MIXING MORALS AND MONEY – A FUTILE DREAM?

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ABOUT THE AUTHOR

1977 Boksburg

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Suzette is op 28 September 1973 gebore as enigste dogter van Andries en Anna Viviers. Sy is 'n laatlam en het drie ouer broers, Dolph, Kobus en Andrè. Suzette voltooi haar hoërskoolloopbaan aan Goudrif Hoërskool, Germiston. Na die afsterwe van haar vader in 1990, verhuis sy en haar moeder na Port Elizabeth. In 1995 behaal sy haar BCom-graad cum laude met Ondernemingsbestuur en Bedryfs- en Organisasiesielkunde as hoofvakke. In 1996 ontvang sy haar BCom Honneursgraad in Ondernemingsbestuur ook met lof. Sy het hierdie graad gedeeltelik aan die eertydse Universiteit van Port Elizabeth (UPE) en gedeeltelik aan die Vrije Universiteit van Amsterdam voltooi. Twee jaar later ontvang sy haar meestersgraad aan die Vlerick-Leuven-Gent-Management-School in België, weereens met onderskeiding.

After a short stint in the consulting industry, she began her academic career in the Department of Business Management at UPE in January 1999. She completed her DCom degree in 2006 under the guidance of Professors Johan Bosch (UPE), Arie Buijs (Utrecht University) and Eon Smit (Stellenbosch University). Her thesis, entitled "A critical assessment of socially responsible investing in South Africa," documented the development of the phenomenon, its ethical foundations and the risk-adjusted performance of a sample of local responsible investment funds. The main finding of this study was that South African investors who wish to invest in line with their personal values would not have to sacrifice returns.

In 2009 ontvang Suzette 'n toekenning as Ontluikende Navorser aan die Nelson Mandela Metpolitaanse Universiteit (die voormalige UPE) en 'n Y2-gradering van die Nasionale Navorsingstigting in 2010. Op 1 September 2010 aanvaar Suzette 'n pos as senior lektor in die Departement Ondernemingsbestuur aan die Universiteit Stellenbosch. In April 2011 word Suzette die eerste vroueprofessor in die Departement se geskiedenis.

2013, Stellenbosch

Soos in Port Elizabeth doseer sy finansiële bestuur en beleggingsbestuur op voor- en nagraadse vlak. Sy doseer ook finansiële bestuur aan die Universiteit Utrecht (2002, 2011 en 2013) en aan die Amerikaanse Universiteit van Koeweit (2009) as deel van die universiteite se somerskoolprogramme. Oor die jare het sy verskeie nagraadse studente begelei en wyd gepubliseer in plaaslike en internasionale vaktydskrifte. Sy het talle referate by nasionale en internasionale kongresse gelewer en is ook mede-outeur van twee handboeke in finansiële bestuur. Gegewe haar passie vir etiek, sentreer haar navorsing op verskillende aspekte van sake- en beleggingsetiek.

Suzette has served as Director of the Unit for Applied Management Sciences at the Nelson Mandela Metropolitan University (Jan 2008–Aug 2010) and as Secretary General of the Business Ethics Network of Africa (Nov 2010–Nov 2012). Since joining Stellenbosch University she has been a member of the University's Research Ethics Committee (Humanities).

Sy dra hierdie intreerede aan haar moeder, Anna Viviers, en ouma, Babe van den Berg, op.

MIXING MORALS AND MONEY – A FUTILE DREAM?

Most modern-day investors would agree with the old adage "morals should not be mixed with money". In this inaugural address, I will, however, argue that morals, that is, decisions regarding right and wrong, should play a more prominent role in financial markets than is currently the case. Unless business educators instil a greater sense of moral sensitivity, judgement and courage among their students, the current tide of unsustainable and unethical business and investment practices will continue to rise.

In the sections to follow I will firstly present a brief historic overview of the relationship between morals and money. This will be followed by a critique of the current form of 'responsible' investing, which supposedly affords investors an opportunity to integrate moral considerations into investment decisions. Finally, I will offer a few suggestions on how business educators could go about shaping responsible financial and investment professionals.

THE RELATIONSHIP BETWEEN MORALS AND MONEY – TURNING BACK THE PAGES OF HISTORY

The obligation to manage one's finances in an ethical manner dates back more than 3 500 years. The Hebrews believed that God bestowed moral freedom on all people and gave them the capacity and personal responsibility to choose between good and evil (Perry 1993:29). The Hebrews also emphasised the dignity of the individual and hence the need to express mercy towards the poor and oppressed (Schwartz, Tamari & Schwab 2007:138). Over time these ethical principles were reflected in both Christian and Islamic theology.

Akin with the Hebrews, the ancient Greeks asserted that individuals are responsible for their own behaviour and that wealth was nothing to be proud of, unless it could be employed for the benefit of the common good. Historians point out that the Greeks who sought wealth for their own sake were often hated and shunned (Makedon 1995:5).

Upon observing the corrupting effects of affluence on morality, Stoic philosophers (*circa* 500 BC) warned "wise individuals" not to pursue wealth, power or fame for "the pursuit thereof would only provoke anxiety" (Makedon 1995:7). The apostle Paul, living in the first century AD, likewise cautioned the young Christian church that the love of money is the root of all kinds of evil (Spirit Filled Life Bible: I Timothy 6:10).

However, by the late Middle Ages (*circa* 1500 AD) these convictions, which underpinned much of Western morality, were gradually replaced by a growing secular (capitalistic) outlook. Catholic bankers and merchants in Italy for example profited from usury – the lending of money at an interest rate that is considered unreasonably high – a practice strongly condemned by the Church at the time. However, instead of cutting themselves off from the Church, many of those bankers and merchants simply kept a "conscience account" to make contributions to charitable causes (Hale 1966:16).

According to some scholars, the foundation of capitalism can be traced back to the Protestant Reformation in 1517. Not only did the Reformation give individuals a religious obligation to pursue wealth, but it also gave them the self-discipline to do so. Convinced that prosperity was God's blessing and poverty His curse, Protestants had a spiritual inducement to labour industriously. They viewed hard work, diligence, efficiency and prudence as necessary traits for businessmen to succeed in a highly competitive world (Stevenson 2005:60).

As a result of these changing attitudes, by the time of the Industrial Revolution (*circa* 1760) the exemplary Protestant was no longer a selfless saint, but rather an enterprising businessman, motivated by self-interest. Calvinist values of work and prudence thus degenerated over time into harsh individualism, materialism and selfishness (Perry 1993:337). This turnaround was given added impetus by liberals such as Adam Smith, who contended that individuals who acted from self-interest worked harder and achieved more. He also argued that a free economy, in which private enterprise was unimpeded by government regulations, was as important as political

freedom for the wellbeing of the individual and the community. Convinced that individuals were responsible for their own misfortunes, liberals were often unmoved by the suffering of the poor (Hobsbawm 1962:251).

By the 18th century, hitherto 'accepted' business practices such as child labour and slavery, however, came under increased scrutiny. Religious groups, such as the Quakers, vehemently opposed slavery. They held that the light of God's truth worked in every human being and subsequently refrained from owning slaves or shares in businesses engaged in the slave trade. As the Quakers also shunned enterprises that produced and sold alcohol and weapons, they became the first investors to effectively integrate their personal values with their investment decisions (Schueth 2003:189).

World War I prompted another significant change in the social consciousness of the West (Perry (1993:263). Scholars, theologians and leaders became sceptical of liberal beliefs such as the primacy of reason and the inevitability of progress, and called for a spiritual awakening (Mandala 2003:23). Views like these gave rise to the first ethical investment fund in the United States. The Pioneer Fund, launched in 1928, specifically catered for the needs of Methodists by excluding 'sin' stocks, such as tobacco, alcohol and gambling, from the fund's investable universe (Schwartz 2003:196). The creation of this fund paved the way for individuals who wanted to invest according to the tenants of their faith.

At the height of the Great depression, American president Franklin D. Roosevelt remarked that "[w]e have always known that heedless self-interest was bad morals; we now know that it is also bad economics" (A brief history of socially responsible investing 1998). Roosevelt's admonishment was, however, soon forgotten when, after World War II, most Westerners once more pursued wealth maximisation fervently (Baumol 1986:1072; Crafts & Toniolo 1996:2).

The 1960s brought about a step change in the relationship between morals and money. Social commentators argue that the civil rights and women's liberation movements of the 1960s taught a whole generation that they could take charge of their own history. A growing number of investors consequently refrained from investing in companies which they deemed morally 'unacceptable'. At the time such companies typically included armament manufacturers and those with poor labour relations (Mandala 2003:15; Guay, Doh & Sinclair 2004:126).

Opposition to the apartheid regime in South Africa also prompted many investors in developed countries to divest from banks and companies with operations in South Africa (Ennis & Parkhill 1986:30; Grossman & Sharpe 1986:15). The anti-South African movement of the 1970s and 80s sparked global interest in what became known as the social investment movement. Investors realised that they could harness their finances to promote political and organisational change. Some of these investors were even willing to accept suboptimal financial performance to pursue specific moral outcomes (Webley, Lewis & MacKenzie 2001:27; Statman & Glushkov 2009:33).

The focus on human rights also led to the creation of the first socially responsible investment fund in South Africa. The Community Growth Fund was created in 1992 by a group of local trade unions that refused to invest their members' contributions in businesses that supported the apartheid regime or engaged in unacceptable labour practices (De Cleene & Sonnenberg 2004:15)

Environmental disasters and new research about global warming and ozone depletion in the 1980s shifted the attention of the global investment community to environmental concerns (White 1995:326; Mallett & Michelson 2010:395). Furthermore, the devastating consequences of corporate scandals at the turn of the millennium rekindled the debate on corporate governance first introduced by Berle and Means in 1932. Investment criteria based on sound environmental management and corporate governance practices were consequently added to the growing list of non-financial criteria considered by socially responsible investors (Kinder & Domini 1997:12). This period also saw the launch of a large number of investment funds based on Islamic (Shari'ah) law and social stock market indices (Sauer 1997:137; Statman 2006:100; Girard & Hassan 2008:112).

It was around this time (2002) when I started my research into the field of socially responsible investing. A total of 27 local socially responsible funds have been established by the end of 2002, most of which focused on black economic empowerment and the development of social infrastructure, such as dams and roads (Viviers, Bosch, Smit & Buijs 2009:7).

Based on what I saw, I was convinced that the movement represented a viable means for investors who wished to invest in line with their personal values. A wide range of investment strategies have emerged allowing investors, both individuals and institutions, to meet their moral objectives. Faith-based investors used negative screens to avoid investments in 'sin' stocks such as alcohol, tobacco, gambling, nuclear weapons and pornography. Socially and environmentally responsible investors employed

positive screens to identify good corporate citizens. Yet others engaged management boards, voted companies' at annual general meetings or invested directly in social and/or environmental causes.

Having presented a brief historic overview of the relationship between morals and money and suggesting that socially responsible investing presented investors with a viable means of integrating the two, my attention will now shift to recent developments in the field. Unfortunately, these developments have left me quite cynical about the movement's potential as a force for good.

THE CURRENT FORM OF 'RESPONSIBLE' INVESTING

In 2005, the World Economic Forum published a report in which it noted that socially responsible investing had yet to be embraced by the wider investment community (Mainstreaming Responsible Investment 2005). In reaction to this report, the former secretary general of the United Nations, Kofi Annan, invited a number of the world's largest investors (mainly pension funds) to draft a set of responsible investment principles. After lengthy discussions, participants agreed that environmental, social and corporate governance issues could have a significant impact on the long-term performance of investments (be it positive or negative). As such it was suggested that environmental, social and corporate governance considerations should be integrated into institutional investment decision-making and ownership practices (Principles for Responsible Investment 2013).

The Principles were launched in 2006 and by the end of December 2012, close to 1 100 of the world's leading asset owners, investment managers and service providers had become signatories to the Principles. It is estimated that they collectively manage assets in excess of US$32 trillion (Principles for Responsible Investment Annual Report 2012 2012:2). Responsible investment, as it is now called, has clearly gone mainstream.

At face value, any advocate of responsible investing ought to be delighted with this development. Closer inspection, however, reveals that ethics hardly plays a role in mainstream responsible investing. I wholeheartedly agree with Richardson (2009, 2010) and Eccles (2011) who argue that responsible investing has been stripped of much of its original good intent. Responsible investment is now simply seen as an avenue for investors to become *prosperous* rather than to be merely virtuous.

The question of whether it pays to be ethical or responsible has been extensively researched in the past forty years (Viviers & Eccles 2012:15; Viviers & Firer 2013:217). Modern portfolio theory (as advocated by Markowitz and others) suggests that investors who restrict their investable universe reduce the level of diversification in their portfolio. They consequently shift the mean-variance frontier towards less favourable risk-return trade-offs compared to conventional portfolios (Renneboog, Ter Horst & Zhang 2008a:1734). Empirical evidence, however, indicates that responsible investors do no better or worse than conventional investors (Statman 2000, 2006, 2009; Bauer, Koedijk & Otten 2005:1751). The findings of my doctoral research have also revealed that there was no statistically significant difference in the risk-adjusted returns of socially responsible investment funds when compared to conventional funds in South Africa (Viviers 2007). These findings are encouraging as they indicate that investors who wish to integrate ethical, environmental, social and corporate governance concerns into their portfolios do not have to sacrifice financial returns.

I do, however, find it disconcerting that a new generation of 'responsible' investors only evaluate those environmental, social and corporate governance issues that are deemed to have a significant impact on financial performance. A host of academic studies have been undertaken in the past five years to assist this new generation of 'responsible' investors in identifying these considerations and the impact that they have on financial performance (Galema, Plantiga & Scholtens 2008; Renneboog, Ter Horst & Zhang 2008b; Hong & Kacperczyk 2009; Derwall, Koedijk & Ter Horst 2011; Ballestero, Bravo, Pérez-Gladish, Arenas-Parra & Plà-Santamaria 2012). What happened to evaluating the moral acceptability of corporate actions? What about issues such as social justice, which is highly unlikely to show any correlation with financial returns?

I agree with Lewis (2004) that when you are honest only because honesty pays, you risk forgetting the meaning of honesty. When you are responsible only because responsibility pays, you lose any real sense of what responsibility means. Other critics like myself thus argue that while there has been much progress in mainstreaming 'responsible' investing, not much progress has been made in making mainstream investing more responsible.

Does this mean that my dream of investors holding companies accountable for their impact on society and nature is a futile one? Am I naïve to think that it is morally

wrong for investors to provide capital to companies that will enable them to engage in morally unacceptable practices? (See Irvine (1987) and Larmer (1997) for a detailed exposition on what they call the enablement principle and its application to investing.)

The answer is a resounding "no". Nor am I alone in calling for the restoration of the ethical capacity of corporate actors (Erhard, Jensen & Zaffron 2013). In the following section I will present support for this argument.

CALLS FOR A NEW BUSINESS EDUCATION PARADIGM

In the weeks that followed the Enron and WorldCom scandals, business school professors were criticised for being negligent in teaching their students ethical standards (Goshal 2005; Dean & Beggs 2006:16). Even harsher criticism awaited the same professors after the financial crisis of 2008 (Waples, Antes, Murphy, Connelly & Mumford 2009:133). One journalist even referred to business schools as "academies of the apocalypse" (James 2009).

It is my opinion that business school professors are not the only ones being negligent in instilling intellectual and moral virtues in their students. The same applies to most undergraduate business qualifications as well. Business education needs a fundamental reorientation in terms of the economic and social models that are currently used to explain human behaviour (Elegido 2009:16).

Most of the current business models are premised on the notion of mechanistic materialism, which was first advocated by philosophers such Hobbes and Descartes (Keller 2008). One of the underlying assumptions of mechanistic materialism is that non-human nature is viewed as a set of inert raw resources to be mastered and exploited (Curry 2007). The use of anthropocentric (human-centred) economic models has thus led to the unrestrained exploitation of natural resources for economic ends (Bernstein 1981:309). Economic models that promote self-interest and the 'rational' pursuit of maximum risk-adjusted returns have furthermore given rise to several amoral business and investment practices in which ethics play no role (McKenna 1996:691; Viviers, Bosch, Smit & Buijs 2008:15).

Post 2008, ethics education has thus been assigned the crucial and challenging task of shaping morally mature and ethically aware corporate actors. Although there is little agreement on the most appropriate content to be included in ethics courses, some business schools and professional bodies, such as the Chartered Financial Analysts (CFA) Institute, have taken up the challenge (Christensen, Peirce, Hartman, Hoffman & Carrier 2007:347; Gruber & Schlegelmilch 2013:95).

Many of them, however, grapple with the goal of business ethics education and question whether ethics courses should be grounded in philosophy or business, whether lecturers should focus on theoretical underpinnings or practical relevance, and whether ethical decision-making should be taught within a dedicated module or whether it ought to be integrated throughout the business curriculum (Giacalone & Thompson 2006:266; Gruber & Schlegelmilch 2013:96).

While the majority of research suggests that ethics education can enhance cognitive moral development (and hence moral behaviour) (Green & Weber 1997:777; Collins 2000:5; Cagle & Baucus 2006:213; Sleeper, Schneider, Weber & Weber 2006:381), varying degrees of internalisation has been observed in the literature. To illustrate this point, Dean and Beggs (2006:32) identified five distinct levels of ethics education impact. At the most basic level, ethics education merely sensitises students to ethical issues and emphasises the legal consequences of unethical acts. At the highest impact level ethics education changes students' values to such an extent that external sanctions are no longer needed to effect moral behaviour.

Dean and Beggs (2006:16) furthermore show that different modes of instruction lead to different levels of impact. They argue that exposure to professional codes of conduct, newspaper articles and real-world examples have little effect on students' ethical reasoning skills. They contend that these courses miss the mark in helping students to become more ethical, as the focus is on legality and not on morality. Such courses furthermore produce a compliance orientation among students based on the fear of getting caught.

Paine (1994:111) claims that "even in the best cases, legal compliance is unlikely to unleash much moral commitment. The law does not generally seek to inspire human excellence or distinction. It is no guide to exemplary behaviour – or even good practice. Those managers who define ethics as legal compliance are implicitly endorsing a code of moral mediocrity for their organisations." Closer analysis of the content of ethics courses included in curricula for professional qualifications such as chartered financial analyst, chartered accountant

and chartered financial planner reveal a strong focus on compliance with professional standards. If this approach to ethics education is continued in future, it is unlikely that efforts to shape "educated moral agents" will yield any significant results.

In light of the above, I would like to offer a few suggestions on improving the impact of ethics education on the cognitive moral development and behaviour of finance and investment students (given that this is my sphere of expertise and influence).

Pedagogical researchers believe that ethics education is most effective when students' moral reasoning skills are honed. Educators should therefore not only focus on enhancing students' moral sensitivity or awareness, but should also focus on developing students' moral judgement and courage. Moral judgement refers to the selection and application of a standard or framework of analysis to moral issues, whereas moral courage refers to the resolve to act in conformity with one's moral judgement (Gruber & Schlegelmilch 2013:97).

A practical example in this regard is that investment lecturers should not only introduce CFA candidates to the CFA Institute's code of ethics and standards for professional conduct, but should also challenge them to apply the standards even if it requires a personal sacrifice. Lecturers could use teaching tools such as case studies (Cagle & Baucus 2006:231), role play (Mintz 1996:827) and group discussions (Schlaefli, Rest & Thoma 1985:319) to get their point across.

A survey of the 50 leading global business schools reveal that ethics, corporate social responsibility and sustainability are mostly taught using experiential learning techniques (Christensen *et al.* 2007:347). Experiential learning literally means "learning from experience". Lecturers who follow this approach often call on their students to develop their own ethics case studies. By doing so students thus have to wrestle with a full range of complexities involved in economic decisions (DesJardins & Diedrich 2003:33).

Educational experts furthermore suggest that ethics education should not be presented in a stand-alone course, but should rather be integrated across the entire business curriculum (Gruber & Schlegelmilch 2013:96). This implies that all finance and investment lecturers should address moral considerations in their courses. This could, for example, be done when discussing the characteristics of different investments. Whereas the current focus is purely on the utilitarian characteristics of investments (such as risk and expected return), lecturers should also give attention to the value-expressive characteristics of investments. These characteristics typically reflect an investor's social status, personal values and level of social consciousness (Statman 2008:46).

Finance and investment lecturers should also place more emphasis on the role that emotions play in decision-making (Lurie 2004:1; De Sousa 2001:118; Vitell, King & Singh 2013:74). As far back as 1903 it was argued that one's judgment was more likely to be based on emotions rather than cognitive or rational reasoning (Kline 1903 in Vitell *et al.* 2013:74) De Sousa (2001:119) goes as far as saying that individuals will not be moved to action unless the relevant emotions are activated. Pre-mainstream responsible investors were most certainly moved by their emotions and even referred to their actions as 'feel-good investing' (Segal 1997; Middelton 2003; Barringer 2006).

The notion that emotions influence financial decision-making is well documented in the behavioural finance literature (Statman & Shefrin 1994; Slovic, Finucane, Peters & MacGregor 2007; Rubaltelli, Pasini, Rumiati, Olsen & Slovic 2010). Emotionally driven investment behaviour such as herding and myopic loss aversion in particular deserve more attention in investment courses.

Herding occurs when investors look at the actions of others to validate their buy/sell decisions. A herd forms when a large group of investors move into or out of a specific share or industry at the same time. Herding can cause investors to make investment decisions based on the movement of the herd instead of rigorous investment analysis. Their behaviour thus resembles that of a herd of sheep blindly following a leader (Rizzi 2008:84) and often contributes to the creation and bursting of investment bubbles.

Myopic loss aversion refers to the phenomenon of investors holding on to poorly performing investments in the irrational hope of avoiding short-term losses. Research has shown responsible investors are particularly prone to this type of behavioural bias (Webley *et al.* 2001:27). Behavioural finance topics also lend themself perfectly to the use of experiential learning techniques.

CONCLUSION

In this address I showed that the big divide between morals and money can be traced back to the Industrial Revolution when Calvinist values degenerated into harsh individualism, materialism and selfishness.

Responsible investing pre-2006, however, represented an effective means whereby investors could integrate ethical considerations into their investment decisions. Unfortunately, the current form of 'responsible' investing has abandoned its ethical roots and is hardly distinguishable from mainstream investing.

I am fully aware of the fact that ethics education in business curricula alone is insufficient to stem the tide of unsustainable and unethical business and investment practices we are presently experiencing. New norms and governance standards, particularly those pertaining to fiduciary duties and incentive schemes, also need to be designed and, where necessary, legislated.

We as business educators do, however, need to own up to our role in inadvertently promoting immorality in financial markets. We need to take our responsibility of imbuing students with intellectual and moral virtues more seriously (Mintz 1996:827). Enhanced intellectual virtues will enable our students to apply rational judgement and choice when faced with alternative courses of action, whereas the cultivation of moral virtues will foster greater self-control and moral courage. In the words of MacIntyre (1984:149), the "educated moral agent" will not act virtuously (ethically) out of training alone, but also out of the knowledge that it is the right thing to do.

The educational interventions I proposed will most definitely require that some educators need to receive ethics training themselves. Based on my experience, it is a most rewarding journey to embark on.

I would like to close my inaugural address by referring to a quote by the German philosopher Arthur Schopenhauer who remarked that there are three steps in the revelation of any truth: in the first instance it is ridiculed, in the second, resisted, in the third it is considered self-evident. My dream is that the joint consideration of morals and money will one day be considered self-evident by all investors and those who educate and advise them.

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