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Ethical Investment: An analysis trends in UK socially responsible investments funds

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Abstract:

Socially Responsible Investment (SRI) is a growing sector in the financial world. SRI involves selecting and investing in stocks based on the ethical views of investors, and then screening, negatively and positively, companies for investment. Some of the ethical issues commonly addressed by SRI funds are alcohol, tobacco, gambling, and environmental and social issues. A model was adapted from Spillers 4 P's for Ethical business to provide an analytical framework for generating qualitative theories about socially responsible investment (SRI). The aim of the thesis was to use this analytical framework as a starting point and develop/collapse it through constant comparison with data, in line with the grounded theory approach. Semi structured interviews were conducted with members of different groups with interests in SRI, and the transcriptions were coded using the qualitative data analysis software programme Atlas.ti. The results of the interviews confirm that the central driving force behind SRI is the investor, and this has been the case since SRIs inception. However, interviews with informants also reveal that there is an increasing influence from asset managers, as they recognise that SRI can provide a more sustainable form of investment. Changes in social attitudes about the role business plays in society are also behind an increasing desire to make corporations more accountable. Funds that use engagement as an investment strategy are trusted more by investors, because they are seen to have a greater commitment to socially responsible issues, but informants said that these funds need to be more transparent in their engagement policies. Many of the interviewees believed that there was a need for the integration of social, environmental, and ethical issues, with financial criteria when funds consider investment decisions.

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1. Introduction

Socially Responsible Investment (SRI) is a concept within the financial community that has arisen due to the increasing emphasis on conducting business ethically. The ethical issues that are commonly referred to are the environment, human rights, employee relations, corporate governance, weapons manufacturing, product safety, nuclear energy, community involvement, and animal rights (Henningsen, 2002).

Prior to the 1900's, investing money had the sole objective of increasing wealth. However, in the 1900s church groups, particularly the Mormons and the Quakers, became concerned with how their money was being invested, developed 'Ethical Investment' in America. To address their concerns they instructed their investment brokers to avoid investing in companies that operate in certain industries, particularly alcohol, tobacco, and gambling, these became known as 'sin stocks', and the practice expanded throughout the 20th century.

During the 1960s churches became more active in SRI, as Ethical Investment was later known, often becoming involved in community based stakeholder activism. For example, in 1966 a number of groups persuaded Eastman Kodak to allocate 600 jobs and provide training programmes to minorities in the area. In 1966, the Union Theological Seminary in New York petitioned New York banks not to renew loans for South African Companies due to apartheid, similar to other investors trying to avoid investment in companies operating in South Africa (Harrington, 1992).

Henningsen (2002) argues that the initial growth of SRI came from the high degree of concern for apartheid in South Africa, and increased awareness of the environment in the 1990's, leading to an increase in the number of investors who consider the ethics of their portfolios (McCann et al., 2003).

Another reason for SRI growth was the Vietnam War. By 1968 approximately 100 companies were profiting from the war, including the Dow Chemical Company that was producing Napalm, and Honeywells that was producing anti-personnel weapons. After a series of demonstrations and shareholder meetings, a boycott of Honeywells was introduced in 1970 (Harrington 1992). During this period investors realised that

by combining they could play an active role in shaping the policies of munitions producing companies. In 1971, the Pax (Latin for 'Peace') World Fund was launched with $101,000 in assets, the first fund to consider ethical as well as financial criteria when investing (www.paxfund.com, 2003).

Since the 1960s, SRI funds have become the most popular way to invest ethically (O'Rourke, 2002), and are a rapidly growing investment choice. The value of SRI funds in the UK grew from £199.3 million in 1989, to £3.7 billion in 2000, a rise of over 1750% (www.ftse4goodco.uk, 2002). There are now over 300 socially responsible investment funds around the world (www.sricompass.org, 2003), and the range of issues considered has expanded since the launch of the Pax World Fund.

With this background in mind, the aim of this thesis is to produce an analysis of key SRI drivers, uncovered through an evaluation of interviews and literature assessing the ways in which socially responsible investment has evolved over time. The purpose of the analysis is to help asset managers understand their key clients, and provide them with the means to make appropriate investment decisions. Objectives are to:

- Identify main SRI drivers
- Investigate the relationship between drivers and SRI trends
- Explore the way SRI principles have been implemented over time
- To examine the financial and ethical success of SRI funds.

Table 1 presents these aims and objectives in tabular form.

Table 1: Aim, purpose, and objectives of this study

Aim	To investigate SRI drivers and trends.
Purpose	To inform asset managers of the ways in which SRI has developed in order to allow them to make appropriate investment decisions. Ideally, it will also help to promote socially responsible

	business practices in general.
Objectives	1.To identify the main drivers in SRI. 2.To investigate the relationship between drivers and socially responsible investment trends. 3.To explore the ways in which SRI principles have been implemented over time. 4. To examine the financial and ethical success of SRI funds.

2. Literature Review

To begin addressing the aims and objectives, we need to define key concepts and terms used in the SRI literature, and analyse how these have evolved over time. An important question facing asset managers and investors is: how do you actually measure socially responsible investment, and how do funds differ in their pursuit of socially responsible goals? Some funds are more proactive in addressing social challenges than others, and in this thesis I argue that fund managers can have a more systematic response to SRI challenges if they focus on a core set of values and activities, which I have adapted from a Spiller's model for ethical business, which I review at the end of this chapter.

2.1 Basic Investment Principles

Investment refers to the process by which money is used to buy shares or stock options in a company or an investment fund, the aim being to increase the value of the investment because of good company financial performance.

An Investment Fund is a financial product available from asset managers, such as Friends Provident, in which the money invested in the fund is used to purchase stocks in a number companies, known as a portfolio, listed on stock markets. By investing in more than one company the fund aims to reduce financial risk (Kreander, 2001).

Funds commonly have specific geographic focuses; some funds invest in stocks listed in their own countries, called UK funds, whereas Global funds have no geographic limit. Often Asset Managers have multiple funds with differing geographic and ethical focuses. The types of funds that this study focuses on are Actively Managed funds, where the fund manager is relatively free to buy or sell shares in the portfolio (Kreander, 2001).

Independent Financial Advisors (I.F.A.s) are often used to help investors by recommending financial products based on the individual consumers attitude towards risk, financial situation, and sometimes ethical beliefs.

2.2 SRI Stakeholders

A stakeholder of a company is described in many different ways, ranging from legal definitions to more general definitions. A broad definition of a stakeholder was produced by the Stanford Research Institute, which described stakeholders as "those groups without whose support the organisation would cease to exist".

Clarkson (1994) produced a legal definition of a stakeholder, showing that the company as a whole relies upon society and describes the need for a legal and market structure for the company to exist:

> "The firm is a system of stakeholders operating within a larger system of the host society that provides the necessary legal and market infrastructure for the firms activities."
>
> (Clarkson, 1994, p. 24)

He goes on to explain that the company's purpose is to create value for the stakeholders by providing goods and services to the 'host society'.

Charkham (1992) defines two different types of stakeholders (see Table 2), the contractual and the conceptual stakeholder. Contractual stakeholders are those that have a 'contract' with the company to do business and are therefore directly inter-dependant, whilst Community stakeholders are those that are affected or affect the company in non-contractual ways. In this definition the consumer is seen as both contractual and non-contractual, as this group has to use the services or purchase the products of the company, and will also be affected by the same services or products.

Table 2: Contractual and Community Stakeholders, taken from Charkham (1992)

Contractual Stakeholders	**Community Stakeholders**
Shareholders	Consumers
Employees	Regulators
Customers	Government
Distributors	Pressure Groups
Suppliers	The media
Lenders	Local Communities

The Environment can also be considered a stakeholder, as company conduct will impact upon it.

Therefore, the stakeholders of SRI according to the above definitions are set out in Table 3.

Table 3: Socially Responsible Investment Stakeholders

Stakeholder	Reason
Shareholders	Has vested financial interest in the companies and funds they have invested in. Also, as ethical investors, shareholders will be concerned with the specific companies in the portfolios, including the operations and policies. This group expect financial returns on their investment, as well as socially responsible business conduct.
Employees	Are directly effected by the company's practices concerning the working environment, and employee policies.
Customers	Effected by the quality and the cost of service or product the company supplies.
Community	The company's impact on the community may be positive or negative depending on the type of business. There is a need for cooperation between the two parties.
The Environment	Directly effected by the operations of the company, and any subsequent remediation activities.
Independent Financial Advisors	I.F.A.s help investors make informed investment decisions. Therefore, I.F.A.s become stakeholders as they link funds and investors, and are vital to SRI funds existence.
Companies	The companies invested in by SRI funds are stakeholders of SRI due to the interaction between themselves and the funds. Interaction is both financial (via investment) and through any engagement between the two.

2.3 Corporate Reputation

Corporate reputation can impact the share price of companies depending on how they are perceived. Good corporate reputations have been shown to produce better financial performance, and vice versa for badly perceived companies (Vergin & Qoronflah, 1998). Investment by an SRI fund can create the impression that the company is socially responsible, which improves its reputation and financial

performance. Burton (2002) highlighted the problem that this can create when fund managers help businesses enhance their reputations without actually improving their socially responsible performance, this is known as 'SRI lite'.

2.4 Sustainable Development

An increase in the income gap between the world's richest and poorest countries, as well as continued industrialisation and other environmentally damaging activities has threatened sustainable development (Borghesi & Vercelli, 2002). 'Sustainable development' is a term that was defined by the Brundtland Report (WCED, 1987) as:

> "...development that meets the needs of the present generation, without compromising the ability of future generations to meet their own needs" (WCED, 1987, p. 43)

The above definition does not define the importance of economic sustainability, rather focusing on the social and environmental aspects. Gavare and Isaksson (2001) proposed:

> "Sustainable development is defined as the process to reach a steady state where both humanity and nature thrive." (Garvare and Isaksson, 2001, p. 12)

'Steady state' refers to equilibrium between economic and industrial development, whilst also considering current and future social and environmental needs. They suggest that to do this a global management process is needed, the management process they suggest should:

> "...lead social and economic transformations that optimise production as well as distribution of the outcome, without jeopardising the potential for similar benefits in the future." (Garvare and Isaksson, 2001, page 12)

This definition shows the connection between environmental, social and economic sustainability. It also stresses the importance of transformations in current social and economic approaches in order to achieve sustainable development. Socially

responsible investment and corporate social responsibility can be seen as examples of the evolution in business and investment strategies that lead towards sustainable development (McCann et al., 2003)

2.5 Sustainable Development, SRI, and Corporate Social Responsibility (CSR)

Socially responsible investors believe that appropriate investment can have a positive impact on sustainable development. Unsustainable or socially irresponsible companies are high-risk investments, because they are prone to events that result in negative publicity, hence diminished returns. In addition, industrial accidents are costly. When the Exxon Valdez disaster occurred in 1989, Exxon shares dipped 5%, and cost the company $3billion in clean up costs, legal costs, and compensation (Herbst et al., 1996; Cannon, 1994, page 227). Exxon also saw customers switching to other companies. The effect of losing custom, combined with financial penalties highlights the substantial cost of not acting to resolve unsustainable activities, such as not investing in double-hulled tankers (Cannon, 1994, page 238). Therefore, if a company becomes more sustainable it can be seen as a lower risk investment, and is therefore more likely to attract investment.

2.6 SRI Methodologies

SRI finds use different methodologies to select investments, the methodologies have evolved over time, and can be used to categorise the different SRI funds (Jayne & Skerratt, 2003).

2.6.1 Negative Screening Funds

Negative screening is the process by which criterion are used to exclude companies and industries that are not deemed ethical, such as tobacco, alcohol, weapons manufacture, nuclear energy, and animal rights. Using these criteria, investors are guaranteed that their money will not be invested in any company involved in these sectors.

Negative screening funds can be considered the 'first generation' of SRI funds because of their early association with avoiding "sinful" industries, ideas rooted in a Judeo-Christian belief system. For this reason, many of the negative screening funds still in operation in the UK are linked to religious groups, and include: -

- Allchurches Amity Funds
- Family Charities Ethical, and
- Legal and General Ethical Trust.

2.6.2 Positive Screening Funds

This methodology for selecting investments evolved from the recognition that funds should not just punish companies for social irresponsibility, but also reward companies for conducting ethical business. These funds actively look for companies that are behaving ethically. Commonly positively screening funds are 'Eco-tech' funds. Eco-tech funds are those that specialise in investing in companies that provide environmental products and services such as wind turbines, and environmental remediation services. Companies are also selected for investment because of comparatively higher standards of business conduct than their competitors, e.g. investing in companies such as Ben & Jerry's and the Body Shop; this is known as 'Best in Class', another form of positive screening.

Positive screening funds can be considered 'second generation' SRI funds, since they recognise that socially responsible investment is more than just avoiding sin stocks (www.ethibel.org, 2003). UK examples of these funds include: -

- Jupiter Ecology Fund
- Aberdeen Asset Managers Ethical Trust, and
- Norwich Sustainable Future Corporate Bond Fund Standard Life Ethical Fund

2.6.3 Sustainability Funds

Sustainability funds aim to promote sustainable development. Extensive research is completed on a company to establish whether the company is completely committed to sustainable development, before being selected for investment. The research draws on company reports and policies, and investigation of company practices. The research examines aspects of the company that negative and positive screening did not take into account such as: internal management structures and employee policies, the company's attitude to the environment and the community, and ethical aspects of the company's economic policy (www.ethibel.org – 2003).

Sustainability funds also often engage with companies. Engagement involves representatives from SRI funds meeting and discussing aspects of the companies business practices and policies, with a view to amending and/or improving them so they are more in line with the ethical policies of the fund. UK examples include: -

- Morley Sustainable Futures Funds, and
- Henderson Global Care Funds

2.7 Identified Trends in SRI

Since Ethical Investing was developed in the 1900's there have been a number of changes. These changes include the development of the methodology used by funds to determine where to invest, and expanding the criteria used to screen or select investments.

2.7.1 Early Developments of SRI 1971 - 1999

One of the initial aims of SRI was to become an established and accepted investment strategy that could be used to promote sustainable and responsible business (Henderson Global Investors, 2002b). This goal has now been achieved in the American and European markets, although there are differences in the application of SRI between different countries (Henderson Global Investors, 2003), the American

SRI funds are focused on the development of the community, whereas the European SRI funds are more focused on the environmental and social impact of business.

In the early 1990's SRI was still a niche investment strategy, and could not be recognised as a coherent movement (Schueth, 2002). The growth of SRI can in part be attributed to the constant promotion of ethical screening, which has continually described the benefits of screening investment which can make profits while improving business conduct and sustainable development (Knoll, 2002).

Rapid growth of SRI in the 1990's drew a great deal of academic attention (McCann, 2003). These studies have largely been focused on financial performance, trying to determine whether or not ethical funds were capable of matching the financial performance of traditional funds, and how screening the investment universe affects risk and financial returns (CSR Europe, 2002).

2.7.2 Present Status of SRI: 2000 - 2004

The growth in ethical investment shows that SRI has now gained the acceptance that it has aimed to acquire, with investors realising that SRI is a profitable form of money management for the 21st Century (Schueth, 2003). This increase in SRI assets may be linked to the corporate scandals that have occurred in America, leading many investors to use SRI to protect their money from poor corporate governance (Henderson Global Investors, 2003). The Enron and WorldCom scandals led to the New York Stock Exchange (NYSE) updating its rules for listing companies, requiring companies to have a Code of Business Ethics before becoming listed stock (Henderson Global Investors, 2002a). These same scandals have drawn increased attention to corporate governance, which allows shareholders to control and monitor their company's performance; an issue not widely considered before 2000 (Henderson Global Investors, 2003).

Henderson Global Investors (2003) describe SRI funds as having become polarised. For example the Allchurches Amity and Sovereign Ethical funds use negative screening, which often attracts investors that are religious. A second type of fund, for

example the Jupiter Ecology fund, is concerned with the promotion and improvement of business conduct, and sustainable development, preferring to engage with companies to discuss social, environmental, and ethical issues (Henderson Global Investors, 2003). The change has been driven by a shift in investors' values, away from a religious focus on "sin" towards actively seeking companies with a good record in social, environmental and ethical matters. The polarisation can also be seen by the names used for SRI. Originally SRI was known as Ethical Investment, but more recently other titles have been used including Sustainable Investment, and SRI. The names are generally used interchangeably, but SRI is the most common descriptor (Schueth, 2002).

MISTRA believes that the main problem with screening companies is related to the availability of accurate and reliable information, and also the lack of qualified specialist research teams (MISTRA, 2001). Therefore, the SRI movement is currently focused on agreeing common research standards and processes with the goal of making SRI more credible due to higher research standards (Henderson Global Investors, 2002b).

2.7.3 SRI in the Future: 2004 and Beyond

In 2001 SRI assets amounted to $100 billion globally. This figure was projected to grow to $278.1 billion in 2001, and to $751 billion by 2026. This would mean that, as is the opinion of PGGM (a Dutch pension bank, employing 1200 people) spokeswoman Ellen Habermehl, within the next few years SRI will become a mainstream investment sector (Henderson Global Investors, 2003). With this growth expected companies will find themselves under increasing pressure to address the issues being raised by investors, SRI funds, the media, and activist groups (Lystra, 2001).

Currently, none of the world's largest asset managers, such as Goldman Sachs are active in SRI, meaning that these bigger and more influential asset managers have yet to make an impact on business conduct in the way that current SRI funds have (Lystra, 2001). There is a great deal of speculation that more SRI investment will occur in the future when asset managers see the financial potential, and long-term

growth. With the inclusion of the largest asset managers SRI would benefit from dramatic growth in assets and influence. According to PAX World Funds President, Thomas Grant, asset managers will:

> "recognise the growth down the road and consolidate with other SRI players."
>
> (Lystra, 2001).

Public opinion has become more concerned with sustainability, particularly corporate sustainability. For this reason, socially responsible companies are expected to benefit from increased future investment (MISTRA, 2001).

2.8 SRI Pro-Activity

Critics of SRI point out that there is an element of uncertainty about how effective SRI is in making business practices more socially responsible (Burton, 2002). In some cases of existing investment, SRI funds need to exert more pressure to stimulate further growth of CSR and sustainable development. The process of engagement addresses specific issues, and therefore does not target holistically. For example, more efforts could be made to promote audits which aim for carbon neutrality, where trees are planted to offset the company's carbon footprint (www.cyberium.co.uk, 2003). Companies can also ask their suppliers to publish CSR 'pushing' CSR down the supply chain, and could be seen as a more comprehensive approach to CSR by the SRI community. One way this process could be understood is through the population ecology of organisations theory.

2.9 Population Ecology Theory of Organisations:

Population ecology perspective is a theory used to analyse the emergence, growth and failure of organisations via the use of biological analogies.

Organisations are regarded as a population or species that inhabit distinct ecologies or environments, in this case socially responsible investment can be considered to be the environmental niche, and asset managers or SRI funds the species or population.

Young (1988) clarifies the distinction between population and species. A species is a collection of forms which in biological terms can reproduce therefore forming a gene pool, whereas a population is a frequency distribution of species. Young (1988) also defines the environmental niches as the set of constraints in an abstract space that is sufficient to maintain a species, this implies that there is limited space within a new niche, otherwise there would be no competition for niche space, and niches are also only identifiable if we know the species that occupies them.

According to population ecology perspective, organisations evolve in the same way that organisms do, in that the change in the organisation comes from the change in its perspective to fit a new environmental niche. Species thrive or decline in these environmental conditions, based on the degree to which species co-exist or compete with each other, and the relative size of the environmental niche available defined by the niches carrying capacity. New entrants to the environment either flourish or die as the environmental conditions continue to change. The change in environmental conditions comes from "punctuated equilibrium", or long periods of stability in organisations which are disrupted by short periods of innovation and change (Hannan and Freeman, 1988).

Robins (1985) argues that it is competitive pressure, which drives the population ecology theory, such as the markets and economic conditions that are applicable to SRI funds. Clegg similarly argues that the environment can be seen to be composed of a variety of market opportunities for sustaining a variety of organisational forms (Clegg, 1990).

Using this theory, it is possible to explain the emergence and growth of SRI. As the new environmental niche emerged, due to increased interest in ethical investing, new organisational species also emerged in the form of SRI funds. The number of funds grew to fill the niche-space, which can be described as the amount of demand for SRI funds until carrying capacity is reached. The emergence of these funds can be explained by "punctuated equilibrium", in that innovation and change lead to the emergence of new types of investment funds after a long period without this kind of radical change. This change can also be attributed to changes in market and economic

pressures and opportunities exerted by investors, combined with competition from other asset managers to do the same.

The appearance of different types of SRI fund, starting with negative screening, and evolving towards sustainability funds, could represent a further type of 'micro-niche specialisation' (Hannan and Freedman, 1988); the different types of funds have created the pattern to which all the new SRI funds conform. In real life, an organisation may quit the environmental niche, potentially saving losses, or go out of business. Similarly, in the natural world, species that cannot adapt to new environments die.

2.10 Social Contructionism and Metaphorical Constructs

The social constructionists provide a contrary vision to that propounded by neo-evolutionists, which may be more relevant to understanding the role of the human agency in organisations, not simply the unfolding of its structures. Social constructionism argues that reality is socially constructed by agents using the 'facts', views and knowledge held by society (Berger and Luckman, 1966). For example, it is often argued that the reason the same 'natural realities' were all of a sudden defined as 'environmental problems' in the 1960s was because they were actively constructed as such by key players using scientifically informed, but popularised accounts of environmental devastation such Rachel Carson's *Silent Spring*. The process of social construction is always one of struggle over meaning between different sets of agents. So Greenpeace argues that global warming is occurring due to carbon emissions, primarily in the industrialised world, while on the other side some scientists and petroleum lobbyists argue either that climate change is not happening, or that it is due to other factors, such as atmospheric methane from rice production, or cattle ranching. The social construction argument can be used to examine SRI by looking at the ways trends are 'constructed' by the social actors within the sector using their knowledge and views to 'engineer the reality' of the situation (Stehr, 1994).

Qualitative data are often used in analyses of social construction, because what is important to social constructionists is understanding the meaning which people give to action, which is more difficult to do using quantitative survey methodologies.

Lakoff and Johnson (1980) argue that analysis of qualitative data can yield metaphorical constructs within which are hidden cultural perceptions of reality. Therefore metaphorical constructs within transcribed interviews can reveal the cultural themes and trends as understood by key informants knowledge and views of SRI. This implies that key informants socially construct the themes and trends with socially responsible investment, and talk about them as metaphorical constructs which can then be identified and coded. In this way the knowledge and views of the key informants for this study are the factors that set the parameters for understanding socially constructing socially responsible investment.

2.11 Adapted Version of the 4 P's for Ethical Business Model

2.11.1 The 4 P's Model

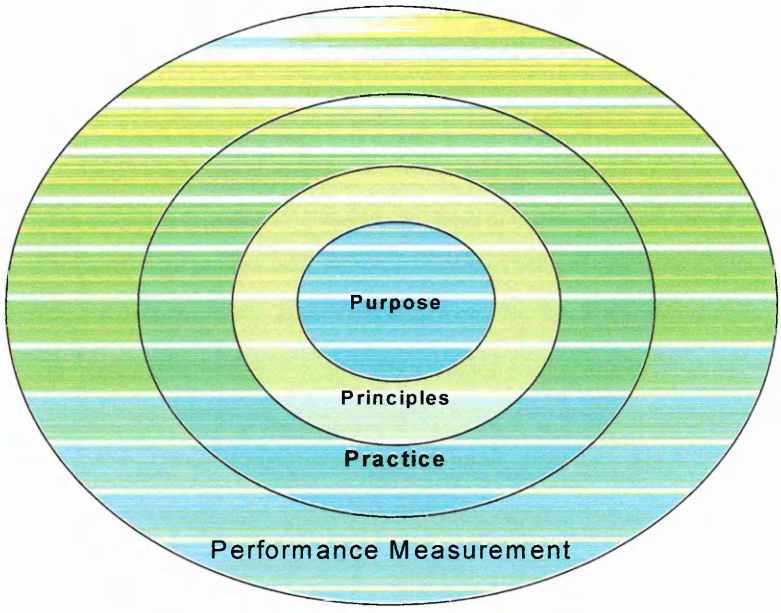
A review of socially responsible investment literature shows that there are no studies that investigate how investment can become socially responsible, and improve the ethical conduct of business. For this reason the literature covering ethical business was considered, and Spillers work reviewed, and adapted due to its originality within the business ethics field. Spiller (2002) argues that ethical business is capable of being financially successful. He devised a model called the "Four P's of Ethical Business Practice" which describes the way businesses can become more ethical (See Figure 1). The 4 P's are Purpose, Principles, Practices, and Performance Measurement.

2.11.1.1 Purpose

Purpose refers to the aims of ethical businesses to create environmental, social and financial wealth. Drucker (1984) stated that:

"Social responsibility extends from the goods and services created through to the way in which these are produced..." (Spiller, 2000, page 152)

Figure 1: The 4 P's Model for Ethical Business, From Spiller (2000)



Here Drucker maintains that the challenge is to use business to solve environmental and social problems, while attempting to create wealth, whereas a company behaving in am 'non-ethical' manner would be more concerned with its financial profitability. Purpose relates to the objectives that an ethical business has set itself.

2.11.1.2 Principals

Principles are defined as the behaviour that ethical investors wish to see an ethical business display. Spiller uses several examples that he derived from Aristotelian values. Those used are honesty, fairness, caring, and courage, and are defined in an ethical business context.

'Honesty' was defined as allowing informed choice for trading stocks in a company thereby avoiding being deceived in a transaction. The honesty of a company can be seen by the degree of transparency of the companies financial or environmental and social reporting.

Fairness relates to the company's ability to deal justly with all its stakeholders, Spiller thought that this was an:-

> "..essential element in keeping the members of an organisation and [the stakeholders] committed to and supportive of the enterprise." (Spiller, 2000, p. 153)

The fairness of a company is represented by its attitude to its stakeholders, such as family friendly employee practices, or a high degree of community involvement.

'Caring' describes the attitude needed by a company to go about ethical business, concerning the attention displayed by the company to solve social and environmental problems. Spiller says that the employees and stakeholders will feel more connected and supported by the company creating enhanced relationships between the two. A 'caring' company would have socially responsible policies and practices that attract investment from SRI funds.

'Courage' is what the company needs to implement the steps to become an ethical business, rather than solely being focused on the creation of wealth. Citing O'Toole (1985) he states that:

> "this virtue not only serves business and society but is also critical to the survival of capitalism". (Spiller, 2000, page 153)

2.11.1.3 Practice

Practice is the third stage that Spiller describes in his model. Practice is the point at which purpose and principles are acted upon. The character of these actions is the test of a business's commitment to ethical values. Spiller identified ten key practices for each of the six main stakeholder groups, which were: community, environment, employees, customers, suppliers, and shareholders. He recognised that this list of practices for the groups could be expanded, but argued that it was a good reference point.

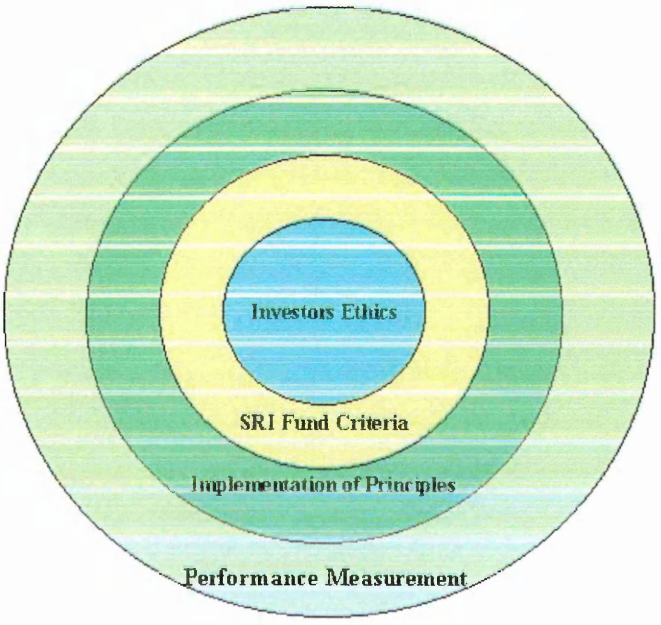
2.11.1.4 Performance Measurement

The Final P, in the 4 P's model is Performance Measurement. This is the method by which it is possible to assess the implementation of the ethical business practices. This is done via producing and assessing the reports available to the stakeholders, and may include a financial performance report.

2.11.2 Adapting the Model

Spiller's model works within its context of ethical business. But the model can be adapted to show how SRI can be made even more socially responsible, and how investor behaviour can impact investment banking and corporate behaviour. Figure 2 is a modified version of Spillers model (See Figure 2).

Figure 2: The Adapted Version of Spillers 4 P's for Ethical Business Model



The inner circle of the adapted 4 P's model is the same as Spillers, but has been labelled 'Investor Ethics'. Investors' ethics are the main driver for SRI and its impact on business behaviour, and reflect the 'ethical purpose' of this investment strategy.

The second level is the 'SRI Funds Criteria' as they are the main vehicles for ethically invested money. The SRI funds' criteria, similar to the Principles stage in Spiller's (2000) model, set out to delineate the principles for investment.

The 'Implementation of Principles' level is similar to Spiller's model because this is the practical stage where the principles devised by the funds are put into practice. The funds will screen stocks, or engage with companies to promote best practice and CSR. This level also refers to the stage at which companies change their practices to comply with the funds and the investors.

The final level of the adapted model is the same as Spiller's, 'Performance Measurement'. I suggest that performance can be measured in a number of ways. Firstly, by examining and verifying, as much as possible, the social and environmental reports that have been produced by the companies. Another way of measuring the relative improvement in performance is by examining share price and its stability over time.

The adapted model provided the conceptual framework for understanding SRI drivers and trends. It was developed through a standard qualitative methodology consisting of constant comparison of the framework with data drawn from internet research, documentary analysis, and in-depth interviews. These methods and data sources are described below.

The adapted model can be used to inform investment decisions by showing how SRI has developed in each of the 4 levels, Investors ethics demonstrates the drivers of, SRI fun criteria shows how the drivers have influenced the criteria, implementation of principles illustrates how SRI is implemented and how this has changed, and performance measurement shows the product of the implementation of principles, ethically and financially.

2.12 Conclusion

Considering the investors are the main driver of SRI, it is important to establish their attitudes to ethical issues. As outlined in the first chapter, many of the 'core' ethical screens are based on religious belief systems. However, the literature points to the growing importance of other issues, particularly corporate governance and its effect on corporate reputation, and sustainable development's argument for an equilibrium between social, economic and environmental development. These are both growing concerns amongst investors, and in turn will affect socially responsible investment, because investors wish to avoid financial risk associated with poor governance and unsustainable business conduct. But, how do fund managers actually understand and respond to such changes? The methodology, outlined below, is designed to allow me to investigate whether an adapted version of Spiller's model of ethical business can describe the process by which investment can become more socially responsible.

3. Methodology:

The study used the adapted model to qualitatively generate theories on SRI. This was done by a series of semi-structured interviews that were conducted, transcribed and analysed using open coding, in constant comparison with the adapted model.

3.1 Internet Research

For this study data were gathered critically from the internet, keeping in mind strictures identified by key authors, such as quality, but also emphasising the advantages including speed, freedom of access to information and views of SRI within organisations, as evidenced in their websites (Chowdhury, 1999; Eisend, 2002; Wills, 1996). For this reason the web is valuable as it can create a better picture of what is happening within SRI.

3.2 Interview Methodology

The data was gathered from twelve semi-structured interviews conducted between September 2003 and December 2003. The interviewees came from different backgrounds within SRI, and included staff from funds, Ethical I.F.A.s, investors, and think tanks, this allowed different perspectives to be gathered, giving a more 'complete view of the story' of trends in SRI (Driedger and Elyes, 2003) (See Appendix 3 for a list of interviewees, affiliations and dates). Semi-structured interviews were used in order to allow the interviewees to express their own perspectives fully, in line with a qualitative actor-based approach. With a formally structured interview, some of the key points may have been missed due to the rigidity and closed-ended nature of the questions. With the semi-structured approach, the interviewee could talk around the subject matter, highlighting different ideas and themes (Nueman, 2003, page 278). Each interview took between 20 minutes and 1 hour.

Using the adapted model eight questions related to the model's 4 stages. In conducting interviews, I adapted questions in some cases to suit the format of the interview, and the nature of the interviewee. Although there were different versions of the interview guide, they were all based on a core set of themes inspired by Spiller (See Appendix 1 for different versions of the interview questions).

Neuman (2003) does not advocate non-face to face interviews because they "lack the human warmth, trust, and sense of rapport that an interviewer creates" (Neuman, 2003, page 278). While personal interviews were requested, they were not possible to arrange due to the interviewees having a limited amount of time. As a result, I conducted telephone interviews, and where this was not possible I emailed a list of interview questions, requesting a written response instead. It was important to be flexible, given the subject matter, status and time constraints of my informants. A linear format for the interview was used, referring back to other questions and comments only where it was required (Fontana & Frey, 1998). The interviewees were selected due to their availability for interview.

Qualitative data analysis was completes using Atlas.ti a qualitative data analysis programme, for transcribed interview data, and emailed responses to my questions. In some cases, questions e-mailed to respondents were slightly adapted in form, but not content, to suit the needs of the communication medium.

A qualitative methodology was selected due to its ability to generate theories and detect themes that are 'grounded' within the data. This would not have been possible using a quantitative methodology, as the results would suggest that themes represented more commonly numerically are more important that those that are not, such as when using surveys and standardised questionnaires (Driedger and Elyes, 2003), and this is often not the case, particularly when gathering a diverse range of opinions form varied perspectives in SRI. Driedger and Elyes (2003) used inductive and deductive analysis. Inductive analysis categorises concepts emerging from the data (e.g. metaphorical constructs), while deductive analysis categorises concepts that occur naturally from within the subject area. By using this method to code the indicators and coded concepts that arise from the interviews with key informants a better idea of the "complete picture" of socially responsible investment trends emerges, which would not have been possible using a quantitative methodology.

Individual investors were particularly hard to contact, and yet important as a data source, this is due to confidentiality laws banks cannot give out their details. So I identified a discussion board on the website www.motelyfool.com, which has an 'Ethical Investing' section. I posted an outline of the thesis, and asked investors to contact myself for interviews. This method elicited a very informative interview from an investor, which I would never have been able to access using traditional techniques.

Once I had agreed with the informants whether their responses would remain confidential, I then coded the data and identified concepts that were grounded within the data, paying attention to temporal aspects in understanding the evolution of trends and drivers in SRI.

3.3 Grounded Theory

Grounded theory, or the constant comparative method, was used to analyse the data gathered and convert it into a format that qualitatively generated theories on SRI.

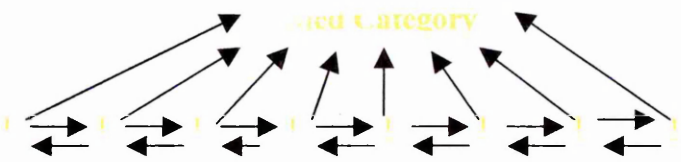
Grounded theory, as developed by Glaser and Strauss (1967) is an analytical tool used to generate concepts and theories from qualitative research data. Grounded theory can employ data from a variety of sources including policy statements, interviews, and field notes (Strauss, 1987); the data always includes the perspectives of the group or groups that are being studied (Leedy and Ormrod, 2001). The use of grounded theory is informed by social constructionism as the informants express their views about SRI by using metaphorical constructs to ground their views about the reality of socially responsible investment within the data, and thereby socially constructing it into reality (Driedger and Eyles, 2003; Lakoff and Johnson, 1994).

Strauss bases his work on the '*concept-indicator*' model (See Figure 3). Figure 3 shows the relationship between the indicators found within the data and the concepts that they commonly represent. The indicators identified within the data are coded, and when a group of indicators represent similar themes (as represented by the horizontal arrows in figure 3) via constant comparison, they can be coded together as a 'coded category'.

Figure 3: Concept-Indicator Model, taken from Strauss (1987)

= Indicator

→ = Constant comparison of Indicators



Concepts, such as 'No Changing criteria' are 'indicated' by snippets of interviews throughout the dataset where informants discuss the fact that there has been limited or no change in SRI criteria since the inception of ethical investing. The interviews were

coded, i.e. concepts were derived from the dataset, grounded in interview data, which were then compared with the adaptation of Spiller's model (See Appendix 2 for a list of codes developed in this research).

3.4 Using the Adapted Model to Generate Theories

Questions were asked in the interviews that relate to each of the 4 different levels in the adapted 4 P's model.

The questions relate to a series of assumptions the model makes at each level. The following are the assumptions made in the adapted 4 P's model.

The assumptions for the Investors Ethics level of the model are:

- The investors are the main driver behind SRI.
- Investors have polarised SRI, such as Negative Screening and Engaging funds.
- The types of people investing in SRI have changed over time.
- Investors' Ethics influence fund criteria.

The assumptions made for the SRI Fund Criteria level are:

- The criteria, or fund management style reflect the investor's needs.
- Evolution of criteria/sectors is due to investors influence.

The assumptions for the Implementation of Principles are:

- That the practices are evolving due changing influences from the drivers.
- The methods employed are effective in identifying/and promoting ethical business practice.
- The funds are primarily interested in social responsibility, although making money is the objective.

The assumptions for the Performance Measurement stage are:

- The criteria has resulted in improved socially responsible business practice.

- Efforts are being made to improve the financial and socially responsible performance of the criteria in the future.

3.5 Challenges in Data Collection

The process of gathering data proved to be problematic. When arranging interviews many groups that are involved in SRI were contacted but many did not respond. Others did not have the time to meet me or conduct a telephone interview. Many of the SRI funds contacted responded by suggesting that their website would be an ideal place to gather data, whereas due to the nature of the study the information required was not available there. A particular problem was contacting and capturing the views of ethical investors. However, the use of a website to interview ethical investors proved to be a limited success as only one response was received. Whilst the data is still useful, a larger data set from this group would have been preferable.

Another problem that was encountered with the research was of a technical nature. When a telephone interview was negotiated a transcription was needed However, the instruments used for recording the interviews sometimes would not record the interview accurately. In these situations when a full transcription was not possible, the interviewees were contacted again to confirm specific points.

3.6 Conclusion

This study took advantage of the internet as a new medium for conducting research, both for retrieval (Chowdry, 1999) and for communication (Eisend, 2002). The internet was used in his study firstly to gather data on SRI funds and criteria, secondly to establish contact with investors via a message board, and thirdly to arrange interviews and exchange questions and answers via email with informants.

Data was gathered via semi-structured telephone interviews with a variety of key informants within SRI to allow a holistic view of SRI trends (Driedger and Eyles, 2003). Semi-structured interviews, allowed the informants to widen the scope of the questions according to their own knowledge and opinions.

The transcribed interviews were then qualitatively analysed using the Atlas.ti computer programme, to inductively and deductively identify themes and trends grounded within the data. Qualitative analysis was used as quantitative data would distort the results towards data that was numerically more common, which may detract from the importance of data that is less so.

The method was informed by social constructionism, which argues that reality is 'engineered' by actors in struggles over meaning (Rien, 1993). For this reason grounded theory, or the constant comparative method was used to analyse the data.

Interview questions were designed to reflect the different stages of the adapted model. Twelve people were interviewed using a variety of formats depending on the medium they were posed (telephone, or email), and also depending on whom the informant was (SRI fund staff, investors, I.F.A.s or SRI think tanks).

4. Results and Discussion

This chapter discusses the results of the interviews conducted showing the answers received from the interviewees in the form of quotations, and highlighting important trends and themes that were identified through the constant comparison of the data to form coded categories, there is also an examination of the criteria used by some of the funds and an analysis of the findings. The results for the interviews have been split into four sections, each relating to a different level of the adapted model. The responses in the form of quotations can be linked to individual respondents by their identification in the following brackets, Table 4 displays the coded categories derived from the interview results, with the indicators listed for each coded category. For further information concerning the identity of the respondents see Appendix 3.

Table 4: Coded Categories, and indicators identified from the interview data.

Adapted Model level	Code Family	Indicators
Investors Principles	Fund Launch Reasons	• Fund Launch - Events created the need to have SRI • Fund Launch - For own members • Fund Launch - Internal commitment to SRI • Fund Launch - Internal decision • Fund Launch - Investor's needs • Fund Launch - Investor's religious desires • Fund Launch - Investors - Personal ethics drove desire for SRI • Fund Launch - Market Niche • Fund Launch - no real commitment from the funds
	Investors Influence	• Change Trend in fund launch reason - Internal commitment • Investor Influence over criteria • Chaining Criteria - Investors not the only influence, funds can be ahead of the market • Changing Trend - no unit holder AGM • I.F.A. - influence over criteria • I.F.A.s - Influence over investment decision • I.F.A.s - Know Investors Views • Improvements - based on investors interests • Investor's -Engagement not popular • Investors - Want conventional methodology with engagement • Fund Choice - Commitment to SRI
SRI Fund Criteria	Investors Ethics	• Changing Trend - Investors had more extreme views • Changing Trends - Investors becoming more aware • Ethics - Subjective • Events - change public awareness • Future trends - driven by society/investors

	Changes in criteria	• Changing criteria - Fund influence • Changing Criteria – Information from external sources (NGOS) • Changing criteria - Legislation influence • Changing criteria - None • Changing criteria - Towards eco tech • Changing Trends - Events • Criteria - Internal influence • Criteria – Investors opinion • Criteria - Sustainability and financial issues combined • Criteria - Under continual review • Current Trend – Corporate Governance with engagement • Current Trends - Importance of CSR • EIRIS - Bad involvement • EIRIS - Objective criteria • EIRIS influence over criteria • Events - Have made CSR more prominent • External Advisory Committee - Influence Criteria • Future Trend - Some new issues not taken up by screening funds • Future Trends - Bio-medical research • Future Trends - Climate change • Future trends - driven by legislation • Future Trends - Global warming/pollution • Future Trends - GM • Future Trends - Human Rights • Future Trends - Influence from legislation • Future Trends - Renewables • Future Trends - Waste • Past Trend - Apartheid

Implementation of principles	Current Trend	• Changing Criteria - Engagement has allowed greater latitude (bigger universe) • Changing Methodology - Helped expand SRI market • Corporate Influence - Could be increased by engagement • Criteria - Sustainability and financial issues combined • Criteria Change - Changes to research process • Criteria Change - Towards positive screening • Criteria effectiveness - External body protects financial and ethical effectiveness • Current Trend - Asset Managers increasingly dislike negatively screening funds • Diversification of Types of Funds • Engagement - Aided SRI expansion • Engagement - Lowers risk • Engagement - May not make company approvable • Engagement - Not a good management strategy • Engagement - Reduces SEE impact • Engagement - To selective • Engagement - Unknown effect on volatility • Engagement allows better financial returns • Future Trends- Diversification of Funds • Improvements - Engagement allows greater latitude in investments (bigger universe) • Improvements - Wider universe is needed • Past Trend - Only equity funds • SME bias
Performance Measurement	Ethical Performance	• Ethical Performance - Good • Different methodologies different ethical and financial performance • Criteria effectiveness - Tension between Financial returns and criteria • Negative Screening - Based on Ethics not finance

	Financial Performance	• Current Trend - Poor Eco-tech funds • Ethical Investors - Not exposed to Risk from unethical events • Failure of FTSE4good fund • Financial Performance - out performance • Financial Performance - SRI better for sustainable profits • Future Trend - Investors will have to expect lower returns • Future Trends - Integration of financial risk and SEE issues • Investors - Need to be able to accept risk • Positive Screening and Engagement - Good financial performance • Problems - SEE subjectivity causes financial performance problems • Screening – Decreases financial performance

4.1 Investors' Ethics

The interviews revealed that the main driver of SRI is investors. Investors ethical beliefs created ethical investing, leading to the creation of SRI funds, and are therefore the central parts of the adapted model. Some investors base their investment decisions on religious belief systems, such as Quakerism, while others simply have ethical views that influence their choice when selecting financial products.

> "...as a Christian, I had a desire to align my 'money life' as closely as possible to my [religious beliefs]..." (Robert Thomson)

Equally, asset managers have also been influenced by religious beliefs, and internal ethical values when deciding to launch SRI funds.

> "...the asset managers were Quakers, Quaker owned with a Quaker board, and when the issue within the company, was whether or not they should be investing in British Aerospace, they wanted a fund that would meet what they believed was the bulk of their clients interests, who certainly had an underlying Quaker ethos."(Eileen Race)

Aside from asset managers and investors belief systems and values, SRI funds were also launched due to a perceived market demand for them. These funds have attracted a degree of cynicism, as it appears that they have seen an opportunity to make a profit from ethics, rather than acting on the ethical opinions of investors, staff, or society.

> "...but there are others for whom it is a bandwagon, it's a marketing ploy. 'They've all got one, so we must have one'. I don't think they are that serious at all!" (Eileen Race)

Another reason that is becoming more common for asset managers to launch SRI finds is that there was internal pressure from the asset manager's staff.

> "...there would have been a degree of internal pressure from the staff, who could see that SRI had an increasingly important role in investment decisions, especially when considering risk." (Emma Hunt)

The need to protect capital investment from catastrophes caused by social, environmental or ethical incidents is important, as they can ruin a company's reputation, in turn negatively effecting share price. The internal pressure applied within asset managers stressed the need to avoid or try to reduce the risk that these companies and incidents pose, leading to the decision to move into SRI. However, this decision needs to ensure there is market demand for the product, as suggested by Robins (1985). The funds that act on internal decisions when launching SRI funds are said to be the funds most committed to SRI, as they are supplying a product for people who have similar ethical values as themselves, these funds also commonly engage with companies.

> "The engaging funds are the serious people, they are the ones where there is commitment, personal commitment, from the team involved in managing the money" (Eileen Race)

Ethics vary between investor's, some believing that one thing is ethical while others disagree. The variability between people's views means there is a variety of different SRI funds, using different criteria and methods.

"Ethics amongst investors are varied, but you can't say that one is more ethical than the other" (Lee Coates)

It has also been said however that investors' in the past held more extreme views, meaning the demand for negative screening was higher as people wanted to exclude certain industries and companies.

"...if you go back 15 – 20 years, there were people who were more extreme in their views, than they are at the moment..." (Eileen Race)

Modern day ethical investors are reported to be more aware of the ethical implications of business due to events and the media, and a growing distrust in corporations. These investors are more likely to invest in engaging funds, as these funds seem more committed to SRI.

"...there will be a societal factor if the public believe that they have been misled or encouraged to do things which are unhealthy, purely for the profits of a large corporation. I think that will have a big effect. So I think things like the loss of trust of the public regarding corporations and what they say is going to make it increasingly difficult for them to get their message across." (Simon Abrams)

4.2 SRI Fund Criteria

The criterion used by the funds is influenced in a variety of ways, postal surveys are frequently used by some funds to find out the views of investors.

"...we conducted a survey of 4500 of our ethical investors and received 1500 responses across a wide range of topics, from engagement and screening to issues that concern them as individuals." (Mark Campanale)

Some funds do this regularly, for example Standard Life conduct annual surveys, to update their criterion and ensure that they are in touch with investors concerns.

> "We do an annual survey, and have done since the inception of the fund, this is the seventh year we have done it, we do it every summer, and we survey investors in the funds to find out what are their key concerns, and their key interests in companies to avoid as well as companies to favour." (Julie McDowell)

This is the most direct form of engagement with investors that occurs today. In the past it was not uncommon for unit holder AGMs to be held, at which the fund manager would be present to answer questions about investment decisions. However, this no longer occurs, perhaps reflecting the less extreme opinions investors have today. More frequently, SRI funds will talk to I.F.A.s about what their clients are interested in.

> "...we are in regular contact with Fund managers, and they will `sometimes ring up and say "do you mind helping us out with a survey, could you ring round some of your clients." (Eileen Race)

I.F.A.s have more day-to-day contact with investors than SRI funds, and as such are a good way to establish their views. I.F.A.s act to protect their client's investments mainly financially, but ethical I.F.A.s will ensure ethical satisfaction as well.. If an investment decision made by the fund does not reflect a clients' beliefs, then ethical I.F.A.s have been known to withdraw investments.

> "...we look at the stock, and check our research into the company. I will dig my heels in with funds if there are any problems with the funds' holding, as my feeling is that I have to justify this to clients. And I always bring out Granny Smith here. There are hundreds of Granny Smiths out there as our clients. But I always say that if I couldn't take what I am being told by the funds and sit down with Granny Smith, and tell her what the fund has said, then I will go back to the fund and say 'you are wrong'. And I know I'm right, because I do speak to the people." (Lee Coates)

External committees are used by several funds to help maintain rigorous use of the criterion when making investment decisions, and reviewing the criterion.

> "...we set up an external advisory committee, which needs to exist, which considers which companies are suitable for the fund in terms of the criteria, and they also approve the criteria as well. We are happy to work with these [people]." (Robert Taylor)

Another external influence on SRI funds criteria is the Ethical Investment Research Service (EIRIS). EIRIS developed a product that was sold to asset managers when they were launching SRI funds. EIRIS supplied investment policies, including the criteria, and lists of countries and companies that were acceptable to many funds. The EIRIS criteria are updated regularly, and funds adopt the revisions to their own criteria.

> "We review the criteria. EIRIS sometimes change their criteria and we match those changes." (Steve Waygood)

However, EIRIS criteria is criticised for being to quantitative rather than qualitative. EIRIS have quantified some of their criteria, which can leave investors open to ethical risks. For example the human rights criteria allows companies to operate in four countries violating International human rights laws, but when they operate in five, then they are excluded from the investment portfolio.

Events can expose bad practice by companies, and the medias coverage of these events can often be damaging to a company's reputation. This is an important source of external influence over fund's criteria as investors frequently react to the media and events negatively, encouraging SRI.

> "I think what [events] do is raise public awareness, and when a corporate company's rise and fall is on the back of not handling these issues well, the case for socially responsible investment, and the environmental and social performance is a good indicator of management quality and becomes more credible. And while you think intuitively it makes sense, these events will help to confirm that." (Simon Abrams)

"Specific events have also contributed to the ways in which SRI, particularly the issues have changed over time, as catastrophic events are obviously linked with risk to share prices. Certain events, such as the Enron crisis, have helped SRI as an investment sector." (Emma Hunt)

Events were also found to be important to investors before 2000, and could be a trigger for ethical investment.

"The first big issues were apartheid in South Africa, it was Vietnam in America, afterwards the environmental movement grew and was included [into the funds criteria]" (Julie Debrow)

Funds do not solely rely on information from investors and I.F.A.s to devise their criteria. Information also comes from the internal research departments that some funds have set up. These research units, have brought in new skills to the financial world, and have meant that a wider field of expertise informs financial decisions.

"... criteria are determined by Henderson staff, who have come from the academic and NGO sectors and are thus probably more typical of the public's interests as a whole rather than from a purely financial perspective." (Mark Campanale)

The criterion used by funds have changed very little over time, and it seems that without the introduction of a new breed of issues either by events or legislative influence, then this will continue into the future.

"But the other major issues are human rights and the environment. They are always going to be and always have been the main issues." (Lee Coates)

"The investors are still interested in all the same issues, armaments, human rights, the environment, alcohol, nuclear power, pornography." (Eileen Race)

4.3 Implementation of Principles

The fund's management strategy is the level of the adapted model at which the investors' ethics and the funds criterion are appiled. The interviews revealed that there are some fundamental differences that are not simply based on criteria, but the way in which they are implemented, and how they react financially and ethically.

Negatively screened funds, the first style of fund management strategy to emerge in SRI, are based solely on the ethics of the investor. There is a great deal of difference between the individual funds, reflected by the variety of investors' opinions. The criterion has been designed purely to screen stocks out of the fund, and the financial implications are not considered important.

> "For negatively screened funds, the ethical criteria aren't supposed to have direct relationship to financial performance, they are directly ethical criteria."
>
> (Steve Waygood)

The use of negative criteria however is going to have an impact upon the financial performance of the funds, and the degree of risk it is exposed to.

> "If you take away options for investment, then that will conceivably have consequences on financial performance" (Steve Waygood)

> "...the risk profile is obviously going to be greatly increased due to the use of restrictive criteria, and we are yet to see a situation where good environmental, social, or ethical practices has fed into over all better share price performance"
>
> (Robert Taylor)

Positive screening funds attempt to create a larger investment universe by seeking 'best in class' companies. There are however a limited number of ethically proactive companies. In practice funds are more likely to be made up of eco-tech stocks. These funds have often closed due to a lack of interest and poor financial returns. This in turn has led to a decrease in investors trust of positive screening funds.

> "However the recent launch of several Eco-tech funds has proved to be disappointing, all these funds have collapsed, and this has lead to a lowering of confidence in Eco-Tech funds." (Emma Hunt)

This is demonstrated by the closure of the FTSE4good fund. The fund eventually aimed to have no negative criteria, and it is believed that this was one of the reasons for a low investor interest, as it would not screen out companies that they wished to avoid, instead allowing them to be to be invested in.

> "they closed [the FTSE4 good fund] because they couldn't get any money, and why couldn't they get any money, because their brochure said that in the long term they aimed to have no negative criteria, we will engage and look for companies in which we can invest, and nobody wanted to buy into it, no surprise." (Lee Coates)

Engagement is more appealing to a wider group of investors, and is one reason why SRI has grown in the last decade with the growth of engagement funds.

> "...engagement has made it a lot easier for a lot of institutions to accept SRI, and a lot more investors to accept it." (Cassie Higgs, and Helen Harrison)

Engagement's popularity is partially due to its ability to influence companies and reduce exposure to social, environmental, ethical and also financial risks, which are linked to the company's conduct. In this manner, engaging funds have a larger investment universe, allowing better financial success. Another reason for the success of engaging funds is that they are seen as being more committed to SRI, and therefore are seen by many as a growth area for SRI.

There are some arguments against the way engagement is used at present, these are that engagement is too selective about the issues it engages with companies on, and it is not transparent enough about which issues it does address, rather than taking a more holistic attitude to a company's actions.

"...engage with the company about what the company does, not bits of what the company does." (Lee Coates)

Many of the interviewees expressed an interest in the diversification of the types of SRI funds, away from just equities. This would could further broaden the range of investors that want to invest responsibly allowing SRI to grow further.

"I think that SRI will diversify, away from equities and into more diversified forms of SRI. Community investing is becoming bigger in the UK, and as I mentioned previously, I think that SRI property funds may be launched."
(Emma Hunt)

Several of the interviewees, predominantly from the funds, also expressed a need for the financial and ethical criteria to be integrated. Some funds have begun to do this already, attempting to develop ways in which financial decisions could more accurately take into account social, environmental, and ethical risks when making investment decisions. This is a trend that is increasingly apparent, particularly within engagement funds.

"... what needs to be addressed is the way in which social, environmental, and ethical risk can be applied to companies, in the same way as more straight-forward financial issues." (Robert Taylor)

"The key is to integrate social, environmental, and ethical criteria into the stock selection process. This would mean creating a sustainable investment process." (Ronnie Lim)

4.4 Performance Measurement

The performance of SRI funds can been measured in terms of financial performance, and also the ethical satisfaction of the investors. Considering the current downturn in the stock market, many of the fund representatives interviewed claimed that the funds had periods where they out performed the market, or claimed to have matched major financial indices, such as the FTSE 100 Index.

"Our performance has been good, over the period, we have had periods of significant out performance, because of the way our funds are constructed." (Simon Abrams)

"Over the past 12 months Environ has kept pace with the FTSE 100 index." (Robert Taylor)

Ethically, the interviewees expressed that investors were generally satisfied with the investments made by the funds, and the fund's policies and criteria. One interviewee did indicate that when investors asked about particular investments, the investors had not made themselves fully aware of the funds criteria.

"On the whole I think yes, you do get certain instances where individuals may not have read the information that had been provided..... Occasionally people come back and say, 'don't they test drugs on animals?', well we actually allow for that in our criteria." (Robert Taylor)

However, one informant noted that investors are satisfied with SRI funds because of the range of funds to cater for different investors' on ethical matters, and also because they have the choice to invest ethically.

"On the whole most of them are quite accepting, for many of them they are delighted to find that these funds do actually exist, and there is a lot of serious input into them. I personally haven't had anyone saying that this is not appropriate, and we need this and this and this, because there is now a considerable range of these funds." (Eileen Race)

A further reason for investors satisfaction with SRI funds financial and ethical performance is that the choice to invest ethically, particularly in funds using negative screens, is not a financial decision, rather it is solely based on the ethics of the investor.

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"...negative screens predominately are on a values basis, rather than value. So they are not financial." (Steve Waygood)

4.5 SRI Fund Criteria Analysis

In addition to conducting interviews, I analysed the criteria used by five funds in order to make a comparison of stock selection decisions (See Table 5. The data were acquired from press releases, publications, and information from fund websites, and collated into the table below. The issues were separated into seven categories, the environment, social development, human rights, employee practices, governance, animal welfare, and corporate responsibility. One point was allocated to each fund on each issue that they declared they had either addressed by engaging with companies, or a position paper on, or listed in their criterion statements.

Table 5: Analysis of Criteria Used by Five SRI Funds

	Asset Managers					
Issues Considered	**Friends Provident**	**Henderson**	**Friends Ivory Sime**	**Morley**	**Jupiter**	**Total**
Environmental						
Natural Resource						
Conservation/Efficiency	✓	✓	✓	✓	✓	5
Recycling and Waste Management	✓	✓	✓	✓	✓	5
Environmental Policy Statements	✓	✓	✓	✓	✓	5
Sustainable Forest Management	✓	✓	✓	✓	✓	5
Sensitive Land Use	✓	✓	✓	✓	✓	5
Pollution to the Environment	✓	✓	✓	✓	✓	5
Improving the Environment	✓	✓	✓		✓	4
Environmental Technologies	✓	✓	✓		✓	4
Continued improvement of		✓	✓	✓	✓	4

Environmental Performance						
Sustainable Forestry	✓	✓	✓		✓	4
Intensive/Factory Farming	✓	✓		✓	✓	4
Nuclear Power	✓	✓			✓	3
Manufacturing Environmentally						
Harmful Products	✓		✓		✓	3
Damaging the Environment	✓		✓		✓	3
Energy Conservation/Efficiency	✓	✓			✓	3
Climate Change	✓	✓	✓			3
Organic Produce		✓		✓	✓	3
Water Treatment	✓	✓			✓	3
Public Transport	✓	✓			✓	3
Green House Gasses	✓	✓	✓			3
Water Pollution	✓	✓			✓	3
Environmental Performance						
Awards	✓	✓	✓			3
Road Building	✓	✓				2
Ozone Depletion	✓	✓				2
Breaching Environmental						
Standards		✓			✓	2
Pesticide Manufacturing	✓	✓				2
Renewable Energy	✓	✓				2
PVC Production	✓	✓				2
GMO production		✓		✓		2
Pollution Control	✓					1
Acid Rain Contribution		✓				1
Threatening Tropical Hardwood						
Forests	✓					1
Transport					✓	1
Social Development						
Policy Statements	✓	✓	✓	✓	✓	5

Tobacco	✓	✓	✓		✓	4
Alcohol	✓	✓		✓	✓	4
Gambling	✓	✓		✓	✓	4
Benefiting communities (strong involvement)	✓	✓	✓	✓		4
Third World Access to Medicines	✓	✓	✓			3
Emerging Countries (+ve or -ve)	✓	✓	✓			2
Bribery and Corruption	✓	✓	✓			2
Offensive Misleading Adverts	✓					1
Supply necessities for life	✓					1
Care for the Elderly				✓		1
Life saving and Enhancing Products	✓					1
Safety and Security	✓					1
Healthy Eating				✓		1
Human Rights						
Policy Statements	✓		✓	✓	✓	4
Arms Industry	✓	✓		✓		3
Involvement in Oppressive Regimes	✓	✓		✓		3
Global Implementation of Labour Standards	✓		✓		✓	3
Pornography	✓	✓			✓	3
Promoting the Rights of the individual	✓		✓	✓		3
Child Labour	✓		✓			2
Cloning		✓				1
Bribery and Corruption				✓		1
Exploitation	✓					1
Employee Practices						

Health and Safety	✓	✓	✓	✓	✓	5
Family Friendly Employment Practices	✓	✓	✓	✓		4
Equal Opportunities	✓	✓		✓		3
Global Implementation of Labour Rights	✓		✓			2
Healthy Eating		✓		✓		2
Employee Secondment	✓			✓		2
Child Labour		✓	✓			2
Health Care				✓		1
Pensions				✓		1
Training and Education	✓					1
Governance						
Reporting and Policy Statement - (Transparency in Reporting)	✓	✓	✓	✓		4
Lobbying Transparency	✓	✓	✓	✓		4
CSR	✓	✓	✓			3
Charitable Donations	✓	✓				2
Disclosure of Directors Salaries	✓	✓				2
Community Involvement	✓	✓				2
Sponsoring Major Conservation Projects	✓					1
Breech of Health and Safety Regulations		✓				1
Animal Welfare						
Policy Statements	✓	✓	✓	✓	✓	5
Animal Experimentation	✓	✓		✓		3
Humane Food Production	✓	✓		✓		3
Fur Farming and Trading	✓			✓		2
Offering alternatives to Animal Testing		✓		✓		2

Cloning (xenotransplantation)	✓	✓				2
Exploitation	✓					1
Corporate Responsibility						
Lobbying Accountability	✓	✓	✓			3
Offensive or Misleading Advertising	✓	✓	✓			3
Breeching Standards	✓		✓			2
High Quality Products (Benefiting Humanity)	✓					1
Good Customer and community relations	✓					1
Total	71	57	36	35	30	

	Friends Provident	Henderson	Friends Ivory Sime	Morley	Jupiter	Total
Environmental	27	28	15	10	21	**101**
Social Development	12	6	6	6	4	**34**
Human Rights	8	4	4	5	3	**24**
Employment Practices	6	5	4	7	1	**23**
Governance	7	7	3	2	0	**19**
Animal Welfare	6	5	1	5	1	**18**
Corporate Responsibility	5	2	3	0	0	**10**
Total	**71**	**57**	**36**	**35**	**30**	

The table demonstrates the scope of the criteria being used by the funds, and the diversity of the issues that are addressed in stock selection decisions. The table shows that some funds consider a more diverse range of issues than others. The table also shows which issue categories are more important than others to each fund.

The environment has the largest degree of attention placed upon it, mainly due to increased awareness from investors. This I also due to the fact that it is an issue with many different facets, requiring attention on a larger number of individual issues

compared to simpler issue categories such as Employee Rights. This is indicated by the greater amount of attention it receives in literature describing funds engagement practices and criteria. Environmental legislation provides more details for funds to screen and engage companies on, and is a further factor explaining the dominance of the Environment within the analysis.

Corporate social responsibility is the lowest ranking issues category, but it is an issue that fund managers and investors are becoming more aware of, particularly with the increasing lack of trust for corporations felt by society and investors. While CSR is not dominant at the moment, explaining the lowest score of all the Issue Categories, it is likely to become more prominent in the future.

The differences between the individual funds in terms of their score can be explained by a number of factors. Firstly, the reason Jupiter scored the lowest score across all categories is because Jupiter has environmental funds, Jupiter Ecology, and Jupiter Environmental Opportunities funds, predominantly screening on environmental issues. The other funds consider a broader range of factors, as they are not 'specialised' SRI funds, or 'green funds', and consider companies more holistically. This leaning towards environmental screening means that other issues are a lesser priority although will feature within the stock selection decision making process.

A second difference that may influence the funds score in the table is the availability of information upon which this table is based. Friends Provident provides numerous documents on its website, and other information is available from alternative sources regarding their SRI funds, whilst Morley, amongst other SRI Fund Managers, do not have the same quantity of information available. This shows the difference in each funds transparency, as the availability of information has influenced the accuracy of the scores in the table. This difference between the funds could be explained by different attitudes towards public relations. Friends Provident and Henderson being amongst the better examples of good public relations in SRI, which is shown by the greater degree of transparency.

Despite the differences between the funds analysed above, the differences could be explained by each fund occupying different micro-ecologies according to Population

Ecology perspective. Jupiter at one end of the scale as an environmentally focused fund, and the remaining funds considered socially responsible investment funds, working on a more holistic level.

5. Conclusions

This chapter presents and interprets the findings of this investigation and how these are connected to the trends in SRI and the adapted model. Further research areas that have been identified by this investigation are suggested. Finally, recommendations for the future are given as a result of this study, identifying areas of weakness in SRI and the research techniques used. A typology of SRI funds and investors is also presented.

5.1 Findings

The first objective of this study was to establish the drivers behind SRI. The study has shown that the main driver is the investors, and has been since the start of the SRI movement. However, over time there has been increased influence from within asset managers, from staff and management. This is because of personal and religious belief systems influencing the decisions being made by senior management within in the funds. Friends Provident, one of the earliest asset managers to launch an SRI fund in the UK, did so due to a conversation between a vicar and a senior member of staff, to provide an ethical product to their predominately Quaker staff and clients. Other SRI funds have been launched because the staff realise the need for SRI.

This suggests that the population ecology theory of organisations can be used to understand ways in which a new 'environmental niche', in this case SRI, becomes apparent organisations are created to fill the niche, and new organisational species, or SRI funds evolve. Population ecology theory however does not take into account that there may be several different reasons for different organisations to occupy the niche, i.e. SRI funds were launched because of internal pressure, investor pressure, and because of a perceived financial opportunity. The investors also influence the criteria that are used by the funds to select companies for investment. In the past there was

more direct contact between the funds and the investors than there is today. Today external committees are also frequently used by funds to advise on how the criteria are applied. The same committees are also used to approve companies selected for investment by the funds.

Other influences on the fund's criterion are events, and their media coverage, and information from sectors such as N.G.O.s, think tanks and academia. The impact of events on SRI can be demonstrated by the increased attention CSR as a result of recent governance scandals, where as the large representation of environmental issues within SRI funds criteria is due to its many different facets, widespread concern from investors, and the detailed nature of environmental legislation.

The fund management strategies vary in the way in which they implement the criteria, and do so for different reasons. The small investment universe that is created by negative screening means that there are implications on financial performance; this is acceptable for some investors, usually those more stringent in their beliefs, as they are not investing in unethical industries.

Positive screening funds attempt to reward companies that are trying to promote socially responsible practices, and are similar to 'best in class' funds because they target leaders in industrial fields. This has led to eco-tech funds being opened, many of which have been closed. It was suggested that without engagement positive screening will not work, as investors prefer to ensure they are investing in ethically sound companies and feel that 'best in class' is to some extent an excuse to improve profits by investing outside of an ethically screened universe.

The engagement funds are set to become more popular in the future. This is due to the fact that investors and society in general are becoming more aware and concerned with the impacts of corporations. The influence that engagement funds have over corporations is also larger than that of funds that do not engage. Combined with the opinion that funds that engage with companies are more committed to the principles of SRI, and take their responsibilities more seriously than funds that screen stocks, means more investor interesting the future.

A problem with the engaging funds is that they did not engage with companies across all of their activities, rather being too selective, and also that they, could be more transparent regarding their engaging activities. These are problems to be addressed in and will aid the growth of SRI further. In the analysis of criterion used by funds, the issues the funds claimed to have addressed did not comprehensively cover each category, instead only dealing with specific issues. This however may not be the case, funds may have considered investments on all the issues considered in the analysis, in which case better transparency is needed to confirm that the funds are operating holistically when making investment decisions.

An interesting trend that was detected in several of the funds representatives that were interviewed is the attempt currently being made to integrate social, environmental, and ethical issues, with financial criteria when selecting stocks for SRI funds. This is an attempt to re-evaluate the risk involved with investing in companies using a more comprehensive set of criteria.

One problematic approach is to create scenarios to quantify social, environmental and ethical (SEE) issues in terms of their financial risk or performance, which is difficult as it is fairly subjective. However, by doing this a method is formulated to make financial decisions in a sustainable way. This view is shared by a Robins (2003) who proposes that there is an important link between SEE issues, and financial performance.

The financial performances of the funds are all reported by the funds interviewed to be above the market average. However, fund staff that were interviewed are unlikely to report that their funds are under performing, and therefore this may not accurately reflect reality. The ethical performance of the funds is generally the same, all the funds claiming that investors were satisfied with the investments made, the criteria used, and the funds engagement policies. I.F.A.s also indicated that investors were happy with the financial and ethical performance of the funds.

5.2 Further Research

There are several areas for future research that are suggested by this study.

First the issue of integrating the social, environmental, and ethical criteria with the financial criteria is difficult. This is because quantifying ethical issues is problematic as they are subjective by their nature, whereas financial criteria can be quantified easily. By creating 'ethical:financial' scenarios, a better picture of the risks involved can be established and then used against standard financial stock selection methods.

The second area for further investigation involves I.F.A.s promoting the use of SRI products over traditional products. Many investors want to invest responsibly, and yet many are unaware of the existence of SRI funds. Commonly, I.F.A.s do not ask whether their clients have any ethical concerns associated with investing in particular industries.

A further direction for research concerns the methodological technique of posting messages on online discussion boards to conduct research on individuals whose identity is normally confidential. While there were responses in this study, this number was limited. Further investigation into increasing the number of responses by researching different methods of presenting the researcher, and the questions may yield better results.

A final area for future investigation involves establishing how influential investors and society are in asset managers launching SRI funds. With the expected growth of SRI, the diversification of funds is expected. However, the extent to which the asset managers are considering SRI is limited. With society increasingly distrustful of corporations, asset managers may decide that there is enough market demand to launch their own SRI funds.

5.3 SRI Typology

The investigation of the core components of the adapted model showed that there were different types of socially responsible investors, and different ways to implement the criteria. These differences have an impact upon the financial returns of the SRI funds depending on how stringently the fund and investors wish to implement their

ethical beliefs, for example negative screening funds do not think about investing in certain industrial sectors, while a best in class fund might if the company conducted business to a specific standard. Below (See Figure 4) is an attempt to create an SRI typology, categorising funds with investors, and quantifying the returns for each of the funds within each category.

The table also shows the difference in investors' attitudes to the way in which socially responsible investment should be carried out, and the different backgrounds and viewpoints they tend to have. For example, Ethical Investors tend to come from religious backgrounds, and simply want to remove certain industries from their investment universe according to their religious beliefs. However, Sustainable Investors want to cooperate with sustainable companies and further promote socially responsible conduct in this manner.

Principled investors and Proactive investors, whilst similar have key differences, as see their role as investors differently. Principled investors do not want to eliminate to companies from their investment universe, and instead seek companies that out perform their competitors in terms of their socially responsible conduct. This means that more profitable companies can be included into their investment portfolio whilst still remaining ethical to a degree. Proactive Investors look for companies that are active in socially responsible industries and not simply those that are the most socially responsible. This means that these funds often consist of 'future industry' companies like those creating renewable energy technologies, remediation services, and companies who are providing innovative social products.

Figure 4: Typology of Socially Responsible Investors and Investment Funds

Type of Investor	Fund Activity* (low to high)	Fund type and Characteristics	Best % Returns (**)
Ethical Investors		***Negative Screening Funds*** • Often religious investors. • Want to avoid certain industrial sectors, which limits the investment universe.	**-6.42**
Principled Investors		***Best In Class Funds*** • Look for companies performing (ethically) better than other companies in the same industrial sectors. • Motivated more by money than the Ethical Investor, but still principled. • Wanted a larger investment universe due to lower returns on their investment.	**8.88**
Proactive Investors		***Positive Screening Funds*** • Proactively seek companies that are acting socially responsibly, and not simply the best in the sector • Try to tie Ethical and financial performance. • Larger investment universe than Negative Screening funds, but more socially responsible.	**15.38**
Sustainable Investors		***Engagement/Sustainability Funds*** • Growing in number due to an increased concern about corporate activities, the environmental movement, and social concerns. • Look to promote future industries (e.g. wind power), sustainable development, and corporate accountability via the engagement process.	**16.36**

* "Fund Activity" refers to the amount of research and engagement completed by the fund into companies before and after investment decisions are made.

** Returns were taken from Standard and Poor's figures dated 1st June 2004 over 5 years, calculated on an initial £100 investment.

Figure 4 also illustrates a temporal aspect of SRI typology, negative screening funds were the first to become available to investors in the 1960's, and the development of different types of funds followed, with the introduction of best in class funds, positive screening funds and finally engagement funds.

The level of 'fund activity', refers to the research process before investment decisions are made, this varies from negative screening funds through to sustainability funds. Negative screening funds use limited analysis of companies before investment, simply ensuring that the company passes the negative screens. Best in class, and Positive screening funds employ a more comprehensive analysis of companies before deciding upon investment, this is because it is required that they detail other aspects of the companies business conduct which would not be considered by negative screening funds. Engagement funds are the most holistic, in terms of 'fund activity', as factors such as management structure, environmental policy, employee rights, and business conduct are considered, and therefore a greater amount of research is required.

The trend that can be seen in the attitude of the investors is also of interest. Negative screening funds tend to attract investors who are keen to avoid 'sin stocks', and whose values are often based on religious beliefs, their investment decisions are based solely on ethics, often disregarding financial performance, hence this group being categorised as 'ethical investors'. Both best in class and positive screening funds attract investors, who have ethical concerns about how their money is invested, whilst also wanting to enlarge the investment universe available. For this reason best in class investors, termed 'principle investors', allow investment in companies whose business conduct is exemplary in their industrial sector, mixing principles with profit. Positive screening investors, termed 'proactive investors', actively seek companies that comply with their own ethical beliefs, and attempt to promote them via investment, this approach takes into account both ethics and financial performance. 'Sustainable investors' are those concerned with SEE issues, and corporate conduct, seeking to promote sustainable development by engaging with the companies they invest in. The differences in investors' attitudes show that investors have become more concerned with sustainable development, and more willing to take steps to act upon their concerns, in this case via SRI.

The financial performance of the funds also delineates a trend, and differences between the types of funds. The best 5 year return for negative screening funds is -6.42% from and initial £100 investment, this shows that negative screening funds are indeed more concerned with ethics than financial performance, and that the use of negative screens does have an impact on financial performance. Best in class has better financial performance, showing that by enlarging the investment universe it is possible to improve returns. The best 5 year financial performance for positive screening funds is 15.38%, better than the best best in class funds financial performance. This may reflect an improved stock selection processes, or research into companies allowing more informed decisions. Finally, sustainability funds financial performance is the best of the four types of SRI fund. Similar to positive screening funds, this could be due to the depth to which the companies are researched before investment is made. Another reason could be due to the engagement process adding value to the company in question, which would be reflected in an increase in share price.

5.4 Policy Recommendations

- This study recommends that I.F.A.s become more active in the promotion of SRI to their clients. It has been indicated that a large group of investors are unaware of the existence of SRI funds.

- There is a need for more transparency from SRI funds so that investors are clearer about which ethical issues are considered before investment decisions are made. This would increase confidence in SRI, and may further aid the growth of the sector.

- Engaging funds should take a more holistic approach to engagement with companies, rather than engaging solely on an issue-by-issue basis.

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Appendix 1: Questions Used in the Interviews

Questions for SRI Funds

1. Tell me about the way in which SRI became the Fund Management Strategy?
- Probe 1: Methodology: Positive, negative, and engagement.
- Probe 2: Specific groups of investors
- Probe 3: Investor Pressure

2. What has influenced the criteria selected by the fund?
- Probe 1: Influential people in the fund.
- Probe 2: Change since the launch of the fund (process of selection, people)
- Probe 3: Role of investor (process of selection).

3. How have the issues you address changed over time?
    - Probe 1: What issues do you think are likely to become important in the future.

4. How have events (e.g. GMOs, Enron, Shell) affected selection criteria?
    - Probe 1: Investors opinions of events.

5. In your view how effective is the issue (alternative energy etc.) selection criteria in making investments?
    - Probe 1: In terms of investor satisfaction.
    - Probe 2: In terms of returns on investment (i.e. fund growth)

6. How are different fund needs weighted when making investment decisions?
    - Probe 1: Financial
    - Probe 2: Ethical/ Social/ Environmental

7. What improvements do you think could be made?
- Probe 1: Ethical/Social/Environmental
- Probe 2: Financial

8. What would you like to add about these issues that we haven't discussed already?

Questions sent via Email to funds unable to be interviewed.

1. What were the reasons that Henderson Global Investors decided to launch an SRI fund?

2. Why was your particular style of stock selection decided upon?

3. Who or what has influenced the criteria being used by the fund?

4. How have the criteria changed since the funds have been set up, and why?

5. What are the current issues effecting SRI stock selection, and what in your opinion are they likely to be in the future?

6. Have the issues and the investors' opinions affected the criteria and engagement issues?

7. How effective is the methodology used in selecting 'Ethical Investments' in terms of financial and socially responsible success? How have your investors responded to these factors?

8. Can the financial and socially responsible successes of the fund be improved upon?

9. Are all criteria, financial included, regarded with the same weight when selecting investments?

10. Do you have any further points you wish to make?

Questions for NGOs

1. In your opinion, what was the main reason that SRI was adopted by as a Fund management strategy by Asset Managers?

2. What difference do you think the development of stock selection methods (positive, negative screens, and engagement) has had on the growth of SRI, and SRI subsequent appeal to investors?

3. To what extent do you think SRI investors are influencing the funds and companies that they invest in?

4. In you opinion, how has SRI changed over the last 20 years.

5. How have events, such as the Enron and Brent Spar incidents, influenced SRI, and socially responsible investors over the past 20 years??

6. Which stock selection criterion are more important now and which do you think will become important in the future?

7. What do you think are the emerging and future trends in SRI?

8. In your opinion, to what extent are ethical investments an effective way of changing corporate policy and, creating profit?

9. What improvements do you think could be made to SRI, in terms of ethical and financial performance?

10. Would you like to add about these issues that we haven't discussed already?

Questions for I.F.A.s:

1. In your opinion, what was the main reason that SRI was adopted by as a Fund management strategy by Asset Managers?

2. Tell me about the appeal that the different stock selection strategies have with your clients, and how they differ?

- Probe 1: Methodology: Positive, negative, and engagement.
- Probe 2: Specific groups of investors
- Probe 3: Investor Pressure

3. In your opinion, how important are the differences in the criteria and methods used by the funds to select stocks, on investors decision to invest in them?

4. To what extent are SRI investors proactive in communicating with the funds they have invested in to bring up new concerns?

5. What issues are most commonly expressed amongst your clients as concerns when deciding to invest in an SRI fund?

- Have these changed over time?
- What is becoming more of an issue now?

6. Can you tell me about the extent to which your clients are satisfied with the performance of the funds they invest in?

- Financial Performance
- Ethical Performance

7. To what extent is the financial performance considered by your clients more important than the ethical performance of the funds? How do SRI investors decide between the two?

8. Are there any further concerns that SRI investors have raised with you that hasn't currently been resolved yet?

9. What would you like to add about these issues that we haven't discussed already?

Questions for investors.

1. Why did you decide to invest in an SRI/Ethical Fund?

2. What influenced you choice of fund/s?

3. To what extent do you think that you are influencing the funds and companies that you invest in?

4. Have your own investment concerns changed since you started investing ethically? If so, how?

5. Which stock selection criterion is more important now and which do you think will become important in the future?

6. Have events in recent years affected your opinions of the criteria for selection of ethical stocks?

7. In your opinion, to what extent are ethical investments an effective way of changing corporate policy and, creating profit?

8. What improvements would you like to see in SRI to create better financial and ethical results?

9. Is there anything further you would like to add?

Appendix 2: Code Families

Code Family	Code
Criteria	• Changing Criteria - Engagement has allowed greater latitude (bigger universe) • Changing criteria - events • Changing criteria - fund influence • Changing Criteria – Information from external sources (NGOS) • Changing criteria – Legislation influence • Changing criteria - Towards eco tech • Changing - method - science • Changing trends - Human rights is more generic, rather than country based • Changing Trends - Investors becoming more aware • Changing Criteria - Investors not the only influence, funds can be ahead of the market • Criteria - Internal influence • Criteria – Investors opinion • Criteria - Sustainability and financial issues combined • Criteria - Under continual review • Criteria change - investor's interests • EIRIS - Bad involvement • EIRIS - Objective criteria • EIRIS influence over criteria • IFA - influence over criteria • Influencing criteria - internal • Influencing criteria -external body • Internal Research - Influence criteria • Issue - Armaments
Current Trends	• Change Trend in fund launch reason - Internal commitment

	• Changing Criteria - Allowing financials • Changing Criteria - Engagement has allowed greater latitude (bigger universe) • Changing criteria - Towards eco tech • Changing Methodology - Helped expand SRI market • Changing Trends - CSR, SEE, and financial issues being linked • Changing Trends - Events • Changing Trends - Investors becoming more aware • Changing criteria - None • Criteria Change - Changes to research process • Criteria Change - Towards positive screening • Current Trend - Asset Managers increasingly dislike negatively screening funds • Current Trend – Corporate Governance with engagement • Current Trend - Corporate Governance • Current Trend - Increasing choice in which fund to invest in • Current Trend - International focus is rare • Current Trend - Investor - fund communication • Current Trend Ongoing Iraq: Arms trade issues • Current Trend - Poor Eco-tech funds • Current Trend - SRI has disproportionate influence (+ve) over corporate • Current Trend - SRI is bringing new skills to the financial sector • Current trends - external influence • Current Trends - Importance of CSR • Current Trends - investment in financials • Current Trends - screening filtering down investment chains • Ethical investing looks towards the future

	• Large Asset Managers don't need to launch SRI funds • SRI evolution • Trends - CSR means a well-run company • Trends - Media influence
Events and Media Influence	• Changing criteria - events • Events - Conceptualised risk • Events - Affect Investment • Events - can expose bad management (CSR) • Events - change public awareness • Events - created the need to have SRI • Events - Have made CSR more prominent • Growth of SRI - Events • Growth of SRI - Media • Media - Interest in SRI • Trends - Media influence
Fund Launch Reasons	• Change Trend in fund launch reason - Internal commitment • Fund Choice - Commitment to SRI • Fund Choice - Financial factors • Fund Choice - Reputation • Fund Launch - For own members • Fund Launch - internal decision • Fund Launch - Investor's needs • Fund Launch - Market Niche • Fund Launch - Religious Reasons • Funds - Internal commitment to SRI • Funds - No perfect choice of fund • Launch Trend - no real commitment from the funds • Method – In keeping with market needs
Fund Management	• Changing Criteria - Engagement has allowed greater

Strategy	latitude (bigger universe) • Changing Methodology - Helped expand SRI market • Corporate Influence - Could be increased by engagement • Criteria effectiveness - External body protects financial and ethical effectiveness • Criteria effectiveness - Tension between Financial returns and criteria • Different methodologies different ethical and financial performance • Engagement - Aided SRI expansion • Engagement - Lowers risk • Engagement - May not make company approvable • Engagement - Reduces SEE impact • Engagement - To selective • Engagement - Unknown effect on volatility • Engagement allows better financial returns • Engaging Funds - Commitment from the staff • Engagement - Not a good management strategy • Ethical Investors - Not exposed to Risk from unethical events • External Advisory Committee - Influence Criteria • Failure of FTSE4good fund • Method - In keeping with market needs • Method Evolution • Methodological Rigour • Negative Screening - Based on Ethics not finance • Positive Screening and Engagement - Good financial performance • Positive Screening doesn't work • Positive Screening mean Eco Tech fund • Screening - Decreases performance • SME bias

	• SME Bias - means higher volatility
Future Trends	• Changing criteria - Legislation influence • Changing Trend - Diversification • Changing Trends - Events • Changing criteria - None • Diversification of Types of Funds • Future Trend - Engaging on health, food GM • Future Trend - Events • Future Trend - Investors will have to expect lower returns • Future Trend - Some new issues not taken up by screening funds • Future Trends- Diversification of Funds • Future Trends - Bio-medical research • Future Trends - capitalism helping the poor • Future Trends - Climate change • Future Trends - company liability • Future trends - demography change and employment • Future trends - driven by legislation • Future trends - driven by society/investors • Future Trends - Emerging market issues • Future Trends - Engagement is an untapped investor market • Future Trends - Engagement lowers risk • Future trends - global company interaction (globalisation) • Future Trends - Global warming/pollution • Future Trends - GM • Future Trends - Human Rights • Future Trends - Influence from legislation • Future Trends - Integration of financial risk and SEE

	issues • Future Trends - Renewables • Future Trends - Risk • Future Trends - Risk and reputation damage • Future Trends - Waste • Future Trends - unchanged in the main
I.F.A.s	• Fund Contact with Shareholders - IFA's • IFA's - Influence over investment decision • IFA - Only Ethical IFAs ask absolute ethical concerns • IFA - Regular contact with the Funds • IFA - influence over criteria • IFAs - Know Investors Views • Improvements - IFAs need to do more to promote ethical investment • Problems - IFAs a handicap for ethical investors
Improvements	• Code Family: • Asset Managers - Reputation draws custom • Diversification of Types of Funds • Improvements - based on investors interests • Improvement - Funds need good research or external committee f reference • Improvements- IFAs to play a bigger role • Improvements - Better publicity for a larger market share • Improvements - Better research capabilities • Improvements - Can be made • Improvements - continual review • Improvements - Diversification of funds • Improvements - Engagement allows greater latitude in investments (bigger universe)

	• Improvements - Fund Transparency • Improvements – Greater attitude for SRI (bigger universe) • Improvements - Integration of SEE and financial criteria into investment process • Improvements - Lower charges • Improvements - Need for guidelines on transparency • Improvements – Transparency would help SRI growth • Improvements - Wider universe is needed • Improvements - Company transparency • Improvements - IFAs need to do more to promote ethical investment • Improvements - Transparency
Investors Views	• Asset Managers - Reputation draws custom • Chaining Criteria - Investors not the only influence, funds can be ahead of the market • Ethical Investors - Not exposed to Risk from unethical events • Ethics - Subjective • Failure of FTSE4good fund • Investor demand for engagement • Investor Influence over criteria • Investors - Best way of investing ethically • Investors - Can influence companies • Investors - Difference between which types of fund to choose • Investors - Ethics vary • Investors - Happiness • Investors - Little individual impact on Corporate • Investors - Need capitalist perspective • Investors - Need to be able to accept risk

	• Investors - Personal ethics drove desire for SRI • Investor's religious desires • Investors - Want conventional methodology with engagement • Investor's -Engagement not popular • Issue - Armaments
Past Trends	• Changing Trend - Investors had more extreme views • Changing Trend - no unit holder AGM • Changing Trends - Events • Changing trends - Human rights is more generic, rather than country based • Changing criteria - None • Growth of SRI - Events Growth of SRI - Media • Part Trend - Inclusion of Environmental issues • Past Trend - Apartheid • Past Trend - Only equity funds
Performance	• Criteria effectiveness - External body protects financial and ethical effectiveness • Criteria effectiveness - Tension between Financial returns and criteria • Ethical Performance - good • Ethical Performance - sometimes unhappy • Financial Performance - out performance • Financial Performance - SRI better for sustainable profits
Problems	• Failure of FTSE4good fund • Large Asset Managers don't need to launch SRI funds • Problems - IFAs a handicap for ethical investors • Problems - Lack of knowledge about SRI in the public

	• Problems - Risk increases when screening negatively • Problems - SEE issues very subjective • Problems - SEE subjectivity causes financial performance problems
Sustainable Finance	• Changing Trends - CSR, SEE, and financial issues being linked • Criteria - Sustainability and financial issues combined

Appendix 3: The Interviewees and the schedule.

- Mr Ronnie Lim, Senior Analyst at Morley Fund Managers. Interview conducted on the 24th of October 2003.

- Ms Eileen Race, Ethical IFA for Kingswood Consultants. Interview conducted on the 25th of November 2003.

- Mr Simon Abrams, Senior Analyst for Jupiter Ecology Fund. Interview conducted on the 7th of November 2003.

- Mr Steve Waygood, Associate Director for Insight Investment. Interview conducted on 12th of November 2003.

- Mr Robert Taylor, Head of Responsible Shareholding Unit for CIS. Interview conducted on 4th of November 2003.

- Ms Julia Debrow, SRI Manager for Friends Provident. Questionnaire response received on the 23rd of October 2003.

- Mr Lee Coates, Ethical IFA for The Ethical Investors Group. Interview conducted on the 4th of November 2003.

- Mr Robin Thomson, Ethical Investor. Questionnaire response received on the 11th of November 2003.

- Ms Julie McDowell, Head of SRI Research for Standard Life. Interview conducted on the 14th November 2003.

- Mr Mark Campanale, Associate Director of SRI Business Development for Henderson Global Investors. Questionnaire received on the 31st October 2003.

- Ms Cassie Higgs, and Ms Helen Harrison, Projects Managers for UKSIF. Interview conducted on the 18th of November 2003.

- Ms Emma Hunt, Head of Sustainable Finance Education for the Forum for the Future. Interview conducted on the 13th of November 2003.