

The impact of Responsible Investment indices on responsible corporate behaviour

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Introduction

- ▶ Presenting preliminary findings of an exploratory study based on interviews with Corporate Responsibility (CR) managers regarding their views of the FTSE4Good Index (and other RI indices)
- ▶ Outline of the presentation:
 - Context of the research
 - Methodology
 - Preliminary findings
 - Further research

Context of the research

- ▶ CASE funded PhD research looking at the creation, maintenance and impact of the FTSE4Good index, a Responsible Investment index
- ▶ I am interested in two questions:
 - 1: how FTSE has managed to establish and maintain an RI index?
 - 2: how and to what extent does being listed on the FTSE4Good Index impact on responsible corporate behaviour?

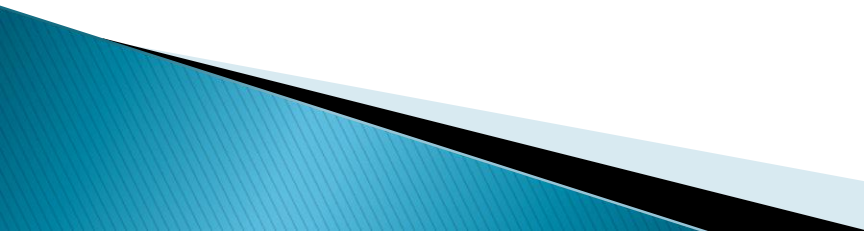
FTSE4Good Selection Process

Starting Index	Eligible Universe	Positive Screening	Index Calculation Methodology
FTSE All World Developed	Industry	3 Selection Criteria Categories: 1. Environmental Sustainability  2. Social Responsibility  3. Supporting Human Rights 	Market capitalisation weightings adjusted to reflect free float and capping requirements – Global – UK – US – Europe – Japan
FTSE AllShare	Exclusions: e.g. weapons tobacco		
FTSE US			
FTSE Developed Europe			
FTSE Japan			
~2500	~ 150 lost	~ 1400 lost	~900



Source: FTSE presentation
2008

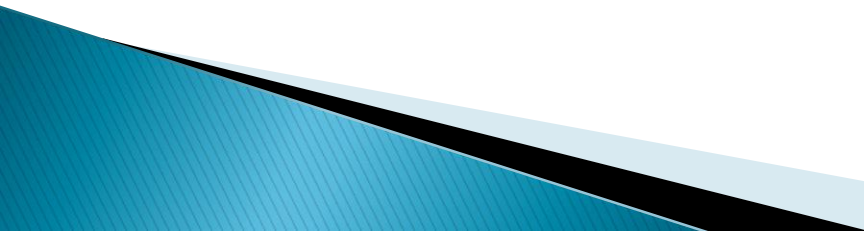
Methods

- ▶ Objective of the study: to investigate how being included in the FTSE4Good index series affected the day-to-day practices of managers responsible for CR matters and to explore how they use the fact of inclusion in internal and external CR promotion and development
 - ▶ 20 semi-structured interviews; 2 conducted in person and the remainder by phone
 - ▶ Sample: companies in recent contact with RI team on their index status
 - ▶ FTSE archival data used to triangulate findings
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Preliminary Findings

- ▶ Motivations for inclusion in RI indices:
 - Growth responsible investment / ESG market: increasing demands for information from RI analysts/research agencies
 - Meeting demands from stakeholders such as government agencies, prospective employees, customers
 - Showcasing good CR practices: inclusion means 'passing the mark' and can be used as a 'badge for good CR'
 - Fear of bad press in case of exclusion

Engagement

- ▶ Engagement with RI team FTSE/researchers is mainly reactive, when in danger of deletion from the index
 - ▶ Engagement process can consist of providing information that is not available in the public domain
 - ▶ In other cases engagement is a more extensive process, involving the (re) drafting of policies, systems or reporting
 - ▶ In these cases it can have implications for data collection within the company
 - ▶ Some companies have developed pro-active dialogues with the FTSE RI team
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Celebration

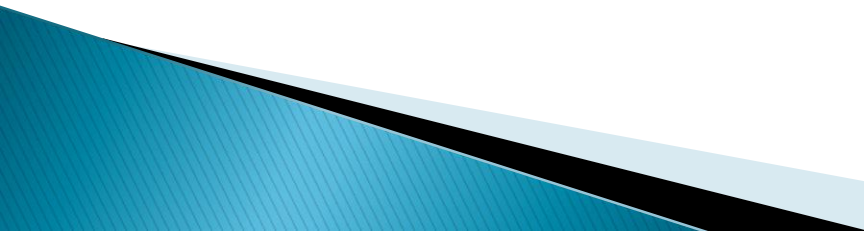
- ▶ Inclusion in RI indices is used to showcase CR practices by placing logo's in sustainability reporting, presentations etc
- ▶ Inclusion is also celebrated internally through good news stories, intranet sites etc
- ▶ Forms part of reporting on CR progress to senior management and can thus provide leverage to get CR initiatives approved
- ▶ Inclusion can be used to educate colleagues



FTSE4Good



Effect on CR practices: reactivity

- ▶ Rankings elicit responses from the individuals or organisations being measured (Espeland & Sauder, 2007).
 - ▶ Most obvious effect is increase in company disclosure on CR practices in accordance with what is being measured
 - ▶ Reactivity involves the (re) drafting of policies, systems or reporting in line with index criteria
 - ▶ That leads to redefinition of work involved with CR: increased data collection on CR; increased auditing and reporting
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Effect on CR practices: internalisation

- ▶ The reflexive component of indices can lead to a change in perceptions of CR and to internalisation of the requirements, as organisations become self-disciplining in their response (Sauder & Espeland, 2009).
- ▶ Development of training session for employees based on index criteria; personal performance objectives linked to continued inclusion
- ▶ Benchmarking of CR performance by comparing to competitors and benchmarking of annual scores and evaluations
- ▶ Can lead to the development of administrative routines to accommodate RI/ESG analysts

Implications and further research

- ▶ Maintenance of RI indices necessitates significant engagement with listed companies
- ▶ This engagement is particularly effective due to:
 - The fear of reputational damage in case of deletion from the indices
 - The reflexive/reactive elements that come with regular, public evaluation of CR practices by a third party
 - The self-disciplining elements of this evaluation and the changes in perceptions of what constitutes good CR practices

Thank you.

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