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How Much Do Investors Care About Social Responsibility?

Law Working Paper N° 674/2023
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Abstract

Perhaps the most important corporate law debate over the last several years concerns whether directors and executives should manage the corporation to maximize value for investors or also take into account the interests of other stakeholders and society. But, do investors themselves wish to maximize returns, or are they willing to forgo returns for social purposes? And more broadly, do market participants, such as investors and consumers, differ from donors in the ways in which they prioritize monetary gains and the promotion of social goals? This project attempts to answer these questions with evidence from an experiment conducted with 279 participants that involved real monetary gains for participants. Our empirical analysis provides four main results: First, investors are generally willing to forgo some monetary gains to promote social interests. Second, individuals are willing to forgo greater amounts when consuming and making donations than when investing. Third, whereas most investors are willing to forgo gains to promote social interests, a significant percentage of investors (thirty-two percent in our study) have a strong preference for maximizing monetary gains and are unwilling to forgo even very small amounts to advance any social goals. Fourth, there is significant heterogeneity in individuals' willingness to forgo in each of the three channels (investment, consumption, and donation), which is related to their political affiliation, gender, and income. Our evidence suggests that Democrats, women, and higher-income participants tend to forgo more frequently and in greater amounts compared to Republicans, men, and lower-income participants, though these relationships vary with the cause in question. These findings have important implications for the current debate regarding corporate social responsibility and for the actions of corporate executives and investment managers.

Keywords: social responsibility, stakeholders, corporate purpose, socially responsible investing

JEL Classifications: K22, G23, G34, G41, M14

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HOW MUCH DO INVESTORS CARE ABOUT SOCIAL RESPONSIBILITY?

SCOTT HIRST,* KOBI KASTIEL** & TAMAR KRICHELI-KATZ***

Perhaps the most important corporate law debate over the last several years concerns whether directors and executives should manage the corporation to maximize value for investors or also take into account the interests of other stakeholders and society. But, do investors themselves wish to maximize returns, or are they willing to forgo returns for social purposes? And more broadly, do market participants, such as investors and consumers, differ from donors in the ways in which they prioritize monetary gains and the promotion of social goals?

This project attempts to answer these questions with evidence from an experiment conducted with 279 participants that involved real monetary gains for participants. Our empirical analysis provides four main results: *First*, investors are generally willing to forgo some monetary gains to promote social interests. *Second*, individuals are willing to forgo greater amounts when consuming and making donations than when investing. *Third*, whereas most investors are willing to forgo gains to promote social interests, a significant percentage of investors (thirty-two percent in our study) have a strong preference for maximizing monetary gains and are unwilling to forgo even very small amounts to advance *any* social goals. *Fourth*, there is significant heterogeneity in individuals' willingness to forgo in each of the

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three channels (investment, consumption, and donation), which is related to their political affiliation, gender, and income. Our evidence suggests that Democrats, women, and higher-income participants tend to forgo more frequently and in greater amounts compared to Republicans, men, and lower-income participants, though these relationships vary with the cause in question. These findings have important implications for the current debate regarding corporate social responsibility and for the actions of corporate executives and investment managers.

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INTRODUCTION

Policymakers and scholars have devoted much attention to a classic question, central to corporate law: to what extent should corporations take actions motivated by social responsibility?[1] This Article casts light

1. For early discussions of this question, see A. A. Berle, Jr., *Corporate Powers As Powers in Trust*, 44 HARV. L. REV. 1049 (1930); Merrick Dodd, Jr., *For Whom Are Corporate Managers Trustees*, 45 HARV. L. REV. 1145 (1932); *see also infra* Section I.A.

on this question, in the form of new empirical evidence on investors' willingness to forgo monetary gains to promote social goals.

In 2019, the Business Roundtable, a group of chief executives of many of the largest companies in the United States, acknowledged the social responsibility of their companies, and that delivering value to all of their stakeholders (and not just investors) would be best for their companies, communities, and country.[2] This was widely seen as an important shift away from the view—most notably espoused by Milton Friedman and generally endorsed by executives and investors—that companies should take actions to maximize returns to their investors, rather than for socially responsible reasons.[3] According to the Business Roundtable's new approach, companies should be socially responsible because doing so would increase value for their investors.[4]

But, to what extent should companies be socially responsible when doing so *reduces* value for their shareholders? Some scholars—including Milton Friedman himself—have argued that companies should only forgo investor returns for socially responsible purposes when investors want them to do so.[5] More recently, Oliver Hart and Luigi Zingales have emphasized that corporations should undertake "prosocial" activities, to the extent that their investors prefer that they do so.[6]

The centrality of this question makes it all the more surprising that there has been limited empirical investigation of investors' preferences for social objectives. These preferences are the central focus of our study. We provide novel empirical evidence regarding the extent to which investors in corporations prefer that those corporations take socially responsible actions, at the expense of their financial returns. In other words, how much do investors care about social responsibility? How

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2. Business Roundtable, *Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans,'* BUS. ROUNDTABLE, https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans [https://perma.cc/T8M3-WGB4] (last visited Mar. 20, 2023).

3. *See* Milton Friedman, *The Social Responsibility of Business Is to Increase Its Profits*, N.Y. TIMES (Sept. 13, 1970), https://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html [https://perma.cc/F64Q-SMN2].

4. Assuming social responsibility would actually increase investor returns, the view that the corporation should undertake such actions is also consistent with the views expressed by Friedman in his article. *See id.*

5. *See id.* ("A group of persons might establish a corporation for an eleemosynary purpose—for example, a hospital or school. The manager of such a corporation will not have money profit as his objective but the rendering of certain services.").

6. *See* Oliver Hart & Luigi Zingales, *Companies Should Maximize Shareholder Welfare Not Market Value*, 2 J.L. FIN. & ACCT. 247 (2017).

much of their own financial returns are they willing to forgo for social interests?

The answer to this question is relevant both for corporations' decisions to undertake socially responsible actions and for the "stewardship" actions of the investment managers that invest the savings of American families in U.S. companies.[7] These investment managers must decide how much to push the directors and executives of those companies to earn greater financial returns, as opposed to supporting other stakeholders, or broad social interests. The investors' preferences in these companies cast light on these questions.[8]

The views of large investment managers on these questions are well known.[9] Less understood are the views of the individuals who invest in companies through these organizations, who we refer to as "ultimate beneficial investors." We investigate the extent to which these ultimate beneficial investors are willing to forgo investment returns for prosocial purposes.

An important part of this question is distinguishing individuals' preferences for how their *investments* are used to benefit social purposes, from their general desire to contribute to such purposes, such as by donating to charitable organizations furthering those purposes or buying products from socially responsible companies. Professors Hart and Zingales use prosocial consumption preferences (electric cars, fair trade coffee, or free-range chicken) to argue that individuals also have prosocial investment preferences.[10] But there has been surprisingly little consideration of whether individuals' prosocial preferences are indeed the same across the different channels by which they could further social interests. To better understand investors' prosocial preferences *qua* investors, we examine and compare individuals' preferences in circumstances where they are asked to make investment, consumption, and donation decisions.

Relatedly, much of the legal scholarship regarding corporate social responsibility considers investors as a corporate constituency but does not consider the possibility that there may be very different views regarding corporate social responsibility *among* investors. One notable exception is a recent article by Michal Barzuza, Quinn Curtis, and David Webber, which argues that investor views are likely to vary with the age of those investors, with millennial investors having different views

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7. *See infra* Section I.A.

8. For earlier work arguing that investment managers should consider their investors' preferences, see Scott Hirst, *Social Responsibility Resolutions*, 43 J. CORP. L. 217 (2018).

9. *See* Larry Fink, *Larry Fink's 2018 Letter to CEOs: A Sense of Purpose*, BLACKROCK (Jan. 2018), https://www.blackrock.com/corporate/investor-relations/2018-larry-fink-ceo-letter [https://perma.cc/X6ZZ-CL79].

10. Hart & Zingales, *supra* note 6, at 248.

regarding social responsibility from older investors.[11] Our Article attempts to further illuminate these questions, by considering how investor preferences vary with their age, gender, political affiliation, income, and other characteristics.

We therefore consider three major questions. *First*, what amount of money, if any, are investors willing to forgo for specific social objectives? *Second*, does the amount that individuals are willing to forgo for particular social objectives differ depending on whether they are acting through a "corporate channel," as investors or consumers, rather than directly, as donors? *Third*, how are individuals' preferences for the promotion of social goals related to their individual characteristics (such as political affiliation, age, gender, and income), and to a particular social objective in each of these scenarios?

To try and answer these questions, we designed an experiment that investigates the trade-offs that individuals make between their financial interests and four different social interests: gender diversity, income equality, environmental protection, and faith-based values. We present these trade-offs in three different scenarios, whereby individuals are assigned to make either investment decisions, consumption decisions, or donation decisions. We design each set of trade-offs to replicate how individuals make real-world decisions regarding investment, consumption, and donations—*e.g.*, choosing whether to invest in a socially responsible portfolio or a general portfolio. We also structure participants' incentives to reflect the outcomes of their decisions: If they choose greater investment returns in our scenario, their real-world payment increases, and they increase their probability of winning a larger payment. If they choose greater social responsibility, we donate an additional $100 to registered charities that further the social causes in the scenario.[12]

Regarding our first question, we find that when making investment decisions, individuals are indeed willing to forgo some returns to promote social interests; the average willingness to pay in our experiment varies (depending on the particular social cause) between $176 and $253 out of returns of $1,000 on a $10,000 investment (corresponding to returns of between 1.76% and 2.53%, out of a potential total return of 10%).[13] More importantly, whereas most investors are willing to forgo gains to promote social interests, a substantial proportion of investors (about 32%) are unwilling to forgo even a trivial amount ($10 out of $1,000, or a 0.1% return out of the 10% potential return) to advance *any* of the four

11. Michal Barzuza, Quinn Curtis & David H. Webber, *Shareholder Value(s): Index Fund Activism and the New Millennial Corporate Governance*, 93 S. CAL. L. REV. 1243 (2020).

12. For a detailed description of the empirical design, see *infra* Part II.

13. *See infra* Section III.A.

social goals we presented to them through their investment decisions.[14] These individuals have a strong preference for maximizing profits over social goals, even where the cost to them of furthering social goals is extremely small.[15]

In relation to our second question, we find that the amount of money individuals are willing to forgo to promote social interests depends on the channels through which they make their decisions. In particular, the amount individuals are willing to forgo in *investment* decisions is significantly less than the amount they are willing to forgo in *donation* decisions.[16] We interpret this to mean that a substantial number of investors would prefer that corporations distribute returns to their investors, who can then use those returns to advance social goals directly. We also find that the amount of money that individuals are willing to forgo in *investment* decisions is significantly lower than in *consumption* decisions.[17] This counsels caution in drawing inferences for investment preferences from consumption preferences, as prominent scholars have done.[18]

In relation to our third question, we find significant heterogeneity in preferences among individuals, which is associated with their political affiliation, gender, and age.[19] This heterogeneity is expressed both in the amount that individuals are willing to forgo to promote social causes and in the proportion of individuals who are unwilling to forgo even trivial amounts to promote social causes. These factors also influence the channel through which individuals prefer to (or prefer not to) promote social causes. Altogether, we find that individuals identifying as Democrats and women, and those with greater income, are more willing to forgo, and to forgo greater amounts, to promote social causes, compared to those identifying as Republicans or independents and men, and those with lower incomes.[20] We also find that individuals are more willing to forgo when doing so promotes social causes considered to be conservative when donating, compared to when they are investing or consuming.[21]

Together these findings suggest that there is no clear consensus among investors that corporations should, or should not, promote social causes at the expense of their financial gains. More than anything, the

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14. *Id.*

15. In our experiment, choosing the lowest level of "payment" for social interests would have reduced the payment to participants by a single cent.

16. *See infra* Section III.B.

17. *See infra* Section III.B.

18. *See infra* notes 76–78 and accompanying text.

19. *See infra* Section III.C.

20. *See infra* Section III.C.

21. *See infra* Section III.C.

split in investors' social preferences that we observe is a reflection of a political divide between individuals who support relatively progressive causes and those who support more conservative causes.

The heterogeneity of investor preferences we observe suggests a series of complex questions that corporate leaders and investment managers must consider.[22] How should they ascertain investors' preferences? And when these preferences differ, as our results suggest is likely, which set of investors' preferences regarding social responsibility should they favor, and which should they disregard? If they do translate these preferences into socially responsible actions, where should they draw the line? And, how should these leaders and investment managers be monitored to ensure that they respond appropriately to these questions?

We do not pretend to answer these questions. But our results suggest that corporate leaders and investment managers cannot continue to avoid these questions.

In Part I we consider the debate regarding whether corporate managers should take actions for social objectives and whether investment managers should attempt to influence companies that do not. We identify three important empirical questions regarding investor preferences that are relevant to the debate but that remain unanswered by prior work. Part II explains our novel methodology for investigating these questions. Part III describes our results. Part IV discusses the implications of these results for the debate regarding the social responsibility of corporations and for the actions of corporate leaders and investment managers.

I. THE SOCIAL RESPONSIBILITY DEBATE AND ITS BLIND SPOTS

This Part discusses the theoretical underpinnings of our empirical study. We highlight the growing interest of academics and market participants in the social responsibility debate, the high stakes involved, and several blind spots in the current debate and the related empirical literature. In Section I.A, we explain the importance of the debate concerning the corporate social responsibility of corporate managers and the role of the investment managers that manage most of the investments in U.S. corporations. In Section I.B, we consider the existing theoretical and empirical literature regarding individual preferences for corporate social responsibility, drawing from it the three core questions that have generally been overlooked in this debate and that the Article sets out to answer. From those questions we develop a set of hypotheses regarding investor preferences. In Section I.C, we discuss a critical aspect of our

22. *See* discussion *infra* Section IV.A.

study, our focus on situations in which there is a trade-off between socially responsible actions and financial returns, and we explain the central importance of these situations to the current debate and to the decisions of corporate executives and investment managers.

A. The Stakes

The last several years have seen the long-simmering debate regarding the social responsibility of corporations rise to a boiling point, with important implications for companies and investors. For the better part of a century, scholars have debated whether corporations should act for the good of society, or for the benefit of their shareholders.[23] Over the last two decades, large investors have pushed corporations to take more socially responsible actions, and business leaders have responded.[24] Larry Fink, the Chairman and CEO of the world's largest investment manager, BlackRock, Inc., put forward a statement in 2019 pushing companies to consider social interests.[25] A boiling point was reached in August 2019, when the Business Roundtable, a group of CEOs of many of the largest U.S. companies, published a statement purporting to "redefine the purpose of a corporation to promote an economy that serves all Americans."[26]

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23. For the argument that corporate powers are exercisable only for the benefit of shareholders, see Berle, *supra* note 1, at 1049 ("[A]ll powers granted to a corporation or to the management of a corporation . . . are . . . exercisable only for the ratable benefit of all the shareholders . . . ."). For the argument against the view that the sole purpose of the corporation was making profits for investors and for the view that corporations should also serve a social purpose, see Dodd, *supra* note 1, at 1147–48 ("[I]t is undesirable . . . to give increased emphasis at the present time to the view that business corporations exist for the sole purpose of making profits for their stockholders. . . . [P]ublic opinion, which ultimately makes law, has made and is today making substantial strides in the direction of a view of the business corporation as an economic institution which has a social service as well as a profit-making function, that this view has already had some effect upon legal theory, and that it is likely to have a greatly increased effect upon the latter in the near future."). For more recent contretemps in the debate, see Friedman, *supra* note 3; LYNN STOUT, THE SHAREHOLDER VALUE MYTH: HOW PUTTING SHAREHOLDERS FIRST HARMS INVESTORS, CORPORATIONS, AND THE PUBLIC (Berrett-Koehler Publishers 2012). *See also* Margaret M. Blair & Lynn A. Stout, *A Team Production Theory of Corporate Law*, 85 VA. L. REV. 247 (1999).

24. *See, e.g.*, Andrew Crane, Abigail McWilliams, Dirk Matten, Jeremy Moon & Donald S. Siegel, *The Corporate Social Responsibility Agenda*, *in* THE OXFORD HANDBOOK OF CORPORATE SOCIAL RESPONSIBILITY 3–5 (2008); Michael E. Porter & Mark R. Kramer, *The Link Between Competitive Advantage and Corporate Social Responsibility*, 84 HARV. BUS. REV. 78 (2006); Adam Lindgreen & Valérie Swaen, *Corporate Social Responsibility*, 12 INT'L J. MGMT. REVS. 1 (2010).

25. Larry Fink, *Larry Fink's 2019 Letter to CEOs: Profit & Purpose*, BLACKROCK (2019), http://www.blackrock.com/americas-offshore/en/2019-larry-fink-ceo-letter [https://perma.cc/Z47C-Y89N].

26. Business Roundtable, *supra* note 2.

These statements, coming from the leaders of the largest U.S. companies and the manager of the largest pool of investments in these companies, herald a potential shift in the way that companies operate. These statements are also part of several debates regarding corporate purpose, stakeholders, and shareholder responsibility, which we collectively refer to as the "corporate social responsibility debate."[27] These debates relate to a central question in corporate law about how corporate managers should divide the benefits that derive from the corporation among investors and other groups.[28]

In their statements, Larry Fink, the Business Roundtable, and other practitioners argue that corporate managers should choose corporate actions that increase the value of the corporation, allowing them to take into account the interests of all stakeholders, not just investors.[29] Prominent scholars have also argued that corporations should shoulder greater corporate social responsibility to increase the aggregate value created by the corporation.[30] However, others have responded by arguing that if managers are given such power, they are unlikely to use it to benefit stakeholders and that giving them such power would insulate them from accountability to investors, thereby reducing the value of the company.[31]

Much less prominent in the debate regarding corporate social responsibility has been consideration of the preferences of individuals in society—*e.g.*, investors in companies, consumers, and the individuals in

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27. Although the Business Roundtable statement refers to the "purpose of the corporation," and the interests of "stakeholders," these activities have been referred to simply as "corporate social responsibility." For a discussion of the various questions involved in this debate, see Edward B. Rock, *For Whom Is the Corporation Managed in 2020?: The Debate over Corporate Purpose*, 76 BUS. L. 363, 367–91 (2021). All of these topics refer to social interests, though the term "stakeholders" posits some connection to the organization (other than investment).

28. *Id.*

29. *See, e.g.*, Martin Lipton, *Purpose, Stakeholders, ESG and Sustainable Long-Term Investment*, HARV. L. SCH. F. ON CORP. GOVERNANCE (Dec. 24, 2019), https://corpgov.law.harvard.edu/2019/12/24/purpose-stakeholders-esg-and-sustainable-long-term-investment/.

30. *See, e.g.*, ALEX EDMANS, GROW THE PIE: HOW GREAT COMPANIES DELIVER BOTH PURPOSE AND PROFIT (2020) (referring to this as "growing the pie"); REBECCA HENDERSON, REIMAGINING CAPITALISM IN A WORLD ON FIRE (2020) (advocating for understanding the purpose of the corporation as increasing its value to stakeholders and society); COLIN MAYER, PROSPERITY: BETTER BUSINESS MAKES THE GREATER GOOD (2018); *see also* Blair & Stout, *supra* note 23.

31. *See, e.g.*, Lucian A. Bebchuk & Roberto Tallarita, *The Illusory Promise of Stakeholder Governance*, 106 CORNELL L. REV. 91 (2020); Lucian A. Bebchuk, Kobi Kastiel & Roberto Tallarita, *For Whom Corporate Leaders Bargain*, 94 S. CAL. L. REV. 1467 (2021); Faith Stevelman Kahn, *Pandora's Box: Managerial Discretion and the Problem of Corporate Philanthropy*, 44 UCLA L. REV. 579, 613–14 (1997); ELAINE STERNBERG, CORPORATE GOVERNANCE: ACCOUNTABILITY IN THE MARKETPLACE 147–49 (2004).

these "other stakeholder" groups—regarding how companies operate. The mainstream debate has generally assumed that investors have certain clear preferences—either that they wish to maximize their financial returns,[32] or alternatively, that they have certain prosocial preferences regarding how the corporation should operate.[33]

One notable recent work that does not make the assumption that investors might wish to maximize financial returns is that of Nobel Laureate Oliver Hart and Luigi Zingales. Professors Hart and Zingales have argued that, rather than maximizing the market value of the corporation, corporate directors and executives should maximize shareholder welfare—including satisfying their preferences for prosocial purposes.[34] Earlier, Einer Elhauge and Lynn Stout made similar arguments.[35] These works raise the questions: What do investors *actually* prefer regarding the level of social responsibility (and financial returns) of the companies they invest in? That is, to what extent do they support social interests? And do they prefer that these social interests be pursued by the corporation, compared to the alternative of donating directly to organizations that further those causes?

Investor preferences matter because these investors are the ones that hold the residual interest in the corporation, thus ultimately bearing the financial cost (or reaping the financial rewards) of socially responsible actions.[36]

So far, the focus of our discussion has been the actions of corporate managers. However, investment managers face a similar set of dilemmas regarding corporate social responsibility.[37] Like corporate managers,

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32. *See, e.g.*, Friedman, *supra* note 3 (arguing that corporate leaders have a responsibility to conduct the business in accordance with the desire of their investors "which will generally be to make as much money as possible while conforming to the basic rules of the society"); Henry Hansmann & Reinier Kraakman, *The End of History for Corporate Law*, 89 GEO. L.J. 439, 439 (2001) ("There is no longer any serious competitor to the view that corporate law should principally strive to increase long-term shareholder value.").

33. *See, e.g.*, sources cited *infra* notes 34–35.

34. Hart & Zingales, *supra* note 6. *But see* Adi Libson, *Taking Shareholders' Social Preferences Seriously: Confronting a New Agency Problem*, 9 U.C. IRVINE L. REV. 699, 707 (2019) (discussing agency problems regarding managers and shareholders with respect to social preferences).

35. *See* Einer Elhauge, *Sacrificing Corporate Profits in the Public Interest*, 80 N.Y.U. L. REV. 733 (2005); STOUT, *supra* note 23.

36. *See, e.g.*, ELAINE STERNBERG, CORPORATE GOVERNANCE: ACCOUNTABILITY IN THE MARKETPLACE 137–39, 147–49 (2004).

37. For analyses of the social responsibility of investment managers, see, for example, Barzuza, Curtis & Webber, *supra* note 11; Anna Christie, *The Agency Costs of Sustainable Capitalism*, 55 U.C. DAVIS L. REV. 875 (2021). *See also* Cathy Hwang & Yaron Nili, *Shareholder-Driven Stakeholderism*, U. CHI. L. REV. ONLINE (Apr. 15, 2020), https://lawreviewblog.uchicago.edu/2020/04/15/shareholder-driven-

they are fiduciaries—in their case, for the "beneficial" investors whose assets they manage.[38] These assets are held through mutual funds and exchange traded funds, shares of which are acquired either by individuals directly, or through retirement plans such as defined contribution schemes (commonly known as "401(k) plans") and individual retirement accounts (IRAs).[39]

These investment managers' power is substantial. Institutional investors control more than three quarters of the equity invested in corporations.[40] Investment managers are the largest institutional investors, and the largest channel for investments in corporations by individuals through mutual funds and retirement savings plans.[41] Their considerable holdings give investment managers considerable power to influence corporate managers.[42] They exercise this power through their voting decisions and also through engaging with directors and corporate managers.[43] Thus, they themselves do not decide what socially responsible (or irresponsible) actions the corporation will take. But, they have the power to *influence* the socially responsible actions that corporate managers take and how responsibly corporations behave.[44]

For investment managers, these beneficial investors are their clients. If these investors prefer to forgo financial gains for social purposes, then

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stakeholderism-hwang-nili/ (suggesting that the growth of stakeholderism has been spurred by institutional investors).

38. *See, e.g.*, *SEC v. Capital Gains Res. Bureau, Inc.*, 375 U.S. 180, 194 (1963) ("Congress recognize[s] the investment adviser to be [a fiduciary] . . . ."); *SEC v. Tambone*, 550 F.3d 106, 146 (1st Cir. 2008) ("Section 206 imposes a fiduciary duty on investment advisers . . . .").

39. The prevalence of these accounts is due in part to their tax-advantaged treatment; indeed, 401(k) plans are so-called for the provision of the Internal Revenue Code governing that treatment. *See* 26 U.S.C. § 401(k) (2016) (regarding 401(k) plans); 26 U.S.C. § 408 (2016) (regarding IRAs).

40. *See, e.g.*, Pensions & Investments, *80% of Equity Market Cap Held by Institutions*, PENSIONS & INVESTMENTS, https://www.pionline.com/article/20170425/INTERACTIVE/170429926/80-of-equity-market-cap-held-by-institutions [https://perma.cc/6VWC-SC4G] (last visited Apr. 6, 2023) ("Institutions own about 78% of the market value of the U.S. broad-market Russell 3000 index, and 80% of the large-cap S&P 500 index.").

41. *See, e.g.*, *id.* (describing investment advisers as "the largest institutional owner of equities through mutual funds and other investment vehicles").

42. For a discussion of the power of the largest three investment managers, often referred to as the "Big Three," see, for example, Lucian Bebchuk & Scott Hirst, *The Specter of the Giant Three*, B.U. L. REV. 721, 736 (2019).

43. For a comprehensive analysis of Big Three voting and engagement with corporate managers, see Lucian Bebchuk & Scott Hirst, *Index Funds and the Future of Corporate Governance: Theory, Evidence, and Policy*, 119 COLUM. L. REV. 2029 (2019).

44. For recent discussions of the influence of large investment managers over social responsibility matters, see Barzuza, Curtis & Webber, *supra* note 11; Christie, *supra* note 37.

it follows that investment managers should push directors and executives to do so. Questions of social responsibility are most clearly relevant to investment managers that offer "socially responsible investments."[45] The number of socially responsible investment alternatives offered by investment managers has grown, as has the aggregate amount of capital invested in those funds.[46] But even funds that do not explicitly focus on socially responsible investments engage in investment stewardship to influence companies to act responsibly.[47]

The question of investor preferences is also important for those investment managers that are fiduciaries for retirement plans governed by the Employee Retirement Income Savings Act of 1974 (ERISA).[48] Recent Department of Labor rules limit the ability of those investment managers to take into account non-financial factors—such as the social responsibility of corporations—in choosing which corporations to invest in, and how they can exercise their voting rights.[49] Nonetheless, investment managers continue to offer socially responsible investment funds, and also continue to engage in investment stewardship for socially responsible purposes, potentially bringing them into conflict with Department of Labor rules.[50]

In summary, the high stakes involved in the debate over social responsibility—and the socially responsible actions of corporate managers and investment managers—make it correspondingly important to examine the preferences of investors regarding those actions, which are the focus of our study.

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45. For a review of the development of socially responsible investment, and its connection to corporate social responsibility, see Russell Sparkes & Christopher J. Cowton, *The Maturing of Socially Responsible Investment: A Review of the Developing Link with Corporate Social Responsibility*, 52 J. BUS. ETHICS 45 (2004).

46. According to the Global Sustainable Investment Alliance, $12 trillion was invested in sustainable investing assets in the United States in 2018, which had grown at an average of sixteen percent since 2014. GLOB. SUSTAINABLE INV. ALL., 2018 GLOBAL SUSTAINABLE INVESTMENT REVIEW 8 (2018).

47. *See, e.g.*, Barzuza, Curtis & Webber, *supra* note 11; Christie, *supra* note 37.

48. For the definition of a fiduciary for ERISA purposes, see 29 C.F.R. § 2510.3-21 (2020) (defining fiduciary as including any person with authority to buy or sell securities for an ERISA plan, or that renders investment advice to an ERISA plan).

49. *See* Financial Factors in Selecting Plan Investments, 85 Fed. Reg. 72,846 (Nov. 13, 2020) (amending 29 C.F.R. pts. 2509, 2550).

50. Professors Max Schanzenbach and Robert Sitkoff also argue that trustees of pension funds, charities, and personal trusts may only invest in socially responsible investments, or investment stewardship, if they reasonably conclude that it will increase risk-adjusted return and if that is their exclusive motive for doing so. *See* Max M. Schanzenbach & Robert H. Sitkoff, *Reconciling Fiduciary Duty and Social Conscience: The Law and Economics of ESG Investing by a Trustee*, 72 STAN. L. REV. 381 (2020). However, these considerations do not apply to investment managers.

B. Research Questions and Existing Evidence

In this Section we focus on three key questions, which we believe have not been satisfactorily answered in the mainstream debate about stakeholder capitalism and corporate social responsibility. First, *how much do investors care about social responsibility*? Are they willing to forgo financial returns for their prosocial preferences? And if so, what is the distribution of these preferences among individual investors? Second, *do these prosocial preferences differ when expressed through different channels*, such as investment, consumption and donation decisions? In particular, do individuals prefer to "do good" by using the "corporate channel" (as investors and consumers contracting with corporations), or do they prefer to do so directly, through charitable donations? Third, *how do the characteristics of individual investors relate to their prosocial preferences as expressed through these three different channels*? We explain the importance of these questions to the heated debate on corporate social reasonability, the gaps in prior literature that leave these questions unanswered, and the hypotheses that we develop to try and provide answers.

1. HOW MUCH ARE INVESTORS WILLING TO FORGO?

A number of studies have previously considered the extent to which investors are willing to forgo financial returns for social objectives. The most common of these have followed a survey approach.[51] Participants in these surveys often indicated that they would be willing to forgo some financial returns to promote social interests but that such willingness decreases as the financial sacrifice becomes more significant.[52] This

51. A recent example is the Responsible Investing Survey, run by NN Investment Partners, a Netherlands-based asset manager. The survey examined investors' trade-off between financial returns and investments that positively impact society. On average, investors were willing to forgo 2.4% of their annual returns for socially responsible interments, and about 10% of the participants were willing to forgo between 4.1% and 5% per year. *See NNIP: 52% of Investors Believe RI Reduces Investment Returns, Survey Shows*, FIN. INVESTIGATOR (Sept. 25, 2019), https://www.financialinvestigator.nl/en/nieuws-detailpagina/2019/09/25/NNIP-52-of-investors-believe-RI-reduces-investment-returns-survey-shows?originNode=379 [https://perma.cc/LH5M-N2FW].

52. *See, e.g.*, Alan Lewis & Craig Mackenzie, *Morals, Money, Ethical Investing and Economic Psychology*, 53 HUM. RELS. 179, 184–85 (2000) (explaining that over eighty percent of participants indicated that they would be willing to forgo some of their financial returns, however the percentage of investors willing to do so decreased as the financial sacrifice was more significant); R.H. Berry & F. Yeung, *Are Investors Willing to Sacrifice Cash for Morality?*, 117 J. BUS. ETHICS 477 (2013) (finding considerable variation in the willingness of investors to sacrifice ethical concerns for financial performance); Jonas Nilsson, *Segmenting Socially Responsible Mutual Fund*

suggests a negative relationship between the amount of the financial return forgone and investor willingness to invest in socially responsible investments.

A recent study by Arno Riedl and Paul Smeets provides additional evidence on the trade-off between financial returns and social interests by directly surveying real investors to elicit their preferences.[53] It showed that investors' likelihood to hold equity stake in socially responsible funds was mainly associated with their intrinsic social preferences.[54] In contrast, financial motives were found to play a limited role.[55] The study also found that investors were willing to pay significantly higher management fees for socially responsible investment funds than for ordinary funds.[56] A majority of investors in socially responsible investment funds also expected these funds to underperform relative to ordinary funds, which suggests that their investment was not solely motivated by financial returns.[57] A recent field survey involving clients of a Dutch pension fund provides additional support in that direction.[58]

Before proceeding, it is worth noting that many of the empirical investigations in this body of literature did not include real monetary incentives for the participants involved. Therefore, it is hard to determine whether the preferences participants expressed are true reflections of their likely behavior in contexts where real financial gains are involved.

A notable exception to this issue is an experiment-based study by Jean-François Bonnefon, Augustin Landier, Parinitha Sastry, and David

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Investors: The Influence of Financial Return and Social Responsibility, 27 INT'L J. BANK MKTG. 5, 19–20 (2009) (demonstrating that approximately half of the participants in the sample were interested in both high financial returns and social responsibility; approximately thirty percent were primarily concerned about profits, and less than twenty percent of the sample were primarily concerned about social responsibility).

53. Arno Riedl & Paul Smeets, *Why Do Investors Hold Socially Responsible Mutual Funds?*, 72 J. FIN. 2505 (2017). Another factor that positively affects investors' holdings of socially responsible funds is social signaling—investors who talk more about their investments were more likely to hold socially responsible funds. *Id.* at 2507. An additional survey conducted in 2022 by Oliver Hart, Luigi Zingales, and David Thesmar considers the willingness of participants asked to think of themselves as shareholders to sell their shares in a company whose activities they disapproved of, at personal cost. For a discussion of this survey, see *infra* note 137 and associated text.

54. Riedl & Smeets, *supra* note 53, at 2508.

55. *Id.* at 2534.

56. *Id.* at 2507.

57. *Id.*

58. *See also* Rob Bauer, Tobias Ruof & Paul Smeets, *Get Real! Individuals Prefer More Sustainable Investments*, 34 REV. FIN. STUD. 3976 (2021). The authors conduct two field surveys with a pension fund that grants its members a real vote on its sustainable-investment policy. *Id.* at 3976. Two thirds of participants are willing to expand the fund's engagement with companies based on selected sustainable issues, even when they expect engagement to hurt the financial performance. *Id.* Their study, however, was conducted in cooperation with a Dutch pension fund and it is unclear whether U.S. participants would exhibit similar preferences.

Thesmar, which examines how social externalities are integrated into investors' decision-making process.[59] The study offers financial rewards for participants who earn financial returns and who make donations to charity if participants choose moral purposes.[60] It shows that participants were willing to pay $0.70 more for a share in a firm that donated an additional dollar per share to charities.[61] However, the experimental setting that this study presented to its participants is highly abstract and bears little resemblance to actual investing decisions.

Most recently, Florian Heeb, Julian F. Kölbel, Falko Paetzold, and Stefan Zeisberger conducted a field experiment that examined investors' willingness to pay for sustainable investments. To elicit the "real" preferences of the participants, they promised to make an investment of €1,000 on behalf of ten randomly selected investors (based on the investment decisions of these individuals).[62] They found that while investors have a substantial willingness to pay for sustainable investments, they do not pay significantly more for additional impact and infer that such willingness is primarily driven by an emotional rather than a calculative valuation of impact.[63] Their study, however, was conducted on Dutch participants, and it is unclear to what extent these results hold for U.S. investors.[64]

To summarize, a central focus of our study is the extent to which U.S. investors *prefer* that corporations further their prosocial preference, versus their own private financial gain. To consider this question, the *first hypothesis* we test: the amount of returns that investors are willing to forgo for specific social interests is greater than zero (H1). However, focusing only on the mean or median amounts that investors are willing to forgo may be misleading, as there could be a nonuniform distribution where some investors could report a very high willingness to forgo potential returns and some could have no willingness at all. We therefore also examine a *second hypothesis*: prosocial preferences are not uniform among investors (H2). To test these hypotheses, we offer real financial rewards to investor decisions—that is, requiring participants to "put their money where their mouth is." We also present concrete investing scenarios, closer to the decisions faced by individuals making typical investment decisions.

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59. Jean-François Bonnefon, Augustin Landier, Parinitha Sastry & David Thesmar, Do Investors Care About Corporate Externalities? Experimental Evidence (Nov. 11, 2019) (unpublished manuscript) (on file with author).

60. *Id.* at 8.

61. Similar results were also found in the contrary scenario—participants provided lower valuations for firms with negative social externalities, compared to firms without such externalities. *Id.* at 3.

62. *Id.*

63. *Id.* at 4.

64. *Id.* at 13.

2. DO PROSOCIAL PREFERENCES DIFFER BY CHANNEL?

So far, our discussion has focused on the extent to which individuals care about promoting their prosocial preferences in their investment decisions. However, individuals can also promote social interests through other channels. The most obvious way of doing so is by donating to organizations that work towards those social purposes.[65] Individuals can also promote social interests through their purchasing power as consumers.[66] By choosing to consume certain types of products with high social or environmental benefits, individuals can support businesses they believe to be furthering these interests.[67] Prominent examples include calls to buy products with a "Fairtrade" mark to support workers' rights,[68] to buy "Leaping Bunny"-certified products to support cruelty-free production,[69] and to buy goods with various vegan marks that indicate they do not contain animal products.[70]

There are many surveys examining whether consumers are willing to pay a premium for socially responsible products, and, if so, the amount of that premium. In a large-scale meta-analysis, Stephanie Tully and

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65. *See, e.g.*, ROBERT L. PAYTON & MICHAEL P. MOODY, UNDERSTANDING PHILANTHROPY: ITS MEANING AND MISSION 27–28 (2008).

66. *See, e.g.*, Roger A. Dickinson & Mary L. Carsky, *The Consumer as Economic Voter*, *in* THE ETHICAL CONSUMER 25, 26–29 (Rob Harrison, Terry Newholm & Deirdre Shaw eds., 2005); *see also* Frederick E. Webster, Jr., *Determining the Characteristics of the Socially Conscious Consumer*, 2 J. CONSUMER RSCH. 188, 188 (1975) (defining a socially responsible consumer as one "who takes into account the public consequences of his or her private consumption or who attempts to use his or her purchasing power to bring about social change"); Rob Harrison, *Pressure Groups, Campaigns and Consumers*, *in* THE ETHICAL CONSUMER, *supra*, at 57–58 (discussing the rise of "single-issue pressure groups").

67. Whether this socially responsible consumer behavior actually helps the causes it is intended to help is a separate question. This question is beyond the scope of our Article. For our purpose, what is important is not whether socially responsible consumption actually works, but whether participants in a survey think it works.

68. *The Fairtrade Marks*, FAIRTRADE INT'L, https://www.fairtrade.net/about/fairtrade-marks [https://perma.cc/PY4Y-F9W4] (last visited Mar. 13, 2023).

69. *The Leaping Bunny Difference*, LEAPING BUNNY PROGRAM, https://www.leapingbunny.org/leaping-bunny-difference [https://perma.cc/V5P4-R7GF] (last visited Mar. 13, 2023).

70. *Here Is Our Listing of Vegan Labels and Certification Marks Around the World*, VEGAN-LABELS.INFO, http://vegan-labels.info/ [https://perma.cc/TE8M-24BT] (last visited Mar. 13, 2023). There is also a growing phenomenon of ethical indexes and guides providing information on corporations' ethical conduct in order to support ethical consumption. *Our Ethical Ratings*, ETHICAL CONSUMER (Jan. 20, 2022), https://www.ethicalconsumer.org/about-us/our-ethical-ratings [https://perma.cc/VY7X-5LAF]; *The Guide*, SHOP ETHICAL!, https://www.ethical.org.au/theguide/ [https://perma.cc/L983-BBF9] (last visited Mar. 13, 2023); *Our Story*, THE GOOD SHOPPING GUIDE, https://thegoodshoppingguide.com/our-story/ [https://perma.cc/S64F-98PV] (last visited Mar. 13, 2023).

Russell Winer found that a majority of the participants in the studies they analyzed were willing to pay a premium for socially responsible products, with an average premium of 16.8% of the value of those products.[71] A number of more specific studies have found consistent results, including studies concluding that consumers were willing to pay a premium for socially responsible cotton apparel,[72] coffee,[73] chocolates,[74] and electricity.[75]

In this Article, however, we consider a different question: whether individual preferences for social responsibility vary among investment, consumption, and donation decisions.[76] In particular, we examine whether an individual's prosocial preferences as an investor are part of their general willingness to give, or whether their willingness to forgo when making an investment decision is different from their willingness to forgo in other circumstances, such as through donations aimed directly at a social objective.

In earlier work, Professors Hart and Zingales assume that the investment preferences of individuals are the same as their consumption preferences.[77] They use the consumption decisions of the ultimate beneficial investors in corporations to argue that those investors are not

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71. Stephanie M. Tully & Russell S. Winer, *The Role of the Beneficiary in Willingness to Pay for Socially Responsible Products: A Meta-Analysis*, 90 J. RETAILING 255, 265 (2014). They also found that the willingness to pay a premium varied with the social interest in question, with more people willing to pay a premium for products that benefitted humans (such as those produced with socially responsible labor practices), compared to those that benefitted the environment. *Id.* at 262.

72. Jung E. Ha-Brookshire & Pamela S. Norum, *Willingness to Pay for Socially Responsible Products: Case of Cotton Apparel*, 28 J. CONSUMER MKTG. 344 (2011).

73. Remi Trudel and June Cotte examined consumers' willingness to pay more for ethically produced coffee. Remi Trudel & June Cotte, *Does It Pay to Be Good?*, 50 MIT SLOAN MANAG. REV. 61, 63 (2009). Similar to earlier studies, they find a $1.40 premium for each pound of fair-trade coffee. *Id.* at 64. They also show that consumers with high ethical expectations both reward and punish coffee producers for their ethical or unethical conduct, more than consumers with low ethical expectations. *Id.*; *see also* Patrick de Pelsmacker, Liesbeth Driesen & Glenn Rayp, *Do Consumers Care About Ethics? Willingness to Pay for Fair-Trade Coffee*, 39 J. CONSUMER AFFS. 363 (2005).

74. Tagbata Didier & Sirieix Lucie, *Measuring Consumer's Willingness to Pay for Organic and Fair Trade Products*, 32 INT'L J. CONSUMER STUD. 479 (2008).

75. André Hansla, Amelie Gamble, Asgeir Juliusson & Tommy Gärling, *Psychological Determinants of Attitude Towards and Willingness to Pay for Green Electricity*, 36 ENERGY POL'Y 768, 768–69 (2008). Several studies found consumers' asymmetric reaction to ethical information on products, being more sensitive to negative than positive ethical-related information. *See, e.g.*, Valerie S. Folkes & Michael A. Kamins, *Effects of Information About Firms' Ethical and Unethical Actions on Consumers' Attitudes*, 8 J. CONSUMER PSYCH. 243, 244–45, 257–58 (1999); Dirk C. Moosmayer, *Negativity Bias in Consumer Price Response to Ethical Information*, 21 BUS. ETHICS: EUR. REV. 198, 204–05 (2012).

76. Hart & Zingales, *supra* note 6.

77. *Id.* at 248.

only concerned about financial rewards, giving as examples how individuals may buy an electric car, fair trade coffee, or free range chicken, even though they are more expensive, to promote certain social and environmental causes.[78]

However, to the best of our knowledge, this assumption that investors behave the same way with respect to their investment decisions as they do with respect to other decisions in their lives, such as consumption decisions, has not been systematically examined. More importantly, our examination as to whether individual prosocial references differ by channel has the potential to shed new light on a key question that has been hotly debated in the burgeoning literature about corporate social responsibility: do individuals prefer to "do good" by using the "corporate channel," as investors and consumers, compared to the alternative of giving directly?[79]

Early work focused on corporate social responsibility emphasized the strict division of labor between firms and government and expressed skepticism about using the corporate channel to advance social causes. Most famously, Milton Friedman argued that firms' only responsibility was profit maximization and that governments—and not firms—should address social issues.[80] This view often relies on the argument that corporations (and those who manage them) do not have sufficient incentives to voluntarily act in a socially responsible manner, or to fully internalize the costs they cause; instead, under this view, such organizations should comply with regulation or taxation imposed by the government.[81]

Professor Friedman also argued that stockholders or customers could spend their own funds on particular social causes if they wished to do so.[82] However, when an executive is exercising a distinct "social responsibility" and is willing to spend the money in a different way than investors or consumers would have spent it, they are in effect both imposing taxes on those investors and choosing the social purpose on which the tax proceeds will be spent.[83] In Professor Friedman's view, these are clearly governmental functions and should be left to

78. *Id.*

79. David P. Baron, *Corporate Social Responsibility and Social Entrepreneurship*, 16 J. ECON. & MGMT. STRATEGY 683, 715 (2007) (noting that investors can be heterogeneous in the sense that there are those for whom corporate giving is a close substitute for personal giving and those for whom it is a poor substitute).

80. Friedman, *supra* note 3.

81. *See, e.g.*, Bebchuk & Tallarita, *supra* note 31, at 94; Markus Kitzmueller & Jay Shimshack, *Economic Perspectives on Corporate Social Responsibility*, 50 J. ECON. LITERATURE 51, 52, 54 (2012) (surveying the views that support the strict division of labor).

82. Friedman, *supra* note 3.

83. *Id.*

democratically elected representatives.[84] Finally, he also raised certain practical concerns that executives who promote socially responsible causes are likely to face. For example, how would an executive know which of their actions would contribute to the promotion of social goals?[85] How much cost are they justified in imposing on the company's investors? And, what is the appropriate percentage of other investors supporting a particular social cause that would justify acting in a socially responsible way?[86]

In contrast to Professor Friedman and his followers, other prominent scholars have argued that investors have prosocial preferences, and, therefore, managers should pursue a broader agenda than profit maximization, and should consider the implications of their actions for all constituencies.[87] In recent years, scholars have also started to challenge the strict "division-of-labor" approach that dominates Professor Friedman's approach to the appropriate social role of corporations, investors, and governments. Professors Hart and Zingales, for instance, argue that "money-making and ethical activities are often inseparable."[88] They provide the example of Walmart selling high-capacity firearms and magazines of the kind used in mass shootings, and assert that "[i]f shareholders are concerned about mass killings, transferring profit to shareholders to spend on gun control might not be as efficient as banning the sales of high-capacity magazines in the first place."[89] More broadly, they argue that Professor Friedman's conclusions do not hold in situations where profit maximization and damages to stakeholders are inextricably connected, and that individuals often do not have the means to undo this damage without excessive costs.

Professors Hart and Zingales are also skeptical about the efficiency of the political process, either because it is very difficult to write a regulation that specifies how all companies should treat social issues or because constitutional protections afforded to individuals and corporations make political intervention very difficult.[90] Along the same lines, Anat Admati argues that "in the real world, governments often fail to design the best rules in society's interest."[91] If the political process is

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84. *Id.*

85. For example, if executives increase product prices as the company becomes green, consumers who are sensitive to price will purchase from a competitor who will continue to produce "brown" products.

86. Friedman, *supra* note 3.

87. Elhauge, *supra* note 35, at 738; STOUT, *supra* note 23.

88. Hart & Zingales, *supra* note 6, at 249.

89. *Id.*

90. *Id.*

91. Anat Admati, *Milton Friedman and the Need for Justice*, PROMARKET (Oct. 5, 2020), https://promarket.org/2020/10/05/milton-friedman-need-for-justice/; Anat

ineffective at solving social and environmental issues, as the above prominent scholars argue, there may be good reason for individuals to support these causes through their private actions, as investors and consumers.

Surprisingly, despite the importance of this heated debate and the high stakes involved, prior empirical evidence has, by and large, examined individual prosocial preferences expressed through each of the three channels (investment, consumption, or donation) in isolation and has not considered the extent to which preferences are expressed differently in the three different types of decisions. Cross-channel comparisons are thus important as they shed light on the key question of whether individuals prefer to promote social causes by using the corporate channel, compared to the alternative of direct donation.[92]

To examine the questions left unanswered by prior work, we test a *third hypothesis*: the amount of money that investors are willing to forgo for social interests when making investment decisions is different from the amount they are willing to forgo for such purposes when making consumption decisions and donation decisions (H3).

3. HOW DO PROSOCIAL PREFERENCES DIFFER AMONG INVESTORS?

So far, our discussion has considered investors as a uniform category, but there is no reason that this must be the case. Specific groups of individuals could have different attitudes towards corporate social responsibility and, in particular, different preferences of willingness to forgo financial returns for social interests. What might drive these different preferences?

The existing literature has posited that prosocial preferences are likely to vary with an individual's age. Indeed, prior work has found the Millennial generation to not only be highly interested in socially

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Admati, *George Stigler and the Challenge of Democracy*, PROMARKET (June 3, 2021), https://promarket.org/2021/06/03/george-stigler-challenge-democracy-corruptionregulation/.

92. Cross-platform comparisons also help overcome the concern that what participants say they would do in a survey or in an experiment might vary from what they would actually do if faced with the trade-off in reality. One way for an experiment to align participants' incentives with their prosocial preferences is to donate funds to charities based on participants responses. For an example of such an approach, see Bonnefon, Landier, Sastry & Thesmar, *supra* note 59, at 3–4. As we describe in Part I, our study also follows this approach. However, this creates a concern that the study's findings simply capture the tendency of participants to donate, rather than to invest. If this is indeed the case, we would expect that there would not be any significant differences between investment decisions, and decisions framed directly as donation decisions, since the ultimate donative effects would be identical.

responsible investment,[93] but also to be more confident about the financial trade-off involved in such investments.[94] Millennials have also been shown to have a greater willingness to forgo financial returns as investors[95] and to be more willing to boycott brands based on their social conduct.[96] These results are consistent with the claims of Professors Barzuza, Curtis, and Webber, that Millennials have a greater interest in having their investments reflect their social values and that they are not merely focused on investment returns.[97]

Evidence about the association between people's age and their tendency to donate is, however, mixed. Some studies have found a positive relationship between age and charitable giving—that younger individuals give less.[98] Others have found that middle-aged groups tend to give less than younger and older groups.[99] Another study found that

93. *See, e.g.*, MORGAN STANLEY INST. FOR SUSTAINABLE INVESTING, SUSTAINABLE SIGNALS: NEW DATA FROM THE INDIVIDUAL INVESTOR 3 (2017), https://www.morganstanley.com/pub/content/dam/msdotcom/ideas/sustainable-signals/pdf/Sustainable_Signals_Whitepaper.pdf [https://perma.cc/9DRA-PVSF] (finding that millennials were significantly more likely to invest in companies or funds that target specific social or environmental outcomes); NUVEEN, THIRD ANNUAL RESPONSIBLE INVESTING SURVEY: INVESTOR INTEREST IN RESPONSIBLE INVESTING SOARS 3 (2018), https://www.tiaa.org/public/pdf/investor_interest_in_responsible_investing_soars.pdf [https://perma.cc/9C4F-GFC2] (finding that millennials weigh the environmental impact of investments considerably more than their elders do).

94. MORGAN STANLEY INST. FOR SUSTAINABLE INVESTING, INSTITUTE FOR SUSTAINABLE INVESTING, SUSTAINABLE SIGNALS 9–10 (2019), https://www.morganstanley.com/pub/content/dam/msdotcom/infographics/sustainable-investing/Sustainable_Signals_Individual_Investor_White_Paper_Final.pdf []https://perma.cc/MFT2-6VJP].

95. Sylvie Formánková, Oldřich Trenz, Oldřich Faldík, Jan Kolomaznk & Jitka Sládková, *Millennials' Awareness and Approach to Social Responsibility and Investment—Case Study of the Czech Republic*, 11 SUSTAINABILITY 1, 4 (2019).

96. An ING survey conducted in North America, Europe, and APAC, surveying 15,000 people, found that while 38% of all consumers had boycotted a food brand for bad environmental practices, 48% of those under the age of 34 had done so. ING SUSTAINABLE FIN., LEARNING FROM CONSUMERS: HOW SHIFTING DEMANDS ARE SHAPING COMPANIES' CIRCULAR ECONOMY TRANSITION 7, 21 (2020), https://www.ingwb.com/binaries/content/assets/insights/themes/circular-economy/ing-circular-economy-survey-2020-learning-from-consumers.pdf.

97. Barzuza, Curtis & Webber, *supra* note 11, at 1243.

98. *See, e.g.*, Cathy Pharoah & Sarah Tanner, *Trends in Charitable Giving*, 18 FISCAL STUD. 427, 441 (1997).

99. *See, e.g.*, Ross Gittell & Edinaldo Tebaldi, *Charitable Giving: Factors Influencing Giving in U.S. States*, 35 NONPROFIT VOLUNTARY SECTOR Q. 721, 731 (2006).

charitable giving increased with age but only up to the age of sixty-five, after which it decreased.[100]

Gender has been shown to be an important factor in prosocial preferences in donation decisions and consumption decisions. Past studies have found that women are more likely to donate, and that they donate to a wider variety of charitable activities.[101] Another study found that gender, marital status, and the number of children living with the individual are positively correlated with the willingness to pay for environmentally friendly products.[102] Positive relationships have also been found between income and philanthropy[103] and between education level and philanthropy.[104] Faith and religiosity have been found to play an important role in investors' willingness to invest responsibly.[105]

These studies lead us to examine what drives different preferences among individuals. We therefore test a *fourth hypothesis*: different demographic factors (including gender, age, political affiliation, and income) are associated with differences in individuals' willingness to forgo value for social purposes, as expressed through these three different channels—investment, consumption, and donation (H4).

C. Corporate Social Responsibility and Trade-Offs

Before we move on to our investigation of these questions, it is necessary to make an important clarification regarding corporate social responsibility and trade-offs. Our investigation is predicated on the

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100. John J. Havens, Mary A. O'Herlihy & Paul G. Schervish, *Charitable Giving: How Much, by Whom, to What, and How?*, *in* THE NON-PROFIT SECTOR: A RESEARCH HANDBOOK 542, 550 (Walter W. Powell & Richard Steinberg eds., 2006).

101. James Andreoni, Eleanor Brown & Isaac Rischall, *Charitable Giving by Married Couples: Who Decides and Why Does It Matter?*, 38 J. HUM. RES. 111, 127–28 (2003); Debra J. Mesch, Melissa S. Brown, Zachary I. Moore & Amir Daniel Hayat, *Gender Differences in Charitable Giving*, 16 INT'L J. NONPROFIT VOLUNTARY SECTOR MKT. 342, 351–52 (2011) (showing also that women tend to donate higher amounts).

102. Michel Laroche, Jasmin Bergeron & Guido Barbaro-Forleo, *Targeting Consumers Who Are Willing to Pay More for Environmentally Friendly Products*, 18 J. CONSUMER MKTG. 503, 510–11 (2001) (finding that 57% of women were willing to pay more for green products, whereas 40% of men would do so; and that 53% of married people were willing to pay more, while only 36% of participants who are single, separated or divorced indicated they would do so; also that, while 56% of the participants who live with at least one child were willing to pay more, only 43% of the participants who live with no children were willing to pay more).

103. *See, e.g.*, Gerald Auten & Gabriel Rudney, *The Variability of Individual Charitable Giving in the US*, 1 VOLUNTAS 80, 92–93 (1990).

104. *See, e.g.*, James Carroll, Siobhan McCarthy & Carol Newman, *An Econometric Analysis of Charitable Donations in the Republic of Ireland 2006*, 36 ECON. SOC. REV. 229, 238 (2006).

105. Monika Czerwonka, *The Influence of Religion on Socially Responsible Investing*, 3 J. RELIGION & BUS. ETHICS 1, 9–10 (2015).

existence of trade-offs between social interests and the financial interests of investors.[106] That is, we assume that not *every* socially responsible action that companies could take will increase returns for investors.[107] This Section explains our focus on these trade-offs.

Many voices in the current debate regarding corporate social responsibility claim (or imply) that promoting social interests will also maximize value for investors.[108] There are clearly some "win-win," socially responsible actions that *also* increase value for investors. However, as a simple matter of logic there must also be some set of "win-lose" corporate actions that are socially responsible but will *reduce* value for investors. Deciding whether to take these actions (or to continue them, if the corporation is already doing so) necessarily involves a trade-off between social interests and the financial interests of investors.[109]

This is readily illustrated with a simple example. For any company, there is a level of expenditure required to reduce pollution (or carbon emissions) to the extent necessary to comply with current laws. There could be another level of expenditure on such reductions, presumably higher, that would maximize profit for the corporation, from public relations benefits, attracting additional revenue, creating a positive image for employees and suppliers, and potentially other sources. But there must also be some yet-higher level of expenditure that would reduce pollution (and emissions) even further. Spending the marginal expenditure necessary to get to this level would contribute *more* to the social objective of protecting the environment than would the profit-maximizing level. But the additional expenditures would, by definition, reduce the company's profit, and thus, returns to investors.

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106. For interesting empirical work examining directors' attitudes towards questions that involve trade-offs between shareholders and stakeholders, see Renee B. Adams, Amir N. Licht & Lilach Sagiv, *Shareholders and Stakeholders: How Do Directors Decide?*, 32 STRATEGIC MGMT. J. 1331, 1331–32 (2011); Amir N. Licht & Renee B. Adams, *Shareholders and Stakeholders Around the World: The Role of Values, Culture, and Law in Directors' Decisions* 2–3 (European Corp. Governance Inst., Working Paper No. 459, 2019), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3766934.

107. Because it is sufficient for our study that some "win-lose" decisions exist, we do not consider the important question of the relative prevalence of "win-win" and "win-lose" decisions.

108. For instance, as part of the Business Roundtable statement, Tricia Griffith, the President and CEO of Business Roundtable member Progressive Corporation, stated that the best run companies "put the customer first and invest in their employees and communities . . . it's the most promising way to build long-term value." Business Roundtable, *supra* note 2; *see also* sources cited *supra* notes 29–30.

109. To demonstrate, consider an extreme hypothetical, where a company that increased in value during a year paid out all of that to its employees. This also demonstrates another important set of socially responsible win-lose actions, those that the company could take, but chooses not to.

Examples with similar logic, and similar conclusions, can also be constructed for almost any other social interest. For example, a company could face a decision whether to improve employees' work conditions *beyond* the level needed to attract and retain talented and productive employees.[110] Doing so would further stakeholder interests and presumably also the social interest of income equality. But, because these expenditures go beyond the profit-maximizing level, they would necessarily *reduce* returns to the company and to investors.

The trade-off question is also often raised in the context of investment managers, who have to decide whether to overweight socially responsible companies in their portfolios or to exclude companies that do not meet certain social and environmental standards. Of course, as with socially responsible actions of company executives, some investment managers have focused on win-win investments, socially responsible investments that are also expected to increase the value of the portfolio. But there is mixed evidence regarding whether socially responsible portfolios outperform general portfolios, even on a risk-adjusted basis.[111] And if socially responsible investment managers are successful in influencing their portfolio companies to spend more on social interests than would maximize profits, then the returns to their investors will suffer, for the same reasons discussed above.

This discussion has highlighted the existence of trade-offs. There is a separate reason, very simple but critically important, why we focus on situations involving these trade-offs. Win-win decisions—wherein there are no trade-offs between social interests and the financial interests of

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110. *See* Bebchuk & Tallarita, *supra* note 31, at 120.

111. Some studies comparing the performance of socially responsible and socially irresponsible funds have concluded that general funds outperformed socially responsible funds. *See, e.g.*, James Chong, Monica Her & G. Michael Phillips, *To Sin or Not to Sin? Now That's the Question*, 6 J. ASSET MGT. 406, 407 (2006); Samuel M. Hartzmark & Abigail B. Sussman, *Do Investors Value Sustainability? A Natural Experiment Examining Ranking and Fund Flows*, 74 J. FIN. 2789, 2831–33 (2019); Aneesh Raghunandan & Shiva Rajgopal, *Do ESG Funds Make Stakeholder-Friendly Investments?*, 27 REV. ACCT. STUD. 822, 849 (2022). Other studies find no evidence of difference in returns or volatility between ethical and conventional mutual funds. *See, e.g.*, Marie Steen, Julian Taghawi Moussawi & Ole Gjolberg, *Is There a Relationship Between Morningstar's ESG Ratings and Mutual Fund Performance?*, 10 J. SUSTAINABLE FIN. & INV. 349, 350, 367–68 (2020); Jan-Carl Plagge & Douglas M. Grim, *Have Investors Paid a Performance Price? Examining the Behavior of ESG Equity Funds*, 46 J. PORTFOLIO MGMT. ETHICAL INV. 123 (2020); Davidson Heath, Daniele Macciocchi, Roni Michaely & Matthew C. Ringgenberg, *Does Socially Responsible Investing Change Firm Behavior?* 35–36 (European Corp. Governance Inst., Working Paper No. 762, 2021), https://ssrn.com/abstract=3837706. Also, a meta-analysis of fifty-two studies in this field finding no evidence of a significant difference between ethical and conventional mutual funds in terms of returns. *See* Marc Orlitzky, Frank L. Schmidt & Sara L. Rynes, *Corporate Social and Financial Performance: A Meta-Analysis*, 24 ORG. STUD. 403, 427 (2003).

investors—are completely obvious. The corporation can and should satisfy both.[112] Neither investors, nor those concerned for social interests, could oppose such actions.[113] Therefore, we disregard these straightforward situations and focus instead on those situations where managers face a real trade-off between investor value and other stakeholder or social purposes.

II. STUDY DESIGN

Our experimental study involved American participants who have had previous direct or indirect experience as investors. It was conducted in February 2021 over a two-week period. Participants were recruited via Qualtrics, a survey and crowdsourcing marketplace. Participants were required to be U.S. residents and over the age of eighteen.

Participants were randomly assigned to one of three experimental conditions matching the three channels we have described: investment, consumption, and donation. In each of the three conditions, participants were instructed that they would receive a virtual account containing a hypothetical amount of money and that they would be asked to make four sets of choices, each involving a trade-off between financial returns and one of four different social goods—gender diversity, income equality, faith-based values, and environmental protection. In each of the three experimental conditions, participants were asked to make a different type of decision, corresponding to the appropriate channel: investment decisions, consumption decisions, or donation decisions.

Each different experimental condition involved a different questionnaire, corresponding to the decisions for that channel, but the three questionnaires were designed to be as similar as possible in their structure and—as much as the different conditions would permit—in wording. Each of the three questionnaires also contained consent forms that were substantially identical, other than the reference to the type of decision (investment, consumption, or donation) that participants would be asked to make. Each questionnaire asked identical demographic questions.

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112. Lucian Bebchuk and Roberto Tallarita have referred to this as the "enlightened shareholder interest" position, we consider it simply acting in shareholders' interest. *See* Bebchuk & Tallarita, *supra* note 31. For a current academic article that supports a version of enlightened shareholder value, see Stavros Gadinis & Amelia Miazad, *Corporate Law and Social Risk*, 73 VAND. L. REV. 1401 (2020).

113. Of course, an important issue arises if there are some trade-offs among different social interests being promoted, which may lead to opposition from those advocating for the unfavored groups. In addition, if there are trade-offs between the interests of managers, on one hand, and investors and society on the other, then managers may oppose the actions, or choose not to implement them.

In the key part of the experiment, participants were asked to make four sets of decisions, each of which involved a trade-off between a "general" alternative and a "socially responsible" alternative. In each case, choosing the socially responsible alternative involved some monetary loss. We provide financial and social incentives to participants in direct proportion to their choices. Each participant received a bonus payment calculated based on the amount of money they chose to retain by selecting general alternatives.[114] In addition, an amount was donated to relevant charities based on the amount that participants forgone by selecting socially responsible alternatives.[115] To amplify the effects of these (generally small) payments, a larger payment of $100 was awarded to one random participant, with each participant's likelihood of selection increasing with the amount that they chose to retain.[116] The result of these mechanisms was that participants who chose to allocate a larger amount to the "socially responsible" alternative would receive a lower bonus payment and a lower likelihood of winning the additional $100 but a larger amount would be donated to promote social goods.

To avoid unnecessary repetition in describing the three surveys we first describe the structure of the investment questionnaire, and we then briefly explain how the consumption and the donation questionnaires differ. In the investment questionnaire participants were told that they have a virtual "investment account" containing $40,000. They were then asked to make four sets of investment decisions, each relating to how they would invest $10,000. Their investment account could earn up to a total of $4,000 during a one-year period (ten percent annual profits). Participants could forgo up to $3,600 of these potential profits by investing in socially responsible companies. As noted earlier, in addition to the fixed amount that Qualtrics paid to participants directly in exchange for completing the experiment, participants received a bonus payment, calculated based on their investment decisions.[117]

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114. Participants were told that, in addition to the amount paid to them directly by Qualtrics, they would receive a bonus payment between $0.40 and $4.00, calculated based on the choices they make. We requested details from Qualtrics regarding the exact amount it paid to each participant for completing the experiment, but Qualtrics indicated that it doesn't disclose this information to researchers.

115. As a result of the decisions of each participant, between $0.00 and $3.60 was donated to promote different social goods.

116. Participants were also told that they would receive a certain number of "lottery numbers" based on the amounts that they chose to retain, and that following the completion of the study, one lottery number would be chosen at random with the holder receiving an additional payment of $100.

117. For every $1,000 increase in their virtual investment account at the end of the experiment, each participant received a bonus payment of $1. In addition, participants received ten lottery numbers for every $1,000 remaining in their investment account. The lottery was conducted after all participants completed the experiment; one lottery number

Each of the four investment decisions participants were asked to consider was between investing in a "general portfolio" of public companies incorporated in the United States or investing in a "socially responsible portfolio" with a particular focus on certain socially responsible characteristics and excluding companies that do not have those characteristics. Participants were told that "socially responsible portfolios are designed to maximize their stake in responsible companies while having risk levels similar to those of the general portfolio."

The four socially responsible portfolios that participants considered investing in were as follows:

> (1) A socially responsible "boardroom gender diversity" portfolio, excluding companies with a relatively low proportion of women in executive and director positions;
> (2) A socially responsible "income equality" portfolio, excluding companies that have the highest pay disparity between their top executives and their median employee, and also excluding companies that do not meet UN global standards for labor rights;
> (3) A socially responsible "environmental protection" portfolio, excluding companies whose products have negative environmental impacts, such as fossil fuel companies, oil and coal mining companies, companies with high carbon emissions, water use, or toxic waste production, and nuclear power producers; and
> (4) A socially responsible "faith-based values" portfolio, excluding companies that profit from adult entertainment, alcohol, tobacco, or gambling.

As we discussed in Section I.C, the study was constructed to observe how investors trade-off financial interests and social interests. The questionnaire therefore generally disregards win-win situations and focuses on situations that involve a trade-off between those interests.[118] Participants were told that general portfolios have tended to perform better than socially responsible portfolios in the past, possibly because

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selected at random, and the holder of that number received $100. Separate from this payment, for every $1,000 of potential profit that participants forgo by investing in socially responsible companies, the researchers donated $1 to a registered charity that works towards the social good relevant to those companies.

118. All of our three experimental conditions provided one alternative where there is *almost* no trade-off between maximizing personal gains and other socials purposes (only $0.01 would be deducted from participants' final bonus for choosing the socially responsible alternative). *See supra* note 15.

they may incur greater costs.[119] Consistent with this statement, each of the investment decisions that participants were offered involved a general portfolio and a socially responsible portfolio that performed *worse* than the general portfolio. As a result, if a participant chose to further a social interest by investing in the socially responsible portfolio, their financial returns were less than if they did not.

In each of the four sets of investment decisions, participants were asked to make ten binary decisions, each between investing in a general portfolio with a return of $1,000, and a socially responsible portfolio with a lesser return, which varied between $100 and $990 (implying gains forgone of between $10 and $900).[120] Thus, the participants were asked to make ten decisions where they chose whether they wished to invest in the general portfolio with 10% returns or to invest in the "gender diversity" responsible portfolio with returns between 1% and 9.9%, foregoing gains of between 0.1% and 9%.

This procedure builds upon studies that explored individuals' time preferences, in which similar multiple-price-list procedures were used to elicit the participants' discount rates, the amount for which participants were willing to receive a delayed payment.[121] Altogether, participants were asked to make forty binary decisions: ten for each of the four social goods (gender diversity, income equality, faith-based values, and environmental protection).

The consumption questionnaire was as similar as possible to the investment questionnaire, except for the following differences. Instead of a virtual "investment account," participants were told they had a virtual "purchasing account." Instead of deciding between a general portfolio and a socially responsible portfolio, participants were asked to decide between buying products from a general group of suppliers or a group of "socially responsible suppliers." The socially responsible suppliers were described as being similar to the general suppliers, but with a particular focus on certain socially responsible characteristics and excluding companies that do not have those characteristics. All other characteristics were the same as for the investment survey. Analogous to the investment survey, participants were told that general suppliers have tended to be more expensive than socially responsible suppliers in the past, possibly because they may incur greater costs. Participants were then asked

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119. While the empirical evidence on underperformance of socially responsible investment funds is mixed (especially when those returns are considered on a risk-adjusted basis), such a statement is not outside the bounds of plausibility for participants in the study. *See supra* note 111.

120. The returns for the ten different questions were $990, $900, $800, $700, $600, $500, $400, $300, $200, and $100.

121. *See, e.g.*, Shane Frederick, George Loewenstein & Ted O'Donoghue, *Time Discounting and Time Preference: A Critical Review*, 40 J. ECON. LITERATURE 351 (2002).

whether they wished to purchase goods from general suppliers that would costs them $9,000 or purchase similar goods from socially responsible suppliers for an amount between $9,010 and $9,900.[122] Therefore, for each of the four sets of consumption decisions, the amount left over after purchasing from a socially responsible supplier varied from $100 to $990, with the "cost" of consuming from socially responsible suppliers varying from $10 to $900. In each of the three experimental conditions, we randomly varied the order of the four social goods for each participant.

The donation questionnaire differed from the investment and consumption questionnaires in describing four virtual "accounts" of $1,000 each. Participants were given the option of whether to donate to organizations furthering the same four social purposes. For each social purpose, participants were asked whether they wished to "keep the $1,000 or donate [an amount] to charity" focused on the social purpose. Each question specified an amount that participants could donate, between $10 and $900.[123]

At the end of each of the three questionnaires, participants were asked identical sets of ideological questions and questions about their "real-life" investment, consumption, and donation practices, as well as demographic questions, including their age, education level, race, gender, income, political affiliation, and employment status. Participants were also asked a set of questions to determine their risk preference, their beliefs regarding governmental regulation, and their beliefs and past actions regarding the promotion of certain social goals.

We limited our sample with two mechanisms designed to ensure our results are based on engaged participants. First, to assess the level of attention of each participant, at the end of the set of choices for the gender diversity and environmental responsible portfolios, we asked the participant to recall the nature of the preceding social portfolio. We excluded from the study the results of participants who failed either of the two attention-test questions. Altogether, 445 participants passed the attention tests and completed the full questionnaires.

Second, we removed from the sample the participants who expressed inconsistent preferences. If participants are economically rational and are willing to forgo some amount (*e.g.*, $200) by choosing a socially responsible portfolio over a general portfolio, they should also choose to forgo all smaller amounts for the socially responsible portfolio

122. The cost of the goods from the socially responsible suppliers in the ten different questions were $9,010, $9,100, $9,200, $9,300, $9,400, $9,500, $9,600, $9,700, $9,800, and $9,900.

123. The amounts for donation in the ten different questions were $10, $100, $200, $300, $400, $500, $600, $700, $800, and $900.

(*e.g.*, $10 and $100), since those amounts would have a lower cost.[124] We infer from any inconsistent choices that the participant was either not paying attention or did not understand the question presented. Either way, it is not possible to determine how much money that participant is willing to forgo. We therefore drop from our sample any participants that expressed inconsistent preferences with respect to any of the four sets of questions, resulting in a sample of 279 participants.

Table 1 presents the sample characteristics (gender, age, income, and political affiliation) for the groups that completed each of the three experimental conditions (investment, consumption, and donation) and the "total" (aggregating results across all three conditions). As Table 1 demonstrates, the subsamples for the three conditions are balanced. Overall, 48% of our sample identified as female;[125] the average age of participants was 50.89 years (with a standard deviation of 17 years); the percentage of participants that earned more than $100,000 per year was 27%; and 40% of participants identified themselves as Democrats, 27% Republicans, and 33% independents.

Table 1. Descriptive Statistics for Participants and Conditions[126]

	Investment	*Consumption*	*Donation*	*Total*
Gender: Female	39.6%	54.0%	48.9%	47.7%
Age	56.06	50.44	46.18	50.89
(SD)	(15.79)	(16.93)	(17.19)	(17.06)
Income > $100,000	25.3%	29.0%	26.1%	26.9%
Democrat	40.7%	39.0%	41.0%	40.1%
Independent	35.2%	32.0%	32.0%	33.0%
Republican	24.2%	29.0%	27.3%	26.9%
N	91	100	88	279

124. Formally, if the sustainable portfolio is S and the general portfolio G, and using the standard operators $\succ$ for "preferred to," $\wedge$ for conjunction, and $\rightarrow$ for implication, then:

$$S\text{-}\$200 \succ G \ \wedge \ S\text{-}\$100 \succ S\text{-}\$200 \rightarrow S\text{-}\$100 \succ G$$

125. The remaining 52% identified as male. Our survey permitted participants to indicate their identification as another gender, but none of the participants that passed the manipulation test did so.

126. The figures in each column indicate the proportion of participants in each condition (consumption, donation, investment), and of all participants that identified as female, as having an income over $100,000, and having political views that are Democrat, Republican, or independent. The "Age" row shows the average age of participants in that condition, and overall, as well as the standard deviation of participants' ages in that condition.

III. RESULTS

In this Part, we present the results of our testing relating to the three main sets of hypotheses identified in Part I. Section A describes our results related to the question of how much investors are willing to forgo for socially responsible purposes. Section III.B considers whether our results on prosocial preferences differ by channel. It compares the results for participants making investment decisions to those in the donation and consumption conditions. Section III.C considers how demographic factors affect willingness to forgo. Section III.D addresses potential limitations of our study.

A. Willingness to Forgo in Investment Decisions

We begin our analysis with an examination of the extent to which participants in the main investment condition were willing to forgo profits to promote different social interests. Our main measure of interest for a participant's willingness to forgo for a particular social purpose is the maximum amount they were potentially willing to forgo.

As we described in Part II, for each purpose, participants were faced with ten binary decisions whether to forgo amounts at ten discrete levels, between $10 and $900 out of the potential $1,000 annual return on the $10,000 investment account. Because $10 was the lowest trade-off offered, we cannot definitively conclude that a participant who declined to forgo $10 would not be willing to forgo *less* than $10, only that they are not prepared to forgo $10 or more. We therefore take $9.99 as their maximum potential forgo (which we round up to $10). Similarly, for any participant responding that they were willing to forgo some amount, we obtain their maximum *potential* willingness-to-forgo amount by rounding up from their maximum willingness-to-forgo *response* to the next discrete level of trade-off offered.[127] This is a conservative choice, and consistent with prior literature, to make as few assumptions as possible regarding the preferences of participants.[128] However, the choice biases our results regarding willingness to forgo upwards by a small amount.

Figures 1(a)–1(d) present the percentage of participants with each maximum potential willingness-to-forgo amounts for each of the four social purposes (gender diversity, income equality, environmental protection, and faith-based values). These amounts represent the maximum amount on the investment account of $10,000 that the

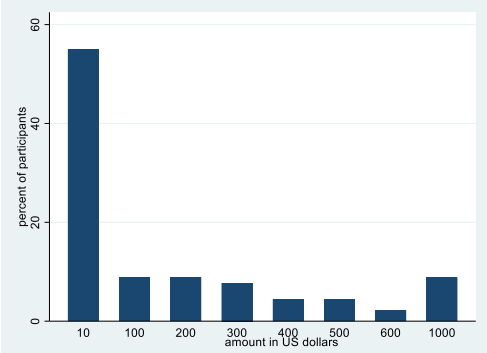
127. For participants with a maximum willingness-to-forgo response of the maximum level offered, $900, their maximum potential willingness-to-forgo amount was $1,000, which was the maximum residual amount indicated in each of the three questionnaires.

128. *See supra* note 120.

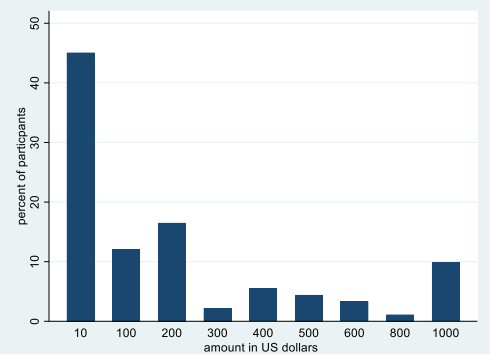
participant would potentially be willing to forgo to choose a portfolio that was socially responsible (with respect to that particular purpose) over the general portfolio.

Figure 1. Maximum Potential Amounts Forgo in Investment Decisions

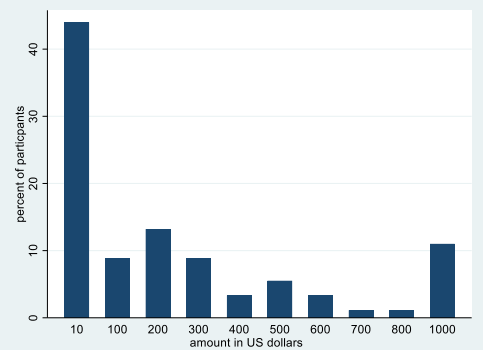
(a) Gender Diversity



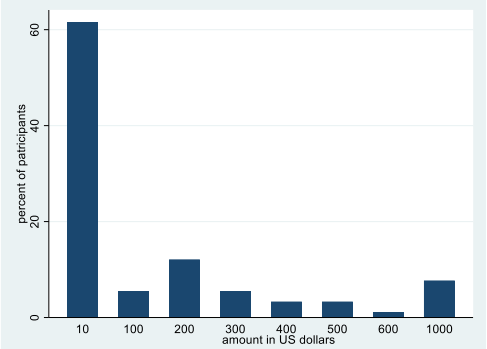
(b) Income Equality



(c) Environmental Protection



(d) Faith-Based Values



The clearest result in Figures 1(a)–(d) is the substantial proportion of participants, between 44%–62% (depending on the cause), that chose the general portfolio in all questions. These participants, represented in Figures 1(a)–(d) with a maximum potential willingness-to-forgo of $10, were not willing to forgo even $10 to advance social interests. The proportion of participants in this category is significantly greater for the faith-based values purpose (62%) compared to the other three social goods (45% in the case of income equality, 44% in the case of environmental protection, and 55% in the case of gender diversity). These individuals express a strong preference to maximize profits over the specific social goals presented to them, even where the amount the participant declined to forgo was extremely small, 0.1% out of a 10% return (which would have reduced their cash payment by $0.01).

Interestingly, this finding is consistent with prior evidence from research about socially responsible consumption that a substantial proportion of consumers are not willing to forgo *any* amount for environmentally friendly products.[129] In our experiment these results hold not just for investment decisions regarding environmentally responsible purposes, but also for each of the other three common socially responsible purposes we investigated.

Overall, our results show that participants are potentially willing to forgo *some* monetary gains to promote social interests through investment decisions. On average, participants in the investment condition were potentially willing to forgo $195.60 out of a guaranteed return of $1,000 (with a standard deviation (SD) of $296.52 and a standard error (SE) of 31.08) to promote gender diversity, $227.58 (SD = $310.93, SE = 32.59) to promote income equality, $252.75 (SD = $323.36, SE=33.90) to promote environmental protection, and $176.73 (SD = $292.59, SE = 30.67) to promote faith based values. All these averages are significantly different than zero ($p < 0.01$).

Put differently, participants were potentially willing to forgo, at most, between 1.76% and 2.53% out of a guaranteed return of 10% to advance these four social causes. Environmental protection was the cause participants cared about most, with maximum potential willingness-to-forgo amounts that were significantly higher than those for gender diversity and faith-based values ($p < 0.01$). This result is consistent with the view that individuals seem to forgo more profits for promoting social causes when it comes to damages that firms have a comparative advantage at undoing, such as pollution.[130]

We also note that these numbers represent the upper bound of participants' willingness to forgo gains as investors for two reasons. First, as we described above (and consistent with previous studies of individuals' approaches to time-based discounting) we rounded up the maximum potential "sacrifice" of a participant to the next discrete choice offered that the participant refused to forgo. For instance, an individual with a maximum willingness-to-forgo response of $100 (1%) we consider to have a maximum potential willingness-to-forgo of $200 (2%). However, in reality, the true maximum willingness to forgo of that individual could be anywhere between $100 (1%) and $200 (2%). Second, our experimental scenario involved a guaranteed return of 10% per year on their investment. In actuality, returns on equity portfolios are not guaranteed, and could be less than 10% per year and are likely to

129. *See* Jeffrey R. Blend & Eileen O. van Ravenswaay, *Measuring Consumer Demand for Ecolabeled Apples*, 81 AMER. J. AGRIC. ECON. 1072 (1999) (describing evidence that, even at a $0 premium, approximately 30% of consumers report no intention of buying environmentally friendly products).

130. *See* Hart & Zingales, *supra* note 6, at 248–49.

involve significantly higher amounts. It would seem likely that where investors have greater risk on their returns, or receive lower returns, they would be willing to forgo smaller amounts.

B. Willingness to Forgo and Channels of Decision-Making

We now turn to consider whether willingness to forgo varies across different channels in which individuals operate. Our experimental design allows us to compare the individuals' willingness to forgo when they are faced with investment, consumption, and donation decisions.[131] As explained, this comparison sheds light on a key question that has been the subject of heated debate in the corporate social responsibility literature: do individuals prefer to "do good" by using the "corporate channel," as investors or consumers, compared to the alternative of direct donation? It also allows us to evaluate inferences drawn from consumption preferences about investment decisions. And comparing willingness to forgo across these three channels helps overcome several potential issues regarding the external validity of our results.[132]

Table 2 presents the means and medians of the maximum potential willingness-to-forgo amounts in dollars for each social purpose and each experimental conditions (consumption, donation, and investment), as well as the maximum potential forgone by each participant for any of the four social purposes. Additional information regarding the distribution of maximum potential willingness-to-forgo amounts by experimental condition and social purpose is presented in Figure A1 in the Appendix.

131. It is, however, impossible to compare particular individuals' responses in the three channels, because each individual was only subjected to one condition. Having an individual do any more than that risks the possibility that the first condition they consider might influence their responses to the second and third conditions (known as "anchoring"). *Anchoring Bias*, APA DICTIONARY OF PSYCH., https://dictionary.apa.org/anchoring-bias [perma] (last visited Mar. 3, 2023). Instead, we rely on the random selection of individuals from the same population for each of the three conditions to allow us to compare the results in different conditions as though they were from the same individuals responding to multiple conditions.

132. Given that the money that participants forgo from their investment and consumption decisions is channeled to social purposes, there is a concern that our results simply capture the tendency of these participants to further social purposes, rather than to invest or consume. Considering donation decisions as well gives a comparison point that involves, as much as possible, furthering the social purpose, without any influence from the investment or the consumption context.

Table 2. Maximum Potential Willingness-to-Forgo Amounts by Experimental Condition and Social Purpose

Social Purpose	*Investment*	*Consumption*	*Donation*
Gender Diversity			
Mean	195.6	298.8	315.0
Median	10.0	100.0	200.0
SD	(296.52)	(367.31)	(364.70)
Income Equality			
Mean	227.6	322.3	320.2
Median	100.0	200.0	200.0
SD	(310.93)	(368.41)	(349.53)
Faith-Based Values			
Mean	176.4	250.5	379.7
Median	10.0	10.0	300.0
SD	(292.59)	(367.09)	(354.90)
Environmental Protection			
Mean	252.8	372.5	253.8
Median	100.0	200.0	100.0
SD	(323.36)	(379.50)	(348.86)
Maximum (of Above Four)			
Mean	340.55	484.5	471.93
Median	200	400	300
SD	(351.49)	(398.84)	(370.80)

All of the means presented in Table 2 are significantly different than zero ($p < 0.01$), suggesting that on average, for all causes and through all channels, participants were willing to forgo *some* monetary gains to promote the social goals presented to them.

The clearest pattern we observe in Table 2 is that the average amounts that participants are willing to forgo are generally lower in the investment condition compared to the donation and consumption conditions. This difference is consistent, and statistically and economically significant for the maximum amount of all four causes ($p < 0.01$), as well as with respect to almost all individual causes ($p < 0.05$).[133] The only exception is with regard to environmental protection, where means are similar for the investment and donation conditions.

Participants also exhibit a strong preference to promote faith-based values through donations as opposed to other channels. Indeed, whereas

133. In addition, $p < 0.05$ for the differences between the investment condition and the consumption/donation condition for all social causes, except for the difference between investment and consumption for the faith-based values, in which $p < 0.1$. *See supra* Table 2.

the average (median) amount forgone to promote faith-based values was only $177 ($10) in the consumption condition and $250 ($10) in investment condition, it was $380 ($300) in the donation condition (which is the highest amount for all social causes and channels). This result may be explained by the fact that the faith-based social goal is the most conservative social goal we presented to the participants, and conservative participants may tend to promote the social causes they care about more through donations compared to through investment and consumption.

To further compare between the three experimental conditions and find their impact on participants' *general* willingness to forgo gains, we conduct a common factor analysis of the variation in maximum potential willingness-to-forgo gains by the four social goals. Our experiment collected data on participants' maximum potential willingness-to-forgo amounts for each of the four different social purposes. Yet, we believe that the willingness to forgo financial value to promote the four social goods has a *common pattern*—an underlying willingness to forgo financial value to promote social goods that is being expressed for each of the four purposes. We use factor analysis to capture this latent general willingness of participants to forgo to promote social goods.

Our use of factor analysis also enables us to construct an estimate that overcomes a potential weakness of our design. Three of our social purposes can be considered politically progressive (gender diversity, income equality, and environmental protection) and only one reflects a social goal associated with political conservatism (faith-based values).[134] These were chosen because they are commonly referred to in the debate regarding social responsibility. However, using the *total* amount participants forwent in our experiment as an estimate for participants' *general* willingness to forgo might be biased because it would give more weight to participants' tendency to forgo to promote more progressive social goals. Instead, we use the composite generated by the factor analysis as an estimate for the general willingness to forgo. This composite is less affected by the individual purposes, and thus less biased.

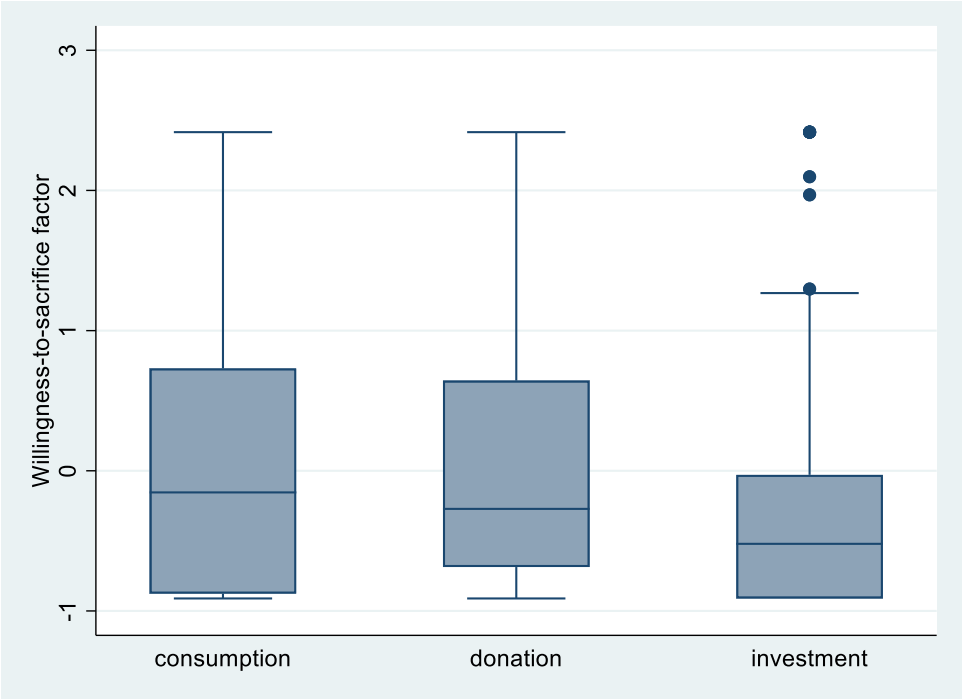
This analysis reveals that the maximum amounts forgone to promote the four social goods loaded on one factor. Using the factor weights, we created a general composite (alpha = 0.8693). For each participant, the general willingness to forgo to promote social goods was calculated as the "willingness to forgo" factor (mean = 0, SD = 1).

Figure 2 presents boxplots of willingness-to-forgo factor by experimental condition. Because this is a composite generated by a factor

134. Otherwise, if we simply aggregate the results we receive for each social purpose, there is a risk that we give too much weight to willingness to forgo gains for progressive goals that are correlated with each other.

analysis, values are standardized and should be understood in relative terms. Thus, a negative value does not suggest a willingness to forgo less than zero dollars, which was not possible in our design. Rather, it indicates a *relatively* lower willingness of participants to forgo financial value compared to the general willingness in the sample.

Figure 2. Willingness-to-Forgo Factor by Experimental Condition



The first and third quartiles of the willingness-to-forgo factor are represented by the upper and lower bounds of the boxes, and the median by the line within the box. The range of the willingness-to-forgo factor is indicated by the "whiskers."

As Figure 2 demonstrates, participants' general willingness to forgo varied by channel. On average, the willingness-to-forgo factor is greater in donation decisions (mean = 0.12, SD = 1.024) than in investment decisions (mean = -0.23, SD = 0.876), and the difference is statistically significant ($p < 0.01$). We interpret this as a clear preference on the part of participants in the study to further social purposes directly through donations, rather than through their investments.

Relatedly, the willingness-to-forgo factor in consumption decisions (mean = 0.1, SD = 1.057) is greater than the willingness to forgo in investment decision (mean = -0.23, SD = 0.876), and the difference is statistically significant ($p < 0.01$). We interpret this as a clear preference on the part of the participants to further social purposes through

consumption rather than through their investments (especially when taking into account that the investment and the consumption conditions were designed to be identical and involve the same incentive structure). This result suggests caution in drawing inferences regarding investment preferences from consumption preferences.[135]

We now turn our focus to those participants who refuse to transfer even a minimal amount of money to advance one or more of the social interests they were presented with. In our design such refusal was mostly expressive, as the lowest amount that participants were able to forgo to promote social interests was extremely small, $10 out of $1,000 in potential annual returns (0.01% out of the overall $10,000 portfolio). Our findings suggest that there is a significant number of individuals who have a strong preference to maximize profits, even when the monetary cost of advancing social purposes is trivially small.

Table 3 presents the proportion of participants who were unwilling to forgo even the lowest amount available in the study for social purposes, divided into each social purpose, and each experimental condition. For example, 55% of the participants in the investment condition declined to forgo even the lowest amount available in the study to advance social goals related to gender diversity.

Table 3. Proportion of Participants Unwilling to Forgo at the Lowest Level Available

Social Purpose	*Investment*	*Consumption*	*Donation*
Gender Diversity	55%	48%	36%
Income Equality	45%	43%	32%
Faith-Based Values	60%	55%	24%
Environmental Protection	44%	35%	49%
N	91	100	88

As Table 3 shows, the proportion of participants unwilling to forgo varies between 24% and 60% across channels and social causes. More importantly and consistent with our prior results, the investment condition had the highest proportion of participants who were unwilling to forgo at the lowest level to promote social purposes, varying between 44% and 60% of participants depending on the particular social purpose. The donation condition has the lowest percentage of respondents who were unwilling to forgo the lowest level available.

Table 3 also demonstrates that the majority of participants in the investment and consumption conditions (60% and 55%, respectively) were unwilling to forgo the lowest level available to promote faith-based

135. Differences in the willingness-to-forgo factor between the donation and consumption conditions are not statistically significant.

values. However, only 24% of the participants were unwilling to donate at the lowest level to promote faith-based values. Similar patterns (though with more moderate differences) were observed with respect to gender diversity and income inequality. However, when it comes to the environmental purpose, 49% of the participants in the donation condition were unwilling to forgo at the lowest level, compared to somewhat lower percentages in the investment and consumption conditions (44% and 35%, respectively).

Finally, we calculated the percentage of participants who were not willing to forgo even the lowest level available to *any* of the social causes presented to them. Whereas refusal to forgo to promote a specific social goal can be the result of a specific social agenda, a refusal to forgo even the lowest amount to promote *any* of the social goals suggests a broader agenda against promoting such goals through the channel specified (donation, consumption or investment).

We find that in the investment condition, 32% of participants refused to forgo even the lowest amount to promote any of the goals. In the consumption condition, 25% refused to forgo even the lowest amount to promote any of the social goals. But, in the donation condition, only 15% of participants refused to forgo even the lowest amount to promote any of the social goals presented to them.[136]

We draw three main conclusions from the results presented in this Section. First, the results show that an individual's willingness to forgo for social purposes depends on the channel through which they are doing so. All else being equal, participants are willing to forgo less to promote social goals when making investment decisions and more when making consumption or donation decisions.

Second, a significant proportion of investors and consumers are unwilling to forgo even very small amounts to promote any of the social goals. One possible interpretation is that these individuals prefer to promote social goals directly, rather than through corporations. For investors, this would suggest a preference that corporations distribute profits so that their individual investors can contribute to promoting social causes directly.

Third, our findings suggest that an individual's willingness to forgo making investment decisions for social purposes is not driven by their *general* desire to promote social goods. If that were the case, we would not observe any significant differences between the willingness of

136. Relatedly, we calculated the percent of participants who refused to forgo even the lowest amount to promote the three more progressive social goals we presented to them (gender diversity, income equality, and environmental protection). We find that 36% of individuals making investment decisions, 31% of individuals making consumption decisions, and only 20% of individuals making donation decisions refused to forgo at even the lowest level in response to *all* these three causes.

individuals to forgo across the various experimental conditions. The fact that we do see significant differences in the maximum amount potentially forgone between the donation condition and the investment condition also suggests that participants are not simply "looking through" the scenario to the effects their choices will have on the actual amount the researchers donated to charitable organizations.

In a subsequent work, Oliver Hart, David Thesmar, and Luigi Zingales also distinguish between the decisions people make across three channels—those of shareholders, consumers, and employees.[137] Their survey focuses on a narrower and more specific context—punishing companies for operating in Russia. Their work confirms our finding that individuals are willing to carry some personal costs to promote their prosocial preference. However, their results differ from ours in that they find that such prosocial preferences are generally consistent across the different channels of decision.[138] They also do not consider the donation channel. Our consideration of this channel allows us to differentiate actions of investors from a general willingness to forgo financial gains to promote certain social goods.

C. Willingness to Forgo and Individual Characteristics

We now turn to examine the extent to which individual characteristics are associated with the amounts that individuals are willing to forgo. We start in Subsection III.C.1 by considering demographic characteristics, such as political affiliation, age, gender, and income. Subsection III.C.2 then considers individuals' beliefs and practices.

1. DEMOGRAPHIC CHARACTERISTICS

We begin our analysis by examining the extent to which demographic characteristics are associated with an individual's willingness to forgo amounts to promote social goods. Table 4 below

137. *See* Oliver D. Hart, David Thesmar & Luigi Zingales, *Private Sanctions* (Dec. 2022) (unpublished manuscript), https://www.nber.org/papers/w30728 [https://perma.cc/E76F-HGPR]. Professors Hart, Thesmar, and Zingales surveyed a representative sample of the U.S. population, and assigned survey participants to conditions where they were instructed to consider themselves in the role of an employee, a customer, or a shareholder of a hypothetical company operating in Russia, and asked them whether they would be willing to punish the company by quitting their job, not buying products, or selling their shares (respectively), and by varying the level of cost that might result to the participant. *Id.* at 2–3. As with other surveys discussed above, their survey did not offer any incentives to participants that were linked to the decisions they make. *Id.*

138. *See id.* at 3.

presents the results of three ordinary least squares (OLS) regression models predicting the willingness-to-forgo factor by experimental condition, age, gender, income, and political affiliation. Model 1 is a baseline model in which we test only for the effects of the experimental conditions.[139] Model 2 also includes age as a control variable. Model 3 includes additional demographic variables as controls—gender, income, and political affiliation. In Model 3, male participants, participants with income of less than $100,000 per year, and conservative participants are the reference categories for gender, income, and political affiliation, respectively.

Table 4. OLS Regression Models Predicting Willingness-to-Forgo Factor

	(1) *all (factor)*	*(2)* *all (factor)*	*(3)* *all (factor)*
Consumption	-0.017	0.008	-0.014
	(0.145)	(0.142)	(0.139)
Investment	-0.347**	-0.345**	-0.335**
	(0.148)	(0.150)	(0.146)
Age		-0.006*	-0.004
		(0.004)	(0.003)
Female			0.276**
			(0.119)
Income > $100,000			0.257*
			(0.133)
Democrat			0.376***
			(0.143)
Independent			-0.040
			(0.148)
Constant	0.119	0.392*	-0.0323
N	279	277	277

Standard errors in parentheses. * $p < 0.1$; ** $p < 0.05$; ** $p < 0.01$.

In all three models, the willingness-to-forgo factor is greater in the donation condition than in the investment condition ($p < 0.05$). Most importantly, in Model 3, women and Democrat-affiliated individuals

139. In all models, the reference condition is the donation condition.

tended to forgo more monetary gains to promote social goods compared to men and participants not affiliated with Democrats, respectively ($p < 0.05$; $p < 0.01$). Finally, in Model 2 older participants had a lower willingness-to-forgo factor ($p < 0.1$). However, when additional controls are included in Model 3, the negative effect of age is only marginally significant (political affiliations and income tend to be correlated with age).

To better understand the effects of characteristics with various levels on willingness to forgo, we perform a series of additional analyses. First, in untabulated results, we divided participants into age categories and examined the willingness-to-forgo factor for each (see Figure A2 in the Appendix). This revealed a nonlinear relationship between the age of participants and their willingness-to-forgo factor, akin to an "inverse U" shape: on average, adults aged 35–44 had the greatest willingness-to-forgo factors, followed by the youngest age group (aged 18–24), though this group expressed a tendency to forgo monetary gains mostly as consumers and donors, rather than as investors. However, the differences among the willingness-to-forgo factor averages for these groups were not statistically significant at customary levels. While these trends are consistent with the trends observed by Professors Barzuza, Curtis, and Webber,[140] the small sample size per age group and the correlations across political affiliation, income, and age do not enable us to rigorously explore Millenials' behavior in our study.

In a second set of untabulated results, we tested whether participants' race was associated with their willingness-to-forgo factor. We found no statistically significant differences between participants of different races.

Third, we consider the relationship between political affiliation on participants' willingness to forgo to promote social causes. Figure 3 below shows how the willingness-to-forgo factor varies by political affiliation and experimental condition. Note that, as we discussed above, the willingness-to-forgo factor is relative, so a negative value does not suggest a willingness to forgo less than zero dollars, but rather a relatively lower willingness to forgo compared to the general willingness in the full sample.

140. Barzuza, Curtis & Webber, *supra* note 11, at 1291, 1294.

Figure 3. Willingness-to-Forgo Factor, by Condition and Political Affiliation

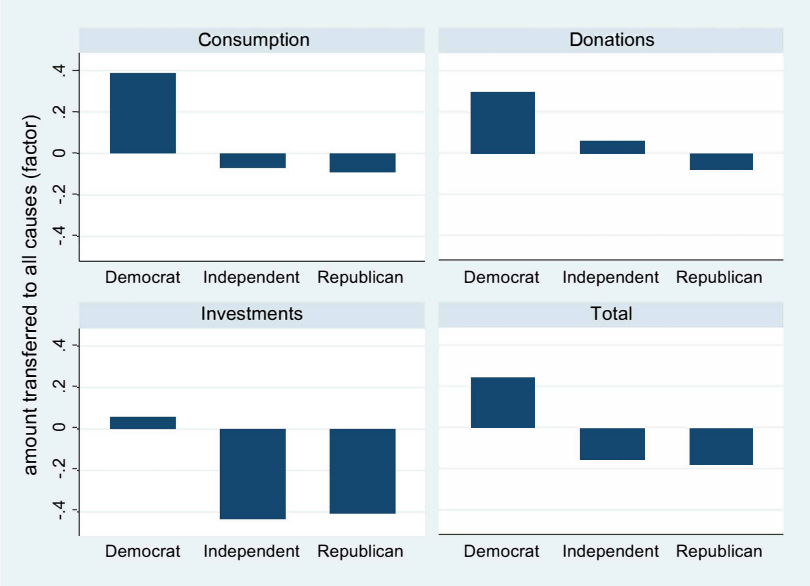


Figure 3 demonstrates the relationship between political affiliation and willingness-to-forgo factor. Under all three experimental conditions, participants identifying as Democrats had greater willingness-to-forgo factors than those identifying as Republicans or independents.

We further explore the effect of demographic characteristics with respect to each of the four specific social goals, by experimental condition, using a series of binomial and logistic regression models. Table A1 of the Appendix presents the results of a series of negative binomial models predicting the maximum potential forgo. Table A2 presents the results of a series of logistic regression models predicting the proportion of participants unwilling to forgo at the lowest level. Table A1 shows that the maximum potential willingness-to-forgo amount to promote faith-based values is consistently lower when individuals are investing or consuming compared to when they are donating. Individuals identifying as Democrats have higher maximum potential willingness-to-forgo amounts than those identifying as Republicans or independents for all social purposes, other than for faith-based values. Women have higher maximum potential willingness-to-forgo amounts than men for all social purposes other than environmental protection. Table A2 shows results consistent with these for the proportion of individuals unwilling to forgo at the lowest levels.

We draw two main conclusions from the results presented in this Subsection. First, and most importantly, the amount individuals are willing to forgo varies with their demographic characteristics. Altogether, individuals identifying as Democrats and women, as well as

higher-earning individuals, are likely to have a greater willingness to forgo for social purposes than those identifying as Republicans or as men, and lower-earning individuals. Individuals identifying as Democrats and women also have a generally lower propensity to refuse to forgo at the lowest available levels.

Second, the willingness of individuals to forgo for specific social causes varies by channel. In particular, individuals are consistently more willing to forgo less to promote faith-based values when investing or consuming compared to when donating. This suggests that those who care about faith-based values also care about the channel through which they promote those values—they prefer to promote those values through donations rather than through their investing or consumption decisions.

2. INDIVIDUAL BELIEFS AND PRACTICES

At the end of each questionnaire, participants were asked to answer a set of questions designed to elicit their beliefs regarding markets and the promotion of social goals, and their investment, consumption, and donation practices. We now examine their responses and the extent to which they are aligned with the investment, consumption, and donation decisions of the participants. Because participants were asked to answer these questions *after* making their decisions regarding how much to forgo for the four social goods, those decisions might have affected their responses to the questions. To avoid the risk of any such experimental artifacts affecting our results, we do not use participants' responses to these questions as independent variables in our main regression models. Instead, we limit our investigation of their responses to the extent they vary between experimental conditions, and the extent to which they are associated with different demographic characteristics. Here, we report our analyses with respect to participants' responses to four different sets of questions.

One of the questions we asked participants was designed to elicit the extent to which they held a "value-maximization" view. Specifically, we asked each participant which of the following two statements was closer to their view:

> (i) I try to maximize the financial returns to my investments regardless of whether my investments are socially responsible or not, or
> (ii) I am willing to accept a lower return on my investments if those investments further a social purpose.[141]

Altogether, 67.54% of the participants reported identifying with the first statement (the "value-maximization view") more than the second (the "socially responsible view"). Participants' responses did not vary significantly across the three experimental conditions. However, participants' demographic characteristics were associated with different responses to this question. We conducted a logistic regression model predicting the tendency to identify with the socially responsible view more than with the value-maximization view based on participants' demographic characteristics (and controlling for experimental condition). Our (untabulated) results show that participants identifying as women and Democrats, and higher-income participants, were less likely to identify with the value maximization than those identifying as men or Republicans and then lower-income participants, respectively.

A second question addressed the possibility that individuals are not willing to forgo value in order to promote social goods as investors because they believe that socially responsible investments are ineffective. Participants were asked whether they believed that decisions to invest in socially responsible investments like the ones described in this study can help bring about the desired social interest. Figure 4 below presents the results of such examination, showing the proportion of responses to the question: "[t]o what degree do you think that decisions to invest in socially responsible investments like the ones described in this study can help bring about the desired social interest?"

141. By design, all the participants in our study had some direct or indirect experience as investors, thus they could express a view about their real-life investment decisions.

Figure 4. Participants' Beliefs Regarding the Efficacy of Socially Responsible Investment in Effecting Social Change

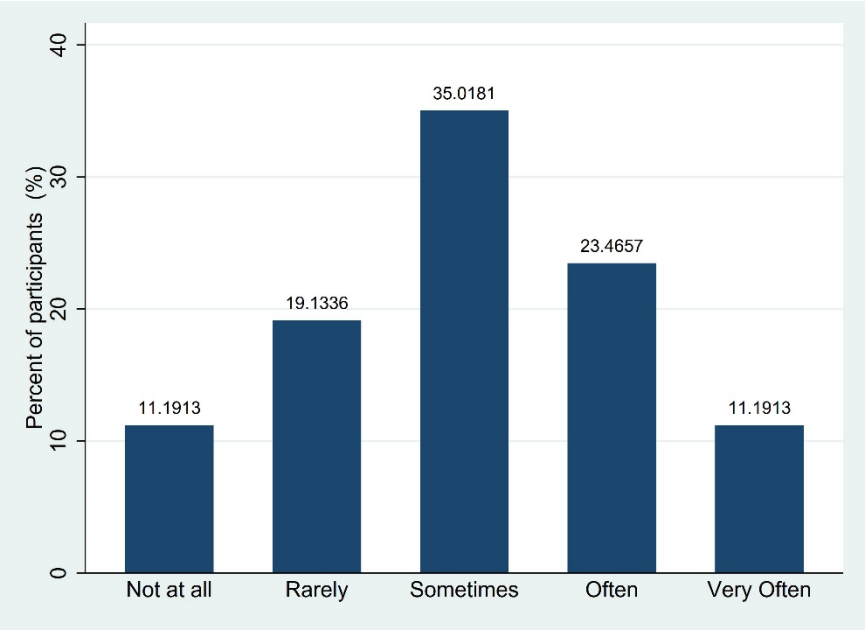


Figure 4 shows that most participants believed that contributing to socially responsible organizations can be effective to bring about social interests. Only 30% of participants believe that decisions to contribute to socially responsible investments are rarely or never effective in bringing about the desired social interest.

Third, we also asked participants how often they considered the four social purposes we address in the study when donating, when investing, and when consuming. In general, participants reported considering gender diversity more often than the other social purposes and income inequality less than often the other social purposes.[142] These responses vary slightly from the findings of our experiment. Note, however, that in the experiment we measure the *amounts* participants are willing to forgo; here, participants were instead asked to report the frequency in

142. Out of the participants who were asked to make investment decisions in our experiment, 52% reported *always*, *often*, or *sometimes* considering gender diversity when investing (compared to *never* or *rarely* considering it). When it comes to the three other causes—environmental protection, income equality, and faith-based values—this percentage declines to 38%, 31%, and 32%, respectively. Similarly, out of the participants who were asked to make donation decisions, 69% reported *always*, *often*, or *sometimes* considering gender diversity when donating, compared to 63% considering environmental protection, 51% considering income equality and 49% considering faith-based values. Finally, out of the participants who were asked to make consumption decisions, 63% reported *always*, *often*, or *sometimes* considering gender diversity when consuming, compared to 48% considering environmental protection, 40% considering income equality, and 44% considering faith-based values.

which causes are considered. That is, they may consider the causes, but not actually be willing to forgo financially for those causes.

Finally, participants were asked to report how often they donate money to charity, on a scale from 1 (never) to 7 (very often). The average of the responses was 4.05 (SD 1.92). We analyze responses to this question in an (unreported) OLS regression model, predicting the response as a function of participants' demographic characteristics. We find that participants with higher incomes and participants identifying as politically conservative reported donating more often than lower-income participants and participants not identifying as conservative, respectively. This finding is consistent with our findings in Subsection 0, that participants have a greater maximum potential willingness-to-forgo amounts, and a lower unwillingness to forgo at the lowest level for the conservative faith-based values purpose in the donation channel, rather than through the two market-based channels, investment and consumption.

D. Limitations

The main limitation of our study concerns its external validity—the extent to which the results we obtain can be generalized from our particular sample and experimental setting to real-world situations. The differences between these two environments means that real-world preferences may be substantially different than those we observe in our experiment. The main difference between our study and real-world decisions is that, in real terms, our experiment only offers individuals small rewards, and only asks them to forgo small amounts. Offered larger financial rewards, or asked to forgo greater amounts, individuals might choose to keep those rewards themselves. Moreover, our experiment specified a scenario where participants earned a guaranteed return of 10% on an investment of $10,000. Individuals might make different trade-offs if the highly artificial aspects of this scenario were relaxed, such as if an investment opportunity involved greater risk, or lower returns.[143]

We have attempted to alleviate some of these concerns in both our experimental design and our sample choice. Our experimental design provided financial incentives to participants, in the form of a bonus calculated as a fraction of the amount that remained in participants'

143. A separate but related issue is that participants in our sample are likely to have lower levels of income and wealth than the population of investors as a whole. Our sample provides some evidence that—within the range of incomes in our study—individuals with higher income have a greater willingness to forgo. But the limited range of incomes (and wealth) in our sample limit the extent we can draw inferences about individuals outside that range.

virtual wallets, as well as a lottery number offering the possibility of a more meaningful payoff ($100). Our sample selection attempted to address external validity issues by admitting as participants only those individuals that had prior investment experience.

Because we recognize that these attempts will not fully eliminate external validity concerns, we are careful to limit our conclusions. Although we present point estimates of willingness to forgo for transparency, and to allow comparisons between different treatments, we do not suggest that these are likely to be accurate, real-world estimates of the absolute amounts or proportions that individuals are willing to forgo. Instead, we rely on these only to the extent they show a general, directional willingness (or unwillingness) to forgo, and to the extent they show *relative* differences in the amounts participants were willing to forgo when they considered different social causes or between different channels.

We believe that several of our findings are robust to the external validity concerns we have raised. The lowest level of "payment" offered in our experiment was a trivial amount—$10 of a $1,000 return, and from a $10,000 portfolio. We therefore believe that our findings regarding the unwillingness of participants to forgo even at this level are likely to be generalizable to other situations, where forgoing value for social purposes is likely to be *at least* as costly, and probably considerably more so.

Finally, we note that external validity concerns of this kind are commonplace for experiments such as our own. We consider them practically unavoidable costs of controlling the design of an experiment in the manner necessary to collect answers to the questions we study. In Part IV, we discuss one way that some of these external validity concerns could be overcome in future studies, if those studies were conducted by investment managers themselves, or with their involvement.

* * * *

Of the results described in this Part, our four main findings can be summarized as follows: *First*, we find that on average individuals—as investors and consumers—are willing to forgo some monetary gains to promote social interests. *Second*, individuals are willing to forgo greater amounts when consuming and donating than when investing. *Third*, we find that whereas most investors are willing to forgo gains to promote social interests, there is a significant percentage of investors (32% on average) with strong preference to maximizing monetary gains, who are unwilling to forgo even extremely low amounts to advance any social goals. This unwillingness to forgo is more common when individuals are making investment decisions, compared to when they are making donation decisions. *Finally*, we find heterogeneity in individuals'

willingness (and unwillingness) to forgo in each of the three channels, which is associated with political affiliation, gender, and income, and based on the cause in question. Individuals' willingness to forgo is higher among those with more progressive political views, and among women, compared to those with more conservative political views and men.

IV. IMPLICATIONS

Our empirical findings regarding investors' preferences have important implications for the heated debate regarding social responsibility of corporations. Our findings suggest that when making investment decisions, many individuals are indeed willing to forgo some returns in order to promote social interests. These results cast doubt on the appropriateness of limiting investment advisors' ability to consider nonpecuniary interests by fiduciary duties.

Our results also show a significant heterogeneity in investors' preferences regarding social causes. In this Part we first describe the challenges that our heterogeneity finding poses, both for corporate leaders and for institutional investors. We then consider two potential types of solutions, "political" solutions and "sorting" solutions, and the additional challenges and questions that they raise.

A. The Challenge of Heterogeneity

One of our main findings is related to the heterogeneity in investors' preferences regarding social causes. If the sole purpose of the corporation were to maximize returns to investors, the heterogeneity in investors' preferences we observe would not cause any significant issues—investor value would give corporate leaders a clear North Star to guide them.[144] However, if corporate leaders deviate from the value maximization approach—as many commentators have suggested they should[145]—the heterogeneity of investor preferences introduces a whole host of challenges.[146]

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144. For a support of the traditional view that traditional fiduciary duties require corporate managers to further the interests of shareholders and maximize corporate profits subject to the obligation to comply with independent legal constraints. *See, e.g.*, ROBERT CHARLES CLARK, CORPORATE LAW 17–19, 677–81 (1986); Frank H. Easterbrook & Daniel R. Fischel, *The Proper Role of a Target's Management in Responding to a Tender Offer*, 94 HARV. L. REV. 1161, 1191–92 (1981); Hansmann & Kraakman, *supra* note 32, at 440–41; *see also supra* note 23 and accompanying text.

145. For a summary of these views, see *supra* notes 23–30 and accompanying text.

146. It could be argued that investor preferences are, or should be, irrelevant to the decisions of corporate leaders to pursue socially responsible purposes. Of course, this may be the case where socially responsible decisions are value-maximizing. But if they

We present evidence that there is no clear consensus among investors that corporations should promote social interests at the expense of financial gains: some investors are not willing to forgo even small amounts to advance socially responsible goals,[147] while others prefer to promote social values directly, through donations, rather than through corporate channels;[148] and some are willing to promote social causes through investment and consumption, but they vary in the social causes they support and in the amount they are willing to forgo.[149]

The clear variation in investors' preferences raises challenging questions, both for corporate leaders, and for investment managers. For corporate leaders, whose preferences should they follow? Which particular social causes should they promote? And how much (if any) value should they forgo for those returns? If corporate leaders do too little—and do not forgo *enough* value—then they fail to maximize investor welfare, in the way that Professors Hart and Zingales have described.[150] But if they do too much—and forgo *too much* value—corporate leaders are essentially expropriating value from investors.[151]

The challenges for corporate leaders in trying to satisfy the disparate preferences of investors are immediately apparent. No matter what corporate leaders decide—to maximize returns, or to forgo some returns for social value—they will be going against the preferences of many of their investors. All of this assumes, of course, that corporate leaders are

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are not value maximizing—and involve a trade-off with financial returns—there is no particular reason to expect corporate leaders to pursue such interests. It is reasonable to assume that corporate leaders do not have economic incentives to promote social interests against the preferences of their investors and beyond what would serve shareholder value. *See, e.g.*, Bebchuk & Tallarita, *supra* note 31, at 139–63 (explaining that such a choice would be a strategic mistake for corporate leaders, whose compensation is in substantial part linked to the financial performance of the company, and whose prospects in the job market heavily depend on the company's performance in terms of shareholder value). If corporate leaders were to operate against the will of their investors to promote stakeholder interests (for example, see sources cited *supra* notes 29–30), it would still be of considerable importance to explore investor preferences, as they are important market players with the power to influence and possibly unseat directors and executives. This exploration also permits some estimation of potential welfare costs to shareholders that are generated from enabling managers to ignore their preferences. *See* Michael C. Jensen & William H. Meckling, *Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure*, 3 J. FIN. ECON. 305, 208 (1976).

147. *See supra* Section III.A.

148. *See supra* Section III.B.

149. *See supra* Section III.A.

150. *See* Hart & Zingales, *supra* note 6, at 270–71.

151. *See* Friedman, *supra* note 3; *see also* CLARK, *supra* note 144, at 603.

legally permitted to trade-off investor returns for social or stakeholder interests, which may not be the case in some jurisdictions.[152]

Analogous questions apply to investment managers: How should they attempt to influence corporate managers with respect to their social responsibility decisions? And, how much of their investors' returns should they be willing to forgo to improve the extent to which corporations further social interests?

Our findings also demonstrate that investors' willingness to forgo value for social causes differs with the nature of the cause in question. In this regard, our results support the argument made by Jeffrey Gordon, that environmental and social causes are "not a unitary bundle, nicely packaged for the altruistic shareholder."[153] As Professor Gordon argues, "[s]ome shareholders may be highly motivated about climate change issues but not so much about supply chain issues."[154] We provide empirical evidence that demonstrates this contention. Variation in willingness to forgo among different causes becomes problematic when different social and environmental interests conflict.[155] For example, closing down an environmentally harmful plant may forgo value to benefit environmental protection, but may also eliminate jobs, putting employees out of work, and potentially *reducing* income equality.[156]

We conclude that the lack of uniformity in investor preferences makes it much more complicated to follow the preferences of investors. Victor Brudney and Allen Ferrell raised the same issue of non-uniformity in investor preferences in their important analysis of corporate

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152. For a recent interesting analysis of the legal issues arising in connection with this assumption, see Jill E. Fisch & Steven Davidoff Solomon, *Should Corporations Have a Purpose?*, 99 TEX. L. REV. 1309, 1323–31 (2021) (concluding that corporations currently have the power to consider stakeholder interests); *see also* Elhauge, *supra* note 35, at 738 ("Corporate managers have never had an enforceable legal duty to maximize corporate profits."). For a review of the associated legal hurdles, see Bebchuk & Tallarita, *supra* note 31, at 137–39. From a practical point of view, however, courts give great deference to directors in how they manage the company. As a result, for a decision to be beyond challenge, directors need only reasonably claim that an action is motivated by a legitimate business purpose, such as increasing the long-term value of the company. If they do so then their decisions will be protected by the business judgment rule, and a court will not inquire into their actual beliefs or motivations for making the decision. *See, e.g.*, STEPHEN M. BAINBRIDGE, CORPORATE LAW 248 (West Acad. 3d ed. 2015). These institutional realities give directors broad discretion to take socially responsible actions of the kind we consider in this Article.

153. Jeffery N. Gordon, *Corporate Governance, the Depth of Altruism and the Polyphony of Voice*, OX. BUS. L. BLOG (July 16, 2021), https://www.law.ox.ac.uk/business-law-blog/blog/2021/07/corporate-governance-depth-altruism-and-polyphony-voice [https://perma.cc/2HG5-3PV4].

154. *Id.*

155. *See, e.g.*, *supra* Table 2.

156. Gordon, *supra* note 153 ("There is hardly a [sic] unanimity theorem to resolve the trade-offs among these ESG concerns for an altruistically minded shareholder.").

philanthropy.[157] We provide evidence that the lack of uniformity of preferences is just as stark as Professors Brudney and Ferrell conjectured but that it extends far more broadly than just corporate philanthropy, to many other ways in which the actions of corporations affect social interests.

Corporate leaders and their advisors supporting the stakeholder-ist view have tried to sidestep this complexity by claiming that managerial actions to promote the interests of stakeholders *also* increase the long-term value of the corporation.[158] If that is the case, there is no sacrifice in value from supporting stakeholders and no conflict between shareholders with different views on whether, and how much sacrifice should be made for stakeholders, or other social interests. However, as we discuss in Section I.C, while there may be many situations where furthering stakeholder interests, or social interests, also maximize value for investors, this cannot *always* be the case.[159] Indeed, it is trivially easy to think of corporate decisions where it will not be true.[160] And where there is some trade-off between financial value and social interests, the normative problems presented by the differing preferences of investors are unavoidable.[161]

B. Political Solutions to Heterogeneous Investor Preferences

There are a number of "political" solutions to the above-mentioned complexities, whereby corporate leaders could attempt to determine and follow the preferences of their investors. These issues arise at two levels, for corporate leaders and for investment managers.

1. POLITICAL SOLUTIONS FOR CORPORATE LEADERS

An obvious solution is to use the same mechanism by which shareholder preferences are determined on traditional corporate law

157. *See* Victor Brudney & Allen Ferrell, *Corporate Charitable Giving*, 69 U. CHI. L. REV. 1191, 1208–09 (2002).

158. *See supra* notes 2–4, 25, 29–30 and accompanying text; *see also* Dorothy S. Lund & Elizabeth Pollman, *The Corporate Governance Machine*, 121 COLUM. L. REV. 2563, 2614 (2021) ("[L]egal advisors would only support reform that was framed as value-maximizing ESG.").

159. *See supra* notes 109–110 and accompanying text.

160. *See infra* Section I.C.

161. For a discussion of the legal permissibility of these actions, see discussion *supra* note 152. For a discussion of the use of charter provisions for companies to pursue social purpose, see Ofer Eldar, *The Role of Social Enterprise and Hybrid Organizations*, 1 COLUM. BUS. L. REV. 92, 189 (2017); Elizabeth Pollman, *The History and Revival of the Corporate Purpose Clause*, 99 TEX. L. REV. 1423, 1450–52; Lund & Pollman, *supra* note 158, at 2616–17.

matters, shareholder voting.[162] However, this raises many normative and practical issues, which we outline below.

a. Who will put forward proposals? Assuming certain corporate decisions involving trade-offs could be determined by investors, would managers put forward proposals to be voted on? If they did not, it may be difficult for investors to put forward precatory proposals on all of these matters in the company's proxy statement, given the limitations of Rule 14a-8.[163] And while investors could theoretically solicit their own proxies, they have limited incentives to do so.[164] Also, whoever put forward the proposals, would they apply to specific decisions, or have general application?

b. How frequently would these matters be voted on? Corporate leaders are required to make decisions involving trade-offs on a constant basis, and it could be cumbersome and expensive to bring all of these decisions to a shareholder vote every time.[165] Soliciting shareholders' general views on questions of social interest—and determining how those general views translate to particular decisions—are not simple matters.

c. What would be the decision rule? Even assuming that investors' preferences could be ascertained in some way, our findings show that they will inevitably be heterogeneous. How should corporate leaders translate these preferences into actual decision rules? Professors Hart and Zingales propose a "democratic" solution to the problem of investors' heterogeneity, whereby the *majority* of investors would prevail.[166] Professors Brudney and Ferrell suggested a rule whereby any sacrifice for social interests would require *unanimous* shareholder approval.[167] Each of these two rules would result in a different group of investors having their preferences satisfied, and another group's preferences being ignored. Whose preferences should carry the day?

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162. Hart & Zingales, *supra* note 6, at 248, 260–61, 263–64, 270–71.

163. Companies have used the "ordinary business" exception under Rule 14a-8(i)(7) or as lacking "relevance" to the company under Rule 14a-8(i)(5) to exclude environmental proposals that micromanage the company. *See, e.g.*, David A. Katz & Laura A. McIntosh, *Shareholder Proposals in an Era of Reform*, HARV. L. SCH. F. ON CORP. GOVERNANCE (Dec. 5, 2017), https://corpgov.law.harvard.edu/2017/12/05/shareholder-proposals-in-an-era-of-reform [perma]; Marc S. Gerber & Ryan J. Adams, *Shareholder Proposal No-Action Requests in the 2021 Proxy Season*, HARV. L. SCH. F. ON CORP. GOVERNANCE (July 10, 2021), https://corpgov.law.harvard.edu/2021/07/10/shareholder-proposal-no-action-requests-in-the-2021-proxy-season/.

164. For a discussion of the limited incentives of institutional investors, and in particular index funds, to submit these proposals, see Yaron Nili & Kobi Kastiel, *The Giant Shadow of Corporate Gadflies*, 94 S. CAL. L. REV. 569, 584–86 (2021).

165. Hart & Zingales, *supra* note 6, at 270–71 (discussing the costs associated with votes and different ways to minimize it by, for example, requiring that a certain percentage of shares be behind a proposal before it is put to a shareholder vote).

166. *Id.* at 260–61, 263–64, 270–71.

167. Brudney & Ferrell, *supra* note 157, at 1193–94.

d. Would a shareholder vote reflect the preferences of ultimate beneficial owners? The great majority of equity investments in corporations are intermediated, with investment managers or pension funds managing funds on behalf of their own investors or beneficiaries. This creates the possibility that the votes of these institutional investors might not reflect the preferences of their own investors or beneficiaries.

e. Would corporate leaders follow investor preferences? Even if it is possible to design an appropriate and effective mechanism of shareholder voting on social and environmental issues, and to translate this into a preferred practical decision rule, there remains the important question of whether corporate leaders will follow it. A number of commentators have raised the concern that corporate leaders will disregard the preferences of shareholders, especially when they face their own significant monetary incentives to act to maximize shareholder value.[168] These are complex questions that corporate leaders would prefer to avoid. But our findings make them unavoidable.

2. POLITICAL SOLUTIONS FOR INVESTMENT MANAGERS

For investment managers, a "political" solution would involve ascertaining the preferences of their own investors and using this information to inform their own decisions with respect to the companies they invest in. Those decisions include not just which *companies* they invest in, but also in which *direction* they attempt to influence corporate managers. Investment managers have significant advantages over corporate leaders, such as their ability to ascertain the preferences of beneficial owners. Many of these individual investors are clients of investment managers.[169] Thus, the investment managers have contractual relationships with them—and therefore, an important reason to find out their preferences—and also the means to do so, through the parts of their organizations that interact with those clients.[170]

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168. For recent proposed solutions to the commitment problem of corporate leaders, see Ofer Eldar, *Designing Business Forms to Pursue Social Goals*, 106 VA. L. REV. 937, 942–43 (2020); Dorothy S. Lund, *Corporate Finance for Social Good*, 121 COLUM. L. REV 1617, 1618–19 (2021); John Armour, Luca Enriques & Thom Wetzer, *Corporate Carbon Reduction Pledges: Beyond Greenwashing*, OX. BUS. L. BLOG (July 2, 2021), https://www.law.ox.ac.uk/business-law-blog/blog/2021/07/corporate-carbon-reduction-pledges-beyond-greenwashing [https://perma.cc/NSC6-9LZZ].

169. Hirst, *supra* note 8, at 230.

170. In contrast, corporations face significant hurdles in finding investors preferences—brokers and investment managers are an often-opaque barrier with respect to the largest group of individuals that ultimately invest in those companies. And even the smaller proportion of individual investors that invest directly in companies as retail investors may not be known to the company. Kobi Kastiel & Yaron Nili, *In Search of the "Absent" Shareholders: A New Solution to Retail Investors' Apathy*, 41 DEL. J.

A number of authors have argued that investment managers should ascertain investor preferences through "pass-through" voting.[171] In another article, one of us has explained the impracticality of this solution and proposed that investment managers instead undertake random sampling of their investors to determine their preferences or work with researchers to do so.[172]

Of course, if investment managers do ascertain the preferences of their investors, our results suggest that those preferences are likely to vary. Investment managers will then face the same difficult questions as corporate executives, especially how to reconcile these different preferences. If some investors prefer to forgo some amount for social purposes, and some do not, what should the investment manager do? The investment manager must aggregate those preferences in a way that gives them a clear path for decision-making regarding which corporate decisions to support, and which to oppose. We do not envy investment managers for this challenging task but it is a task that our results show cannot be avoided.

C. Sorting Solutions

Investors can switch investment managers, and investors (and investment managers) can switch their investments between different corporations. Therefore, a very different set of solutions are possible if investors can effectively "sort" their investments according to their preferences for social interests, either at the investment manager level or among corporations.[173]

If investors effectively sort among investment managers according to their social responsibility preferences, then it could be sufficient for the investment manager to clearly disclose their approach to social responsibility. This would include how they trade-off particular social interests and returns in choosing investments, and the extent to which they push corporate leaders to further social interests at the expense of

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CORP. L. 55, 60–66 (2016) (discussing the phenomenon of retail investors and its magnitude).

171. *See* Hart & Zingales, *supra* note 6, at 260–61, 263–64, 271. In a recent article, Professors Hart and Zingales suggest that each investor choose one type of a "specialty" proxy voting guideline prepared by a proxy advisor and require that her shares be voted according to those guidelines. However, as they recognize, this approach limits investors' choices to the pre-determined specialty policies available in the market. *See* Oliver Hart & Luigi Zingales, *The New Corporate Governance*, 1 U. CHI. BUS. L. REV. 195, 213 (2022).

172. Hirst, *supra* note 8, at 238–40.

173. *See, e.g.*, Paul Brest, Ronald J. Gilson & Mark A. Wolfson, *How Investors Can (and Can't) Create Social Value*, 44 J. CORP. L. 205, 220 (2018–19); Eleonora Broccardo, Oliver Hart & Luigi Zingales, *Exit vs. Voice*, 130 J. POL. ECON. 3101, 3103–05 (2022).

returns. If they do so, investors can then decide whether or not to invest with that manager, based on their preferences for returns, and for further particular social interests. If investors sorted perfectly into different investment managers according to their social preferences, this would eliminate any heterogeneity among the investors of a particular manager, and that manager can follow the homogenous preferences of their investors. As we explain below, perfect sorting is implausible, so there is will always be *some* residual heterogeneity in investor preferences, but it is possible that sorting solutions might reduce its extent.

Some limited version of the sorting scenario clearly occurs. Many socially responsible investment managers cater to the preferences of investors focused on social interests, and describe their investment philosophy.[174] However, effective sorting also depends on several other features being present in the market for investment products. To the extent that these are not present, or that other features of the market hinder sorting, sorting solutions may be less than effective, leaving some heterogeneity within investor groups that remains to be solved through political solutions, with the incumbent challenges described in Section 0.

A basic sorting equilibrium would require (1) a large number of investment managers choosing between that attempt to attract new investors by differentiating themselves, (2) investors being granted the freedom to switch between these investment managers without cost, and (3) investors having full knowledge of how different investment managers compare on salient characteristics, including their socially responsible behavior. Considering the realities of the market for investment managers suggests three ways that the market might fall short of these requirements.

First, investors may not have sufficient information about the policies of these funds. It may be difficult for investors to separate marketing "cheap talk" regarding a fund's social responsibility bona fides from its true behavior regarding social responsibility. This is especially true given the lack of established or agreed-upon metrics regarding social responsibility. Some issues and social purposes may become salient to investors only after they initially invest. If the fund chooses a policy the investor does not agree with on these issues the investor may face costs in switching to a fund that better suits their preferences. This includes both financial costs and information costs from informing themselves about the fund they are leaving and the fund they would be joining.[175] While the out-of-pocket costs of switching may be relatively low, the cost to investors to inform themselves about different funds and determining which best suits their preferences may make switching costly.

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174. *See* Fink, *supra* note 9.

175. Hirst, *supra* note 8, at 238–40 (discussing switching costs and informational problems).

Second, current legal rules may limit investment managers from offering investment alternatives that forgo returns. As we discussed in Section I.A, investment managers that are fiduciaries for ERISA plans are limited in the extent to which they can take into account non-financial factors—such as social purposes—in making investment decisions.[176] These limitations also apply to the extent to which they forgo their own investors' returns for social interests.[177] This challenge affects both socially responsible investment funds and mainstream funds. We find that many investors would prefer that investment managers go further than only doing what will maximize financial value.[178] This raises the question whether legal restrictions that prevent investment managers from doing so are in the best interests of these investors. But the current legal rules may further reduce the likelihood of investors that wish to forgo returns for social interests, finding an investment fund that matches their preferences.

Third, although there are many investment managers, there may be limits to how much their portfolios differ and how much their socially responsible behavior differs. The extent to which portfolios can differ depends on the variation in the underlying composition of portfolio corporations. If all portfolio corporations maintain the approach that they will only undertake socially responsible actions if they maximize returns, then it may be difficult for investment managers to construct portfolios of companies that do pursue social interests. In recent years, there have been a small number of public benefit companies going public, which commit to forgo some return for social purposes. However, there would not appear to be enough of these companies to create diversified portfolios that would be comparable to other portfolios. This is especially likely to be the case given the many different social interests that investors might wish to further, and thus, the many different combinations of social interests that investors may hold. The result of these various factors is that there might not be sufficient diversity in funds to match the diverse preferences of investors.

The extent to which these potential shortcomings actually prevent effective sorting is an open empirical question, one that requires analysis and investigation outside the scope of this Article. However, if these or other factors do prevent an effective sorting solution, then some funds (and some companies) are likely to have investors with heterogeneous preferences. Indeed, the sheer size of many mainstream investment funds

176. *See supra* notes 48–50 and accompanying text.

177. *See, e.g.*, Schanzenbach & Sitkoff, *supra* note 50, at 384–85. For a recent argument that environmentally responsible investing could breach fiduciary duties under ERISA, see Alon Brav & J.B. Heaton, *Brown Assets for the Prudent Investor*, 12 HARV. BUS. L. REV. ONLINE, art. 2., 2021, at 1, 5.

178. *See supra* Table 3.

means they are likely to contain some heterogeneity. For example, the largest S&P 500 funds have more than $400 billion under management.[179] The likelihood of heterogeneity is even greater given the large proportions of investors in our sample that had either some limited preference for social interests, or no interest in forgoing returns for social interests.[180]

Two conclusions follow from our discussion of sorting solutions. First, policymakers may wish to consider how to reduce the inefficiencies in the market for investment management that make sorting challenging, since doing so would also reduce the magnitude of the heterogeneity problems faced by investment funds. Second, until those inefficiencies are eliminated, sorting is unlikely to be a complete solution, and at least some funds must face challenging questions of how to deal with the heterogeneity in investor preferences revealed by our results.

CONCLUSION

The last several years have seen the long-simmering debate regarding the social responsibility of corporations rise to a boiling point. This Article has shed new light on a blind spot in this heated debate. Our results highlight the variation in investor preferences, and they address the question of how much investors care about corporate social responsibility, and to what extent they prefer to "do good" by using the corporate channel, compared to the alternative of donating directly.

Our results demonstrate that, on average, individuals—as investors and consumers—are willing to forgo some monetary gains to promote social interests. More importantly, individuals are willing to forgo smaller amounts when investing than when making donations. There is a significant percentage of individuals with a strong preference to maximize their monetary gains, who are unwilling to forgo even small amounts of value to advance *any* social goal. This unwillingness to forgo is significantly greater when investing or consuming, compared to when donating. The significant heterogeneity in individuals' willingness (and unwillingness) to forgo in each of the three channels we consider is most clearly associated with political affiliation, gender, and income, though the relationships differ with the cause in question.

These findings have important implications for the current debate regarding corporate social responsibility. Our results show that corporate leaders and investment managers cannot simply assume—without support—that investors wish to only maximize their financial returns, or that they wish to further social interests. The heterogeneity of investor

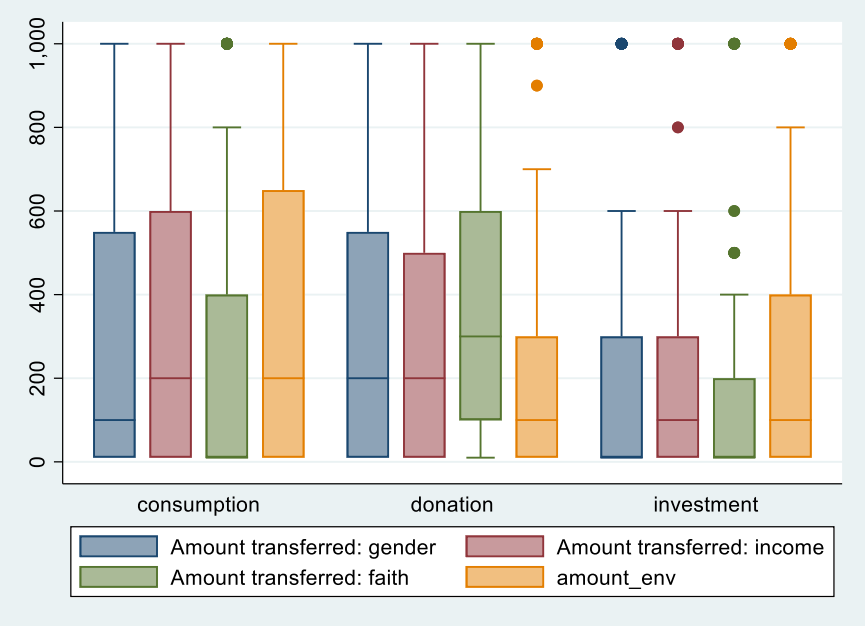
179. *Largest ETFs: Top 100 ETFs By Assets*, VETTAFI, https://etfdb.com/compare/market-cap/ (last visited Mar. 5, 2023).

180. *See, e.g.*, *supra* Figure 1.

preferences raises complex legal, business, and practical issues that corporate leaders have so far tried to avoid. We hope that the empirical analysis presented in this Article allows the current debate regarding social responsibility to move on from arguments predicated on investors preferring to maximize value or preferring to further social goods. Instead, we must all take the heterogeneity in investor preferences seriously and consider its challenging implications.

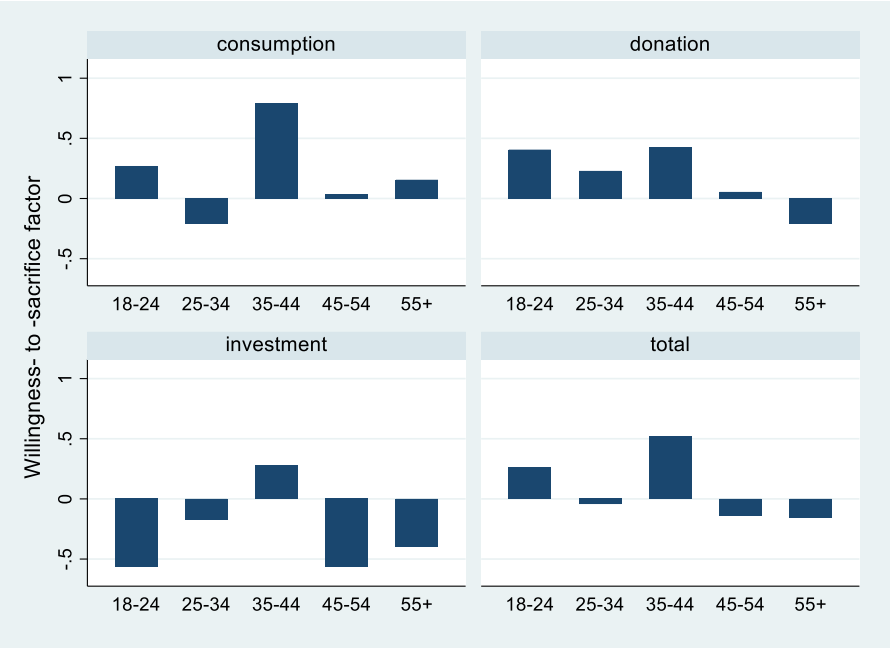
APPENDIX

Figure A1. Amount Transferred to Each Social Good, by Experimental Condition (out of $1,000)



This figure shows boxplots of maximum amounts forgone by experimental condition and social purpose. The first and third quartiles of the maximum amounts forgone are represented by the upper and lower bounds of the boxes, and the median by the line within the box. The range of the maximum amounts forgone is indicated by the "whiskers."

Figure A2. Willingness to Forgo by Age



This figure shows how the willingness-to-forgo factor varies by age and experimental condition.

Table A1. Negative Binomial Regression Models Predicting Amount Forgone for Social Goods

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	Gender	*Income*	*Environ -ment*	*Faith*	*Gender*	*Income*	*Environ- ment*	*Faith*	*Gender*	*Income*	*Environ -ment*	*Faith*	*Gender*	*Income*	*Environ -ment*	*Faith*
Consumption	-0.053	0.006	0.384*	-0.416**	-0.101	-0.075	0.291	-0.359*	-0.795	-0.317	0.714	-0.698	-0.219	-0.237	0.088	-0.115
	(0.212)	(0.203)	(0.206)	(0.210)	(0.211)	(0.201)	(0.209)	(0.212)	(0.665)	(0.624)	(0.669)	(0.689)	(0.270)	(0.256)	(0.270)	(0.270)
Investments	-0.476**	-0.342*	-0.004	-0.767***	-0.436*	-0.420**	-0.129	-0.639***	-1.055	-0.016	0.671	-1.605**	-0.484*	-0.723***	-0.405	-0.554*
	(0.217)	(0.207)	(0.211)	(0.215)	(0.224)	(0.212)	(0.216)	(0.233)	(0.710)	(0.677)	(0.732)	(0.727)	(0.290)	(0.273)	(0.275)	(0.305)
Female					0.645***	0.422**	0.174	0.243	0.647***	0.386**	0.170	0.303	0.640***	0.373**	0.152	0.232
					(0.191)	(0.187)	(0.180)	(0.195)	(0.195)	(0.191)	(0.184)	(0.204)	(0.196)	(0.189)	(0.183)	(0.200)
Income > $100,000					0.288	0.413**	0.237	0.138	0.287	0.401**	0.244	0.161	0.305	0.446**	0.290	0.131
					(0.203)	(0.195)	(0.199)	(0.205)	(0.203)	(0.195)	(0.199)	(0.205)	(0.205)	(0.196)	(0.202)	(0.205)
Age					-0.006	-0.004	0.004	-0.014**	-0.016*	-0.004	0.012	-0.023**	-0.006	-0.005	0.002	-0.013**
					(0.005)	(0.005)	(0.005)	(0.006)	(0.009)	(0.009)	(0.010)	(0.010)	(0.005)	(0.005)	(0.006)	(0.006)
Democrat					0.700***	0.646***	0.404*	-0.102	0.650***	0.633***	0.456**	-0.108	0.547	0.204	-0.060	0.200
					(0.212)	(0.208)	(0.218)	(0.222)	(0.216)	(0.214)	(0.222)	(0.224)	(0.346)	(0.330)	(0.341)	(0.349)
Independent					-0.156	-0.027	0.015	-0.346	-0.214	-0.037	0.057	-0.388*	-0.158	-0.025	0.028	-0.312
					(0.223)	(0.219)	(0.221)	(0.227)	(0.228)	(0.223)	(0.225)	(0.228)	(0.223)	(0.218)	(0.220)	(0.228)
Consumption x Age									0.015	0.005	-0.009	0.008				
									(0.013)	(0.012)	(0.013)	(0.014)				
Investment x Age									0.013	-0.008	-0.016	0.019				
									(0.013)	(0.013)	(0.014)	(0.014)				
Consumption x Democrat													0.296	0.473	0.566	-0.618
													(0.423)	(0.408)	(0.423)	(0.424)
Investment x Democrat													0.128	0.759*	0.735*	-0.213
													(0.445)	(0.424)	(0.442)	(0.447)
lnalpha	0.74***	0.66***	0.73***	0.67***	0.67***	0.60***	0.70***	0.66***	0.66***	0.60***	0.69***	0.66***	0.66***	0.59***	0.69***	0.65***
N	279	279	279	279	277	277	277	277	277	277	277	277	277	277	277	277

These logistic regression models predict the highest amount participants were willing to forgo, by social good, experimental condition and other demographic characteristics. Models 1-4 investigate the effects of experimental conditions (the baseline models). Models 4-8 include demographic controls. Models 9-12 also contain interaction terms for age and the experimental condition. Finally, Models 13-16 include interaction terms between participants' age and their political affiliation. Marginal effects; standard errors are in parentheses. * $p < 0.1$, ** $p < 0.05$,*** $p < 0.01$.

Table A2. Logistic Regression Models Predicting Unwillingness to Forgo at Lowest Levels (Marginal Effects)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	Gender	*Income*	*Environ-ment*	*Faith*	*Gender*	*Income*	*Environ-ment*	*Faith*	*Gender*	*Income*	*Environ-ment*	*Faith*	*Gender*	*Income*	*Environ-ment*	*Faith*
Consumption	0.119	0.116	-0.137**	0.328***	0.142*	0.131*	-0.130*	0.335***	0.463**	0.157	-0.275	0.558***	0.143	0.171*	0.004	0.235**
	(0.074)	(0.074)	(0.069)	(0.071)	(0.080)	(0.078)	(0.072)	(0.073)	(0.197)	(0.240)	(0.198)	(0.182)	(0.097)	(0.093)	(0.093)	(0.096)
Investments	0.187**	0.137*	-0.048	0.375***	0.200**	0.150*	-0.022	0.358***	0.705***	0.510**	-0.213	0.772***	0.188*	0.127	0.065	0.283***
	(0.074)	(0.076)	(0.072)	(0.070)	(0.082)	(0.082)	(0.077)	(0.074)	(0.126)	(0.209)	(0.224)	(0.102)	(0.102)	(0.099)	(0.099)	(0.098)
Female					-0.238***	-0.142**	-0.117*	-0.147**	-0.246***	-0.152**	-0.119*	-0.159**	-0.238***	-0.141**	-0.115*	-0.150**
					(0.066)	(0.064)	(0.064)	(0.066)	(0.067)	(0.065)	(0.064)	(0.067)	(0.066)	(0.065)	(0.064)	(0.066)
Income > $100,000					-0.098	-0.056	-0.072	-0.076	-0.099	-0.058	-0.072	-0.078	-0.097	-0.054	-0.078	-0.073
					(0.076)	(0.073)	(0.071)	(0.075)	(0.076)	(0.073)	(0.071)	(0.075)	(0.076)	(0.073)	(0.071)	(0.075)
Age					0.001	-0.000	-0.003	0.003*	0.008**	0.002	-0.005	0.010**	0.001	0.000	-0.003	0.003
					(0.002)	(0.002)	(0.002)	(0.002)	(0.004)	(0.003)	(0.003)	(0.004)	(0.002)	(0.002)	(0.002)	(0.002)
Democrat					-0.353***	-0.334***	-0.209***	0.030	-0.351***	-0.338***	-0.215***	0.034	-0.362***	-0.308***	-0.018	-0.180
					(0.071)	(0.066)	(0.072)	(0.081)	(0.072)	(0.066)	(0.073)	(0.082)	(0.114)	(0.113)	(0.115)	(0.143)
Independent					-0.040	-0.012	-0.041	0.121	-0.022	-0.003	-0.047	0.136	-0.039	-0.009	-0.038	0.118
					(0.083)	(0.076)	(0.077)	(0.084)	(0.084)	(0.077)	(0.077)	(0.084)	(0.083)	(0.076)	(0.076)	(0.082)
Consumption x Age									-0.007	-0.001	0.003	-0.006				
									(0.005)	(0.005)	(0.005)	(0.005)				
Investment x Age									-0.014***	-0.007	0.004	-0.013**				
									(0.005)	(0.005)	(0.005)	(0.005)				
Consumption x Democrat													-0.002	-0.128	-0.321***	0.294*
													(0.171)	(0.151)	(0.096)	(0.151)
Investment x Democrat													0.032	0.051	-0.201*	0.241
													(0.173)	(0.172)	(0.121)	(0.165)
N	277	277	277	277	277	277	277	277	277	277	277	277	277	277	277	277

These logistic regression models predict the probability of not transferring money at all, by social good, experimental condition and demographic characteristics. Marginal effects can be interpreted as the change in the probability of not transferring money at all given a one-unit change in the independent variables. Models 1-4 investigate the effects of experimental conditions (the baseline models). Models 4-8 include demographic controls. Models 9-12 also contain interaction terms for age and the experimental condition. Finally, Models 13-16 include interaction terms between participants' age and their political affiliation. Standard errors are in parentheses. * $p < 0.1$, ** $p < 0.05$,*** $p < 0.01$.

* * *

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