ABSTRACT. An important goal of ethical investment is to influence companies to improve their ethical and environmental performance. The principal means that many ethical funds employ is passive market signalling, which may not, on its own, have a significant effect. A much more promising approach may be active engagement. This paper reports on a questionnaire study of a sample of 1146 ethical investors in order to assess whether U.K. ethical investors would support more activist ethical investment and whether they would be prepared to invest in companies which are failing ethically in order to do so. The results show general support for the current practice of passive signalling accompanied by “soft” engagement in the form of lobbying and the development of dialogue in order to improve corporate practice. The “harder” options of investing in companies that err in order to change them is, however, favoured by consistent minorities.

Introduction

This paper is about socially responsible investment, or ethical investment as it is more commonly known in the U.K. In particular it reports a questionnaire survey which examines whether ethical investors would support more active and engaged forms of ethical investment practice. One important goal of ethical investment is to promote better corporate ethical and environmental practice. There are broadly two means proposed by ethical investment organisations in the U.K. for achieving this goal: passive market signalling and active engagement (or what Dominic and Kinder (1986) have termed, “positive action”). So far in the U.K. the emphasis has been placed on passive market signalling and active engagement (or what Dominic and Kinder (1986) have termed, “positive action”). However the

Support for Investor Activism among U.K. Ethical Investors

Alan Lewis
Craig Mackenzie


Craig Mackenzie is responsible for the development of ethical investment at Friends Provident, the largest ethical investment provider in the U.K. He is a visiting fellow at the Centre for Economic Psychology at the University of Bath, author of The Shareholder Action Handbook (1993), and was recently awarded a Ph.D. for a thesis on ethical investment. When the research described in this paper was carried out, he was research officer on the Morals and Money project at the University of Bath.

difference is more subtle with ethical investment. The market signalling approach is not so much about exit as avoidance in the first place. Furthermore, unlike the “exit” approach, ethical investment is also believed to work positively: by investing in good companies one can send signals through the market place to encourage good corporate practice.

One advocate of passive market signalling is Peter Webster, director of the Ethical Investment Research Service (EIRIS). He says that:

If large numbers of investors decide not to buy a share “at any price” [because it is considered unethical] this alters the balance of buyers and sellers. Company groups may well be influenced by the resulting changes in the value put on their shares. (EIRIS, 1991, p. 7)

The basic idea here is that if ethical investors boycott particular shares, they will, because of the law of supply and demand, drive down the price of those shares. It is not clear how widely this conception is shared within the ethical investment community. Peter Webster, as the executive director EIRIS since its inception is a very significant figure within the U.K. ethical investment community. He has offered versions of this argument on a number of occasions (EIRIS, 1992, p. 7; EIRIS, 1993, p. 7). But there are certainly other ethical investment professionals and academic commentators who do not share this view (Mackenzie, 1997; Lewis, Mackenzie, Webley and Winnett, 1998).

In the U.S., active engagement, or shareholder activism, has become a routine part of investment activity within certain sectors of the investment market. Since the early 1980s a wide coalition of 275 Protestant, Catholic, and Jewish institutional investors have been engaged in shareholder activism through the Interfaith Center on Corporate Responsibility (ICCR), directed by Tim Smith. Over 25 years church investors have placed many hundred resolutions at AGMs. In the 1980s they were also joined by many of the largest pension funds such as TIAA-CREF and the pension funds of New York City and State and the state pension funds of California, Wisconsin and Minnesota (Smith, T., 1992, p. 109).

Some of these pension funds have tens of billions of dollars of assets. Institutional activism in the U.S. is now supported by the Council of Institutional Investors, which in 1993 represented 80 institutional investors with $600 bn in assets (Smith, M., 1996, p. 231). One particularly important example is CalPERS (California Public Employees’ Retirement System). Between 1988 and 1993, 36 firms were requested by CalPERS to make changes in their governance structure. CalPERS repeated these requests several times during this period, and by 1993, 72% of the firms had adopted the changes proposed by CalPERS, or made changes that satisfied CalPERS (Smith, M., 1996, p. 228). CalPERS is the largest public pension fund in the U.S., and the second largest pension fund, with approaching $100 bn in assets in 1995. It is widely seen as a leader amongst institutional activists (Smith, M., 1996, p. 230). Much of CalPERS work has been on core governance issues, however, shareholder activism as a whole moves far beyond governance issues to a range of social and environmental issues. Indeed, over the last 15 years some 300 social and environmental resolutions have brought before company AGMs each year by institutional activists. In 1994, ICCR alone sponsored 202 social resolutions, on 138 companies. According to Tim Smith (1992), in the early 1970s social shareholder resolutions were considered successful if they achieved 3% of the vote, in the 1990s many social resolutions achieve between 10% and 25% votes, while governance votes have approached 50% approval. However, many social resolutions have been effective without actually being voted on at the AGM. In the 1980s between a quarter and one third of shareholder resolutions were withdrawn as a result of negotiated agreements with companies (Smith, T., 1992, p. 109).

In the U.K. active engagement is not widely pursued, at least by ethical funds. There are a few examples of shareholder activism on social or environmental issues by investors – on the extraction of peat by Fisons plc; on consumer issues with Yorkshire Water; on various issues concerning RTZ; on the third world debt and the banking sector; on director’s pay and British Gas; and most recently on external social and envi-