



# The Promise of Socially Responsible Investing

## Conference Report

A roundtable jointly hosted by Bendheim Centre for Finance,  
Princeton University and the Danish Ministry of Economic and Business Affairs





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Princeton Roundtable on SRI:

# Questions and themes for future research

## Introduction:

The purpose of this paper is to follow up on the presentations and discussions at the roundtable “The Promise of Socially Responsible Investing” (SRI) held at Princeton University on the 14-15<sup>th</sup> of November 2008 and organised by The Bendheim Center for Finance and the Danish Ministry of Economic and Business Affairs.

The focus of the summary is on the main conclusions that we believe can be derived from the discussions in terms of a future research agenda. This research agenda should support the investment practices of institutional investors, venture capitalists and hedge funds as well as individual companies. As such, future research should generate knowledge on the business case of SRI, and of CSR more generally, that will enable companies and investors to factor in so-called “ESG” (Environmental and Social Governance) factors more consistently in their business and investment practices.

## Our point of departure:

The initial mission of the roundtable was to discuss the possibility of generating new and practically applicable knowledge concerning the business case for and societal value of SRI. More specifically, the mission was to initiate a research agenda that would improve the methodological basis for including ESG factors into the investment analyses and decision making of both institutional investors and companies in general. In the light of the discussions of the roundtable, we believe this priority still holds.

As such two general questions have guided discussions at the roundtable: 1) What do we know about SRI today? 2) Where is further research needed?

## Notes on the financial crisis:

When the idea for this roundtable on SRI came up and we began preparing the agenda, the present financial crisis had not yet unfolded. From our point of view, SRI was and remains relevant for a number of other reasons relating to e.g. the issue of climate change and different social challenges posed by globalisation. However, the financial crisis has made the discussions at the roundtable all the more relevant. Consensus was that the outcome of the crisis could basically go two different ways: Either the crisis has put SRI practices under pressure, or, it has underlined the necessity of SRI forcing companies and investors alike to pay more attention to corporate responsibility and long-term profitability of their investments.

The behavioural effects of the financial crisis in this respect remains to be seen, but could obviously be a relevant question for further investigation. As such the behavioural response by companies and investors could be included in several of the potential agendas for future research that we suggest in following.

## General themes for future research:

The roundtable was deliberately organised around a very broad range of issues and potential approaches to SRI and CSR as reflected by the 8 different sessions and topics, which guided our discussions. The conclusions and suggestions for future research may arguably be realigned under the following 6 broad headlines or themes, inspired by the summary of Geoffrey Heal. (Summary by Heal presented at the concluding session).

### 1. Uncovering complex interdependencies between business and society:

Business and society are fundamentally interdependent and business can't succeed when society fails. Obviously no business or individual company can succeed, if the surrounding society fails to provide the necessary framework conditions in terms of markets and fundamental physical as well as institutional infrastructures. On the other hand business or individual companies may in some respects actively contribute to solving social challenges and at the same time strengthen their business case.

There is accordingly a general and generic (social) interdependency between business and society, which is a fundamental collective concern or interest of all companies. However, this interdependency is arguably more complex than this.

Interdependencies are both collective and individual (for each company) and may be categorised into three different groups (Porter & Kramer, 2006):

1. Generic interdependencies / social issues.
2. Value chain social impacts / interdependencies.
3. Social issues / interdependencies closely connected to the competitive context of the individual company.

Each of these categories of interdependencies can furthermore be seen "inside-out" i.e. the ways that the activities of individual companies affect the surrounding society and "outside-in" i.e. the ways that society affects the individual company. In conclusion, business has an interest in long-term success of society and vice versa.

**Perspectives for future research:** Future research could focus on the development of the theoretical framework that describes the nature and dynamics of the complex interdependencies between business and society. Focus could be on tracing differences / similarities between different types of businesses in terms of the business case for CSR in general and, in particular, the specific interdependencies between business and society that characterises individual branches and business sectors.

The methodological approach would most likely be systematic case study analyses uncovering and describing the variety of interdependencies between individual businesses and society. These would ideally include interdependencies in the form of both negative externalities resulting from companies' activities and positive externalities e.g. in the form of public goods produced as a part of private business investments.

Further studies systematically uncovering the interdependencies between business and society would most likely also contribute to the learning potential embedded in case studies and therefore also the practical relevance and applicability of these as seen from the perspective of other companies.

### 2. SRI / CSR as a response to market failures and externalities:

As almost all CSR activities relate to external effects and distributional issues of business activities, both CSR and SRI can be seen as instrumental for correcting market failures, which governments do not correct. This naturally raises the question of where to strike the socially optimal balance of responsibilities between business and society. What is "society's case" for SRI and CSR both in economic and democratic terms? And how does this relate to determining the business case for SRI / CSR?

## 6 Questions and themes for future research

At the national level CSR (and SRI) may be seen as supplementary to regulatory intervention to correct market failures or minimise the externality problem or it can be seen as a way to optimise social welfare provision. (Examples are social partnerships / public-private partnerships and voluntary environmental regulation). Alternatively, and maybe more controversial, it can be seen as way to reduce or avoid governmental intervention in general or ease (“excuse”) the retreat of the state.

At the global / international level CSR and SRI can be seen as a way of closing the so-called “governance gap”. This gap basically has two different forms. First, externalities may be of cross-border nature and defy national regulation (such as the climate change issue). Some may also see the distributional effects of global competition and trade as a social externality that defies national regulation. In the absence of effective / powerful global institutions and governance, CSR and SRI may be seen as a way to close this governance gap. Second, CSR and SRI may be seen as a way to compensate for lacking national institutions and governance in third world countries. Corporate responsibility may be seen as leverage for fighting corruption, compensating for poor implementation of environmental regulation, supporting human rights or optimising the social and distributional effects of global trade. Supply chain management is the typical instrument through which business may contribute to closing this governance gap.

**Perspectives for future research:** Giving special priority to the international perspective (above), future research might focus on the potential effect of global (governance) regimes / institutions for correcting market failures, minimising externalities associated with globalisation in general. In particular, research could focus on the role of international institutions / regimes supporting the proliferation of CSR and SRI practices (such as the UN Global Compact, UN PRI, ISO standards and Global NGO initiatives such as GRI etc.). Future research might also clarify to what extent an active contribution from companies and investors to alleviate market failures and negative externalities at the global level will (positively) affect long-term business and investment strategies.

### 3. Short-term vs. long-term interests / incentives:

Some businesses don't see the need for CSR while others do. What accounts for this variation in attention to corporate responsibilities? In particular, what types of incentives (including incentives for CEOs such as bonus schemes) and market forces are at play to encourage long-term vs. short-term business and investment strategies? Do ownership structures (trustee ownership and family owned businesses vs. listed companies) affect the attention of companies to CSR and long-term strategies?

Capital markets apparently value environmental, social and governance (ESG) performance as there is a small but consistent relationship between corporate social and financial performance (Margolis et al., 2008). There seems, however, to be widespread consensus that short-term drivers are also at play resulting in suboptimal focus on the long-term as indicated by the financial crisis, which has eventually punished “short-termism”. Tracing the (market) drivers of both long-term business and investments strategies and short-termism is therefore also a relevant issue.

**Perspectives for future research:** Can potential drivers be traced by macro-analyses focussing on variations in focus on long-run interests by sector – e.g. variance by branch or by comparing business-to-business with consumer facing businesses? A problem may be to define both or distinguish consistently between the long-term and short-term as this may vary by sector / branch (co-variance). Sector-specific definition and categorisation of the short-term and the long-term may therefore be part of a future research agenda.

### 4. Institutional investors and long-term perspectives:

Institutional investors may play a crucial role in stimulating CSR through responsible investment practices (SRI). In particular pension funds arguably have a propensity to focus on long-term profitability and risk of investments as clients may be pension recipients 70 years from now. Apart from the long-term perspective of e.g. pension funds, SRI investors may stimulate CSR, if they represent a significant percentage of ownership.

There are several potential mechanisms through which demand for CSR may be communicated through SRI strategies. These may range from boycott / disinvestment to various forms of active engagement / ownership.

SRI investors taking ESG factors explicitly and systematically into account are relatively few and far between. This relatively low critical mass (more researchers / scientists than practitioners) could be a challenge or a problem for attaining reliable data on e.g. the effects of SRI on long-term profitability of investments.

Another open question is whether the universal character of ownership by institutional investors / big funds makes them more dependent on macro-economic tendencies and / or world economic trends rather than on particular firms or sectors? How would this affect SRI strategies?

**Perspectives for future research:** Future research could e.g. focus on how SRI investors (including institutional investors and pension funds in general) can stimulate CSR more specifically. What role does “push factors” such as bargaining powers measured by percentage of ownership play as compared to other relevant “pull factors” relating to the business case such as the potential for cost reduction, reducing legal liabilities and risk, improved recruitment opportunities / staff engagement, customer demands, NGO and stakeholder relations or moral standards etc.? In other words, to what extent does active engagement strategies rely on the bargaining powers of the investor as compared to other potential drivers? More generally, what are the experiences with active engagement and disinvestment strategies respectively? What determines the choice of strategy?

Another line of research could focus on the institutional investors' relations with their own customers. How do SRI investment strategies affect investor loyalty? Will investors stay more loyal if SRI strategies are in place? How do corporate governance structures including management structures and ownership representation affect SRI strategies? Methodological approaches might include comparative studies of pension funds, investment banks, hedge funds etc.

##### 5. Ratings and access to information:

The overarching challenge when rating investments by SRI / CSR / ESG standards is access to information. A fundamental problem pertains to the fact there is no objective definition of “good” and “bad” by which we can identify responsible investments, distinguish these from others or rank them according to ESG standards. Maybe SRI ratings are subjective by nature and should remain so as cultural preferences and moral standards vary.

As investment strategies and capital flows become increasingly global in nature this, however, could be a problem for applying consistent SRI strategies based on ratings. (CSR rating in US are paid for by users, and provide detailed breakdown, but are still quite subjective).

Traditional screening methods, on the other hand, are maybe too inaccurate and do not give a sufficient assessment of e.g. the risk profile of companies. Analyses indicate that only 25% of the value of a company is caught by traditional investment analysis (“tangible” book values assessment) while 75% go unexplained (“intangible” unexplained value)<sup>1</sup>.

Screenings are typically only negative establishing guidance or criteria for excluding or disinvesting certain assets. Positive screening, however, may be a more efficient strategy optimising long-term profitability, which, in turn, would require more objective measures of these positive criteria.

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<sup>1</sup> Project by CSR Europe: “Valuing non-financial performance: A European framework for company and investor dialogue”. ([www.investorvalue.org](http://www.investorvalue.org)).

**Perspectives for future research:** Future research may focus on developing instruments and methods with which investors could measure the social and environmental impacts of their investment strategies. This would, in turn, enable them to report on their SRI performance on par with traditional investment performance criteria (triple bottom-line?).

SRI-screenings and ratings of investment portfolios by CSR / ESG standards or measures must ultimately rely on the value assessment of non-financial performance at company level. Therefore the development of better methods and identification of relevant metrics for value assessment of ESG factors at the company level must be a prerequisite for developing better SRI ratings and screenings.

#### 6. Consumers' perspectives - behaviour and motivations:

Consumers may be a key driver of CSR and SRI, in particular if they are willing to pay extra – i.e. to put a price on responsibility. However, other motivational factors might also affect consumer choice. Key issues of discussion include e.g. different perspectives on individual rationality, motivation, cultural values and social behaviour. Thus consumer behaviour and the drivers behind it may contain essential answers to uncovering the demand-driven business case of or assessing the market value of CSR. A general point, which may be emphasised, is that individuals may be increasingly seeking to express values both through consumption and / or through investment.

**Perspectives for future research:** Existing studies on the so-called “political consumer” may be supplemented by further studies particularly focussing on the “political investor”. More precisely, the term “political” may be substituted by “ethical” or “value-driven”? Are we in an era of “Shopping your values” (The Economist)? Studies on the role information or the lack of it (incl. labelling schemes etc,) for consumers informed choices or value-driven or ethical purchasing decisions could be part of this research agenda.

## Conclusions for a future agenda:

Concerning research into the business case for CSR and SRI the general challenge is arguably which path of exploration should be given priority in future research. Margolis et.al. (2008) points at two different agendas or paths of exploration that arguably stand out:

- “The well-worn path of refinement”- i.e. further statistical analyses and methodological refinement of research into the correlation between CSP (Corporate Social Performance) and CFP (Corporate Financial Performance).
- “A new path of exploration”: This could arguably include new qualitative research and systematic case study analysis of the individual and context dependent business case of CSR / SRI. Focus could be on further development of the theoretical framework describing the interdependencies between individual businesses and society. Focus is on variance of correlation between CSP and CFP as opposed to average correlation.

We believe that the latter of these two paths of exploration is particularly compatible with developing the theoretical framework behind the concept of strategic CSR as presented by Porter & Kramer (2006), which is also the CSR concept underlying the Danish “Action Plan for Corporate Social Responsibility (2008)<sup>2</sup>. Margolis et. al. (2008) also highlights that if CSR and SRI is increasingly weaved into the business / investment strategy, the impact of CSP on CFP will be more difficult to measure, and may call for innovative approaches to measurement.

<sup>2</sup> This would also be in line with the recommendations for more extensive research given by Kramer, Pfitzer and Lee (2005) in connection with the project “People & Profit conducted by the Danish Commerce and Companies Agency (2005 – 2007).

One possible refinement of the well-worn path of quantitative statistical analyses, however, could be to pursue what might be labelled a “partial” analysis specifically focussing on the segment of companies engaging in strategic CSR. This partial analysis would focus specifically on the effect of CSP (as measured by strategic CSR activities) on CFP thereby ideally controlling for the statistical interference by non-valid or irrelevant (non-strategic) CSR activities. Isolating or selecting the population of companies conducting strategic CSR activities and excluding “false positives” would arguably give a more accurate indication of the business case for strategic CSR (as defined by Porter and Kramer).

To avoid methodological problems of self-selection, objective or generic criteria for defining the independent variable (strategic CSR) would have to be established first. This might be difficult, but not impossible. Hong and Kacperczyk (2007) likewise isolated “sin” stocks defined as companies involved in producing alcohol, tobacco and gaming and concluded that some investors pay a financial cost in abstaining from these stocks. A similar effort to isolate companies involved in strategic CSR activities could in principle be made.

Concerning the need for improved quantitative methods for including ESG factors into investment decision making (SRI decision making) one such possible question for further research may arguably stand out:

- How can individual companies calculate (and document) the economic effect of ESG activities with the aim of providing potential investors with a better and more accurate assessment of the value of their assets?

This research agenda would most likely also require special attention and research aimed at identifying both the independent variable(s) (which ESG activities) and the dependent variable(s) in further detail (i.e. defining the economic effects as measured by stock value, return on investments, annual returns etc.).

#### Theoretical perspectives:

The above-mentioned 6 themes for future research are generally cast in the form of empirical questions and in some cases they may arguably carry an “applied science bias”. Still, we believe that they also carry the potential for developing economic theory describing different aspects of e.g. finance, economic efficiency of investing / return on investments, market failure / regulation failure and the role of government for optimising social welfare.

As such, the proposed agenda is not meant to ignore specific focus on developing economic theory and, in particular, on theoretical models to capture ethical and moral considerations in the objective functions of investors or corporations. Development of economic theory will hopefully increase our understanding of how corporations or investors would behave to the extent their objective function was something other than (short term?) maximization of the wealth of shareholders.

#### References:

Michael E. Porter and Mark R. Kramer (2006). “*Strategy & Society – The Link Between Competitive Advantage and Corporate Social Responsibility*”. *Harvard Business Review*, December 2006.

Joshua D. Margolis, Hillary Anger Elfenbein and James P. Walsh (2008). “*Will Companies Cure What Ails Us? Don’t Bank on It: Evidence from a meta-analysis of the relationship between corporate social and financial performance*”. (July 2, 2008).

Mark R. Kramer, Marc Pfitzer, and Paul Lee (2005). “*Competitive Social Responsibility: Uncovering the Economic Rationale for Corporate Social Responsibility among Danish Small- and Medium-Sized Enterprises*”. (Danish Commerce and Companies Agency, 2005).

Harrison Hong and Marcin Kacperczyk. “*The Price of Sin: The Effects of Social Norms on Markets*”. (March 2007).

## Princeton Roundtable on SRI:

# Summary of sessions

### Introduction:

The purpose of this summary is to follow up on the presentations and discussions at the roundtable on “Socially Responsible Investing” (SRI) held at Princeton University on the 14-15<sup>th</sup> of November 2008 and organised by The Bendheim Center for Finance and the Danish Ministry of Economic and Business Affairs.

The focus of the summaries is on main points and conclusions presented by the speakers on each of the 8 thematic sessions. Please note that the summaries are presented here as relatively unedited, non-narrative versions. For a full version of the presentations, please see the recording of the conference at [www.thepromiseofsri.org](http://www.thepromiseofsri.org).

## Sessions on the 14<sup>th</sup> of November 2008 (Day 1):

### 1. Sustainable Investing:

Surprisingly, many hedge funds and venture capital funds also factor in CSR and SRI in their investing practices, particularly regarding sustainability practices. What is their basis for these decisions?

#### Panel:

**Bas Rüter**, Managing Director of Funds, Triodos Bank

**Jason Tyler**, Senior Vice President and Director of Research Operations, Ariel Capital

**Jason Scott**, Managing Partner, Eko Asset Management Partners

**Moderator: Justin Lahart**, Journalist, Wall Street Journal

#### Resumé:

**Bas Rüter** introduced the profile and investment philosophy of Triodos Bank (the Netherlands). Triodos has a special focus on sustainability that guides which types of investments they can engage in and which has (to their own conviction) has been key to Triodos' annual growth rate of 20-40% since 1980 resulting in 160.000 customers, 11.000 shareholders. They have 3,4 billion Euros under management and a Net profit (2007) of 9 million Euros. Overall strategic target is to “optimize” not “maximize” profits. Triodos investments are characterised by a direct link between those who need money and those who provide it. Furthermore, investments are targeted at concrete projects – preferably with a potential for solving societal problems (innovative niche markets). Examples are investing in sustainable energy solutions like wind energy etc. The link to societal problems encourage a “relation based” economy / investment strategy rather than only an “investment based” strategy. A Central question guiding the SRI strategy is: Which products will best meet societal needs / solve societal problems? (Answers also contain crucial answers to the business case).

**Jason Tyler:** A central problem of SRI is that it is relatively difficult to package. There is no true definition. The challenge of SRI is accentuated by especially two key issues that still exist today: 1) Potential investments are more complex than ever. 2) Investment advisors are inconsistent in their investment recommendations. Even if there are clearly some firms that are more sustainable than others, most companies fall somewhere in between the extremes of the spectrum of “good” and “bad” (for the common good). No investment advisors have the answers of where to place individual companies and target investments on this spectrum. Investment advisors typically advise investments in both sustainable and harmful companies. Traditional screens do not work as a good tool. SRI is about more than the environment and the need for having stronger focus on the advisor, governance and diversity. None of the consulting firms have provided a comprehensive measurement system. The “wish list” therefore includes more comprehensive screening and measurement tools and greater accountability on behalf of fund managers.

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**Jason Scott:** The thesis behind Eko Asset Management Partners is that they can provide better investment strategies. Ratings and screenings are key to this and here we need to focus more on “best in class ratings” / “positive screenings” rather than negative screenings and listings. The rationale for this is particularly evident from the perspective of institutional investors such as pension funds. They clearly must have focus on long term profitability as measured by return relative to risk (return/risk) as well as on how to contribute to a better society. The crisis has shown that sustainable strategies with lower risk have outperformed strategies biased towards short term profit. The next step of SRI is “systemic solution” to global problems.

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## 2. Business Case for CSR:

This session lays out the state of the art research (both theoretical and empirical) for whether CSR enhances a firm’s fundamental value. Do firms that score well on CSR metrics also score highly in terms of firm profits? What about valuations? If so, how do these valuations come about? What types of practices of CSR lead to higher firm earnings? Which are important unresolved issues and what is the road-map toward resolving them?

### Panel:

Mark Kramer, Senior Fellow, Harvard’s Kennedy School of Government

Joshua D. Margolis, Associate Professor of Business Administration, Harvard Business School

Raymond Fisman, Professor, Columbia University, Graduate School of Business

Moderator: Tom Rotherham, Head of Corporate Responsibility, Radley Yeldar

### Resume:

**Tom Rotherham** introduced the session by presenting a number of examples and analyses. In relation to screening, Innovent’s “Iceberg Balance Sheet” 4-factor model suggests that only 25% of a companies’ true risk profile is captured by traditional financial analysis while the remaining 75% is potentially the most critical for competitive advantage. There are arguably three different approaches to the challenge of screening to uncover the full competitive advantage of companies: Negative (off limit sectors), positive (risk and opportunity) and thematic (focusing future industries of clean energy, health, knowledge, quality of life etc.). A central challenge is to identify common ESG factors across companies that will translate into common (key) metrics and, in turn, into financial drivers and (market) value assessment of non-financial performance (Rotherham referred to CSR Europe’s initiative “Valuing non-financial performance: A European framework for

company and investor dialogue). However, even if there are common (generic) ESG issues across all companies the challenge is to understand complexity and variance in approaches between different sectors and branches. Rotherham posed a number of questions in his introduction to the session as a point of departure for discussions: What is the ultimate objective of CSR / SRI?: More successful companies, investors or a market system that rewards public good creation? Has research reflected the complexity of SRI? Do investment models reflect the complexity of the business case? How closely can the “map” approximate the “territory”? Is the meta-metric related to management effectiveness – i.e. governance, information input & managing change and complexity? Is “CSR” an absolute? If not, how much is “enough”? And who decides?

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**Raymond Fisman:** Understanding the business of CSR is basically a discussion of the “Friedman perspective” that companies do good by doing well vs. the perspective that companies (also) can do well by doing good. There are two basic drivers for acting responsibly: Complementarities between social imperative and profitability; Stakeholder-induced deviations from profit maximization. Likewise drivers for not acting responsibly are: Profit-induced deviation from the social optimum. Mismatch of social and operational activities. Key questions to understanding the business fit of CSR include: Where are the greatest complementarities between social and business activities? Which social activities increase profits? Where can company maximise social impact for a given expenditure? For a CSR research agenda in particular: Which stakeholders value CSR and why (theory & empirics)? Understanding existing patterns of CSR (descriptive) and figuring out what works in CSR (prescriptive). Fisman continued with some regression analyses showing complementarity between philanthropy and consumer advertising including analysis on the differential impact of CSR on profits for advertising-intensive firms/sectors.

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**Joshua Margolis** presented the meta-analysis (Margolis, Elfenbein and Walsh, 2008) on the relationship between corporate social performance (CSP) and corporate financial performance (CFP). The general finding is a modest but statistically significant positive effect of CSP on CFP. Effect size  $r = .140$  (CSP=>CFP). 26,6 % of the studies showed a positive CSP-CFP relationship and only 2,1 % a negative relationship while 58,3 % were non-significant. Margolis turned to different interpretations of the results and measure of effect size. Statisticians would typically argue that this is a small effect while economists would typically be more prone to recognize the effect. Margolis presented three different views of the effect of CSR 1) It pays (reducing costs, attracts and retains investors, customers and employees) 2) It protects (reducing risks) but 3) It provokes (invites criticism). Margolis indicated that further studies were still added to the existing meta-analysis.

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**Mark Kramer** introduced with the basic proposition that it simply does not make sense to ask whether it pays to be nice simply because there are very different opinions as to what that means. The point is rather that there is a fundamental interdependency between business and society as the social and environmental framework conditions influence on business opportunities. The difficulty lies in balancing short-term costs against long-term externalities. Social issues falls into three different categories (generic social issues, value chain impacts and competitive context) but which issues fall into each category varies by company, industry, cluster and location. Competitive context issues are central to strategic CSR as these include “social issues in the company’s **external environment** that affect the **underlying drivers of competitiveness** in the locations where the company operates”. Case studies reveal that competitive advantage depends on (e.g.) constructing a unique value chain that lowers costs or better serves a particular customer niche.

### 3. Role of Institutional Investors:

Institutional investors are the leaders in the implementation of SRI. Why? Is the rationale political catering to constituents or are there economic risk based reasons for staying away from sin stocks etc.? Is this the right policy vis-à-vis stakeholders? This session lays out the case for the role of large institutional investors.

#### Panel:

Lars Rohde, CEO, the ATP Arbejdsmarkedets Tillægspension

Carl Rosén, Chairman of the AP-funds Ethical Council and Head of Corporate Governance and Communications, Second Swedish National Pension Fund

Henrik Syse, Senior Research Fellow, International Peace Research Institute, Oslo (PRIO) and former Head of Corporate Governance, Norway's Bank Investment Management (NBIM)

Moderator: Alan Blinder, Professor of Economics, Princeton University

#### Resume:

**Lars Rohde** started by asking the question of whether it pays to be responsible as an integrated part of an institutional investor's fiduciary responsibility and concludes that it does pay. However there is a lot of variance both in styles and ways to practice SRI. In particular, there seems to be a strong correlation between CSP and corporate governance. Dialogue and active ownership is the preferred strategy rather than exclusion and negative screening, but both this and disinvestment may be the preferred concrete SRI decision. Examples show the variance: Wall Mart was excluded since there was no prospect of dialogue. Total (Myanmar) was excluded because of political considerations (general foreign policy concerns) even if the investments were well within SRI limits. Cheminova (*Danish company producing pesticides and other chemicals red.*) acted irresponsibly on third world markets, but dialogue changed behaviour. In conclusion: The ownership question is central as ownership is typically very diffuse. Dialogue or appeal to anyone in particular becomes difficult.

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**Carl Rosén** sees SRI as being at the early stages so far and the ratio between scientists and practitioners to be surpassed only by astronautics. However, the Swedish (second) AP Fund is deeply engaged in SRI and actively supports the international initiatives in the field. Rosén focused on the way AP addresses SRI in their global investment portfolio. Screening is a three-stage "funnel" process reducing 3500 companies into only 10. The process does not only consist of negative screening (and disinvestment) but also involves active dialogue. AP has chosen to maximise transparency of both the screening process and concrete dialogues (on dialogues they have chosen a different strategy than the Norwegian "oil" fund). The conclusion is that they have sent a strong SRI signal to companies in their portfolio even in China. AP deliberately act as "norm entrepreneur" for Scandinavian values, "but there are no giant leaps only small steps, but they are all for mankind". Rosén noticed the difference in strategies between AP and the Norwegian fund when engaging in dialogue with companies. A possible issue for further research could be the effect of transparency versus confidentiality when engaging in dialogues.

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**Henrik Syse** reflected on the fundamental question of "what's really the problem with ethics/governance and money". One problem is that there clearly seems to be perverse incentives at play e.g. giving (over) priority to short-term profitability. In retrospect, an illustrative indication of short-termism was a recent television documentary (showed on British Airways flights to Iceland in June 2008) emphasizing investment opportunities in Iceland. Sources to the ethics / governance and money problem include: Temptations, Unclear relationship between primary and secondary aims, focus on short-term

rather than long-term, plural motivations (e.g. child labour is not only seen as an economic issue but a moral one as well). Syse commented on the different disclosure strategies of the Norwegian fund and AP in relation to dialogue with companies. They are monitoring / evaluating their strategy on both exclusion and active ownership (*a potential research question?*). The focus on governance (ESG) is driven by at least four reasons: 1) The long-term solidity of the markets themselves (“universal ownership”). 2) The profile of our fund(s) – what our owners expect of us and our reputation vis-à-vis our owners. 3) The reputational damage to the companies we are invested in, and to the overall markets. 4) The fact that it is right in itself. Questions for future research suggested by Syse include: What is the distinction between the ethical, the political, and the financial? To what extent do investors have the same interests, and to what extent do they diverge? What are the “virtues” that we need more of in the financial markets – and that institutional investors can ask for? How can we help each other become more long-term oriented?

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## Session held on the 15<sup>th</sup> of November 2008 (Day 2):

### 4. Psychology, Sociology and SRI:

Why do investors care about SRI? How will norms change over time with globalization? Will SRI become more or less important as the world becomes more globalised? This session will include theoretical perspectives on how e.g. norms and risk perception (aversion/ seeking) inform decision makers and influence micro-economic behaviour.

#### Panel:

**Roland Benabou**, Professor of Economics, Princeton University

**Jon Elster**, Philosopher, College de France and Columbia University

**Augustin Landier**, Partner, Ada Investments

**Moderator: Antony Bugg-Levine**, Managing director, Rockefeller Foundation

#### Resume:

**Roland Benabou** reflected on the determinants of prosocial behaviour (such as charitable giving, SRI green goods etc.) and the implications for SRI. This behaviour is driven by a complex mix of motives including “intrinsic motivation” (desire to do good / help); “material incentives” (laws, taxes, profit); “social / self esteem concerns” (self perception, social norms, personal rules). These motives vary across people and are interdependent. Benabou elaborated on the key role of self / social image concerns (with a number of cases) and continued to address the question of implications for policy, SRI and ratings agencies. Cases on (prosocial) consumer behaviour show interdependency with regulation as small interventions can have huge effects on behaviour (e.g. small tax on plastic bags caused consumption to drop). The importance of self / social image may leverage image concerns to increase prosocial behaviour (positive or negative image), but it may also distort CSR activities towards the more visible targets / activities. “Moral credentialing” by having done good in the past may people (or corporations) to feel immunized against negative (self) image. SRI may “buy” you respectability or be perceived as such. In a zero-sum game of image-seeking / self-image enhancement the value of doing good tends to be depleted as prosocial behaviour increases (if everyone does it, the image-seeking effect decreases). This points to taxation as a more efficient instrument and policy implications include eg.: 1) The socially optimal incentive rate is less than the

standard [Pigovian] subsidy (or tax?) necessary for agent to internalise full public good value of their contribution. 2) Rating agencies. Aim to incorporate an “invisibility” premium or “publicity” discount in their scores. Further: There is probably no call for favourable tax treatment of SRI investments finds or green / sustainable goods – and subsidy / tax should vary non-monotonically with the proportion of people choosing the SRI option.

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**Jon Elster** focused on the “Motivations for socially responsible investments”. In doing so, Elster adopted a broad definition of “investment” as “any decision taken by managers. These include not only investments in plants, firms or stocks, but also wage decisions, hiring decisions, lay off decisions, workplace improvements, and the like”. SRI (as well as CSR) is basically about combining the two motivations of doing well by doing good. He then continued with some reflections on SRI and combining these multiple motivations stating that doing good by doing well does not equal “doing good when doing well”. As such “do-gooders may be more active energetic and generally more competent. It follows that principals should choose agents who are involved in local politics, but **not** that agents should go into local politics”. Elster continued his comments on multiple motivations stating that people (subject to tradeoff aversion) generally prefer either a “threshold model” (using one value to define the set and the other to choose within the set like when using seniority criteria in selecting employees for layoffs model. This would also include “best-in-class” strategies / ESG screenings), or, “lexicographic altruism” (applying ESG guidelines to give a preferred selection when all other factors including profits are equal). Elster then turned to the issue of norms for setting wages and deciding layoffs exemplifying dilemmas of balancing private and collective utility. The social acceptability of both layoffs and wage reductions seem to be highly dependent on economic performance. In particular, both types of actions are more acceptable as damage control than as way to seek super profits. Social responsibility norms of these types (including norms of efficiency wages above a market minimum) might, however, be economically inferior not only to shareholders but also to unemployed, if lower could alternatively be translated into more jobs. Constraints on profit maximization might in economic terms seem to decrease total social utility in the long run. On the other hand relentless profit maximization (through layoffs) arguably ignores transaction cost for workers who have to look for a new job. Elster concluded with some examples of moral, quasi-moral and social norm behavior among consumers and investors.

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**Augustin Landier** presented a typology of investors and revisited a number of social trends relating to SRI and concluded with some views on what values are at play in connection with SRI. Landier identified three basic types of SRI investors: “Yellow” investors who want investments to conform with their (personal) principles; “Red” investors who focus on SRI for purely economic reasons seeking better financial returns by using ESG screens; and “Blue” investors who care about expressing their values, but are sensitive to **cost** and **impact**. All three types of investors are to be counted with and contribute to the rise of “post-materialist” values that characterises globalisation. These values are reflected in e.g. the rise of the so-called “Cultural Creatives” (Ray & Anderson, 2000). The view that (globally) affluence reduces concern for survival and boost interest in other people and the ecosystem also reflects a post-materialist trend (Inglehart & Wetzel, 2005). Information and media contributes to the trend by making actions and companies more visible. Between the two extremes of yellow and red investors, the blue investors “segment” probably play a key role in mainstreaming SRI. What values, then, are central to blue investors? Impact will depend on a large fraction of assets being targeted for SRI, which again depend on consensual values. Using shareholder resolutions or World Value Survey (on e.g. environmental protection, employee treatment or product safety) might be a catalyst for this. Landier concluded stating that problems of collective action should still be taken into account. Further, if wealth and global economic growth is central the rise of post-materialist values, the financial crisis is bad news.

### 5. Corporate Social Responsibility and Corporate Governance:

Why do firms practice CSR? Does CSR lift the bottom line? Is it compatible with Corporate Governance? What are their evidence and thinking? How do companies and investors combine the dual challenges of sustainability/corporate social performance, corporate governance and corporate financial performance? What are the drivers of decision making for sustainability, and what is the role of political framework conditions?

#### Panel:

**Alain Belda**, CEO, Alcoa

**Jean Tirole**, Director, Toulouse School of Economics

**Sara Løchte**, Danish Insurance Association

**Moderator: Jose Scheinkman**, Professor of Economics, Princeton University

#### Resume:

**Jose Scheinkman** introduced the session with the proposition that corporate responsibility and, in particular, corporate governance is basically about asking management to do what shareholders want. The proposition is further, that you should distinguish between what you do for all shareholders (*and stakeholders?*) or on behalf of them, and what shareholder could alternatively do by themselves (philanthropy / donations).

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**Alain Belda** presented Alcoa's perspectives on SRI / CSR via interview by Scheinkman. Belda explained the intrinsic interdependencies between their core business and society. As a mining company and a producer / extractor of raw materials Alcoa is very capital intensive and dependent on its connection with local communities. Alcoa has to be part of the local community and there is a clear business case in terms of integrating local investments and core business activities. As a company with substantial energy consumption there is equally a clear business case for and immediate bottom line effects of CO2 emissions reduction. Alcoa's focus on CSR and its interdependency with local community has also reflected positively on competitive advantage in terms of winning public procurement contracts (extraction contracts). Alcoa's CSR strategy has possibly translated into competitive advantages winning extraction contracts in e.g. Greenland.

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**Jean Tirole** pointed to the fact that the concepts of SRI and CSR were very broad and were a bit "catch-all" covering a number different activities and concepts. However, as a very basic point of departure, SRI (and CSR?) is basically about going beyond legal obligations to contribute to the common good. And the central question is whether there is a business case for SRI / CSR or whether this involves the sacrifice of profits. Criticism comes from two different angles: One is that firms should not substitute for the state (Reich) and the other is that you should not do charity with others money (Friedman). Tirole then outlined three visions of SRI: Vision 1 is about doing well by doing good and avoiding short-termism. Vision 2 is about the firm as a channel for citizen behaviour (stakeholders sacrificing private goods for the common good). Vision 3 is about corporate philanthropy and where profits (pr. definition) are not maximised. Tirole continued discussing the implications for the mission of management and practice concluding with comments on the basic "raison d'etre" as seen from the perspective of standard economics of externalities: 1) Market: Protect stakeholders through contracts, exit options and (relatively) flat claims. 2) Piggian perspective: Government should be responsible for correcting market failure (through taxation, subsidies and regulation etc.) – but SRI is somehow related to or could be justified to correct government failures. Challenges include 1) problems of free riding; 2) need for information (rating agencies) and; 3).

**Sara Lochte:** Presented results from two recent Danish surveys on 1. consumer opinion and knowledge on SRI and 2. published SRI-strategies among Danish life-insurers. The presentation focussed on investors interacting with customers, companies and others: Why engage in SRI; consumer opinion and investor behaviour, challenges of SRI governance and knowledge that could encourage the process. Main drivers as seen from the perspective of investors include the possibility to differentiate themselves to align to customer expectations; to maximise return by minimising risk; to develop good relations in general; to get ahead of the market and discover new opportunities for sustainable corporate value; and to consolidate long-term investment strategy. The survey on consumer opinion and knowledge indicate that consumers consider SRI (ethics) to be important: 14% rate ethics over other considerations, 50% attribute equal importance to ethics and returns while only 8% give first priority to returns. Consumers rely on investors to handle SRI (82%), but still 65% expect politicians / government to take action as well. The survey on SRI-strategies among life insurers indicate that establishing SRI guidelines is seen as the most important general step towards an SRI-strategy (66%) while only 9% actively deselected this. Main SRI-challenge on the part of investors is the choice between exclusion or influence. Consumers clearly prefer active ownership over disinvestment (46%) while only 17% prefer immediate disinvestment. On the investors side 45% claim they exercise active ownership. Strategies further include screening agencies (50%), disclosure of portfolios (30%) and information about managers application of SRI-strategies (32%). Matters for further reflection include: How to measure risks embedded in company behaviour non-compliant with good CSR-behaviour? What risks are entailed in future non-compliance with SRI-norms? What happens to the "value of SRI-risks" when SRI norms expand? How to secure the continuing focus on SRI strategies among investors in the wake of financial crisis? Can initial costs related to the incorporation of SRI or CSR be reduced?

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## 6. Society's Case:

How do institutional factors (e.g. regulation and stakeholder relations) influence SRI strategies in the EU and USA? Also, the session might focus more broadly on the role of international standards and we might include CEO perspectives on why companies would want to join UNPRI, Global Compact or ISO standards. How may international standards influence investment strategies of institutional investors?"

### Panel:

**Betina Hagerup**, Deputy Permanent Secretary, Danish Ministry of Economic and Business Affairs.  
**Donald MacDonald**, Chair of the UN Principles for Responsible Investment and Trustee of British Telecom Pension Scheme

**Moderator: Robert Kinloch Massie**, Board member and former Executive Director, Ceres

### Resume:

**Bob Massie** introduced the session pointing to the risk of speaking past each other. Basically SRI and CSR is about the role of business in society **not** business ethics. We fundamentally need new language and terminology / new terms. The challenge of reporting on the full role of business in society (*i.e. equivalent to triple-bottom-line reporting?*) captures the essence of this. We need generally accepted standards for non-financial disclosure. The GRI is such a step and a central question is accordingly: How does GRI fit with standard accounting rules?

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**Betina Hagerup** outlined the perspective of government and the theoretical basis for the Danish national Action Plan. The theoretical basis for this action plan is largely in line with the work of Porter and Kramer as it rests on the concept of "business driven" / "strategic" CSR. The essence of this is

that the business case for CSR and SRI is very much individual and context dependent. As such concrete initiatives by individual companies must be based on their individual interdependencies with society and their core business activities. Betina Hagerup presented a number of illustrative cases of companies using their core business and competencies to meet social demands. As the business case is arguably already out there (effectively dissolving the “Friedman-dilemma” or proposition that CSR will sacrifice profits), the role of government is primarily to support the adoption of strategic CSR. In theoretical terms, the strategic application of CSR and SRI by companies and investors offers the opportunity for generating extra positive externalities. The role of government is therefore not to expand regulation into the realm of CSR and SRI should therefore not be seen as a market-based response the classical problem of externalities. For these purposes, regulation, taxation subsidies etc. are still relevant). Since the business case is context dependent and individual by nature, the main implication for research is furthermore that priority should be given to qualitative case stories revealing the full variance of business cases rather than on statistical analysis focusing on the average business case as measured by correlation between CSP and CFP.

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**Donald McDonald:** well-governed entities are best placed to obtain optimum return for investors. Portfolios are much more diversified and globalised creating increased need for applying ESG factors. We need to look at the impact of ESG considerations with regard to emerging economies. The UN Principles for Responsible Investment have made two initiatives to support more SRI: 1) investment clearing house – this allows PRI signatories to pool their investments and join forces in terms of ESG investment criteria. 2) The PRI academic network which main objectives are to provide research and analysis for practitioners interested in responsible investment. The financial crisis and CSR: 6 proposals to what it will take to re-establish confidence and trust: 1) We must recognize CSR as the key to re-establishing trust to the financial sector. 2) We must have more focus on ESG factors in the financial decisions. 3) Investors must cooperate with governments in order to make companies use CSR best practices. 4) We need more transparency within short term selling/buying. 5) We need to develop more sustainable investment products – currently there are not enough available in the market. 6) We must put focus on the responsibility of shareholders especially among the big institutional investors.

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#### 7. SRI, Cost of Capital and Change:

This session lays out the state of the art for whether SRI, measured as roughly 1 in 9 dollars invested, can influence real change? Does the boycott of a firm’s stock lead to the firm to change their policies? If so, how? Is it through the cost of capital channel? If not, what other channels? Is SRI redundant if there are already boycotts in the consumer product side?

#### Panel:

**Matthew Kotchen**, Professor of Economics, UC Santa Barbara

**Vinay Nair**, Partner, Ada Investments

**Brad M. Barber**, Professor of Economics, UC Davis

**Moderator: James Gifford**, Executive director, UN Principles for Responsible Investment

#### Resume:

**Matthew Kotchen** presented three brief perspectives on CSR: 1) Green market and private provision of public goods. 2) Voluntary provision of public goods for bad: A theory of environmental offsets. 3) Corporate social responsibility for irresponsibility. Kotchen with asking when is green good or SR “beneficial”? (from an economic / utility perspective). He continued with some perspectives on impure public goods

that are characterised by joint production and with both private and public characteristics. He pointed to pollution externalities as an impure public “bad” and mentioned carbon offsets as voluntary provision of a public good to offset a bad. Could CSR be seen to offset corporate social irresponsibility (CSI)? Here Kotchen continued presenting some empirical data covering seven different issue areas and 80 indicator variables in “strengths” and “concerns” respectively. The CSR variable for a company in a given year ( $t$ ) was defined as the sum of all strength items  $I$  a given year. CSI was likewise set as the sum of all concern items in a given year. Variables were standardised for each year accounting for items being removed or added. Separate CSR / CSI variables were created for each of the seven issue areas. Financial and accounting data included a) return on assets / debt ratio and b) total assets, total sales, employees.

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**Brad Barber** presented his study of pension funds activism and institutional activism which he called a double-edged sword. When prudently applied, shareholder activism can provide effective monitoring of publicly traded corporations. When abused, portfolio managers can pursue social activism to advance their personal agendas at the expense of those whose money they manage. Social activism involves taking public stands on sensitive issues. Most institutions simply ignore these considerations when investing. Unfortunately, ignoring these considerations is not necessarily in the best interests of investors. As part of the study Barber analysed the announcement reaction of CalPERS focus list firms indicates these targeted and well-reasoned interventions have created \$1.9 billion dollars of shareholder value. This is surely an underestimate of the total value of CalPERS activism for several reasons. With rare exceptions, CalPERS interventions in focus list firms are designed to improve shareholder rights. Barber concluded that there is strong empirical evidence that improving shareholder rights improves shareholder value. Institutional activism designed to improve shareholder value should be well grounded in scientific evidence. When moral considerations affect investment policy, investor preferences should be paramount and institutions should be carefully monitored to ensure they live up to these standards.

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## 8. Rating Agencies and Market for SRI:

This session focuses on the difficult issues of rating firms on environmental, ethical and social considerations. Are there consistent means to rating companies? Which screens are more difficult to implement? How can markets be used to help in the process?

### Panel:

**Colin Melvin**, Director of Corporate Governance, Hermes Investment Management Limited

**Ulrika Hasselgren**, President, Ethix SRI Advisors

**David Lando**, Professor, Department of Finance, Copenhagen Business School

**Moderator: Peter Webster**, Executive Director, EIRIS

### Resume:

**Peter Webster** introduced the session by giving some proposals of good ways to get out of the present financial crisis: Financial institutions should show leadership as responsible market stakeholders looking out for the market in general. They should encourage accountability for their strategies and make better foresights linked with action. Proposal: Market Risk Forecasts: Financial institutions should annually identify ESG factors posing risks to investors in general, effective operation of markets and market or public confidence. This should be backed up with statement of actions taken to protect own interests, actions taken to reduce market wide risk and actions that other stakeholders need to take. Corporations, other capital users, governments and regulators should also take action in due time. Peter proposed a number of questions and issues for further investigation / future research agenda: What are the problems

for ESG ratings agencies? Should there be consistent ratings? Which screens are hard to implement? How can markets help? When and how does ESG integration work? What are corporate experiences of engagement effectiveness? How may asset owners effectively reward would asset managers? What about shareholder value of stakeholder trust/confidence? Should there be a Stern review in other areas (conflict; human rights; fair globalisation; bribery reduction)? Are there conflicts of interest within ratings agencies? Which CSR management systems really work? What effects does public reporting of data produce?

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Colin Melvin spoke about the problems and benefits of rating firms on environmental, ethical, social and governance considerations and the research that is used to support the ratings. Melvin focused specifically on the following questions: Who uses this information? (Note the danger of a conversation between 'experts' on both sides.) If the information is produced for shareholders, the question is which shareholders and over what period? What is the information used for? Melvin continued outlining the Hermes background. Melvin described Hermes EOS as a user of ratings and research and pointed to its main focus / action in terms of responsible investment strategies – e.g.: Supporting engagement, linking owners and companies and analysing banks and credit crunch context etc. Examples of engagement include: BP, Sudan, Zimbabwe, cluster munitions, Siemens, Thyssen and Krupp. Melvin continued focussing on the questions, which might be particularly relevant for further research and investigation: 1) Is there a consistent means to rate companies? There are clearly problems with consistency as GRI/CDP and other ratings may conflict. CSR & SRI can be part of the problem and furthermore, companies may be 10 years ahead of investors? 2. Which screens are more difficult to implement? Melvin mentioned social screens, Environmental – Trucost example of good and problems with questionnaires. 3) How can markets be used to help in the process? EAI and broker research could be mentioned addressing a market failure, but the market is still failing – an issue for UNPRI to take forward? Further problem include structural problems of short-termism in the investment industry, need better investment practice and more transparency / accountability. Melvin pointed to CSAM / Hermes ASEAN fund as an example of good practice. The promise of (S)RI is better alignment and sustainable growth. Without it, it is "boom or bust".

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Ulrika Hasselgren gave an overview of main SRI trends and strategies in Scandinavia. Here public pension funds are typically required by law to take ethical issues into consideration. As an SRI advisor, Ethix works with asset owners and asset managers with both mainstream and specialized SRI-funds. In Sweden there are relatively many specialized SRI investors, whereas in Norway and Denmark SRI is mostly (just) another challenge for main stream investors and funds. Hasselgren continued giving an overview of the main strategies applied among Scandinavian investors. These include a broad selection of the usual well-known methods and approaches such as: Engagement as well as divestment, negative criteria for screening and best in class and positive screening. In sum, one can conclude that the criteria, definitions and delimitation vary significantly among Scandinavian investors. However, international conventions on human rights, environment, labour standards and anti-corruption, and the principles of corporate conduct – the UN Global Compact, applied through a norm-based screening are clearly a common approach in Scandinavia. Regarding the question of consistent means of rating companies, and which screens are more difficult to implement, Hasselgren gave some examples and pointed out that depending on the investor's policy, ambition and scope the means to rate or screen companies, or the approach to implement the results varies greatly, and can therefore be a challenge for the asset manager.

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David Lando started by posing the question: Why is credit rating different from SRI rating? Here a number of key difficulties can be identified: Danish Law requiring optimal returns taking diversification into account. This may justify the focus on ESG factors, but after several years of underperform-

ance company will have to leave or the board can be criticized for not reacting soon enough. If the law would allowed investing according to SRI criteria – even at a cost – then there would not be a problem. This problem lies in justifying screening and ranking costs. Much focus in the credit crisis has been on the fact that issuer pays for rating. The problem lays in reliable ratings vs. price differentiation vs. the willingness to pay for ratings and investors implement rating-based criteria. Good performance a pre-requisite for success. Only when they differentiate are they interesting for clients. The problem can be illustrated with this analogue: A student pays to go to a university who then rates the students' exams. Will this affect the university's grading of the students (Grade inflation)? Can agencies provide a fee-based service for SRI rating? Where ratings are going? The ratings used today seems to be scores in a variety of categories, allowing investors to engineer their own rating. This is similar to publishing a company's accounting ratios etc. and let the investors use their own weighting (using statistical methods). We may see a certain concentration of agencies because there is a limit to how many surveys companies will respond to. Big rating agencies will publish extensive reports on rating performance investigating how ratings did in asset classes, countries, how they depend on outlook watch lists etc. Further questions by Lando include: Is there a historical sense in which SRI ratings can be evaluated? How do we track performance of SRI ratings?

# Questions

## Long list of questions:

The following list of questions were posed either directly by the speakers, or can be, we believe, derived from the discussions and may point to a future research agenda. The questions are listed here in chronological order according to the roundtable sessions 1-8

- Does the ability or extent to which these funds factor in CSR/SRI explain variations in how they have been affected by the financial crisis?
- Do investors (hedge funds and venture capital funds) apply quantitative measures when factoring in CSR/SRI in their investment practices (e.g. by using constant / average multipliers for values assessments) or purely qualitative and individual measures?
- What is the ultimate objective of CSR / SRI?: More successful companies, investors or a market system that rewards public good creation?
- Has research reflected the complexity of of SRI?
- Do investment models reflect the complexity of the business case?
- How closely can the “map” approximate the “territory”?
- Is the meta-metric related to management effectiveness – i.e. governance, information input & managing change and complexity?
- Is “CSR” an absolute? If not, how much is “enough”? And who decides?
- Do dilemmas of collective action (e.g. free riders) prohibit exercise of strategic philanthropy / CSR?
- Are individual business cases strong enough to overcome the potential free rider dilemma involved in producing public goods via CSR activities?
- Is it possible to design strategic CSR activities so that the benefits to the company are sufficiently “private” to eliminate free riders?
- Are general measures of the relationship between CSR and CSP (correlation) irrelevant considering the individual nature of the concept of strategic CSR/philanthropy?
- Should research focus more on case studies and qualitative analyses (new path of exploration) to reveal the variance of effects of CSP on CFP rather than quantitative studies of average effect size?
- Should research focus on qualitative studies with the purpose of contributing to further theoretical development of the Porter/Kramer theory of strategic CSR/philanthropy?
- Porter/Kramer’s (generic) theoretical framework as presented in “Strategy & Society” (HBR, December 2006) invites further theoretical development and sophistication. A research agenda could focus on the categorisation of social issues and interdependencies by individual company level idiosyncrasies and / or branch and type of industry etc.
- Can the PRI signatories actions be explained by profit-maximizing alone, or might there be other motivations? This could use the PRI Clearinghouse as a data set.
- How can we explain the differences of opinion between investors and companies? This could look specifically at engagement, and involve analysis of the investors’ position and the company’s responses (probably needs to be interview-based).
- Is there a relationship between likelihood of raising ESG issues by an investor and the “nature” of that investor? e.g. long vs short? OECD vs Emerging Market? retail vs institutional?
- Do governance models that build in stakeholder engagement into decision-making lead to more successful companies, over what time? The premise is around alignment of interests. We accept (I think) that companies are more successful if their governance models more closely align owners’ and man-

- agers' interests; what about if we expand the set of interests to include employees? supply chain? communities? NGOs? i.e. this is a proxy for testing if a company's governance seeks to align the interests of the company with the interests of society.
- What is the relationship between the emergence of CSR-related standards in a sector (e.g. FSC, MSC, FLO, BREAM, ...) and the actions / attention of investors? I.e. to test the degree to which having a "recognised" standard helps either create a business case or helps create a basis for investor comparison and engagement.
  - Is there a link between "commoditisation" and responsible investment activity? i.e. this tests the premise that the less of a difference there is between the product/service quality and price, the more intangibles including CSR become part of the competitive context.
  - What is the distinction between the ethical, the political, and the financial?
  - To what extent do investors have the same interests, and to what extent do they diverge?
  - What are the "virtues" that we need more of in the financial markets – and that institutional investors can ask for?
  - How can we help each other become more long-term oriented?
  - Are institutional investors particularly dependent on or interested in stricter regulations and corporate governance standards in the light of financial crisis?
  - Are pension funds less susceptible to pursue high risk investment opportunities and therefore less dependent collective standards for corporate governance (Given their focus on long term profitability)?
  - On the micro-level, to what extent can we rely on rational actors to produce collective goods?
  - To what extent individual companies at all be seen as rational actors and how might the organisational / institutional characteristics (e.g. different forms ownership) of a company influence on decision making and rationality?
  - Can we at all talk about responsibility of companies / corporations in terms of moral behaviour?
  - To what extent can we rely on strategic philanthropy and CSR to overcome dilemmas of collective action?
  - How to measure risks embedded in company behaviour noncompliant with good CSR-behaviour?
  - What risks are entailed in future non-compliance with SRI-norms?
  - What happens to the "value of SRI-risks" when SRI norms expand?
  - How to secure the continuing focus on SRI strategies among investors in the wake of financial crisis?
  - Can initial costs related to the incorporation of SRI or CSR be reduced?
  - To what extent does CSR rely on corporate governance standards?
  - Must standards of corporate governance be universal or rely on international / global standards to avoid unequal competition or a race to the bottom?
  - In general do global regimes or principles for corporate governance become more important as global trade and movements of capital increase?
  - Is there a conceptual / fundamental difference between CSR and SRI in terms of the relevance of focussing on case studies and variance of business cases as opposed to focusing on the average statistical business case?
  - As opposed to individual companies, would institutional investors be more focused on the average business case for SRI as they rely more on the general profitability of CSR? (To the extent that their investment portfolios cover a wide range of different companies and branches)?
  - Should CSR and SRI be seen as a way to have companies cure what ails us (the negative externalities view) or should it be seen as increase total social utility through positive externalities?
  - Is retrospect analyses of the magnitude of SRI (as 1 in 9 dollars) at all indicative in terms of predicting future practices?
  - Does the financial crisis make it more difficult to calculate the future magnitude of SRI?
  - Is there a historical sense in which SRI ratings can be evaluated?
  - How do we track performance of SRI ratings?
  - What lessons from the experience of responsible investment and corporate responsibility may be relevant to generally fixing the world's financial systems going forward? (Peter Webster).
  - Does the financial crisis prompt rating agencies to alter or modify their rating practices?

The conference “The Promise of Socially Responsible Investing” was jointly hosted by the Bendheim Center for Finance at Princeton University and the Danish Ministry for Economics and Business Affairs.

The purpose of the roundtable was to bring together leading academics, policy makers and practitioners from around the world to debate and lay out a vision for generating new and practically applicable knowledge regarding the business case for and broader societal value of Socially Responsible Investment (SRI).

#### About the organizers:

##### About Bendheim Center for Finance, Princeton University

The Bendheim Center for Finance was established in 1998 to encourage interdisciplinary research in finance, primarily from a quantitative or mathematical perspective. The research activities of the center are directed toward the study of financial markets and asset prices, the financial structure of firms, commercial banks and other financial intermediaries, and the linkages between financial economics and other fields, such as engineering, operations research, mathematics, computer science, psychology and public policy.



##### The Danish Ministry of Economic and Business Affairs

The main mission of the Danish Ministry of Economic and Business Affairs is to secure future-oriented conditions for growth in an increasingly globalised world. The Ministry is responsible for a number of policy areas which are essential to the business environment for industries, services, shipping, construction etc. inclusive business regulation, financial supervision, intellectual property rights, competition, consumer and statistics policy. The Ministry is strongly engaged in EU and other international organisations.

The Ministry is responsible for developing policy initiatives on Corporate Social Responsibility and for coordinating the interdepartmental work on the national strategy on CSR. This work is placed in the Danish Centre for CSR (CenSa). In addition to this, the Ministry conducts activities concerning climate change policies and preparations for COP 15.



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For more information please visit our website at: [www.thepromiseofsri.org](http://www.thepromiseofsri.org) or contact:

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