Research Project: Sustainable Business Models and Practices: Socially Responsible Investment (SRI).

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Background: The establishment of BRASS coincided with a period when interest in socially responsible investment (SRI) was growing amongst a wide range of stakeholders. This was partly driven by the advancement of the 'win-win' argument, that better socio-environmental performance can improve investment returns (through the elimination of certain types of risks and waste-related resource inefficiencies), and partly by a number of high profile cases of corporate misconduct with ensuing economic, social and environmental consequences. Since shareholders, and the investment professionals that act on their behalf, are key business stakeholders with considerable influence, their ability to promote more socially responsible and sustainable business behaviour has been a key area of BRASS research interest.

Aims & objectives: To better understand SRI as a process with the ability to promote greater social responsibility and sustainability within businesses. To understand particular stakeholder relationships within the field of SRI, and particularly the perceived roles and responsibilities of institutional investors in responding to major sustainability and CSR challenges such as climate change.

About the research: One of the early elements of BRASS SRI research was a review of the development of SRI within the UK via a series of in-depth interviews with UK fund managers and investment directors. This was later developed through a piece of work comparing progress in the UK with progress and prospects for SRI development within Japan, and another study focussing more specifically on the roles of Pension Fund Trustees within the SRI process. Pension Fund Trustees are of particular interest due to their unique position, with significant power to affect corporate behaviour through the strategy they implement in investing the pension funds, as pension funds own the largest proportion of shares in UK listed companies.

The work on Pension Fund Trustees was later expanded via a project in partnership with the ACCA that addressed Pension Fund Trustees' attitudes towards climate change as a specific CSR/sustainability issue and its perceived potential impact on pension fund investment decisions. This research drew together the views of 20 trustees from amongst the UK's largest pension funds who took part in in-depth interviews in order to explore their attitudes towards their roles and responsibilities in relation to climate change, to see the extent to which they were harnessing their power to effect change. There was also a small follow-up study one year later comprising ten interviews, which was commissioned by the ACCA to monitor change and progress.

Results and outputs: The early research work on SRI revealed that the growth in SRI was being driven by a combination of lobby group/media pressure, government interest, and individual scheme member preferences. To a large extent social responsibility was being integrated into mainstream investment management processes (as well as for explicitly branded ethical investment products) particularly through the increased emphasis on social, ethical and environmental reporting (see A40). Most institutional investors were found to operate SRI as an 'overlay' strategy, in which engagement with investee companies on SEE issues was seen as part of an integrated investment management process, with SEE competence increasingly being used as a proxy for general management quality. The comparative research with Japan showed that whilst Japanese SRI was less mature than in the UK, it had the potential to follow the UK experience of moving away from a relatively passive 'screening' approach to ethical investment to a more active approach based on engagement with investee companies. It also demonstrated the potential for more active communication with shareholders on the subject of SRI in Japan to promote the idea of end shareholders having a responsibility for the socio-environmental performance of companies they invest in directly or indirectly.

The early work on the role of trustees revealed an evolving role in, and engagement with, SRI with concerns amongst trustees about the additional burden that SRI responsibilities represented and about the compatibility with fiduciary duties. A number of factors were acting to increase trustee interest in SRI issues, with trustees from larger pension funds and those with the highest equity allocations leading the way. The later work looking at trustee engagement with climate change found that most trustees considered it a relatively unimportant environmental, social and governance (ESG) factor. Trustees interviewed were generally unaware of their fund managers' activities concerning climate change and displayed a low level of accountability to their members in relation to this subject, rarely engaging with members on their responsible investment policy. One of the most significant outcomes was evidence of weakness in accountability chains between trustees and fund managers, trustees and members, and trustees and the sponsor companies. The research indicated that the lack of accountability and governance was not limited to the issue of climate change but applied to all areas of socially responsible investment (SRI). Trustee knowledge of how climate change might impact future shareholder value and financial return was partial, although the larger fund trustees had greater awareness. They also acknowledged their (unrealised) potential in affecting corporate behaviour through their actions relating to climate change.

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Impacts achieved/potential for impact:
The pension fund trustees and climate change report (and follow-up study) prepared for, and promulgated by, the ACCA received considerable attention within the investment community following its launch at an event in London. One interesting finding from the research process was that, in general, interviewees expressed an opinion that engaging in the research process itself would encourage them to consider climate change in a more active manner in future, and they tended to make practical suggestions as to how they intended to change their behaviour accordingly. This was an interesting example of research having an impact simply through the questions that were asked, and the issues that respondents (who were in positions of considerable influence) were asked to consider.