

CR³ Conference: The Power of Responsibility

Stream 8

Social Responsibility Investors: How Do They Use Their Power? How Can Corporations Respond to SRI Power?

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In many economies, pension funds hold the largest share of stocks, and as such are the dominant shareholder class. Beneficiaries of these shares, namely the general public, may prefer that these funds be invested in a socially responsible way. Emerging from humble beginnings as specialist funds, social responsibility investors (SRI) now claim that they are steadily increasing their percentage of total assets under management both in Europe and North America. They target 15 percent of total AUM by 2015. Moreover, SRI investors argue that their approach is influencing the investment behaviour of the majority of pension funds.

SRI investors seek additional information from public companies concerning their environmental, social and governance (ESG) practices in order to make their investment decisions. Their agenda includes numerous issues such as:

Environment

- Greenhouse gas emissions
- Energy usage
- Water pollution and usage
- Hazardous materials disposal
- Deforestation, etc.

Social

- Diversity
- Human rights
- Recognition of labor unions
- Health and safety issues
- Employee training, etc.

Governance

- Promotion of practice of independent directors
- Opposition to unwise diversification
- Involvement in takeovers
- Opposition to management protection devices
- Opposition to cash retention and unnecessary investments
- Opposition to excessive management compensation, etc.

SRI investors are also increasingly employing their shareholder power through various methods of utilizing ESG criteria such as:

- Excluding companies from an investment universe using negative ESG criteria (e.g. alcohol, gambling, weapons, etc.)
- Including companies in an investment universe using positive performance on ESG criteria
- Ranking and selecting “Best-in-class” companies for their investment portfolios
- Integrating fully ESG criteria with financial criteria in the investment decision process

This stream explores both descriptive and theoretical issues involving growing SRI power and how corporations are responding. Among the questions this stream addresses are:

Social responsibility investors

1. How much power do SRI investors really have?
2. How have pension funds that include ESG criteria use their power to bring about more socially responsible behavior from public companies?
3. How do SRI investors communicate with company boards?
4. SRI investors can be divided into several categories by their approach. Which SRI categories are growing fastest and why?
5. Which SRI investors have real power with corporations and why?
6. How effective are SRI investors’ various approaches? Under which conditions do these various SRI approaches succeed?
7. How do SRI rating agencies influence pension funds and investor decisions?
8. How are company ESG reports used by SRI rating agencies, pension funds and investors?
9. What types of ESG risks are communicated by companies?
10. Does communication of ESG risks alter investor behavior?

Corporate responses to SRI investors

1. How do corporate responses to SRI investors vary depending on:
 - a. type of SRI approach?
 - b. industry conditions?
 - c. corporate strategies being pursued?
2. Which corporate responses are most effective in satisfying SRI investors?
3. How can SRI investors encourage corporations to take concrete, measurable actions (positive response) and discourage them from taking cosmetic actions intended to enhance their reputation (negative response)?

All theoretical approaches to investigating the corporate response to SRI investors’ increasing power are welcome.