The Performance of Socially Responsible Investing

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ABSTRACT

This paper discusses the origins, motivations, and practice of socially responsible investing. We examine the performance of three distinct portfolios from 1997-2006: 1) a portfolio comprised of socially responsible firms each from a different industry, 2) a portfolio of non-socially responsible firms using industry as a boundary condition, 3) a portfolio of non-socially responsible firms removing the boundary condition. The results suggest that the returns' performance of socially responsible firms was higher prior to 2000, reflecting that today's investors require more investments in socially responsible firms, demanding higher prices and reducing the cost of capital for those firms. Contrary to the belief that "investing honorably will do good", the portfolio of "vice stocks" had the best performance on a risk-adjusted basis, especially in the more recent years, suggesting that the investors underestimate the benefits of being social irresponsible.

Key words: corporate social responsibility, socially responsibility investment, investment performance

JEL classification: D21, L15, M14

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Abstract

This paper discusses the origins, motivations, and practice of socially responsible investing. We examine the performance of three distinct portfolios from 1997-2006: 1) a portfolio comprised of socially responsible firms each from a different industry, 2) a portfolio of non-socially responsible firms using industry as a boundary condition, 3) a portfolio of non-socially responsible firms removing the boundary condition. The results suggest that the returns' performance of socially responsible firms was higher prior to 2000, reflecting that today's investors require more investments in socially responsible firms, demanding higher prices and reducing the cost of capital for those firms. Contrary to the belief that "investing honorably will do good", the portfolio of "vice stocks" had the best performance on a risk-adjusted basis, especially in the more recent years, suggesting that the investors underestimate the benefits of being social irresponsible.

I. Introduction

The classic debate over corporate governance has taken many shapes over the decades. It has been reviewed from ethical, environmental, societal, and profitable perspectives without deriving a clear consensus. Despite each framework drawing different conclusions, the fundamental question remains the same, "what is the role and responsibility of a corporation?" Three distinct business paradigms model the responsibilities of a corporation. First, instrumental theory defines the corporation as "a strategic tool to achieve economic objectives and ultimately wealth creation" (Chand, 2006, 240). This approach, popularized by Milton Friedman, views the "only responsibility of business towards society is the maximization of profits to shareholders within the legal framework and ethical customs of a country" (Friedman, 1970, 33). In contrast with instrumental theory is ethical theory. This approach is based on principles that managers as agents of society working for firms should do the ethically "right" thing to achieve a good society; the "feel good, do good" approach. Among this group is the Normative Stakeholder Theory which proposes that managers are responsible to all stakeholders, not just shareholders and thus will incorporate personal values into decision-making (Freeman, 1984 and 2004). While both approaches represent the extremes of the spectrum, the literature also proposes a range of compromises between the two positions. These theories look at how business integrates societal demands into its strategic decisions. Integrative theories propose a social contract exists between business and society; business depends on society for existence, continuity and growth and society depends on business to support its needs. Frederick posits an extension of integrative theories suggesting a naturological and biological model where the corporation and community are natural systems interacting as complex supporting and competing systems (Frederick, 1998). Thus, the need to achieve profit for shareholders and a good society are not mutually exclusive.

The belief that corporations can be both profitable and socially responsible underlies the concept of socially responsible investing (SRI). Schueth (2003) defines socially responsible investing as “the process of integrating personal values and societal concerns into investment decisions” (Schueth, 190). The practice of mixing money with values is not a new investing concept (Diltz,1995). In the US, employee-centered SRI originated in the 1940s when investments were avoided by unions and government agencies for companies that engaged in unfair labor practices (Martin, 1986). More recently the modern roots of SRI in this country can be traced back to the tumultuous decade of the 1960s (Renneboog, terHorst and Zhang, 2007). The 60s ushered in a climate of social and political unrest, with many individually-centered rights: the anti-Vietnam war movement, civil rights, cold war with the threats of nuclear war, and equality for women. (Schueth, 2003). The corporate environment was not immune to these political and social changes, which helped to focus sensitivity for corporate social responsibility. The trend grew further during the 1980s as individual investors and institutions pressed for investment policies to abolish South Africa’s white minority government and its racist system of apartheid (Renneboog et al, 2007). More recently beginning in the 1990s, new social and environmental issues came to the forefront (Schueth, 2003). Oil spills and nuclear disaster, global warming, ozone depletion, school shootings, human and animal rights, and outsourcing among others, served as context for investment decisions. These external factors coupled with investor's motives prompted the popularity of SRI.

Investors who are attracted to SRI tend to fall into two often complimentary categories: those who want to feel socially good about their investments and those who are concerned with effecting social change (Renneboug et al, 2007 and Schueth, 2003). The "feel good" investors, commit to put their money to work in a manner that is more closely aligned with their values to feel better about themselves and their portfolios. The other group commits to put their investment capital to work in a way that brings about "social change" and improvements to the quality of life. SRI proponents are substantial in size and buying power (Hill, 2006) and can significantly affect corporate behavior (Heinkel, Kraus, and Zechner, 2001). The combination of investor's motives and external circumstances (ie. environmental, political, human rights issues, etc.) were effective catalysts for the rise of SRI.

While the process of SRI is theoretically clear and simple, the difficulties arise when theory meets reality. Investors engaged in SRI implement screens to delineate socially responsible firms from the rest. The screens can be both negative, where undesirable social and environmental effects are used to exclude firms from portfolios, and positive where firms that meet best practices in social and environmental factors are chosen (SIF, 2005). Generally negative screens eliminate firms that engage in vice such as alcohol, tobacco, gambling and military contracts or those that have poor labor relations or environmental trends. Investors require companies to pass both qualitative and quantitative tests. The quantitative analysis gauges corporate profitability and performance, while the qualitative analysis reviews corporate policies and practices   The screening process, therefore, introduces subjectivity into the equation. As Chand (2006) explains, the difficulty in measuring corporate social responsibility is further compounded by the diverse nature of issues that fall under it. He summarized key multiple factors to consider: inputs (e.g. investments in pollution control equipment or other environmental strategies), internal behavior and processes (e.g. treatment of women and minorities, nature of the products produced), and outputs (community relations, and philanthropic programs). These dimensions occur across a range of distinctive industries with significantly different characteristics and make screening decisions less clear cut (Waddock and Graves, 1997). Therefore, it is the goal of investors and money managers to seek out, not the perfect companies, which do not exist, but the better managed companies. The shortcomings of these screens make it nearly impossible to develop a standard system for ranking firms with respect to corporate social responsibility.

Despite the imperfections in measuring corporate social responsibility there are surveys and indices that rank socially responsible firms. One widely known popular survey conducted annually by Fortune magazine, asks senior executives, outside directors, and financial analysts to rate companies on eight attributes of reputation (Fortune, 2007). Because of this perceptional bias, Chand (2003) suggests the survey is highly subjective and very difficult to compare from year to year.

There are two widely used more objective approaches. One is the KLD Index (Kinder, Lydenberg, and Domini & Co. Inc.), or the Domini 400 Social Index, to assess each company on eight dimensions of social performance using a consistent, largely objective set of screening criteria (Graves and Waddock, 1994). Another widely used index is the Calvert Index which benchmarks the performance of large US based socially responsible firms on seven areas.[1] Statman (2006) suggests that the Calvert Index emphasizes corporate governance while the Domini Index concentrates on environmental issues. Overall the indices select different components of social responsibility for interested investors.

Although the concept and implementation of socially responsible investing is unclear, the popularity of SRI is clear and definite. SIF (2005) report that values-based investors account for more than 10% of all investments under professional management. Retail and institutional assets in socially responsible mutual funds totaled $2.290 trillion in 2005.

The popularity of SRI raises the question about the profitability of investing in socially responsible firms which has become widely popularized today in the press and academia. This study will examine the relationship between corporate social responsibility and corporate financial performance by comparing three distinct portfolios; a portfolio of socially responsible firms in five different industries, a portfolio of socially irresponsible firm within the same five industries, and a portfolio of socially irresponsible firms without using industry as a boundary. We are especially interested in recent returns to measure indirectly the potential for increased investor demand for socially responsible firms.

The paper is organized as follows: in Section II we discuss the previous literature on SRI and financial performance. The data and methodology are described in Section III. Section IV discusses our results. Section VI concludes.

[1]The seven areas ranked by Calvert analysts are: corporate governance and ethics, workplace, environment, product safety and impact, international operations and human rights, indigenous people's rights, and community relations (Calvert, 2008).

II. Literature Review

Despite deep and thorough exploration between the relationship of corporate social responsibility and financial performance, there remains no definitive consensus regarding its impact. Early studies have produced conflicting results when benchmarking social responsibility and financial performance. Some hypothesize a positive correlation exists between social responsibility and financial return while other suggest there is a negative relationship. As Chand (2003) notes that, of a total of 55 studies, most have shown a positive link (33 in number), and a smaller number have shown no link or a negative link (9 for each) for the period 1970-1995. Further, there is little consistency in the measures used by the researchers.[2]

Consider three different studies with different results. Statman (2000) examined the performance of socially responsible mutual funds (SRMF) for 1990-1998 and concluded that their performance was unclear. While the SRMF performed better on average than the comparison set, the results were not statistically significant and therefore inconclusive.

A study by Vershoor (2003) compared the S&P 500 against responsible corporations using the KLD index. He found that the mean market value added was nearly three times larger than the mean of the remaining S&P 500 index for a three year period (2001-2003). The test was highly significant at the 1% level.

In contrast Shank, Manullang, and Hill (2005) compared the performance of socially responsible mutual funds (SRMF), the NYSE Composite index, and a portfolio of firms most valued by SRMF. This study suggests that the performance of SRMF was

[2] During this 25 year period, Chand (2003) found researchers used 80 different financial measures of corporate performance with no overall standard measures for which is important.

comparable and not significantly different from the universe of other managed portfolios. Essentially the performance of firms identified as socially responsible by professional money managers did not outperform the overall market.

Recent research on the importance of SRI commitment suggests a link to financial performance and high commitment to SRI values. Klaussen and McLaughlin (1996) find for significant positive abnormal returns after a firm receives environmental performance awards. Dowell, Hart and Young (2000) and Konar and Cohen (2001) suggest that firms that adapt strong global environmental standards have higher market values. Further, using Fama-French-Carhart four-factor models, Derwall, Gunster, Bauer and Koedijk (2005) find that portfolios of firms with high environmental scores outperform those with low scores from 1997 to 2003.

While there have been significant studies conducted concerning the overall relationship between corporate social responsibility and corporate financial performance, most of the studies have failed to examine sectors, which can have different social and environmental risks. Griffin et al (1997) suggest that previous studies across industries may have masked specific industry effects. Conducting and analyzing cross-sectional data would not account for differences between industries. Industries exhibit a special uniqueness in that the internal competencies (e.g. nature of products, human resource practices, etc.) or external pressures (e.g. government regulations, or consumer activism) inherent to the industry may create a specialized environment (Holmes, 1977). For example, comparing the telecommunication industry to a nuclear energy industry differs on the basis of products produced and amount of consumer activism. A cross-industry study will fail to capture and account for the specialized environment related to each individual industry.

The limited number of studies conducted concerning social responsibility and financial performance within industry boundaries has shown a link between low social responsibility and low corporate financial performance. For the period 1970-1995, there have been only three articles that look at the link within specific industries (Chand, 2003). Each has focused on the reaction of the stock market to illegal corporate actions.

Bromiley and Marcus (1989) examine the reaction of stock prices to auto industry product recalls between 1967 and 1983. The study suggests that auto recalls negatively affected stock prices, thus indicating a link between low corporate social responsibility and low corporate financial performance, measured by falling stock prices.

Davidson, Chandy, and Cross (1987) examined the airline industry between 1965 and 1984. They explored the relationship between airline crashes and their stock prices. The crashes were viewed as corporate irresponsibility and were linked to changes in their stock prices around that time. The result was a significant reduction in stock price around the time of the crashes. However, there was little evidence there was a long-term change in stock valuation. For the short-term, there was a link between low corporate social responsibility and low corporate financial performance.

Griffin and Mahon (1995) investigated the link between social responsibility and corporate performance in the chemical industry. They surveyed six major companies within the industry and rated their performance on three dimensions of social performance and five dimensions of financial performance. Their results suggested that companies high on the scale of social responsibility also tended to be high on the scale of financial performance and in most cases firms low on the scale correlated to low financial performance.

Overall, the industry studies suggest that while high social responsibility does not always lead to high financial performance, low social responsibility translates into low financial performance in most cases. Note that each study uses different measures to gauge social responsibility and financial performance and each study set out to find a link between low social responsibility and low financial performance.

III. Data and Methodology

In Exhibit 1, we constructed three portfolios, each with five firms. The criteria for selecting socially responsible companies derived from an examination of socially responsible mid and large-cap growth mutual funds. All of the funds screen for alcohol, tobacco, and gambling, while each individual fund may use other inclusionary or exclusionary screens. Exhibit 2 lists each fund with the screens they use when selecting their holdings. To form the portfolio we randomly selected firms from within five different sectors for those that were held by three or more funds. The holdings and their respective industries are listed in Exhibit 3.

We measured the socially responsible (SR) portfolio against a portfolio of comparable companies that are not socially responsible (NSR). The criteria for selecting socially irresponsible firms were based on a random selection from the Russell 1000 excluding those on the Fortune 2007 list. These five companies are listed in Exhibit 4.

The third portfolio was a Vice Fund, listed in Exhibit 5. Constructing a Vice Fund at the time of research was more complicated. At the time of construction there was only one ETF that focused on “sin stocks.” The vice fund (NASDAQ:VICEX) concentrates it investments on four industries: tobacco, gaming/casino, alcohol, and aerospace/defense.[3] As before, we selected one company to represent each industry.

The methodology resulted in three portfolio containing five companies each. Security prices were obtained from Center for Research in Security Prices (CRSP) data source. The final data were compiled using monthly closing prices from January 31, 1996 thru December 31, 2006. Total returns, including dividends and stock splits, were calculated monthly for three different time frames; three years, five years, and ten years.

Returns for all portfolio stock performance were calculated using Sharpe and Treynor ratios. Both techniques examine risk adjusted returns.

The Sharpe measure calculated the average return over and above the risk-free rate of return per unit of portfolio risk:

$$S_i = \frac{r_p - r_f}{\sigma_p}$$

Since the Sharpe ratio uses the standard deviation as a measure of risk, it does not assume the portfolio is well diversified. In effect, the index standardizes the returns in excess of the risk-free rate by the variability of the return.

The Treynor measure is similar to the Sharpe method except for one important difference in the formula:

$$T_i = \frac{r_p - r_f}{\beta_p}$$

[3] We included adult entertainment in gaming and gambling as these are frequently grouped in this industry.

Note that the Treynor index uses the portfolio's beta, which assumes the portfolio is well diversified. In effect, it standardizes the return in excess of the risk-free rate by the volatility of the return.

Because the measures of risk used in the Sharpe and Treynor indices differ, it is possible for the two indices to rank performance differently. If a portfolio is perfectly diversified, the two measures will give similar rankings because total risk is equivalent to systematic risk. However, if the portfolio is poorly diversified, it is possible for it to show a high ranking on the Treynor index, but a lower ranking on the Sharpe index. The difference is due to the low level of portfolio diversification.

We expect there will be a positive relationship between the socially responsible portfolio and stock prices with lower risk-adjusted returns, as suggested in Vershoor (2003), Bauer et al (2002), Klaussen et al (1996), Dowell et al (2000) and Konar et al (2001). We hypothesize that recent focus on social responsibility by investors and corporations in the U.S. has reduced the cost of these commitments, reflecting corporate acceptance of SRI goals, improved product margins and reduced cost of capital for those firms that offer these goods and services. Firms that are publicly recognized for making a difference on SRI issues will reflect these benefits more strongly, with higher stock prices and lower excess returns on a risk-adjusted basis.

IV. Results

Table I shows the returns of each portfolio on an absolute basis and adjusted for risk.

[Insert Table I here]

The Vice portfolio outperformed all other groups' excess returns over the ten-years of the study, with annual returns of 17% compared with 13% for the Socially Responsible portfolio, 8% for the Non-Socially Responsible portfolio and 7% for the Russell index. During that time, the Vice portfolio had less risk than the Socially Responsible groups, as measured by the standard deviation of returns. Accordingly, the Vice portfolio had better risk-adjusted performance with a Sharpe ratio of 2.40 and a Treynor ratio of 0.16. This compares with lower Sharpe ratios of 1.26 and 1.03, for the Socially Responsible and Non-Socially Responsible groups, and Treynor ratios of 0.12 and 0.07 for the Socially Responsible and Non-Socially Responsible firms, respectively. The Vice portfolio also had notably higher risk adjusted performance ratios than the Russell benchmark.

When we examine the sub-periods, we find that the Vice portfolio excess returns outperformed all other groups' returns including the Russell index during the second half of the ten-year period. Further, the Vice group had better risk-adjusted performance. In the early half of our study, the Socially Responsible portfolio had the best excess returns, beating all other groups, including the Russell benchmark. However, the Socially Responsible portfolio had greater risk and as a result poor returns performance on a risk-adjusted basis than the Non-Socially Responsible group. Our study supports Statman (2006) who finds that socially responsible indexes did better on an excess returns basis during the boom of the late 1990, but lagged during the tech bubble of the early 2000s. After the market improved in 2003, we find that the Socially Responsible firms continue to lag against the Vice firms, but have better risk adjusted performance than the Non-Socially Responsible firms.

We take a closer look at the individual components of the portfolios and performance by industries in Table II.

[Insert Table II here]

Computer Software Industry. Within the computer software industry, the socially responsible firm outperformed the non-socially responsible firm for each of the periods. It is important to note that during this time period there was much turbulence and volatility in tech-related industries. The dot com bubble of the late 1990s drove stock prices to all time high, until 2000 when the bubble burst, with security prices dropping dramatically and bankruptcies resulted in industry consolidation. Microsoft in our SR group proved to be more resilient compared with the other NSR firm.

Commercial Banking. The NSR firm outperformed the socially responsible company in risk-adjusted returns for all three time periods. By this measure, it appears that a commercial bank's social responsibility did not positively affect stock price during the period studied.

Telecommunications. The results indicate that the SR firm outperformed its comparable for the three-year time period, but the non-socially responsible firm had a greater risk-adjusted return for the three and five year period. Considering the inconsistency in results, no conclusion can be drawn.

Specialty Retailer. The SR firm outperformed the NSR firm on the three, five, and ten-year time horizons. The results indicate Best Buy's social responsibility was beneficial in supporting its returns performance for the period of the study.

Energy. The energy industry's results were inconclusive. The NSR firm outperformed the industry's SR counterpart for the five year time period, but did not perform as well for the three or ten-year period. The volatility in the industry, reflected in the large standard deviations, contributed to the variability of returns for firms in the energy sector.

Overall Portfolio. For the five selected industries, two industries (computer software, specialty retailer) showed a positive correlation between social responsibility and profitability, one (commercial banking) showed a negative correlation, and two (energy and telecommunications) indicated inconclusive results.

While care should be taken as our portfolios are single group constructs, the study suggests some trends. We find support that investing in vice is financially sound. The portfolio of vice firms produced better financial returns than either of the other two portfolios for any of the periods of the study and was favorable to the Russell benchmark. The results suggest that concentrating a portfolio in vice stock may be financially important, but difficult in terms of social responsibility.

Second, while Table I indicates that constructing a portfolio of Socially Responsible firms performed better in the earlier years than assembling a portfolio of Non-Socially Responsible firms, a closer examination of the components is not as clear-cut. In only two of the five industries, did we find that the portfolio of SR firms were able to consistently outperform those of NSR firms. The industry boundary appears to provide a basis for inference. Corporate social responsibility may affect security prices in particular industries, but may not have any relevance in other industries. Determining the industries where social responsibility is relevant to stock prices is still a question that needs further research on a larger scale.

V. Conclusion

When investing in socially responsible firms, it is may be important to determine the relevance of social responsibility on the industry. For example, it may be easy to determine the effects of social responsibility on the energy industry, where environmental concerns are elevated. Conversely, it may not be as simple to understand the implications of social responsibility on other industries, such as the retail goods distributor. Further research needs to address the level of influence social responsibility has on particular industries.

While care should be taken on extending our results due to the small number of firms studied, we suggest that future research adding more firms and using industry boundaries is warranted. Although all of our portfolios outperformed the Russell 1000 benchmark, our study does not find support that investing in socially-responsible firms provides superior returns on a risk-adjusted basis, especially beginning in 2000. This suggests that socially responsible investors are increasing the demand for those firms in the new millennium and impacting stock prices. Currently, investors appear to have an appetite for socially responsible firms. Thus, the expected returns of socially responsible firms are lower, as the investor reduces the cost of capital for those firms. The continuation of this social trend in demand will test whether more firms are willing to step up to social responsibility issues and increase the choices for investors.

Exhibit 1. Socially Responsible Mutual Fund (SRMF) List

Fund	Website
Parnassus Fund	www.panassus.com
Citizens Core Growth	www.efund.com/index
Pax World Growth Fund	www.paxworld.com
American Trust Allegiance Fund	www.allegiancefund.com
Calvert Large Cap Growth	www.calvertgroup.com
Green Century Equity Fund	www.greencentury.com
MMA Praxis Core Stock	www.mma-online.org
New Covenant Growth Fund	www.newcovenantfund.com
TIAA CREF Social Choice Equity Fund	www.tiaa-cref.org
Domini Social Equity Fund	www.domini.com

Exhibit 2 Exclusionary Screens For SRMF

Fund	Human Rights	Weapons	Nuclear Power	Alcohol	Tobacco	Gambling
Parnassus Fund		X		X	X	X
Citizens Core Growth				X	X	X
Pax World Growth Fund		X	X	X	X	X
American Trust Allegiance Fund				X	X	X
Calvert Large Cap Growth		X	X	X	X	X
Green Century Equity Fund				X	X	X
MMA Praxis Core Stock		X	X	X	X	X
New Covenant Growth Fund	X			X	X	X
TIAA CREF Social Choice Equity Fund		X	X	X	X	X
Domini Social Equity Fund			X	X	X	X

Exhibit 3: Socially Responsible Portfolio

Company	Industry
Microsoft	Computer Software
Bank of America	Commercial Banking
AT&T	Telecommunications
Best Buy	Specialty Retail
Chesapeake Energy	Energy

Exhibit 4: Non-Socially Responsible Portfolio

Company	Industry
CA	Computer Software
Capital One Financial	Commercial Banking
Sprint-Nextel	Telecommunications
The TJX Companies	Specialty Retail
Dynergy	Energy

Exhibit 5: Vice Portfolio

Company	Industry
Altria	Tobacco
Penn National Gamming	Gaming/Casino
Molson Coors Brewing Co.	Alcohol
Playboy Enterprises	Adult Entertainment
Lockheed Martin	Aerospace/Defense

Table I. Annual Excess Returns, Risk, and Sharpe and Treynor Ratios

Portfolios	**10 Year Period**	**5-Year Periods**		**3-Year Periods**							
Mean Excess Return (%)	**1997-2006**	**1997-2001**	**2001-2006**	**1997-1999**	**1998-2000**	**1999-2001**	**2000-2002**	**2001-2003**	**2002-2004**	**2003-2005**	**2004-2006**
Socially Responsible	13	19	8	32	5	1	-14	21	6	29	12
Non-Socially Responsible	8	15	1	27	23	5	-16	-9	4	20	6
Vice	17	9	26	-2	1	10	17	22	36	39	36
Russell 1000 Index	3	4	3	20	6	-7	-19	-7	1	12	6
Standard Deviation (%)											
Socially Responsible	10	12	8	9	13	15	15	13	8	6	6
Non-Socially Responsible	7	8	7	7	9	9	10	9	9	5	4
Vice	7	8	6	8	8	8	7	7	6	6	7
Russell 1000 Index	4	5	4	5	5	5	5	5	4	3	2
Sharpe Ratio											
Socially Responsible	1.26	1.49	1.02	3.69	0.40	0.08	-0.95	1.68	0.71	4.45	2.07
Non-Socially Responsible	1.03	1.86	0.18	3.70	2.62	0.55	-1.58	-0.95	0.45	3.64	1.47
Vice	2.40	1.07	4.20	-0.27	0.18	1.24	2.32	3.18	5.73	6.54	5.45
Russell 1000 Index	0.75	0.78	0.74	4.10	1.10	-1.37	-3.50	-1.42	0.28	4.38	2.93
Treynor Ratio											
Socially Responsible	0.12	0.18	0.07	0.31	0.05	0.01	-0.14	0.20	0.06	0.28	0.11
Non-Socially Responsible	0.07	0.14	0.01	0.26	0.23	0.05	-0.15	-0.08	0.04	0.19	0.06
Vice	0.16	0.08	0.25	-0.02	0.01	0.10	0.17	0.21	0.35	0.37	0.34
Russell 1000 Index	0.03	0.04	0.03	0.20	0.06	-0.07	-0.20	-0.08	0.01	0.12	0.06

Table II. Individual Returns By Industry

Industry	Company	Period	Mean Excess Return (%)	Standard Deviation (%)	Sharpe Ratio
Computer Software	Microsoft (SR)	1st 5 years	11	15	0.77
		2nd 5 years	-1	6	-0.22
		10 years	5	12	0.41
	CA (NSR)	1st 5 years	-4	20	-0.19
		2nd 5 years	-10	15	-0.67
		10 years	-7	18	-0.40
Commercial Banking	Bank of America (SR)	1st 5 years	0	10	0.01
		2nd 5 years	13	4	3.32
		10 years	7	8	0.87
	Capital One Financial (NSR)	1st 5 years	31	14	2.20
		2nd 5 years	5	11	0.47
		10 years	17	13	1.36
Telecommunications	AT&T (SR)	1st 5 years	1	9	0.13
		2nd 5 years	1	8	0.09
		10 years	1	8	0.11
	Sprint (NSR)	1st 5 years	-1	11	-0.08
		2nd 5 years	1	11	0.07
		10years	0	11	-0.01
Specialty Retail	Best Buy (SR)	1st 5 years	77	22	3.48
		2nd 5 years	7	12	0.53
		10 years	37	18	2.05
	TJX Companies (NSR)	1st 5 years	23	12	1.93
		2nd 5 years	6	7	0.86
		10 years	14	10	1.44
Energy	Chesapeake (SR)	1st 5 years	-21	28	-0.77
		2nd 5 years	33	11	3.11
		10 years	3	21	0.13
	Dynergy (NSR)	1st 5 years	4	15	0.24
		2nd 5 years	-24	24	-1.03
		10 years	-12	20	-0.59

*SR: Socially Responsible Firm, NSR: Non-Socially Responsible

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