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**Evaluating the governance of responsible investment institutions: an environmental and social perspective**

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**Abstract**

This paper addresses some of the problems associated with the integration of environmental and social values into the activities of contemporary responsible investment institutions. The first of these relates to the current participation gap between internal and external interests in responsible investment decision-making. The second problem concerns the lack of certainty regarding the normative basis under which multi-stakeholders should participate in institutional governance. Thirdly, there is at present no analytical framework with which to evaluate the institutional quality of responsible investment within the context of the global economy. In response, and building upon existing research in the realms of international relations and environmental politics, the paper uses a framework of principles, criteria and indicators to evaluate responsible investment institutions. The assumptions of this framework are tested against a small-scale attitudes survey regarding the governance quality of contemporary responsible investment institutions. Recognising the shortcomings of such a small study, the paper nevertheless finds a variety of perspectives, which indicate that the integration of multi-stakeholders in responsible investment institutions still has some way to go. The paper concludes with some observations on the nature of stakeholder involvement in responsible investment; comments on the extent to which the environmental social aspects of governance can be said to be institutionally embedded; and offers some reflections on the contribution of such an approach to governance analysis as a method for evaluating the contribution of responsible investment institutions to advancing sustainable development.

Keywords: international relations, environmental politics, sustainable development, governance.

## Introduction

In traditional investment practice, it has been generally assumed that the validity of claims made about a given product rest on the quality of information provided by financial advisors to assist in the making of investment decisions. While such an approach can be characterised as demonstrating financial responsibility, its contribution to determining social and environmental performance is limited. There has been a growth in investment practices that place greater emphasis on social and environmental, as well as economic, values, resulting in the designation of such investment as either 'ethical', or 'socially responsible', or simply 'responsible'. This paper uses the term responsible investment, or RI.

The move away from purely financial considerations towards concerns about environmental and social responsibility – including corporate behaviour – has led to the growth of what is referred to as environmental-social governance, or ESG (Hawley and Williams, 2005). In 2005 Freshfields Bruckhaus Deringer, one of the world's largest law firms, investigated whether ESG considerations could legally be incorporated in investment decision-making and ownership practices (UNEP FI, 2005). Looking at the legal institutional frameworks in Australia, Canada, France, Germany, Italy, Japan, Spain, the UK and the US, the report concluded that "integrating ESG considerations into an investment analysis ... is clearly permissible and is arguably required in all jurisdictions" (UNEP FI 2005, p. 13). The consequence of these developments is that institutional investors and shareholders are becoming increasingly involved in the deliberations underpinning investment activities. In the words of one report:

> Today, responsible investment is premised on the belief that ESG factors can enhance financial performance and should therefore be integrated into investment analysis and decision-making, including ownership practices. Consequently, shareholder activism/engagement is an approach increasingly being adopted (UNEP FI and Mercer 2007, p. 7).

However, while internal interests such as pension funds are being included in investment decision-making more meaningfully, there has been less progress on the 'external' side of the ledger. Third parties, such as local communities, or social/environmental organizations, still remain peripheral. The role afforded to these groups is generally one of passive consultation regarding, rather than active participation in, decisions to be made. They are important only in so far as they provide knowledge that is material to the investment decisions to be made. This

sets up a participation gap between internal and external interests, understood here as "an absence of direct access to stakeholders in decision-making" (Andonova and Levy, 2003/4).

Given these developments, there is a strong case to be made for describing and evaluating, the integration of social and environmental values into RI institutions. There are two major difficulties associated with such an undertaking. The first of these concerns the fact that there are no clear normative principles or values against which various models of corporate practice can be measured (West, 2009). Secondly, there is as yet no universal governance theory, which can account for corporate practice in the context of a globalised economy (Carver, 2010). This paper responds to these difficulties in two ways. It provides an historical narrative that delineates the normative features of stakeholder participation, as it is understood in the international political economy, and within environmental politics specifically. This narrative locates responsible investment within the policy arena of sustainable development as a mechanism for social and environmental, as well as economic, problem-solving. By viewing responsible investment as one of the mechanisms for advancing sustainable development, it is possible to use the recent analytical developments in global governance theory to more critically evaluate the relations between the multiple stakeholding interests involved in responsible investment, and their relationship to the governance quality of RI institutions.

**A normative theory of global governance for RI**

How then might political science map these developments in responsible investment onto contemporary governance theory? It is first necessary to locate RI and ESG within the normative context of contemporary global environmental politics. The United Nations Environment Programme (UNEP) and the Stockholm Declaration of 1972, both of which arose out of the 1968 United Nations Commission on the Human Environment (UNCHE), placed the imperative for environmental action on the global level, and set the future for discussions about the environment within a normative context (Birnie 2000). Global action on the environment reached a high point with the United Nations Conference on Environment and Development (UNCED), held in Rio de Janeiro in 1992, at which sustainable development emerged the institutional mechanism for implementation (Bernstein 2002). Since UNCED, sustainable development has been implemented through a range of UN processes. These include the Commission for Sustainable Development (1992) and conventions on biodiversity (1992), climate change (1994), and desertification (1996). Since Rio, the UN has continued to promote sustainable development through a range of initiatives,

including the Global Compact (2000). Other programmes of significance include the Millennium Summit (2001) and the World Summit on Sustainable Development (2002). In 2005 the Global Compact collaborated with the United Nations Environment Programme Finance Initiative (UNEP FI) to create the Principles for Responsible Investment (PRI, also known as UNPRI), which led to the development and introduction of the concept of environmental-social governance to the finance sector (UNPRI undated). There is therefore an extremely strong case to be mounted for the argument that both RI and ESG belong in this arena, and that the norms, which govern the institutions that function in this space, should be equally applied to RI institutions.

What form does the governance of these post-Rio institutions take? Contemporary theory rejects traditional command-control institutional models and asserts that behaviour in organisations is to be understood in social-political, rather than strictly political, terms. A distinction is also made between 'governing' (understood as a *process* of coordination, steering, influencing or 'balancing' social-political interactions) and 'governance', interpreted as the *structure* that emerges in a social-political system as result of interaction. The interactions between structure and process together describe the nature of collaboration in 'new' governance, which is understood in relational, rather than utilitarian, terms. It is these interactions that result in substantive outcomes, such as the formulation of criteria, or setting of standards. Structure, process and substantive outcomes are seen as interrelated components necessary for the solving of problems within contemporary governance (Kooiman 1993). Together, they have been identified as the key determinants of 'governability', defined as "the total quality of a social-political system to govern itself within the context of broader systems of which it is a part" (ibid. p. 259). This idea later re-emerges subsequently in terms of 'governance as structure', understood as the models utilised by various institutions, and 'governance as process', again referring to the idea of steering or coordinating (Pierre and Peters, 2000).

Governance is also becoming increasingly understood in terms of its expression not only on the national and international levels, but at all spatial scales (Kjaer 2004; Perrons 2004). Contemporary environmental governance articulates this trend particularly strongly, and is exemplified by the interactions that occur between decentralised networks made up of multiple actors functioning at all levels (Haas 2002). Environmental politics therefore provides one of the best spaces available to study the emergence of new modes of governance that have arisen in response to globalization (Arts 2006). This is because it is in this arena that

some of the most extensive and innovative experiments in 'new' governance exist (Glück et al 2005). It consequently provides one of the most useful lenses through which to scrutinise "the increasing tendency for collaboration in many sectors where political and economic trade-offs also exist" (Overdevest 2004). It is also clear from the literature that the structures of contemporary governance are understood as being participatory in nature in that they include more actors than traditional management models. Secondly, the processes through which decisions are made – recognising the broader participation of a range of actors – are more discursive in nature, requiring more deliberation than top-down systems (Fiorino 1999). This permits a theoretical description of contemporary governance in terms of 'participation as structure' and 'deliberation as process' (Cadman 2011).

Looking at the specific normative preoccupations amongst scholars concerning institutional arrangements, it is possible to identify four main issue areas, which impinge on discussions regarding the *quality* of contemporary governance. The foremost without doubt concerns responsible organisational behaviour, usually understood in terms of accountability and transparency. Accountability has become a central aspect of the quality of governance debate, since the rise of new actors has necessitated a reconfiguration of existing mechanisms. Accountability is understood as being not merely internal (i.e. to such interests as shareholders), but also, external, to such interests as the general public, and is linked to what appears as a subsidiary attribute, transparency, expressed in terms of public access to information and decision-making procedures (Kerwer 2006).

With the rise of globalisation and the integration of global financial markets, there have been calls for properly adapted principles of accountability at the global level, but the lack of universally accepted values and institutions is identified as a deterrent to such a project. Nevertheless, there is agreement that there is a need for a better meshing together of internal and external accountability measures at the global level (Keohane 2003). Others see the answer as more straightforward, calling for increased openness of global institutions. The application of freedom of information laws and generally freer access to information would account for the remoteness of accountability processes at the global level (Stiglitz 2003). Alternatively, the standards-based approach of some institutions of global governance is presented as a solution to demonstrating accountability (Kölliker 2006).

A second and almost equally significant area of concern is around the representation of different stakeholder interests within a given institution. Here the discussion is largely about issues of inclusiveness and equality. Inclusiveness has been broken down into two elements,

access and weight. Access concerns who is bounded or affected by a given issue, and whether they have actively participated in framing any related policies or responses, whilst weight denotes the extent to which influence is shared equally amongst participants. Inclusiveness therefore sits along a power continuum and is measured by the extent to which participants are involved in decision-making processes and whether their input is taken into account (Koenig-Archibugi 2006). Democratic theorists commenting on global governance also link equality to inclusiveness – and by extension, exclusiveness to inequality – arguing that institutional legitimacy is normatively expressed by giving participants equal status in institutional processes (Young 2000). Effective interest representation in global governance also requires significant resources generally only available to well-endowed organisations, with access to ample finances (Scholte 2004). In order to avoid well-resourced interests from capturing or co-opting other rule-making participants within a system, mechanisms to provide for under-resourced interests, are also essential (Boström 2006).

A third concern is centred upon decision-making, notably the presence or absence of institutional democracy, methods by which agreements are reached, and how disputes are settled. In the specific instance of corporate governance, for example, there have been growing demands for increased shareholder enfranchisement; here, such issues as having a 'say on pay' are especially relevant (Bebchuk and Hamdani, 2009). However, there is a somewhat pessimistic view on the ability of current modes of global governance to provide for genuine democracy. Market-based mechanisms confine democratic decision-making to policies conducive to economic development and are highly technocratic, with a very reduced role for the public. Corporate governance arrangements, despite some modest concessions to demonstrate a degree accountability and transparency, do not include major stake-holding interests directly affected by company policies, such as employees and local communities from decision-making (Hirst 2000). These shortcomings have led one commentator to call for the institution "of procedural rules arriving at collective decisions in a way which accommodates and facilitates the fullest possible participation of interested parties" (Bobbio 1999, p. 19). There is a fairly strong indication that addressing the need to deal with social-political dynamics of the 'new' new modes of contemporary governance therefore requires "processes of discursive consensus formation" (Meadowcroft and Lafferty 1996, p. 257; Held et al 1999). When conflict occurs within negotiations, or as a result of complaints over procedure, several sources identify the need for dispute-resolution mechanisms (Ostrom 1990; Van Vliet 1993; Meidinger 2006). The breakdown of processes of engagement and

negotiation and the inability to resolve conflicts have been identified as two key indicators of governance failure (Stoker 2000).

The fourth major preoccupation is the manner in which policies, programmes or standards are implemented. In the domain of sustainability, effective implementation has been identified as relating to both the behavioural- and problem solving abilities of an institution (Skjærseth et al, 2006). In the context of responsible investment, behavioural change would refer specifically to changing behaviour around financial market activities that result in environmentally and socially unsustainable outcomes. The problem responsible investment is seeking to address is the negative externalities associated with unsustainable investment (e.g. deforestation). Given the inherently dynamic nature of the ecological systems (and related markets), such institutions also need to be resilient in the face of changing external circumstances, such as climate change, or market conditions. Non-resilient systems are unlikely to remain durable in the light of such changes (Folke et al, 2005). Durability in the context of responsible investment would refer to long-term investment practices that are based on environmentally and socially sustainable practices. Implicit in this understanding is the recognition that an activity, which is not economically viable, will not be durable.

These various governance arrangements can be brought together into a hierarchically consistent framework of principles, criteria and indicators (PC&I), which allows for the evaluation of institutions of sustainable development. The PC&I approach to sustainability assessment became popular in the wake of UNCED (Rametsteiner et al, forthcoming). The value in such an approach is that it allows for performance evaluation in a hierarchically consistent and logical fashion (Lammerts van Beuren and Blom, 1997). The relationship between principles, criteria and indicators, and how the various elements discussed above, are laid out in Table 1 below.

**Table 1: Hierarchical framework for evaluating the governance quality of RI**

| Principle | Criterion | Indicator |
|---|---|---|
| "Meaningful participation" | Organisational responsibility | Accountability |
| | | Transparency |
| | Interest representation | Inclusiveness |
| | | Equality |
| | | Resources |
| "Productive deliberation" | Decision-making | Democracy |
| | | Agreement |
| | | Dispute settlement |

| | Implementation | Behavioural change |
|---|---|---|
| | | Problem solving |
| | | Durability |

Source: Cadman 2011

Here the principle, or value, adopted regarding participation as the fundamental structural aspect of governance is that it should be *meaningful*. This term is frequently associated with participation in much of the literature, and serves here as a normative, qualitative descriptor (Gaventa 2002). The second principle, referring to the deliberative, procedural, aspects of governance, has been ascribed the term *productive* as its descriptor (Dryzek and Braithwaite 2000). In this context the principle is more than a statement about the democratic legitimacy of a process, as it refers both to the quality of deliberations, as they occur within the system, as well as the quality of the outcomes, or products, of those deliberations. It should also be noted that the framework does not directly include the concept of legitimacy, often used by many analysts to assess governance quality. This is because legitimacy is conceptualised as the output of institutional performance, which is determined by the successful interaction between the structural and procedural components of the governance system (Cadman 2011).

**Stakeholder reflections on the governance of RI institutions**

What do the stakeholders involved in responsible investment think about its institutional governance? In view of the normative developments discussed above, this paper conceives 'stakeholders' in the broadest possible sense, as a group of diverse interests that collectively shape the institutions in which they interact. This allows for a more ethical, and less functionalist understanding of who participates in contemporary governance (Ruggie 1998). With the increasing role of civil society in responsible investment the definition has become more comprehensive, and includes civil society, the general public and local communities, as well as private organisations, governments and regulatory authorities, investors and unions – to name a few (GCGF and IFC undated).

Using the analytical framework outlined above, a survey was developed to provide some insight into what stakeholders thought about the governance of RI institutions, defined as 'any financial organisation (public, private, for profit, not for profit, etc.), which owns or manages an RI programme.' In late 2009-early 2010 the author contacted various individuals who were invited to both evaluate and comment on the governance of the responsible investment sector

in an anonymous attitudes survey based on the eleven indicators of Table 1.[1] These were identified from a range of institutional contexts, including academia, organisations offering investment-related awards and prizes, listed companies, investment conferences and events, financial institutions, governmental organisations (national, regional and international), indices, media, NGOs, professional associations, public-private partnerships, rating agencies, and researchers. On the basis of who responded and how they identified themselves, and in order to make analysis tractable, survey participants were broken down into six groups: fund managers, financial planner/advisers and advisers, responsible investment programmes, NGOs and researchers. Individual respondents were grouped under 'other' (comprising 'bank', 'ethical shareholder', 'higher education', 'private investor', 'third party', 'responsible investment association'). Table 2 below lists the type, response count and number of survey participants.

**Table 2: RI survey list of participants**

| Type | Number | Percent |
|---|---|---|
| Fund manager | 7 | 25% |
| Financial planner and/or adviser | 5 | 18% |
| RI programme | 4 | 14% percent |
| NGO | 3 | 11% |
| Researcher | 3 | 11% |
| Other (Bank, Ethical shareholder, Higher education, Private investor, Third party, Responsible investment association) | 6 | 21% |
| **Total** | **28** | **100** |

*Method and results*

The PC&I framework outlined above was used to develop quantitative results. Respondents were also asked to score their perceptions, by means of the Internet tool Surveymonkey, www.surveymonkey.com, using a Likert scale from 'very high' to 'very low' (5-1 points). The response scale was weighted to produce an average rating for each of the stakeholder groups. These averages were combined into a total rating, which effectively represents the 'consensus rating' of the survey participants as a whole. The results, rounded to the nearest whole number, are contained in Table 3 below.

[1] The author wishes to acknowledge Dr Enrico Bernardini, portfolio analyst at the Risk Management Department of Banca d'Italia, for his invaluable assistance in compiling the database of target organisations.

**Table 3: Responsible investment governance survey – participants' evaluation by associated indicators**

| Principle | 1. Meaningful Participation | | | | | |
|---|---|---|---|---|---|---|
| *Criterion* | *1. Interest representation* Highest possible score: 15 Average score: **9** | | | *2. Organisational responsibility* Highest possible score: 10 Average score: **6** | | Sub-total (out of 25): **15** |
| **Indicator** | **Inclusive -ness** | **Equality** | **Resources** | **Account-ability** | **Transparency** | |
| Fund manager | 3 | 3 | 4 | 3 | 3 | |
| Financial planner/ adviser | 3 | 3 | 4 | 3 | 3 | |
| RI programme | 4 | 4 | 4 | 4 | 4 | |
| NGO | 3 | 3 | 3 | 3 | 4 | |
| Researcher | 3 | 2 | 2 | 2 | 2 | |
| Other | 3 | 3 | 2 | 3 | 3 | |
| Average | **3** | **3** | **3** | **3** | **3** | |

| Principle | 2. Productive deliberation | | | | | | |
|---|---|---|---|---|---|---|---|
| *Criterion* | *3. Decision-making* Highest possible score: 15 Average score: **11** | | | *4. Implementation* Highest possible score: 15 Average score: **11** | | | Sub-total (out of 30): **22** |
| **Indicator** | **Democracy** | **Agree-ment** | **Dispute settlement** | **Behaviour change** | **Problem solving** | **Dura-bility** | |
| Fund manager | 3 | 4 | 4 | 3 | 3 | 4 | |
| Financial planner/adviser | 4 | 4 | 4 | 4 | 3 | 4 | |
| RI programme | 3 | 4 | 4 | 4 | 3 | 4 | |
| NGO | 3 | 3 | 3 | 3 | 3 | 4 | |
| Researcher | 3 | 4 | 3 | 3 | 3 | 3 | |
| Other | 3 | 3 | 4 | 4 | 4 | 3 | |
| Average | **3** | **4** | **4** | **4** | **3** | **4** | |
| **Average Rating** (out of 55) | | | | | | | **37** |

Overall, respondents' attitudes towards the governance quality of RI institutions were generally favourable. This would imply that there was a degree of confidence amongst survey participants in the structures and processes of governance across the sector. With an overall

rating of 37 or 67 percent, it could be said that RI institutions were seen by respondents to be performing credibly.

For participation at the principle level, a score of 15, or 60 percent, is satisfactory. At the criterion level, interest representation performed relatively well, with a score of 9 or 60 percent. Each of the associated indicators received an average score of 'medium', although it should be noted researchers gave 'low' scores for equality and resources, while 'other' gave resources a 'low' score. At the specific indicator level, inclusiveness achieved an almost universal score of 'medium', perhaps reflecting a general view that programmes tried to be inclusive, at least in terms of internal stake-holding interests. But one respondent was less sure as to whether this aligned with what the "people on the street" wanted. Other negative comments included: concerns about the narrowness of focus regarding what was included in investment portfolios; an overemphasis on what one respondent saw as "outdated" methods of assessment such as negative screening; and restricted definitions of sustainability, which overly concentrated on corporate governance risks rather than broader environmental and social issues. In the case of equality, one survey participant bluntly commented, "Nobody treats all interests equally, and nobody should". The availability, or provision of resources (technical, institutional, financial) to participate in RI had the most varied results. Researchers and 'other' selected 'low', whilst fund managers, financial planners and RI programme all selected 'high'. One researcher expressed the view that RI programmes within larger financial institutions tended to be "resource starved". Resourcing was also a problem for "genuine ethical and sustainable fund managers".

Also with 60 percent, or 6 points, the criterion of organisational responsibility achieved passable, result. Here it should be noted that researchers provided only 'low' scores, and only the responsible investment programmes gave 'high' scores. One fund manager made the comment about accountability that although investors wanted to be "part of the dialogue about the RI investment process" they often had to deal with fund managers who were usually

part of large, conservative and mainstream banks, that were not particularly responsive to these demands. This had knock-on transparency-related effects as fund managers tended to keep information to themselves. As a result, these kinds of RI programme neither comprehensively disclosed their investment methodologies about the actual investments made, nor the reasons behind each investment. This was, they felt, creating a sense of mistrust in the public domain. One researcher commented further that they did not think a whole lot of attention was paid to accountability in the RI sector, and efforts at improvement had not gone very far. They expressed the view that the RI sector did not appear to perceive low levels of accountability as “major issue for the field, or at least a major barrier to expansion and mainstreaming”. Another researcher felt that there needed to be more accountability and monitoring of RI activity of institutions, so that investors could make clearer distinctions between those fund managers that were genuinely committed to RI and those that just paid it lip service. In this regard the view was expressed that UNPRI needed more enforcement capacity.

Deliberation received a score at the principle level of 22, or 73 percent, a creditable performance. As a criterion, decision-making also performed creditably, scoring 11, or 73 percent. All respondents scored the indicators either ‘medium’ or ‘high’, with the average results being ‘medium’ for agreement, and ‘high’ for both agreement and dispute settlement. For democracy it should be noted that only the responsible investment programmes scored the indicator ‘high’. A comment made by a fund manager regarding the democracy of RI, is worth inserting at this point:

> It is difficult to achieve democracy in RI systems, as they need to ensure a consistent process is followed. I don't think that democracy is a significant issue for RI investors. They only want to ensure that their money is being managed in a manner consistent to how they were told it would be managed.

One financial planner commented that:

> No business enterprise can be operated in a totally democratic way and prosper as a business. But to the extent that RI institutions welcome and consider input from various constituent groups, I would rate them high.

One researcher didn't see democracy as being "relevant to most firm structures, which engage employees fairly well in this space, but are not cooperatives etc." In terms of how agreements were made in the sector, another researcher made the comment that "people get to consensus pretty well in the RI space".

Also with a score of 11, or 73 percent, was the criterion for implementation. In this case, both behaviour change and durability scored 'high', while problem solving scored 'medium'. In terms of durability one NGO respondent commented that RI was "experiencing strong and consistent growth", although one researcher felt that the jury was still out over the future of the sector. Another fund manager commented that RI would "be a lasting trend in the mainstream wealth management industry - if only because it addresses business risks and opportunities such as climate change".

The most detailed responses in the survey were made concerning RI's influence on behaviour change. One response sums up these sentiments:

> There is considerable anecdotal evidence that serious shareholder engagement programmes of the likes of Hermes, F&C and Regnan and others do indeed improve corporate behaviour… Also, whose behaviour is it important to change – the investors, or the actual companies causing the damage? Changing investor behaviour in terms of 'considering' ESG factors is irrelevant if it does not send signals to the companies causing the damage on the ground. So called 'ethical funds' that only screen, but do not engage, have no impact on the world whatsoever, yet claim to be responsible investors. In any discussion of what is a responsible investor, the focus needs to be on the actual impacts on the ground of the actions of that investor, not on some notional assessment of whether the companies they hold happen to be more or less responsible companies. You can hold a portfolio of responsible companies in a large, liquid, relatively efficient market and make no difference to anything whatsoever.

The problem of 'greenwashing' that these observations imply, was raised by other respondents in various forms. One respondent from the 'other' group felt that RI products had become increasingly important to corporate entities involved in "irresponsible and unsustainable" activities and were now just one component they chose to use in what had

become in a “complex web” of investment drivers. Another commentator from the ‘other’ group noted that part of the problem associated with RI’s capacity to drive genuine behaviour change arose largely from the:

> The principle, that fund trustees must first and foremost make a profit this year [which] makes them timid, concerned only for the short term. The system favours the status quo, rather than courageous leaps into ‘riskier’ new areas, which we know we must invest in if this world is to be passed on in habitable form.

One financial planner provided a contrast to his kind of timid approach. A more ‘activist’ institution, in their opinion, had a much greater capacity to change behaviour:

> RI institutions that are actively engaged in dialog with the companies in which they invest, and that use their power as shareholder to vote proxies and file proxy resolutions when necessary, can be very effective in changing the behaviour of corporations… However, RI institutions can be much *more* effective when working in concert with NGOs, using the media to bring pressure to bear, and getting broad coalitions of investors involved in the effort [emphasis in original].

RI’s contribution to problem solving was the weakest of all three indicators associated with implementation. Participants from across the survey groups did however point to specific examples where RI had made an important contribution to sustainable investment practices. One respondent pointed to commercial property development as a good example. Many large property funds now had a focus on owning energy efficient buildings, which was pushing these assets up in value. The weight of this money was devaluing unsustainable property. Another respondent felt that many RI programmes were actively contributing to the development of solutions to the problems of irresponsible and unsustainable development. Some programmes were operating in the RI space because they had merely identified a new business opportunity, but they were nevertheless still acting as “change agents”, even if they did not (yet) understand the importance of their role.

*Comments*

Given the small number of respondents (28), and the preponderance of Australians and New Zealanders (16) the study should be seen as entirely anecdotal, and merely indicative of *some*

of the viewpoints within the sector, rather than being in any way broadly representative or authoritative. Nevertheless, it reveals some interesting issues. One of the most obvious is that some 'insiders' (funds managers and RI programmes) generally rate the governance quality of RI consistently higher than more peripheral interests. See Table 4 below.

**Table 4: Results of governance quality survey by sub-sector, rating and percentage (in descending order)**

| Sub-sector | Rating | Percentage |
|---|---|---|
| RI programme | 42 | 76% |
| Financial planner/adviser | 39 | 71% |
| Fund manager | 37 | 67% |
| NGO | 35 | 64% |
| Other | 35 | 64% |
| Researcher | 32 | 59% |

This is perhaps not so surprising, but it would seem to add some cogency to the insider/outsider debate, and also how the various interests surveyed here view the governance of RI institutions. In this context, responsible investment programmes, financial planners/advisers and fund managers, who are closer to RI institutions (or indeed located within them), have rated their interaction with RI institutions highly. The perspectives afforded by other stakeholders, may provide a valuable check on the "hype" referred to by one fund manager. It is possible that the role of researcher by definition is functionally (if not actually) 'external', and affords these individuals a greater level of detachment, and possibly more objectivity, than other interests. For those respondents who selected 'NGO', it is to be noted that the scores are higher than both 'other' and 'researcher'. This may be due to the fact that at least two of these respondents appeared to be responsible investment-related NGOs, rather than environmental groups, for example. Given the mix of respondents in 'other', it is difficult to comment on the meaning of this particular score. On a purely anecdotal level, it is interesting to see, when the results are broken down further, that the one 'bank' respondent tended to select 'very high' or 'high', the 'third party' usually opted for 'high' or 'medium', and the 'private investor' generally chose 'medium' or 'low'. It would be nice to conclude that this lends credence to the centre/periphery thesis, but any such conclusion, in the absence of more comprehensive research can only remain hypothetical at this stage.

## Conclusions

An argument has been made here for the greater integration of stakeholding interests previously seen as peripheral into the structures and processes of responsible investment. Determining who is a 'stakeholder' in responsible investment can be either restrictive, or comprehensive. Traditional corporate governance would consider the term as being synonymous with 'shareholder'. The case for an expanded view has been made by looking at developments within RI itself, and through exploring developments in the understanding of participation and deliberation as aspects of 'good' governance at the global level. The implications of this perspective would be to extend the understanding of stakeholder beyond the 'internal' beneficiaries of RI, to include 'external' interests, such as civil society organisations. To this list, on the basis of the research in this paper, might be added individual private investors, researchers, ethical shareholders, and the like. On this view, stakeholder engagement has a wider meaning than currently, as it refers to the action of integrating multi-stakeholders into the structures and processes of RI institutional governance. This would give any analysis of stakeholder considerations a broader significance to investment decisions than before – and perhaps give these decisions a greater level of legitimacy.

Are environmental and social values embedded in the governance of RI institutions? On the basis of this paper, the answer would have to be 'mixed'. Across the board, respondents were favourably inclined towards the efficacy of institutional mechanisms for decision-making and implementation. The one possible exception here is with regards to democracy. There was some reluctance amongst respondents to engage with the notion that decision-making should be democratic. Here, the preoccupation was more about financial performance. However, the point that should be made here is that most investors have put their money into a fund where the decision over what to invest in has already been made, and their concern is not a democratic one; they just want to make sure the fund in which they have invested broadly meets their own expectations about responsibility. This may reveal an underlying tension in RI institutional governance. While this may be true for fund managers, investors or other influential actors, this perspective might not sit well with stakeholders more peripheral to the institutional centres, but affected by its activities, such as Indigenous peoples, or local communities. This distance from the decision on what the fund should look like may or may not have democratic implications, depending on the extent to which the fund engaged, or did not engage, with environmental and social interests during the formation of the fund. Here, there is a resonance with the issue of equality. It may be a statement of fact that nobody treats all interests equally in RI institutions, but whether they should or not, or at least make greater efforts at more equality of representation, is open to debate. Finally, it is both surprising, and

slightly alarming, that accountability and transparency did not achieve a higher score. As a core attribute of RI, there is room for improvement.

Since UNCED, PC&I have become a primary means by which the effectiveness of sustainable development is evaluated in the field, and the basis for accreditation in the market. The advantage of the framework presented here for analysing RI institutional performance over existing methods of assessment, which emphasise single criteria (e.g. accountability), or emphasise only E, S, or G (or combinations thereof) is that it establishes a strong hierarchical logic between all the elements commonly identified as pertaining to sustainable development. It also places quality of governance at the centre of institutional performance, rather than another ‘criterion’ for assessment. This more comprehensive scale of evaluation may help avoid the uncertainty that currently exists over the credibility of a given programme, and whether to lend it legitimacy by participating. This would be an important step forward for RI, which makes some big claims about the merits of its activities. Much in particular, for example, is made of the need for transparency and accountability in ventures in which RI institutions are seeking to invest. Finally, little attention has been paid to the governance of RI institutions themselves. Here the issue has to be raised as to whether RI institutions evaluate their own performance to the same levels they expect of those in whom they invest. Given the pressing social and environmental problems, which confront the planet in this current era, it will become increasingly important to determine whether RI institutions are indeed solving problems of global significance, and shifting investor behaviour towards sustainable and responsible investment at both institutional and systemic levels.

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