.

**Collaboration** with other shareholders and stakeholders was regarded as a major influencing feature. Collaboration can work in several ways; whilst it usually contributes to the influence

or power of the collaborators, it sometimes proved inhibitory. Without having defined the term ‘collaboration’, all interviewees referred to intra- and interreligious collaboration, referring to their collaboration with religious investor groups. This is in line with the findings of Louche *et al* (2012) that ROs are affiliated with religious groups rather than that they join secular initiatives. The Oblates worked closely with a religious investor group (ICCR) on all the engagement processes and the Director of the Oblates said “*Working with other partners is just in our DNA, none of us can adequately do it alone*”, “*they bring diversity, experience, real life stories and their own research capacity*”. He noted that collaboration also provided a better balance in terms of the strategy chosen to engage a corporation but also “*a broader base of experience and knowledge in terms of the issues*”. The Quakers, in the Reed Elsevier case, collaborated with the Campaign Against Arms Trade which has its Christian Network<sup>36</sup> as well as through EIRIS, the Quaker-originated global network of responsible investors. Also, the Quakers worked in collaboration with other members of the Church Investors Group (CIG). It offered “*the benefits of scale and knowledge*” acknowledging that “*We’re still a small organisation so it’s helpful to be able to share research*”. The Quakers highlighted the value of combined shareholdings when asking to meet a big company. They stated that “*the size of the shareholdings that the churches have together tends to mean that you get more senior people in the company*”. Also the Church of England said that they sometimes engage with the CIG to get a bigger say in certain issues.

However collaboration was not seen as a benefit *per se*. The Church of England stated, “*In the main where we can, we engage on our own*” preferring private dialogue and saying that “*It’s much easier to get a very clear position just within our group*”. In some instances, collaboration involved compromises, as pointed out by the Quakers: “*There could be instances when you have to compromise your positioning because people perhaps weren’t as prepared to take things as far as you might*”. Although the literature claims that ROs represent a homogeneous group of investors (Sparkes and Cowton, 2004), these statements show that diversity among ROs may make collaboration difficult. Acting on their own also allowed some of them to take decisions faster. The Quakers had experienced this and stated “*The larger the collaborative body, ... the more complex it is to work together*”. Yet, it was also noted that the increasing global nature of the issues they were engaging in sometimes required collaborative engagement. Working together can be a learning process in itself, as recognised by the Quakers: “*The collaborative way of working will get better and better and become more and more important*”.

**Contact with top management** was identified by all three organisations as an important feature for continuing engagement. The Oblates: “*The fact that we wanted to meet with the people at the highest levels of the company*” was of key importance in the Goldman Sachs

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<sup>36</sup> <http://www.caat.org.uk/get-involved/christian/> (accessed 8/11/2013)

case. As a matter of fact, The Oblates had chosen to invest in Goldman Sachs despite it being on their exclusion list based on the Oblates' beliefs. Influencing management was the reason to become a shareholder in the first place. The Oblates, with a limited number of shares in Goldman Sachs, filed a resolution in 2009 which opened the door for contact with top management. The request in the resolution focused on Goldman Sachs to be transparent on management information system, procedures, risk management practices, governance and supervision. In the Reed Elsevier example the Quakers said *"We always write to the top"* contrary to meeting with the corporate social responsibility representatives: *"They [the corporate social responsibility team] are not people with a great deal of influence within the company...they are not going to change anything"*. Similarly, the Church of England stated: *"The Chairman is often the most useful place to go as well as being the appropriate one"*, whilst CSR departments seemed to approach issues in a more legalistic and less substantive way, as if *"someone's just trying to clear it off their desk"*.

The first new feature of the ROs engagement was their **structured belief system**. The sets of historical, continual and unwavering religious principles, more broadly presented here as 'having a structured belief system', are a basic starting point and continuous guidance in the Christian organisations' investment policies and practices. Their beliefs and practices united them into one single moral community [the Church] and all those who adhere to it. The Church of England stated its ethical investment considerations form an integral part of the Church's "witness and mission" (Church of England, 2011) and underlined how *"in each different area of policy there will be specific teachings"*. From The Oblates' standpoint, being an RO *"gives us a moral compass"* which helped in engagement. The unified system of beliefs and practices related to sacred things, following Durkheims' (1965) definition of religion<sup>37</sup>, guided the ROs in their engagement as it did in all aspects of life: the Quakers explained that *"Quakers very much see things holistically"*, *"We don't distinguish between what is sacred and what's secular, we say everything is sacred ... our whole planet is precious"*. The Oblates also suggested that their broader concern for issues at a "systemic" or societal level led to an interest in more complex, intangible issues. He claimed that these issues were *"not always something that RI investors or others will pick up on because (they don't) involve an immediate tangible environmental or social issue"*.

A second new feature of ROs engagement was their close contact with their **grassroots** networks. A grassroots network in this setting is one driven by the religion of a community. The term implies that the creation of the network and the group supporting it are natural and spontaneous, and the group distinguishes itself from another community or network.

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<sup>37</sup> In *"The Elementary forms of Religious Life"*, Durkheim (1965; pp 230-32) defines religion as 'A unified system of beliefs and practices relative to sacred things, i.e., things set apart and forbidden--beliefs and practices which unite in one single moral community called a Church, all who adhere to them.'

Grassroots networks are at the local level, as many believers in a community give their time to support the local church, which can lead to helping the religious denomination as a whole. For instance, a grassroots network can lead to significant financial contribution to the church, but also provide voluntary support of activities. Grassroots were united by a structured and shared belief system. They were considered to facilitate the engagement of the Christian organisations: *“Given the geographical breadth of the Church of England we often pick up information before it reaches companies’ boards in the UK”*. The Church of England mentioned the uniqueness of having people on the ground by stating *“[Our grassroots network] gives us a level of intelligence on issues that otherwise we wouldn’t have and I think most investors wouldn’t have”* and *“The key issue was the disconnect between the claims of the company and what we saw and heard [from our grassroots] on the ground”*. The Oblates, who state to have justice, peace and sustainable environment internalized throughout their grassroots organizations in over 65 countries (Missionary Oblates, 2012), even mentioned local access to knowledge as a criterion for engagement: *“We don’t often like to engage a company unless we do have some actual contact on the ground with local communities”*. These networks were the sources of knowledge on controversial issues and led to engagement with Vedanta: *“It was brought to our attention originally by members of the Church locally to Vedanta’s operations in India”* (Church of England). Its Chairman recognised that *“What was very helpful was the kind of intelligence that was gathered from the Church at the grassroots level locally”*. Whilst we did not research potentials for conflicts of interest of church members being employees or business partners (or the risk of insider trading occurring), we note that church members may wear several hats. If they were to share confidential information in the church community because they were informed as employees it could result in a potential breach of business codes of conduct. The grassroots networks were not only about signalling issues but also provided access to local communities and NGOs. ROs networks cover many countries, often ones where it is hard to get information through conventional news sources: *“Though we are small, we have missionaries in about 67 countries around the world...about 47 of those who come from the so-called developing world”* (The Oblates).

Having a structured belief system is closely linked to the third new feature, a **long-term perspective**. The Oblates initially had some difficulty in identifying an unsuccessful engagement as their long-term perspective resulted in cases continuously remaining on their radar, rather than being closed as successful or unsuccessful. *“We keep asking over a period of time and in some ways the circumstances, the personalities, or the market changes ...can do it”*. This on-going nature of engagement was summed up when he stated *“We have been at this for a long time and intend to be at it for a long time”*. One of the reasons given by the Church of England for engaging with companies was to keep ethical issues on the table. In this way, over the long-term the broad societal mission of the ROs became an objective for engaging with corporations. The time perception of these ROs might differ sharply from that of ordinary, secular investors. It was noted by The Oblates: *“We have been around for a*

*couple of hundred years as an organisation so it is not like we have a campaign that is going to finish in a year or something to accomplish and then we will go out of business*". This long-term perspective gave them the strength to be persistent, patient and grasp opportunities that they might otherwise miss: "...What sometimes may have been impossible under one CEO becomes possible under another one..." (The Oblates).

## **Discussion and Conclusion**

In seeking to overcome the limitations of the neo-liberal capitalist system, Knyght et al. (2011) proposed socialized capital supported by investment horizons of 30 years or more (p. 7). Interventions and new frameworks are suggested in terms of increasing the number of actors from agents and shareholders only, to stakeholder (state, NGOs, civil society) models. This chapter suggests that one of the solutions for unethical business behaviour can be found in the role ROs can play as shareholders. This study advances Kreander's (2004) findings that nowadays SSE practices of ROs are influenced by features that can be linked to the religious nature of their being.

Over the last decade, several theological leaders have given guidelines for grassroots community members on how to invest in keeping with their faith. The recent *Caritas in Veritate* by Pope Benedict XIV (2009) as well as the recently revised United Methodist Book of Discipline (2008) urge ROs to invest responsibly and practise SSE. Besides the growing number of religious documents on the topic of faith and investing, the empirical part of this study identified three features that influence ROs' SSE, namely: (1) the grassroots network; (2) a structured belief system; (3) the long-term perspective. These features can be considered as characteristic of Christian organisations. However, the focus of this study was on how the ROs features influence the SSE practices, not how they differed from other active social shareholders. This would make an important object for future research. Furthermore, the interest of ROs participating in activities of religious investor groups such as the ICCR and CIG, reveal ROs' growing interest in squaring the sacred and secular worlds.

Obviously, challenges in integrating faith and investing remain. As mentioned by the Quaker interviewee '*Quakers view the world as being interconnected and see things holistically*'. Nevertheless, they still have to face some thorny dilemmas given that they can never fully apply their religious principles: '*It would be hypocritical to just say we're not going to invest in mining companies but still continue to use equipment made of aluminium or steel*', the Quaker interviewee went on to say. Engaging with mining companies was regarded as a way to practise faith to improve things rather than expressing one's discontent by divesting. In another Quaker case, divesting was used and turned out to have the desired effect as well. Improving business practices through SSE seems to be a compromise for ROs and is seen as the lesser of two evils. Also the Church of England indicated '*It would be a delusion to*



*think that the Church can act with entirely clean hands in the area of investment'* (quote extracted from Kreander *et al.*, 2004; p 428). In our study the ROs considered investing as compatible with faith but that investing for profits only was no option. As The Oblates put it: *'If we own shares, we feel and believe that we are obliged to own them actively and responsibly'* and *'as faith-based investors we believe that our investment decisions and engagements have to be consistent with what we believe'*. For The Oblates, the Catholic principles of care of creation, good stewardship and the role of engaging with the world have proven major factors in the way they practise SSE.

Besides challenging the sacred-secular divide, our three newly-identified features contribute to existing literature on SSE insofar as they add to the features influencing SSE. We find Christian ROs are able to establish ethical investment practices justified by their doctrinal teachings. Such doctrine (Stark, 1996) reflects their structured belief system and purpose as an organisation. In turn, the structured belief system provides such a strong foundation that it distinguishes them from most other responsible investors. Mutual funds, pension funds and institutional investors for example often lack a historical, unified identity and thus must continually justify their engagement choices to customers or to larger audiences. The Christian ROs studied however, share a strong belief system which shapes their thinking, arguing and operating that receives much resonance amongst its community members and that gives the SSE representatives the required conviction to approach management teams and address issues of concern stemming from their belief system.

The grassroots networks were identified as characterizing the way ROs practise SSE. Kreander already noted the role of clergy in challenging the secular practices of their churches by stressing that criticism of church investment policies had waned after new ethical policies were implemented (Kreander *et al.*, 2004; 417). From a different angle, and more prominently in our study, grassroots provide valuable information gleaned from churches or missionaries in areas where corporations do business. Since grassroots members share a similar belief system as the engagers at the ROs, there is a benefit to having this first-hand link between the engagers and the grassroots.

Finally, the three ROs noted that it was important that their actions and decisions be consistent with their belief system and that this gave them a long-term perspective. Since their set of beliefs is not easily shifted (Van Cranenburgh *et al* quoting Victoria Heath, EIRIS 2012), their SSE activities over time show consistency. Proffitt and Spicer (2006: 167) already hinted to the moral motivation and long-term horizon of ROs. The processes of engagement researched in our study took about three years on average and over eight years in one case. The significance of the process over a longer period of time was emphasised by The Church of England: *"That's the interesting thing about engagement, ... a process which is unsuccessful at the time may actually end up being successful as well"*. Engagement can be understood as comprising various different tactics and being influenced by varying



factors over the long term. The patience (Proffitt and Spicer, 2006) and persistence (Clark, *et al.*, 2008; Rojas, *et al.*, 2009) shown by ROs allows them to exploit opportunities as they arise and leads to a learning process which can be applied to future engagement.

## **Limitations and implications for future research**

As with all research, this study had its limitations. We chose three ROs for their relevance and comparative features but this limited sample size makes it hard to generalise the research findings. Additional quantitative research could be useful; however, it would be difficult to find a large sample as, despite some growth in faith consistent investing, it is still not commonplace amongst ROs in Europe. Christian UK and US contexts were selected for their high level of engagement; however, more research is needed on other countries, religions, denominations and contexts as regulatory, religious and cultural differences may have a critical impact on engagement processes. Further, it was difficult to identify the specific principles to be respected by each organisation and appraise how they were implemented in each case study. Also, it is assumed in this chapter that ROs are sincere about their desire to improve social and environmental conditions. That said, some might raise doubts about their ethical objectives and/or the social impact of their engagement. Whilst we triangulated the statements made by the RO representatives in the interviews with archival data, we did not interview the management of the companies involved or other stakeholders in the engagements. This chapter looks at things from the engagers' standpoints. The viewpoints of the companies on the receiving end of engagement were not taken into consideration. Research into the firm perspective of their engagement with ROs would be valuable in gaining a fuller picture of the factors influencing SSE. Finally, some more research could be done regarding each of the features identified in our research. For example, we did not take into account the risk of insider trading when grassroots members are employed or business partners of the companies that were approached in the engagements.

The Christian ROs that participated in our study were actively involved in SSE and their way of doing SSE was influenced by features that stem from the religious nature of these entities. Through this chapter we aim to explore the discussion about ROs' potential to practise their faith by means of their investments, rather than keeping both issues separate. We broadened the discussion about faith and investment by including features of ROs which influence the way they practise SSE. ROs that are not yet investing in line with their beliefs or that are not utilising their features can learn from this and review their potentials as faith consistent investors. Various ROs are increasingly mindful of the power they can wield as active shareholders. From a sociological rather than a philosophical viewpoint, Christian ROs, with their unwavering belief system, extensive grassroots networks and long-term approach, are a force to be reckoned with in the engagement field.

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## **Chapter 7 Finally**

Multinational Corporations (MNCs), operating from a profit perspective, have legal, economic, ethical and discretionary reasons for engaging in societal issues. The first half of this dissertation reviews ways that ethics enter the business market and result in increased focus on CR amongst MNCs. Over the last four decades, CR has grown in scale and quality resulting in significantly more transparency in the way in which stock market listed MNCs deal with societal issues. Regulations, voluntary actions, activist operations, benchmarking efforts, scandals and public movements have resulted in the uptake of social issues in board rooms and throughout the different business departments. Many 21st century papers (Van der Voort et al, 2009; Valente & Crane, 2010; Maak, 2009) reveal a much broader cycle of responsibility for companies than had ever been described before. The case studies in the first part of the dissertation provide insights into the black box of decision-making amongst business managers and demonstrate the complexity of interactions between companies and civil-society actors.

Amongst the entry points of ethical dimensions in business are the responsible investors in the companies. Some scholars (Sparks & Cowton, 2004; Scholtens, 2006) identify the responsible investment community as being one of the major drivers of CR. Religious Organisations (ROs) are amongst the responsible investors. The second half of this dissertation reviews the ways in which ROs are active in the field of responsible investment, manage their investment portfolio, what tools they use to change business behaviour and what characteristics of their organisation influence their investments. The ROs practise Faith Consistent Investing (FCI), yet it is important to keep in mind that they represent just a small number of the current wealthy religious organisations around the world.

The increased uptake of responsibilities amongst MNCs and the relative absence of Catholic organisations taking responsibility as investors leads me to question what Catholic organisations can learn from MNCs in this respect. Therefore, in this final chapter, I will:

- Reflect on the interactions between the different types of organisation;
- Reflect on the theories and methodologies used for examining the MNCs and ROs;
- Review if and how aspects of CR that have led to increased societal responsibility for MNCs can be customised and applied to Catholic organisations investing in the modern economy.

What constitutes an RO is not self-evident. Even religions as established as the Anglican or Catholic Churches do not have an easily identified legal existence (Gordon Pole, 2005) and often consist of multiple forms. In this dissertation, ROs are defined as organisations whose structure and membership criteria are derived from a certain body of doctrine and belief. They are devoted to cultivating a particular form of religious practice and worship. I focus

specifically on Catholic organisations as Catholic investors around the world form a significant proportion of the global capital investment market. Catholic organisations, operating from a values perspective, aim to cultivate a form of religious practice and worship amongst their followers and use economic tools in particular to do so. Catholic organisations use their return on investments to operate their activities with the aim of continuing and expanding their organisation. Kreander et al (2004), however, noted that most ROs consider their investments as secular, as tools to achieve their holy mission. The risk that their investments are in conflict with their beliefs is high since the majority of fund managers advising Catholic organisations aim simply for the highest financial return on investment without taking questions of faith into account. Interestingly, recent encyclicals discuss how to be a good Catholic investor, for example in relation to climate change.

All the chapters in this dissertation have studied the interaction between company and society. The dissertation is a collection of papers which seeks to address different dimensions of relationships between actors in our modern business system. It does not claim to provide a complete list but I have chosen to pursue cases that are important in the modern world: NGOs working for companies, activists and socially-engaged shareholders. Whilst I recognise that other stakeholders, such as governmental or political organisations and unions, could also have contributed to the reflections of this study, the different interactions provide knowledge relevant to science and to practitioners engaging in multi-stakeholder interactions.

## **Reflection on the interactions between the different types of organisations**

### **Companies interacting with societal actors**

Within society, there is an increasing diversity of actors with no single view on the role of business. Societal actors operate differently to businesses, so when engaging with businesses, different modes of operation meet and sometimes clash.

The studies in this dissertation demonstrate the increasing demands that are being placed on business managers as well as the growing number of opportunities they encounter in social and environmental terms. Besides the increase in societal demands, a relatively new range of methods, tools and techniques for CR and stakeholder engagement exist. Adapting those aspects into business operations requires managers to have an increasing set of knowledge and skills. They are confronted with ethical decision-making in relation to societal development aspects; they are expected, and sometimes forced, to work intensively with or respond to civil-society actors that are alien to the company-client related core business; and they face shareholders that are using their shares for social purposes rather than for financial

gain (Schueth, 2003). The issues, institutions and techniques place a burden on managers since they have to respond (and give shape) to societal demands. Business managers make decisions concerning the why, what and how of the role and the responsibility of business in society. They deal with the practical societal challenges on a day-to-day basis and encounter new resource challenges that are the result of external stakeholders' expectations. External social conditions (Porter & Kramer, 2006), also referred to as significant forces of external conditions (not to be confused with external stakeholders) or 'triggers' (Grayson & Hodges, 2004) also influence businesses and force business managers to respond. Besides external stakeholders and conditions, business managers also have to analyse their own initial intuitions (Singer, 2002) and continuously reconsider their moral duty or 'boundaries of care' (Van der Borgh et al 2006). Managers consciously or unconsciously develop and formulate their own view on business ethics, which impacts on their decision-making. Their decisions, whether based on internal or external motivators, affect the business strategy as well as impacting society. When entering the black box of decision-making amongst managers, one finds deontological, utilitarian and caring reasons for managers to expand or reduce engagement with society (Bowie, 1999; Boatright, 1999; Beauchamp et al 2012; Liedtka, 1996). Managers gather intelligence, review policy needs, coordinate with their business partners, take control over certain processes and implement decisions. This cycle of sensing society, responding to the intelligence gathered and thereby impacting its environment, known as the cybernetic model, is one way of demonstrating the complexity of modern business management (Roome, 2012).

The objectives of societal actors, although communicated, are often not clear to business managers, as social movements may be driven by moral values with less clear objectives than efficiency-focused business-driven objectives (Strang & Soule, 1998). There is an asymmetry between the transparency of a company and the level and type of transparency of its stakeholders: whilst businesses have been increasingly pressured to be consistent and transparent about their business practices, societal actors such as social movements, NGOs, activists and pressure groups may constantly shift their expectations and demands. These societal actors are not only pressuring poorly performing companies to do good: they also push companies that are performing well to do even more or even better. That leads companies to rethink whether it is at all possible *not* to be under the constant scrutiny of civil-society actors. When are social movements satisfied/saturated?

Whilst the company is merely a legal entity with shareholders as its legal owners, the civil-society actor is a mission-oriented entity with engaged believers moving the entity in the direction of its mission. The relationship between the two is more complex than a business-to-business or business-to-consumer relationship whereby products or services are exchanged for money and whereby an efficiency-focused relationship is formulated from the outset.



All the chapters in this dissertation involve the dilemmas that come with interactions between different types of organisations. As described in chapters 2 and 3, the first studies outline a company that has developed an employee healthcare provision service as well as a corporate foundation. This foundation provides funds and a limited level of in-kind support to not-for-profit organisations operating in the private and public healthcare sector. The corporate-funded projects are structured as a transaction between the corporate foundation and the not-for-profit organisation whereby the latter agrees to provide a service to the public in return for a grant and/or in-kind support from the company. The projects are not in any way related to the company's business activities. A contract is signed for each project, the project deliverables are monitored on a quarterly basis, and the project is closed after the corporate foundation has received a satisfactory end-evaluation. There are no risks other than a limited potential company/NGO reputation risk. The relationship between the company and the implementing partner is straightforward and the corporate foundation determines the level of success of the project. The three main dilemmas faced by the corporate foundation relate to the scope of funding and measuring impact, as well as the level and type of involvement of local company managers. The solutions to these dilemmas are developed by reviewing the underlying existing business ethics of the managers involved. Since there is a clear service contract between the NGO and the company, the relationship between the partners is candid and the challenges for the company are limited to internal challenges.

Chapter 4 however demonstrates an example of The Very Hungry Caterpillar behaviour as the social activist shifts its demands after the company has moved one step closer to satisfying the activist's demands. The company is involved in a more complex network of relations with civil-society actors and finds itself having limited control of the situation. It partners with an NGO to improve the working situation of a group of employees in the company's value chain. This partnership is a paid service-delivery agreement whereby the company pays the NGO to train and empower a group of workers working for a distributor of the company. In doing so, the company has firstly committed itself to get directly involved in an employee group that is regarded as representing the company's brands but which is not under the control of the company. As with the case of the corporate foundation in chapter 3, the company pays the NGO and signs an agreement on the deliverables of the project, but unlike the corporate foundation case, the objectives in this case are related to the corporation's core business activities. Rather than the company contributing to the objective of the non-for-profit the company opens its doors to the NGO to help meet the company's objectives. This positions the NGO in a situation where it can judge as to whether the company has 'done well' or has done 'enough', placing the company in a vulnerable situation rather than in a control-position.

Besides its relation with the NGO, the company responds to a social activist that has publicly made three demands of the company: double salaries, provide HIV/AIDS treatment and

provide training and awareness programmes to the distributor's employees at stake. By responding, the company again finds itself in the situation that it is open to the judgment of the activist: Will the company's response be sufficiently satisfactory to the activist? Whilst the managers within the company sense the situation at hand by developing intelligence around the topic, and respond by policy-development, control measures, coordination activities and implementation activities, the activist formulates new demands. Clearly there is no agreement between the company and the activist on what the end-objective of the 'relationship' is. Since the activist's objectives are not static, the company is confronted by a new cycle of demands around related but different topics. Whilst the activist in the early days of interaction with the company stressed the need for providing HIV/AIDS medication to the workers as well as doubling their salaries, it now accuses the beer companies of pressuring the workers to drink alcohol whilst at work. Also, it demanded that the company create industry- or field-level change rather than company-behavioural change only. Clearly the demands of the activist were evolving, leaving the company in a constant 'response-mode' rather than in a control-mode as found in the corporate philanthropy situation in chapter 3. The activist had no benefit of agreeing upon an end-objective as the activist organisation was either mission-driven or in search of funding in order to maintain its existence.

Chapters 5&6 concern situations in which the companies are confronted with shareholders that have a specific interest in the social impact of the business. The shareholders discussed are Catholic organisations that are actively strengthening their faith and their faith community and are seeking ways to fulfil their stewardship role to safeguard the earth. Contrary to the grant maker - receiver relationship between the company and the development agency as well as the company – NGO service agreements, the relation with the Catholic shareholder was not static nor limited by a shareholder-rights contract. The Catholic organisation appeals to the fact that it is a shareholder but then expands the field of financial engagement by raising concerns that are based on their faith values. The shareholder engagement examples described in chapter 6 highlight some of the features of the Catholic organisations that are affecting the company, leaving the company in a merely response-role as seen with the case of the social activist in chapter 4. As with the social activist-company relation, the relation with the Catholic shareholder is fluid with no clear ending or limits on objectives. This makes it hard for business managers that are familiar with fixed objectives, measurement tools and remuneration structures to operate. The Catholic organisations are not providing a service but are merely moving in the direction of increased company responsibility with an ultimate aim that is impossible for the company to reach. 'Social justice', one of the key aims for many Catholic organisations, will remain a challenge as long as businesses continue to create power differences. Profit-seeking business in essence does not equally share profits amongst all stakeholders of its business, resulting in social injustice rather than adhering to the Catholic view of social justice.

Companies relate to several types of organisations without necessarily having an understanding of the way these different types of organisations operate. In the studies conducted, I found examples of service-providing organisations, such as the receivers of the corporate foundation funds as well as the NGOs, providing services to the company to improve the client's supply chain practices. Although partnering with organisations of this type presented some challenges to the business managers, these challenges were merely solved internally and the partnerships were fairly easily organised. The difficulties for the companies were found when relating to organisations that were either advocating or campaigning entities such as social activists and the active Catholic investors. In the case of the social activist, the company tried to understand and respond to the social activist but whilst responding, it found the activist had shifted its demands. In the case of the Catholic investors, the study indicated that the structured belief system and the long-term perspective of the Catholic investor resulted in business managers having to deal with fluid and apparently unreachable objectives. In essence, while activist claims are normally communicated and Catholic organisations have a strong and definable belief system, these organisations continue to be social movements that move constantly towards a somewhat obscure objective and therefore the business managers will always remain unclear as to where its relationship would go next. The activists and Catholic shareholders are driven by what moves them or what they believe. In the case of the social activist it was not even evident whether the activist was aiming to serve the goals it stated (helping the female supply-chain workers) or pursuing its own existence (maintaining its funding). In company relations with a mutual benefit and clear deliverables in the form of a paid service-provider; as for example partnering with the NGO to improve the value chain or with the development agencies implementing an agreed health project, the business managers faced little to no risk. Concluding, business managers would benefit from strategising if and how they engage with external actors that are not bound by mutual or overlapping objectives nor provide a service or delivery that can be valued and included as a pre-set cost factor to the company.

### **Theories - reflecting upon the theories applied in this dissertation**

To understand the dilemmas of money and ethics in MNCs and ROs in an era of corporate responsibility, I have studied several theories. All relate to the corporation's legal, economic, ethical and discretionary motivations for defining borders of responsibility. Some relate to the extrinsic drivers, focusing on the business case and external developments such as social movements or development of diseases and aid, others place emphasis on intrinsic aspects, ethics, stewardship and notions of responsibility. In this section, I will reflect upon the theories used in this dissertation.

A company's motivation for going beyond national standards and laws has often been argued in terms of the business case: what is the benefit for the company to do more than is legally

or economically required? Despite extensive research into the connections between corporate social performance (CSP) and corporate financial performance (CFP) (Griffin & Mahon 1997; Roman et al. 1999; Margolis & Walsh 2003; Orlitzky et al. 2003; Allouche & Laroche 2005), the theory derived is limited to CSP having a positive impact on CFP, but that this positive impact largely depends on geographical area and the type, disclosure and theme of the social action at hand.

Indeed, in chapter 2 of this dissertation, a case study confirmed that in the case of healthcare provision by corporations, opportunities included reduced costs and increased interest of socially responsible investors. Chapter 3 went beyond the theory of CSP-CFP linkages, applying Corporate Social Responsibility (CSR) theory that not only focused on integration of CSR in the company strategy with a view to boosting the business' 'bottom line', but also to bringing social and environmental benefits for society at large. The theory that described CSR as part of the drive for corporate competitiveness (Lee, 2008; McWilliams & Siegel, 2001; Wood & Jones, 1995) also known as 'Strategic CSR' (Baron, 2001; Burke and Logsdon, 1996) proved more applicable than CSP-CFP. In addition to the CSR theory, Porter & Kramer (2011) stressed the nexus between corporate philanthropy and business strategies and linked social and environmental gain to profits using 'shared-value' terminology. They argued that fostering this nexus could boost the competitiveness of both society and companies. Still, neither competitive societies nor competitive companies explained why corporations go beyond the business case for CSR.

Within CSR theory the 'stakeholder theory' - companies receiving pressure from stakeholders such as governments, NGOs, international entities, shareholders and activists - inspired me to take a deeper look at particular vocal stakeholders, activists (chapter 4) and investors (chapter 5 and 6). The stakeholder theory was however not sufficient to understand the management responses to the stakeholders concerned as stakeholder theory did not provide knowledge about the processing of intelligence gathered by management and management decision-making.

Although CSR related theories were useful for answering a significant number of the 'why' questions about corporate responsibility, the theories did not provide the full story as to why corporations actually contribute to the expansion of human rights beyond focusing on business opportunities and risks and gaining competitive advantage. The reason for the theories not sufficiently explaining social activities conducted by corporations can be found in the classification of corporate responsibility in an institutional self-interest perspective rather than an intrinsically motivated management domain. My empirical research demonstrated the presence of intrinsic motivators for which the CSR theories did not provide sufficient answers. Corporate philanthropy theory, explaining corporate responsibility in terms of activities that serve society and entail little or no business gain—which could be

called 'altruistic CSR' (Lantos, 2001) or 'philanthropic responsibility' (Carroll, 1991) was therefore reviewed on its applicability to the 'money or ethics' dilemmas in chapter 3.

However, particularly in the US context, also corporate philanthropy (CP) theories stressed the strategic benefits for corporations, essentially in the field of influence in public policy making. Over the years, Arnove (1980; 2007) has criticised corporate philanthropy for meddling in public policy and subverting the democratic process. Arnove mentioned the lack of public accountability, tax breaks, impact, and the way CP allows for concentration of power into the hands of the few. Corporations conducting philanthropy were accused of pursuing their own ends in lending support to civil-society actors. If this were not damning enough, a strong, growing criticism that philanthropic activities only benefitted their sponsors was highlighted. As the CP theory evolved around the US context and the CSP-CFP theory stressed the variation of geographical area, I continued to search for theories that were applicable for businesses operating in developing parts of the world, in countries where there are administrative deficits, poor provisions of social support, or lower social standards and expectations than those that can be found in corporations' home countries.

MNCs operating in developing countries are found to adjust to issues previously not familiar to their managers (Halme et al, 2009). Globalisation has brought more focus on operational and supply-chain issues including labor and human rights, public health, education, illiteracy, malnutrition and AIDS (Margolis & Walsh, 2003; Matten & Crane, 2005). An increasing number of multinationals are expanding into developing countries (Kolk & Lenfant, 2012) and many focus their philanthropic activities on development and aid (Arnove, 2007). In countries where the State is weak and conflict rife, governance problems are the most pressing (Kolk & Lenfant, 2012). The absence of effective government bodies and the limited capacity of NGOs have put pressure on large multinationals to step into the breach (Valente & Crane, 2010). For sustainable development, many scholars have claimed that cross-sector collaboration is key (Kolk & Lenfant, 2012; Valente & Crane, 2010; Selsky & Parker, 2005). This implies longer term commitments by corporations that cannot be directly connected to the business case. If the business case is not clear, other decision-making powers are at stake. In chapter 3 the theories and debate concerning the role of business in developing countries served to understand the business case for social operations at the headquarter-level but it proved insufficient to comprehend management decision-making around social causes at the local level. Dilemmas faced by local business managers involved in social causes; donor-dependency, level of corporate involvement and impact measurement, required theoretical interpretation that went beyond the business case for CSR or 'give back' philanthropy theory. For understanding the motivators, I turned to applying business ethics theories. The answers were found by using two ethical theories commonly used in the field of business ethics; deontological ethics and utilitarianism as well as a third: the ethics of care. The identified ethical theories proved relevant for the identified dilemmas of the corporate foundation at stake.

In conclusion, voluntary social action in terms of human rights could be explained by combining CSR theory and business ethics theories. Less ‘voluntary’ seemed the corporate responsibility activities that were driven by external activists such as activist-NGOs (chapter 4), faith-consistent investors (chapter 5) and socially engaged shareholders (chapter 6). The social movement theory proved valuable in studying management decision-making and interaction around social causes brought to the table by activists and investors. Scholars have already charted some of the major trends that shape the interactions between social activists and companies. In the 1980s social activism was characterised by the geopolitical concerns of companies in repressive regimes as well as concerns about the environment. Activist focus on companies increased as their interest shifted from pushing governments to introduce stronger policies and regulations to placing more direct demands to promote higher industrial standards and company practices (Van Dyke et al., 2004; Walker et al., 2008; Rao, 2009). In response, leading companies, industrial sectors and coalitions of actors began to develop self-regulatory frameworks and organise resources. There is a growing literature on social movement theory and social activism around CR issues (Den Hond & Bakker, 2007) which deals with the macro and meso-level of analysis. There are some studies of cases of shareholder activism (see Rehbein, et al, 2004; or for a review, Sjöström, 2008) and some longitudinal studies of the interactions between activists and companies based on documentary evidence and post-hoc interviews (Spar & La Mure, 2003).

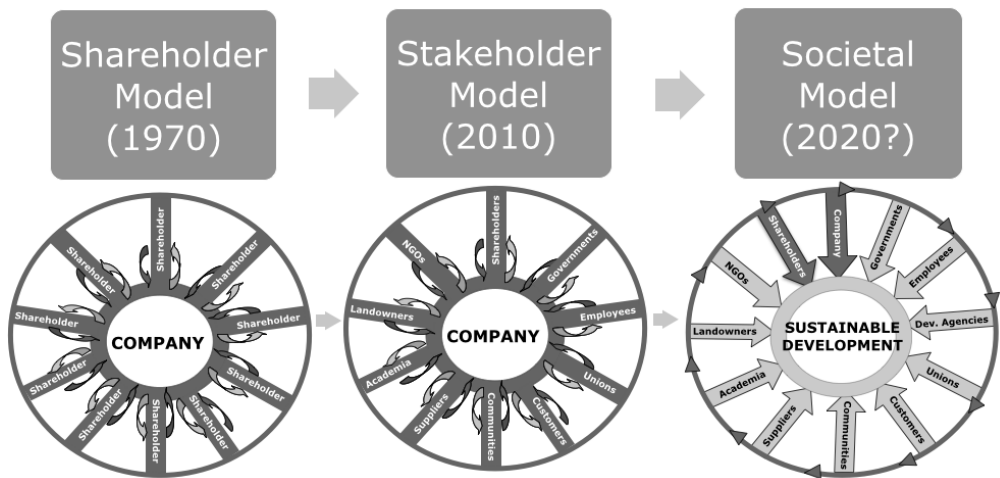
The cases in this dissertation contributed to theories of the dynamics between activists and companies. Especially, the cybernetic model of CR (Roome, 2012), adapted from the work of Stafford Beer who was interested in understanding the key elements of any functional organisation or viable system (Beer, 1984), proved beneficial. The model was originally developed to provide insights into the functioning of organisations as their managers’ sense and adapt to the pressures exerted on the organisation by a changing context. The model was therefore seen as wholly consistent with leadership or strategic CR – where CR is seen as the policies and practices needed to contribute to the continued survival of an organisation. The model is based on an existential view of the firm. While the firm has a purpose or economic rationale, the firm’s ability to deliver on that purpose depends on the capacity of its managers to respond to a range of relationships and changes - appealing to motivations, beliefs and values held by managers or expressed as company values or principles.

The model had the advantage that it is concerned with relationships between the organisation and its managers, its context, the actors in that context as much as with the organisation’s purpose. These relationships were very complex and not necessarily economic nor signalled by markets. For the purpose of understanding the dilemmas of money and ethics in MNCs and ROs in an era of corporate responsibility, the cybernetic model or theory proved the most suitable.

The cybernetic model further stimulated me to suggest changes to the stakeholder theory. In this dissertation, various internal and external stakeholders were researched; managers, activists, media, NGOs and investors. Freeman’s (2010) stakeholder strategy with the subtitle ‘Managing in Turbulent Times’ describes that a company strategy can be best drafted and evaluated in relation to the management of its stakeholders. Porter and Kramer (2011) moved from strategic management to ‘shared value’, a strategy that not only ensures risk-reduction for the company but also aims to create value for society (Porter & Kramer, 2011). Whilst the stakeholder model with shared value objectives provides a more prominent role for society than the shareholder approach, it still, similar to the shareholder model (Friedman, 1970) in that it centres on the company. With Milton Friedman’s shareholder model (1970) being almost half a century old, modern western economies overwhelmingly regard the responsibility of business in society to extend beyond the agency model into a stakeholder model. A broad cycle of responsibilities for social and environmental issues has stretched the limits of business involvement into socio-political issues more than ever before. Where the shareholder model placed the shareholders at the centre, the stakeholder model placed the company at the centre of attention.

From my research, I suggest a shift towards a new model that places sustainable development at the centre. It would address an organic need for protecting the world's limited natural resources in order for mankind to survive. To visualise this shift from the shareholder model to the stakeholder model to the societal model, I have drafted the figure below.

Figure 1: Towards the Societal Model<sup>38</sup>



<sup>38</sup> Thanks go out to my Community Wisdom Partner Rob Denny and practitioner Claude Perras who have been pivotal in the development of this figure.



This figure shows the change in time starting from the left with the Shareholder Model by Milton Friedman in 1970 visualising the company's duties are towards the shareholders, to, in the middle, the Stakeholder Model as introduced fifty years later by Edward Freeman (2010) to, on the right, the Societal Model that developed based on research carried out for this dissertation. From the middle to the right, the figure shows how the stakeholder engagement circle becomes a spinning wheel of sustainable development when the company is positioned as a stakeholder of development rather than at its centre. The symbolism of a spinning wheel of sustainable development indicates that all the spokes, including that of the company, participate in sustainable development as well as piggyback on the efforts of others. This underlines the level of dependency and equality amongst the stakeholders. Religious organisations are also included amongst the spokes as shareholders, as well as other actors studied in this dissertation, such as social activists, development agencies and NGOs. Sustainable development is no longer regarded as the responsibility of the government institutions but requires the presence of all the spokes in the wheel. All the spokes move the wheel in the same direction: that of societal development. Theoretically this model could stop stakeholders pulling in different directions and ensure stakeholders all work for the same goal, that of sustainable development.

## **Methodologies - reflecting upon the methodologies applied in this dissertation**

My work experience acquired over a span of 16 years was instrumental in the methodologies adopted for the individual studies that make up this dissertation. Studying the projects and activities I was involved in seemed not only the most logical thing to do but also provided my co-authors and myself with a wealth of internal company information that other researchers would normally not have had access to. In the MNC cases, I had unique access to the internal and external stakeholders at both headquarter and subsidiary level. My unique position spanning actors in the company and the whole chain from the corporate centre in Amsterdam to a clinic in rural Burundi and a distributor in South-East Asia provided both in-depth engagement with the project and full access to qualitative and quantitative data. The longitudinal organisational ethnographic methodology or 'ethnographies' in combination with the case-study methodology proved most suitable for the purpose of studying the Heineken CR activities.



Ethnographies can be classified under a spectrum of descriptors ranging from ‘full observer’, ‘observer as participant’, ‘participant as observer’ to ‘full participant’ (Hammersley & Atkinson, 1997). The scale moves from the so-called ‘fly on the wall’ observer to full involvement and subjectivity as participant in the activity under study (Hammersley & Atkinson, 1997). Whilst data collection methods differed, the methodology was used in all instances studying corporate CR. Although I was fully participating as an employee of Heineken’s health affairs when collecting data for chapter 2, the main focus was on the impact of the Heineken health programme on socially responsible investors. That led me to use a mixed-method approach using interview techniques and survey methodology. The data collection used for chapter 3 and 4 might best be labelled as ‘retrospective organisational ethnography’, in which the ‘I’ can be described as that of ‘full participant’. In his definition of ethnographies, Van Maanen (1988: ix) includes the need for a recorded set of observations made in situ. In the case of Heineken and the Heineken Africa Foundation, I kept notes of events and had access to meetings, reports and minutes and reflected on the social processes that evolved inside the cases studied.

As the role of a ‘full participant’ can create lack of distance between the researcher - myself - and the research subject - the company I was employed at - triangulation was key. This led to another red line in all my research: ensuring multi- or joint analyses by involving co-researching and co-writing academics, whether PhD students or (assistant) professors. Also, the supporting secondary data such as internal company documents, seminar video shots and external documentation contributed to valuation of the findings of the ethnographies.

For the two studies around the dilemmas of money and ethics at ROs additional methodologies deemed required. Firstly, as no database outlining a broad scope of ROs in terms of geographical spread and religion was available, we had to create one. Although my linkage to the International Interfaith Investment Group 3iG was beneficial to connecting to ROs, this linkage did not come close to the level of involvement I had in the MNC cases. For the ROs, I used two approaches to reach our targeted sample.

The first approach was based on an Internet search collecting contact information from religious organisations around the world. This was done religion by religion leading to a database of 316 Christian, 142 Baha’i, 133 Buddhist, 13 Shinto and 13 Hindu representative e-mail addresses that received the online survey. The second approach was more targeted cooperating with five Religious Investor Groups (RIGs) around the world willing to distribute the online survey with their members. Through this approach the survey was sent to another 513 religious organisations’ representatives, totalling 1127 people. Contrary to the RIG support, the Internet database creation proved not very successful. Therefore we considered the survey sent to 668 people.

Prior to the survey, we conducted two focus groups discussions with a total participation of twenty-five representatives from different religions - Jewish, Christian, Islamic. The outcomes, as well as the findings from the literature review provided input for the online survey. The survey was tested on over ten experts, from various institutions, religions and countries.

The methodology clearly had its limitations. Firstly, setting a proper sample size objective proved difficult not knowing the number of ROs around the world. Also, using the RIGs, whose mainly US and European members are clearly interested and involved in FCI, resulted in a non-random sample as the survey was directed to mostly Christian organisations already knowledgeable on the topic. The fact that the questionnaire was only available in English further led to the sample being highly biased towards English speaking countries.

Despite these limitations, the survey and its analysis offered a first provisional overview of some of the attitudes of religious organisations towards responsible investment, which led me to study seven cases using a qualitative exploratory approach. As with the Heineken studies, a descriptive case study approach helped me to explore more meaningful aspects of real life behaviour in the particular context they occurred (Yin, 2003). Particularly for enriching understanding of the processes in responsible investment and for complex and long-term shareholder engagement, case study research is said to be valuable (Sparkes & Cowton, 2004; Sjöström, 2008) and proved useful for the purpose of this dissertation.

The analysis was done at the organisational level as well as case-by-case which implies the multiple embedded case design as described by Yin (1994). The research into the organisational level provided a richer picture of the individual cases and ensured they were analysed in the context of the ROs. For data collection, I used interviews, follow up conversations, investment statements of the ROs and related websites, annual reviews, resolutions, engagement progress reviews, recommendations from NGOs, press releases and other archival data sources to secure validity and accuracy and to build evidence-based cases.

The ROs represented comparable but differing characteristics which is in line with Eisenhardt's (1989) emphasis on theoretical sampling. The data analysis focused on the interviews and was triangulated with archival data. We coded the interview transcripts and the most dominant features were defined by having three researchers independently analysing and categorising the data.

The data collection for the chapters 2, 3 and 4 had a timespan of over 12 years, between 2000 and 2012. The data collection for the studies on ROs was done in two phases, the general global phase in 2009 and 2010 and the case study in 2011 and 2012.

Reviewing if and how CR aspects that have led to increased societal responsibility for MNCs can be customised and applied to Catholic organisations investing in modern economy.

## **Catholic Organisations investing in companies**

Whilst MNCs increasingly take up quasi-government roles, ROs increasingly take up economic roles as their investments have become imperative to their existence. In their ‘new’ role as societal actors, MNCs are under pressure to demonstrate their impact, but ROs are rarely challenged to show the impact of their investments. Indeed, MNCs are under great pressure to practise CR and the ‘CR industry’ is growing and evolving rapidly, promoting business ethics, philanthropic endeavours, activities of value chain sustainability, public-private debate and cooperation, greater media attention, and the adoption of monitoring and benchmarking tools. ROs, however, come under very little scrutiny with regard to the impact of their investments, and only a few ROs, mainly in the US, Canada and the UK, practise Faith Consistent Investing (FCI).

In chapters 5 and 6 of this dissertation I have turned the focus specifically on FCI. In so doing, I have investigated ROs’ attitudes to and opinions about investing, at the same time as I have studied their practices in the field of investing and, in particular, in the area of social shareholder engagement. These studies conclude that FCI is indeed possible, that active faith investors base their investment decisions on much more than financial indicators, and that they cooperate with other faith investors to increase their impact. The faith investors that participated in my studies place considerable emphasis on their religious identity and align themselves with regional and national religious investor groups that actively engage with the companies in which they hold shares. Amongst the ROs studied, the responses obtained herein came primarily from Christian, Catholic organisations. I identified key religious characteristics that impact strongly on the way Catholic organisations engage with companies. The companies approached by these active Catholic investors are confronted with a group of shareholders that have a structured belief system that drives all their investment activities. However, neither their attitudes nor their opinions can necessarily be ‘translated’ into specific measurable or feasible objectives that the company can refer to; rather, what they encounter is a long-term perspective without any clearly defined end-goals. As discussed earlier in this chapter, this very often makes it extremely difficult for companies to deal with civil-society organisations of this type. But the relationship also brings challenges to the Catholic organisations themselves: investments in companies are vital for conserving the Churches’ assets and activities, and the fear of losing returns on their

investments may lead them to turn a blind eye to the potentially negative societal impacts of their investing. This dilemma – their not being able to serve two masters at the same time, ‘God and Money’<sup>39</sup> – is considered a barrier for many Catholic organisations and their attempts to practise FCI.

ROs – who are merely social actors – are also active in the economic sphere as they hold shares in MNCs and/or have savings or funds within financial institutions. Contrary to public expectations of MNCs though, ROs are not expected to be transparent about their investments. ROs may invest based on their mission or they may invest in the most profitable way in order to achieve their mission. Investing in accordance with their faith, however, is not so straightforward. Total compliance with the beliefs of their faith would often mean they could not even be shareholders, as their values of equality and social justice would automatically dictate that they invest in cooperatives rather than in the proprietary model of being a shareholder in a for-profit corporation. Whilst society accepts that any economic activity automatically involves a certain negative footprint, ROs are expected to keep their hands clean at all times. As a result of the ongoing and increasing process by which companies are forced to keep their hands clean, investors in these companies are also being targeted. ROs are amongst these investors and, therefore, they cannot remain out of the spotlight. However, to date there is no knowledge database outlining whether ROs invest in a socially responsible way or in line with the religious beliefs they hold. It will only be a matter of time before ROs are also forced to account for whether they should not clean their hands as well. To give just one recent example, in April 2015, the Church of England sold off its fossil fuel investments, valued at around 12 billion Euro, as a response to the climate change debate and the global call for investors to take responsibility for their actions.

As various religious investors indicated during the interviews and focus group discussions, they tend to hold a holistic view of the world. The Bible for example speaks of the Christian obligation to steward the earth; this stewardship is concerned with all aspects of the relationship between mankind and the environment: it includes issues of social justice, care for the earth, peace, and the duty to serve one’s fellow man. Holistic movements will automatically face more challenges than one-issue movements, such as organisations fighting for animal welfare or gender equality, or the social activist discussed above aiming for improved working circumstances for female beer promoters in Cambodia. Applying holistic values to all of one’s activities, including one’s investments, inevitably results in trade-offs having to be made.

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<sup>39</sup> “No one can serve two masters, for either he will hate the one and love the other, or he will be devoted to the one and despise the other. You cannot serve God and money”, Matthew 6:24.

As Jean-Paul Sartre's play 'Dirty Hands' (1948) argued, getting one's hands dirty is a human condition. For MNCs it seems acceptable for them to get their hands dirty – albeit that by adopting the concerns of CR the focus is now on keeping their hands as clean as possible, but ROs that strive to follow God's example face severe challenges with this human condition. Indeed, as a result of the CR industry's aim to clean companies' hands, the cleanliness of investors' hands has also come under increasing scrutiny.

Turning the lens from MNCs to Catholic investors means determining whether there are any lessons to be learnt from the recent shift in business responsibility for Catholic investors. Since the growth in CR has led to behavioural changes among corporations, the question arises as to whether the Catholic organisations have followed a similar path. When applying the tenets of CR to ROs, what would that look like and could customised CR tools result into increased FCI amongst the significant number of Catholic investors that do not (as yet) invest according to their faith?

### **Turning the lens: applying the tenets of CR to Catholic investors**

Despite the aforementioned differences between organisational types, the aim of this subsection is to address the following question:

*In relation to money and ethics, what lessons can be learned by Catholic Organisations and their investment policies from recent CR developments in Multinational Corporations?*

In line with the tenets of CR that impinge on MNCs, I review below how external pressure, self-regulation, technical capacity, intrinsic values, benchmarking and reporting tools, accountability, opportunities, reputation and transparency can be adapted to ROs.

To understand the applicability of the tenets of CR to Catholic organisations, it is important to understand the organisational settings of what are apparently two very distinct organisations. According to agency theory (Eisenhardt, 1989), MNC managers are agents that have a duty to work for their principals – formerly the company's shareholders, but now their stakeholders. As the interests of agents and principals differ, tension exists in management decision-making. Similarly, Catholic organisations that make investments are managed by both theological leaders and fund managers. They too have a duty to work for their principals, be it a higher spirit/God or their grassroots members/followers that provide the financial means (in the form of membership fees, pensions, regular voluntary contributions, spontaneous donations, legacies or other financial forms of support). The principal-agent problem arises when the self-interests of the theological leader or fund manager are at stake and they differ from the interests of the principal(s). In his book, 'God's Bankers. A history of money and power at the Vatican', Gerald Posner (Posner, 2015)

recounts how the heirs of Nazi-regime victims were denied pay-outs on their insurance policies by the Vatican bank, which placed the self-interest of its fund managers above the duty they had to work for their principals, i.e. the grassroots.

**External pressure:** Contrary to the situation recorded in the business case studies discussed in this dissertation, the fund managers and theological leaders of Catholic organisations experience less pressure from their principals than that experienced by the managers of MNCs. If the principals of the Catholic organisations were to be actively involved in the decision-making of their fund managers and theological leaders, this could well result in increased financial transparency, potentially changing their investment policy and portfolios. Grassroots members concerned with their Catholic beliefs could demand pro-poor, social justice and equality-promoting investment initiatives and could force the organisation to divest from engaging with ‘sinful’ companies. In the same way that NGOs have the power to shift the nature of corporate governance (Levy et al., 2010), Catholic grassroots movements might be able to shift the nature of Catholic investing. In line with activist experiences in changing corporate governance or behaviour, there are a number of ways of addressing Catholic organisations’ investments in capital markets. In the early days of MNC activism, activists focused on lobbying governments to introduce stronger policies and regulations; likewise, Catholic grassroots groups interested in changing the investment behaviour of their institutes could focus on the regulators. Whilst there is no central fund management in the Catholic Church, there are several regulating and policy making bodies in the Vatican. Although not binding on the Catholic Church around the world, ‘policy’ documents, such as the *Caritas in Veritate*, have considerable influence amongst Catholic societies in all countries of the world. Another potential course of action is for the grassroots members to become more involved in their churches’ financial investments and to voice direct demands to promote higher standards of practice and transparency in investment portfolios. Similar to the shift experienced by MNC activism, from lobbying for government regulations to voicing direct demands for MNC management to take social and environmental responsibility (Van Dyke et al, 2004; Walker et al, 2008; Rao, 2009), ROs investing in capital markets could well prepare their representatives to provide answers to grassroots questions about how their investments impact the climate, inequality, justice and other faith concerns. In the same way that the responses of company managers to demands of social activism are being researched (Spar & La Mure, 2003), the responses of the theological leaders and fund managers of ROs to Catholic grassroots’ activism require further research.

**Self-Regulation:** With the governments’ move towards greater market liberalisation with less state-control, a broad mix of economic instruments supporting voluntary self-regulation have emerged (Aguinis & Glavas, 2012). Leading companies in various sectors and coalitions of actors began to develop self-regulatory frameworks (King & Lennox, 2000), while other companies deployed new international voluntary codes and standards, such as

ISOs and GRI reporting guidelines. These initiatives served to codify standards of practice (Delmas & Montiel, 2008) and today various industries now operate examples of institutionalised CR (self) regulation or guidance. For example, the banking sector works with the Equator Principles, the mining industry complies with the Extractive Industry Transparency Initiative (EITI) and the United Nations Principles of Responsible Investing (UNPRI) are available for investors who wish to demonstrate that they invest responsibly. In the list of 288 asset owners that signed up to the UNPRI, various organisations were identified as religious entities or as having a religious identity. They include the Australian Catholic Superannuation and Retirement Fund, the Catholic Superannuation Fund, Christian Super, Church Commissioners for England, Church of England Pensions Board, Church of Sweden, Joseph Rowntree Charitable Trust, Opplysningsvesenets fond (Church of Norway), The Central Church Fund for Finland and Wespeth Investment Management (United Methodist Church). Being a signatory to the UNPRI entails publishing an annual Responsible Investment Transparency Report as well as the option to share Responsible Investment activities. But besides the option open to Catholic investor groups of adhering to the UNPRI, the option of drawing up guidelines or (self-)regulations for measuring, monitoring, auditing and benchmarking Catholic Organisations investing in capital markets might also be considered. Further research into institutionalised CR by scholars that understand Catholic institutions and organisational structures is needed to understand the potential of such self-regulation.

These institutionalised forms of stakeholder pressure for increased CR have led to an increase in voluntary regulation and transparency amongst MNCs and have enabled society to understand both the negative and positive impact business has on society. The potential of developing a similar institute for guiding Catholic investors, not so much concerned with measuring the extent to which these organisations fulfil their religious mission, but rather with measuring the level of faith-consistency shown by their investments, could result in a similar degree of attention being dedicated to such issues, leading to a change in behaviour and an increased level of transparency amongst Catholic organisations. In keeping with the UNPRI for responsible investors or a similar set of principles based on faith beliefs, Catholic organisations reporting their investment portfolio and activities would provide their grassroots and other stakeholders with information about how far their religious organisation was investing in accordance with its faith. Additionally, it would demonstrate the impact (both negative and positive) of their investments on society. Customising the UNPRI to the Catholic faith would not necessarily require making major changes to the framework currently being used. The six principles of the UNPRI related to the incorporation of environmental, social and governance (ESG) factors into investments, active ownership and disclosure around ESG issues, promotion of the principles, cooperation and reporting can be supplemented with what might be seen as more Biblically inspired concerns, including poverty, equality and social justice.

**Technical Capacity:** What Catholic investment principles would require (in line with those adopted by MNCs) is greater knowledge and competence amongst Catholic representatives to deal with the increased claims of responsible investing. MNCs deployed dedicated teams of managers with competence to contribute to the management of CR and the issues raised in this area (Wood, 2010; Peloza & Shang, 2011; Aguinis & Glavas, 2012). Although ROs have a wealth of in-house competence when it comes to charity work, strategic concerns about managing faith-consistent investing and the related risks and opportunities will require adopting a more strategic approach and related resources for ROs.

**Industry Identity:** Similar to the shift undergone by MNCs from corporate philanthropy to strategic and integrated CR (Porter & Kramer, 2002; Saïia et al, 2003), ROs may be better off preparing themselves to integrate the beliefs of the faith into their investments rather than maintaining this divide between their holy mission and their secular investments (Kreander et al, 2004). Whilst the UNPRI network is open to ROs, this dissertation has raised the issue of religious identity. As suggested by Arjaliès (2010), future research into the group dynamics of ROs practising FCI and how they are affecting and being affected (or otherwise) by the broader responsible investment community would help better understand the identity needs of Catholic organisations as they seek to develop Catholic investment principles.

Applying Catholic beliefs to Catholic investors helps them determine the potential of customising and adapting the tenets of CR to Catholic investments. Catholic Social Teaching (CST) constitutes the main source of guidance for Catholics. It is rooted in early Hebrew scriptures, and includes the early prophets teachings on justice, love and dignity (Mi 6:8, RSV Finn 2010), and in the scriptures' descriptions of Jesus' life and teachings, in which he provides his followers with guidance on how to live a proper life and how to be a good steward of the earth and its inhabitants. The belief is that God is the source of all creation and all that happens within that creation must be consistent with God's will. All reflections, including those on the financial and economic system today, are derived from the Roman Catholic perspective rooted in the early scriptures. CST, however, evolves over time, introducing teachings as they apply to modern society, to reflect the relevant issues of each period of history. In the late Middle Ages usury was included in CST and the most recent financial-related teachings are rooted in the *Caritas in Veritate* (2009).

Today, Catholic organisations and Catholic investors benefit from the guidance provided by teachings that enumerate general principles of how humans should relate with their fellow humans, communities and the earth. These teachings apply most obviously to daily community life but also extend out into a Catholic's economic and financial activities. Applying these teachings to financial activities (including their investments) means Catholics have to ensure that their investments function honestly and rightfully, and that they are stable, transparent, accountable and in compliance with the common good. Applying CST principles to Catholic investments implies using the more generic teachings



of the Ten Commandments as well as the virtues of prudence, justice, solidarity and mercy. Likewise, these principles should govern the decisions of Catholic organisations when they choose which companies to invest in and as they monitor their investments.

A recent debate within CST concerned the ethical question centred on business short-termism. In the *Caritas in Veritate* signed by Pope Benedict XIV (2009), it is stated that “the entire financial system has to be aimed at sustaining true development. Above all, the intention to do good must not be considered incompatible with the effective capacity to produce goods.” The Pope goes on to say that “What should be avoided is a speculative use of financial resources that yields to the temptation of seeking only short-term profit, without regard for the long-term sustainability of the enterprise.” According to the interpretation provided by Catholic priests, “The short term thinking that often drives businesses to meet specific stock market and shareholder expectations is judged inappropriate because of the negative impact such activity can have on social and ecological concerns and responsibilities” (Finn, 2010).

In line with teachings that stress the need to defend the poor and marginalised, investments should serve those living in poverty and excluded from the system or at risk of being victims of the systems. For example, investing in affordable housing for marginalised populations, promoting micro-finance projects for financial inclusion and equal opportunities, or shifting from earth-damaging coal-investments to alternative energy investments would constitute Catholic-compliant investment activities.

In effect, and as outlined briefly in chapter 6, several texts make direct reference to investing, identifying particular types of shareholdings that are inconsistent with CST and which should be avoided. Likewise, they refer to the obligation to monitor whether an investment (both the associated activities as well as their outcomes) is in line with the teachings, and to the requirement to invest in activities that have a positive social and environmental impact. Protestant Methodist writings (United Methodist Church, 2012) have further described the need to actively own shares in a faith-consistent manner.

CST literally calls for stakeholder engagement and outlines the need for promoting transparency in general. Recent teachings provide ethical justifications for information disclosure by corporations. Moral theology, as described in the *Caritas in Veritate*, attempts to make business ethics practical and objective so as to provide objective measurement tools. Business ethics solutions described in CST call for moral business management practices such as corporate reporting, accountability and practices for the common good.

CST applied to the investments of Catholic individuals or organisations promotes the need to balance ‘stewardship’ and ‘ownership’. As such, a Catholic investor will not want to

invest all their money in the poverty reduction of poor communities when that might leave the Catholic individual or organisation in penury itself. In addition, the Roman Catholic faith holds to the principle of subsidiarity, meaning that social problems should, where possible, be tackled at the local level. This tradition is built around a framework that emphasizes rights and responsibilities at all levels and for all actors. If people at the local level cannot solve social problems, higher levels – such as governments or companies – would then have to take responsibility. If they, however, were unable to accept the responsibility, the next level up, according to the subsidiarity principle, would require shareholders to take responsibility. The principles of subsidiarity and solidarity are both highly applicable and should be deemed operative for Catholics investing in MNCs. In short, Catholic investors have to balance what is reasonable in terms of seeking financial returns that satisfy their fiduciary duty to run the organisation and serve its members and what is expected from them according to Catholic social teachings and principles.

**Benchmarking & Reporting:** Once a reporting tool for Catholic investment principles is in place and Catholic organisations become signatories to such an initiative, their grassroots members will be able to understand better how and where their financial contributions are invested. It may also serve as an example for individual Catholic investors to review their own personal investments. Reporting should result in benchmarking. For example, measurement tools for pension funds should be inspirational. Over a period of eight consecutive years, Dutch VBDO (Vereniging Beleggers Duurzaam Ondernemen) has examined ‘Sustainable Investments by Pension Funds in The Netherlands’, identifying the (ir)responsible investment practises of close to 50 pension funds. VBDO has also conducted a study of responsible investing amongst ecclesiastical institutions. Thus, a benchmark for Catholic organisations in line with Catholic investment principles may be just around the corner.

**Accountability:** Whilst MNC managers in the second half of the 20th century did not feel accountable to any stakeholders other than their shareholders, various factors have led to an increase in the responsibility and accountability of business managers. An earlier study of ROs (Ross, 2005) showed that financial issues were a topic of ‘fear’ among religious actors and for many an issue that was delegated to external professional advisors. For Catholic organisations, it might be that today their theological leaders or fund managers do not feel accountable for their organisational investments. But with the right tools and activities, the pressure for greater transparency should rise, leading to increased accountability for their investment decisions and practices.

**Opportunities:** Moreover, turning the lens on the Catholic investor may potentially trigger opportunity-seekers to pursue their objectives through investments. Various religious activist groups advocating a specific cause may discover the potential of faith-consistent investing. For example, a Catholic NGO aiming to prevent climate change might seek to

align itself with their Catholic investment committee to work towards a climate neutral investment policy or a Catholic activist group concerned with civil rights might push its Catholic fund manager to divest from an agricultural company accused of land grab or violation of rights of indigenous peoples. Donors to Catholic social movements may begin to ask questions about financial allocations before making their gifts and participants in Catholic pension funds may question the balance between fiduciary duty and social impact. Once ignorance about FCI amongst Catholics turns into knowledge and the opportunities of FCI are recognised, more grassroots interest in becoming engaged in investment practices and policies can be expected.

**Reputation:** Another point of entry that requires further research is the reputational potential of faith-consistent investing. The reputational and competitive benefits accrued by MNCs as they shifted from the shareholder to the stakeholder model are the focus of an increasing amount of research as is the connection between social and financial performance (Griffin & Mahon, 1997; Margolish & Walsh, 2001; Orlitzky et al, 2003; Allouche & Laroche, 2005; Barnett & Salomon, 2006). Recent scandals concerning sexual abuse and financial misconduct represent serious challenges to the reputation of Catholic organisations. As we have seen in the business case studies, the reputation factor is one of the drivers of the CR agenda and scandals and crises in the corporate world have led to a huge growth in public distrust. One way of combatting such distrust is by providing transparency, acting responsibly, cooperating with others and accepting accountability. For Catholic organisations, engaging with companies they invest in, in order to create social positive change, and communicating and providing transparency in their investment policy, portfolio decisions and engagement actions might serve a similar purpose in regaining the trust of their grassroots members and other stakeholders. Scandals and crises in the financial and economic markets have prompted MNCs to reconsider their business practices, disclose their impact on society, take up societal responsibilities and measure and communicate their impact. In the case of Catholic organisations, to prevent scandals and damage to their reputation and to regain the public trust lost in scandals of a non-financial kind, they have to ensure that their investments are in line with their beliefs, which after all constitute the core reason for their existence. Scandals in MNCs have led to activist initiatives ranging from ‘blaming and shaming’ to positive engagement. The apparel industry is a good example where naming and shaming has led to increased attention on human rights: “Naming and shaming works ...”, stated Niki Janssen of the Clean Cloth Campaign in November 2014, “... when mentioning ‘the industry’ nobody feels addressed but if they are named they respond.” Companies in the apparel industry have the possibility of joining Fair Trade institutions and of complying with standards that provide them with fair trade labels. Applying this to the Catholic organisations, initiatives and the potential impact of blaming and shaming are readily apparent as are ‘faith-consistent investing’ labels.

**Transparency:** The global trend towards greater transparency will also affect religious society; being prepared or even pro-active is essential if they hope to retain their public license to operate. Transparency is fully in line with Catholic Social Teaching (Vaccaro & Sison, 2011) and would, therefore, further support the organisation's holy mission. Applying the *Caritas in Veritate* statement for financial organisations, according to which the sector should combine “right intention, transparency and the search for positive results”, to Catholic investors should bring about a paradigm shift. Whilst transparency may not be ideal for ROs operating in an experimental phase, for those already partnering with other stakeholders transparency may well prove beneficial to their reputations.

## In brief

This dissertation has shown the increased complexity faced by business managers as the demands of the various stakeholders they engage with shift and become less well defined. One of the normative stakeholders comprise religious investors among whom some are active in faith-consistent investing through exclusion and divesting, positive screening, shareholder engagement and impact investing. With increasing focus being paid on CR, the spotlight automatically falls on investors. As co-owners of stock market listed MNCs, investors, including Catholic organisations, are the principals that direct the agents working in the companies. Catholic organisations cannot shirk their responsibilities and are confronted with Sartre's ‘Dirty Hands’ dilemma. Introducing the tenets of CR within Catholic organisations will require them to respond in terms of resources, transparency and action. Various guidelines and (self-) regulation may be consulted by Catholic investors to guide and determine their investment portfolios, engagement and accountability. With the growing interest for CR and the significant role being played by investors in company behaviour, faith investors will be questioned about their investment policy and practises. Faith consistent investment practises, or the lack thereof, will impact ROs reputations. ROs that invest on capital markets have huge opportunities that they currently do not employ. Friedman's claim that ‘the business of business is to do business’ (Friedman, 1970) is no longer accepted by society and I believe that any claims to the effect that ‘the faith of faith groups is to do faith’ no longer hold either. This dissertation helps create awareness and change.

## Disclaimer

In this dissertation I have reviewed how certain religious scriptures may guide or influence investments of ROs, in particular Catholic organisations. The organisations studied have religious aims, social aims and economic/financial aims. The studies that make up this dissertation have the focus on the social outcomes of ROs economic aims and do not research in how far ROs are reaching their specific religious aims such as having more church

members or reducing poverty and creating peace. I have restricted myself to researching the social impacts of their financial investments as to limit the scope of the research and ensure in-depth knowledge creation and distribution in a particular organisational aim. Nevertheless, I consider the chosen demarcation to be a limitation in the sense that nothing has been said on the implications of FCI for fundamentalist religious organisations nor have I studied controversial beliefs of liberal ROs. Rather than entering the debate of what is fundamentalist and controversial and what not, I would like to emphasise there is a variety of religious beliefs that, when applied to investing, would create impact that could be conflicting with basic human rights. To name one example, Catholic or Muslim investors that morally disapprove same-sex relations, might divest from companies that promote equal opportunities to lesbians, gays, transgender or bi-sexual employees. Whilst the RO in this case is to a certain extent faith-consistent in conducting its investments, they could risk being prosecuted for discrimination if they, also in consistency with their beliefs, were transparent about this aspect of their investment policy.

Contrary to companies and in line with the differences between the types of entities, historically, ROs around the globe have experienced persecution for expressing their beliefs. Whilst in the former section I reviewed the potentials of adapting company CR aspects to Catholic investors, this historical context will have to remain on the radar of scholars. Besides the opportunities, the risks of applying CR principles, such as transparency, to Catholic investors should also be anticipated on implementation. Given the different historical contexts in the USA, with no history of religious persecution, and the EU, with a violent religious history, any adaptation of the tenets of CR has to be seen from the perspective of each geographical and cultural/historical context.

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Dedicated co-authors and reviewers, both the ‘blind’ as those who were known to me, provided a wealth of knowledge and quality that I could freely use to improve my research. In the academic world, people are actually appreciated for providing care, reflection and accuracy rather than – what I mainly experienced in business – being set aside as a sorehead or simply annoying. In fact, continuously asking and re-evaluating lines of thought, texts, paragraphs, lines, phrases, words or even commas was very much valued! My academic surrounding provided me a true relief after having been bashed in a world of quick wins, opportunism, pragmatism, complexity being interpreted as academic junk and so forth. Suddenly there was time for reflection and debate and the many hours of Skype conferences as well as email conversations with my co-authors were enlightening and joyful. It gave me the energy to not only work on the academic papers but also on delivering practitioners reports that would increase the number of readers of the studies I was conducting.

Of course I also experienced the sensitivities between the credits one gets as an academic when publishing in impact factor journals and the temptations one has to withstand to please the reviewers or editors in order to publish. In some instances, my business pragmatism helped me and I do not (yet) regret that. Both in business and academic life, I can now better align result oriented and meaningful work.

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At Heineken my ‘grand-father-of-study’ has been Henk Rijckborst, persistently trying to improve the healthcare for sub-Saharan African people and being an example of how one can reach great results by being patient and political at the right moments. He very much stimulated me to continue education (Masters and Doctoral level) and to measure the impact of Heineken’s healthcare programmes. Following the symbolism, my ‘father-of-study’ at Heineken was Stefaan Van der Borgh, who defended his dissertation in 2011, based on medical research of Heineken’s healthcare provision, thereby inspiring me to conduct research from a social sciences perspective. This support from Heineken was very encouraging and served as a great resource for reaching the result today.

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Katinka C. van Cranenburgh

October, 2015





## About the Author

Katinka C. van Cranenburgh (The Netherlands, 1970) followed two international career paths: a corporate and an academic.

Katinka finalized her studies Publicity and Culture in Amsterdam with her l'Art pour l'Argent (Art for Money) paper outlining the dimensions of investing in art. Several corporate assignments connecting business and art followed. Unified, an art book around a Dutch painter's triptych depicting corporate life of an international coffee company, became her first 'official', non-

academic, publication.

Employed at Heineken over a timespan of more than 16 years since 1998, she contributed to Heineken's human rights and healthcare policy and programs in developing countries. During those years, she graduated as an International Master of Business Administration at what is now called the Amsterdam Business School of the University of Amsterdam. From 2002 to 2014 she represented Heineken at the Academy of Business in Society, serving as vice-chair of the business board and management team member.

Confronted with the influence some religious investors had on a business human rights issue Katinka was involved in at Heineken, she decided to study corporate social responsibility and the potentials of religious shareholders to influence the social performance of business. Research in the field led to academic articles and practitioner reports. She also became Secretary General of 3iG, the International Interfaith Investment Group where she engaged with a network of faith institutions willing to invest socially responsible.

She started guest-lecturing at the business schools Ashridge (UK) and ESADE (Spain) where she became researcher and visiting scholar for the ESADE Institute of Social Innovation (Spain). As a direct result, Katinka now engages with the University of Barcelona as a researcher and assigned to set up the university's business school.

Katinka, with two partners, runs a small consultancy firm since 2014, Community Wisdom Partners, specialized in CSR and social performance. Its clients; companies from the extractive industry, NGOs and business schools, exhibit Katinka's ongoing interest in the crossroads between business, civil society organisations and academia.

## Portfolio

### Academic Publications

Van Cranenburgh, K.C. & D. Arenas (2013), **Strategic and Moral Dilemmas of Corporate Philanthropy in Developing Countries: Heineken in Sub-Saharan Africa**. Journal of Business Ethics, Volume 122, Issue 3 (2014), pp 523-536. (DOI) 10.1007/s10551-013-1776-1.

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### Non-Academic Publications

Katinka C. van Cranenburgh (2015) **Accountability through Active Citizenship: Improving Petroleum Governance in Ghana, Mozambique and Tanzania. Baseline Survey Report: Ghana**, Oxfam America

Van Cranenburgh, K.C. (forthcoming, Q1, 2016) **The Role of the Private Sector in Fostering International Development**, IS Global Health Publications

Katinka C. van Cranenburgh, Céline Louche, Daniel Arenas (May 2014) **From Stewardship to Power. Religious Organisations and their Investment Potentials**. International Interfaith Investment Group 3iG

Katinka C. van Cranenburgh, Jennifer Goodman, Céline Louche, Daniel Arenas (May 2012) **Believers in the Boardroom. Religious organisations and their Shareholder Engagement Practices**. International Interfaith Investment Group 3iG

Katinka C. van Cranenburgh, Daniel Arenas, Céline Louche, Jordi Vives (August 2010) **From Faith to Faith Consistent Investing. Religious Institutions and their investment practices**. International Interfaith Investment Group 3iG

#### Other Academic Activities

##### Teaching

MBA / Master ESADE Business School

- Stakeholder Engagement in Business
- Multinational Corporations in Developing Markets
- Business in Society

##### Guest Lecturing

- Hult-Ashridge Business School
- Nijenrode University
- University of Amsterdam
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##### Research Seminar Presentations

- Universitat de Barcelona, December 2015.
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##### Practitioner conferences

- April 2015, Ronde Tafel Religieus Verantwoord Investeren (RVI), Utrecht - organisation & chair
- November 2012, King Abdullah Bin Abdulaziz International Centre for Interreligious and Intercultural Dialogue (KAICIID), Austria, participant
- October 2011, - Annual Responsible Investment Conference, speaker
- May 2011, EFC 22nd Annual General Assembly and Conference, Portugal, Responsible investment: Titanic struggle or voyage of discovery? speaker



- October 2010, Escola de Cultura de Pau (ECP) with Institute of Social Innovation, ESADE: Corporate Social Responsibility in Conflict and Post-Conflict Scenarios: From Risk Management to Value Creation, speaker
- November 2009, Celebration of Faiths and the Environment, Windsor, UK, participant
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**DISSERTATIONS LAST FIVE YEARS**

Abbink, E.J., *Crew Management in Passenger Rail Transport*, Promotor(s): Prof.dr. L.G. Kroon & Prof.dr. A.P.M. Wagelmans, EPS-2014-325-LIS, <http://repub.eur.nl/pub/76927>

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**MONEY OR ETHICS****MULTINATIONAL CORPORATIONS AND RELIGIOUS ORGANISATIONS  
OPERATING IN AN ERA OF CORPORATE RESPONSIBILITY**

It is generally assumed that religious organisations are driven by religious beliefs and values, whilst multinational corporations are concerned solely with their profits, share prices and reputations. Thus, when faith groups invest in capital markets, they run into ethical dilemmas; however, corporations face similar dilemmas when having to make decisions about the nature of their business and how best to expand it.

This doctoral thesis examines how multinationals – when *confronted* with social issues – and religious organisations – in their *concern* for the same social issues when opting to invest in stock-listed companies, deal with these questions in an era of increased corporate responsibility. Within this broad context of business ethics, the thesis brings together several separate studies which, when read as a whole, provide insights into the black-box of decision-making of both managers and religious investors.

The thesis undertakes a case study of the Heineken brewing company's attempts to deal with public healthcare in sub-Saharan Africa and with human rights issues linked to its supply chain in Cambodia. It examines the dilemmas faced by religious shareholders who do not want to get their hands dirty when making their investments and it highlights the opportunities these religious groups have to influence business behaviour. Popular assumptions are validated and a more sophisticated understanding is provided of the two actors as they manoeuvre in the fields of money and ethics.

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