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WHO DARES TO CARE? (IN THE WORLD OF FINANCE)

Helen Mussell

ABSTRACT

This study argues that gendered barriers to care are limiting the progress of socially responsible investment (SRI). Anchored within the world of finance – an industry predicated on mathematical theorizing, neoclassical economic thought, and omission of relational values – the inclusion of environmental, social, and governance (ESG) reporting, a commonly used term for nonfinancial information in SRI, in investment decision making confronts several barriers. One such barrier concerns care: who cares for what, and where. In an environment where an atomistic-individualistic ontology dominates, and a relational-values ontology is omitted, the study investigates the possibilities for ESG to have a wider uptake. It considers the changes required to align the inherently relational aspect of care within a culture of economic reasoning reliant on the exclusion of care. It concludes with suggestions for how a relational caring perspective can be incorporated to accommodate and encourage SRI in the world of financial management.

KEYWORDS

Socially responsible investment (SRI), finance, social ontology, care, modern portfolio theory (MPT), fiduciary, environmental, social, and governance (ESG)

JEL Codes: P34, B54, E22

"[T]here is still a social stigma associated with ESG [environmental, social, and governance] reporting that links it with tree-huggers. When you put 100 portfolio managers in a room, very few want to be the odd one out saving the planet." (Van der Weide 2013)

INTRODUCTION

The relatively contemporary area of financial management known as socially responsible investment (SRI) has received a great deal of critical attention lately. Primarily dealing with legal concerns, one focus has been on investigating the degree to which interpretations of the all-important concept of the fiduciary – the arrangement of trust between the trustee and beneficiary, which ensures the former acts in the best interests of the latter

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– can accommodate or constrain SRI, with the goal of ascertaining and removing any legal obstacles to SRI's progress. Put differently, the focus has been on determining the legal parameters and extent to which trustees can incorporate nonfinancial information into the investment decisions they make on behalf of beneficiaries.[1] In the context of SRI, this nonfinancial information is referred to as environmental, social, and governance (ESG) reporting, with such reports contributing to what has been termed the triple bottom line of businesses – the goal of calculating the value of an organization beyond the purely financial bottom line.[2]

Reaching beyond legal concerns, philosophical considerations regarding the fiduciary have also been examined, again with the goal of identifying potential barriers to uptake of SRI. These have included the degree to which the concept can be "stretched" to justify SRI (Sandberg 2013), or even reinterpreted through other linked concepts (Richardson 2011). This paper proposes something rather different. While still aligning with the philosophical program, it instead considers the potential of SRI on *ontological* grounds. It seeks to address whether the nature of SRI, with its objective of taking factors of a social, ethical, and environmental/ecological kind into account in investment decisions, is in fact compatible with the nature of the wider context in which it is anchored, that is, within institutional finance. In short, the paper addresses head-on whether the basic beliefs about how the world works that are embedded in the thinking and objectives of SRI, are compatible or in conflict with those evident in the thinking associated with wider institutional finance.

THE ANALYTICAL APPROACH AND SITUATING THE CONTRIBUTION IN THE CURRENT LITERATURE

Investigations into the barriers to SRI's progress will benefit from a social ontological inquiry – an investigation into beliefs about how the world works – in order to determine whether there is something about the nature of SRI that is hindering its progress in the wider financial context. Ontological analysis is a philosophical inquiry concerned with metaphysics. It is an investigation concerned with realism, with the study of *what* exists, and also, as a part of that inquiry, *how* it exists. It places an investigation into basic beliefs about how the world works – also known as ontological presuppositions – at the heart of the inquiry. Such an analysis requires a conception of the basic social structure and processes within which social categories exist – a developed metaphysics or framework against which to consider, compare, and contrast the findings of the analysis.

Much work has been done within metaphysics to try to elucidate the nature of social reality. But of interest here are developments in what can be broadly defined as relational ontologies – which, very broadly speaking, assume a conception of social reality as an open system,

highly interdependent, and interactive, characterized by emergent social structures that are in constant transformational process. Such ontologies have arguably been developed as a direct critique of, and are set in contrast to, atomistic ontologies, a critique often initiated by feminist theory. Atomistic ontology is characterized by the belief in closed systems, of predictable and regular events, and is beset with isolationist tendencies. One example of how atomistic ontology is often presupposed can be demonstrated through the use of mathematical modeling in economic theory (Lawson 1997, 2003b). The representation of social entities by numerical indicators in models is predicated on an isolationist approach, meaning the embedded assumption that entities are separable and representable outside of a relational context. This is required for the math to work. Math cannot accommodate an entity changing, shifting, or being affected by relations to another entity mid-model. Math requires fixity, isolation, and permanence; this is required to get math going. And the use of these models for deductive reasoning purposes also presupposes that regular or predictable events occur.

Relational ontologies – or worldviews about how our reality works in an interconnected, interdependent, and emergent way – have been present in feminist critique and inquiry for some time, with this critique directly confronting and contesting theories in which atomistic/individualistic and predictive tendencies are embedded. Such critiques are evident in a wide range of disciplines, including economics, environmental geography, ecology, developmental psychology, philosophy, and management studies.

An example of a critique raised in economics against atomistic tendencies embedded in theory has already been outlined – namely that of the dominant use of mathematical modeling and the ontology that it presupposes. Another critiqued economic theory is the economic agency personified in the individualistic tendencies of Rational Economic Man. Both critiques pivot on the argument that these theories fail to demonstrate a relational presupposition – a view that social reality is interconnected and emergent – instead privileging an opposing position of atomism and prediction.

Indeed, finding agreement among economists concerning the use, and most suitable concept, of relational thinking for under-laboring economic theorizing, has also been subject to extensive debate and critique. Of familiarity or interest to readers here will be the exchanges in *Feminist Economics* between Tony Lawson (1999, 2003a), who proposed the benefits of explicit relational ontological theorizing for economics, and Julie A. Nelson (2003), Sandra Harding (1999), Drucilla Barker (2003), and Fabienne Peter (2003), who argued that relational theorizing, while not explicitly labeled ontological as such, already plays a central role in much feminist economic theorizing. While the objective here is not to recount the exchange at length (see Mussell [2016] for further details), what is important to note is that despite their clear differences in specific details, the broad relational thinking and positions of these authors share sufficient commonalities. They have a consensus in their opposition to atomistic tendencies in economic theorizing and in their motivation to critique and reveal the wider implications of such theorizing. This paper shares this motivation, drawing upon and applying this broadly held relational thinking to finance, and, in so doing, makes a contribution to the existing literature.

Moving on to highlight the relational position embedded in environmental geography, sustainability theories, and ecological thinking, recent work innovating theory beyond Cartesian dualistic thinking – specifically the nature–culture dichotomy – arguably encapsulates a relational approach (see Plumwood [2002] and Pereira and Funtowicz [2015]),[3] advocating for a worldview of interconnection and shifting focus from emphasizing distinctions (and constructing dualisms). In addition, measures toward refocusing attention on relations of affect with the environment, as opposed to protecting it as a separate entity, are evident in concepts such as the Anthropocene, the proposal that the Earth has entered a new geologic time defined by human-influenced changes. This paper aligns with these trends in ecology, arguing that SRI (including impact investing) – with ESG metrics at its core – *depends upon* a relational approach, that is, that SRI is capable of delivering positive benefits, with the management of funds increasingly viewed as an effective way to minimize harm and encourage positive practice.

Another example of how feminist critiques using relational ontologies have revealed atomistic and isolationist tendencies in theory can also be traced back to work in moral developmental psychology – a critique later extended to ethical theory and the development of relational care ethics. It was the work of Carol Gilligan (1982, 2003, 2014), whose observations of a "different moral voice" articulating a "different view of the world" led to recognition of the need for an alternative metaphysics. Summarizing the ontology (and epistemology) of care ethics and in doing so highlighting the degree to which an alternative ontology was called for, Tove Pettersen notes that:

> Regarding the ontology of the ethics of care . . . the moral agents are envisioned as *related, interconnected, mutually dependent,* and often unequal in power and resources – as opposed to the conventional portrayal of the agent as *independent, equal and self-sufficient.* With regard to the moral epistemology, the ethics of care relies not merely on deduction and abstract reasoning, rational calculations or rule following. The moral epistemology of care includes taking experiences into account, exercising self-reflections and sensitive judgments where contextual differences are attended to. (2011: 54–5; emphasis added)

Care ethics, the relational ontology it presupposes, and the ensuing critique it offers, has been applied across a number disciplines, including often controversially, business and management studies. On the application of care ethics specifically, research has ranged from addressing interpretations of stakeholder theory (Liedtka 1996), to reworkings of core concepts in business ethics (Spence 2016), to arguments for why corporate social responsibility (CSR) is best explicated using care ethics (Mussell 2016). Collected volumes are also available drawing together the breadth of the contemporary engagements of care ethics in multiple arenas of business (Hamington and Sander-Staudt 2011). This work also draws from research regarding the role care plays in corporate culture, the degree to which this culture shapes moral agency, and how a more caring relational approach can be encouraged in present business practice. This paper extends these questions raised in the context of business management into the realms of financial culture. By doing so, the analysis starts to reveal the degree to which implicit beliefs about how the world works are creating obstacles to SRI, acting as barriers to progress.

ONTOLOGICAL ANALYSIS OF THE FINANCIAL MANAGEMENT INDUSTRY

Undertaking an ontological analysis of financial management is not a small task, and a considerably tighter delineation of the subject matter is required. To be clear, and to resituate interest by recalling this paper's opening citation – "When you put 100 portfolio managers in a room, very few want to be the odd one out saving the planet" (Van der Weide 2013) – the area of financial interest in this paper is that of asset fund management; this is the occupation in which the portfolio managers are engaged.

Asset fund management refers to an area of finance encompassing the management of pooled or collective assets, such as pension funds. Fund managers (trustees) manage assets on the behalf of investors (beneficiaries). Of specific interest for the purposes of this analysis are (1) the investment strategies used to manage these collective assets, in particular modern portfolio theory (MPT) and the economic thinking upon which the theory is premised; and (2) the wider culture of finance in which these theories are used and in which portfolio managers operate. Investigating this wider cultural context is crucial for identifying potential barriers to SRI, to understanding why "very few want to be the odd one out saving the planet" (Van der Weide 2013).

MPT: Premises and ontological presuppositions

The task here is not to provide a critical engagement with the working intricacies of the investment strategy known as MPT, an exercise undertaken elsewhere by financial economists (Taleb 2007). It is to instead consider some of the wider economic thinking or principles upon which the theory is premised in order to ascertain its ontological presuppositions – or beliefs about the nature of society, including assumptions regarding economic agents – upon which the theory is predicated.

A brief historical outline will be a useful starting-point. MPT is an investment theory originally devised by Harry Markowitz, an economist educated at the Chicago School of Economics, under the watch of Milton Friedman, among others. This is a crucial connection to make. It indicates that Markowitz was trained and then worked within the very hotbed of the neoclassical economic tradition. By extension, this means that his work encapsulates its central tenets, and that the use of MPT consequently disseminates the neoclassical belief system.

So what are the identified central tenets of neoclassical theory that we can arguably assume are embedded in MPT? The answer, in short, is twofold. First, neoclassical economics is characterized by its dominant and exclusive use of mathematical modeling (including econometrics). MPT is a mathematical model. Second, there is a widespread acceptance in the neoclassical tradition of the use of rational choice theory, in which it is assumed that an economic actor (*Homo economicus*, or economic man) always makes decisions based on rational self-interest, driven by utility maximization. Neoclassical economics believes that economic man consistently, unfalteringly, and with total predictability always deploys economic rationality. The predictability of this rational self-interest is fundamental for the success of the mathematical models. Such predictability is imperative so that the behavior of agents can be factored into mathematical modeling. Economic rationality provides a fixed, consistent, and predictable account of economic agency. In doing so it also provides a predictable theory for how economic agents will behave in all situations, making it possible to factor their agency into fixed mathematical models. In short, rational choice theory makes modeling possible. It plays a vital supporting role.

Feminist critiques of neoclassical economics – the sheer folly of *Homo economicus* and the numerous ways in which its use as an economic theory has serious and far-reaching implications – are of course not new. As Marianne A. Ferber and Julie A. Nelson neatly summarize in their introduction to *Feminist Economics Today: Beyond Economic Man*:

> Feminist economists have questioned such fundamental neoclassical assumptions in economics as the "separative self," the ubiquity of self-interest, the primacy of competition over cooperation, and the primacy of efficiency concerns over concerns for equity. They have tended to define economics in terms of real-world issues of concern to women, men, and children, rather than as merely the examination of choice under conditions of scarcity. Many want to counter the worldwide takeover by neoclassical economics not only of economics departments, but also of governments and international organizations, such as the World Bank and the IMF. (2003: 7–8)

Indeed, the counter-movement against the ever-extending reach of economic man, along with the associated characteristics of this economic caricature, have also led to exposés and confrontations in other associated disciplines such as law, an excellent example of which is *Feminism Confronts Homo Economicus: Gender, Law, and Society* (Fineman and Dougherty 2005).

Of particular interest for this paper, however, are the ontological presuppositions that these two central tenets of neoclassical thinking involve. What must the nature of social reality be like to support this sort of *Homo economicus* theorizing and mathematical deductivism? What sort of social ontological orientation must an economist who uses and develops such economic tools have in order to believe that such tools are of use? What sort of social ontology do mathematical modeling and rational choice theory require in order to be effective? The answer is that the required ontological presupposition is one of reality as a closed, fixed system of isolated atoms, in which events are presupposed to be regular and uniform. And these same ontological presuppositions – of the conditions of regularity, predictability, and uniformity – also extend to the behavior of economic agents. Neoclassical thinking presupposes agents whose behavior is deemed to be predictable and consistent, characterized by pure rational self-interest, and who seek only to maximize their economic gain, remaining unaffected by relations to other entities.

It is this last ontological presupposition, regarding the predictable, consistently rational, and self-interested utility-maximizing nature of the economic agent, that is of particular interest here. It is of interest because it is arguably a presupposition that SRI confronts and calls into question. This is because, as I have argued elsewhere (Mussell 2017), socially responsible behavior, including the decision to pursue an investment strategy taking into account ethical considerations of a social and environmental kind, arguably constitutes *other-regarding* behavior. SRIs are an indication that the investor is looking *beyond* pure profit maximization; values-driven considerations also play a central role in the decision-making process. In the example of choosing to invest in a fund that screens against (meaning, excludes) arms dealing, tobacco products, gambling, or pornography, an investor is engaging with ethical judgments, deciding to incorporate ethical criteria into the investment process. The ethical motivations behind socially responsible behavior confront and contest the presuppositions of rational choice theory encapsulated in the caricature that is *Homo economicus*, which in turn has been encapsulated in Markowitz's neoclassical theorizing upon which MPT is devised.

Perceived as highly autonomous and unconnected (atomized), driven by a keen sense of self-interest, and consistently able to make rational utility maximizing decisions, devoid of any values driven or emotional persuasion, economic man is arguably not the sort of investor profile who would turn away from short-term profit maximization at any social and environmental cost in favor of a long-term strategy ruling out investments deemed environmentally damaging or socially exploitative. In short, SRI and economic man do not tally. And one central way in which there is evident confrontation is on an ontological level, meaning, that the atomized autonomous *Homo economicus* would not recognize the relational, values-driven, and other-regarding socially responsible investor.

Cultural context of finance: Premises and ontological presuppositions

Investigating organizational/corporate culture, including value systems and the role they play in framing agential (for example, portfolio managers') behavior, is slowly being given wider attention in the context of SRI and institutional investments. Just as Sandberg (2011, 2013) and Richardson (2011) have sought to investigate the barriers to SRI through legal and philosophical interpretations of the fiduciary, so consideration is now also turning to potential cultural barriers, albeit still on a small scale in relation to other foci, such as legal constraints. An example of some contemporary work in this area would be a recent report titled "Sustaining Sustainability: What Institutional Investors Should Do Next on ESG" issued by McKinsey & Company, in which the authors set out six ideas that they consider could lead to the further acceleration of integrating ESG factors into investing (Bailey, Klempner, and Zoffer 2016). It is their sixth and final idea that is of interest here, an idea that also gets the least attention in their report. Titled "Confront the Skepticism and Misunderstanding that Surround ESG Head-On," the authors note that:

> Successful investment organizations have strong cultures, but strengthening a culture takes time. At many institutions, ESG investing is caught in a cultural trap. For decades, conventional wisdom has held that ESG and forebears, such as socially responsible investing, are merely a sideline, something to be worked on separately from the true business of investing. Changing this mind-set requires concrete action. (Bailey, Klempner, and Zoffer 2016)

While this observation about the existence of strong cultures in investment organizations is helpful, indicating that culture may be reinforcing SRI's sidelining, it simply does not go far enough. Not only does it not address *why* SRI has been sidelined, but it also fails to delve into any detail about

the nature of the strong cultures that exist in financial institutions. This is doubly problematic because the omission prevents a vital connection: there may be something in the nature of the strong culture itself which has *caused* as well as *reinforced* SRI's sidelined status. The point the report fails to address is that institutional investment culture may be a central contributing factor.

In light of this claim regarding the dual-contributory role of institutional investment culture in sidelining SRI, it would be helpful to recall the following once again: "there is still a social stigma associated with ESG [environmental, social, governance] reporting that links it with tree-huggers. When you put 100 portfolio managers in a room, very few want to be the odd one out saving the planet" (Van der Weide 2013). The clear suggestion here is that the wider investment culture sits in contrast to that of SRI, not only on the grounds of being sidelined (being marginalized and constituting smaller representation in being the "odd one out"), but also crucially on the grounds that it carries a social stigma (that of "tree-hugging" and "saving the planet"). In short, there is a perceived cultural mismatch between that which SRI is seen to represent in contrast with the wider investment culture.

What constitutes mainstream institutional investment culture to cause it to conflict with SRI? Where can we locate the core differences and contentions that exist between the two? In *The Gendering of Global Finance*, Libby Assassi (2009) provides a far-reaching analysis of not only the history of the financial system and its gender bias rooted in property law, but also of how this bedrock of bias continues to shape the current system. Assassi analyzes how gender is embedded in the financial market system. She writes:

> The key assumptions of individualism, competition, instrumental rationality and distribution through the market all depended upon a specific understanding of the "rational economic man" and were crucial to understandings of the workings of formal financial markets. *These markets were at the outset male institutions in terms of membership, values and norms and remain outstandingly so.* (Assassi 2009: 27; emphasis added)

There are two important points of interest within this statement. The first is the claim that the workings of financial markets are predicated upon and therefore must be understood through the theory of rational economic man, meaning, that it is this theory about agential economic behavior that provides the blueprint for how agents working within the financial system should operate, as they reproduce the system. The wider implications and importance of this in the context of this paper is that to behave and act outside of this blueprint will constitute being the "odd one out," so behavior that does not fall into the categories of "individualism, competition, [and] instrumental rationality" (27) will be considered deviant in this context. The second claim of interest is that the membership, values, and norms – all of which arguably constitute the culture of an organization – are overwhelmingly male. The overall picture Assassi provides is one of a male-dominated culture – one where the characteristics embodied in the caricature of rational economic man not only set out the financial markets' protocol, but also constitute its wider organizational culture. In short, rational economic man reigns supreme in the world of global finance and its institutions.

Culture/caring connection and an ontological clash

Having now located that which constitutes institutional investment culture, where "individualism, competition, [and] instrumental rationality" rule (Assassi 2009: 27), we can start to better engage with why "tree-huggers" and "saving the planet" might be perceived as being at odds within this culture. Tree-hugging and saving the planet not only constitute an ethical sort of behavior – which is in and of itself problematic within a culture established true to the conduct of values-less economic man – but they constitute a *particular* kind of ethical behavior, that of *caring* behavior. And caring activity is, as has been extensively commented upon in the ethic of care and associated literature,[4] a highly gendered activity. It is an activity traditionally allocated by society through socialized gender roles to women. And crucially within the context of this paper, it is also an activity that the market system depends upon taking place outside of the market – in the public (state), third sector, or private (domestic) domains – *precisely in order for economic rationality to successfully prevail.* As the moral philosopher Ross Poole notes:

> The dominant conceptions of market activity, capitalist production and bureaucratic administration exclude the feelings, relationships and commitments which are characteristic of familial, sexual and emotional life. *Society can, therefore, only be rationalised, in the senses appropriate to these conceptions, if these relationships lead a marginalised existence elsewhere.* (1991: 47; emphasis added)

Activity seen as constituting caring behavior within an institutional investment environment, dominated by masculinized social norms, values, and predicated on instrumental economic rationality, is not only sidelined and seen as "out of place," but also carries with it the potential for ridicule, social exclusion, or other forms of social norm reinforcements.

By taking this interpretation of tree-hugging as constituting caring behavior an analytical step further and approaching it from an ontological

angle along with the financial institutional context in which it is taking place, there is an ontological clash. The sort of ontological orientation on which rational economic man is predicated is an *atomistic* one. It is a social reality beset with isolationist tendencies, one motivated by self-interest. It is a social ontology characterized by a belief in closed systems, of regular events, where agential behavior is consistent and predictable, always being governed by economic instrumental rationality. This ontology sits in clear contrast and clashes with the *relational* ontology on which caring is predicated. Caring presupposes a social reality where agential behavior is unpredictable, where connection between entities is paramount, and where social reality is emergent within an open system. In short, the ontology on which caring is premised would appear to be at ontological odds with that of the wider financial system, including its culture. This is why a portfolio manager might view themselves as being the "odd one out saving the planet," and one of the reasons why they may implicitly resist further integration of ESG considerations into their investment decision making.

ONTOLOGICAL ANALYSIS OF SRI

SRI: Premises and ontological presuppositions

Like MPT, SRI is an investment strategy. But unlike MPT, SRI also encompasses investment concerns of an ethical nature. SRI funds are managed using a number of different investment strategies. While these are numerous, being not only concerned with different ethical causes (that is, not investing in arms dealing or tobacco), but also concerned with different objectives (that is, pursuing constructive engagement/intervention with companies through efforts such as encouraging values-driven leadership), all of them have a uniting theme: the pursuit of a return on investments that goes beyond that of profit maximization via the most economically efficient means *and* the financial support of a desired ethical outcome.

A widely used SRI strategy is that of screening. Industry sectors and companies are either negatively screened (removed) out of investment portfolios or positively screened in (actively included). In the first instance, the goal is to avoid complicity in investing in objectionable industries, while with the second, the objective is to financially support industries engaged in desirable activities (such as renewable energy production). Other strategies include only investing in the "best of class" of companies, those that consistently achieve high results in their ESG data by, for example, reporting high environmental standards.

ESG reporting refers to the identification, capture, and reporting of nonfinancial data, with the objective of using such reporting to calculate the value of an organization beyond the purely financial bottom line. ESG reporting is central to SRI (with the former term now frequently used to replace the latter), providing companies with a channel through which to report the successes of their environmental and social initiatives – initiatives that are often referred to as sustainability or CSR activities (again, with the former term often replacing the latter). What is of particular interest here, from the perspective of an ontological analysis, is the way in which ESG data are captured and delivered as investment information to assist fund managers in making investment decisions for SRIs. Whereas more traditional investment data are purely quantitative, meaning financial data only, ESG draws on both quantitative *and* qualitative data (with the latter often referred to as nonfinancial or future financials). Technological developments in this area of financial reporting illustrate the degree to which ESG breaks away from investment reporting norms, such as the release of products like Insight360 by TruValue Labs on the Thomson Reuters Eikon Platform. In a self-posted press release on the website CSRWire, TruValue Labs claims that:

> Insight360 is the first ESG solution to extract unstructured data comprehensively, accurately, and in *real time* about regulatory concerns, social/cultural backlash, product liabilities, intellectual property portfolios and development, employee actions, political risk, and more . . . The system is designed to capture, filter, and assess important events and controversies and *deliver both qualitative and quantitative results.* (TruValue Labs 2016; emphasis added)

There are two central reasons this product claim warrants attention here. First, the product takes into account qualitative data, meaning information that cannot be captured in quantitative format. Second, the data are being used to assess value and risk, which directly points toward a more relational, highly interdependent, and open-system view of social reality. Furthermore, the data are delivered in real time, emphasizing the acknowledgement of social reality as emergent and in flux. In short, the demand for and use of the sort of ESG data being offered presupposes a very different sort of social ontology than that of MPT, which is predicated on a closed, atomistic system.

Another fundamental way in which SRI and MPT ontologically differ is through their presuppositions about agential economic behavior – about the nature of the investor. In the world of institutional finance, the contrast and conflict that SRI introduces onto the investing scene is one that fully confronts the fiction of the purely self-interested economic agent head-on. In this way, SRI provides a clear need for alternative theories of human behavior to be formulated. And with other-regarding socially responsible behavior arguably best explicated using care ethics (Mussell

2017), current human behavior theories such as rational choice theory fall short on accountability, their fallaciousness exposed. As Lourdes Benería notes, feminist economists have been underscoring the need for alternative theory for years:

> Economic rationality has been a basic tenet of neoclassical economic theory. It is assumed to be the norm in human behavior and the way to ensure the smooth functioning of the competitive market. Under this assumption, the market is viewed as leading to the most efficient allocation of given resources. Feminist economists have, however, pointed out that this assumption excludes behavior based on other types of motivation, such as altruism, empathy for others, love, the pursuit of art and beauty for their own sake, reciprocity, and care; selfless behavior is viewed as confined to the nonmarket sector, such as the family. To be sure, there have been efforts to incorporate what Folbre (1994) calls "imperfectly rational somewhat economic persons" or institutions in the analysis. Such actors pursue their self-interest in ways not neatly adjusted to clear-cut definitions of economic rationality and "selfishness," and their actions include complex mixtures of behavior that are more realistic, albeit more difficult to model. As she points out, *these models undermine any strong claims about the inherent efficiency of a market economy. They are also helpful in developing alternatives to the assumption that economic rationality is the norm.* (Benería 2003: 118; emphasis added)

SRI and extending the caring connection: Implications for finance culture

Following Benería's (2003) point about the need to acknowledge other types of motivation of human behavior – including that of caring and empathy for others – and the need to update the erroneous economic theory that currently omits it, we can see how such developments could slowly start to fundamentally shake up financial culture. Rational economic man's behavior underpins institutional financial culture, so an exposé of the fiction of that theory, and its unrealistic premises, should start to bring about a change in financial culture. Accommodating "alternatives to the assumption that economic rationality is the norm" (Benería 2003: 118) could start to create the cultural space in which increased integration of ESG reporting into investment decisions by portfolio managers would become less stigmatized; the tendencies for tree-hugging and saving the planet – of caring behavior – would be recognized and incorporated into economic behavioral theory, instead of being castigated by it, with positive implications for SRI.

This is of course tantamount to suggesting a systemic cultural change, one that takes the call to "confront the skepticism and misunderstanding that surround ESG head-on" to an entirely new level (Bailey, Klempner, and Zoffer 2016). But it is a change that is required nonetheless. The recognition that gendered biases to caring – who does it, and where – are in fact major contributors to the "skepticism and misunderstanding" surrounding ESG and inhibit its wider uptake, will not be remedied simply by increased gender equity among predominantly male portfolio managers. To suggest that would be essentialist, reaffirming the problematic socialized status quo that women "do care better" than men. It would also suggest that simply "adding women and stirring" could somehow redress the balance of a highly masculinized sector and culture. It has already been noted that "it is in the financial sector and not just on the trading floor where some of the most extreme manifestations of unadulterated masculine discourses are performed and perpetuated" (Knights and Tullberg 2014: 14).

What is required to bring about the necessary change in institutional finance culture is the direct recognition of how the current culture is premised on, and therefore restricted by, beliefs surrounding rational economic man, and how this in turn perpetuates the sort of masculine discourses to which Knights and Tullberg (2014) refer. It is crucial that the far-reaching implications of these theoretical beliefs are acknowledged as extending well beyond the realm of theory, having consequences not only in terms of economic crises such as the global financial crisis in 2008, but also playing a central role in the causation of environmental degradation (no tree-hugging permitted). It is also crucial to recognize that the exclusion of a more complex account of human behavior and motivation beyond that of self-interest leads to other such motivations being stigmatized, sidelined, and vilified (fear of being the odd one out). Following the false ontological presuppositions on which rational economic man theory is based, what we are left with is a financial institutional culture at ontological odds with the wider objectives of SRI.

Such systemic change requires committed leadership from within financial institutions. It requires leadership that explicitly recognizes the endemic effect of *Homo economicus* on both the construction *and* performance of masculinities in financial culture. It needs leadership that acknowledges the implicit gendered issues that lie at the core of the problem, issues that not only restrict progress of SRI, but that also result in a problematic institutional culture having detrimental effects on the wider world, both social and natural. And finally, it requires a leadership that addresses the toxic effect this culture has on individuals – their employees – by restricting their behavior and molding their moral agency. Action and practice are required to start to dismantle this problematic culture based on an idealistic economic caricature, replacing it instead with an alternative that accommodates realistic human behavior.

ASSESSING INCOMPATIBILITIES

Scholars have acknowledged elsewhere, although not from an ontological angle, that the objectives of MPT contrast with the objectives of SRI. Darrol J. Stanley and Christopher R. Herb have noted that:

> Two contradictory schools of thought exist about how to construct a portfolio of equities to maximize shareholder return. Modern Portfolio Theory (MPT) suggests that SRI investments are inferior to non-SRI investments . . . Investors who choose to limit available securities using qualitative, non-financial criteria limit their ability to achieve adequate diversification . . . not only do SRI funds limit their investment universe at the expense of adequate diversification, but they may also be selecting from a pool of inferior companies that have uncompetitive cost structures [that is, due to investing in CSR or sustainability initiatives]. (2007)

Stanley and Herb later add: "Modern Portfolio Theory and simple portfolio construction accurately describe the diversification inefficiency that SRI strategies bear, *but do not offer any explanation of possible benefits that socially responsible policies create*" (emphasis added).

The failure of MPT and simple portfolio construction to offer any explanation for the possible benefits of SRIs can arguably be explained by the neoclassical economic theories on which MPT is premised. MPT cannot accommodate non–self-interested agential behavior. In short, the atomistic ontology on which both portfolio theories are based cannot account for the motivations of SRI; they are limited and constrained by their closed system (nonrelational), self-interested social ontology.

FUTURE POSSIBILITIES FOR SRI: A PLURALIST PROGRAM FOR CHANGE

How can SRI progress? In light of the recognized ontological differences, is it possible to construct a course of action to increase SRI within the context of wider institutional finance? And, if so, what core changes need to be made? This paper has already addressed one such potential development. Dominant neoclassical thinking, in particular the problematic theory of rational economic man, must be challenged. The detrimental reach of this fallacious theory upon the culture of institutional finance, and the need to challenge this reach *as well as* devise alternative and more complex theories of human behavior, are clear. As we have seen, an alternative theory that accommodates other motivations such as "altruism, empathy for others, love, the pursuit of art and beauty for their own sake, reciprocity, and care" (Benería 2003: 118) – or, as Folbre (1994) coins it, "imperfectly rational somewhat economic persons" – would ultimately be premised upon a relational ontology, and better account for the economic agency demonstrated through SRIs. And while, as Benería acknowledges, such a far more realistic theory would be more difficult to model (because of the range of possible motivations of human behavior it would encapsulate), it would, as she also indicates, bring to the fore that such a theory exposes and undermines "*any strong claims about the inherent efficiency of a market economy*" (2003: 118; emphasis added), and in so doing, points toward the same inefficiency that is revealed by ESG reporting as "future financials." As Bob Collie notes in his blog concerning how market leaders in corporate sustainability are reframing the way in which ESG needs to be thought of as "future financials" as opposed to "nonfinancials":

> [W]e should not be too narrow in how we think of financial impact. A financial impact which lies in the future is still a financial impact . . . Now, if financial markets were perfectly efficient, then all potential future risks would be fairly reflected in today's price and "future financial" would be the same as simply "financial." *News flash: markets are not perfectly efficient.* (Collie 2015; emphasis added)

So, again, we have an example of how SRI confronts and contrasts with the assumptions and ontological presuppositions implicit in neoclassical economic theory – not only contesting the motivations of economic agents, but also challenging the supposedly predictable and efficient ways in which markets function. There is an urgent need for increased *realistic theorizing in economics* in order that SRI can be "made sense of" and accommodated within economic theory. It is also needed so that the barriers created by the atomistic social ontology on which neoclassical thinking is premised (of self-interested, consistently economic rational agents operating within an efficient market system itself premised on social reality as regular, predictable, and stable) can be dismantled. In short, one way to progress toward the increased uptake of SRI is to not only challenge and rethink the problematic neoclassical theories that underpin both institutional financial culture as well as widely used investment strategies, but to also promote a program of pluralism in the economics discipline in order that more realistic theorizing that *can accommodate* SRI takes place. What cannot be allowed to happen is for the argument that SRI supposedly returns higher profits in the long term to divert attention away from a concession that socially responsible behavior is in fact contesting widely held underlying economic beliefs about human behavior.

WORKING WITH THE STATUS QUO

Reasonable fiduciary

Fundamental change does not occur quickly. The resistance to date, directed against calls for changes within the economics discipline, including the encouragement of pluralism, has been vociferous. And despite decades of critique of the fallacious theory of rational economic man, this neoclassical caricature still dominates, with society-wide detrimental implications. Incremental steps, working strategically within the status quo and aimed at shifting toward a solution for SRI, which realistically draw on a relational social ontology, are required. In other words, a program for introducing more realistically relationally focused practice, somehow working alongside and with the unrealistic atomistic ontology presupposed by neoclassical methods and theories, must be devised.

Some work is already addressing this, albeit not explicitly framing itself as such, that is, as steps toward an ontological resolution for SRI. There are two contenders for a program for change. The first is the work of Steve Lydenberg (2014). In his paper "Reason, Rationality and Fiduciary Duty," Lydenberg considers the degree to which the concept of fiduciary in modern day finance has been influenced by MPT. As he notes in his introduction:

> This paper argues that since the last decades of the 20th century the discipline of modern finance, under the influence of Modern Portfolio Theory, has directed fiduciaries to act rationally – that is, in the sole financial interests of their funds – downplaying the effects of their investments on others. This approach has deemphasized a previous interpretation of fiduciary duty that drew on a conception of prudence characterized by wisdom, discretion and intelligence – one that accounted to a greater degree for *the relationship between one's investments and their effects on others in the world.* As an increasing number of institutional investors have adopted the self-interested, rational approach, its limitations and inadequacies have become increasingly apparent. In particular, *the rational investor does not possess the capabilities of reason to assess the objective well-being of beneficiaries,* recognize fundamental sources of investment reward in the real economy, or fulfil the fiduciary obligation to allocate benefits impartially between current and future generations. (Lydenberg 2014: 2–3; emphasis added)

Lydenberg's (2014) observations are helpful in a number of ways. His work assists in adding to our understanding of the changes wrought on finance by Markowitz's neoclassical-influenced theory. He later explicitly notes that "[a]cademic economists with a mathematical bent, rather than legal scholars or financial professionals, laid the groundwork for MPT" (7). By making this influence clear, he opens up a space for a potential shift in how SRI fiduciary does not need to be dominated by the invasiveness of the premises of rational economic man. A return to a more reasonable fiduciary, one that demands "an attention to the effect of their actions on others and the real-world implications of their investment decisions," is possible (36). In short, Lydenberg confirms that other flavors of fiduciary are in fact available.

He also goes a little further, although not explicitly, in advocating for a disciplinary reconfiguration of economics:

> Finance as it has evolved under the tutelage of those advocating self-interested rationality has sharpened its laser-like focus on "beating the markets" and in that process has become disconnected from the real world. This connection needs to be restored through a reaffirmed sense that, through the objective principles of reasonable behaviour, one's investments can, and indeed should, contribute not only to one's own limited good but to the broader public good as well. (Lydenberg 2014: 37)

This concluding paragraph, directly referring to the problem of a *disconnect* from the *real world*, can arguably be interpreted as a call for a change from the neoclassical tradition premised on self-interested rationality with its atomistic and closed system ontology, toward a reconfigured economic theory, under whose tutelage a more interdependent, relational, and open-system ontology would be used to guide an alternative financial system. So, while Lydenberg helpfully provides a suggestion for how a more reasonable fiduciary can be used within current investment operations, he also indicates the need for a more fundamental shift in the *teaching* of finance, and by association, of the discipline of economics.

Circumnavigating the stigma: How to square care with financial culture

How else then to work within the current financial system and promote SRI? And in light of the fact that institutional financial culture is highly masculinized, and ESG has been shown to suffer from a social stigma related to its caring connotations, how best to tackle this highly gendered issue? In short, how to circumnavigate the stigma and successfully square care with the context of institutional financial culture?

The work of Nelson (2016) is of use in dealing with this problem. Addressing the widely held assumption that care has no place in business and commerce – assumptions that arguably fall in line with beliefs surrounding rational economic man – Nelson seeks to challenge this

implicit, and often explicit, view. Noting the great value of feminist scholarship on care to date, and the crucial links that have been identified between gender and morality, that is, of who cares for what and where, Nelson also expresses a concern regarding the degree to which care discourse may exclude and deter men. She writes:

> To the extent that the feminist focus on care has so far privileged a feminine gender expression, it may awake a response (whether conscious or not) of "not for me" or "not my responsibility" amongst many men. In addition, to the extent that the feminist economics study of care has, to date, also been oriented towards traditionally feminine areas of childcare, health, education and the like, the crucial role of care in traditionally masculine-encoded spheres of business and markets has been largely overlooked or even denied. (Nelson 2016: 4)

In order to overcome this problem of "men switching off" from care due to its feminized status, Nelson proposes the need for a more "palatable" concept, one that still encapsulates care yet holds the potential for increased self-identification for men, a "rich prototype of care that masculine-gendered people may find to be particularly consistent with their self-image" (Nelson 2016: 2). Her suggestion is to reclaim the word husbandry, a term which means "careful cultivation, tending and management" (Nelson 2016: 2) and its noun form, husbandman. Noting how the original agrarian context of husbandman offers a strong alternative vision for masculine identity to that of industrialized *Homo economicus*, Nelson is quick to draw attention to the key take-away from the contrast, highlighting that:

> [W]hat is important to recover from the contrast between husbandman and *Homo economicus* is the notion of care – in the sense of concern and in the sense of carefulness – as a core aspect of masculine-encoded identity and activity. (Nelson 2016: 5)

By so doing, Nelson is clearly pinpointing what has been lost from masculine identity through the ascendancy of rational economic man as a blueprint: care has come adrift from the masculine, then subsequently secured to the identities of women, and marked as an activity to be pursued away from the domain of business and commerce. Husbandry, Nelson argues, presents the opportunity for refastening this missing "core aspect of masculine-encoded identity" (5) back into masculinity.

This argument holds great potential for dealing with the identified social stigma surrounding ESG in two ways. Firstly, as Nelson highlights, husbandry is already strongly associated with stewardship, noting that: "Do a Google search for 'husbandry,' and you will find it in active current use, mostly referring to careful stewardship of animals and/or agricultural crops and land" (2016: 6). This fits in well with reducing the social stigma of tree-hugging: reconfiguring "saving the planet" as good husbandry, now, in turn, viewed as a positive attribute of core-masculine identity, resolves the problem raised by the potential gendered barrier of care. Secondly, and as Nelson also makes explicit, husbandry can also help in the context of interpreting the fiduciary, noting that:

> Corporate managers have a "fiduciary duty" to manage in the interest of the corporation. While this is often (thanks to the economics profession!) now interpreted as "must maximize profits for the shareholders," it actually means far more. It means that the leaders are entrusted with the management of the company, for the good of all the company, on both financial and non-financial matters. (Nelson 2016: 8)

In this regard, the application of the reclaimed concept of husbandry into an institutional financial setting, both through reinterpreting fiduciary and de-stigmatizing activity with caring connotations, appears to offer a series of positive solutions. Nelson's suggestion would work well within the highly masculinized cultural context, offering the opportunity to reframe the "duty of care" of fiduciary and provide an acceptable ethical passport for caring-associated activity.

SUMMARIZING THE PROPOSED PROGRAM FOR CHANGE

In conjunction, these two suggestions for working with the status quo to increase SRI hold great promise, *while* pluralism is pursued within the economics discipline to reorient the discipline toward a more relational and realistic ontology. Just as Lydenberg (2014) notes the need to move toward a reasonable fiduciary and away from the narrow confines of the rational approach arguably premised on rational economic man, so Nelson's (2016) work runs a parallel program, also moving away from the constraints of self-interested *Homo economicus* toward that of husbandman.

By outlining a more palatable concept of care to help guide the ethical element of the reasonable fiduciary, where taking into account the well-being of beneficiaries and the effect of investment decisions on others becomes central, portfolio managers can be provided with an alternative vision which transforms ESG reporting as "tree-hugging" into a less-ostracized, admirable, and unstigmatized activity. In short, with this set of alternative conceptual tools at their disposal, SRI could indeed have a far more fruitful future.

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Helen Mussell earned her PhD in Gender Studies at the University of Cambridge, where she was Cambridge Political Economy Society Trust Scholar. Her research draws from feminist economics, care ethics, and wider feminist philosophy, including epistemology and history of thought. An ontological orientation plays a central role in her work. She is currently undertaking a critique of business ethics using a feminist theoretical framework, with a future foray planned in feminist jurisprudence.

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NOTES

1. For legal interpretations of fiduciary, see the UNEP Finance Initiative Report (Freshfields Bruckhaus Deringer 2005) and its update "Fiduciary Duty in the 21st Century" (Sullivan et al. 2015). While the findings of the first were held to be positive by proponents of SRI, who claimed its findings indicated that under some conditions trustees were actually obliged to consider ESG as part of their investment risk assessment, the actual conditions under which SRI can be pursued have been shown by others to be limited under current legal requirements (Sandberg 2011).
2. ESG first made an appearance in 1997 in John Elkington's (1997) book, which is widely seen as marking the advent of "sustainable business" or "corporate sustainability." The triple bottom line was used to drive home Elkington's point that businesses need to take nonfinancial considerations into account on their balance sheets.
3. Readers may also wish to refer to theoretical developments taking place under the umbrella term of "new materialism," a philosophy of science advocating for a "material turn," and looking to address the loss of "the real" – the result of the social constructivist rejection of positivist materialism. For critiques of this newly developed relational ontology, and comparisons with others, see Lena Gunnarsson (2013) and Mussell (2016).
4. For a range of developments in care ethics, including application into political science, see Daniel Engster (2009, 2015), Gilligan (1982, 2003, 2014), Virginia Held (1993, 2006, 2014), and Joan Tronto (1993, 2013).

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