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ETHICAL INVESTMENT POLICY OF THE EVANGELICAL LUTHERAN CHURCH OF FINLAND

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Introduction

Business ethics and investment ethics have been a topic of lively discussion in Finland in recent years. In the activities of the Church and the parishes, investment operations are by no means an end in itself. The main purpose of Church investments is to secure adequate conditions for operations also in the long term. A major part of the investment activities has to do with investing the assets of the Church pension fund. With these assets the Church must be able to cover its statutory pension liability. The parishes, for their part, have to be prepared for certain major expenses such as renovations from time to time, and therefore it is important how their assets are managed. The low interest rate level has made it necessary to resort to other forms of investment than bank deposits in order to preserve the real value of the assets.

The Church and the parishes operate in the same financial markets as everyone else. However, in its operations in the market the Church is expected to follow principles which are in compliance with its own teachings. The Church thus needs ethical guidelines for the management of its finances.

This article describes the basic results of a working-group established by the Church Council to prepare ethical guidelines for church investment activities. The members of the working-group represented expertise on business, investment, ethics and theology.

The working group defined the scope of the assignment to cover ethical questions related to Church investment activities. It was not considered necessary to examine investments in the other sectors of society separately since, according to the Lutheran view, the code of ethics of the Church is no different from that of the others: there is a single ethical code which applies equally to the Church and to the other sectors of society. Therefore, the principles of the investment activities of the Church simultaneously acts as a more general statement about the ethics of investment.

1. Ethical approaches underlying investment decisions

The discussion on the ethics of investment is primarily based on the approaches of utilitarianism and deontological ethics. The fundamental question is: is utility the only criterion of ethical investment or should investment also be guided by a sense of duty. Another important ethical aspect in this discussion has to do with corporate social responsibility, which implies that a company should bear responsibility also for its environment and the entire society.

Three different ideologies are distinguished in speaking about corporate social responsibility. The distinction is based on the idea that the social responsibility of a company can be understood in a narrow sense or extended to mean an inclusive social responsibility which considers the consequences of actions on a global scale. The ideologies of corporate social responsibility are summarized in the following table.

[Table: Ideologies of corporate social responsibility]

Investment ideologies in the light of Lutheran ethics

In making decisions concerning investment operations, the Church has to take a stand in relation to the alternative ideologies of social responsibility described in the table. By applying them to investing, it is possible to derive corresponding investment ideologies. The perspective of Lutheran ethics has to be applied in evaluating these ideologies as well as their suitability as a basis of investment by the Church.

A shareholder-based investment ideology is grounded on purely economic considerations. The focus in evaluating and comparing the different investment alternatives is on the

financial returns obtainable. The sole aim of the investment operation is profit maximization; it has no other goals. Ethical factors are not regarded as having importance in an investment process.

The shareholder-based investment ideology does fulfil some of the requirements of the Lutheran regimental doctrine, for example by demanding observance of the principle of legality. A secular regiment can be requested to pass legislation that provides commonly acceptable, legal frames for investment. The Church would then act within those frames just like any other body engaged in investments.

Even though legality is an essential condition for investment by the Church, it cannot be deemed sufficient from the viewpoint of Lutheran ethics. Being based on purely economic grounds and in its pursuit of profit maximization, the shareholder-based investment ideology overlooks the ethics of the Golden Rule and the principle of fairness. It sets aside issues such as the general interest of society, environmental values and the teachings of the Church itself about good household management of the creation. The shareholder-based approach to investment leads the Church to act in contradiction to its own ethical principles, which in practice means separating the operation of the Church, on one hand, and the management of its finances, on the other.

According to a stakeholder-based investment ideology, attention should also be paid to other discretionary factors besides an economic evaluation of the different investment alternatives. The goal of investing is to obtain the greatest possible returns attainable by legal and commonly accepted means. In addition, the decision-maker should also consider such ethical aspects for which there is no juridical obligation.

In the stakeholder-based ideology, investments are governed by economic and ethical values. If there is a discrepancy between these, the economic values are given priority. It is this prioritization which makes the stakeholder-based ideology problematic as a basis of Church investment. In following this ideology the Church would probably avoid coming into open conflict with the expectations of surrounding society, but it would have to compromise over its own ethical principles: to say one thing and do another.

The investment ideology of inclusive social responsibility is

founded primarily on ethical considerations. These are not merely secondary, discretionary concerns in decision-making; instead, the ethical approach is applied throughout the investment process. The general guideline is that only ethically grounded solutions are justifiable and acceptable. The leading criteria in the investment operation are profitability, low risk level and sufficient liquidity, but the ethical criterion continues to apply alongside these. Ethical values are held so important in the values of this ideology that in a conflict situation they are preferred to economic values. According to the responsible investment ideology, the profit goal can be compromised in favour of sustainable morality.

The aim in the responsible ideology is profitability through ethically acceptable investments. Also the choice of the investment is understood as an ethical judgement. In making the investment decision it is important to study how the decision supports such issues and values in society which the Church deems important from its own perspective.

The socially responsible investment ideology complies with the Church's own ethical principles. The meaning of the Golden Rule and respect for the views of the stakeholders are reflected throughout the different phases of the investment process. The investor is seen as bearing responsibility not only for preventing any social disadvantage but also for striving to do good in society.

The goal of responsible investment is not maximum profit but reasonable returns on ethically acceptable investments. According to Lutheran ethics, fairness here means that the economic goal is viewed taking into account the other actors and the general interest of the community, and that the profit goal is determined so as not to cause damage to oneself or to others. The investment operation is restricted in such a way that the choice of the means becomes an ethical question as well. If reaching the goal requires the use of means that are against the ethical principles of the Church, the goal as such does not justify the use of such means.

If a decision is made in the Church investment process to settle for less than the highest returns obtainable in the market, such decision also requires justification. Within the responsible investment ideology the decision is justifiable namely on ethical grounds or by other aspects related to social responsibility. Failure to make use of the available high-revenue alternatives

without due justification, on the other hand, is a question of irresponsible asset management.

Preserving the real value of the invested assets can be regarded as the minimum requirement of investment activities. It is wrong towards the Church members not to manage the assets of the Church according to this principle. In such a case the Church causes disadvantage to its membership by collecting assets without seeing to it that their real value is preserved.

2. Ethical guidelines for Church investments

Responsible investment ideology as a basis

Investment by the Church has to be based on the investment ideology which emphasizes inclusive social responsibility and gives major importance to ethical considerations. Ethics is not merely a supplementary aspect of discretion; the ethical viewpoint predominates throughout the investment process. The overall guideline is that only ethically well-justified solutions are rightful and acceptable. Church investments are based on the criteria of profitability, a controlled risk level and sufficient liquidity, but the ethical criterion is always emphasized alongside these.

The aim of the investment operations of the Church is to obtain an adequate return on ethically acceptable investments. Settling for a lower return than the maximal obtainable in the market has to be justified by ethical reasons or by reasons related to social responsibility. The choice of the investment alternative is also an ethical decision. In making an investment decision it is important to consider how the decision may promote those social issues and values that the Church holds important in its own basic principles. In this context it is also necessary to examine the potential effects of the decisions on the various stakeholders.

The basis of the investment activity, thus, is the careful consideration of the general interest of the Church and its stakeholders. However, attention should not be paid only to economic factors. The message of the Golden Rule and respect of the stakeholders have to be borne in mind and reflected throughout the investment process.

Principle of rationality and respect

Rationality and respect are among the key principles of the socially responsible investment ideology. Rationality in this case means that the investment decision must be based on many-sided, up-to-date factual information about the different investment alternatives. This requires active monitoring of developments in the economy as well as knowledge of the features and risks of the investment alternatives by those responsible for investment-related issues. Access to up-to-date information calls for adequate information systems. Flexibility and expediency in decision-making are further qualifications required of the persons in charge of investment activities. A responsible investment decision, thus, is founded on systematic, professional and expert management of finances.

The ethical viewpoint must not be understood to mean a lack of economic expertise, much less an underestimation of economic facts. What it does refer to is that financial calculations are not taken as the sole criteria in decision-making.

Respect, in turn, means taking into account the effects of the investment decision on others as well in the choice of the investment alternative. Sufficient information needs to be collected on the impact of different alternatives on the stakeholders to provide a basis for decision-making. Respect also implies a critical evaluation of the set goals and operating practices as well as examining the investment from the standpoint of the various stakeholders. If the intended investment alternative is found to be inconsistent with the ethics of the Golden Rule, it must be abandoned even if it were the most profitable alternative economically.

However, it is not the ethical duty of the Church – nor of anyone else – to act self-destructively and on totally unselfish grounds in its investment operations. The Church has its own economy to look after as well, but this must not lead to a selfish pursuit of its own interest without regard for its stakeholders. The stakeholders' interests have to be taken into account justly and fairly. The principles of ethical responsibility, rationality and respect, require consideration of both economic and ethical aspects on the part of the decision-makers.

Relation to the primary duty of the Church

Investment operations are only of secondary importance in relation to the primary activities of the Church. For parishes this means that they cannot collect assets into their funds solely for

investment purposes. The objective of the funds must be connected to the main duty of the parish. The investment of assets must not be an alternative to using them to cover expenses incurred by the primary duty of the parish.

Another question related to responsible investment is whether the need to invest is recognized or not. Some parishes have traditionally kept a significant portion of their cash assets on low-interest bank accounts. This leads to the conclusion that the need to invest has not always been detected.

Besides apparent costs, such as salary, material and equipment costs, cash management may also incur alternative costs to the parish. These alternative costs refer to the lost financial benefit resulting from having the assets on non-interest or low-interest bank accounts. The aim in cash management should be to keep the unprofitable lag time of tied-up assets as short as possible and to invest them profitably. Proficient cash management requires a liquidity scheme to enable the parish to estimate as well as possible the amount of assets that can be invested as well as the potential investment time. The timing of parish investments is a critical factor in determining the size and time of the investment. Besides being fair to the members of the parish, good cash management is also in the interest of the parish itself.

It is in the interest of the parish members that the parishes plan their economy in the long term and collect funds for any sizeable projects during a period of several years. Preparation and saving for a foreseeable need can also be considered fair and just.

Investment of the Central Church Fund assets is mainly a question of investing the assets of the pension fund. The primary goal is to make sure that the Church is capable of meeting its pension liability. It is the duty of the Church, as the investor of the pension fund assets, to take charge of the pensions of its employees also in the future, which calls for a reasonable return on the investments made.

Survey and comparison of investment alternatives

An important element in the responsible investment process is what takes place prior to the actual investment decision. The decision itself is the conclusive issue, but it is based on various preparatory measures and choices made already at earlier stages

in the investment process. The whole process has to be a responsible one from the very beginning. An ethically sustainable investment decision must be based on correctly estimated investment opportunities and on the comparison of carefully investigated investment alternatives.

The selected investment criteria are a crucial issue in identifying suitable investment alternatives. The choice of criteria also determines how many and what kind of investment options are included in the final comparison of the alternatives.

The goal in responsible investment is not maximum profit but sufficient returns on ethically acceptable investments. Sufficient returns here mean adequate from the standpoint of the activity of the Church. Profit-seeking is restricted in such a way that also the selection of the means forms an ethical issue as well. If the achievement of the goal calls for ethically questionable means, the end itself does not justify the use of such means.

Preservation of the real value of the invested assets may be regarded as the minimum requirement in parish investments. The investment of pension fund assets, on the other hand, has to meet at least the minimum target set for returns. Unless these principles are followed in the management of Church finances, it cannot be deemed fair to the members of the Church.

The different investment alternatives must be evaluated in the long term as well. An individual investment decision must be based on a wider investment strategy defining how investment activities as a whole can be managed responsibly also with respect to the time dimension.

The survey and comparison of ethical investment alternatives can be summarized as follows:

The decision must be based on comprehensive factual data.

Issues must also be examined in the long term.

The perspective must be extended beyond the own interest of the Church.

Positive and negative valuation

The ethicality of investment alternatives can be evaluated either positively or negatively. If a positive valuation is used, the

investment policy is connected to values which are considered important. This means giving preference to securities whose issuer makes every effort to promote those selected values. Negative valuation, in turn, refers to an exclusive investment policy. In such a case, those securities are avoided whose issuer conducts business in a tainted manner.

In addition to profitability, the industry of the company is a key factor in investments into shares. Besides assessing whether the company is economically sound and functional, a parallel evaluation must be made of whether the purpose of the company and its means of conducting business are commendable and what kind of needs the company's products satisfy. The fact that a company operates according to law does not always mean that it operates ethically. The operating principles of even a lawfully operating company may involve features which are unethical. The company may, for instance, treat its employees unjustly, neglect environmental issues or obtain part of its income from unethical activities. In such cases ethical consistency requires that investment be abandoned, unless it is possible for a shareholder to exert influence to change the company's operating policy.

Responsible investment by the Church should be primarily based on positive valuation. Investments should be chosen on the basis of the issues that the Church wants to advance. Apart from profitability, the aim in a responsible investment strategy is to promote such values as are deemed important in society. Investment operations should, therefore, be focused on those issuers of securities which pay attention, for example, to the following aspects:

Health aspects

Healthy nutrition

Product safety

Working conditions

Work atmosphere

Environmental aspects

Conservation of natural resources

Energy conservation

Social responsibility

Justice

Education and training

Science and research

Culture

Human rights aspects

Religious, racial and gender equality

Right of association

Refusal to abuse child labor

The evaluation of a company's ethicality is usually not an easy task, because often it is not easy to obtain information from companies, nor are the companies obligated to disclose all features of their operations. In addition, it is seldom possible to investigate the entire network of subcontractors of multinational companies. Although it is advisable for the Church to base its investment decisions mainly on the standpoint of positive valuation, investment in companies representing certain branches of industry should, nevertheless, be avoided. These include companies whose business or a large part of whose business is concentrated on industries such as the armaments industry, alcoholic beverage industry, tobacco industry, gambling or pornography.

Obligations of the Church in investment activities

The bottom line in the choice of the responsible investment ideology is not whether the expectations of society are met, but whether what is done is right. Public opinion may be set unrealistic demands, or its wishes may be momentary. Investment decisions should not be populist, but the Church should act according to the demands of its own value base.

Investments by the Church may also be guided by the obligation to prevent evil and the obligation to do good. This can be illustrated by current situation in rental flats. The Church did not

cause the difficult housing problem in Finland, but the problem may be considered to pose ethical obligations to the Church.

The Church and the parishes have assets which need to be invested in such a way that they preserve their value. Investment into housing production and rental flats is one alternative. Besides aspects of profitability, the Church and the parishes should consider also the difficult situation of the homeless in the choice of the investment alternative. The Church pension fund and the affluent parishes have the best possibilities to alleviate the difficult housing situation and they carry the greatest responsibility in contributing to the solution.

Love of one's neighbour and the Golden Rule require the Church to strive to do good. In making investments the Church must look for options which, while supporting the Church economy, are in line with the primary duty of the Church and which also offer a broader basis beyond narrow self-interest for influencing the interests of others as well.

Summary of ethical guidelines for Church investments

Investment activities shall be open and carried out in a professional manner. They shall comply with the law and the ethical value base of the Church.

The investment activities shall support the comprehensive implementation of the primary duty of the Church.

The investment ideology of inclusive social responsibility shall be applied in the investment activities.

The choice of investment alternatives shall preferably be based on positive valuation.

Investment activities shall aim at an efficient utilization of resources while managing the risks involved.

Only administrators with a high ethic shall be employed in Church investment activities. In addition to the general instructions of the Finnish Banking Supervision Office, the administrators of property shall have their own ethically sound internal guidelines.

The investment process shall be evaluated ethically and

investments shall be monitored also from an ethical perspective.

Practical implementation of ethical investments

The ethical viewpoint can be taken into account in practice in three alternative ways, which are not exclusive of one another:

Those responsible for the financial matters of the Church evaluate the investment alternatives on the basis of ethical criteria.

External expertise is used in evaluating the investment alternatives.

Ethical funds are chosen for investment activities.

In Finland, ethical funds are only emerging. The Church must not passively follow the process, but itself promote the development of these funds together with other financing institutes.