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GUIDES FOR CHRISTIAN ETHICAL DECISION-MAKING

This guide (and others in the series) is an initiative of the Office of the Bishop and the Commission on Social and Bioethical Questions of the Lutheran Church of Australia and New Zealand. It is intended to help church members consider how they might respond to contemporary ethical issues. It is meant for use in personal reflection and is not an 'official' statement of the church on the topic. I am grateful to Nick Schwarz, Assistant to the Bishop – Public Theology, for his ongoing work on this project.

Bishop Paul Smith
Lutheran Church of Australia and New Zealand
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RESPONSIBLE INVESTMENT

Learn about the matter at hand

Back in 1992 the Australian government decided that working Australians needed to better prepare financially for their retirement so they would be less reliant on the aged pension. Because workers couldn't all be trusted to save in a consistent and disciplined way, employers were required by law to take out a portion of their employees' pay and put it into a superannuation fund. The job of superannuation (or 'super') fund managers is to invest workers' money in assets they believe will deliver a 'return on investment' such as company shares, property, infrastructure and cash. Because superannuation is intended to provide income during retirement, access to it is usually blocked until then.

Workers can usually choose which super fund they want to put their money into. This creates competition between the funds. Superannuation and investment firms compete to grow their clients' wealth quickly but without taking foolish risks or doing anything illegal. They offer funds with different mixes of investments and risk profiles to choose from, such as 'Balanced Funds', 'High Growth Funds', 'Socially Aware Funds', 'Diversified Funds' and 'Conservative Funds' to cater for people who are more or less risk averse, and who have special interests, or ethical concerns about the sorts of activities their money is supporting.

Interest in 'responsible' or 'ethical' investing has grown rapidly in recent years as investors have become more aware of the human and environmental costs of 'doing business'. Christians have been among the keenest embracers of the concept, because of their concern for the wellbeing of other people and for the world God gave us to care for. Many turn to specialist responsible investment firms that are much more capable than the average layperson of doing the difficult, time-consuming and often confusing work of investigating companies' ethical track record.

Funds that use ethical criteria to guide their purchase of company shares typically investigate three aspects of company operations:

1. Their *environmental responsibility*. Does the company use natural resources sustainably and minimise harmful wastes and emissions?

2. Their *social responsibility*. Do the company's activities benefit employees, local people and society more broadly?
3. Their *governance*. Is the company law-abiding, honest and accountable? Does it treat its workers fairly? Is its management transparent and open to criticism?

Hence funds that select investments based on these ethical criteria are given names such as 'ESG funds', 'Ethical Funds' and 'Socially Responsible Funds'.

Here is an example of one ethical investment firm's company selection guidelines:

Our fund managers engage with companies that provide for and support:	**Our fund managers avoid companies that unnecessarily:**
1. the development of workers' participation in the ownership and control of their work organisations and places 2. the production of high quality and properly presented products and services 3. the development of locally based ventures 4. the development of appropriate technological systems, e.g. renewable energy 5. the amelioration of wasteful or polluting practices 6. the development of sustainable land use and food production 7. the preservation of endangered eco-systems 8. activities which contribute to human happiness, dignity and education 9. the dignity and wellbeing of non-human animals 10. the efficient use of human waste 11. the alleviation of poverty in all its forms 12. the development and preservation of appropriate human buildings and landscape.	1. pollute land, air or water 2. destroy or waste non-recurring resources 3. extract, create, produce, manufacture, or market materials, products, goods or services which have a harmful effect on humans, non-human animals or the environment 4. market, promote or advertise, products or services in a misleading or deceitful manner 5. create markets by the promotion or advertising of unwanted products or services 6. acquire land or commodities primarily for the purpose of speculative gain 7. create, encourage or perpetuate militarism or engage in the manufacture of armaments 8. entice people into financial over-commitment 9. exploit people through the payment of low wages or the provision of poor working conditions 10. discriminate by way of race, religion or sex in employment, marketing, or advertising practices 11. contribute to the inhibition of human rights generally.

Some investors will have the time and motivation to put together their own ethical criteria and do their own research into company products and practices. This is honourable but far from easy. Questions such as the following need to be considered:

- Do you and the companies you are thinking of investing in agree what it means to be 'ethical'?
- Can you distinguish between 'genuine corporate responsibility' and 'corporate image washing'?
- How trustworthy are companies' social and environmental impact reports? Are they written by independent assessors or company employees?
- What is the right policy to take towards companies that have a mixed track record, e.g. which are well run and benefit local and regional communities, but which raise environmental concerns?
- Where a company has divisions doing business in more than one country, does its level of corporate responsibility vary between countries, e.g. does it take advantage of permissive

labour and environmental standards in poor or corrupt countries? Is it good enough for a company merely to satisfy minimum legal requirements or should we expect it to aim higher?

The higher and tougher the standard of corporate responsibility investors demand, the fewer investment options they will have. If you look very thoroughly into all aspects of a company's operations, you will almost certainly find something to criticise.

Some investment funds use faith-based ethical criteria. For example, Muslims can invest in Sharia-compliant funds, which invest only in companies that are *halal*, i.e. acceptable under Islamic law. At the time of writing, a major Australian Catholic fund was excluding from its investment portfolios tobacco producers, controversial weapons, cluster munitions, corruption/bribery, human rights abuses/poor labour standards and pornography. But in general, faith-based funds and non-faith-based ethical funds have much in common, such as commitment to fair trade, poverty reduction and sustainability.

Studies comparing the performance of ESG/responsible/ethical investment funds and conventional funds show that ethical funds can grow in value at the same rate as conventional funds. Investors who choose a well-managed and strongly performing ethical fund need not worry that they are 'sacrificing' by investing ethically.

Divestment

Divestment (or disinvestment) is withdrawing financial support from a company. Advocates for greater corporate responsibility often appeal to investors to divest from companies that engage in unethical practices.

Divesting ourselves of shares we have come to regard as morally tainted means selling them. Selling shares means potentially making a 'capital gain'. But isn't the aim of ethical investment to profit from virtue, not vice? If we consider such a capital gain to be morally contaminated, what should we do with the money? Can we purify it by putting it to good use?

Divestment campaigns tend to struggle for success. They are usually more about shaming companies than shutting them down. Many shareholders overlook unethical practices if the value of their investment is increasing. Greed has a habit of winning over ethics. Even if a divestment campaign convinces many shareholders to sell their shares and the share price goes down, bargain hunters usually buy them up and the share price goes up again.

The sure-fire way to get companies to adopt ethical practices is to find ethical practices that are simple, cost-effective and profitable to adopt. The reality is that if such practices were obvious, companies would already have adopted them!

If a particular divestment campaign did turn out to be very successful, and the offending company collapsed, its employees, their families, and other people and entities that relied significantly on that company or income derived from the company's operations would be harmed. The campaigners and divestors would seem to bear some responsibility for the plight of the ordinary people employed by that company, people who in the course of earning their living were probably not trying to foster evil in the world. Do the campaigners and divestors have a duty to help the people who have lost their livelihoods to transition into some other more ethically acceptable livelihood? How might they go about it?

Consider ethical investment from a Christian perspective

For Christians, the life and teachings of Jesus and Word of God we find in the Bible more generally, are the most important source of guidance on ethical matters.

However, if you search through the Bible, you will not find the exact term 'ethical investment' anywhere. But does this mean that Jesus' life and teachings and the Bible more generally offer us no guidance on how we invest our savings – assuming we are fortunate enough to have them? No, it doesn't.

The most relevant biblical principle for us as we consider the topic of ethical investment is *stewardship*. The Bible teaches that everything we have to live on and prosper comes ultimately from God.[1] God wants us to use his gifts to bear good fruit.[2] In Jesus' Parable of the Talents, we can infer that God wants us to put not just our time and our abilities to good use, but our money as well, and not to bury or hoard them where they are of no use to anyone.[3] Although Jesus didn't say how the three servants in the Parable of the Talents invested their master's money, we mustn't read the parable as saying that Jesus endorses profitable ventures of every sort. Jesus followed the prophets who preceded him in reminding the wealthy and the powerful that God wants them to use their money and power wisely and justly, and for the benefit of others. Jesus and the prophets spoke out against dishonesty, mistreatment of workers and animals, and other abuses of power and privilege – the same sorts of matters that concern ethical investors today.

The Bible also contains many warnings about love of money. The rich are constantly at risk of acquiring feelings of pride and superiority over other people, and of putting their hope and trust in the power of money rather than God.[4]

Ultimately, we are accountable to God for the way we use our money. It is, therefore, important that we find out and concern ourselves with the sorts of activities the money we invest is funding. Let's explore briefly what guidance the Bible offers on three ways of 'growing money': loaning money at interest, share trading, and receiving dividends from shares in a company.

Loaning money at interest

In Old Testament times, God forbade the people of Israel from loaning money at interest to fellow Israelites. It was permitted, however, to loan money at interest to foreigners.[5] But exploitative money-lending is always condemned, e.g. where the lender loans money to someone who is desperate, sets tough repayment conditions and demands that the borrower bear all the risk if he cannot meet the repayment conditions.

Share trading and other forms of short-term speculative investment

Here we are talking about acquiring assets such as shares or property solely in the expectation that circumstances favour their growth in value in the short term, and then selling them to reap the profit. The strategy is to 'buy low and sell high'. This rapid acquisition and disposal of assets for the purpose of profit taking is essentially a form of gambling. The profit comes from fortuitous events, not from productive activity. So like exploitative money-lending, it involves taking for yourself money that you have not earned.

Receiving dividends from shares in a company

The Bible is not opposed to risking one's own money in company shares or property that we might hope will – with our ongoing support – grow in value in the long term. The person who risks his money in this way bears the risk himself: if the venture fails, he loses the money. Ideally the long-term investor will be able to distinguish between assets that are likely to do well and those that are not. In other words, he will be shrewd and prudent. The shrewd and prudent *Christian* investor will not only support ventures that are likely to do well, i.e. grow in value, but do her best to ensure that her money is supporting ventures that are pleasing to God.

Motivation for investing ethically

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[1] See Genesis 1:26–30.
[2] See, for example, John 15:1,2; Luke 13:6–9.
[3] Matt 25:14–30; Luke 19:11–27.
[4] e.g. Matt 6:19–21,24; Mark 8:36; Luke 12:15; 1 Tim 6:10,17–19 (there are many others!)
[5] e.g. Exodus 22:25; Deuteronomy 23:19,20.

Ethical investment might be acceptable or pleasing to God, but Christians shouldn't think they will earn their salvation through it. Christians' motivation for investing ethically (or doing other 'good works'):

- stems from their faith that Jesus has already put them right with God and their gratitude for everything God has done for them
- and from their desire to follow Jesus' teachings and example of love for our neighbours.

Christians whose principal motivation for investing ethically is desire to show others what morally virtuous people they are fall into the sin of pride.

Make a decision and act on it

You are more likely to make God-pleasing decisions about how you use your money if you think of your money as God's gift to you, and that God wants you to be a good steward of that gift. Being a good steward of money means budgeting, setting aside portions for essential and non-essential expenses, for giving away and for saving or investing.

If you decide that ethical investing is for you, will you set your own ethical criteria and choose your investments based on them, or will you delegate the task of managing your money to an ethical investment company?

Not all ethical investment companies are equally ethical or equally well-performing. It's a good idea to investigate them, e.g. by checking out Choice ratings of them, before choosing one and putting your money into it.

Review your decision

Here are some ways you can review an ethical investment decision:

- Reading reports provided to you by your ethical investment firm.
- Reading company reports that deal with matters such as governance, social impact and environmental impact, and independent reports (if available) that address the same matters.

Additional resources

Paul Mills, 'Investing as a Christian: Reaping where you have not sown?', *Cambridge Papers*, June 1996, vol. 5, no. 2.

Choice Ethical Investing Guide, https://www.choice.com.au/money/financial-planning-and-investing/stock-market-investing/articles/ethical-investing-guide

Church of England Ethical Investment Advisory Group policies

Catholic Super approach to responsible investment

Christian Super ethical investment approach

Davis, MK, Ghoul, WA, and Thies, CF 2017, 'The Performance of Faith-based Mutual Funds: A Matched-Pair Approach', *Journal of Applied Business and Economics*, vol. 19, no. 7, pp. 75–83, https://search.proquest.com/docview/1965068928/5BA7245A0BAB42B3PQ/2?accountid=35392

Michelle Zhou, Investopedia, *'ESG, SRI, and Impact Investing: What's the Difference'* 22 Aug 2019, https://www.investopedia.com/financial-advisor/esg-sri-impact-investing-explaining-difference-clients/