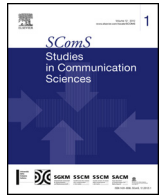




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Ethical free riding? The double entendre of “dirty hands” in finance, exemplified by ethical investment guidelines

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ABSTRACT

In this article we use ethical investment guidelines of sovereign wealth funds as example of financial communication that can be used to describe a phenomenon we suggest to call “ethical free riding”. We build our contribution – a conceptual matrix to identify ethical freeriding – on existing empirical research on ethical investment guidelines to develop the conceptual matrix. On one hand, the published guidelines direct fund managers in deciding which investments to make, based on the fund’s ethical standard. On the other hand, the guidelines communicate to shareholders, stakeholders and the public what values and ethical norms the fund adheres to, thereby forgoing investments in highly profitable but ethically questionable assets. In order to explain the function of ethical investment guidelines, we develop a conceptual matrix based on the ‘dirty hands’ allegory. Dirty hands here stand for (a) morally questionable practices in terms of guild, and (b) being active in the sense of getting one’s hands dirty. Building on existing research, we argue that while several funds have adopted ethical guidelines, not all funds apply them in their daily business, a harmful fact for funds that do dirty their hands (b) by applying sanctions. Based on examples of different ethical investment guidelines, we develop the concept of “ethical free riding” and discuss how ethically free riding funds hurt other funds that do invest ethically by diminishing the positive effect of the ethical guidelines, and undermine SRI in general, due to their lack of credibility as well as the corrosive quality of free riding. In closing, and based on the matrix, we recommend that violations of the ethical guidelines be met with proactive measures such as active ownership and sanctions.

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1. Introduction

This article is based on the example of the communicational genre of ethical investment guidelines of sovereign wealth funds. Such guidelines are diverse both in form and content, ranging from a couple of sentences to lengthy documents, and from toothless alibis to clear principles enforced by corresponding sanctions. Regardless of size, the guidelines are important in funds’ communication, both with stakeholders (i.e. the indirect owners of the funds) and with companies in which they are invested. This communication has become more important with the dawn of social media, as new media put a more personal spin on topics and affect networks in a higher degree than classical media ever did (Etter & Fieseler, 2010; Inghoff & Ruehl, 2013).

Our aim is to help facilitate the classification of ethical investment guidelines with a particular focus on a phenomena we suggest to call ‘ethical free-riding’. By this term we aim to elaborate on funds that formally have ethical investment guidelines in place, but – due to analysed content taken from Jensen and Seele (2013) – do not apply them rigorously and nevertheless ‘enjoy’ the benefit of appearing as ethical sensitive. In order to streamline descriptions of funds’ implementation and subsequent use of guidelines, we have developed a conceptual matrix based on the double entendre of the metaphorical *dirty hands* – (a) “with dirty hands” in the moral sense of behaving unethically, and (b) “getting one’s hands dirty” in the pragmatic sense of getting something done. The matrix is built on the results of Jensen and Seele’s comparison of 13 sovereign wealth funds’ ethical investment guidelines (2013). The funds are of Canadian, French, Irish, Kuwaiti, Dutch, New Zealand, Norwegian, Thai, UAE and US origin, and manage US\$2 trillion in assets, combined.

The question we would like to answer is as follows: Is it more disadvantageous for funds to implement rigorous ethical principles and risk a loss in investment opportunities due to ethical

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considerations (Statman & Glushkov, 2009) than it is to implement the same principles without enforcing them? In order to arrive at our answer, we must first discuss the concept of *ethical free riding* and its detrimental effect on funds that *walk the walk*, not only *talk the talk*.

In the following, we present a review of the literature on free riding and introduce the setup of the matrix by explaining the two concepts of *dirty hands as used in everyday language*. This semantic ambivalence of the term 'dirty hands' is reviewed with prominent examples from cultural history and operationalised to develop our contribution, the conceptual matrix. We will then go through the complete matrix and demonstrate its practical application by introducing Jensen and Steele's findings. This will lead to the discussion of *ethical free riding*.

2. The double entendre of the dirty hands: a review

Wittgenstein defined a word by first considering "its use in the language" (2010: §43). The term *dirty hands* has a literal meaning, but also a symbolic and allegoric one. *The Oxford Dictionary* offers two definitions. First, the term is described pragmatically as "becom[ing] involved in dishonest or dishonourable activity", and ethically as "[to] do manual, menial, or other hard work" (2014). Both variants of the term are recurrent in the liberal arts and in ethical discourse, and are parts of everyday language. Consider, for instance, the German *schmutzige Hände* and the Norwegian *skitne hender*, or the Italian *mani pulite* (clean hands), used to describe the same allegory from a different standpoint.

2.1. "With dirty hands": a review

The first known literary use of the normative sense of getting one's hands dirty can be found in the deuterocanonical book of *Ecclesiasticus* (13:1): "He that toucheth pitch, shall be defiled therewith". Later, in the *New Testament*, it is written: "When Pilate saw that he could prevail nothing, but that rather a tumult was made, he took water, and washed his hands before the multitude, saying, I am innocent of the blood of this just person: see ye to it" (Matthew, 27:24). In the *Ecclesiasticus* the hands are soiled with pitch (i.e. sin), whereas Pontius Pilate aims to wash his hands of what he considers a sinful act in an attempt to be absolved of guilt. Similar examples can be found in the modern western canon. In his preface to *The Last Days of a Condemned Man* (1829), Victor Hugo writes that the blood soiling the Place de Grève (the site of public executions in Paris) had inspired him to write the novel. He hoped that his critique of the death penalty could wash his hands of the collective guilt of a society that applied such extreme punishment, surmising that "It is good to wash one's hands, but to prevent blood being spilled on them would be better" (1992:14). Jean-Paul Sartre used the term as the title of his play *Les mains sales*, which premiered on April 2, 1948. Here Hoederer, a communist politician who has proposed cooperation with non-socialist groups, explains his actions to Hugo, a young communist who disagrees with him:

How you cling to your purity, young man! How afraid you are to soil your hands! All right, stay pure! What good will it do? Why did you join us? Purity is an idea for a yogi or a monk. You intellectuals and bourgeois anarchists use it as a pretext for doing nothing. To do nothing, to remain motionless, arms at your sides, wearing kid gloves. Well, I have dirty hands. Right up to the elbows. I've plunged them in filth and blood. But what do you hope? Do you think you can govern innocently?

(2014: 123–4)

Here, Sartre makes dual use of the metaphor: first in the juxtaposition of ethical and unethical behaviour, and then in the sense

of actively choosing to do nothing. As the matrix will illustrate, the case of Hoederer and Hugo exemplifies two out of four zones.

In *The Prince*, Machiavelli expresses a view similar to that of Hoederer, maintaining that rulers who strongly adhere to moral principles in an effort to avoid getting their hands dirty will invariably be defeated (2003).

In "The Problem of Dirty Hands" (1989), Leslie Gryphon discusses Sartre's stance on the metaphor before she explains how it can be applied to contemporary Catholic discussions on political morality. She lists four approaches to *dirty hands*, all characterised as Christian ethics: moral purity, moral anguish, dual morality and common morality. Moral purity is an example of deontological ethics. Gryphon argues that there can be *one* common and universal morality, available and applicable to all. It is, however, irrelevant whether this morality is effective. Moral anguish is consequentialist and distinguishes private from political moralities. It discerns that political action should be responsible and effective, and that politicians must pay the price for their ethical stance through internal guilt or external punishment. Dual morality, is similar to moral anguish, but does not emphasise politicians' guilt. Finally, common morality is also deontological and decrees that one morality serve both the private citizen and the politician. It differs from moral purity in that it leaves room for compromise, which in extremis may lead to a compromise between good and evil (1989).

Paharia, Kassam, Greene, and Bazerman (2009) find that when powerful people or organisations inflict harm, they often do so thorough others. She argues that a heightened awareness of this tendency and similar motivation could be a safeguard against unethical behaviour.

Gabriela Remow's "A Sentimentalist Approach to Dirty Hands – Hume, Smith, Burke" (2009) provides yet another example of how Western thinkers through the ages have scrutinised the topic. Remow argues that although the views of sentimentalist 18th century-thinkers such as David Hume, Adam Smith and Edmund Burke on the philosophical tradition of *dirty hands* can be considered inconsistent, they constitute a united and valid position that can be of value in contemporary debates. Sentimentalist thinkers were convinced that human behaviour is first and foremost motivated by sentiments or passion. Following this theme to the subject of *dirty hands*, Remow deduces that all jobs and social roles eventually entail some form of wrongdoing – that is, any one person who inhabits a social role must get his or her hands dirty at some point due to corruption, temptation or opportunism. The inevitability does not sanction the *dirty hands*, but might either diminish or enhance the resulting moral blame of the perpetrator.

Furthermore, the metaphor has played a key role in political history. Take the case of Mani Pulite. In the decades leading up to the 1990s, political corruption was rife in Italy's ruling class. Mani Pulite (*clean hands*) was the name of a judicial investigation of political corruption that led not only to the suicides of several politicians and business leaders but also to the fall of the First Republic. The investigation gained widespread attention because of the high number of suspects– the exact number may have been as high as 5000. It was believed that the politicians and business leaders had rewarded public work contracts with kickbacks, and the total amount accumulated through bribes is estimated to have exceeded four billion US dollars (Koff, 2002).

2.2. "Getting one's hands dirty": a review

The second, more pragmatic use of the metaphor relates to performing honest, hard work, as with a farmer tilling the soil, or a business CEO working alongside his subordinates.

Again we can find examples in the Western literary canon. Knut Hamsun's novel *Growth of the Soil* (2008) is popularly described as Hamsun's tribute to nature. The protagonist, Isak Sellanraa, builds

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