

Coming Out of the Investors' Cave?

Making Sense of Responsible Investing in Europe in the New Millennium

Harry Hummels¹

Maastricht University, Netherlands

Ordinary people working together,
can change history
—Rosa Parks²

Abstract: Responsible Investing is on the rise. In ten years time, what started as an ideologically motivated practice by often religiously inspired investors has become a mainstream activity. Through the Principles for Responsible Investing a large group of institutional investors representing tens of trillions of dollars have become involved in and transformed the practice. A major change refers to a change in definition and the disappearance of ethics, which was replaced by a focus on governance. However, society is not taking unethical investments practices lightly. It increasingly confronts investors with potential (ethical) consequences of the investments and calls for impact measurement: what is the social, ethical and environmental impact of the investments?

Key Words: responsible investing, measuring RI impact, non-financial performance

1. A Distorted View of the World

Responsible investors are a lot like cavemen. It is not that they are wearing pelts or that their manners are necessarily rude or uncivilized. On the contrary. They politely discuss, for instance, the evidence that their fiduciary responsibility requires them to look into the social, environmental and governance (ESG) aspects of their investments. There appears to be a *business case* for integrating ESG information

in their decision-making in order to increase long-term financial returns and minimise risk (Margolis and Walsh 2001; Gompers et al. 2003; Orlitzky et al. 2003; Statman 2000; 2006; Derwall et al., 2005; Garz and Volk 2007; Hill et al. 2007; UNEP FI 2006; 2010; 2011; Bauer and Hummels 2010). So why is it that I compare them with cavemen?

Investors live in a world that is quite distinct or even segregated from the rest of human society with its own body of knowledge, discourse, habits, and culture.³ They are more or less prisoners in their own world. As Plato already made clear in his allegory of the cave, the prisoners living inside the cave have a distorted view of the world. Being chained to a wall somewhere in the middle of the cave they see images of living creatures projected on the wall in front of them without knowing that the images are shadows. For the prisoners the images represent tangible objects in a real world. It will not—or even cannot—occur to them that they are just dealing with reflections of reality in an imaginary world. In other words, they are dealing with constructions of the mind and not with (empirical) observations through the senses. This implies that, in talking about the business case for social, environmental and governance aspects, they often forget to include the *social case* that is rooted in everyday life. In the world outside the cave real human beings carry the burden of a wide range of social and environmental issues caused by the entities (responsible) investors invest in.

Referring to Plato's analogy and looking back on what is now being called responsible investing, the world responsible investors live in is more or less imaginary. Looking at the future, there is no reason to be very optimistic that they are likely to come out of their cave. In an attempt to take stock of the most relevant developments in Corporate Responsibility the European Academy for Business in Society organised a symposium early 2012. This paper aims to briefly describe some of the main developments in the area of responsible investing in the last decade. The central question the paper addresses reads as follows: 'Is it likely that responsible investing has had a positive effect on the lives of individual people, communities and entire regions in the real world outside the investors' cave?' Having a positive impact was clearly the intention of religiously inspired investors who first sparked a movement both centuries and decades ago. Now the question arises whether the current generation of responsible investors creates a better world for the communities they invest in? To arrive at a conclusion, this paper will explain the motives of those who started the movement, and then proceed by looking at the most relevant developments in responsible investing. I will thereby focus on three issues. In section 3 the changing definitions of responsible investing will

be highlighted. In section 4 the focus will be on the emergence of a responsible investment industry, while the measurement of social and environmental impact will be addressed in section 5. Section 6 will try to answer the central question of this paper. But first, let's go back in time and have a look at the motives of those who started the responsible investment movement.

2. Religious Beliefs as a Catalyzing Factor

A Faith-based Practice

The first traces of responsible investing can be found in the Quaker movement in the eighteenth century (Domini 2001, 29; Sparkes 2002, 46; 2006, 42; Hummels, Boleij, and Van Steensel 2001, 44). Preachers like John Wesley and John Woolman were critical about investments with adverse effects on society. Sparkes (2002, 46) refers to Wesley's sermon "The use of money" (1760) in which he makes an argument for 'the right use of money.' In using money Christians should act like stewards, not proprietors, by making sure that 'our neighbour will not be hurt in his substance, his body or his soul.' Usually this is taken to mean that Quakers did not invest in slave trading, in gambling or in the production of tobacco, liquor or weapons. However, Wesley also condemns charging excessive interest rates or pawnbroking—referencing the New Testament in which Jesus took sides against the usurers and exploiters. In other words, using or investing money carries in it a moral connotation.⁴

Morality was also the driving force behind the actions of students, academics, church representatives and others, targeted at US—and in a later stage—multinational companies in the sixties and seventies. They used their shares—or convinced existing shareholders—to cast a vote against management in order to spark change. The first example of activist shareholders making use of their voting power was at the Kodak's annual general meeting of stockholders in 1967. Industrial Arts Foundation's Saul Alinsky, together with Reverend Franklin Florence's FIGHT⁵ tried to get Kodak management's attention for improving living conditions and job opportunities for black employees. In order to bring together an unprecedented number of shareholders voting for change, they approached existing shareholders and convincing them to let FIGHT members attend the AGM in their place. In addition, Alinsky and Florence rallied for the support of the university leaders, church leaders, and pension plans. "Within a few weeks time, the national representatives of Presbyterians, Episcopalians, the National Church of Christ, and Unitarians all announced publicly (albeit hesitantly) that

they were withholding their Kodak stock proxies from management” (Kleiner 2008). TIAA-CREF was also sympathetic to their cause. Even though the action wasn’t immediately successful in improving the conditions of the black working community, it ultimately resulted in the creation of a new company: FIGHTON. The company, which was controlled by FIGHT, was a subcontractor and provider of parts to Kodak. It was the successful end of the first shareholder action against the management of a company. Many were to follow, including the high profile ones against Dow Chemical, Honeywell and General Motors.

There were more indirect effects generated by the confrontation between responsible shareholders and companies. In the first place, religious institutions joined forces in the early seventies by creating the Interfaith Committee on Corporate Responsibility (ICCR)—later to become the Interfaith Center on Corporate Responsibility. In a collective effort, the committee’s aim was to influence corporate policies regarding divestments in South Africa in reaction to the South African government’s politics of Apartheid. More in general, ICCR members intended “to shape corporate policy on a number of environmental, social and economic justice concerns” and thereby “promote justice and sustainability in the world.”⁶ A second important development was the creation of the Investor Responsibility Research Center (IRRC) in 1972. The organisation not only screened companies on their involvement or complicity in matters that morally aware investors would like to change or abstain from, it also provided proxy research and analysis, benchmarking products, and proxy voting services.

Increased Secularisation

The previous examples explain the motives of the first responsible investors to stand up against management and use their voice and vote as a holder of the company’s stock. The screening of companies and the use of discretionary shareholder power to invoke social change that was developed in these days were to become the dominant strategies in the decades to come for stockholders to exert influence (cf. Sullivan and Mackenzie 2006, 15). It wasn’t surprising, therefore, that investors talked about ‘ethical investing’ or ‘socially responsible investing’ in those days to clarify their policies and actions. Harrington (1992) even called it ‘investing with your conscience,’ while Brill et al. (1999) used the term ‘values-based investing.’ In all cases the financial value was important, but in some cases not the most important. Quite often the social value added took centre stage. Notions like sustainable investing, ESG-investing or responsible investing, which have come to

focus much more, if not primarily, on the financial value added, were not available at that time.

It is precisely the introduction of these latter concepts that opened up new ways of looking at the relation between investing and social and environmental issues—and in a later stage also governance issues. In addition, the new concepts created a new arena that provided opportunities for new groups of investors, like institutional investors, to get involved. It was, however, only in the beginning of the new millennium that responsible investing gained momentum. This development came at a price (cf. Viviers et al. 2008). In 2004 Mercer and the UNEP FI coined the term Environmental, Social, and Governance (ESG) thereby replacing another term: Social, Ethical and Environmental (SEE). In other words, ethics was replaced by the notion of governance, which was much more acceptable to institutional investors facing their fiduciary responsibility towards their beneficiaries⁷ (cf. Hawley and Williams 2000; Monks 2001).

3. What is Responsible Investing?

Definitions matter, just as concepts do. Following the shift from ethical investing to sustainable investing and responsible investing—a term that got traction when the UN Principles for Responsible Investment were launched in 2006 under the guidance of former UN Secretary General, Kofi Annan—the focus gradually moved from social investing to fiduciary investing (Hawley and Williams 2000). This shift is reflected in definitions of responsible investing described below. The first one comes from Sullivan and Mackenzie (2006, 14) who start their book *Responsible Investment* with a definition from Mansley. This definition clearly dates back to the pre-fiduciary responsibility years:

Investment where social, ethical, and environmental (SEE) factors are taken into account in the selection, retention and realisation of investment, and the responsible use of the rights (such as voting rights) that are attached to such investments.

A second definition comes from Sparkes (2002, 26) who defines socially responsible investing as:

The key distinguishing feature of socially responsible investment lies in the construction of equity portfolios whose investment objectives combine social, environmental and financial goals. When practised by institutional investors this means attempting to obtain a return on invested capital approaching that of the overall stock market.

Surprisingly enough the Principles for Responsible Investing or PRI as it is currently called,⁸ does not define responsible investing. It nevertheless mentions that the principles “reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfill their fiduciary (or equivalent) duty.”⁹ However, according to the PRI the investors commit themselves to the principles “where consistent with our fiduciary responsibilities.”¹⁰ What that means is up for each member to decide.

Large institutional investors usually take a practical stance. They do not always define (socially) responsible investing, but sum up what they do under the heading of (S)RI. With the exception of the first fund, the Norwegian Government Pension Fund Global, which uses specific ethical language, all funds motivate their efforts in the area of ESG by referring to the financial and operational importance of this information. Below, a few descriptions are given of what activities four leading European pension funds subsume under the heading of responsible investing—or whatever term they prefer to use—starting with Europe’s largest pension fund.

*The Norwegian Government Pension Fund Global (GPFG)*¹¹

The Norwegian Government Pension Fund Global is one of the few funds that refer to the word ‘ethics’ in relation to investments. In a 2010 brochure the Norwegian Minister of Finance, Sigbjorn Johnsen, writes:

We want the Government Pension Fund Global to be a responsible investor. By this I mean that we ensure a good return over time and also that we safeguard the values held by the owners of the fund, the population of Norway. A good long-term return depends on sustainable development in economic, environmental and social terms. . . . At the same time, the fund shall maintain high ethical standards and be one of the world’s foremost funds in this area.

To ensure that the decision-making meets the ethical standards of the Norwegian population the Minister of Finance is supported by a Council on Ethics. Further on the brochure mentions that its ‘ethical guidelines’ are based on the following two principles. In the first place the Fund shall be managed with the aim of a high return, so that future generations can also share in the country’s oil wealth. This *ethical obligation* is safeguarded through the ongoing work of securing a high return at moderate risk, including exercising ownership rights to safeguard the

Fund's financial interests. Second, the Fund shall avoid investments that represent an unacceptable risk of the Fund contributing to *grossly unethical activities*.

ABP

ABP, the largest fund in the Netherlands and the second largest in Europe is much more using the language of return and long-term value creation:

ABP views it as its obligation to achieve the highest possible return for clients. In doing so, we believe that companies with strategies which, in addition to financial return, place a high value on the environment, social factors and good corporate governance will perform better in the long term.¹²

In addition it emphasises the importance of managing risk—including risk in social, environmental and governance areas—in order to live up to its fiduciary responsibility towards its beneficiaries:

Our activities in the area of ESG do not represent a goal in and of themselves. ESG helps us to discharge primary responsibility by increasing return and lowering risks.¹³

Fonds de Reserve pour les Retraites (FRR)

Unlike many other pension funds the French FRR does define responsible investing:

By responsible investment, the FRR means voluntarily taking ESG (environmental, social and governance) criteria into account when making decisions related to investment and related activities (research, analysis, voting proxies and dialogue with companies in particular).¹⁴

USS

Finally, according to its website, USS is a committed long-term and responsible investor, and takes seriously its fiduciary obligations to its members and beneficiaries.

As a pension fund with liabilities into the future, it is in USS's interest to encourage the companies and markets in which it invests to focus on delivering durable shareholder value. We believe this means management must consider long-term risks to performance, including environmental, social and governance (ESG) factors.¹⁵

The definitions illustrate the shift that responsible investing has made over the last ten to fifteen years from a (social, ethical and environmental) values-driven

approach to a fiduciary approach that focuses on financial returns and risk management—including environmental, social, and governance information. This change is also reflected in the offerings of the service providers, which will be discussed in section 4.

4. An Emerging RI Service Industry

In the last decade responsible investing has become an industry. Over the years, the screening of companies, the voting on shares and the engagement with company management has become highly professional and a substantial business. At the end of the previous millennium quite a number of small and specialized firms made up the universe in all three fields of activity. Each country more or less had its own screening company and some even had a multitude of service providers. So in Europe one could make a selection between a vast number of social, ethical and environmental research agencies. In the UK, for instance, in 2005 an institutional investor could hire quite a number of different information providers. Examples at the time were: PIRC, EIRIS, Trucost, F&C, Hermes, Governance for Owners, Broadridge, and ISS. Some offered screening information (EIRIS, PIRC, and Trucost), others voting services (Broadridge and ISS), while again others offered engagement services (Hermes, Governance for Owners, and F&C). In each of the countries on the continent the situation may not have been as diversified as in the UK, for a European investor there was a widespread availability of providers: Ethibel, Stock at Stake, Triodos Research, Asset4, Centre Info, Arèse, Fundación Ecología y Desarrollo, Scoris, and Avanzi.

Seven years later, many of them have ceased to exist as independent service providers. As a result of a major consolidation in the industry, large institutions like MSCI¹⁶ and Thomson Reuters—which took over Asset4—have emerged as ESG information providers. In Europe, Sustainalytics emerged as a significant player, taking over some of its previously independent competitors. There are still a few independent information providers, like EIRIS, GES, Vigeo, Trucost, Hermes, and Governance for Owners. The tendency, however, is towards a consolidated market with a few dominant players.

Also in case of engagement and voting services, the agents have to demonstrate their added value by assisting investors to live up to their fiduciary responsibility. Sometimes, however, political or ethical issues pop up, like in the case of land mines or cluster munitions in 2007. Particularly in the Netherlands, the associations of pension funds—comprising all Dutch pension funds—collaborated in an attempt to jointly respond to the media challenges. The resulting report, entitled

The future has arrived (Hummels 2007), defines an approach that at present has been adopted by a large majority of Dutch pension funds.

Another distinctive and evolving characteristic of the RI industry in the previous decade is the level of collaboration between (institutional) investors. Networks have emerged or grown impressively.¹⁷ A case in point is the Principles for Responsible Investing, a network organisation of over 900 institutional asset owners and asset managers with assets exceeding US \$30 trillion at the end of 2011. In addition, institutional investors collaborate in a wide range of initiatives such as the Carbon Disclosure Project, Pharma Futures, or the Institutional Investors Group on Climate Change. Recently, a small group of large institutional investors, including ABP, AP2, ATP, BTPS, Hermes EOS, PGGM and TIAA-CREF, launched the Principles for Responsible Investment in Farmland.¹⁸

5. Measuring Impact

Looking back on two decades of responsible investing, Russell Sparkes (2006, 54) concluded that the financial system still had a way to go in “a proper alignment of SRI and social activism.” That is, the system still wasn’t responsive to the changing societal values and expectations. “For SRI to act as a positive mechanism for change,” Sparkes continues, “requires the provision of accurate, objective and rigorously produced non-financial information on corporate activity, as well as fundamental changes in the way institutional investors utilise their shareholding rights as owners.” Five years later much has been achieved in supplying investors with relevant information on the environmental, social, and governance performance of the entities in which they invest. Also the use of shareholder rights has increased significantly. What is missing, however, is measurement of the impact of ESG information and voting on shares.

Measuring impact is not a new phenomenon. Sociologists¹⁹ point out that impact assessment has been around since the earliest days of sociology—the days of Durkheim and Tönnies. After a lingering existence for decades, the ‘ex ante’ policy evaluation was revived at the end of the sixties as a result of the increasing complexity of decision-making processes. A new term was coined: Social Impact Assessment (SIA). In addition, ‘ex post’ evaluations were conducted to measure goal attainment and effectiveness. Usually these studies were referred to as ‘evaluation studies.’ The idea was, however, the same as the current impact studies. They aim at researching the relationship between an intervention or an instrument and an output or outcome.

Impact

The word 'impact' has different meanings depending on the context in which it is used. As a verb, according to Webster's and Oxford dictionaries, in its most generic way the word means 'coming into contact with another object.' If a car impacts another car the word 'impact' simply refers to the collision that apparently has taken place. When used as a transitive verb the word often expresses a person's intention to act and the capacity to perform that act accordingly. The focus is on the decision or on the act and not so much on the direct or indirect consequences. This meaning of 'impact' is, for instance, used in politics or the military in situations that require a forceful response or a pre-emptive action. So, President Truman impacted Japanese society in an unprecedented way with his decision to use A-bombs in ending the Second World War.

More often, however, the word is used as a noun to refer to an effect an intervention can have (ex ante) or has had (ex post). In this context, impact deals with the influence or effect of an intervention—whether an act or a decision—on a recipient. This influence can be positive or negative and is illustrated in McKinsey's definition of (social) impact: "a meaningful change in economic, social, cultural, environmental, and/or political conditions due to specific actions and behavioral changes by individuals and families, communities and organizations, and/or society and systems."²⁰ The difficulty with measuring impact is establishing the relationship between an intervention and the outcomes that result from that intervention. Impact refers to those outcomes that would not have happened without the intervention (NEF 2004; Bamberger and White 2007; Bamberger et al. 2012).

Measuring impact is not only a difficult, costly and time-consuming activity—randomized control trials are a case in point—there aren't too many good examples in the world of responsible investing. Nevertheless, in the past year a few initiatives have been taken—both in the area of responsible business.²¹ (investment) program evaluation and, more recently responsible investment—to focus on the effects of interventions and instruments. Particularly in the area of mission related investing or program related investing, a wide range of tools have been developed that can help investors to measure the impact of their investments.²² Usually a distinction is made between tools that are based on cost-benefit analysis and tools based on stakeholder analysis. A recognized cost-benefit instrument for measuring impact is, for instance, the Social Return on Investment (SROI) methodology. This

utilitarian-based instrument measures the costs and benefits for the investor and the investees, alongside social benefits and burdens accruing to society.²³ An example of the stakeholder-focused instrument for measuring impact is the Stakeholder Assessment Report (STAR). The report gathers perceptions from stakeholders an investor may seek to influence as part of his strategy. Stakeholders include, among others, investees, academics, government officials, community leaders, the media, NGOs, and business experts. The report may also be directly related to the investment, including direct stakeholders in the survey.

At present, there aren't too many (institutional) investors that already measure the social impact of their investments—whether it refers to their mainstream asset classes like listed equities, credits or sovereign bonds, or to their targeted investments. The latter type of investments in, for instance, renewable energy, microfinance, or green buildings, has the advantage that social or environmental objectives are clearly stated as part of the investment philosophy. A good example can be found in the responsible investment report of PGGM—on of the largest pension funds in Europe.²⁴ The asset manager recently developed a social impact scorecard that enables it to assess the impact of its investments on behalf of the Pension Fund for the Health Care Sector PFZW, whose money it manages. Also, the Global Impact Investing Network (GIIN) has done much work in developing the Impact Reporting and Investment Standards (IRIS). IRIS provides a common language and an overall framework that enables investors to compare notes when measuring the impact of their investments.²⁵

The trend towards measuring impact does not, of course, have a major influence on the willingness or unwillingness of most investors to pay attention to ESG information and the extent to which investees are willing to change their behaviour in light of socially and environmentally desirable outcomes. Certainly, this is true in the short run and particularly counts for investments in mainstream asset classes like listed equities, credits or sovereign bonds. Nevertheless, even when it comes to listed stock companies multinationals like Unilever, Heineken and Anglo American are interested in measuring their social and environmental outcomes. As Unilever demonstrates in its Sustainable Living Plan²⁶ it has high ambitions to improve its positive impact on society and reduce its environmental footprint. The reason why companies—and ultimately investors—are interested in *creating shared value* (Porter and Kramer 2011) is to a large extent economically driven. It makes good business sense to invest in new markets in a responsible way with positive spill-overs for the community and to reduce operational costs while improving the natural environment. In the alternative investment space the interest

in measuring impact is significantly more developed, as the examples show. Future research has to demonstrate if the trend towards measuring impact is sustainable, both in the sense of a lasting trend that will be adopted by the mainstream investors and in the sense of contributing to improved social and environmental outcomes.

6. Coming Out of the Cave?

In the past decade Responsible Investing has shown a remarkable development. Not only did the responsibly managed assets under management in Europe increase from €600 billion to €5 trillion between 2002 and ultimo 2009,²⁷ it is also that mainstream investors committed themselves to a responsible course of investing. The growth of the Principles for Responsible Investment, with half of the asset owners, asset managers and professional service providers coming from Europe,²⁸ is a clear indication of the growing importance of responsible investing. The rise of responsible investing coincided with the shift in its definition from an ethical to a fiduciary motivation. At the beginning of the first decade of this millennium the PRI did not exist and hardly any institutional investor was committed to (socially) responsible investing. Sparkes (2002) is probably right when he suggests that the shift from ethical investment to (socially) responsible investment is motivated by the move towards the mainstream investment community. Investors and society have paid a price for this change in definition. The commitment of institutional investors to a responsible course of investing ‘where consistent with their fiduciary responsibilities’ implicates that they do not evaluate the social, ethical and environmental consequences of their investments *in their own right* (cf. Viviers et al. 2008). In this respect, the increasing number of investors who think of themselves as ‘responsible’ seems to fit Oscar Wilde’s definition of a cynic quite nicely. They don’t know the value of anything, but the price of everything.²⁹

The tide is changing, however. Society—represented by politics, media, NGOs and other interest groups—is increasingly imposing limitations on investors. More and more, they are restricted in their opportunities to look away from the consequences of their investment decisions. In a number of recent dossiers—such as microfinance, commodities trading, and agriculture—institutional investors have been accused of being involved in exploitation of micro-entrepreneurs, driving up food prices, or landgrabbing. The three examples below show investors, accused of being involved in highly contested investments. Whether the accusations stand the test of time remains to be seen. Nevertheless, the reputational harm has already been done once the media report on these issues—often in capitals with the size of chocolate letters.

Ethical Controversies in Farmland investing

In May 2011 the Oakland Institute accused Emergent Asset Management, a UK investment fund investing in African agriculture, of using clearly unethical tactics to acquire 100,000 hectares of arable land in a dozen Sub-Saharan countries.³⁰ On 8 June 2011 The Guardian reported: "Harvard and other major American universities are working through British hedge funds and European financial speculators to buy or lease vast areas of African farmland in deals, some of which may force many thousands of people off their land, according to a new study."³¹

A comparable story was revealed on the front page of the Dutch Volkskrant on 3 December 2011.³² ABP—together with the diocese of Västerås (Zweden), the Lutheran Church of Sweden and the Norwegian Lutheran Church endowment—was held responsible for unethical appropriation of land in Mozambique and driving the local population of the land.

Finally, according to Oxfam, the International Finance Corporation (IFC) is involved in evicting twenty thousand people, living and working in the Kiboga and Mubende districts in Uganda. The evictions are approved by the Ugandan National Forest Authority to make way for large forest plantations by the UK-based New Forests Company (NFC) According to Oxfam "IFC's support is through a private equity agribusiness fund called Agri-Vie, whose portfolio includes NFC. Agri-Vie says all of its investee companies have to comply with the IFC performance standards; that it conducted extensive due diligence prior to its investment in NFC; and that it is of the opinion that NFC fully complied with all the IFC performance standards. But these standards have failed to protect the livelihoods of the people displaced in Kiboga and Mubende."³³

Over the last decade investors have come to believe that their fiduciary responsibility is the only relevant thing in the world. It is only within the realm of this limited notion of 'responsibility' that institutional investors define what is real and what's not. That is precisely the reason why they live in a cave, caught in their own ideas, their own values, their own standards of (financial) ethics, and their own culture. Moreover, the supervisory and regulatory authorities reinforce the belief that the cave is the *only reality*. The abovementioned examples show that there is a world outside the cave—a world that makes itself increasingly known to the investors inside the cave. Following Plato's reasoning, only a few investors will be able to come out of the cave, step into the light and lead the herd towards a

new reality; a reality that not only integrates social, ethical and environmental issues into investors' decision-making processes, but also that asks them to account for their impact on society.

Looking back, a lot has been achieved in the past 10 years. An increasing number of institutional investors screen the entities they invest in on social, environmental and governance issues; an even larger number vote on their shares. There is, however, a long way to go if responsible investors—either voluntary or mandatory—are to have a positive impact on the lives of individuals, communities and regions across the globe. So far, the evaluation by institutional investors of the impact of their investments on the lives of real people has been minimal. It is only by 'ex ante' assessing the (potential) impact of the investment and integrating this assessment in investment decisions, that the interests of people living outside the cave will be properly dealt with. The final step in this process is 'ex post' evaluation. By measuring the effects of the investments, the interests of the beneficiaries, the investees, and society can be better managed. Some pension funds, like the Norwegian Government Pension Fund Global or the Dutch Pension Fund for the Health Care Sector, PFZW, already focus on the *social case* for responsible investing. They have been able to preserve the core idea of the Quakers who, in an open conversation based on the quality of the arguments, decided what was a sound and sustainable investment and what not. They have the potential to become leaders in a world of investors trying to find the right balance between their fiduciary duty and their ethical obligation towards society and the people that make up that society.

It won't be easy for the leaders to convince the pack, but there is hope. I started this contribution with a quote from Rosa Parks: "*Ordinary people working together can change history.*" If ordinary people can do this, it must also be possible for institutional investors. As prudent agents, working in the interests of their beneficiaries—who are nothing but a representation of our society—they can have a positive impact on the course of history. Will the leaders be able to lead them out of the cave into the blinding light? Only time will tell.

Endnotes

1. Prof. Dr. Harry Hummels is Full Professor of Ethics, Organisations and Society at the School of Business and Economics at Maastricht University. In addition, he is managing director of SNS Impact Investing, a job he shares with his good friend and colleague Theo Brouwers.

2. Quoted in A. Domini, *Socially Responsible Investing. Making a Difference and Making Money* (Chicago: Dearborn, 2001), 1.

3. The same—and probably even to a larger extent—counts for mainstream investors. One only has to refer to the remuneration policies of investors and investment companies to see the difference with the rest of society.

4. It wasn't surprising therefore, that one of the first responsible investment funds on the European continent was launched by Friends Provident in 1984 and was called the Stewardship Fund. Joseph Rowntree and Samuel Tuke founded Friends Provident in 1832 as a mutual Friendly Society for Quakers. It offered life insurance to its members.

5. Harrington (1992) points out that FIGHT is an abbreviation of Freedom-Integration-God-Honor-Today.

6. <http://www.iccr.org>. ICCR currently has some 300 member organizations with collective assets totalling over \$100 billion.

7. A case in point is Russell Sparkes's book in 2002. On page 23 he writes: "Although my earlier book [dating from 1995, HH] used the phrase 'ethical investment', I now prefer 'socially responsible investment'." Referring to the change that already took place in the US Sparkes mentions: "I would guess that the reason for the change is the 'mainstreaming of SRI', i.e., the move to SRI being dominated by institutional investors rather than retail SRI Funds."

8. In 2011 the name was changed from United Nations Principles for Responsible Investing to the Principles of Responsible Investing (while sometimes the qualification 'UN-backed' is added).

9. <http://www.unpri.org/about/>.

10. <http://www.unpri.org/principles/>.

11. http://www.regjeringen.no/upload/FIN/brosjyre/2010/spu/english_2010/SPU_hefte_eng_ebook.pdf.

12. http://www.abp.nl/abp/abp/english/about_abp/investments/esg/default.asp.

13. http://www.abp.nl/abp/abp/english/about_abp/investments/esg/abp_esg_vision/the_long_term.asp.

14. http://www.fondsdereserve.fr/IMG/pdf/FRRsSRI_investment_strategy_2008_2012.pdf.

15. <http://www.uss.co.uk/UssInvestments/Responsibleinvestment/RIObjectivesStrategy/Pages/default.aspx>.

16. MSCI has taken over formerly independent information providers like ISS, IIRC, KLD, Innovest, and Risk Metrics.

17. Examples of networks in the area of responsible investing are, among others, the Social Investment Forum (SIF), EuroSIF (and the national networks which are part of EuroSIF), AsRIA, the Carbon Disclosure Project, and the PRI.

18. www.unpri.org/commodities.

19. See, for instance, Henk A. Becker, "Social Impact Assessment," *European Journal of Operational Research* 128 (2001): 311–321, and William R. Freudenburg, "Social Impact Assessment," *Annual Review of Sociology* 12 (1986): 451–478.

20. McKinsey Social Sector Office, *Learning for Social Impact*, April 2010, p. 2. See also www.mckinsey.com.

21. An important initiative in this field is the EU IMPACT Project. The European Commission's 7th Framework Programme took the initiative for the project. Its most important objective is to systematically measure the impact of CSR on social, economic and environmental goals of the European Union. In addition, the Project aims at providing insights on corporate and institutional factors that drive the creation of CSR impact. See www.csr-impact.eu for more information.

22. For an overview of tools and resources to assess social impact the TRASI-website of the US Foundation Center is a useful resource: <http://trasi.foundationcenter.org/>

23. Other instruments that have a clear cost-benefit character are, for instance, Acumen's Best Available Charitable Option (BACO) tool, the Trucost tool, or Abt Associates Benefit-Cost Analysis

24. http://pggm.nl/Images/PGGM_RI_annualreport_2011_tcm21-183371.pdf.

25. www.thegiin.org and <http://iris.thegiin.org/>.

26. www.sustainable-living.unilever.com.

27. <http://www.eurosif.org/research/eurosif-sri-study>. The assets, according to Eurosif, can be divided in three categories: those which use an integrated approach, those that are engaged, and those using an exclusion policy.

28. Out of a total of 979 members, 499 of them were coming from European countries—the UK (122), France (82), and the Netherlands (62) leading the pack, followed by Switzerland (50), Denmark (32), Finland (29), and Sweden (25). Unfortunately, it is not possible to trace the amount of capital that these investors represent.

29. Together with David Wood of the IRI and PwC I have discussed this tendency before in a survey of mainstream responsible investors in 2005 (Hummels and Wood 2005).

30. <http://www.oaklandinstitute.org/land-deal-brief-deciphering-emergent's-investments-africa>.

31. <http://www.guardian.co.uk/world/2011/jun/08/us-universities-africa-land-grab>.

32. <http://www.volkskrant.nl/vk/nl/2664/Nieuws/article/detail/3062074/2011/12/03/Project-pensioenfondsen-ABP-in-Mozambique-mondt-uit-in-landroof.dhtml>.

33. <http://www.oxfam.org/en/grow/policy/land-and-power>, p. 36.

References

Bamberger, M., J. Rugh, and L. Mabry. 2012. *Real World Evaluation*, 2nd edition. Sage: Thousand Oaks.

- Bamberger, M., and H. White. 2007. "Using Strong Evaluation Designs In Developing Countries: Experience and Challenges." *Journal of MultiDisciplinary Evaluation* 4(8): 58–73.
- Bauer, R., and H. Hummels. 2010. "Pension Funds and Sustainable Investment: Return and Risks?" In *Handbook on Emerging Issues in Corporate Governance*, edited by A. Tourani-Rad and Coral Ingley. London: World Scientific Publishing Co. Ltd.
- Becker, H. A. 2001. "Social Impact Assessment." *European Journal of Operational Research* 128: 311–321.
- Becker, H. A., and F. Vanclay. 2003. *The International Handbook of Social Impact Assessment*. Cheltenham: Edward Elgar Publishing.
- Brill, H., C. Feigenbaum, and J. A. Brill. 1999. *Investing With Your Values*. Gabriola Island, Canada: New Society Publishers.
- Derwall, J., N. Günster, R. Bauer, and C. G. Koedijk. 2005. "The Eco-Efficiency Premium Puzzle." *Financial Analysts Journal* 61(2): 51–63.
- Domini, A. 2001. *Socially Responsible Investing. Making a Difference and Making Money*. Chicago: Dearborn.
- Freudenburg, W. R. 1986. "Social Impact Assessment." *Annual Review of Sociology* 12: 451–478.
- Garz, H., and C. Volk. 2007. *What Really Counts. The Materiality of Extra-financial Factors*. Düsseldorf: WestLB Report.
- Gompers, P., J. L. Ishii, and A. Metrick. 2003. "Corporate Governance and Equity Prices." *Quarterly Journal of Economics* 118(1): 107–155.
- Harrington, J. C. 1992. *Investing With Your Conscience*. Hoboken, NJ: John Wiley.
- Hawley, J. P., and A. T. Williams. 2000. *The Rise of Fiduciary Capitalism*. Philadelphia: University of Pennsylvania Press.
- Hill, R. P., T. Ainscough, T. Shank, and D. Manullang. 2007. "Corporate Social Responsibility and Socially Responsible Investing: A Global Perspective" *Journal of Business Ethics* 70: 165–174
- Hummels, G. J. A., S. Boleij, and K. M. van Steensel. 2001. *Duurzaam Beleggen, meer waarde of meerwaarde [Sustainable Investing, Added Value of Surplus Value]*. The Hague: SMO.
- Hummels, G. J. A., and D. Wood. 2005. *Knowing the Price, But Also the Value?* Amsterdam: PwC Report.
- Hummels, H. 2007. *The Future Has Arrived*. The Hague: Associations of Dutch Pension Funds.
- Kleiner, A. 2008. *The Age of Heretics. A History of the Radical Thinkers Who Reinvented Corporate Management*. Hoboken, NJ: John Wiley.
- Margolis, J. D., and J. P. Walsh. 2001. *People and Profits?* Mahwah, NJ: Erlbaum.
- Monks, R. A. G. 2001. *The New Global Investors*. Oxford: Capstone.

- NEF, London Business School, Small Business Services. 2004. *Measuring Social Impact*. SROI Primer. www.neweconomics.org.
- Orlitzky, M., F. Schmidt, S. L. Rynes. 2003. "Corporate Social and Financial Performance: A Meta-analysis." *Organization Studies* 24(3): 403–441.
- Porter, M., and M. Kramer. 2011. "Creating Shared Value." *Harvard Business Review* (January–February): 1–17.
- Sparkes, R. 2002. *Socially Responsible Investment. A Global Revolution*. Hoboken, NJ: John Wiley.
- . 2006. "A Historical Perspective on the Growth of Socially Responsible Investment." In R. Sullivan, and C. Mackenzie, *Responsible Investment*. Sheffield: Greenleaf Publishing.
- Statman, M. 2000. "Socially Responsible Mutual Funds." *Financial Analysts Journal* (May/June): 30–39.
- . 2006. "Socially Responsible Indexes." *Journal of Portfolio Management* 32(3): 100–109.
- Sullivan, R., and C. Mackenzie. 2006. *Responsible Investment*. Sheffield: Greenleaf Publishing.
- UNEP FI. 2006. *Show Me the Money*. Geneva.
- . 2010. *Translating ESG into Sustainable Business Value—Key Insights for Companies and Investors*. Geneva.
- . 2011. *Universal Ownership—Why Environmental Externalities Matter to Institutional Investors*. Geneva.
- Viviers, S., J. K. Bosch, E. v.d. M. Smit, and A. Buijs. 2008. "Is Responsible Investing Ethical?." *South African Journal of Business Management* 39(1): 15–25.