

LECTURE 5: ETHICAL INVESTMENT

A. Controversial products:

George Unwin is a fund manager for an ethical investment fund:

'People and organizations who put their money into our fund want us to invest it in ethical ways. We want to avoid companies that have a bad record on social and environmental issues. We particularly want to avoid certain sectors - tobacco, arms manufacturers, and nuclear power or uranium producers. So, we put our clients' money into funds that do not invest in these activities.'

In selecting companies to invest in, we look closely at how they are managed. We are particularly interested in issues of corporate governance. We believe that well-managed companies make better investments.'

B. Socially-responsible investment:

There is more and more relevant information about ethically run companies that people can put their money into. In the UK, FTSE4Good¹ is an index of ethically managed companies. In the US, they have the Dow Jones Sustainability INDEXES² - DJSI World and DJSI Stoxx, containing companies which are run in a way that takes account of the long-term interests of society and the environment. This concept, known as corporate sustainability, is defined by DJSI in these terms:

- **strategy:** integrating long-term economic, environmental and social aspects into their business strategies while maintaining global competitiveness and brand reputation,
- **financial:** meeting shareholders' demands for sound financial returns, long-term economic growth, open communication and transparent financial accounting,
- **customer and product:** fostering loyalty by investing in customer relationship management, and product and service innovation that focuses on technologies and systems which use financial, natural, and social resources in an efficient, effective, and economic manner over the long term.
- **governance and stakeholder:** setting the highest standards of corporate governance and stakeholder engagement, including corporate codes of conduct and public reporting,
- **human:** managing human resources to maintain workforce capabilities and employee satisfaction through best-in-class organizational learning and knowledge management practices, and remuneration and benefit programs.

The FTSE4Good and DJSI indexes give the overall value of the share prices of the ethical firms, and we can compare the performance of individual firms against them.

This is part of the movement towards socially responsible investment (SRI).

¹ - www.ftse4good.com

² - www.sustainability-index.com

5.1. Complete the article, which contains words from A and B opposite, with a-e below.

<i>Analysts look at new factors</i>	
<p>COMPANIES that follow better social and environmental policies are simply better run,' according to Matthew Kiernan. This is a controversial view. Socially responsible investment has come a long way and gained (1)</p> <p>The research process which Mr. Kiernan and his colleagues have developed at Innovest is aimed at identifying what he describes as the "intangible value" of a company, the factors that are not captured in a traditional balance sheet and which explain the difference between a company's market value and its asset value.</p> <p>While the concept of 'intangible value' is not an original one. Mr. Kiernan believes Innovest's research process brings a new (2)</p> <p>'The conventional wisdom still in many quarters is that social and environmental issues are either irrelevant or even harmful to the financial performance of companies,' Mr. Kiernan says. 'Our</p>	<p>argument is that (3)..... . Hence his conclusion that companies following better social and (4).....</p> <p>As further evidence of the link between socially responsible behaviour and enhanced profitability. Mr. Kiernan cites South African mining companies, some of which have recently announced their decision to provide retroviral drugs to workers suffering from Aids. 'The cost of Aids is estimated to add \$4 to \$6 an ounce to the price of producing gold,' he says. 'Giving drugs to your workforce may be a good PR gesture, but it will also reduce your production costs and (5)</p> <p>Mr. Kiernan, however, is certainly prepared to promote his own values. 'We are trying to put sustainability issues in the mainstream,' he says. 'I will die a happy man when the Innovest sustainability rating is turned to as quickly as a price /earnings multiple.'</p> <p style="text-align: right;"><i>Financial Times</i></p>

- a. environmental policies are better run. In defence of this argument, Mr. Kiernan refers to independent analysis by QED International demonstrating that a portfolio of shares tilted towards Innovest's preferred stocks would have outperformed the S&P 500 by nearly 29 percent between December 1996 and December 2001,
- b. rigour and depth to its analysis. The material is aimed more at analysts and company boards than at shareholders with a conscience, the traditional audience for companies carrying out a 'social audit'.
- c. only the tip of the iceberg. Mainstream financial analysis captures only a very small part of the competitive dynamic of a company, and it's what's going on below the surface that accounts for success or failure.'
- d. contribute to the bottom line.' He goes on to cite 3M which, he says, has saved more than \$900m (£600m) over the last decade from pollution prevention programmes,
- e. visibility through the FI SH Good Index launched last year. But many investment managers remain unconvinced that green credentials show up positively in a balance sheet.

5.2. Do you agree with the argument in the article that ethically run companies are more profitable than those without corporate social responsibility policies?