

Beyond economic sustainability: embedding social and environmental values in the governance of responsible investment

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Relevant publications – 2011



Cadman Timothy, 2011, 'How Legitimate is Contemporary Environmental-social Governance? A Theoretical and Analytical Framework for Evaluating Responsible Investment', in *Responsible Investment in Times of Turmoil: The Future of SRI*, eds Wim Vanderkerckhove, Jos Leys, Kristian Alm, Bert Scholtens, Silvana Signori and Henry Schäfer (Berlin: Springer).

<http://www.springer.com/business+%26+management/finance/book/978-90-481-9318-9>

Cadman, Timothy, 2011 "Evaluating the Governance of Responsible Investment Institutions: An Environmental and Social Perspective" *Journal of Sustainable Finance & Investment* 1 (1): 20-29

www.earthscan.co.uk/journals/jsfi

Outline

- Perspective
- Rise of ESG
- Relationship to governance
- Evaluation of quality of governance
- Case study: Governance quality of RI – what the participants say
- Implications & application

Interdisciplinary Perspective

- Political science 'take' on RI based on:
 - The disciplines of International Relations (IR) and International Political Economy (IPE) and how they understand:
 - Sustainable development
 - Global environmental governance and
 - The normative international policy frameworks in which market-based mechanisms operate
 - Why bother?
 - RI functions in a global policy context and therefore
 - Understanding the social-political interactions that occur in this space is important for making RI's contribution to sustainable development effective.

Historical background: Rise of ESG

- 1992 UNCED
 - Sustainable Development
- 1999 GCGF
 - Socially responsible investment
- 2000 Global Compact
- 2002 Rio + 10
 - UNEP Finance Initiative in collaboration with Global Compact and investment industry generates
- 2003 PRI
 - Sustainability reporting of environmental-social performance

Concepts of Governance

- Decision-making with or without government (Haufler 2001): public/private or state/non-state
- Voluntary methods of problem-solving (Clapp 2005): self-regulation
- Market based mechanisms – (Jordan et al. 2005): ETS, EMS, C&L
- Multi-Stakeholder Initiatives functioning at multiple levels/scales (Utting and Marques 2010): Forest certification, emissions trading, Fair Trade, etc.

Quality and legitimacy of Governance

- Public stakeholders and commentators have concerns about the quality of sustainability/responsibility projects/programmes and investments (e.g. carbon finance), and ultimately their legitimacy
- Public policy and international relations literature commonly identifies a range of attributes to deliver 'good' governance;
 - These are currently discussed as a loose collection of 'criteria' identified individually by various scholars (such as accountability, transparency, implementation, interest representation, decision-making, etc.);
- Market response to concerns have merged around the concept of ESG, which atomises assessment around single issues/elements
- Alternatively assessment of can be placed within a holistic framework using principles criteria and indicators (P,C&I)

Conceptual model of governance legitimacy

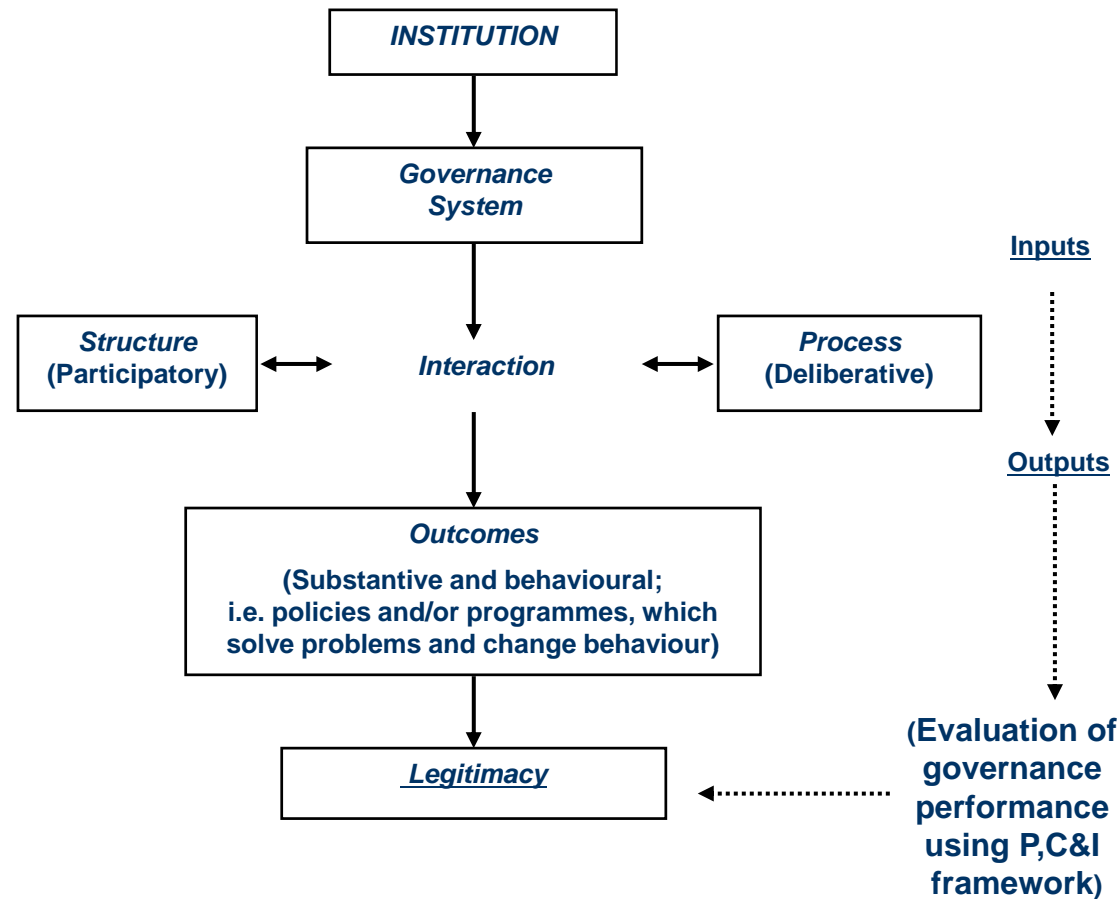


Figure 1: Normative model of contemporary global environmental governance (Cadman 2011, adapted)

Table 1: Hierarchical framework for evaluating the governance quality of responsible investment

<u>Principle</u>	<i>Criterion</i>	Indicator
<u>“Meaningful participation”</u>	<i>Interest representation</i>	Inclusiveness
		Equality
		Resources
	<i>Organisational responsibility</i>	Accountability
		Transparency
<u>“Productive deliberation”</u>	<i>Decision making</i>	Democracy
		Agreement
		Dispute settlement
	<i>Implementation</i>	Behavioural change
		Problem solving
		Durability

Source: Cadman 2011 (adapted)

Table 2: Pilot Study 2010 - RI survey list of participants

Type	Number	Percent
Fund manager	7	25%
Financial planner and/or adviser	5	17.9%
RI programme	4	14.3%
NGO	3	10.7%
Researcher	3	10.7%
Other (Bank, Ethical shareholder, Higher education, Private investor, Third party, Responsible investment association)	6	21.4%
Total	28	100

Table 3: Survey results

<i>Criterion</i>	<i>1. Interest representation</i> Highest possible score: 15 Average score: 9.03			<i>2. Organisational responsibility</i> Highest possible score: 10 Average score: 6.31		<i>Sub-total (out of 25):</i> 15.34
<i>Indicator</i>	Inclusiveness	Equality	Resources	Accountability	Transparency	
Fund manager	3.14	2.86	3.67	3.00	3.43	
Financial planner/adviser	3.20	2.50	3.67	3.40	3.40	
RI programme	3.75	3.50	3.75	3.75	3.75	
NGO	3.33	2.67	3.00	3.33	3.67	
Researcher	3.33	1.67	2.00	2.00	2.33	
Other	3.17	2.80	2.25	3.00	2.83	
Average	3.32	2.66	3.05	3.08	3.23	
<i>Criterion</i>	<i>3. Decision-making</i> Highest possible score: 15 Average score: 10.02			<i>4. Implementation</i> Highest possible score: 15 Average score: 10.34		<i>Sub-total (out of 30):</i> 20.36
<i>Indicator</i>	Democracy	Agreement	Dispute settlement	Behaviour change	Problem solving	Durability
Fund manager	3.33	3.60	3.60	3.43	3.29	4.00
Financial planner/adviser	3.67	3.67	3.50	3.80	3.40	4.00
RI programme	3.25	3.50	3.75	3.75	3.00	3.75
NGO	3.00	3.00	3.00	3.33	3.00	3.67
Researcher	3.00	3.50	3.00	3.00	3.33	3.33
Other	3.33	3.00	3.50	3.60	3.50	3.17
Average	3.26	3.37	3.39	3.48	3.25	3.61
Rating (out of 55)						35.70

Findings:

- Performance overall 35.7 – 68%
- Highest rating indicators:
 1. Durability – 3.61
 2. Behaviour change – 3.48
- Lowest rating indicators:
 1. Equality – 2.66
 2. (Resources – 3.05)
 3. Accountability – 3.08

Findings: By sub-sector

- Highest rating sub-sector: **RI programme** 39.5 (72%)
- Lowest rating sub-sector: **Researchers** 30.99 (56%)
- Highest rating indicators:
 1. Durability **RI programme**: – 4.00 (3.33; 3.17 ‘other’)
 2. Behaviour change **Financial planner** – 3.80 (3.00)
 3. Accountability **RI programme** – 3.75 (2.00)
- Lowest rating indicators:
 1. Equality **Researcher** – 1.67 (3.50)
 2. Resources **Researcher** – 2.00 (3.75)
 3. Accountability **Researcher** – 2.00 (3.75)

Conclusions

- **Do we need consistent standards for evaluating RI governance quality**
 - i.e. “the sustainability of sustainable investing”?
- **Sustainable finance**
 - Governance failure = market failure?
- **Normative values of global governance**
 - Where do values such as equality and democracy fit in the world of responsible investment?
 - How do we address the ‘participation gap’ in RI to make it more inclusive and representative?



Thank You