National Round Table on the Environment and the Economy

Capital Markets and Sustainability Program

Corporate Responsibility and Responsible Investment

Literature Review

Prepared by

Jeffrey Castellas

Peter Castellas

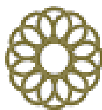
Rob Bell

Global Knowledge Ventures
www.gkv.com.au

815 Elrick Place
Victoria, B.C.
V9A 4T2 Canada
Tel: 1-250-889-4866
jcastellas@gkv.com.au

11-15 Rutherford Road
Tecoma, Melbourne
3160 Australia
Tel: 61-3-9754-1862
pcastellas@gkv.com.au

May 27, 2004



National Round Table on the Environment and the Economy

Table ronde nationale sur l'environnement et l'économie

Canada

Copyright
© Global Knowledge Ventures Pty Ltd, 2004.

www.gkv.com.au

This report was produced by Global Knowledge Ventures, an internationally recognized finance and sustainability company with offices in Canada and Australia. The authors would like to thank the staff of the National Round Table on the Environment and the Economy (NRTEE) Capital Markets and Sustainability Program (CMSP) for their review of and input into this report. It should be recognized that the analysis and views expressed in this report are those of the authors and are not the official position of the NRTEE.

Table of Contents

1 Executive Summary 4
2 Introduction 6
3 Do Capital Markets Reward Corporate Responsibility? 8
3.1 The materiality of environmental and social risks 8
3.2 CR and shareholder value 10
3.3 The business case for CR 11
3.4 CR investment research 13
3.5 RI Products, their performance and capital allocation to CR 14
3.6 Engagement of mainstream analysts and investors with CR/RI 17
3.7 Conclusions 19
4 Disclosure and Reporting Requirements 21
4.1 International best practice in CR reporting 21
4.2 Disclosure guidelines 23
4.3 Metrics and data that evaluate and quantify the financial impact of CR performance 25
4.4 Conclusions 27
5 The Connections Between CR/RI and Corporate Governance 28
5.1 Defining corporate governance 28
5.2 What are the pension fund trustee obligations to incorporate CR in investment strategies? 29
5.3 Conclusions 30
6 Training and Education 32
6.1 Are CR and RI principles understood by the market? 32
6.2 Education for capital markets and sustainability 33
6.3 Conclusions 35
7 Bibliography 36

1 Executive Summary

There is an ever-increasing global body of work being produced on the topics of Corporate Responsibility (CR) and Responsible Investment (RI). This literature review for the National Round Table on the Environment and the Economy (NRTEE) Capital Markets and Sustainability Program (CMSP) is intended to be an effective starting point for the build-up of additional references, topics and analysis to be used as the CMSP progresses to prepare a *State of the Debate* report to be released in the fall of 2005.[1]

In general, capital markets participants do not fully accept that environmental and social risks are material to company performance. Consistent findings in the literature point to a need to further develop internationally credible quantitative research on the financial materiality of CR information, including sector specific issues, in order to improve the understanding of investment implications of CR risks and opportunities.

Although the literature does highlight the growing belief among companies in the business case for CR, further research is required to strengthen the link between better CR performance and shareholder value.

There are positive indications that mainstream analysts and investors are beginning to understand, accept and effectively incorporate CR into capital allocation decisions; however, the literature is not conclusive as to whether investors are putting a premium on CR. The major form of capital allocation from the markets to CR/RI is through allocations to Socially Responsible Investment (SRI) the challenge is to drive adoption of CR principles into the mainstream investment world.

Presently, the communication and interaction between CR proponents and the mainstream investment community is limited. CR needs to be better articulated and described in terms that are meaningful to mainstream analysts and investors. Globally significant issues such as climate change are proving to be catalysts for creating general agreement that CR relates to investment risks or adds value.

Internationally, and in Canada, new disclosure legislation has required companies to progressively disclose more information to financial stakeholders, yet company reporting on CR issues has not been sufficiently refined to meet the specific information and risk assessment needs of investors. Further research is needed to assess the adequacy of the regulations and voluntary initiatives, including performance measures to help drive additional quality financially relevant CR disclosures from companies and sectors.

There are no universally agreed upon metrics used by companies and investors to recognize and measure the financial impact of CR or elements thereof. More research needs to be done in the development of credible, and robust tools and benchmarks which evaluate and quantify CR performance and risks. Additional research is required into how to capture, define and quantify the benefits arising out of intangible values such as reputation, brand and human capital.

The corporate governance agenda has expanded to include environmental and social dimensions. Consequently directors' responsibility and fiduciaries' duties have now also expanded to include environmental and social issues. The terminology regarding corporate governance and elements of CR are becoming somewhat interchangeable.

Governments have played an important role in encouraging the incorporation of social, ethical, and environmental issues into investment practice through the introduction of new

[1] See <www.nrtee-trnee.ca> for an overview of the CMSP.

legislation. Yet for fiduciaries there are very few formal guidelines for them to follow in the incorporation of CR factors in their asset allocation decisions.

The need for sustainability education for capital markets participants is growing and becoming more defined. However, there has been a lack of development of training programs and education initiatives on CR specifically for capital market participants and a lack of research identifying their specific training needs.

A number of the issues discussed in this paper could form the content of possible training programs or research agendas, such as: determining the materiality of CR risks, assessing the financial implications of CR performance, communicating the business and investment case for CR, and improving reporting and analytical techniques.

Addressing the issue of education and effective communication is fundamental if companies and investors, particularly mainstream investors are to have a common understanding of CR issues and an effective dialogue in order to recognize and reward CR resulting in progress toward Sustainability.

2 Introduction

The aim of this Capital Markets and Sustainability Program (CMSP) Literature Review is to provide Canada's National Round Table on the Environment and the Economy (NRTEE) with a report that:

- Reviews a selection of the latest contemporary literature on CR and RI;
- Summarizes, analyzes, and critiques some of the existing research reports;
- Identifies gaps in the global literature as a basis for prioritizing issues for the CMSP;
- Highlights main topics of inquiry; and,
- Focuses on the issues from a capital market perspective.

This Literature Review represents one months work and is intended to be an effective starting point for further debate and research with the build-up of additional references, topics and analysis as the CMSP progresses. Accordingly, it should be recognized that this Literature Review was not intended to include all reported documentation or publications nor be fully comprehensive in its coverage. We have addressed and drawn conclusions on the four topics to be covered in the Literature Review as follows:

1. Do Capital Markets Reward CR?

2. Disclosure and Reporting Requirements

3. The Connections between CR/RI and Corporate Governance

4. Training and Education

The documents that have been reviewed and analyzed for this Literature Review were chosen from an extensive international and national body of work relating to the National Round Table on the Environment and the Economy (NRTEE) Capital Markets and Sustainability Program (CMSP) and the field of Corporate Responsibility (CR) and Responsible Investment (RI). After a comprehensive search and review of available literature these references were selected based on a number of criteria. These are:

- **The references are contemporary**
  The field of CR/RI is evolving very fast. The subject matter and issues of interest to NRTEE are constantly being updated and discussed in the literature, with previously held views and related facts and statistics being debated and superseded on a regular basis. We felt it was important to include the latest material that we could source and reference. As such, the bulk of the references have been produced in the last three years with a significant number produced in 2004.

- **The references represent a variety of stakeholder views**
  We have deliberately utilized the work of a cross section of stakeholders including business associations, academics, government bodies, Socially Responsible Investment (SRI) researchers, non-government organizations, sustainability consultants and practitioners and mainstream financial institutions.

- **The references are targeted for different audiences**
  The references cited here are intended for a variety of audiences; they specifically include both Canadian and international reports.

- **The references relate to similar OECD economies**
  Although some reports are international in scope, they mostly relate to North America, Europe, and Australia. References dealing specifically with emerging markets and economies in transition were not prioritized in these summaries.

Throughout the literature, a wide range of terms have been created and used in discussions of this theme of capital markets and sustainability. These include: Corporate Social Responsibility (CSR); Corporate Responsibility (CR); Corporate Citizenship (CC); Triple-Bottom-Line (TBL) reporting; Ethical Investment; Responsible Investment (RI); Socially Responsible Investment (SRI); Sustainable Development (SD) and Corporate Sustainability (CS). In the context of this Literature Review, we have, where appropriate substituted CR and RI[2] for the various associated terms used in the literature and for the non-financial aspects of company performance.

[2] The NRTEE defines corporate responsibility (CR) as encompassing an examination of the same environmental and social issues as RI but CR deals with the issues within the context of how capital is allocated within a company. The NRTEE defines responsible investment (RI) as the integration of environmental criteria and social criteria, insofar as the latter underpins the "social license to operate," into investment decision making. See <www.nrtee-trnee.ca>.

3 Do Capital Markets Reward Corporate Responsibility?

3.1 The materiality of environmental and social risks

In general, capital markets participants do not fully accept that environmental and social risks are material to company performance. The key focus of a number of recent studies on Corporate Responsibility (CR) and Responsible Investment (RI) has been to try to identify the CR issues that have material impacts on companies, yet there does not seem to be a common definition for materiality among capital market participants (largely defined) let alone any consensus on the main CR issues that are material.[3]

From the literature, it does not appear that investors and companies are having a meaningful dialogue about the business value of CR. One reason is that the large volume of information and case studies dominating current company CR reports often obscures rather than reveals the material issues.[4] A report by Arthur D. Little (2003), found that there is a "strong desire and urgent need for more clarity" on what issues are material to companies. The report identified the need to shift the responsibility for defining what is material away from Socially Responsible Investment (SRI) "experts" and more towards the companies themselves. It is suggested that company reports must clearly articulate how issues affect growth and profitability; the process for tracking and managing material issues over time; the effects of products and services; and sector-specific collaboration on materiality.[5]

Cowe (2004) suggests that companies are becoming more skilled at understanding and quantifying the business impacts of environmental and social issues and in doing so may make it easier for analysts and investors to incorporate such issues into decision making.[6] However, as Carpentier (2003) summarizes, there is enormous variation in what companies determine as material CR issues, which leads to confusion for companies in determining what they should report and disclose to the capital markets. Therefore, as Carpentier surmises, potentially material information often goes unreported to financial markets.[7] At a 2003 conference co-organized by the UNEP Finance Initiative and the Commission for Environmental Cooperation of North America concerning corporate environmental disclosures in financial statements, it was concluded that lack of a "clear definition of what ought to be reported can create the impression among firms that environmental information is not relevant to investors and consumers, and this might lead them to decide against disclosing potentially material environmental information."[8]

As materiality issues are examined in more depth, it is becoming clear that they differ between companies and industry sectors. For example, a World Resources Institute (WRI) study by Repetto (2000) examined 13 companies within the US pulp and paper industry for environmental risks that he identified as having material significance and found that they "vary widely in magnitude from firm to firm." The report used a standardized equity valuation framework to determine that net impact of environmental exposure ranges up to from +2.9% to -10.8% of the firms' market capitalizations. [9]

Repetto's methodology demonstrates how financially material environmental issues can be integrated into a company's financial analysis. He suggests the method may act as a

---

[3] A.D. Little, *Speaking the Same Language: Improving Communications between Companies and Investors on Corporate Responsibility*, 2003.
[4]Ibid 2003.
[5] Ibid 2003.
[6] R.Cowe, *Risk Returns and Responsibility*, 2004.
[7] C. Carpentier, Z. Patterson, and J. Malthouse, *Environmental Disclosures in Financial Statements: New Developments and Emerging Issues.* The second Finance and Environment Meeting held by the Commission for Environmental Cooperation (CEC) of North America with the Financial Sector. New York, 26 February 2003.
[8] C. Carpentier, ibid
[9] R. Repetto and D. Austin, *Pure Profit: The Financial Implications of Environmental Performance*. World Resources Institute, Washington, D.C., 2000.

framework that can be "used by analysts to evaluate conventional business risks and opportunities."[10]

In addition, Crow (2004) states that "increasingly research has moved from looking for generic CSR [CR] impacts to a recognition that impacts will vary widely over time, place and sector." For example, he notes that "social exclusion is bound to be more pertinent in sectors such as financials and utilities than in autos or electronics," he also notes the retail sector is concerned with indirect issues, whereas chemical and manufacturing sectors are more concerned with more direct environmental impacts.[11]

Although specialist sustainability research organizations such as Innovest[12] and SAM[13] have begun to produce detailed sector reports highlighting material issues within some sectors, generally not enough research has been undertaken on a sectoral basis to make clear distinctions between sectors of the relative materiality of CR risks. Interestingly, both SAM and Innovest have used the phenomenon of climate change to demonstrate, through their various research methodologies, that there are material impacts to company performance and profitability from this environmental issue. A recent SAM report studied the emerging "carbon constraints" in the global automotive market by considering ten leading companies. Their analysis identified that climate change created both risks and opportunities. The report identified that the risk primarily stemmed from "pressure to increase the fuel economy or lower carbon dioxide emissions intensity of vehicles." The opportunity for companies is being "able to produce vehicles with lower carbon emissions" which could lead to increased market share and financial performance, thus materially improving their earnings and ability to compete in global markets.[14]

Ernst & Young (2003)[15] concluded in their Australian study of environmental factors that influence materiality that environmental risks are likely to become more material in the next 3-5 years primarily due to tightening of regulation, increased litigation, and increased community and stakeholder expectations of corporate environmental, social, and ethical performance.

One way the identification of environmental and social risks can be fostered is through government regulation.[16] In the UK, directors of leading companies are required, through the Operating and Financial Review (OFR), to report strategic issues, including social and environmental factors, that are material for shareholder value.[17] The OFR has proposed a set of criteria for assessing processes to identify material issues. This will help in issues of transparency and, importantly, comparability. This mandated approach would force many large UK companies to undertake processes to identify and manage their material CR risks.

---

[10] R. Repetto, ibid, 2000.
[11] R. Cowe, ibid, 2004.
[12] See <www.innovestgroup.com> . Innovest undertake in-depth analysis of high-risk industry sectors identifying environmentally-driven risks and opportunities for each sector and including detailed profiles on as many as 40 companies per sector.
[13] See <www.sam-group.com>.
[14] SAM "*Changing Drivers - The Impact of Climate Change on Competitiveness and Value Creation in the Automotive Industry"see*< www.sam-group.com>.
[15] Ernst & Young, *The Materiality of Environmental Risk to Australia's Finance Sector,* Commonwealth of Australia, 2003.
[16] Pearce, B, *Finance Environment and Sustainable Development Report.* P. Clements-Hunt, and K. Lawal, K UNEP FI 2003. p. 14
[17] See <http://www.dti.gov.uk/cld/financialreview.htm>

3.2 CR and shareholder value

From a company perspective there is growing acknowledgement that adopting CR strategies and policies can create shareholder value. In a 2002 global survey of CEOs, PricewaterhouseCoopers found that “more than ever before, CEOs are saying that sustainability [CR] is an integral part of value creation, not an add-on or a simple cost item.”

Perhaps the most comprehensive review of the last 30 years of research looking at the links between CSR (CR) and Sustainability performance and financial results was undertaken by the UK Centre for Sustainable Investment which concluded that the number of studies finding a positive correlation far outweigh those that do not.[18] However, the evidence of these studies was “compelling but not conclusive.” Pearce concluded that more recent evidence examined showed that CR “can create shareholder value for some issues, in some industries, with some companies and for some management strategies.” Approximately 50 organizations conducting these studies were identified by Pearce (2002), from Milt Moskowitz in 1972 to current work. Further research and analysis is required to reveal the respective biases of the authors and how they defined and quantified both sustainability and financial performance. [19]

From an investor perspective, the link between CR and shareholder value is not so clear-cut. Although case studies (Holliday 2002) demonstrate a predominance of company perspectives on the positive link to shareholder value from CR, few studies examine the specific views of the mainstream finance community.

Several recent exceptions have, however, provided much needed perspectives from the financial sector and indicate that there is an emerging recognition by mainstream investors that there is a positive correlation between CR issues and shareholder value. In a study undertaken in 2003 by Echo Research,[20] it was found that mainstream financial analysts are beginning to factor in CR in the evaluation of a company’s investment potential and that interest in CR is intensifying in the way the international finance community views and values traded companies.

Analysts and fund managers are beginning to see a link between non-financial risks and shareholder value.[21] The Deloitte & Euronext (2003) study also found that 89% of investor relations officers and 76% of fund managers and analysts see a clear link between non-financial risks and shareholder value. Yet shareholder value can be seen from both a short and long-term perspective, with many CR initiatives thought to have a positive impact on a company’s market value in the long term[22] but no impact on the short term. Dallas (2003) confirms the view that the timeframe of many investors is notably shorter than that of those who focus on sustainability. He also states that the longevity dimension of sustainable development poses a potentially problematic timeframe gap which is, along with the lack of strong empirical evidence, a major challenge in adopting CR principles more forcefully in the mainstream investment world. Bridging this gap in timeframes is key. What is becoming more accepted is that the long-term nature of CR risks is recognized as having a potential influence on shareholder value.[23]

---

[18] B. Pearce, *Sustainability Pays*. Forum for the Future. CSI Co-operative Insurance, UK, 2002.

[19] Also see <www.sristudies.org> for additional research reports

[20] Echo Research, *CSR and the Financial Community-Friends or Foes*, 2003.

[21] Deloitte & Euronext. ***Investing in Responsible Business. The 2003 Survey of European Fund Managers, Financial Analysts and Investor Relations Officers***. 2003.

[22] In C. Holliday et.al., 2002, Reto Ringer, CEO of SAM “remains optimistic that the proactive approach to sustainable development performance will pay off, not just for corporations that take that approach but for investors as well.”

[23] Deloitte & Euronext, *Investing in Responsible Business. The 2003 Survey of European Fund Managers, Financial Analysts and Investor Relations Officers*, 2003. In this study 79% of funds managers and analysts surveyed said the management of CR risks has a positive impact on a company’s market value in the long term but no impact on the short term.

What has been missing from the evidence about the shareholder value benefits of CR has been independent quantitative research to demonstrate the link between CR and stock market performance only (see 3.3). Recently, however, several independent analyst reports have produced statistically relevant results of a positive link, finding that sustainability leaders outperformed their peers in respective sectors. Morgan Stanley worked with the German research firm Oekom, comparing the performance of the 602 companies in the MSCI World Index. Based on Oekom's ratings, 186 were judged to be sustainability leaders in their respective sectors. Their performance in 2000-2003 was compared to the rest of the MSCI constituents and they were found to have outperformed by 23%.[24] Innovest Strategic Value Advisors prepared a comparative analysis of the performance of 15 companies in the European Electrical Utility Sector Report (2003) on "non traditional" investment risk factors and value drivers. The results of Innovest's ratings and quantified results demonstrate the "stock performance of companies receiving above average ratings outperformed that of companies with below average ratings by 39.3% (3930 basis points) over 3 years." In addition, the statistical results show superior business performance for leading companies concerning Operating Margin, Return on Equity, Return on Assets, Price/Earnings Ratio, and Price/Book ratio.[25]

3.3 The business case for CR

The business case for CR has begun to gain wide recognition by the international business community. This was emphasized in a publication from the World Business Council for Sustainable Development (WBCSD) that contained a contemporary collection of 67 company case studies demonstrating that sustainable development is an integral and necessary part of business now and in the future.[26] By providing specific examples of how companies have generated profitable outcomes from approaches to sustainable development, and by highlighting many insights and comments from business leaders from around the world, this publication signified that CR issues have become a high priority business agenda item for corporate boards and executive managers competing in a global marketplace.

In almost every case study and survey on the business case for CR, factors such as reputation, operational efficiency, licence to operate and the attraction of employees are cited.[27] Recently there has been a substantial body of evidence, (Holliday 2002; GEMI 2004; Camejo 2002; Bouma 2001; US EPA Environmental Capital Markets Committee 2000; Thomas 2001) that describes how improved environmental practices contribute financially to the bottom line through reductions in operating costs and capital costs.[28]

Studies on the business case for CR have concentrated on the compelling business case for environmental process improvements. A recent study by Goodman (2003) highlights how a corporation's ability to profit from environmental innovations and prepare for future environmental risks and exposures can have a significant impact on corporate earnings potential, cash flow, and growth opportunities.[29] Specifically, the report reviews the significant body of evidence, both academic and anecdotal, which illustrates that strong environmental performance often has a positive influence on financial performance. The report explores the potentially significant risks of environmental mismanagement, as well as

---

[24] Morgan Stanley and Oekom Research, *Sustainability as a Style of Investment Offering Double Dividends*, 2004.
[25] T. Chattoraj, *European Electric Utility Sector Report*, Innovest Strategic Value Advisors, 2003.
[26] C. Holliday, S. Schmidheiny, and P. Watts, *Walking the Talk: The Business Case for Sustainable Development*, UK: Green Leaf Publishing, 2002. The World Business Council of Sustainable Development launched this publication at the World Summit on Sustainable Development in Johannesburg, South Africa.
[27] See SAM 2003 analysis of over 1000 companies who rated the areas where most value was added from their sustainability strategy.
[28] See <www.3m.com/profile/envt/3p.html> which describes how 3M has achieved cumulative savings of $810 million since 1975 through its "Pollution, Prevention, Pays" program.
[29] S.B. Goodman, J. Kron, and T. Little. *The Environmental Fiduciary. The Case for Incorporating Environmental Factors into Investment Management Policies*, The Rose Foundation for Communities & the Environment, Environmental Fiduciary Project, 2002.

macroeconomic environmental factors such as global climate change that threaten portfolio value regardless of investment style or objective.

The parameters of CR have broadened beyond environmental into social and corporate governance areas. As Reed (2001) points out, much of the potential to add financial value comes from improved management of intangible assets such as brand, reputation, employee goodwill, and intellectual property associated with delivering social and environmental benefits.[30] Yet, as Reed (2001) states, “there is a lack of existing valuation methodologies that can help understand the financial contribution of specific CR strategies at a particular company concerning these intangible assets.”

A frequently referenced work in the literature, on the business case for sustainable development, is Elkington (2001). This report assesses the state and validity of the business case for sustainability based on linking ten dimensions of sustainable development performance with ten more traditional measures of business success, including financial results; such as shareholder value and financial drivers, such as attractiveness to customers and corporate reputation. Elkington concludes that despite continued uncertainty in a number of areas, there are strong reasons for believing that a company’s CR performance is positively linked to its business performance by citing numerous examples, particularly in the areas of environmental process improvements, brand, and reputation.[31]

The business impacts and risks of CR vary between sectors. Recent studies aiming to enhance the business case have involved companies examining what issues are most relevant to the performance of their sectors. The World Business Council for Sustainable Development has a Financial Sector program that is addressing CR/RI issues as they relate to energy and climate risks.[32]

Although the business case for CR has begun to be more accepted, companies are still trying to determine the best way to implement CR strategies and embed such thinking in their organizations. A report by PricewaterhouseCoopers found that although the vast majority of 140 US-based companies surveyed were committing to sustainability to enhance or protect their reputation 72% of these respondents do not incorporate the opportunities or risks associated with sustainability into their business strategies or project investment and transaction evaluation process.[33]

Company CR risks need to be quantified like other business risks. As Nelson (2003) points out, “probably the most frequently cited obstacle to Corporate Citizenship [CR] becoming a more mainstream issue for investors and the companies they invest in, is the lack of a rigorous business case backed up by performance indicators and metrics which can be empirically quantified and benchmarked.”[34]

A number of recent studies undertaken on the business case have tried to identify and quantify the CR impact on share price (Elkington 2002; Feltmate 2001[35]). This is an area of research that will be particularly useful to expand upon in order to build the business case for CR for the mainstream investment community.

---

[30] D. Reed, *Stalking the Elusive Business Case for Corporate Sustainability,* Washington, D.C.: World Resources Institute, 2001

[31] J. Elkington, *Buried Treasure, Uncovering the Business Case for Corporate Sustainability,* UNEP, 2003. The ten financial drivers and performance indicators used by Elkington in his Sustainable Business Value © Matrix include: shareholder value, revenue, operational efficiency, access to capital, customer attraction, brand value & reputation, human and intellectual capital, risk profile, innovation and license to operate.

[32] See <www.wbcsd.ch>

[33] PricewaterhouseCoopers, *2002 Sustainability Survey Report*, 2002.

[34] J.Nelson , *Values and Value: Communicating the Strategic Importance of Corporate Citizenship to Investors*. World Economic Forum, 2003.

[35] B. Feltmate, B. Schofield, and R. Yachnin, *Sustainable Development, Value Creation and the Capital Markets*. Ottawa: Conference Board of Canada, 2001.

Concerning capital markets, one area of particular relevance to the business case for CR is the ever-increasing competition for investment capital. For companies, SRI funds have emerged as a differentiated source of investment capital.[36] These new pools of money with specific investment criteria are increasing the focus on a company's CR performance.[37] As Holliday (2002) identifies, companies are jostling for an opportunity to be included in the Dow Jones Sustainability Group Index[38] and suggests companies are attracted to the prospect of gaining long-term shareholders through inclusion of the company in sustainability portfolios.[39]

3.4 CR investment research

SRI researchers and analysts are a small and specialized subset of the investment analyst community and have undertaken most of the work in the development of the analysis of company CR strategies, policies, risks and opportunities. A recent academic study by van den Brink (2002), summarized the activities of the 28 main SRI research companies that have emerged as SRI has grown over the last ten years. The study revealed the majority began providing CR/RI research services and developed proprietary analytical tools in the early to mid 1990's. However, SRI screening and rating/valuation services are part of an emerging market that has grown considerably over the past five years.[40]

The SRI researchers and analysts have had an important role to play in the greater adoption and appreciation of CR by the mainstream financial community.[41] Feltmate (2001) gives a concise overview of the different investment styles SRI organizations employ and an account of how the SRI funds are gaining recognition within the capital markets as a performance measurement appropriate for use in portfolio construction.[42] One rigorous methodology is employed by Innovest Strategic Value Advisors. They have developed a "Sustainability Overlay" suitable for investment portfolios with approximately 100 performance factors that considers eco-value, human capital, corporate governance and stakeholder capital financially relevant issues, focusing on medium and long term investment risk factors.[43]

Recently, the Swedish government's environmental research foundation MISTRA, commissioned the second in a series of reports (Beloe 2003) to assess the providers of SRI products and research in the US and Europe.[44] The study assessed the quality of different approaches used in the field of SRI and provided valuable insight into SRI research organization methodologies. What has emerged from the Beloe (2004) analysis is that SRI research houses do not, in general, effectively analyze the link between CR issues and material impacts on investment drivers.[45] The study states that "material Sustainability issues are currently identified through internal ad hoc processes" and that the "link between these issues and materiality is at best anecdotal and at worst unproven." Some of the findings of the Beloe study were echoed by van den Brink who reviewed 28 research companies and concluded that, "the quality of research of many (SRI) financial analysts is under scrutiny,

---

[36] See section 3.5 for the size of SRI funds under management.
[37] See <www.socialinvest.org>. A Social Investment Forum Study in 1999 found that 79% of SRI funds use environmental performance as a screen.
[38] Launched in 1999, the Dow Jones Sustainability Indexes are the first global indexes tracking the financial performance of the leading sustainability-driven companies worldwide. Based on the cooperation of Dow Jones Indexes, STOXX Limited and SAM they provide asset managers with reliable and objective benchmarks to manage sustainability portfolios. Currently 51 DJSI licenses are held by asset managers in 14 countries to manage a variety of financial products including active and passive funds, certificates and segregated accounts. In total, these licensees presently manage 2.8 billion EUR based on the DJSI. See www.sustainability-indexes.com
[39] C. Holliday, S. Schmidheiny, and P. Watts. *Walking the Talk: The Business Case for Sustainable Development*. UK, Green Leaf Publishing, 2002.
[40] T. van den Brink, *Guide: Screening and Rating Sustainability*, Vrije University of Amsterdam, 2002.
[41] Echo Research, Ibid. Quote by William Oulton Strategic Advisor for SRI to FTSE Group.
[42] B. Feltmate, B. Schofield, and R. Yachnin *Sustainable Development, Value Creation and the Capital Markets*, Ottawa: Conference Board of Canada, 2001.
[43] See <www.inovestgroup.com>
[44] S. Beloe, *Values for Money: Reviewing the Quality of SRI Research.* Mistra 2004.
[45] S. Beloe, Ibid.

and the need for transparent and responsible companies has increased in the investment community."

The MISTRA report recommends that to survive and thrive in the marketplace, SRI research organizations must adopt so-called "second generation" research approaches correlating the materiality of social and environmental performance to financial performance.[46] The study concludes that if the SRI research organizations are "to succeed in breaking into the mainstream of investment decision making, it will be essential to prove that their research contributes to financial value creation". Although the report has been criticized for its biases [47] it has sparked a vigorous debate within the SRI community as to the validity of its findings. The report makes a useful contribution to the field and has been instrumental in highlighting the need for greater focus from SRI organizations on identifying the CR issues that most closely link with mainstream investment value drivers.

Research of CR among mainstream analysts, particularly those on the sell-side, is at an early stage. However, brokers such as Dresdner Klienwort Wasserstein, HSBC, WestLB, and UBS are analyzing these issues and even producing sector analysis reports aimed at providing investment intelligence**.**[48] As noted by Beloe (2004), "a key feature of the approach used by sell-side brokers is their ability to analyse issues with respect to their impact on investment value."[49] What is not evident from the literature is how much CR related research is going on within mainstream finance companies and how much exchange of information takes place within companies that have specialist SRI capabilities in asset management and their mainstream counterparts.

3.5 RI Products, their performance and capital allocation to CR

A major form of capital allocation from the markets to CR/RI is through the allocation of Socially Responsible Investment (SRI) mandates. Internationally, there are now over 200 mutual funds run by over 800 portfolio managers and analysts dedicated to RI.[50] However, as Banks (2003) points out, of the entire pool of equity, bond and credit capital available to corporations around the world, less than 3% is provided on the basis of a review of sustainability criteria.[51]

Interesting developments are taking place in the allocation of new pension fund mandates. Many of these pension funds are taking CR dimensions into account following either regulatory changes or pressures from pension holders indicating a positive trend to growth in funds allocated to RI.[52] A Friends of the Earth study (2002) surveyed 100 UK pension funds and noted that around three quarters of UK pension holders would like their pensions to be used to influence socially responsible corporate behaviour, with the important message for trustees and fund managers being not should we be developing SRI within our pension funds but how can we do it better.[53]

Various studies have tried to quantify the funds under SRI management with the most comprehensive study undertaken in the US by the Social Investment Forum (SIF).[54] Their methodology for accounting for SRI investments involves the three core socially responsible

---

[46] S. Beloe, ibid.
[47] W. Bauer, see <www.asria.org/news/press/1079406668>.
[48] S. Beloe, ibid.
[49] S. Beloe, ibid.
[50] Global Environment Management Initiative, *Clear Advantage: Building Shareholder Value/Environment: Value to the Investor*, 2004.
[51] A. Banks, *Finance Environment and Sustainable Development Report,* P. Clements-Hunt, and K. Lawal, UNEP FI 2003: 12.
[52] J. Elkington, *Buried Treasure, Uncovering the Business Case for Corporate Sustainability,* UNEP, 2003.
[53] Friends of the Earth, *Top 100 UK pension funds - how ethical are they?*, 2001.
[54] Social Investment Forum, *2003 Report on Socially Responsible Investing Trends in the United States*, 2003. Funds under socially responsible or ethical mandates; using one or more of the three core socially responsible investing strategies (screening, shareholder advocacy, and community investing), now account for over US$2.16 trillion in assets.

investing strategies: screening, shareholder advocacy, and community investing. Other international studies (Christensen 2004[55]; Greene 2002[56]; St. Muir Sheil 2003[57]; SIO 2000[58]; Bauer 2003[59]) have adopted similar techniques as SIF to account for the SRI funds under management in other countries. The message from these studies is that the percentage of SRI funds under management is growing faster than the percentage of non SRI funds under management.

Although reports often quote the Social Investment Forum's headline figure of 13% of the US $16.3 trillion in investment assets under professional management, there has been surprisingly little research on the validity of using all the techniques they adopt to account for the size and growth of SRI funds under management.

One way to assess the link between CR and financial performance is through the performance of SRI funds. Studies (Asmundson 2003; Feltmate 2001; Kroon 2002; Sutton 2003) have indicated that investment portfolios composed of companies committed to CR do not hurt returns and in some cases outperform their benchmark.[60] Asmundson (2001) studied the performance of Canadian ethical mutual funds with domestic equity orientation and found no statistically meaningful differences in return but some weak evidence suggesting that ethical investing is less risky.[61] Kroon (2002) reviewed 18 direct studies on the relationship between sustainability and financial performance and concluded the balance of the empirical evidence supports the view that SRI has generally not led to a long-run risk adjusted underperformance versus conventional approach.[62] Sutton reviewed the empirical evidence of SRI performance by comparing two SRI indices with their comparable conventional index, and concluded that SRI (RI) does not lower investment returns. He also concludes that although empirical evidence concerning CSR (CR) is limited; there is "no compelling evidence that companies pursuing CSR worsen their financial performance."[63]

However, debate over whether SRI contributes to financial performance is ongoing. A recent study by Pictet Asset Management highlighted that of 288 European companies representing more than 90% of the MSCI Europe index found that some, but not all, sustainability (CR) indicators are linked to outperformance. The study found that if portfolio selection was

---

[55] M. Christensen and H. Wildsmith, *SRI in Europe and the U.K,.* Green Money Journal. From the stock market to the supermarket. See <www.greenmoneyjournal>, 2004. In Europe, the SRI remains a niche but growing market. The Green Money Journal segments the European market and identifies the institutional SRI assets at €34 billion, the negative screened funds at €218 billion and the "engagement" practices at €336 billion.

[56] D. Greene, *Socially Responsible Investment in Australia 2002 Benchmarking Survey,* Ethical Investment Association, September 2002. In Australia there is a well developed retail driven SRI market with AUD$13.9 billion under management in SRI registering over 700% growth since 1996.

[57] D. St.Muir Sheil, *SRI in Asian Emerging Markets,* Association for Sustainable & Responsible Investment in Asia, October 2003. While in Japan, a mature market has developed with Yen 70 billion (US $599) invested in SRI funds as of February 2003

[58] Social Investment Organization, *2000 Canadian Social Investment Review*, 2000. In Canada, SRI, accounts for 3.2% or CDN$50 billion of assets, see <www.socialinvestment.ca>.

[59] R. Bauer, J. Derwall, and R. Otten, *Canadian Ethical Mutual Funds: Performance and Investment Style Analysis in a Mulitfactor Framework*, Maastricht University, The Netherlands: Limburg Institute of Financial Economics, 2003. The Canadian ethical mutual fund industry has witnessed a rapid growth during the second half of the previous millennium and has become a significant retail market.

[60] B. Feltmate et al., ibid, 2001. The report describes that there is "compelling evidence indicating that investment portfolios composed of companies committed to Sustainable Development (CR) have, on the whole, generally matched or out performed their benchmarks. This evidence is based on the performance of seven prominent funds and indices managed in Canada, the United States and Western Europe that have track records between 1 and 10 years."

[61] P. Asmundson and S.R. Foerster. *Socially Responsible Investing: Better for Your Soul or Your Bottom Line?* Canadian Investment Review, 2001. As identified in R. Bauer, ibid. This study "examined the performance of Canadian ethical mutual funds with domestic equity orientation vis-à-vis the performance of the TSE 300 Index, found no statistically meaningful differences in return but some weak evidence suggesting that ethical investing is less risky."

[62] E. Kroon, *Do socially responsible equity portfolios perform differently from conventional portfolios? If so: how and why?* ABN AMRO Asset Management Global Consulting Group, 2002. Kroon's conclusions are drawn from analysis of significant international (USA, Canada, Europe) empirical studies on corporate social, environmental and financial performance including: Waddock & Graves 1997a., Waddock & Graves 1997b, Russo & Fouts 1997, Preston & O'Bannon 1997, Cohen, Fenn & Konar 1997, Feldman, Soyka & Ameer 1997, Bhat 1999, Butz & Plattner 1999, Konar & Cohen 2000, Dowell, Hart, Yeung 2000, Wyatt 1999, Wyatt 2000, Blank & Carty 2001, Klassen & McLaughlin 1996, Gunthorpe 1997, Scope, 2000.

[63] B. Sutton, *Does Socially Responsible Investing Hurt Investment Returns? Phillips, Hagar & North Investment Management,Canada 2003.*

undertaken on 100 identified sustainability criteria, the portfolio underperformed its benchmark by 11%.[64]

Numerous studies have tracked the growth and development of SRI as a form of capital allocation and the broader developments in equities research. It is important to note that most of the research has been conducted by organizations that have an interest in progressing the development of the SRI industry and there are few published reports from mainstream analysts, as opposed to academics, which have evaluated SRI fund performance. Accordingly, it is also important to recognize there are numerous examples of people that are skeptical or that disagree with CR/RI as relevant to the mainstream. Certain examples are cited in a recent article in Corporate Knights magazine for CSR. Bob Bertram, Executive VP of Investments for the $68 billion Ontario Teachers' Pension Plan is quoted as saying "there is no philosophical basis to merge sustainability into the economic model." Rob Carrick, the personal finance columnist of The Globe and Mail, said that the performance of SRI funds in Canada is so "lamentably lame" that it should be called "FII, or financially irresponsible investing." Terry Corcoran editor of the Financial Post "blames CSR for the spectacular share price implosion of Parmalat and AOL-Time Warner." [65] A study by Kroon (2002) describes the varying and opposing views on the performance of SRI (RI) equity portfolios and identifies SRI "disbelievers" reason that if "corrections are made for different biases, little will remain of the out performance claimed by SRI supporters."[66]

Literature on CR/RI is concentrated on the analysis and investment issues relating to global equities markets and there is a lack of studies that examine how CR issues are being impacted by developments in these sub-sectors of the capital markets. As Willis (2004) highlights there are other sub-categories of capital markets such as, bonds, Private and venture capital, lenders and debt guarantors, and insurance providers which have not been analyzed in the literature to the same extent as SRI.[67] For example, the development of sophisticated policies and practices of banks with regard to the assessment of environmental/sustainability risks in credit provision warrants further investigation. Some studies such as Schaltegger's (2000) have produced clear evidence that significant amounts of capital provision are withheld due to concerns over environmental liabilities in loan applications. This study found that after the introduction of Superfund in the US, 62.5% of banks analyzed had rejected loan applications because of the possibility of environmental liability.[68]

Similarly, with regards to venture capital, there is a lack of research that identifies the capital flowing to CR/RI from private equity sources. Most SRI funds cover only large-cap, publicly listed companies; however, they are not the only organizations focussed on CR and delivering investors returns on investment. As a UNEP /INSEAD study on Sustainable Venture Finance points out, innovative solutions to environmental and social problems are most often found with entrepreneurs and new ventures. Research undertaken by O'Rourke (2002) revealed a lack of fundamental research and virtually no basic information as to who is doing what in the sustainable venture capital area.[69]

The insurance industry is increasingly exposed to global sustainability issues. Again, there has been little research undertaken to identify the role that insurers have in allocation of capital for CR/RI. Pearce (2001) emphasized that insurers were among the first capital market participants to respond to CR issues due to pressure to respond to environmental related losses since the late 1980's. Pearce goes on to describe the evolution of new insurance

[64] A. Mathias, *Banks Disagree on SRI Performance.* Environmental Finance December 2003-January 2004.
[65] T. Heaps, *SRI Under Attack*, Responsible Investing Guide. Corporate Knights Vol. 2 No. 3 2004. While Paul Hawkin from the Natural Step expresses concern at finding McDonald's in an SRI fund and says, "Selling McDonald's as a socially responsible investment is socially irresponsible."
[66] E. Kroon, *Do Socially Responsible Equity Portfolios Perform Differently from Conventional Portfolios? If so: how and why?* ABN AMRO Asset Management Global Consulting Group, 2002.
[67] A. Willis, National Round Table on the Environment and the Economy Capital Markets Program briefing paper 2004.
[68] S. Schaltegger and R. Burritt, *Contemporary Environmental Accounting: Issues, Concepts and Practice,* UK: Greenleaf Publishing, 2000.
[69] A. O'Rourke and J. Randjelovic, *The Emergence of Green Venture Capital*, 2003.

products that blur the distinction between insurance and capital markets with insurers now writing weather hedges to complement their traditional insurance cover for extreme weather events.[70] The issue of climate change can be used as an example for the mainstreaming of CR/RI principles as it represents a financially relevant issue for the finance and insurance industry.[71]

Finally, there is a lack of research on the effects of CR on corporate bonds. Cowe (2004) pointedly suggests CR would be expected to have impacts on the corporate bond market as company specific risk is more significant for bonds than for equities.[72]

Trends indicate that capital will continue to be allocated to CR/RI and as Lake (2003) comments, pension reform in many countries around the world will increase equity investment as governments introduce various incentives to boost private saving and the investor base will also be broadened.[73]

3.6 Engagement of mainstream analysts and investors with CR/RI

Although the trends are positive, mainstream analysts and investors are at an early stage in understanding, accepting and effectively incorporating CR in capital allocation decisions.

The interest in CR and RI from the mainstream capital markets is increasing. Cowe (2004) suggests that the historical scepticism of the mainstream analysts and fund managers as to the potential benefits, risks, and relevance of CR has slowly eroded. The report states that "corporate governance scandals have highlighted the importance of integrity and broad management issues," and that "greater clarity has emerged about the connections between CR and shareholder value in individual sectors and companies." [74]

Evidence to support this view comes from a recent survey of 388 fund managers, analysts, and 80 investor relations officers in nine European countries (CSR Europe 2003) in which social and environmental performance were identified as being on course to become a significant aspect of mainstream investment decisions within the next three years. [75] The results of this report are important because they were obtained from surveying the mainstream European financial community. Also, as it was the second report of its type, so the authors had the ability to compare views and trends from the previous two years. Although the study was the first comprehensive European picture of how CR performance informs decisions and attitudes among mainstream fund managers/analysts, it did not detail the reasons why the respondents see the interest in environmental and social issues trending this way.[76] Further analysis and research of the mainstream financial community on this point would be useful to provide greater insight.

Another longitudinal study supporting the changing views of capital market participants in respect to CR found that when asked directly about the importance of environmental factors, 33% of mainstream analysts said it was "quite or very important" in their evaluation of companies, compared to a response rate of 20% in 1994. The figures for social issues have increased by an even wider margin over that time, from 12% to 34%.[77]

---

[70] B. Pearce, *Capital Markets, the Financial Services Sector and Sustainability,* Forum for the Future, 2001.
[71] Innovest Strategic Value Advisors and A. Dlugolecki, Climate Change and The Financial Services Industry, UNEP FI Climate Change Working Group, 2001.
[72] R. Cowe, Ibid 2004.
[73] R. Lake, *Finance Environment and Sustainable Development Report*, for P. Clements-Hunt, K. Lawal, UNEP FI 2003.
[74] R. Cowe, *Risk Return & Responsibility*, Association of British Insurers, 2004.
[75] CSR Europe, Deloitte & Euronext, ***Investing in Responsible Business. The 2003 Survey of European Fund Managers, Financial Analysts and Investor Relations Officers***, 2003. This survey constituted the. According to the survey, a majority 52% of fund managers and analysts and 47% of investor relation's officers agree that social and environmental performance is on course to become a significant aspect of mainstream investment decisions within the next three years.
[76] The first report was undertaken in 2001.
[77] "Business in the Community," *Investing in the Future,* 2001.

At an international level there is increased activity amongst the financial and insurance sectors on CR issues. An example is the UNEP Finance Initiative, established in 1992, which brings together over 280 global financial institutions who engage in dialogue on sustainable development and commit to the mainstreaming and integration of environmental considerations into all aspects of their operations. During 2003, the UNEP FI members, including six Canadian financial institutions, worked on various projects such as understanding the materiality of key environmental and social criteria, the fiduciary responsibility of institutional investors and SRI in emerging markets.[78] Another strong signal that the financial sector is becoming interested in CR issues is the development of voluntary initiatives such as the Equator Principles, a banking industry framework for addressing environmental and social risks in project financing in emerging markets.[79]

There are also some clear signals that investors are beginning to demand information from companies on certain CR issues that have received significant attention in recent times. Two of the main issues are climate change and corporate governance (see section 5.1 for further discussion on corporate governance). The Carbon Disclosure Project (CDP) has probably been the most emphatic statement from the global investment community that they consider and recognize that climate change presents an investment risk. In May 2004 the second report was launched. Ninety-five institutional investors representing over $10 trillion in assets were signatories to the request to FT500 companies for disclosure of investment relevant information relating to risks and opportunities presented by climate change. Some of the key findings noted in the report include that the mainstream investment community is now starting to assess climate change as part of "smart" financial management, climate change and shareholder interests are becoming intertwined and that developments over the past 18 months "have highlighted the social and economic costs of climate change and the risks and opportunities being created world wide by emissions reduction policies."[80]

The Institutional Investor Summit on Climate Risk, held in New York in 2003, involving investors representing over $1 trillion in assets and senior representatives of Wall Street fund management firms, also has sharpened the investment community's interest in companies disclosing information on this issue.[81] This type of event reflects the growing number of conferences, seminars and industry events that have been designed to involve the capital markets in sustainability.[82]

While some of the research indicates that there are tangible signs that the mainstream financial sector is recognizing and understanding that CR issues are relevant, some studies have produced contradictory evidence indicating a lack of recognition or prioritization of CR. Research pertaining to 250 US business and financial leaders revealed that 88% of US financial institutions do not take SRI (RI) into account in their investment decisions, and a third consider that good CSR (CR) can result in better risk management.[83]

Further findings contradicting the view that mainstream investors are engaged in CR in their dealings with companies comes from a 2002 survey of CEOs by the World Economic Forum. This study asked CEOs which stakeholder groups created the greatest pressures or incentives

---

[78] See <www.unepfi.net>.
[79] See <www.equator-principles.com> The Equator principles are a transparent, external standard and will be applied to all projects in emerging markets over US $50 million.
[80] See <www.cdproject.net>.
[81] See <http://www.incr.com/>.
[82] Examples of conferences include UNEP FI Global Round Table on *Sustaining Value*, Tokyo 2004, Global Knowledge Ventures: *Financing Sustainable Development*, Hong Kong 2003, 2004 Bell Conference: *Building a Sustainable City through Sustainable Enterprise,* Green Mountain Summit on Investor Responsibility, Vermont 2004. WRI *Eradicating Poverty Through Profit: Making Business work for the Poor*, San Francisco, 2004. Also see <http://www.cbsr.bc.ca/csrevents/cbsrevents.htm>
[83] Echo Research ibid

for their corporate citizenship (CR) activities. Investors were ranked only seventh; indicating they are not prioritizing these issues in their interactions.[84]

Several studies (A.D.Little 2003, Mays 2003) refer to the need to improve communications between companies and mainstream investors on the business value of CR. There is an increasing trend for dialogue between investor relations' officers and their shareholders on social and environmental issues; however, the CSR Europe report demonstrates that the majority of investors think that corporate reporting and communication on CR remains unsatisfactory.[85]

As the CSR Europe research reveals, mainstream markets believe that although the SRI market will continue to grow, investment products with values-based SRI characteristics are likely to remain a niche market.[86] SRI products are relatively new and Holliday (2002) suggests that sustainability financial products don't yet have a track record and have yet to prove themselves to a skeptical financial community. [87]

In a similar survey, conducted by the World Economic Forum in 2003, over two-thirds of the responding companies claimed that mainstream investors show interest in corporate citizenship (CR) activities "only when there had been a crisis related to their industry or company or around certain 'hot topics' such as climate change, diversity, obesity, and HIV/AIDS." Some of the surveyed CEOs claimed "their investors have not asked a single direct question relating to their social and environmental performance over the past few years."[88] A respondent in the 2003 WEF survey commented in regard to CR issues, "These issues never come up unless there is a problem. No one cares unless there is a financial risk or short term exposure." The implication in these responses is that capital markets will punish bad CR performance if the transgression has a material impact on business performance.

Dallas's (2003) comments perhaps summarize the state of play when he says, "It is our view that if sustainability issues are to become more prominent concerns for mainstream investors, company managers and directors, there will need to be a stronger basis of economic evidence linking sustainability to company performance and valuation."[89]

3.7 Conclusions

Identification of factors that can be classified as meeting the materiality definition is essential in defining CR for mainstream analysts and investors. Consistent findings in the literature point to a need to further develop internationally credible quantitative research on the financial materiality of CR information.

Similarly, identification of sector specific material CR issues is necessary for investors to refine their understanding of the investment implications of CR risks and opportunities.

Although the literature does highlight the growing belief among companies in the business case for CR, more research is required to strengthen the link between better CR performance

---

[84] J. Nelson, *Values and Value: Communicating the Strategic Importance of Corporate Citizenship to Investors*, World Economic Forum, 2003.

[85] CSR Europe, ibid, Indicates that 96 % of investor relations officers identify an trend for increasing dialogue.

[86] CSR Europe ibid, The CSR Europe study found that despite the 69% of fund managers and analysts believing the SRI market will grow, 71% suggested that SRI will remain a niche section of the funds management market.

[87] C. Holliday, S. Schmidheiny, and P. Watts*, Walking the Talk: The Business Case for Sustainable Development*. UK: Green Leaf Publishing, 2002. Reto Ringer, the CEO of leading SRI research and asset manager points out that "sustainability doesn't have a track record. It is very new, at least for the financial markets [….] it will take another few years before we gain substantial interest."

[88] J. Nelson, ibid.

[89] G. Dallas, *Finance Environment and Sustainable Development Report,* for P. Clements-Hunt, K. Lawal, UNEP FI, 2003. Standard & Poor's has been actively involved in pioneering a field of analytics and benchmarking in corporate performance.

and shareholder value. The literature is not conclusive as to whether investors are putting a premium on CR.

The ideas of CR and RI are quite new for the capital markets. We are still at an early stage in terms of mainstream capital markets integrating CR issues into their research and investment decisions. As yet, the communication and interaction between CR proponents and the mainstream investment community is limited and CR needs to better articulated and described in terms meaningful to mainstream analysts and investors.

The growth in SRI has been well documented, and research shows that performance of SRI funds indicates that CR factors are not detrimental to share price performance. There is however, a lack of research into how other components of the capital markets recognise and allocate investments to CR and RI.

The implications for investors incorporating social and environmental criteria are not, as yet, clear-cut. Only in the last few years has research on the contemporary views of the financial community been assessed. More evidence of the CR links to shareholder value and investment out performance needs to be produced. Globally significant issues such as climate change are proving to be catalysts for creating general agreement that CR addressess investment risks or adds value. This will lead to mainstream analysts and investors taking CR issues into account to a greater degree.

4 Disclosure and Reporting Requirements

4.1 International best practice in CR reporting

Company reporting on CR issues has evolved to meet to meet a variety of stakeholder needs but global developments in CR reporting has not been sufficiently refined to meet the specific information and risk assessment needs of investors**.**

Standardized financial reporting has been occurring since the 1930s while reporting on non-financial matters has evolved more recently. White (2003) points out that while concepts such as social accounting were introduced in the 1970s, and environmental reporting in the 1980s, sustainability (CR) reporting appeared only in the late 1990s. White proposes that in the future, we may witness total performance reporting which encompasses and integrates all of these concepts.[90] Many companies today are progressively disclosing more information to stakeholders on CR issues. The number of companies voluntarily publishing public CR reports has grown, in all OECD countries, between 2000 and 2004.[91]

The Global Reporting Initiative (GRI) is one of the most prominent frameworks for companies to use when developing their CR reports. [92] Many companies have found the GRI guidelines useful with regard to standardised performance indicators. To date over 400 companies internationally have used the GRI guidelines. But as Henderson (2002) points out, organizations such as the OECD, AccountAbility, ISO, and Social Accountability International are all involved in the development of principles and global standards for corporate performance. In addition, bodies such as the United Nations Global Compact [93] have developed nine principles concerning human rights, labour, and the environment for companies to report against.[94]

GRI is working to integrate such initiatives into their Guidelines to provide a harmonized disclosure mechanism through which companies can demonstrate their commitment to the numerous national and international principles and standards.[95] The initial GRI guidelines have also been expanded to include sector specific supplements.

National governments too are developing tools to assist companies with reporting. The Government of Canada's Web-based Sustainability Reporting Toolkit draws on these emerging standards to present a more manageable approach particularly for first-time reporters.[96]

Although the growth in CR reporting (including sustainability, environmental and social reporting) has provided investors and analysts with increased data and information relating to companies' CR performance, a common criticism of CR (specifically environmental) reporting in Europe, North America and Australia/New Zealand is that reporting and reports

---

[90] A. White, *Finance Environment and Sustainable Development Report,* P. Clements-Hunt & K. Lawal, UNEP FI 2003.
[91] Stratos and A.Willis & Associates, *Building Confidence: Corporate Sustainability Reporting in Canada*, 2003 identifies that corporate sustainability reporting (CR) is on the increase from 57 reports in 2000 to 100 reports in 2003. This survey also identifies the in 2001 65% of TSX Composite Index companies did not include environmental and social information in voluntary published reports but in 2003 the percentage was reduced to 40%. The Global Reporting Initiative (GRI) identifies that globally "more than 2000 companies have voluntarily published environmental, social or sustainability reports." See< http://www.globalreporting.org/about/faq2.asp#Q1>.
[92] GRI's mission is to elevate sustainability reporting to a level as routine as financial reporting. GRI was convened in Boston in 1997 by the US NGO CERES in partnership with UNEP. It now has its Secretariat in Amsterdam, operates as a UNEP Collaborating Centre, and also works in close alliance with the UN Secretary General's Global Compact.
[93] See <www.unglobalcompact.org>
[94] A. Pugh, *Not-So-Splendid Isolation- Special Survey*, Corporate Knights, 2004 Vol,2 No,4, 2004. Currently there are 1298 companies in 50 countries that are signatories to the UN Global Compact (GC) of which only 13 are Canadian"
[95] J. Henderson and M. Brownlie, *A Perpetual Work in Progress: the Global Reporting Initiative*, Boston: Global Reporting Initiative,, 2002. See <http://www.sustdev.org/Features/SDI-7csr1.pdf>.
[96] Canada, *Sustainability Reporting Toolkit,* 2003. Prepared by Government of Canada and Stratos Inc.

tend to be diverse in style, content, and depth of information. This is largely a result of the voluntary nature of reporting; governments tend to be non-prescriptive and, until recent times, provide limited guidance on reporting. This guidance on environmental reporting has largely been left up to professional bodies (e.g., Canadian Institute of Chartered Accountants in Canada [97]), industry associations (e.g., WBCSD [98]), Non Government Organizations and other specialist reporting groups such as the GRI.

Most financially relevant CR information tends to be sought and obtained by analysts, researchers, and financial institutions, rather than disclosed by corporations. Gribben (2004) found that lless than one in five pension fund trustees believed that companies are providing sufficient information to enable interested parties to effectively assess environmental and social impacts and risks.[99]

Repetto (2000) identifies that "company reporting of environmental issues in annual reports and other filings fails to provide investors with sufficient information to make fully informed decisions."[100] Repetto presents a methodology that may be used for corporate reporting particularly as financially material environmental issues (current and pending) may be presented "like other business issues potentially affecting companies' revenues, production costs, and balance sheets." In a recent presentation Russel (2004) emphasized the need to mainstream and "fast track" sustainability reporting for the investment community by integrating sustainability reports with corporate annual reports.[101]

Ongoing analysis of the quality of CR reporting is important. In a second international survey of corporate sustainability reporting, Elkington (2002) highlighted that identifying material issues and persuading financial markets that sustainability performance is financially relevant is the "No.1 challenge for corporate reporters."

In 2003, two communications consultancies conducted one of the first empirical surveys of the attitudes and interests of the readers of European CR reports. The aim of the survey was to research central parameters of stakeholder satisfaction with a wide range of report types and to identify pivotal expectations and demands. The authors analyzed strengths and weaknesses of reports from an investor / stakeholder viewpoint. Key findings included that companies report on issues that they feel most comfortable with rather than the non-financial issues that are most important to specified stakeholder groups. It is interesting to note that in Europe shareholders/investors spend less time than many other stakeholder groups reading the reports. They make up only 5.1% of the readership.[102]

Japanese companies are rapidly becoming leaders in terms of numbers of environmental reports produced.[103] This has been largely attributed to the fact that the Japanese government has followed a different, more prescriptive legislative model than most other OECD countries.[104] The Japanese government has provided strong encouragement of environmental reporting by way of the production of a number of guidance papers.[105] The result of this guideline-led reporting has been the preparation of a large number of reports from Japanese

---

[97] See <http://www.cica.ca>.
[98] See< http://www.wbcsd.ch>
[99] G. Gribben and A. Faruk, *Will UK Pension Funds Become More Responsible? A Survey of Trustees,* Just Pensions, January 2004 Current edition, From the Ashbridge Centre for Business and Society.
[100] R. Repetto, *Pure Profit: The Financial Implications of Environmental Performance*, WRI, 2000.
[101] D. Russel, "Advisor Responsible Investment, University Superannuation Scheme Limited," *CR Reporting: Trends in Transparency* session at Globe 2004, 2004.
[102] ECC Kohtes Klewes GmbH and Fishburn Hedges Bonn, *Global Stakeholder Report 2003 Shared Values? The first world-wide stakeholder survey on non-financial reporting*, London, 2003.
[103] See K. Kokubu and E. Nashioka, *Environmental Accounting Practices of Listed Companies in Japan*, IGES Discussion Paper 2003-1.
[104] C. Knight and P. Scott , *Japanese disclosure sets the pace*, Environmental Finance, July -August 2001. A survey undertaken by the Institute of Global Environmental Strategies in 2002 of environmental reporting by Japanese companies (listed on the Japanese Stock Exchange) indicated that some 297 companies (overall, about 20% of the total companies) produced Environmental Reports.
[105] See guidance papers for Japanese companies, Japanese Ministry of Environment.

companies, which are very similar in structure, style and content. Again, this is in stark contrast to the often highly variable styles and contents of European and North American sustainability or environmental reports. In addition, as the number of companies reporting increases, it becomes important that the "quality" of reporting also continues to improve.[106]

Another important factor in the Japanese environmental reports is the credibility of the data. Environmental accounting includes the practice of attaching a monetary value to environmental factors and programs which has traditionally been a weak and criticized area of reporting worldwide. However, many Japanese environmental reports lead the way in environmental accounting, financial content, and relevance in their reports. Companies such as Toyota include full "accounts tables" detailing costs and monetary implications of new equipment, environmental programs, energy and materials savings, staff training as well as the costs of environmental non-compliance.[107] However there is a dearth of literature that evaluates how analysts, other than SRI analysts, have utilised these Japanese reports and to what degree they consider the reports relevant to financial analysis.

Financial institutions themselves play a pivotal role in advancing reporting on CR. As White (2003) states, financial institutions sit on both sides of the ledger; they are both potential reporters and potential users of information contained in such reports. And, of course, the financial industry is a leading service industry, with a pivotal role in channelling capital flows.[108]

As indicated above, there are a number of positive developments and numerous international organizations trying to encourage and support the growth and sophistication of reporting of CR issues. However the literature is lacking in studies that have analysed why companies have not taken up external public reporting and the costs associated with it. One UK study (Merrick 2001) did examine the costs and benefits of environmental reporting and compared results within different sectors, across company size and the reporting maturity of companies. The annual environmental reporting costs ranged widely from £6,500 to £535,000, with an average cost of £92,716.[109] These costs are significant and so, although, globally the numbers of companies reporting is increasing more research needs to be done on the benefits and return on investment that the reporting process delivers for companies.

4.2 Disclosure guidelines

Internationally, new disclosure legislation has led companies to progressively disclose more information to financial stakeholders on CR issues.

Explicit regulation, in certain geographic regions, has enhanced the disclosure of CR and SRI factors by companies. As Lake (2003) notes, legislation in certain countries, including the UK, France, Germany, Italy, and Australia, requires pension funds and large institutional investors to issue a formal statement on social, environmental and ethical issues.[110]

In the UK and Australia, governments have moved to modify their Corporations Laws to provide a specific framework for corporate governance and reporting of environmental and social issues and to protect both investors and the public interest. In Australia, the regulator, pursuant to powers under the Corporations Act, has issued guidelines for financial product[111] issuers for disclosure. This disclosure focuses on the extent to which labour standards, and environmental, social, and ethical considerations are taken into account in the selection,

---

[106] Stratos Inc. and A. Willis & Associates, *Building Confidence: Corporate Sustainability Reporting in Canada*, 2003.
[107] See <www.toyota.com>.
[108] A. White, *Finance Environment and Sustainable Development Report,* for P.Clements- Hunt, and K. Lawal, UNEP FI, 2003.
[109] J. Merrick,and Crookshank, *Report on a Survey of Environmental Reporting Costs and Benefits,* DEFRA, 2001.
[110] R. Lake, *Finance Environment and Sustainable Development Report,* for P. Clements- Hunt, and K. Lawal, UNEP FI, 2003.
[111] Product means investment products (or having an investment component) such as superannuation products, managed funds and investment life insurance.

retention, or realization of the investment. The guidelines are largely based on UK developments in this area and were developed after extensive consultation with stakeholders.[112]

To make CR more meaningful to investors Dallas (2003) suggests that enhancing levels of transparency and disclosure about a company's practices relating to sustainability issues is a starting point. "More robust reporting on corporate social responsibility is increasingly on the political and legislative agenda, particularly in Western Europe. From a research perspective this should allow for more empirical studies to test for relationships between a company's CR profile and its financial stability/longevity/value creation."[113]

One successful attempt to bridge the gap in understanding between investors and companies on the shareholder value aspects of CR has been the development of the Association of British Insurers Guidelines for Socially Responsible Investment. The ABI, whose members manage almost one quarter of the funds invested in the London Stock Exchange, published these guidelines to guide institutional shareholders in their engagement with companies in which they invest. The ABI guidelines focus on the need to identify and manage risks of a social, environmental or ethical nature which influence the long and short-term value of the business. The guidelines also encourage companies to highlight opportunities they may have to enhance value through an appropriate response to the said risk(s). The ABI Guidelines take the form of disclosures, which institutions would expect to see included in the annual report. Specifically they refer to disclosures relating to Board responsibilities and to policies, procedures and verification.[114] The best anecdotal information indicting that UK companies have responded positively and embraced the disclosure guidelines is that 80 of the top FTSE100 companies have provided at least moderate disclosure in their annual reports.[115]

In South Africa, the Johannesburg Stock Exchange (JSE) has introduced an SRI Index as a means of identifying those companies listed on the JSE that integrate the principles of SRI and sustainability into their business activities, and to facilitate investment in such companies. The SRI Index will be constituted from companies that form part of the FTSE/JSE All Share Index and which meet a detailed set of criteria for each of the 'triple bottom lines of environmental, economic and social sustainability.[116]

In Canada, the regulatory framework relating to the trading of securities is geared towards promoting the purposes of the Securities Act, i.e., to protecting company shareholders and the public from being disadvantaged. Thus, generally protecting investors and promoting fair and efficient capital markets.

The Ontario Securities Commission (OSC) implemented a series of new rules to promote investor confidence on March 30, 2004. The rules required changes to issuers' disclosure and governance practices. In particular, rules requiring the certification of company filings and disclosure by CEOs and CFOs[117] are likely to encourage a greater focus on the disclosure of environmental, social, and ethical issues which may become financially material in the future. In addition, Public Accountability Statements are required to be filed with the Financial Consumer Agency of Canada by financial institutions (banks, trust and loan companies and insurance companies) with equity assets greater than $1 billion.[118] However, in Canada there are still no explicit statutory requirements or securities regulations that call for sustainability, CR, social or ethical reporting to shareholders or to other stakeholders, other than the Annual

---

[112] Australian Securities & Investments Commission. Section 1013DA disclosure guidelines.
[113] G. Dallas, ibid.
[114] Association of British Insurers, *Disclosure Guidelines on Socially Responsible Investment*, 2001.
[115] R. Cowe, *Risk Return & Responsibility*, ABI, 2004
[116] Johannesburg Stock Exchange, *JSE SRI Index:Background and Selection Criteria*, October 6,2003.
[117] Multilateral Policy 58-201 Effective Corporate Governance, pursuant to the *Securities Act* (Ontario).
[118] Public Accountability Statements Regulations P.C. 2002-402 March 21, 2002. The regulations apply to the Bank Act, Insurance Companies Act and the Trust and Loans Companies Act and describe the nine areas to be published in an annual PAS. The areas include their goals, financial contributions and examples of participation in "community development." Under the regulation "community development" means the social, cultural, economic, or environmental enrichment of a community.

Information Form (AIF) requirements regarding the effect of environmental issues on operating and financial results. Therefore, material costs, risks and future liabilities of environmental compliance, remediation or protection only are required to be disclosed. Management discussion and analysis (MD&A) is required of unusual environmental expenditures and material environmental uncertainties. In addition, the Canadian Generally Accepted Accounting Practices (GAAP) requires disclosure and accrual for liabilities arising from the necessity for remediation of contaminated sites.

Further research is required to assess the adequacy of the existing Canadian regulations to drive further financially relevant CR disclosures from Canadian companies.
Keefe (2003) recommends that despite recent reforms proposed and adopted by legislators and financial industry regulators, further change may be needed to also help assure that the recent high profile corporate governance abuses of recent years do not reoccur and that faith in our financial systems and corporate management can be restored.

As new disclosure legislation in many OECD countries enhances the disclosure of CR information, the stage is set for more empirical work in this area to accept or invalidate claims that CR is a meaningful area of investor focus.

4.3 Metrics and data that evaluate and quantify the financial impact of CR performance

There are no universally agreed upon metrics used by companies and investors to recognize and measure the financial impact of CR or elements thereof.

Although there are generally accepted global financial indicators and financial accounting and reporting systems, White (2003) reports that we have no such definitions, metrics and measures for sustainability (CR) information such as human capital and other CR issues that would enable more effective market understanding and accelerated movement toward sustainable business practices.[119]

Over the last decade the expertise to analyze and evaluate companies on their CR performance has been built up by specialist SRI researchers and analysts. These organizations have developed their methodology for data capture and determination of performance measures independent of each other and therefore there is wide variability in their assessment processes.[120] When 35 of the most prominent SRI organizations were reviewed, a study found that only three research organizations currently analyse the link between social/environmental issues and material impacts on investment value drivers.[121] The authors concluded: “The need to develop criteria and indicators that are relevant and measurable by companies is a key consideration in trying to gain an effective insight into a company’s operations and impacts.”[122]

In regard to the development of metrics and data that evaluate the impact of CR performance, Pearce (2003) suggests that ratings and accounting services have been designed from different perspectives. For example, policy makers and social investors are principally interested in the impact of companies on society whereas mainstream investors are interested in shareholder value. And whereas “environmentalists” are interested in the impact on nature, insurers are interested in the impact on risk, and businesses are interested in the impact on enterprise value.[123]

---

[119] A. White, A ibid.
[120] A.B Miljöeko and SustainAbility, *Screening of Screening Companies*, Mistra, 2001.
[121] S. Beloe, ibid.
[122] S. Beloe, ibid.
[123] B. Pearce, *Finance Environment and Sustainable Development Report,* for P. Clements- Hunt, and K. Lawal, K UNEP FI, 2003.

When analyzing the case studies provided by Holliday (2002) it was evident that strategic value drivers that make up the business case for companies do not have universally agreed upon metrics and quantifiable performance data that can be made useful to investors. Business leaders adopting CR are also concerned about the inability of investors to take this information into account in assessing a company. In order to be more effective in communicating their CR performance to investors, companies are developing their own metrics and key performance indicators (KPI) to measure and report environmental and social performance.

The Global Environmental Management Initiative (GEMI) has identified ten intangible value drivers that reflect significant pathways for value creation through EHS and sustainability.[124] These value drivers are linked to performance indicators that can be used to quantify EHS aspects. The GEMI initiative is indicative of the desire for industry to clarify for themselves the most appropriate CR performance indicators that relate to financial performance.

In a report examining best practice sustainability performance of companies in Australia, Mays (2003) concluded that although some companies had adopted and implemented CR initiatives, they were not actually providing that information to investment analysts. A key reason, Mays suggested, was that there are no common standards for reporting social and environmental data to enable investors to accurately assess performance. Mays suggested that standards for reporting of social and environmental data should be established along the same lines as accounting standards, which would help companies understand what is required and provide the investor with a consistent basis for assessing sustainability performance.[125]

Investors are seeking to quantify CR information by turning intangible factors into something meaningful to the financial markets. The ability to measure and quantify the direct impact of CR performance on company value is still evolving. A study by the World Economic Forum (2003), revealed that there were significant problems with measuring the CR performance of companies (or financial implications thereof) because of inappropriate procedures to measure the economic benefits, difficulty in putting a financial value on intangible assets, difficulty in quantifying the impact of corporate citizenship (CR) issues on a company's share price and too many non-quantifiable items causing problems for the average financial analyst.[126] Each of these barriers to measuring and quantifying is an area for further investigation and research.

The field of CR/RI is fraught with definitional problems. It follows that there are clearly analytical problems relating to building objective measures for sustainability issues and difficulties in ensuring proper data quality to support the measurement of qualitative criteria (Dallas 2002).[127]

Some SRI organizations recognize the need to develop methodologies to quantify the financial implications of environmental and social performance.[128] Matthew Kiernan, CEO of Innovest suggests, "those SRI considerations which can be linked demonstrably to companies' competitiveness and managerial competence will become increasingly recognized as robust leading indicators of financial performance. Moreover, and contrary to popular belief, these issues can in fact be analyzed with at least as much quantitative rigor and

---

[124] GEMI, *Clear Advantage*, 2004. The Global Environmental Management Initiative is a non-profit organization of leading companies that supports business improve Environment health and Safety performance, shareholder value and corporate citizenship.
[125] S.Mays, *Corporate Sustainability-An Investor Perspective, The Mays Report,* Australia: Department of Environment and Heritage, 2003.
[126] J. Nelson, *Values and Value:Communicating the Strategic Importance of Corporate citizenship to Investors, 2003.*
[127] G. Dallas, *Finance, Environment and Sustainable Development Report* P. Clements- Hunt, and K. Lawal, UNEP FI, 2003.
[128] Innovest's research focuses on "“non-traditional” drivers of investment risk and returns. They have developed the Eco Value 21 methodology to assess and rate companies and their management's capacity to address complex environmental issues. Approximately 60 factors are assessed and scored in 6 areas including, historical contingent liabilities, financial risk management, strategic management capacity, operating risk exposure, sustainability risk, and sustainable profit opportunities.

precision as anything currently on offer in the City."[129] He goes on to acknowledge that SRI research techniques will only be successful when CR becomes an integral part of mainstream investment analysis as P/E ratios, earnings revisions, and dividend yields.

There are a lack of studies that have been undertaken to identify the analytical tools currently in use by SRI or mainstream analysts that can quantify and qualify CR risk and opportunities. Significantly more research is required to enable analysts and investors to quantitatively value CR and incorporate the information into investment management decisions.

4.4 Conclusions

Current developments in CR reporting aim to meet the needs of a variety of stakeholders, but do not specifically address the need for financially relevant information for shareholders and the financial community. While this information deficit for investors on financially relevant aspects of CR, is being improved by the refinements and evolution of CR reporting, it is apparent that the most pivotal information demands and expectations of mainstream investors needs to be better researched and understood to improve investment relevant communications.

The business case for CR has been argued for on the basis of intangible, non-financial measures but has not been backed up adequately by performance indicators and metrics that can be empirically quantified and benchmarked. More work needs to be done in capturing, defining and quantifying the benefits arising out of intangible values such as reputation, brand and human capital; as in many cases these have not been linked directly to bottom line results.

Mainstream investors do not have systematic, credible, and robust tools and benchmarks with which to evaluate CR performance and risks. However, a number of organizations in the SRI community have begun to develop the "second generation" tools required for quantitative assessment of CR risks and opportunities, with some refining their methodologies around high risk industrial sectors. Further innovation in CR analysis and assessment is needed and expected.

Finally, common disclosure/reporting frameworks for non-financial (CR) data are required to enable analysts and investors to value the information and incorporate the information into investment management decisions.

[129] M. Kiernan, *The Future of SRI – Margin or Mainstream,* 2002.

5 The Connections Between CR/RI and Corporate Governance

5.1 Defining corporate governance

A decade ago, the term corporate governance, was used in common law countries to describe the legal requirements of corporations, the fiduciary duties of company directors and rights of shareholders in companies. Today the range of influences that directors are obliged to respond to has dramatically increased.

The term "corporate governance" has also succeeded in attracting a good deal of public interest because of its apparent importance for the economic health of corporations and society in general. As a result, a wide range of definitions for it exist, which largely reflect the special interest of the user in the field. The term "corporate governance" has been picked up and included the broader debate on sustainability. Subsequently CR has been adapted in the literature to the terms "good governance," "responsible governance," and, "corporate citizenship."

Sir Adrian Cadbury, in a World Bank Corporate Governance Overview report stated that, "Corporate governance is concerned with holding the balance between economic and social goals and between individuals and communal goals […] the aim is to align as nearly as possible the interests of individuals, corporations and society."[130] From a narrower perspective, James Wolfensohn, president of the Word Bank, has stated that "Corporate governance is about promoting corporate fairness, transparency and accountability."[131]

The OECD defines corporate governance as: the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.

A review of the international literature indicates that many of "expanded" terms within corporate governance and responsibility have been introduced as a means of marketing and promoting tools, services or agendas; whereas contraction of terms, by removal of subjective words/terms, has been attempted in order to unify the debate and give a broader and clearer understanding of the wide-ranging nature of the issues.

Over recent years, it has emerged that the definition of "corporate governance" can be defined narrowly (and traditionally)[132] as the relationship of a company to its shareholders or, more broadly (and contemporarily), as its relationship to society.

Banks (2003) provides a succinct view of the interrelationship between corporate governance and CR. He describes how corporate governance measures the competency of a board of directors to manage an enterprise, and is essential in the building of trust with investors. Corporate responsibility is concerned with managing material business risks. It demonstrates that the board of directors is analyzing and managing those key business, operational, environmental, and social risks that have an effect on value and is disclosing what they have done.[133]

---

[130] M. Iskander and N. Chamlou, *Corporate Governance: A Framework for Implementation – Overview*, World Bank, 1999.
[131] Financial Times, June 21, 1999.
[132] Organization for Economic Cooperation and Development, *Report on the Experiences from the World Bank-OECD Regional Corporate Governance Round Tables*, 2003. See Global Corporate Governance Forum Website at: <http://www.gcgf.org/>.
[133] A. Banks, ibid.

5.2 What are the pension fund trustee obligations to incorporate CR in investment strategies?

The concept of fiduciary responsibility for pension fund trustees and other asset managers has been expanded in recent times to include environmental and social criteria.

Two key driving forces behind examples of pension fund trustees considering social and environmental criteria when making investments, are the introduction of new disclosure regulations (such as the UK Pension Fund Act) and, as Yaron (2002) suggests, the increasing pressure from pension plan members.[134]

Pension funds are major owners of corporate equities and consequently, particularly in the US, vote on hundreds of management-sponsored and shareholder-sponsored resolutions appearing on corporate proxy statements each year.[135] These resolutions address vital issues of corporate governance and social and environmental responsibility. Keefe (2003) argues that as major institutional owners of corporate equities, pension funds have a responsibility to communicate clearly with their members and investee companies and speak out on vital issues relating to the governance and direction of companies whose shares they own. They have an obligation to vote clearly and consistently on resolutions in the best long-term interests of their participants.[136]

Although the numbers of corporate governance and CR related resolutions are accounted for in the literature, there is little analysis of the investment relevant reasons behind the decisions of pension fund trustees to support to specific resolutions.

There is a role for Pension Fund Associations and other bodies to provide guidance on how investors can interact with companies on issues of corporate governance and CR.[137] Keefe (2002) recommends that the pension funds develop comprehensive formal voting guidelines for the corporate governance, social, and environmental issues appearing on the annual proxy statements of those corporations held in pension fund portfolios. Gribben (2004) supports the view that engaging with investee companies to encourage better performance and exercising voting rights emerged as the most popular mechanism for pension funds to take social, environmental, and economic issues into account in investment practice.[138]

There is a growing awareness and recognition that there are obligations on fiduciaries that manage funds for institutional investors such as pension funds, foundations, and charitable trusts to include corporate governance, environmental and social dimensions in their investment strategy. Goodman (2002) argues that fiduciaries for institutional investors should institute financially sound policies to encourage strong corporate environmental performance in the corporations held in their portfolios.[139]

Supporting this view, Yaron (2002) suggests that trustees are obligated to consider environmental and social issues and that they should form part of their fiduciary duty. This

---

[134] G. Yaron, *The Responsible Pension Fund Trustee – Reinterpreting the Principles of Prudence and Loyalty in the Context of Social Responsible Institutional Investing*, Canadian Shareholder Association for Research and Education, 2001.
[135] The Investor Responsibility Centre (IRRC) and the Interfaith Centre on Corporate Responsibility (ICCR), *2003 Shareholder Proxy Season Overview: Social and Corporate Governance Resolution Trends*, IRRC and ICCR, February 12, 2003. For the 2002/03 reporting year, (February 1, 2002, February 1, 2003) 625 corporate governance resolutions were filed, compared with 529 in all of 2002. Data from the IRRC and the ICCR show that, as of February1 2003, at least 237 social and environmental resolutions also had been filed, up slightly from the number at this point last year, with substantial increases in certain types of resolutions, including those related to global warming.
[136] J. Keefe and S. D. Lydenberg, *Corporate Governance, Social Responsibility and Obligations of Ownership*, Background Paper for State Treasurers and Legislators, 2003.
[137] Such as the Association of British Insurers' "Guidelines."
[138] G. Gribben and A. Faruk, ibid, 2004.
[139] S. Goodman, J. Kron, and T. Little, *The Environmental Fiduciary. The Case for Incorporating Environmental Factors into Investment Management Policies*, The Rose Foundation for Communities & the Environment, Environmental Fiduciary Project, 2002.

contradicts the historically accepted position where trustees have not considered environmental and social issues in fear of being negligent in their duties. This report argues that existing Canadian law does provide trustees with the ability to consider non-financial issues that are also in the best interests of the plan members and beneficiaries as long as consideration of non-financial investment criteria does not violate the principles of prudence and loyalty and provided that the investment decision adheres to the pension plan's investment policy and independent expert advice.[140]

Addressing the risks and opportunities posed by climate change is driving fiduciaries to greater action. A Coalition for Environmentally Responsible Economies (CERES 2002) report outlines that many US companies (depending on what sector they are in) have major exposures to climate change risk which could cost companies and shareholders tens of millions of dollars, require major strategic corporate shifts or even threaten the survival of companies. The authors then argue that under these circumstances, fiduciaries have an obligation to be informed about the levels of climate change risk exposure and, possibly, the opportunities in their companies or investments portfolios. Furthermore, if the risks (or opportunities) are material, they have a fiduciary duty to act or face potential claims of fiduciary negligence, if they fail to act.[141] A pertinent question is posed by Trevet (2003): "Does not taking account of climate change and other environmental issues represents a non-fulfilment of fiduciaries duties?"[142]

Pension fund trustees must direct their investment managers appropriately if they are to take CR into account in their investment strategies. At the end of 2002, the UK research organization EIRIS polled the top 250 UK pension funds on whether the impact of the UK Pension Fund Act legislation made any difference to the funds investment strategy. The responses suggested that 59% of funds said they consider SRI experience and performance when appointing investment managers and a similar percentage said they have asked their investment managers to consider the financial implications of social, environmental, and economic factors when assessing the risk and returns of each company.[143] As Cowe 2004 concludes, "the picture emerges that trustees rely largely on fund managers to take the initiative."[144]

5.3 Conclusions

The terminology regarding corporate governance and elements of CR are becoming somewhat interchangeable and trends in directors' responsibility and fiduciaries' duties now reflect that the corporate governance agenda has expanded to include environmental and social issues.

Institutional investors are increasingly exercising their fiduciary duty to exert influence over corporate policies and practices through their voting on shareholder resolutions and through the institutional investment mandates they issue. Some pension funds enter into direct dialogue on corporate governance and social and environmental issues with corporations whose stock is held in pension fund portfolios.

Governments have an important role to play in encouraging the incorporation of social, ethical, and environmental issues into investment practice through the advent of new

[140] G. Yaron, A Resource Guide for Pension Trustees and other Fiduciaries. SHARE, 2002
[141] Innovest Strategic Value Advisers Inc., *Value at Risk: Climate Change and the Future of Governance*, CERES Sustainable Governance Project Report, April 2002. This report by Innovest Strategic Value Advisors was commissioned by the Sustainable Governance Project. This project is a new initiative of the Coalition for Environmentally Responsible Economies (CERES). The new CERES Sustainable Governance Project aims to bring together the sustainability and corporate governance movements to improve corporate policies on social, environmental and governance issues.
[142] P. Trevet, Finance Environment and Sustainable Development Report. P. Clements- Hunt, and K. Lawal, UNEP FI, 2003.
[143] EIRIS, *How Responsible is Your Pension?* 2003.
[144] R. Cowe, ibid.

legislation. Industry associations also have a role to play as there appears to be a growing and accepted obligation for pension funds to incorporate CR factors in their asset allocation decisions, but there are very few formal guidelines for them to follow.

6 Training and Education

6.1 Are CR and RI principles understood by the market?

There is a lack of research identifying and assessing formal training and capacity building programs for analysts and investors on CR and RI. Similarly very few studies have identified the training needs for companies and capital market institutions from the graduate level to board director level on CR and RI.

Mays (2003) suggests investment analysts, funds managers, pension fund trustees and insurance funds all have a role to play in deepening the understanding of the relationship between corporate sustainability (CR) and shareholder value yet there is very little dialogue between business and the capital markets on sustainability and virtually no training programs that help business more effectively translate the evolving language of sustainability (CR) into the language of finance (Castellas 2004)[145].

Today, financial institutions (FIs) are more actively engaged in environmental and social issues than ever before and financiers are no longer able to ignore the environmental or social implications of their lending, asset management, investment and underwriting/insurance activities (Knecht 2001)[146]. Although, it is inferred in the CSR Europe report, that the awareness amongst mainstream fund managers and analysts of CR issues is increasing because the answers given by respondents on these issues in 2003 were more informed than in 2001, this assumption requires further analysis.[147]

As the requirements for corporate responsibility have evolved, the skills and knowledge of directors and diversity of Boards have not kept up. Most directors, particularly non-executive directors (NEDs) are selected for their independence and particular experience and knowledge in corporate areas such as financial performance, cash flow analysis and projections. However, the roles, duties, accountabilities and responsibilities of modern company directors have moved well beyond the traditional areas of finance and legal issues management. A KPMG survey of FTSE 350 NEDs shows that 40% did not feel they had sufficient knowledge of non-financial indicators, such as market, environmental, political and employment issues that could have a material impact on the future business performance of a company.[148]

There are also competency gaps in the SRI community. Although specialising in CR and RI, there is a lack of financial expertise of many SRI analysts in basic financial and accounting issues. The Mistra review of SRI research houses found that in an average team of 13.5 Full Time Equivalent (FTE) there were only 1.7 FTE financial degree qualified analysts on staff and that the research teams typically lack the skills needed to address financial and strategic considerations.[149]

---

[145] P. Castellas, *Education About and For Sustainability in Australia*, A Review of "Non-University Provision," Macquarie University Graduate School of the Environment, Global Knowledge Ventures, 2004 (in draft publication).

[146] F. Knecht, *Developing a Sustainability Performance Development Programme(SPDP) for the Financial Sector in Asia-Pacific,* UNEP FI, 2001. See <http://unepfi.net/mtgs/manila/knecht.pdf >.

[147] CSR Europe, ibid 2003.

[148] KPMG, (2003). Non-executive Directors' Survey 2002/3 at <http://www.kpmg.co.uk/aci/docs/NEDsurveyUSwebversion.pdf>.

[149] S. Beloe, ibid.

6.2 Education for capital markets and sustainability

In addition to universities and business schools, the range of business education providers includes, governments, industry associations, non-government organizations, consultants, private training companies and the media. The programs themselves range from email subscription services and online advise and network tools, the provision of paper or CD-based information packs all the way through to seminars, workshops, and courses (free and paid).[150]

Increasing numbers of business schools are emphasizing education in environmental and social issues. A biannual comprehensive study by the World Resources Institute on business education and sustainability highlights the most innovative MBA programs and faculty infusing environmental and social impact management into the business school curriculum. Although complimentary of business schools that have developed their curricula in this area, the report identifies that there is little information on specific outcomes, such as graduate successes, or of a broadening of the scope and reach of business education or offerings in this area.[151] There is no detail in this report that specifically identifies the training needs for capital market participants.

Several renowned programs such as the Sustainable Enterprise Academy[152] and Cambridge Program for Industry[153] assist business in the transformation to corporate sustainability by providing senior executives in business, government and civil society with the vision, education, tools and support necessary to champion sustainable development in their organizations. However there is not a dedicated program offered by universities or business schools specifically for CR/RI capital market issues.

Innovest recently implemented an ambitious and comprehensive tailored training program for 400 senior UBS Investment Bank executives in the integration of environmental criteria in their overall assessment of investment risk and opportunity.[154] Other organizations also provide tailored training and education on sustainability such the Sustainability Masterclasses held by Forum for the Future which may be designed for individual business leaders or teams within corporations.[155]

There are a number of ways that individuals and organizations receive education regarding CR and the capital markets. In response to member demand, some national professional and industry bodies, and in particular some international industry peak bodies, e.g. the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI), provide excellent educational, training and professional development resources for companies. These bodies are usually funded by companies (and often collaboratively with international donor organizations such as the UN or national governments) and provide portals to share information and case studies on best practice, commission and publish focussed research, data or information reports as well as provide directly or indirectly training courses, seminars and conferences.

A number of organizations, including many of those referenced in this report (i.e., SHARE, CSR Europe, OECD, Association of British Insurers, the Commission for Environmental Cooperation, Centre for Sustainable Investment, the Global Environmental Management

---

[150] P. Castellas, Ibid.
[151] *Beyond Grey Pinstripes: Preparing MBAs for Social and Environmental Stewardship*, World Resources Institute, 2003. See <http://www.beyondgreypinstripes.org>.
[152] The Sustainable Enterprise Academy is North America's premier executive education program on sustainable development. The role of capital markets and sustainability is discussed on a number of occasions in the Academy's flagship four day program
[153] The Cambridge Program for Industry draws on the rich expertise and scholarship of the University of Cambridge, and mobilises thought from the best minds and institutions globally. Programmes typically have a strong interdisciplinary component. Current topics include sustainable development, intercultural management, social inclusion, health leadership, partnership brokerage and future technology.
[154] See <www.innovestgroup.com>.
[155] See <www.forumforthefuture.org.uk>.

Initiative, WRI and the Social Investment Forum) are all in some way committed to undertaking capacity building and knowledge exchange initiatives. For example, the Institute of Chartered Accountants of England and Wales have produced a knowledge guide to sustainability and a briefing paper about relating sustainability issues to the capital markets.[156]

One organization that has made significant progress in providing a forum to educate the capital markets is the UNEP Finance Initiative. UNEP FI's aim is to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations. UNEP FI comprises members from the global financial institutions such as banks, insurers, re-insurers, pension funds and asset management companies. UNEP FI provides members with practical research; capacity building; and information exchange services. The products provided range from professional development programmes and action-oriented reports to major international conferences that bring together professionals from around the globe.[157]

In Canada the Share Holder Association for Research and Education has produced a resource guide to facilitate and assist Canadian pension fund trustees and analysts with learning how to incorporate more broad and diverse investment practices into their Statement of Investment Policies and Procedures (SIPP).[158] The Canadian Business for Social Responsibility has also produced a report that may serve as a practical non-academic education tool to assist companies large and small, and governments to adopt practices that contribute to improved social and environmental performance. The report presents a series of guidelines that suggest a process for adoption of CSR and offers a checklist of "indicators" that serve as measures of progress towards desired outcomes.[159] The Conference Board of Canada has been working on the issue of linking sustainable development (SD) and shareholder value. Through research, networks and events, the Board is helping to broaden and deepen understanding and dialogue on this issue.[160]

Several excellent publications have been produced to educate the market. The Social Investment Organization whose membership includes a broad range of the finance sector have produced a publication that focuses on the need for education on the growing trend of shareholder advocacy as a mechanism for shareholders to influence the management of funds and influence corporate practices and policies.[161] A number of publications have been produced by Coalition for Environmentally Responsible Economies (CERES), an organization that commissions reports to educate the investment community on material CR risks such as climate change. CERES's latest report describes how institutional investors can engage companies on climate change as part of the emerging corporate governance agenda.[162]

Some consultancies produce publications that aim to highlight CR issues and provide readers with methods to tackle and understand the issues. Elkington (2001) produced a report that asked whether today's boards are well equipped to deal with these rapidly emerging CR issues and the changes they require in an already complex and highly competitive business environment. The report can be used as a diagnostic tool to help boards be more connected and effective in integrating triple bottom line thinking into their core functions.[163]

---

[156] See <www.icaew.co.uk>.
[157] See <www.unepfi.net>.
[158] G. Yaron, *How to Incorporate Active Trustee Practices Into Pension Plan Investment Policies – A Resource Guide for Pension Trustees and other Fiduciaries,* Share Holder Association for Research and Education, 2002.
[159] Canadian Business for Social Responsibility, *Good Company: Guidelines for Corporate Social Performance,* 2002.
[160] In 2001, the Conference Board of Canada produced a report entitled *Sustainable Development, Value Creation and the Capital Markets*. In December 2002, the Board held a major Toronto Executive Seminar on Linking Sustainable Development and Shareholder Value.
[161] R. O'Brian, *Socially Responsible Shareholdership in Canada*, Social Investment Organization, 2002.
[162] The report, ***Corporate Governance and Climate Change: Making the Connection***, was commissioned by CERES, a coalition of investor, environmental and public interest groups, and written by the Investor Responsibility Research Center (IRRC), an independent firm that advises institutional investors managing more than $5 trillion in assets.
[163] J. Elkington, *The Power to Change*, 2001. The report proposes 15 areas under the following functions against which boards can assess their current practice and where necessary set goals for improvement: Setting policy and strategic direction for the

SRI organizations also play a constructive role in the education of the market through their business development efforts and direct engagement of pension fund trustees, their asset consultants and their investment managers.

In all of the literature reviewed there was very little reference to the development of customized, tailored training programs for investors and analysts on CR and RI, and no specific documented evidence on training needs.

6.3 Conclusions

The need for sustainability education for capital markets participants is being driven by a number of broader trends highlighted in this literature review. As a consequence, the demand for program content that reflects the need for capacity building to address these issues is growing and becoming more defined. However there has been a lack of development of training programs and education initiatives on CR specifically for capital market participants.

A number of the issues discussed in this paper could form the content of possible training programs or research agendas, such as: determining the materiality of CR risks, assessing the financial implications of CR performance, communicating the business and investment case for CR, and improving reporting and analytical techniques.

Education ultimately is about communication and continual improvement for decision making. Addressing the issue of effective communication is fundamental if companies and investors are to have a common understanding of CR issues and have an effective dialogue on recognizing and rewarding CR.

---

company and monitoring management's performance against these; Shaping the company's framework for accountability, control and risk management and ensuring management's conformance to this; and, Selecting and remunerating the CEO and directors, based on their ability to achieve good results in the above areas.

7 Bibliography

Abbey, D. *Global Profit and Global Justice: Using Your Money to Change the World*. Gabriola Island: New Society Publishers, 2004.

Abbey, D., and M. Jantzi. *The 50 Best Ethical Stocks for Canadians—High Value Investing*. Toronto: Macmillan Canada, 2001.

Asmundson, P., and S. R. Foerster. *Socially Responsible Investing: Better for Your Soul or Your Bottom Line?* Canadian Investment Review, 2001.

Association of British Insurers. *Disclosure Guidelines on Socially Responsible Investment*. 2001.

Austin, D., N. Rosinski, A. Sauer, and C. Le Duc. *Changing Drivers: The Impact of Climate Change on Competitiveness and Value Creation in the Automotive Industry*. Sustainable Asset Management and the World Resources Institute, 2003.

Australian Securities & Investments Commission. Section 1013DA disclosure guidelines. ASIC guidelines to product issuers for disclosure about labour standards or environmental, social and ethical considerations in Product Disclosure Statements. December 2003.

Banks, A. *Finance, Environment and Sustainable Development Report.* For P. Clements-Huntand K. Lawal, UNEP FI, 2003.

Bauer, R., J. Derwall, and R. Otten. *Canadian Ethical Mutual Funds: Performance and Investment Style Analysis in a Mulitfactor Framework*. Maastricht University, The Netherlands: Limburg Institute of Financial Economics, 2003.

Baue, W. *Report on SRI Research Organizations Characterized as Valuable But Also Controversial*. Press Release article in <www.institutionalshareowner.com and www.asria.org/news/press. March 9, 2004.

Beloe, S., J. Scherer, and I Knoepfel. *Value for Money: Reviewing the Quality of SRI Research.* SustainAbility and Mistra, 2004.

Bennett, A., E. Broadbent, L. Crompton, K. Georgetti, and J. LeBoutiller. *The New Balance Sheet—Corporate Profits and Responsibility in the 21st Century*. Canadian Democracy and Corporate Accountability Commission, 2002.

Bouma, J.J., M. Jeucken, and L. Klinkers, eds. *Sustainable Banking: The Greening of Finance.* Deloitte & Touche, 2001.

Business in the Community. *Investing in the Future*, UK, 2001.

Camejo, P., *The SRI Advantage—Why Socially Responsible Investing has Outperformed Financially*.Gabriola Island: New Society Publishers, 2002.

Canadian Business for Social Responsibility. *Good Company: Guidelines for Corporate Social Performance*, British Columbia, 2002.

Canada. *Sustainability Reporting Toolkit*, Prepared by Government of Canada and Stratos Inc., 2003.

Canada. Public Accountability Statements Regulations P.C. 2002-402 21 March, 2002.

Carpentier, C., Z. Patterson., and J. Malthouse. *Environmental Disclosures in Financial Statements: New Developments and Emerging Issues*. The second Finance and Environment Meeting, held by the Commission for Environmental Cooperation (CEC) of North America with the Financial Sector. New York, 26 February, 2003.

Castellas, P. *Education About and For Sustainability in Australia*. Prepared for Macquarie University Graduate School of the Environment, Global Knowledge Ventures, 2004 (in draft publication).

Chattoraj, T., *European Electric Utility Sector Report*. Innovest Strategic Value Advisors, 2003.

Christensen, M., and H. Wildsmith. *SRI in Europe and the U.K.* Green Money Journal: from the Stock Market to the Supermarket, 2004.

Cowe, R. *Risk, Returns and Responsibility*. Association of British Insurers, 2004.

CSR Europe. *Investing in Responsible Business. The 2003 Survey of European Fund Managers, Financial Analysts and Investor Relations Officers*. Deloitte & Euronext, 2003.

Dallas, G. *Finance Environment and Sustainable Development Report.* P. Clements- Hunt, and K.Lawal, UNEP FI, 2003.

Deloitte & Euronext. *Investing in Responsible Business. The 2003 Survey of European Fund Managers, Financial Analysts and Investor Relations Officers*. CSR Europe, 2003.

ECC Kohtes Klewes GmbH and Fishburn Hedges, eds. *Global Stakeholder Report 2003 Shared Values? The first world-wide stakeholder survey on non-financial reporting*. Bonn and London, November 2003.

Echo Research. *CSR and the Financial Community- Friends or Foes,* 2003.

Elkington, J. *Buried Treasure: Uncovering the Business Case for Corporate Sustainability.* United Nations Environment Program, 2003.

Elkington, J. *The Power to Change*, 2001.

Elkington, J. *Trust Us: The Global Reporters 2002 Survey of Corporate Sustainability Reporting*, SustainAbility and the United Nations Environment Program, 2002.

Ernst & Young. *The Materiality of Environmental Risk to Australia's Finance Sector*. Prepared for Environment Australia, 2003.

Ethical Investment Research Service (EIRIS), *How Responsible is Your Pension?* 2003.

Feltmate, B., B. Schofield, and, R. Yachnin. *Sustainable Development, Value Creation and the Capital Markets*. Ottawa: Conference Board of Canada, 2001.

Friends of the Earth. *Top 100 UK Pension Funds - How ethical are they?* 2001.

Geczy, C., and R. Stambaugh., D. Levin. *Investing in Socially Responsible Mutual Funds*. 2003.

Global Environment Management Initiative. *Clear Advantage: Building Shareholder Value / Environment: Value to the Investor*, 2004.

Global Reporting Initiative. *Sustainability Reporting Guidelines*. 2002.

Goodman, S. B., J. Kron, and T. Little. *The Environmental Fiduciary. The Case for Incorporating Environmental Factors into Investment Management Policies*. The Rose Foundation for Communities & the Environment, Environmental Fiduciary Project, 2002.

Greene, D. *Socially Responsible Investment in Australia 2002 Benchmarking Survey.* Ethical Investment Association, 2002.

Gribben G., and A. Faruk. *Will UK Pension Funds Become More Responsible? A Survey of Trustees*. January 2004 Edition. *Just Pensions*. Ashbridge Centre for Business and Society, 2004.

Heaps, T. *SRI Under Attack*. Responsible Investing Guide. Corporate Knights Vol. 2. No. 3 2004.

Henderson, J., and M. Brownlie. *A Perpetual Work in Progress: the Global Reporting Initiative*. Global Reporting Initiative, Boston: US 2002.

Holliday, C., S. Schmidheiny., and P. Watts*.* *Walking the Talk: The Business Case for Sustainable Development*. UK: Green Leaf Publishing, 2002.

Innovest Strategic Value Advisors Inc. and A. Dlugolecki. *Climate Change and The Financial Services Industry*, UNEP FI Climate Change Working Group. 2001.

Innovest Strategic Value Advisers Inc. *Value at Risk: Climate Change and the Future of Governance*. CERES Sustainable Governance Project Report, April 2002.

Innovest Strategic Value Advisors Inc. *Carbon Disclosure Project*. 2003.

Innovest Strategic Value Advisors Inc. *Climate Change and Shareholder Value In 2004*. Carbon Disclosure Project, 2004.

Investor Responsibility Centre (IRRC) and the Interfaith Centre on Corporate Responsibility (ICCR). *2003 Shareholder Proxy Season Overview: Social and Corporate Governance Resolution Trends*. IRRC and ICCR, February 12, 2003.

Iskander M. and N. Chamlou. *Corporate Governance: A Framework for Implementation – Overview*. The World Bank, 1999.

Johannesburg Stock Exchange, *JSE SRI Index: Background and Selection Criteria*, October 6, 2003.

Keefe, J., and S. D. Lydenberg. *Corporate Governance, Social Responsibility and Obligations of Ownership*, Background Paper for State Treasurers and Legislators, 2003.

Kiernan, M. *The Future of SRI – Margin or Mainstream*. 2002.

KPMG. *Non-executive Directors' Survey 2002/3.* 2003.

Knecht, F. *Developing a Sustainability Performance Development Program for the Financial Sector in Asia-Pacific*. UNEP FI. 2001.

Knight, C., and P. Scott. *Japanese disclosure sets the pace.* Environmental Finance, July - August 2001.

Kokubu, K., and E. Nashioka. *Environmental Accounting Practices of Listed Companies in Japan*. IGES Discussion Paper. 2003-1.

Kroon, E. *Do Socially Responsible Equity Portfolios Perform Differently from Conventional Portfolios? If so: how and why?* ABN AMRO Asset Management's Global Consulting Group, 2002.

Lake, R. *Finance Environment and Sustainable Development Report*. P. Clements- Hunt, and K. Lawal. United Nations Environment Program Finance Initiative, 2003.

Little, A. D. *Speaking the Same Language: Improving Communications between Companies and Investors on Corporate Responsibility*. 2003.

Mathias, A. *Banks Disagree on SRI Performance. Environmental Finance*. December 2003-January 2004.

Mays, S. *Corporate Sustainability—an Investor Perspective: The Mays Report* Australia. Department of the Environment and Heritage*,* 2003.

Merrick, J. and C. Crookshank, *Report on a Survey of Environmental Reporting Costs and Benefits*, prepared for Department for Environment Food and Rural Affairs, ENVIRON, 2001.

Miljöeko A B, and SustainAbility. *Screening of Screening Companies*. MISTRA, The Foundation for Strategic Environmental Research, 2001.

Morgan Stanley and Oekom Research. *Sustainability as a Style of Investment Offering Double Dividends*, 2004.

Nicholls, C. *The Canadian Response to Sarbanes-Oxley*. Capital Markets Institute, 2003.

Nelson, J. *Values AND Value: Communicating the Strategic Importance of Corporate Citizenship to Investors*. World Economic Forum, 2003.

Organization for Economic Cooperation and Development. *Report on the Experiences from the World Bank-OECD Regional Corporate Governance Round Tables*, 2003.

O'Brian, R. *Socially Responsible Shareholdership in Canada*. Social Investment Organization, 2002.

O'Rourke, and A, J. Randjelovic. *The Emergence of Green Venture Capital*, 2003.

Pearce, B. *Finance Environment and Sustainable Development Report.* P. Clements-Huntand K. Lawal. UNEP FI., 2003

Pearce, B. *Capital Markets, the Financial Services Sector and Sustainability*. Forum for the Future: Centre for Sustainable Investment, Cambridge Programme for Industry, 2001.

Pearce, B. *Sustainability Pays*. UK Centre for Sustainable Investment, 2002.

Phelps, E., et al. *"It's Time" Wise Persons' Committee to Review the Structure of Securities Regulation in Canada*. 2003.

PricewaterhouseCoopers, *2002 Sustainability Survey Report,* 2002.

PricewaterhouseCoopers, Global CEO Survey, *Uncertain Times, Abundant Opportunities*. 2002.

Pugh, A. *Not-So-Splendid Isolation- Special Survey*, Corporate Knights, Vol.2 No.4, 2004.

Reed, D. *Stalking the Elusive Business Case for Corporate Sustainability*. Washington, DC: World Resources Institute, 2001.

Repetto, R., and D. Austin, *Coming Clean: Corporate Disclosure of Financially Significant Environmental Risks*. World Resources Institute, Washington D.C., 2000.

Repetto, R., and D. Austin, *Pure Profit: The Financial Implications of Environmental Performance*. World Resources Institute, Washington, D.C., 2000.

Schaltegger, S., and R. Burritt. *Contemporary Environmental Accounting: Issues, Concepts and Practice.* UK: Greenleaf Publishing 2000.

SocialInvestment Forum. *1999 Report on Socially Responsible Investing Trends in the United States*, 1999.

Social Investment Forum, *2003 Report on Socially Responsible Investing Trends in the United States.* 2003.

Social Investment Organization, *2000 Canadian Social Investment Review*, 2000.

St. Muir Sheil, D. *SRI in Asian Emerging Markets*. Association for Sustainable and Responsible Investment in Asia, 2003.

Stratos Inc. and A. Willis & Associates, *Building Confidence: Corporate Sustainability Reporting in Canada*, 2003.

Sutton, B. *Does Socially Responsible Investing Hurt Investment Returns?*. Phillips, Hager & North Investment Management, 2003.

Thomas, W. *The Green Nexus: Financiers and Sustainable Development.* International Environmental Law Review;; Vol.13, No.4. Summer 2001.

Trevet, P. *Finance Environment and Sustainable Development Report*. P. Clements- Huntand K. Lawal, UNEP FI. 2003.

Van den Brink, T. *Guide: Screening and Rating Sustainability*. Vrije University of Amsterdam, 2002.

Willis, A. NRTEE Capital Markets Program Briefing Paper. Alan Willis and Associates, 2003.

White, A. *Finance Environment and Sustainable Development Report*. P. Clements- Huntand K. Lawal. UNEP FI. 2003.

World Business Council of Sustainable Development. *Running the Risk: Risk and Sustainable Development: A Business Perspective.* 2004

World Resources Institute, and the Aspen Institute. *Beyond Grey Pinstripes: Preparing MBA's for Social and Environmental Stewardship {online}*2003 {Cited May 15, 2004.] <http://www.beyondgreypinstripes.org>.

Yaron, G. *How to Incorporate Active Trustee Practices Into Pension Plan Investment Policies—A Resource Guide for Pension Trustees and other Fiduciaries*. Share Holder Association for Research and Education, 2002

Yaron, G. *The Responsible Pension Fund Trustee – Reinterpreting the Principles of Prudence and Loyalty in the Context of Social Responsible Institutional Investing*. Canadian Shareholder Association for Research and Education, 2001.