Ecological Economics 116 (2015) 322–329

Contents lists available at ScienceDirect

Ecological Economics

journal homepage: www.elsevier.com/locate/ecolecon

Analysis

Slow money in an age of fiduciary capitalism

Priyanka Jayashankar [a,*], Arvind Ashta [b], Mark Rasmussen [c]

[a] Adjunct Assistant Professor, College of Business and Leopold Center for Sustainable Agriculture, Iowa State University, Gerdin Business Building, Ames, IA 50011, USA
[b] Banque Populaire Chair in Microfinance, Burgundy School of Business, ESC Dijon, 29 Rue Sambin, Dijon, 21000, France
[c] Professor of Animal Science, Leopold Center for Sustainable Agriculture, Iowa State University, 209 Curtiss Hall, Ames, IA 50011, USA

ARTICLE INFO

Article history:
Received 28 July 2014
Received in revised form 19 February 2015
Accepted 12 May 2015
Available online 28 May 2015

Keywords:
Slow money
Fiduciary capitalism
Socially responsible investment

ABSTRACT

In the era of fiduciary capitalism, investors have begun fulfilling non-financial goals in order to address the concerns of a broader range of stakeholders. Socially responsible investors – who were part of fringe movements headed by non-profit organizations – have emerged as powerful fiduciaries with a strong focus on triple-bottom line based outcomes. The slow money movement, which has been spear-headed by non-profits in the developed world, places a strong emphasis on making capital circulate locally, especially within agricultural communities. Slow money investors across the US, some of whom are private investment funds and community development financial institutions, are striving to generate triple-bottom line based outcomes.

In our study, we have discussed how the slow money movement mirrors fiduciary capitalism. We have analyzed how slow money investors have expanded the scope of traditional fiduciary obligations. Five organizations in the US have participated in our research and we developed a seven-point taxonomy of slow money to analyze our findings. Our findings revealed how slow money investors, as fiduciary capitalists, generate financial, social and environmental returns by investing 'patient capital' in agriculture and local enterprises.

© 2015 Elsevier B.V. All rights reserved.

1. Introduction

The concept of fiduciary responsibility has been expanding due to growing market pressures and changes in regulatory rulings. In the era of fiduciary capitalism, ethically motivated institutional investors are extending their fiduciary responsibilities beyond corporate governance and they are addressing the social and environmental concerns of a broad range of stakeholders (Hawley and Williams, 2005).

Fiduciary capitalism is gaining resonance with the emergence of socially responsible investors, who are catering to the needs of marginalized communities and environmental groups. Ethically motivated fiduciaries are backing a variety of social enterprises, notably microfinance institutions that provide access to credit to low-income groups in developing countries and strive to fulfill both financial and social goals. Fiduciaries in the US are spurring the growth of alternative credit market systems by supporting grass root movements such as slow money, whereby small-scale farmers and local food enterprises gain access to finance and also help propagate sustainable agricultural practices. In addition to the food industry, the slow money investors support artisanal goods, which by their nature create small-scale local employment.

In this paper, we focus on the slow money movement and, within it, the private investment funds and the community development financial institutions. We assess how slow money in the US is allowing fiduciary capitalism to reach the grass-root level.

2. Literature Review

2.1. Evolution of Fiduciary Capitalism

Today, fiduciary capitalism has made inroads worldwide, in view of the fact that over 50% of the shares of the largest 1000 companies is in the hands of large fiduciary institutions such as pension funds and mutual funds (Hawley and Williams, 2005) as well as sovereign wealth funds,[1] which own the shares in the interest of other beneficiaries. Fiduciary capitalism can catalyze the integration of traditional corporate governance issues with other stakeholders' concerns such as patience (Haberly, 2014) and sustainability because pension funds have the long-term interests of their members at heart (Amalric, 2006). In addition, more mainstream institutional investors are being encouraged to adopt the ESG (environmental, social and governance) approach towards investment decisions, which would be aligned with the UN Principles of Responsible Investment (Ho, 2010).

Abbreviations: CSA, community supported agriculture; CDFI, community development financial institution; CDC, community development corporation; LLC, limited liability company; ESG, environmental, social and governance; SRI, socially responsible investor.

* Corresponding author at: College of Business, Iowa State University, 2319, Gerdin Business Building, Ames, IA 50011, USA.
E-mail addresses: priyanka@iastate.edu (P. Jayashankar), arvind.ashta@escdijon.eu (A. Ashta), markras@iastate.edu (M. Rasmussen).

[1] The total investment size of sovereign wealth funds is $7.1 trillion, according to http://www.swfinstitute.org/fund-rankings/ last accessed on February 12, 2015.

http://dx.doi.org/10.1016/j.ecolecon.2015.05.007
0921-8009/© 2015 Elsevier B.V. All rights reserved.

A case in point in the context of fiduciary capitalism would be the pension fund CALPERS, which screens emerging economies for transparency, political stability, the quality of the legal system, shareholder protection, and labor practices (Hawley and Williams, 2005). Ethically motivated fiduciaries typically address a broad range of social and environmental concerns due to a moral desire to change the world. Appropriate examples would be the public sector pension fund UK Universities' Superannuation Scheme and mutual funds with ethically screened portfolios such as Domini Social Investments (Hawley and Williams, 2005).

Fiduciary activists have a long-term perspective with respect to returns on investment and payback, which may extend well beyond a five-year period, since exit is difficult for those investors who may be required by prudence to reinvest in large companies (Hawley, 1995). Such fiduciaries tend to focus on broader issues such as innovation and high-value job creation (Hawley, 1995).

The question is whether fiduciary capital could successfully downscale to invest in small, local grass-root operations. We study the slow money movement in response to the above question.

2.2. Linking Slow Money With Fiduciary Capitalism

The emergence of the slow money movement follows the rise of SRIs (socially responsible investors), who have become key players in the field of fiduciary capitalism. In the past, SRIs were considered part of a subversive, fringe movement until financiers realized that the social and environmental behavior of companies can have financial repercussions (Richardson, 2008).

In a similar fashion, the slow money's roots can be traced back to erstwhile fringe movements such as slow food and organic food, which – to a certain extent – became more mainstream. As described by Tasch (2008), the slow money movement “contributes to a broader inquiry into our assumptions about fiduciary responsibility and the nature of fiscal prudence.” The slow money concept questions the dominant logic of traditional fiduciaries, who do not integrate financial fiduciary duties with social and environmental concerns (Jayashankar et al., 2014).

For our study, we have developed a taxonomy of slow money by including Ashta's (2014) five-point framework as well as two additional features, namely social capital and capacity building.

2.2.1. Patient Capital

Neubaum and Zahra (2006) have established a positive relationship between long-term institutional ownership and corporate social responsibility. Peifer's (2014) research indicates that a corporation's ethical behavior attracts more patient capital from fiduciaries like socially responsible funds and also boosts fund loyalty. Large fiduciaries such as public sector pension funds take into account the impact of sustainability on the long-term performance of companies (Sethi, 2005; Sievänen et al., 2013). Non-profit venture funds, such as Acumen, are deploying patient capital to fight poverty, combining the scale and efficiency of commercial capital with the social impact of philanthropy.[2] Such a concept also finds resonance among slow money investors, who provide patient capital in the form of long-term equity or debt to develop local communities, with a modest expectation of reasonable returns (Ashta, 2014). Slow money investors can use patient capital for purchasing and leasing land for organic farming. These investors also eschew quick exit strategies. For instance, a report by the Midwest Slow Money Institute (2009) indicates that slow money investors keep the dollars regional by transferring ownership to a community member or a cooperative instead of pulling money out of the investment.

2.2.2. Level of Financial Intermediation

Credit markets in poorer neighborhoods in developing countries have transitioned from financial disintermediation to intermediation due to the advent of socially motivated fiduciaries. Tontines and ROSCAs, which typically bring about financial disintermediation in such markets, operate on a very small-scale due to the lack of scarce intermediary capital (Conning and Morduch, 2011). To overcome these constraints, fiduciaries such as large-scale social investors are working with specialized intermediaries to deliver cash grants and technical assistance to micro-lenders, and are thus ushering in more financial intermediation (Conning and Morduch, 2011).

In a similar fashion, the slow money movement was initially witnessing high levels of financial disintermediation due to the influx of direct investments by small saving clubs such as CIGALES in France (Ashta et al., 2012). However, community development organizations in the US are now paving the way for financial intermediation in the slow money sector. As intermediaries, these organizations receive deposits and grants from social and corporate investors and in turn, disburse capital to distressed communities (Liou and Stroh, 1998). Community development financial institutions affiliated with the slow money movement are generating social and environmental returns on investment in agriculture.

2.2.3. Agriculture, Artisanal and Triple Bottom Line

The consolidation of farms, food processing operations, and distribution warehouses has increased the distance between food sources and consumers in the US, which has both socio-economic and environmental ramifications for rural communities (Heller and Keoleian, 2000). In response to such trends, slow money investors are backing mid-sized and small-scale family-owned farms and food enterprises. Founders of the slow money movement have sought inspiration from the slow food movement, wherein locally-based agricultural enterprises play a key role in enhancing the community's socio-economic welfare (Lyson, 2004). In addition to agricultural enterprises, there is a need to transform raw materials to satisfy basic non-food needs. Therefore, slow money investors also finance artisans and small-scale-businesses.

Parallels can also be drawn between the slow money movement and SRIs with respect to triple bottom line outcomes. Environmentally and socially responsible investors do not bind target companies to traditional fiduciary duties of maximizing market returns and they are willing to accept lower returns (which may stem from environmental/social causes that they espouse). Likewise, proponents of the slow money movement are also striving to attain triple bottom line by pre-empting environmental degradation and socio-economically empowering rural communities.

2.2.4. Local

Fiduciaries may have divergent approaches towards promoting local investment depending on the scale at which they operate. Large-scale fiduciaries with a social/environmental mission tend to emphasize less on investing close to home. Mutual funds and pension funds, which are an integral part of fiduciary capitalism, invest across diverse economies and sectors worldwide (Hawley and Williams, 2005). Nonetheless, there are streams of fiduciary capitalism, which are giving rise to localization. For instance, ethically motivated financial intermediaries in the US such as community development organizations have been striving to localize and democratize capital at the grassroots with the backing of social investors (Owen, 1990; Liou and Stroh, 1998). Investment in community development can help enhance local control over land, capital and labor and also enhance local self-reliance (Owen, 1990; Bruyn, 1991). Community development organizations are also getting affiliated with the slow money movement in order to revive local food systems, and bring small-scale artisanal producers closer to consumers.

The slow food movement has spawned the growth of local food enterprises, and small-scale, organic farms specializing in heirloom crops

[2] http://acumen.org/about/ last accessed on Feb 12.

Download English Version:

https://daneshyari.com/en/article/5049449

Download Persian Version:

https://daneshyari.com/article/5049449

Daneshyari.com