

What's Immoral About Investing in Immoral Corporations?

ABSTRACT: It can seem like there is something wrong about investing in a corporation that is in some way immoral (e.g., selling harmful products, using forced labor, polluting the environment). However, it is difficult to explain what it is about investing in such corporations that is wrong, especially for retail investors. In this article, I consider explanations that have been given in the literature, and I measure them against two desiderata for a theory. No previous view satisfies the desiderata, so I develop a proposal that will. On my account, it is immoral to invest in immoral corporations because so doing gives us a compelling reason to act in their interest. This incentivizes bad behavior and gives us a conflict of interest, and we should not knowingly accept reasons to facilitate bad behavior if it can be easily avoided.

KEYWORDS: Ethics of investing, Socially Responsible Investing, corruption

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INTRODUCTION

Consider Corporation X, a corporation that is immoral along every dimension that we might imagine. Corporation X produces a suite of chemicals that are used and marketed as weapons. Even having them in the house is a significant health risk. These chemicals are manufactured in a country with few workplace regulations, and, as a result, the workers are paid little and work long hours. They are endangered by the chemicals themselves as well as the shoddiness of the plants. Further, the process of making the chemicals expels pollutants into the local water sources, making it unusable for the surrounding farmlands. Meanwhile, Corporation X has successfully backed undemocratic political parties within the country who promise to continue stripping burdensome regulations. Inside the company, the culture is dominated by a cutthroat, 'winner' mentality. All of the executives are male, and the board is composed of the unqualified but sycophantic college buddies of the CEO.

If there is any corporation that I have a moral reason not to invest in, it's Corporation X. However, it is not immediately clear why I, as a retail investor, shouldn't invest in it at the right price. Perhaps the 'right price' is quite low – lower than it is likely to go. There could be social repercussions for Corporation X's bad practices, and these risks lower the long-term value of the firm (Sethi 2004). Still, these risks may themselves sadly be quite low. We can suppose those who purchase Corporation X's products are enthusiastic and extremely politically active. Regardless, there will be *some* price at which it is financially reasonable for me to invest. Even here though, intuitively I have a moral reason to not invest in Corporation X. But what is this reason?

There has been a substantial movement around socially responsible investing (SRI) that takes off from the idea that investors can do good by ensuring that their portfolios are shaped by their ethics. This has led to the construction of competitive funds composed of companies screened for certain ethical criteria (e.g., gender make-up of the board, labor practices, nature of the product).¹ Separately, there has been a torrent of work on the ethical responsibilities of firms and what would constitute bad conduct on the part of firms. As a relevant example, while many ethical funds avoid including shares of gun manufacturers, a conversation has continued in business ethics concerning the liability of gun manufacturers for the harm caused by their products (e.g., Piker 1998; Brenkert 2000; Green 2000). All of this work, however, presumes that there is *something* immoral about investing in corporations with certain features.

My task here is not to say precisely what conduct, practices, or products would make a firm 'immoral.' Corporation X is a cliché of bad conduct, and most firms are not so transparently bad as to earn the labelling of being immoral on the whole. Any large firm is surely engaged in some moral and some immoral behavior. We need only recognize the widespread idea that there are companies that are involved in unacceptable behavior such that there is something wrong about investing in them.² (We need not even agree on which companies are in this set.) Even if the immorality of a corporation does not provide a decisive reason not to invest in it, there is at least *some* moral reason why we, even as retail investors, should not invest in these companies. We have a *pro tanto* reason not to invest in them. But what is the reason? I will introduce and raise problems for three distinct approaches to this question, and these problems will motivate a novel proposal. Towards this end, it will be important to recognize two desiderata for any successful account:

First, an account should connect investing in immoral corporations with an activity that is more easily recognizable as wrong. Shooting someone for no good reason is wrong (in part) because you are murdering them by shooting them, and we have a strong moral intuition that murder is wrong however it is committed. The question of why investing is wrong when it is turns on the question of what we are doing *by* investing. If what we are doing by investing is not easily recognizable as wrong, then it will not be clear how it can provide a moral reason to not invest.

Second, the account should do justice to the strength of the reason we intuitively have to not invest in immoral corporations. It is not just that we have some slight, insignificant reason, which can be easily outweighed. When confronting Corporation X, it seems like it would genuinely be all-things-considered wrong to invest in it, unless there are very strong countervailing reasons. I take this to be true even for small-time retail investors like myself. So, an account will be lacking if it cannot capture how strong of a moral reason we take ourselves to have in these cases.

Now that we have these desiderata for a successful theory of what is distinctly wrong about investing in immoral corporations, let's move on to consider whether the views in the literature satisfy them.

¹ For discussion of the SRI movement and fund construction, see Ballesterio Pérez-Gladish, & Garcia-Bernabeu (2015).

² Perhaps the only tradition that would deny it is those who think that there is no immoral conduct that can be performed in conducting good business, or that investing on the basis of non-financial reasons threatens market efficiency.

1. OTHER VIEWS IN THE LITERATURE

The past thirty years has seen an explosion not only in SRI, but in theories about why one ought to invest responsibly. To position my own view within this growing literature, I have sorted the views that have been given into three approaches.

The first approach involves what investors are doing for the corporation by investing in it. A common but inaccurate picture of the average investor is as directly giving the corporation money to do bad deeds. They are depicted as facilitating and partially causing immoral conduct themselves. The question will be whether the depiction of the investor's misdeed can be maintained with a more realistic understanding of the insignificance of retail investors.

The second approach involves what the corporation allows the investor to express about themselves by investing. Investing in a company you know to be immoral says something about you, and so some theorists have thought to argue that what you express is immoral. This approach rests on whether you really are expressing something in investing, the nature of the immoral conduct in so expressing, and just how bad it is.

The third approach involves considering the unique relationship between a corporation and its shareholders. Some theorists have tried to use the idea that the shareholders *own* the corporation, or that managers act *on behalf of* shareholders, to argue for an obligation to not invest in immoral corporations. This approach rests on controversial views within business ethics. Even if accepted, it will have a hard time capturing what is so bad about investing in immoral corporations.

1.1. *What You Do for the Corporation*

Irvine (1987) offers an account of why it is wrong to buy stock in 'evil companies,' and his account appeals to a general principle, which he calls the Enablement Principle:

It is morally wrong for a person to do something that enables others to do wrong. Thus, even if I don't profit from my investment in an evil company, my investment – as long as it enables others to do wrong – will be morally objectionable. (236)

This account concerns what I am doing for the company when I invest in it; I am enabling them to do bad acts. One intuitive advantage of this view is that I do not have to make a profit for myself in order to count as having done something wrong. Further, as Irvine observes, this principle is forward-looking. It concerns what you are making possible for the corporation in the future.³ Irvine argues that this is to be preferred to a view that only takes into account the company's previous conduct, since their conduct could change (perhaps because of my investment).

Despite these advantages, the Enablement Principle faces clear counterexamples. As Larmer (1997) argues, there are many cases where you enable someone to do wrong without thereby doing something wrong yourself. I can innocently lend you my car, for example, and then you could commit vehicular manslaughter. What you have done is wrong, but it is not clear that I have done anything wrong in lending you my car, especially if I had no knowledge or reasonable expectation of your

³ When we speak of enabling a bad act, we likely have in mind something causal. However, it's unclear exactly how we should think about enabling as a causal contribution. Is *enabling* a harm more akin to *allowing* a harm or *doing* something harmful? This is important, because the manner of our causal contribution may influence how wrong our behavior is, and some think that there is a moral difference between doing something and merely allowing it to happen (doing arguably being worse). See Rickless (2011) for arguments that enabling is morally equivalent to allowing; see Libbert-Rasmussen (2015) for arguments that enabling is morally equivalent to doing; and see Barry, Lindauer, & Øverland (2014) for empirical evidence suggesting that enabling is morally distinct from both doing and allowing. Each of these views would count enabling harm as wrong to some degree, which is all we need for present purposes.

malevolent intentions.⁴ Indeed, everything we do constantly enables others to commit wrongs. Given this, we can offer the following fix to the view:

The Expectant Enablement Principle: It is morally wrong for a person to do something that enables others to do wrong while expecting that they will do wrong given this opportunity.⁵

This principle maintains the virtues of the Enablement Principle, but it does not prohibit *mere* enabling. Also, the nature of the wrong appears to be different from the wrong involved in the Enablement Principle. The wrong of enabling involved making some kind of causal contribution to the wrong enabled; however, what is wrong about enabling with these expectations seems to be more a matter of engaging in a kind of reckless endangerment. You exhibit insufficient regard for the bad consequences of your action and are culpable for foreseeing these consequences. By investing, you are wantonly facilitating the harm caused by the corporation. This is bad, but does it fully capture what is bad about my investing in immoral corporations? I think that it does not. To see why, let's see how this account runs afoul of the desiderata discussed above.

Consider the first desideratum and grant that it is bad to enable corporations while expecting them to do harm. We will only have a moral reason to avoid investing in these corporations if we *actually do* enable them with our investment. This will certainly be true of some investors. Angel investors, venture capital firms, and large institutional investors surely do enable a corporation to act (when shares are issued; i.e., when the corporation is directly financed). It's right to admonish the investing practices of large institutional investors or lenders who actually do enable immoral corporations, but it is implausible to claim that an individual retail investor such as myself in any sense enables corporations to do anything.

My buying stock in a secondary market in no way meaningfully finances or facilitates the conduct of public corporations. I'm too small-time. A typical retail investor cannot influence the price of a stock, and so the market value of the firm.⁶ At best, individual retail investors contribute to the liquidity of the stock, perhaps indirectly influencing firm value by affecting liquidity risk. Given my insignificance in the market, it's just not plausible that everything that is wrong about *my* investing in immoral corporations comes down to what I do for them.

A fan of this approach is not without recourse.⁷ While the difference I make is small, perhaps we should not admit that I do not enable the corporation *at all*. I enable the corporation a tiny bit, or I at least do something that is part of our *collectively* enabling the corporation. Given this, one strategy may be to appeal to the reasons I have as a part of the collective group of investors as a whole.⁸

⁴ If we did want to find some way to defend the Enablement Principle, we could bite the bullet here and say that in fact I have acted wrongly in lending you my car. Objective Utilitarians may take this line. If the action I perform in fact does not maximize happiness, then it was the wrong action to perform, although I may be excused for performing it. My objections will apply both to Irvine's original view as well as the augmented version of it given below.

⁵ Irvine himself acknowledges the above objection and offers a similar principle in response (though he maintains that both principles are successful). However, his augmented principle only involves knowing (or it being expected that you would know) that you were enabling. But knowing that you are enabling is very different than knowing that someone is likely to take advantage of your enabling. I know I am enabling my friend to commit manslaughter when I lend him my car, but I certainly do not expect him to. It is that expectation that makes me complicit in his wrongdoing.

⁶ Hudson (2005) even purports to show that the actions of ethical investors collectively have not made a difference to share prices, though perhaps things have changed in the past decade.

⁷ Irvine recognizes this problem as well and argues on Kantian grounds that we are nevertheless obligated to invest ethically, as that is the practice that I would will to be adopted universally (238-40).

⁸ See Kagan (2011), Nefsky (2017), and Barnett (2018) for appeals to this strategy in other contexts.

Investors in aggregate do enable the corporation, and that group has a moral reason to avoid so doing. So, maybe I have a moral reason to avoid doing my part, or at least being complicit,⁹ in this enabling.

Consider the claim that we should recycle. Although we individually may make only a very small difference to the deterioration of the environment, we have a collective obligation to sustain the planet. So, I should do my part to satisfy our collective obligation, and this grounds a good reason for me to recycle. Similarly, perhaps we have a collective obligation to not enable immoral corporations. I should do my part to satisfy our collective obligation to avoid enabling immoral corporations, and this grounds a good reason for me to not invest in them, despite my insignificance.¹⁰

This is appealing, and it may be right (cf. Sandberg 2011). All else equal, perhaps this is reason enough to choose a moral investment. However, things rarely are equal. A portfolio devoid of investments in immoral corporations might have lower yields, and the investor will incur the cost of the time that it takes to carefully construct a moral portfolio. The recent work on individual small contributions to collective actions at best show that I have *a* reason to do my part, but the question is whether I have a reason strong enough to merit bearing these costs at least some of the time.

Consider again the case of recycling. When the recycling bin is right next to the garbage can, you really ought to recycle. The cost of behaving sustainably is quite low. However, if the cost were much higher, we may lose the intuition that you ought to recycle. When the garbage can is right in front of you, and the recycling bin is across town, then plausibly (barring large trips to the recycling center) you really ought to just throw the bottle in the trash. Although you still have a moral reason to recycle, that reason can be easily swamped by other concerns given just how small a role you play in harming the environment. Similarly, although the moral reason given to not invest may compel you to invest ethically when the opportunity cost is extremely small, this reason will be swamped given any non-negligible differential in expected returns. But this goes against the second desideratum.

Though we may not think that the investor is obligated to invest ethically regardless of the personal cost, intuitively the investor has a moral reason to invest ethically that cannot be outweighed so easily. If the reason had is proportional to the difference made in enabling, then ethical investments would need to perform virtually equal to or better than their unethical peers. This is asking too much, and it goes against the data of investor preferences. Investors will tolerate a greater loss of returns to invest ethically when they are made to focus on the ethical implications of investing in immoral corporations (Glac 2009). Further, they develop different strategies for thinking about weighing ethics and this financial cost (Mackenzie & Lewis 1999). Though investors will vary in terms of how much of a cost they are willing to bear (Berry & Yeung 2013), this suggests that the moral reason available is strong enough to outweigh purely financial reasons to some degree when it is fully appreciated. In other words, the reason I have to not invest in immoral corporations is stronger than the reason provided by the fact that I am to a very modest degree enabling the corporation with my investment.

⁹ I leave untreated the topic of complicity, although it does seem to be a wrong that the retail investor can engage in, just as it's a wrong that other stakeholders engage in (Lawford-Smith 2017). I do so because I suspect that complicity is either itself to be understood in terms of the causal or participatory contribution that is already being discussed or else it is a distinct morally thick concept that is too complex to be able to do justice to here. See Sandbu (2012), however, which argues that shareholders are complicit in corporate wrongdoing because corporations represent the shareholders and act on their behalf. This is a distinct way of understanding shareholder complicity, but it is instead captured by third approach to shareholder moral liability discussed below.

¹⁰ If the corporation is to be enabled regardless, then we may think that my obligation is to not do my part in the enabling. However, Dietz (2016) argues that individuals in non-cooperative groups lack reasons deriving from collective obligations.

1.2. *Expressing Approval of the Corporation*

If we think about why an account that involves enabling the corporation fails, one thing to recognize is that it turns on what you are doing for the corporation. If we focus on actions done for the corporation, however, it's hard to see retail investors as committing any kind of significant moral wrong. Relative to institutional investors and others, retail investors just aren't *doing* that much. Instead, we should focus on what investing does for the investor. The investment has a much larger impact on the investor's life, and so the fact that it will have a certain impact might provide a sufficient reason not to invest. That is, we stand a better chance of satisfying the second desideratum.

One thing that investing in a corporation may do for an investor is to communicate something about them – that they hold certain attitudes, beliefs, values, etc. It's a kind of signal with meaning in our society; we might take it as a kind of corporate endorsement. An investment is taken to express a kind of approval or support for the corporation's behavior or a solidarity with the corporation's mission (Judd 1990; Cowton 1998). If it is bad to express approval of something's bad actions, then investors of any size would seem to have a moral reason not to invest in immoral corporations on these grounds. There are many ways of spelling out this kind of view and of objecting to it that go beyond what we have space for here;¹¹ however, let's quickly see how it runs afoul of our desiderata.

Concerning the first desideratum, we can be skeptical that investing in a corporation actually involves expressing any particular (negative) thing. By investing in a corporation, an investor may mean to express some kind of solidarity with the corporation or a sharing of values, but they surely need not express this by investing, nor would we necessarily take them to. An investment could also be used to express general approval of the corporation's actions, but, again, it's not clear that it actually would express this absent a specific intention by the investor. The more we pack into what is supposedly expressed by investing, the less plausible that it is *actually* expressed by investors. It's just not clear that anything is expressed by investors beyond an acceptance of the corporation as an investable legal entity, a belief that it is likely to return profits to shareholders in excess of the cost of their capital, and a willingness to capitalize on this. However, it does not seem morally wrong to express these things.

Suppose that investing in a corporation does involve the investor expressing something bad, and suppose that the investor actually has these views.¹² What is supposed to be bad about *expressing* these views, in addition to just having them? We could say that there is just something intrinsically wrong about voicing bad thoughts. More likely though, we will point to the influence such expressions have on others as communicative acts. A vegetarian's abstaining from eating meat may not do much to affect the meat market, but it might do more for the cause by normalizing this behavior among her peers (perhaps encouraging others around her to become vegetarian). Similarly, what we express with our investments may have a greater affect than how much our investments influence the market for some security.

¹¹ This approach is thoroughly discussed in Sandberg (2008:ch.3.4). Sandberg seems to agree that investing in a corporation expresses approval of some kind, though he is more concerned with arguing that this is insufficient to show that we ought to use any particular SRI strategy. For all that he says, however, if investing in immoral corporations does express something bad about us, then it would constitute a *pro tanto* reason not to do it.

¹² If the investor does not have the views they express with their investment, then they may seem open to the charge of inconsistency or hypocrisy. For example, it may seem hypocritical for a pacifist to be invested in a gun manufacturer. See Sandberg (2007) for an assessment of these charges. Since I doubt that one does express approval via their investment, I doubt that one can be hypocritical on these grounds. However, I think there is another way that this investor is hypocritical given my account below: The pacifist should be committed to discouraging gun violence. By investing in a gun manufacturer, however, they have given themselves a reason to encourage gun violence.

While this may provide a stronger reason to avoid immoral investments than the last account, we should still wonder whether it is *as* strong of a reason as we take ourselves to have. I think it is not. Expressing one's values may be enough of a reason to forgo a steak, but is the kind of expressing that I do with my investment really worth sacrificing, say, 2% returns?¹³ Whereas other eaters may see me ordering a salad, who even bears witness to my voluntary investing sacrifice?¹⁴

This again may prove to be a more significant reason for higher profile investors, such as universities. Investors with important public profiles and requirements to disclose their investments may do harm by expressing the wrong values with those investment. By comparison, however, I have virtually no public profile, and my investments are not subject to public knowledge and scrutiny. For small-time retail investors like me, the bad that comes from what is expressed by my investment will be perpetually outweighed by the good that I would receive from slightly superior returns. Given this, let's move on to consider another kind of account.

1.3. *The Relationship Between the Investor and the Corporation*

Rather than being a matter of what you do for the corporation or what investing allows the investor to express, there are views in the literature that try to ground the immorality in investing in immoral corporations in the *relationship* between investors and the corporation. This is reasonable insofar as morality itself is often construed in terms of our relationships to others. So, in this tradition it would be reasonable to expect the obligations of investors to come out of the relationship that they stand in to the corporation.¹⁵

This idea stands the best chance of grounding a good reason not to invest in immoral corporations if we take for granted that investors stand in the *ownership* relation to the corporation. If investors own the corporation, then they may also own or be responsible for what the corporation does.¹⁶ In line with this thought, Kolers (2001) suggests that investors count as *participating* in the corporation's wrongdoing. If investor 'participation' were merely causal (their causal contribution to the corporation's action), then this would not be distinguishable from the first account above. Instead, it must be that by being an owner of the corporation, the investor counts as themselves engaging in the corporate wrongdoing.¹⁷

It may be unintuitive to say that the corporation's action *is* the action of the shareholders, just as we wouldn't say that the actions of my dog are my actions. Even if we will not go this far though,

¹³ As another example, consider the expressive theory of voting advocated in Brennan and Lomansky (1993). They argue that voting is a means of expressing ourselves, and this can provide a sufficient reason to vote even when it won't make a difference to the outcome of an election. They may be right; however, voting is a fairly low-cost activity. Would it be as reasonable to forfeit a thousand dollars to express ourselves by voting?

¹⁴ What might be visible is what is expressed by investors in a company on aggregate. Here though, it's even less clear that what is expressed by the firm's investors is necessarily something akin to approval or support. And, of course, what I do as a part of this larger expression is still too insignificant to satisfy the second desideratum.

¹⁵ This is slightly problematic insofar as we are concerned with the moral reasons of *prospective* investors not currently invested in the immoral corporation, but we may think that they can have reasons for or against investing that stem from the relationship that they will bear to the corporation once invested.

¹⁶ Though we are focused here on investing in particular companies, it is worth noting that this view may not be suited to other investment vehicles. If I am invested in a European call option, then I have the right to purchase shares at a certain price on some date. My investment will not amount to ownership of a company as much as the right to future ownership, yet it could still seem immoral to invest in call options for an immoral corporation. As I will still be incentivized to help this corporation succeed, the immorality of this investment can be captured on my account below.

¹⁷ Kolers is not committed to this idea that investors 'own' the corporation, and he seems to accept the causal interpretation of 'participation'. For him, other stakeholders will count as participating in corporate wrongdoing (452).

we may want to say that the fact that investors own the corporation makes investors responsible for what the corporation does. Langtry (2002) appeals to this idea by pointing out that managers manage the corporation on behalf of the shareholders, and we are more generally responsible for what is done on our behalf. Sandbu (*op. cit.*) says much the same, adding that corporate actions count as the investors' actions because the corporation represents the shareholders. These are appealing ideas, but I think it faces insurmountable problems, again failing to satisfy either of the desiderata.

First, Langtry and Sandbu's views rely on strong assumptions concerning the theory of the firm. This kind of account can only get its footing if we are working from the view that managers are agents of the shareholders (*à la* Jensen & Meckling 1976) and we can decisively show that investors do 'own' the corporation (*contra* Stout 2012). I may be willing to accept these assumptions, but they are very controversial within business ethics today.

Even if we accept that managers act on behalf of shareholders, to satisfy the first desideratum investors must be doing something wrong by authorizing managers to do this. It must be that investors are in some way responsible for the immoral conduct done on their behalf. However, it can be hard to see in what sense investors are responsible.¹⁸ We have already taken it for granted that the actions of retail investors do not influence the actions of the corporation, so we shouldn't hold investors accountable. They had no control over the corporation's action. Alternatively, whereas typical agents might be answerable for the conduct of those acting on their behalf, it's also not clear that investors are answerable for the actions of corporations. This is in a sense guaranteed by shareholder limited liability. Shareholders cannot be made to answer for corporate wrongdoing.¹⁹

We might think that the actions of the corporation are at least in some minimal sense attributable to the investors, since they are the source of the corporation's behavior. This is what Langtry suggests (117). However, as per the second desideratum, the question is whether this burden of responsibility is enough to provide a strong reason to not invest in immoral corporations. I do not want bad conduct to be attributable to me, but the cost of this seems fairly low for anonymous retail investors. Preserving my reputation for own benefit hardly seems worth foregoing an extra 2% of returns.

2. WHAT WE DO BY INVESTING

To come to my own view, I want to look for a view that begins from the nature of the action that the investor engages in *by* investing. This helps us to see what is distinctively wrong about *investing* in immoral corporations.

When someone invests in a stock, they may not have delivered their own capital directly to the corporation, but they have purchased shares. Crucially, the value and attending rights of those shares depend on the success of the corporation (or at least the perception of that success). So, what it is for an investor to be invested in a corporation is in part for the investor's financial success to be tied to the success of the corporation. This is unsurprising, since of course investors have a financial

¹⁸ In the following discussion, I will be assuming Shoemaker's (2015) tripartite theory of responsibility. Shoemaker distinguishes and discusses three different types or 'faces' of responsibility: accountability, answerability, and attributability. We are not committed to this account here. I appeal to it only to demonstrate that shareholders will not seem responsible for corporate wrongdoing on several popular ways of conceiving of moral responsibility.

¹⁹ Shareholders can be made to suffer when corporations are punished or sanctioned. However, this may not always be the case (cf. Wesley & Ndofo 2013). Regardless of whether shareholders can be punished in some direct or indirect way, this may not suffice to show that they should be held to *answer* for corporate wrongdoing, since they will not be in a position to justify corporate conduct.

stake in the corporation. Indeed, depending on the proportion of one's portfolio that is invested, an investor's home, retirement, and financial future may depend on the corporation's viability.

Put another way, investing in a corporation (partially) aligns your interests with that of the corporation. There is nothing immoral about this so far. However, it opens up the possibility for a distinct kind of immoral conduct on the part of the investor. By investing in a corporation, the investor has knowingly given herself a reason to act in favor of the corporation in whatever way and at whatever opportunity that might arise. She is incentivized to promote their products, favor certain legislation, and defend them against opponents.

This is not unique to investing in corporations. If I have traded dollars for yuan, I am invested in the value of the Chinese currency. Accordingly, I am incentivized to support policies that discourage inflation of the yuan or wars that would freeze the market for my yuan. This fact about investing even extends beyond capital markets to other areas of investing in our lives. If I have children, then I will be invested in their well-being. My well-being will be tied to theirs, and I would have a reason to act in ways to keep them happy and safe. This is a general feature of investing as an activity.

This is not even unique to equity investors as stakeholders in the firm. Employees are 'invested' in the firm in the sense that I'm interested in to the degree that they have taken on reasons to act in the interest of the firm. If the corporation goes bankrupt, then they will be out of a job. And if the firm acts unethically and gets caught, their own reputations will be damaged. This openly and purposefully incentivizes employees to act in ways favorable to the firm. The same can be said for suppliers, consumers, and other stakeholders to various degrees. Being a stakeholder generally involves your well-being in some way depending on the firm, and stakeholders are themselves invested in the firm's success to the degree that their interests are aligned.

Of course, employees and other technical stakeholders need not be invested in the sense that I'm interested in. If an employee is indifferent to her job, knowing that she could easily transfer her skills to a different company, then she may not have any reason to facilitate the corporation beyond her work functions. Similarly, consumers may be in a position to easily switch to different brands.²⁰ If these stakeholders are invested in the success of the firm, however, then they are liable for the same kind of wrongdoing as other investors.

Regardless of whether investors directly financially support the corporation by investing in it, they are incentivized to support the corporation in whatever way possible once they are invested. Again, this need not in itself be immoral. If you are invested in an ethical corporation (and it makes money by acting ethically), then you are incentivized to facilitate their ethical conduct. However, if you are invested in a corporation that you know to be unethical, then you are incentivized to facilitate their unethical conduct. This could be a matter of remaining silent when learning of their immoral conduct, or encouraging others to buy their stock, or voting for government officials friendly to the corporation.

If the investor does these things, then she will have done something immoral by acting in ways complicit with or even contributing to the immoral conduct of the corporation. On balance, these actions may have an even larger effect on her community than the retail investor's enablement of the corporation via her investment or whatever bad thing that investment expresses. Still, these actions

²⁰ For that matter, even equity investors may not properly be *investors* in the sense that concerns us here. I could purchase stock but not care about the fact that I am invested. If my shares are things I merely buy to have, then I am more of a consumer of stock than I am an investor. Alternatively, if the cost of exiting my investment is extremely low, I could be indifferent to the corporation's success in just the same way as the employee with a foot out the door. The case of hedging may also prove to be an investment that does not involve investing in the right sense, but we will take up this case below. These cases do not undermine my argument. The question is what the typical retail investor such as myself does wrong in investing in something like Big Tobacco, and the typical investor *will be* invested in the sense that matters given that they take their financial well-being to depend on the success of the firm.

may not be *so* bad or have that much of an effect. The retail investor, after all, is still small-time. Focusing just on the actions taken because of this investment will again risk running afoul of the second desideratum – the badness of her actions likely does not provide a significant reason to not make the investment. However, I think the investor has done something wrong even if she never acts in these ways.

What the investor does wrong *in investing* is knowingly accepting these deleterious incentives. More explicitly, what I take to be immoral about investing in immoral corporations is that the investor is knowingly accepting a reason to facilitate an immoral agent in their bad conduct. Insofar as it is immoral to facilitate an immoral agent in their bad conduct, the investor in the immoral corporation is knowingly accepting a reason to act immorally herself. So, the more general thought is that it is immoral to accept a reason to act immorally (especially when it could easily be avoided).

We frequently do have reasons to act immorally. I have a reason to steal food in that if I stole it, I would not have to pay for it. Still, our reasons stemming from self-interest that are in conflict with morality are typically thought of as reasons to overcome, not reasons to contribute to. We may incidentally pick up reasons to act immorally in the course of our lives, but it's another matter to knowingly accept such reasons. In the case of investing, we could just as easily invest elsewhere in a more ethical corporation, or at least one that does not so obviously give us incentives to act poorly.²¹

We are now in a position to see how this account purports to capture the desiderata. It connects investing in immoral companies with something immoral that we do by investing – incentivizing ourselves to act immorally – and this satisfies the first desideratum. To satisfy the second desideratum, it focuses on the effect investing in immoral corporations has on the investor, which is much larger than the effect that it will have on either the corporation or the community at large. On this account, the strength of the reason I have to not invest in the immoral corporation depends straightforwardly on my degree of financial involvement. If I'm all in, then I have a big incentive to act in favor of the company. This may have a big effect on me, and so this consideration might do the job of outweighing the superior returns promised by an immoral investment.

In the rest of this section, I will consider four objections to this account that challenge whether it really does satisfy the desiderata. While these objections can amount to genuine worries for the account, I think addressing them ultimately serves to better flesh out the nature of the wrong engaged in by retail investors investing in immoral corporations.

2.1. *First Objection: The View Misunderstands Hedging*

There is a common use for investing that does not seem to involve aligning your goals with those of the corporation. Indeed, there are times when you may invest in a corporation *precisely because* the corporation does not share your goals. This is a part of the ubiquitous practice of *hedging*.

Hedging more generally involves acting in some way to secure against downside risk. Although I may be quite confident that a particular stock will rise, it would be unwise to invest all of my investable funds in that one corporation. Instead, I should hedge by investing part of my portfolio somewhere else (ideally in an industry that will profit should my favored stock underperform). Suppose I allocate ten percent of my portfolio for this alternative stock. In this case, we might think

²¹ Something else that can be said about accepting reasons to act immorally is that it involves knowingly accepting a conflict of interest. We always have a reason to act morally, and acting morally is always among our interests (at least, on some views of moral motivation). If it is in the interest of the corporation to act immorally, and you invest in that corporation, then it will be in your interest both to facilitate the corporation's bad acts and to do the right thing. So, you would be accepting a conflict of interest.

that I am still committed to the successful performance of my favored stock. After all, it still makes up ninety percent of my portfolio. Hedging will mitigate my potential losses, but I have not fundamentally changed what it is in my interest. If facilitating the company that I am using to hedge will harm the corporation that is the majority of my portfolio, then I will not be incentivized to do it. This appears to show that my account fails to satisfy the first desideratum. Even if it were bad to give yourself a reason to facilitate bad behavior, we do not necessarily do this by investing. Hedging is a part of investing (or a form of investing), and hedging with an investment in an immoral corporation would not necessarily give you a reason to facilitate their bad behavior.

To make the problem seem even worse, consider a case of moral hedging. Suppose that I am fully invested in a company that I take to have good values, but then I start to worry. If this company underperforms, not only will my moral mission suffer, but I'll lose money! That seems doubly bad. To avoid this, I may decide to hedge by allocating ten percent of my portfolio to an immoral rival corporation that is sure to profit should my favored company founder. I absolutely do not want the immoral corporation to flourish. In fact, I'm counting on the fact that people are in general moving away from immoral corporations and that my investment does not meaningfully enable them. Even more strongly, I would rather lose the ten percent of my portfolio than have made a difference in enabling the immoral corporation to profit. Here, I may think that I am in no way incentivized to facilitate the immoral corporation. I have no reason to. So, this is a form of investing that does not incentive bad behavior.

This case may seem to involve me just playing psychological tricks with myself, but in fact we have whole categories of investing products centered around this kind of hedging – it's called insurance. Insurance as a product category is a means of mitigating downside risk. Suppose that you put some amount of money towards a life insurance policy every month. As a result, if you die in the next thirty years your family receives one million dollars. The policy would not benefit you in death, and perhaps the money given to your family will provide less than your accumulated income over the thirty years. In this case, it is in your interest to continue living. You and your family will be worse off in just the circumstance in which the policy would kick in, so we may think that it is not in your interest to meet the terms of the policy. It's not that you have a reason to die, but that reason is constantly outweighed by the benefits of living. This misconstrues the purpose of insurance. Life insurance is about mitigating lost income from death, not incentivizing death! So, we again have a case where we appear to be investing yet not aligning our interests with the items we are investing in.

To this objection, two responses are appropriate. First, we may agree that hedging does not involve aligning your interests with your hedging instrument, but we can go on to notice that we do not generally consider hedging to be immoral. The account at hand attempts to show *why* it is immoral to invest in immoral corporations when it is. It is immoral because you have incentivized yourself to facilitate the immoral corporation's bad conduct. However, if it is not immoral to invest in immoral corporations *when you are merely hedging*, then the given account is what is needed to provide an explanation as to why it is excused. It is okay to hedge, because you are not incentivizing yourself in favor of the immoral corporation. This objection successfully shows that not all instances of equity investing are instances of gaining corporate incentives. However, rather than showing that the account gets the cases wrong, instead it provides further evidence for the view that what is wrong about investing in immoral corporations is how you incentivize yourself by so investing.

If, however, we are not convinced that it is always morally acceptable to hedge, then another response is available. We might consider the case of moral hedging described above, for example, and think that it is calculated, overly pragmatic, and ultimately immoral. To capture this intuition, we need only put pressure on the claim that you really are in *no way* incentivizing yourself by so investing. You may hope that the immoral corporation that you only own a few shares of does not succeed, but is it really true that it is not in your interest *at all* for it to succeed? Surely it is partially in your financial

interest. It may not be holistically in your interest given your portfolio allocations, but if you really were ‘all in’ for more ethical corporations, then you would not have invested any in immoral corporations. The fact is, you have lowered the stakes of the failure of the ethical corporations for yourself, and so at a minimum chipped away at the strength of your incentive to see them flourish. Even if we will not say that investing in immoral corporations when hedging gives you a reason to facilitate their success, it at least tempers the strength of your reason to facilitate the success of moral corporations. To put the point another way, buying car insurance may be moral in general (and obligatory), but it is immoral to the extent that it makes you comfortable with driving carelessly.

2.2. *Second Objection: The View Overgeneralizes*

The challenge of the first desideratum is to connect investing in immoral corporations with something that we are doing that is wrong, and my account does this by connecting it with knowingly accepting incentives to act immorally. There are two ways of putting pressure on whether my account meets this challenge. As we saw just above, one way is to grant that accepting incentives to act immorally is wrong, but then to argue that that is not necessarily something that we are doing by investing. The other way is to grant that we do this by investing in immoral corporations, but instead to deny that this is wrong.

Is it really true that there is something immoral about *merely* knowingly accepting a reason to act immorally? Not only do we always have reasons to act immorally (as I already granted), but we get new reasons to act immoral all of the time, and it seems that there is nothing wrong about accepting them.²² If I accept an invitation to contribute to an edited volume, this gives me a reason to act in a way that involves neglecting my loved ones. If I work overly hard on my contribution, then it is likely that I will neglect my loved ones in certain ways. Still, even though I know this, and I didn’t need to accept the invitation, it does not seem like I have done anything immoral by doing so. The view on offer seems to overgeneralize in that it would inappropriately count this case, and many more, as cases where we are acting wrongly.

One thing we can notice first about this case is that acting in accordance with the reason generated would be a bad consequence of accepting the invitation, but it need not be a means of satisfying any of my ends. That is, I do not need to act in a way that involves neglecting my loved ones *in order to* successfully finish my contribution to the volume. So, sure, accepting the invitation gives me a reason to do something bad, but it doesn’t incline me to do it. Perhaps this explains why it is not immoral.

If we re-imagine the case such that the only way that I could plausibly finish my contribution in a timely fashion was by neglecting my loved ones, and I knew this, then accepting the invitation to contribute to the volume *would* seem immoral. This isn’t just because I have given myself conflicting obligations. (Suppose I am not even professionally obligated to contribute to the volume once I have agreed to.) Regardless, I have inclined myself towards something that constitutively involves neglecting my loved ones.

This explanation unfortunately won’t quite work in the case of investing. Given my unimportance as a retail investor, the success of my investment doesn’t depend upon anything that I do for the company. I still have a reason to facilitate the company however I can, but my efforts are not a necessary means to the company’s success.

²² Thanks to [names omitted for blind review] for raising this objection, and for continuing to press it.

To answer this challenge, I think we should actually appeal to the same resources that were helpful for the Enablement View. We saw that there is nothing wrong with *mere* enabling, because enabling is ubiquitous. However, there does seem to be something wrong with enabling bad behavior with an expectation that bad behavior will occur. Similarly, it may be right that there is nothing immoral about *merely* accepting a reason to act immorally. It's not a good thing, but perhaps it is so ubiquitous that it must be accepted. Instead, we can move on to suggest that what is immoral is to accept a reason to act immorally with an expectation that you are likely to act on this reason. Or, it is immoral to accept a reason to act immorally if you are not in a position to be relatively sure that you will not act on it. This is immoral not because of what you might in fact do, but because you are endangering yourself in a certain way. You are needlessly exposing yourself to a certain kind of moral risk.

I have more to say about why this is wrong below, but first we have to acknowledge that we solve this problem at the cost of re-asserting the previous one. By moving to a narrower view of what is wrong, it becomes less obvious that this is something that we do by investing. When you invest in a corporation you take to be immoral, you are clearly knowingly accepting deleterious incentives to facilitate their conduct. This wouldn't be so bad, though, if you were in a position to be relatively sure that you were not going to act on these incentives. The question is, are you in this position? Should we reasonably expect our investments in bad companies to lead us to act in ways to facilitate bad conduct?

It would seem paternalistic to just assert that people shouldn't invest in immoral corporations because they cannot be trusted to not act on the bad incentives that these investments provide. After all, we seem in control of which incentives guide our behavior. If I offer you a dollar to steal a banana, you can freely choose to ignore that incentive. Even if I offer you a million dollars to steal the banana, strengthening your incentive, it is still up to you to not steal. It may seem precarious to seek out or knowingly accept strong incentives to do wrong, but isn't that your business? The account under consideration appears to indict you before you have even done anything wrong.

Though it may seem paternalistic, in fact I think this is the appropriate attitude to have towards our investments. Because our interests are aligned with our investments (to some degree), we are tempted not only to help them, but to see things from their perspective. While being an 'owner' of the company may or may not make you a participant in their crimes, bearing the investor relation to the company will inevitably bias you to see things in their favor in ways that you otherwise would have avoided. You are on their side, after all. You want them to succeed, and it would be even better if they did so in an ethical manner. So, you are disposed not only to help them, but to put all of their conduct in the best light. Making an investment threatens not only our conduct, but our reasoning.

Our allegiances in life shape us cognitively, including influencing our preferences, what we pay attention to, and what we think is wrong. And this can often occur subconsciously, or beneath our volitional control. Investing in a company may lead us to rationalize their conduct, prioritizing their good actions while ignoring their bad behavior, whether we mean to or not. We may fail to perceive problems that we might recognize if not invested, or we may inordinately trust the testimony of representatives of the corporation. This again isn't just bad for raising the probability of our facilitating their conduct (that we now take to be good). It is bad for the ways in which it distorts our reasoning, and this is a distortion that we should fully expect to take place.

Given this, I think it should make us skeptical that we can really *know* that we won't act on the bad incentives that our investment provides. We may be fairly sure of our values and resolve before investing, but investments so predictably lead investors to rationalize corporate behavior that we should accept that we can't expect ourselves not to act in ways to promote our investment once invested. This can be so even if we recognize at the outset that the company is immoral.

2.3. *Third Objection: This Is Bad, But Not Worth 2%*

Still, how bad is this really? Even if we admit that there is something bad about accepting a reason to act immorally that we know might be effective, and that this is the case when investing in corporations we take to be immoral, we can turn around and ask the same question that I have asked of other accounts: Is it really so bad that it's worth sacrificing even 2% higher returns? This challenge involves the second desideratum. To answer it, let's first get clear about what is bad about accepting this reason to act immorally, and then we can investigate why this is *so* bad that it merits forfeiting financial gains.

We can first remember that what is wrong in investing in an immoral corporation doesn't merely concern what you do for the corporation. We have granted that, as a retail investor, you will not make much of a difference to the world or to the company's performance if you act on your reasons to facilitate them. Instead, the thought is that investing in an immoral corporation has a larger negative impact on the life of the investor, and this warrants forfeiting the possible financial gain. So, we need to be more explicit about the nature of that negative impact.

As we just saw above, investing in an immoral corporation will not only provide the investor with a reason to act in their favor, but it will lead the investor to reason in certain ways favorable to the corporation. It distorts the reasoning of the investor, forcing her to incur an epistemic cost for her investment. She is more likely to err in her own judgments about what the corporation is doing, who can be trusted, and what she should do in response. It is important to us to feel competent in our own reasoning (even if there are always certain biases we cannot avoid). Knowingly investing in an immoral corporation threatens this competency.

Not only does having a bad incentive make it more likely that we will reason to incorrect conclusion, but it alienates us from the source of our own actions. Suppose you have a strong financial incentive to support the passing of a certain regulation; however, there is also sufficiently strong moral reasons to support the regulation. How can you trust that you are supporting the regulation for the right reasons, that you would succeed in supporting it without the financial incentive, or that you would even judge it worthy of support in those circumstances? Taking on strong incentives thus undermines our trust in our own deliberative processes.²³ This is bad for us, and not in a simple way that can be measured and outweighed.

In certain cases of particular temptations, it may be there is a cost associated with feeling the temptation without acquiescing to it, and the situation can merit accepting that cost. For example, it can be worth going into a chocolate shop to marvel at the chocolate treats on offer even if you have temporarily forsworn chocolate. You will be tempted to eat chocolate, and it will be painful to fight that temptation; but it's not *that* bad, and it will be worth it to check out the shop. It would be paternalistic in this case to demand that you avoid the shop to avoid the temptation. Investing is importantly different. We are not accepting discrete costs;²⁴ we are accepting persistent incentives that erode our self-knowledge of acting for good reasons. In short, we are accepting corruption.

²³ This emphasis on trust is critical, and it in part explains why we have such a strong aversion to public figures with private investments. Even if politicians succeed at doing the right thing for the right reasons, the mere presence of their private incentives undermines public trust in their behavior.

²⁴ Admittedly, this may not be true for day traders. While longer term investors do accept incentives that persist over time, a day trader, insofar as she incurs any incentives upon investing, will constantly be trading in and out of different positions with different incentives. So, this investor would seem to lack a reason against knowingly invest in immoral corporations on my account. As with hedging, however, I am less convinced that there is something wrong about investing in immoral companies here. While they may exacerbate volatility, day traders provide liquidity and assist in finding the price of securities. We may think this is independently valuable and outweighs the contribution to an immoral corporation's liquidity, or whatever other reasons we might drum up against this behavior.

It may not be bad to invite temptation from time to time. As a practice, we may think that it generally strengthens our resolve. However, to accept a persistent, strong incentive is to corrupt our will; it is to undermine our self-confidence as rational agents; it is to alienate us from our own motivations. While our corruption as retail investors may not make a tremendous difference to the world, it would make a big difference to us, and so it provides a strong agent-relative reason to avoid it. I think that's worth 2%.

2.4. *Fourth Objection: The View Encourages Ignorance*

As a final objection, we can notice how the view on offer might be thought to surprisingly encourage ignorance about one's investments. At least with enabling, there is a fact of the matter about whether you are enabling the corporation regardless of what you believe. With my view, however, whether you are doing anything wrong in investing depends on what you believe about the corporation. If you happen to not realize that the corporation is acting immorally, then you will not be incentivized to facilitate their bad behavior.²⁵ If you are not quite sure how the corporation operates, how to help it, or even what businesses it is in, then you will not be incentivized to act any particular way. For example, if you are invested in a basket of equities (you are not entirely sure which), or an index, then the only way you will be incentivized to act is vaguely pro-market. At best, you could be charged with being invested in the status quo. The problem is that we might still think that it is wrong, in this case, for you to be invested in immoral companies. (This again challenges whether the view satisfies the first desideratum, as the suggestion is that you have still done something wrong in investing in immoral companies even if you are not in a position to give yourself a reason to facilitate their bad conduct.)

To answer this objection, I think we should bite the bullet. If you do not know that the corporation is engaged in immoral conduct, then it's not immoral to invest in them *as long as you have satisfied whatever obligation you have to find out about the nature of their conduct*. If managers hide immoral conduct from investors, then those investors do not have a moral reason available to them not to invest. If, however, the conduct is not hidden, or at least it is available for the observant, then the question turns on the extent to which you were obligated to look for it. In other words, it comes down to the obligation for due diligence.

Institutional investors, hedge fund managers, and brokers more generally cannot use ignorance of immoral conduct to escape moral judgment, because they have an obligation to their stakeholders to investigate firms. It would be worrying if they were incentivized to learn just enough to know an investment will be profitable while remaining ignorant of any immoral features of the company, but this seems unlikely. Part of the due diligence necessary to learn if a corporation is a wise investment will naturally involve an understanding of the product and an exploration of various risks, including reputation risks, that could encompass immoral conduct. Even if savvy investors were capable of recognizing possibly problematic behavior and purposefully stopping short of learning of immoral conduct, they would still be guilty of willful ignorance.

Retail investors, on the other hand, do not have the same obligation to do due diligence. Given this, I think it might not be wrong for them to ignorantly invest in immoral corporations, even if the corporation's immorality is transparent to experts. This is not to say that there is *nothing* that is bad about investing in this way. By investing passively in index funds, retail investors on aggregate distort the prices for securities in the fund, for instance.²⁶ Further, ignorant investors are less engaged, and so

²⁵ This could be rejected if it were bad enough to give yourself an objective reason to act badly, even if you were unaware of it. The strength of the view, though, comes from how a bad incentive actually could influence you.

²⁶ See Miwa & Ueda (2016) and any number of articles in the media about this.

less likely to vote their shares, ceding power to management teams or to whoever controls their proxy votes. Finally, it feels somehow against the spirit of the market to throw money at the market without any regard for how returns are generated. This sounds more like gambling or speculation than investing. Still, I doubt that any of these points provide a strong enough reason for a particular retail investor to not invest in this manner. Given the cost to an investor to learn enough to be smart about their investments,²⁷ and the fact that passively investing in the market may outperform active managers anyway, who could blame them?

Not only is this ignorance permissible in some cases, but in fact there are familiar circumstances in which it's clearly a good thing. We as an electorate often demand that politicians place their investments in the hands of a blind trust. This leaves them ignorant of where their money is invested. As a result, it avoids the politician's gaining incentives to favor particular corporations or industries without forcing them to entirely divest prior to taking office. In an ideal world, they would acquiesce to this public demand.

CONCLUSION

My target in this article has been the retail investor who sees a company, takes its conduct to be deeply immoral, but figures that they are totally justified in investing in it anyway. The thought goes: better to make as much money as you can now and donate some of the proceeds later (*à la* Zweig 1996). Depending on just how much is to be gained, this might in the end be the right thing to do. It might not be though. There is a strong intuition that there is a moral reason not to invest in immoral corporations and that it can outweigh at least a certain degree of superior performance.

For certain investors, that they would enable the corporation may be enough of a reason not to invest in them. Though this may give all investors *some* reason to not invest, I think it is insufficient for most retail investors. Instead, I have argued that a bigger reason comes from the corrupting effect that investing in a corporation can have on the investor herself. This effect has a more meaningful negative impact on her life and rational capacities, and so it provides a stronger reason. It may be argued that this reason itself *still* isn't tremendously strong, and it too could be overcome by modestly superior performance from an immoral portfolio. However, the hope is that whatever reason it gives us, when combined with the weaker reasons we have seen, will be sufficient to morally require forgoing even fairly significant returns.

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²⁷ With the sprawling literature on SRI and the fact that not all of the 'ethical' mutual funds end up themselves being that ethical (Schwartz 2003), the cost might be too high to expect retail investors to even learn enough to invest in ways in line with their own values.

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