

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

Tim Cadman

Faculty of Business

University of Southern
Queensland



Historical background: Rise of ESG

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

Concepts of Governance

- Decision-making with or without government (Haufler 2001)
- Voluntary methods of problem-solving (Clapp 2005)
- Market based mechanisms – (Jordan et al. 2005)
- Multi-Scalar/Multi-Stakeholder Initiatives (Utting and Marques 2010)

Quality of Governance

- Concerns about sustainability and new modes of governance have merged around the concept of ESG
- A wide range of commonly identified governance attributes exist in the literature and in practice;
- They are currently discussed as a loose collection of criteria identified individually by various scholars (such as accountability, interest representation, etc.);
- But can alternatively be placed within a hierarchical framework of Principles Criteria and Indicators (P,C&I) for assessment purposes

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

Principle	Criterion	Indicator
“Environmentally and socially sustainable investment”	Organisational responsibility	Accountability
		Transparency
	Interest representation	Inclusiveness
		Equality
		Capacity/Resources
	Decision-making	Democracy
		Agreement
		Dispute settlement
	Implementation	Problem solving
		Behavioural change
		Durability

Source: Cadman 2009 (adapted)

Table 2: RI survey list of participants

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

Findings:

- Performance overall 35.7 – 68% compliance with the principle of environmental and socially sustainable investment
- Highest rating indicators:
 1. Durability – 3.61
 2. Behaviour change – 3.48
 3. Dispute settlement 3.39 (NB: ‘don’t know’ 46%)
 - NB: Problem solving – 3.25
- Lowest rating indicators:
 1. Equality – 2.66
 2. Resources – 3.05
 3. Accountability – 3.08

Findings: By sub-sector

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

Implications

- Do we need consistent standards for evaluating RI governance quality?
 - RI is measured, reported, indexed and rated via a range of systems (inconsistency)
 - is there a legitimacy deficit without this?
- Relevance to RI sub-sectors (multi-scalar):
 - RI programmes, Fund managers, Reporting programmes, Indices, etc.?
- Sustainable finance
 - Governance failure = market failure?

Commercial application

- Governance audits:
 - Simple (self assessment) or complex (external auditors)
 - Provide KPIs for governance and thus
 - Continuous improvement
 - Businesses (small, medium, large), processes (governmental, non-governmental, corporate, hybrid) scalable within institution (branches, localities)
 - Risk management
 - Poor governance = investment risk (avoid participation/legitimacy endowment)

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Thank You