COMPLIANCE WEEK
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Navigating Socially Responsible Investing

By Andrew W. Savitz and Melissa Tritter Paschall — July 7, 2009

We've all seen the spectacular collapse of the stock market in the last year, much of it due to Wall Street institutions behaving unwisely. Irresponsible executive behavior, excessive risk taking, and outlandish compensation packages have outraged millions of Americans, putting issues of corporate ethics and responsibility front and center.

Add to this the growing concerns about climate change, potential pandemics, chronic poverty, water shortages, child labor and human rights, overpopulation, and the deteriorating state of the planet generally, and it is easy to understand why socially responsible investing (SRI) has outgrown its former status as a mere "niche" concept.

That has led to an explosion of analysts, rating companies, and reporting services focused on a corporation's environmental, social, and economic results as a more complete metric of performance than traditional, purely financial measures. It's big business, and understanding how to navigate the "SRI industry" can be difficult for any company. Here is some advice on how to start.

Socially responsible investment is not new. Religious groups refused to do business with slave traders in the 1700s. Universities and pension funds divested from South African stocks in the 1970s and 1980s to protest apartheid. SRI has since expanded to address a wide range of social, environmental, and ethical issues. More than $2.7 trillion investment dollars are now managed according to SRI criteria—11 percent of the total U.S. investment market, according to the Social Investment Forum.

Still, many think of SRI as a niche business, partly because SRI investors are seen as caring primarily about non-financial matters. A variation on SRI—"ESG" investing, or environmental, social, and governance—has now caught the eye of a significant group of institutional investors, all of whom remain focused on traditional fiduciary duties. This new breed of investors, including many state pension funds, now engage with companies they believe could perform better by addressing ESG issues. Companies are taking note, and no wonder: These institutions with an interest in ESG control many more investment dollars than traditional SRI funds.

In response to growing SRI and ESG activity, a number of research organizations have emerged that provide information to investors and rating firms about corporate environmental, social, and economic performance—a trio of indicators collectively known as “sustainability” and measured by a yardstick often called the Triple Bottom Line.

Sustainable Asset Management in Zurich, for example, provides the data that informs the Dow Jones Sustainability Index. Similarly, Ethical Investment Research Services advises Europe’s FTSE4Good, another index viewed favorably by an increasing number of SRI and institutional investors. Advocacy organizations publish company data and ratings for direct use by investors. For example, Mainstream investors with funds totaling more than $16 trillion follow the United Nations’ Principles for Responsible Investment, while investors representing more than $55 trillion in assets now consider data from the Carbon Disclosure Project, which is in the process of developing its own rating service based on climate change impacts.

And how does all this affect your company? The upward spiral of interest in environmental and social performance has led to a dizzying increase in analyst requests for social and environmental performance data from companies. Response rates vary widely: surveys indicate that Japanese and European companies are far more responsive for requests for sustainability-related information than are U.S.-based companies.

How to Manage SRI and ESG Inquiries

To optimize your participation in the ratings process, you need a good understanding of the SRI/ESG world and the particular organizations you encounter regularly. Ratings organizations have different audiences, methodologies, strengths, and weaknesses. You should direct your efforts toward the firms and information requests that best serve your purposes.

You absolutely must understand your objectives in working with the analysts and you should not respond until you know specifically what you are hoping to accomplish. This should involve a discussion with the most knowledgeable and interested departments in your organization, often your investor relations and sustainability advisers. You should also consider communicating with the internal departments that will generate (and possibly verify) the information you’ll need.

If lowering the cost of capital is among your highest priorities, you should try to get listed on the Dow Jones Sustainability Index or the FTSE4Good index. If your objective is to attract additional investors, rating organizations in your region or with close ties to the SRI and ESG community may provide an entrée based on your rating.

Finally, if you are simply seeking to respond to all the information requests in the most expeditious way possible, you can work with information aggregators that try to provide “one-stop shopping” for the SRI/ESG information-hungry world.

Making the Most of the Opportunity

So once you decide which information requests are high priority for you and why, how do you proceed?

The first thing an SRI analyst does in researching a company is to visit its Website. A company that publishes detailed information about its social, environmental, and economic performance (that is, its triple bottom line) is likely to make a good impression on the SRI analyst or ESG investor because it indicates awareness, openness and transparency. Publicly available information also means fewer gaps for the analyst to address by needing to speak with you.

Some analysts use *only* publicly available information, with no opportunity for direct input by the company. Information gaps tend to hurt a company's profile, so the more information available online, the better. If your company publishes an annual sustainability report, you are ahead of the game. Such reports—in particular those based on the Global Reporting Initiative guidelines, which have been widely vetted by many investors and non-governmental organizations—promote transparency and data comparability between companies, making your job, and the analyst's, that much easier.

Many analysts will call a company to follow up on their online research or to allow the company to double-check a draft profile. ESG analysts or investors tend to seek direct contact, as they are usually conducting in-depth analysis on a specific issue. When you receive such a call, be responsive, not defensive: Supply as much relevant information as quickly as possible. Direct, courteous, and timely engagement with analysts can make a positive difference in how your company is perceived.

While responding promptly to requests for information can help your profile, it can also be time consuming. That's where aggregator services can be helpful. SRI World, for example, offers a service called One Report which combines the questions asked by all major SRI ratings companies into a single annual survey, and then communicates your answers to the analysts. Large companies such as IBM and Microsoft use this service. It is respected and appreciated by SRI analysts as a convenient way to collect data.

The Sustainable Investment Research Analyst Network (SIRAN) is another useful point of contact for companies seeking to provide SRI information to a large number of analysts. Organized by the Social Investment Forum, SIRAN includes more than 150 North American social investment research analysts from 30 investment firms, research providers, and affiliated investor groups. Formed in 2004, SIRAN is widely regarded as the key convener of analyst meetings in the SRI community. At its monthly meetings, a featured company makes a presentation and then fields questions from the analysts.

The (Triple) Bottom Line

Providing information on social, environmental, and economic performance is no longer a niche strategy, and the users of this information are not fringe elements but rather some of the most sophisticated and asset-rich investors in the world. That's why smart companies recognize the many benefits of engagement with SRI and ESG investors and the research and ratings firms that supply them with information. To make the most of your engagement strategy, start with a solid understanding of your objectives, develop a plan tailored to meet those objectives, and then engage openly and constructively with the analysts who are in the best position to help you advance your goals.

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UN Principles of Responsible Investment

In 2005, the United Nations invited the world's largest institutional investors to jointly develop international guidelines for responsible investing. They agreed on the following principles:

1. We will incorporate ESG issues into investment analysis and decision-making processes.

2. We will be active owners and incorporate ESG issues into our ownership policies and practices.

3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4. We will promote acceptance and implementation of the Principles within the investment industry.

5. We will work together to enhance our effectiveness in implementing the Principles.

6. We will each report on our activities and progress towards implementing the Principles.

As of February 2009, the Principles have been signed by over 470 global investment institutions managing over $18 trillion in assets—making it one of the most influential and widely-cited institutions in SRI and in ESG investing.

Source: United Nations.

BE RESPONSIBLE

The following information on Socially Responsible Investing (SRI) was provided by Sustainable Business Strategies:

What is SRI?
Socially Responsible Investing (SRI) refers to variety of investment strategies that seek to align corporate values with personal values around issues such as environmental stewardship, poverty alleviation, and human and animal rights.

SRI investors employ various SRI strategies including:

- Negative screening, which seeks to exclude "sin stocks" from an investment portfolio, e.g. companies that make weapons, alcohol or tobacco products. Negative screening is the most widely used and well known SRI strategy.
- Positive screening, which selects companies that are perceived to be making positive contributions to society through their products, their business practices, or both.
- Advocacy investing, whereby investors challenges companies whose values appear to conflict with theirs. Shareholders may use proxy resolutions and other strategies to drive change.

Who participates in SRI?
SRI investors include non-profits, foundations, universities, religious institutions, and individuals who are concerned with the social or environmental performance of companies, and are seeking to change corporate practices to comport with their values.

What is ESG investing?
Many pension funds, insurance companies, and other institutional investors primarily concerned with their fiduciary duties now recognize that certain environmental, social, or governance issues can affect long-term shareholder value. Whereas SRI groups tend to use screens to rule out particular investments, playing a "zero-sum" game, ESG investors seek to encourage changes in behavior such as better governance, more transparency or stakeholder engagement. They focus on social and environmental issues as well as governance issues such as executive compensation and board makeup.

Who participates in ESG investing?
Large pension funds such as the California Public Employees Retirement System (CalPERS), TIAA-Cref, and Norway's government pension fund have embraced ESG investing. Unlike many SRI investors, ESG investors are primarily concerned with shareholder value and other fiduciary duties.

Source: Sustainable Business Strategies.

ABOUT THE AUTHORS

Andrew Savitz, a principal in Sustainable Business Strategies, is a creative advisor, author, and speaker, with over 20 years of hands-on experience assisting corporations to become leaders in sustainability, environmental performance, measurement, and reporting. Savitz is the author of *The Triple Bottom Line: How the Best Run Companies are Achieving Economic, Social, and Environmental Success and How You Can Too* (Jossey-Bass/Wiley, 2006) and is a frequent keynote speaker. He was a lead partner in PricewaterhouseCooper's global Sustainability Business Services practice and was PwC's liaison delegate to the World Business Council for Sustainable Development.

Savitz served as general counsel in the Massachusetts Office of Environmental Affairs, where he conceived and organized the Commonwealth's Environmental Crime Strike Force, and the first-in-the-nation workshop on environmental law for state court judges. He has taught courses at the Environmental Law Institute, in Washington, D.C. on environmental law and regulations, compliance and enforcement, environment and the media and environmental ethics.

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She worked with the Center for Corporate Citizenship at Boston College for four years to identify key sustainability developments and trends. Paschall has also worked as a Research Associate at Harvard Business School, engaged in case-writing and curriculum development related to corporate social responsibility. She has twice consulted for the World Bank Institute's Corporate Governance and Corporate Social Responsibility Team, most recently focusing on private-sector efforts to address worldwide malnutrition.

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