About this booklet

This booklet has been prepared by the Oxford University Student Union Ethics Committee as a guide to anyone in an Oxford College who wishes to encourage his/her college authorities to consider investing the college's money in an ethical way. It explains some of the steps you should take to maximize your chances of a successful outcome, and offers different strategies to help you think laterally if you meet the occasional brick wall.

We wrote this guide when it became clear that pushing for socially responsible investment was something that lots of individual colleges were attempting (with varied levels of success) or considering (with more or less idea about how to begin). We have tried to collect the experiences of college members who have already campaigned for socially responsible investment (SRI) and to solidify the anecdotal advice which has proved useful to others in the past. It incorporates some of the legal considerations with which you will probably need to be familiar if you want to negotiate effectively. We have also included a model common room motions, a model common room questionnaire and a contacts bank to help you do your own research.

This guide will probably be most useful if you read it all the way through before you approach your college authorities. It is designed to be something of a step-by-step guide, but unless you are exceptionally lucky you will certainly meet the odd obstacle and need to think again. We hope that this book will tell you most of what you'll need to know: please get in touch with ethics@ousu.org and tell us your experiences so that we can keep the guide as up to date and comprehensive as possible.

Encouraging your college to move over to socially responsible investment might be difficult, but it is undoubtedly worthwhile. Good luck, and remember that Ethics Committee is there to help you if you need us.

Thanks

This booklet was written and produced by Katriona Higgins (St John's), Charles Smith (St Anne's) and Melanie Marshall (VP Women 2002-3). They would like to thank Matthew Sellwood (New), Christopher Hanretty (St Anne's), Helena Puig Larrauri (St Hilda's) and Anne-Marie Bryceson, Espen Collins and Andrew Copson (all Balliol) for their invaluable help in its production.

Introduction

Okay, let's get real: companies are never going to risk profits in the cause of ethics if they can get away with it. Individual employees would no doubt prefer their company to respect the law, the environment and human rights, but in a sense they are powerless to influence its activities. It's the shareholders that own it that the company answers to - without the shareholders' support, the company has no right to do anything.

This is why socially responsible investment is such an important tool. Companies are bound to maximising the value of their shares, and will pursue policies that achieve this. Ethical investment works by increasing/decreasing the value of a company's shares according to whether its activities are ethical/unethical, thereby encouraging the company to act in a socially responsible way.

For example, disinvestment (getting rid of shares by selling them) in a certain company will drive down the value of its shares by increasing their supply in the stock market. This will be a force for change as shareholders and company management strive to push the value back up again.

On one level, the management executives in the company will be much keener to change company policy because lower share values mean a greater chance that they will lose their jobs. A Chief Executive Officer who cannot deliver shareholder value will not be kept in power - s/he is expected to resign. Also, the remaining shareholders will not stand by while the value of their investments is undermined - they will put pressure on the company to change its policies in order to increase share value by attracting back the interest of those shareholders who sold out because they didn't agree with the company's activities.

Your College will be in charge of a large amount of investment capital, and therefore has a large amount of power. There are no legal reasons the college cannot discriminate in its investment policy (see below) and no reason this should do any damage to your college's finances. You, and your common room, are stakeholders in your college and can help make it so its resources are used to make companies more ethically aware.

What is Socially Responsible Investment?

Socially Responsible Investment (SRI) is a form of investment that combines investors' financial objectives with their commitment to social concerns such as social justice, economic development, peace or a healthy environment [UKSIF, 2001].

'Ethical investment' is similar to SRI: the two terms are often used interchangeably, although ethical investment is often used to indicate a more stringent commitment to social concerns. When lobbying colleges, we recommend you use the term 'SRI'.

We hope that the contents of this booklet will indicate that Socially Responsible Investment provides an ideal means for an institution to combine its moral or social principles with its financial interest and its reputation as a responsible and respected part of the wider community.

There are three broad strategies for SRI: screening, preference and engagement (as well as a combination of all three).

Screening

Screening involves selecting a list of "acceptable" companies shaped by a combination of positive and/or negative factors based on ethical, social and/or environmental criteria.
Certain companies may be 'screened out' based on specific product or services produced that are deemed unacceptable. If institutions already hold investments in such companies then this approach may require disinvestment (see financial/legal issues discussed below). If not, then a policy may be set in place that would ensure such investments are not made in the future. Companies may also be positively selected by this approach on the basis of their commitment to ethical, social and/or environmental concerns.

Preference

This approach involves rating companies according to a particular SRI policy. Fund managers apply the guidelines where possible and bias investments towards those companies that achieve the highest ratings. This approach is sometimes referred to as 'best of a sector'.

Engagement

This approach provides investors with an opportunity to influence corporate behaviour, through their rights as shareholders. This can be done with a greater or lesser amount of effort, but a strong-handed approach to active shareholding (through regular meetings and direct dialogue with companies as well as raising issues and tabling motions at AGMs) in line with a specific ethical/social/environmental policy can be extremely powerful, particularly if the institution or individuals concerned hold a considerable standing in society.

Oxford colleges have access to the highest levels of management, both through their reputations as respected and famous institutions, and through the current positions that former members might now occupy. They are therefore in a position to raise environmental and ethical concerns through correspondence and through meetings with company managers. For example, colleges could encourage each company to produce comprehensive social and environmental audits, introduce environmental management systems, and set clear targets which could then be reviewed.

Hybrid approach

Screening out a select number of companies, alongside a policy of active shareholder engagement with other companies is an approach that is often used, largely because huge changes in investment portfolios are unlikely to be sanctioned by trustees initially, who might favour a more gradual process towards SRI. Many institutions concerned about the activities of particular sectors choose to adopt a moderate exclusion policy towards those sectors that are considered 'irredeemable' by experts – if the central purpose of a company is to manufacture weapons, for example, this is unlikely to change through an engagement strategy. A moderate exclusion policy can then be coupled with a more robust policy of engagement – an approach proposed by Edinburgh University Student Association in their campaign for SRI (see resources page at the back).

Starting Points

Firstly you need to find out the status quo in your college – both what the investment policy is and how it is administered. There is likely to be an investment committee that oversees investment policy – you need to ask who's on it (is your common room represented?), how it makes its decisions and who it is accountable to. Hopefully the committee should also be willing to tell you what their policy on investment is. If they aren't, all registered charities with incomes over £10,000 (which means all colleges) have to register their accounts with the charities commission and these are available to the public. You also need to know what the college's stated objectives are as a registered charity – this becomes relevant later as it can effect what they are allowed to invest in. You can find this out from the charity commission's website - http://www.charity-commission.gov.uk/.

Next Steps

You need to work out what the investment information you have been given really means. There are two common methods of share holding – either through an actively managed package controlled by a fund manager or investment which follows a financial index (for instance the FTSE 100). Ethical packages of the first type are available, although unless the college has specified this to the fund manager it is unlikely that they will be pursuing them. Funds which follow most indexes don't have any kind of ethical dimension – they just follow the index. However, forms of ethical Index exist such as FTSE 4 Good Index, which both includes companies which support human rights, encourage environmental sustainability and have good stakeholder relations, and screens out some sectors such as weapons manufacturers and tobacco companies.

If you are concerned about your college's investment policy you need to gain the support of your common room. Since there is no concrete definition of an ethical company, consultation is required to find out what your common room defines as ethical. A questionnaire asking what issues they regard as important (see Appendix 1) will give you an idea of how far the college's investment policy and the common room's views differ. Once this process of consultation (either conducted individually or within a team) has given you an idea of your common room's views you will be able to put forward a common room motion. This should state the common room's desire to pursue an ethical investment and mandate either individuals or a group of individuals to negotiate with the SCR on this issue (see Appendix 2). You may also want to consider attempting to gain the support of your other common rooms.

Game Plan

This section has some suggestions for how you can pursue your SRI campaign within college. Please let us know if something works for you which isn't included and we'll put it in the next edition.

Socially Responsible Investment Group

One of the things you might like to consider is setting up a JCR/MCR subcommittee or informal group for those interested in pursuing SRI in college. This will mean that if you're the JCR/MCR president you have some admin support and input of ideas from those constituents who share your interest in SRI without necessarily bringing it up in detail at every JCR/MCR Committee meeting (unless they want to). It also means that JCR/MCR members who have an interest in the matter but do not have the time obligations of being on the JCR/MCR committee can give of their energies! Projects such as researching investments etc are also easier done when the workload is spread. And if you get dispirited it's good to have a committed group who share your aims to buck you up.

Mentioning the idea of an SRI group in your regular JCR/MCR meetings should drum up a bit of interest and the JCR/MCR President (if that's not you) will have access to a common room mailing list that will enable you to advertise the idea to other people in college. One good way of getting the common room involved and getting a clear idea of the ethical priorities of your common room members is to organise a common room questionnaire. A model questionniare is included in Appendix1 at the back of this guide. It will give you a much clearer idea of the kinds of things you should campaign and press for than you could get from a common room motion alone.

Specific people whom you may wish to attract include charities reps and environment reps. They may have particularly useful input from their experience of these issues and how they are dealt with in Oxford, which authority figures are likely to be sympathetic etc. The CR Treasurer may wish to be involved. Crucially, you should approach the President of your common room. If you have already passed a CR motion demanding some investigation and action on SRI in college then it is likely that it is s/he who will have been mandated to follow it through. In any case, s/he is the individual in college with most access to information on the college's inner workings and to the committees and officials in college who have direct influence over matters such as college finances.

Research

You will want to be as well informed as possible if you are going to take on your GB on such a big issue. The group will be able to share tasks such as researching individual companies, fields (eg banks, oil companies etc), and perhaps look into the ethical criteria used by other bodies to help you refine yours. For example, if Amnesty, Greenpeace etc have different views of which companies are socially responsible and irresponsible, do you share their priorities? Could you find out about aspects of ethical and unethical practice that hadn't occurred to you before? You will probably want to look at the results of your questionnaire at this point to identify those companies, industries and practices of which your common room in particular disapproves. Additionally, you may want to look into the banks and finance companies which offer ethical packages: what does each one offer? Would they meet the criteria you've agreed? Do they offer an ethically expert fund-manager service which the college could move over to? Knowledge is power – you will have to know at least as much about how investment operates as your opponents if you want to come across as knowledgeable and convincing. The resources bank at the end of this booklet (Appendix 5) will give you some starting points.

Approaches to college

Armed with the confidence of a supportive group and all the details you can find, how will you approach the college authorities to let them know of your project? One good starting point would be to send them a copy of any JCR/MCR motions that have been passed. Then they can see exactly what you've been mandated to do. Attach a letter explaining that you look forwarding to dealing with them to pursue this aim. Copy the letter and motion to the Bursar, the Head of House (who will probably Chair GB) and whoever else would be useful or interested.

As a follow up to this, it would be good to get the agreement of college to submit a paper to Governing Body or similar. The college may have a finance committee which deals with such matters in more detail – even so, your views will have the best impact and widest dissemination of you can get the GB to discuss it too. Don't be fobbed off by suggestions that you should take it up with the bursar (though you'll want to do that as well): it's a political issue which the GB should address. Your college may or may not grant speaking rights to junior members at such meetings. Naturally it will be easier to obtain agreement to such a submission if they do, but the CR President will know of the best approach if not. Feel confident in making the point that the students of the college are stakeholders in its practices; that you have a right to make your views known; that all you are asking (at this stage) is for college to look at what you have to say. They are unlikely to refuse point blank.

What will you say? Balliol's report (attached, Appendix 3) is a good start. It is quite short, which is important if you want it to be digestible or even read at all (fellows are busy people). It also makes it manageable to discuss in a normal meeting. Probably no more than 4 pages at this stage are ideal. Balliol's example is also well presented in headings and well footnoted, which makes it seem methodical and authoritative. It sticks to the point, and outlines the objectives it hopes GB will adopt. No matter how strong your feelings or how much detail you know and could go into, this is no forum for environmental or ethical rants. Remember your audience: some may be naturally sympathetic to your aims, but many others will be sceptical and/or concerned solely with maximizing profit for the college. You will need to appeal to the interests of this latter group, so play up the practical benefits of SRI at this stage.

The ethical benefits will generally be understood and taken as read. However, you should still make your principles clear. Be specific: exactly what principles would you ideally want college to adhere to? (It's probably best to keep to a handful; you don't want to bore them or seem unreasonably demanding). What practical obligations would you be asking them to undertake in doing this? What is it you are hoping to achieve? The clearer and more focussed you are at this stage, the harder it will be for college to dismiss your arguments. Be concise, be professional, speak their language. Ask OUSU Ethics Committee to have a look at a draft if you think it would help.

Negotiations

Now the fun starts. Perhaps college will agree outright to your demands. Possibly they will dismiss you utterly. More likely you will get some tentative or qualified interest which you can then build on. Read on to find out how. Remember to keep your group up to date with how you are getting on, and to keep sharing the tasks out. The CR will doubtless want you to report back from time to time on how you are getting on with SRI in college – keeping interest in the CR alive will help keep pressure on to make some progress on the issue. Show that you take it seriously and you have a better chance of getting GB to do the same.

What your college might say and things you need to know to respond

Senior members of your college are likely to have some concerns about adopting a Socially Responsible Investment strategy and without the proper resources, it may seem like you're getting into a minefield of legal and financial bureaucracy without a hope of convincing your governing body to take your suggestions seriously. Below we've tried to deal with some of the obvious points of concern likely to be raised and hope they are of help.

Financial issues

Most colleges should be registered charities under the Charities Act 1993 and subject to the regulations outlined by the Charities Commission. As a charity, a college will have a firm obligation to its beneficiaries and to fulfil any special charitable aims or objectives. In order to do this, trustees are appointed to manage assets in such a way so as to get the best financial return from investments. It is argued that pursuing a set of political or moral criteria with respect to investments that are not directly relevant to the charity's activities falls outside the regulations that must be adhered to. The main cause for concern is that the adoption of an ethical investment policy, particularly one that involves screening, would lead to a significant financial loss in terms of poor investment performance – something the trustees are legally obliged to avoid.

There is growing evidence, however, that the inclusion of social and environmental criteria in investment decisions at worst does not reduce financial performance. In the short term, the evidence may appear to be to the contrary due to the exclusion of 'defensive' stocks such as tobacco firms in many ethical funds, but these time scales are misleading, given that investment should be seen as a medium to long term activity. Over the long term, an ethical investment fund is arguably a better option, as it often includes investing in 'industries of the future'. The Pensions and Investment Research Consultants, in a 1998 survey carried out into the practise of FTSE 350 companies, noted that there is increasing evidence that high performance in the areas of environmental and social responsibility "underpins business reputation and commercial success in the long run".

Research by the Ethical Investment Research Service (EIRIS) indicates that investing according to ethical criteria may make little difference to overall financial performance. EIRIS created five ethical indices that produced financial returns roughly equivalent to the returns from the FTSE All-Share

Index. Notably, the Charities' Avoidance Index, which excludes the vast majority of companies involved in military sales, pornography, tobacco and gambling was 0.38 per cent greater than the FTSE All-Share over the 8-year period measured.

There are an increasing number of ‘ethical indexes’ that can be used along with screening or preference approaches to track companies meeting certain ethical as well as financial criteria. The FTSE4Good indices, for example, were launched in July 2001 by FTSE, the global equity index specialist. FTSE4Good is made up of four tradable indices associated with a set of global criteria for corporate social responsibility such as; working towards environmental sustainability, developing positive relationships with stakeholders, upholding and supporting universal human rights. However, certain businesses are also specifically excluded, notably tobacco companies and companies manufacturing weapons systems. According to FTSE4Good ethical funds do perform well over the long-term and have been shown to be less volatile than funds in the mainstream market.

The average UK ethical unit trust beat the average of all UK unit trusts by 13% (71% growth compared to 55% growth) between 1991 and 1996 [Cooperative Insurance]. There are more than 50 retail ethical funds in the UK whose combined value grew from £199.3 million in 1989 to £3.7 billion in 2000. The growth of more investment in socially responsible areas highlights the success of SRI as a viable alternative to conventional investment.

2. Legal issues

As indicated above, the trustees of a charity have a responsibility to secure a good financial return from their investments in order to further the objectives of the charity. However, this does not *mean that they are obliged to invest in a particular company or sector simply because it is performing well at any given time. Provided the trustees* diversify *their investments and* maintain a wide range of sectors *in their portfolio, socially responsible investment that results in divesting from certain sectors or companies should not conflict with this.*

Legal objections are usually focused on this issue of financial returns (see previous section for plenty of reasons why this shouldn’t worry anyone!) but members of the college may also be concerned about the legal implications of allowing moral or political judgements to affect investment decisions. Admittedly the case law is limited, but there are a number of reasons why trustees would be perfectly within the law to use such criteria and adopt a SRI approach.

If the activities of a company are shown to directly impede the objectives, purposes or activities of the college as a charity then, according to the Charities Commissioners, trustees are advised not make such an investment. This leaves us with the issue of using ethical criteria to make decisions about investments that are not directly related to the objectives of the charity (or if the college has no specified charitable objectives). Again, the Charities Commissioners state that investments can *be excluded on ethical grounds, provided that this does not result in a significant overall loss, and provided that it is in the interests of the charity.*

This can be shown in a number of ways. For example, potential donors may be put off from contributing to a college endowment fund if it was known that the money would be invested in particular companies with a poor social or environmental record. The negative publicity generated by certain kinds of investment could also be against the interests of an institution that values its reputation as a responsible and respected contributor to society. Beneficiaries may also feel alienated and uncomfortable if the college holds investments in certain sectors. Both cases require that the trustees at least consider these sorts of difficulties that they may experience by continuing to hold such investments against the possible losses that divestment might incur.

Many organizations have adopted ethical investment criteria in accordance with these principles without legal difficulty. These include the Church of England, the University Superannuation Scheme, the University of East Anglia and Cambridge University Student Union. Currently, the University of Edinburgh is considering adopting an SRI policy in response to student campaigning, notably with the full support of many University officials as well as Members of the Scottish Parliament. It therefore seems unlikely that legal action would be taken against a college in response to a reasoned program of SRI in accordance with the constraints outlined above.

On this point, it is also worth noting that government's Goode Committee on Pension Law Reform (a sector with similar guidelines to those of charitable trusts) recognized that within the legal constraints requiring the interests of the beneficiaries to be held paramount and the funds to be managed "consistent with proper diversification and prudence…trustees…are perfectly entitled to have a policy on ethical investment and pursue that policy."

A further indication of the government's favourable attitude to ethical investment is shown in the paper, A New Contract for Welfare: Partnership in Pensions (1998):
"The government believes that subject to the overriding requirements of trust law in respect of the interest of the beneficiaries, trustees should feel able to consider moral, social and environmental issues in relation to their investments."

And one more quotation…! The interpretation of the Trustees Act 2000 by the Charities Commission reads that the suitability of investments should "include any relevant ethical considerations as to the kind of investments that are appropriate for the trust to make".

Useful tips

NB. *We <u>strongly recommend</u> that you familiarize yourself with the content of Appendix 4 of this report ('Legal Considerations'), which lays out in detail all the arguments you need to know. Here we will simply give some useful tips in helping to prepare your case if members of college throw the legal card at you.*

- *Find out what – if any – the charitable objectives of your college are. Try and clarify what its aims and purposes are too and who (apart from students – we hope) are its beneficiaries.*
- *Conduct a survey amongst members of your JCRs, MCRs and if possible, SCRs to find out their attitudes towards certain companies or sectors of investments. This may help you build a case as to why it is in the interests of the college, in terms of alienation of both beneficiaries and potential donors or subscribers, to consider adopting an SRI policy.*
- *Finally, don't be intimidated! There is no reason for the college to object to setting up an ethical investments committee, complete with student representatives, to consider and discuss the issues. Indeed it can be argued that they are obliged to do so if the issue generates much concern, so make sure your voices are heard.*

What to do if you run up against a brick wall…

So: you've passed a motion, you've consulted your common rooms, you are a united student body in terms of your principles and objectives for a SRI strategy, thanks to the tireless work of your ethical investment group, you've presented all these ideas to your Governing Body but negotiations seem to be going nowhere?

First of all, don't be downhearted. The suggestion that the college should make radical changes in their investment decisions is one that may not go down well with certain members of the GB, regardless of the legitimacy and financial security that you assure them of. Oxford is notorious for its apparent resistance to change! Also, academics might understandably be protective of their time, and concerned for how you spend yours – formulating and implementing a comprehensive SRI policy may not be something they consider to be time properly spent. But you can try and convince them that this is not the case.

For example, try and encourage them to realize the significant weight they carry as prestigious intellectual institutions. Oxford colleges are often at the forefront of political and social developments and they have significant funds to invest. The impact that your college may have on the increasing push for socially and environmentally responsible business activities through disinvestment or active shareholding cannot be underestimated.

Setting up a permanent SRI Committee to discuss a joint SCR/MCR/JCR policy on ethical, social and environmental issues may take time. However, once ethical guidelines have been established the regular workload of the committee should be fairly light.

Some points you might want to make if negotiations are getting tough might be:

- The college's status will benefit from being seen to provide the academic and intellectual lead in the growing move towards ethical responsibility This contrasts with the negative publicity unethical investments would attract.

- The seriousness of the issue deserves consideration. Just as a lot of college time is put into ensuring the college's financial welfare, time should be put into ensuring the college's ethical welfare.

- The strength of student feeling on the subject will hopefully be enough to be a visible and significant force in your favour. Collecting petition signatures may be something you wish to consider. The college should not want to alienate the majority of its students by refusing engage in discussion over proposals that are not unreasonable or impossible to achieve.

- Finally, if you hassle them enough, it will become easier for them to accept than refuse!

Also remember that the steps outlined in this document are designed to facilitate a process of negotiation. Your college is infinitely more likely to be willing to engage with you on the issue of SRI if you make clear that you are anxious to receive their input. Formulating an SRI policy requires the input of all stakeholders, so make it clear to the GB that you do not wish to simply bully them into accepting your demands.

Finally, you may have to make compromises to get a little of what you want. If screening and divestment is an idea the GB is simple not willing to entertain, then you might be wise to re-assess your position after a good go at things and suggest a policy of total active engagement, for example. This does not have to be a defeat – particularly if you are firm in your suggestions for the form this might take in order to be truly effective. If even this fails, seriously considering the ‘Preference’ approach to SRI (see above section, What is SRI?) as a first step is worth the effort. So keep up a positive attitude, don’t give up easily, and be proud of your successes even if they seem

Appendix I

SOCIALLY RESPONSIBLE COLLEGE

Oxford colleges do not have a 'socially responsible' policy for investment. A survey showing that many of you think that college should have an ethical policy may lead college to start rethinking the issue!.
In order to be able to present college with the issues we are most concerned about we would like you to take the time to complete this survey.
How concerned are you about the following company activities?

		Very Concerned	Concerned	Not concerned
Environment				
Pollution of the natural environment				
Unsustainable use of natural resources				
Overseas operations				
Co-operating with oppressive regimes				
Poor labour standards				
Aggressive / exploitative marketing techniques				
Workplace				
Poor record on employee health and safety				
Poor record on providing equal opportunities for employees				
Product				
Production of armaments or weapons systems:	**in general**			
	for certain countries			

Production or distribution of:	**tobacco**			
	alcohol			
		Very Concer ned	**Concer ned**	**Not concer ned**
Involvement in genetic engineering e.g. development and marketing of genetically modified crops				
Involvement in the nuclear industry				
Animal Welfare				
Animal testing for non-medical products				
Animal testing for medical research				
Use of intensive farming methods				
Other:				

College Policy	**YES**	**DON'T KNOW**	**NO**
Would you (still) like our College to take social, ethical, and environmental issues into account as a part of its investment policy?			

Are you a member of the JCR / MCR / SCR ? (please circle)

Appendix 2

Model CR Motion

You will have to produce a digest of both the information on the current system and on the views of your common room (from the questionnaire or another source) and be ready to distribute them at the meeting. You may want to make them part of the motion itself (in place of points 1 and 2).

This Common Room Notes

1. The contents of attached document entitled "The current state of the college's investments."
2. The attached results of the questionnaire on common room opinion of College Investment policy.
3. That there are areas of divergence between the two. (*you may wish to elaborate)*

This Common Room Believes

1. Socially Responsible investment is an important tool for improving company's behaviour
2. That the use of college's investment capital should take into account ethical criteria
3. That it is possible to conduct a socially responsible investment policy without transgressing charitable law or causing detriment to our financial recourses.

This Common Room Resolves

1. That the college should pursue a socially responsible investment policy which reflects the common room opinions noted.
2. To mandate the common room committee to form an ethical investment group to construct a proposal to and conduct negotiations with the colleges governing body to bring this about.

Appendix 3

ETHICAL INVESTMENT AND BALLIOL COLLEGE
Appendix 1 (due for renewal AGM 2004)

Ethical Investment means having a regard to one's principles when acting as an investor. In this paper I indicate a way forward in applying this concept. I present some principles for the college to affirm, and then to consider how it can play a part in their furtherance. Ethical Investment is morally sound. Yet responsibility need not be inimical to the interests of the members.

Ethical Investment

Ethical Investment aims to support sustainable business practise. This relates to a number of issues, including how firms manage their environmental resources; have regard to important stakeholders like employees, customers and shareholders; and interact with wider society.

It is increasingly becoming clear that corporate sustainability goes hand in hand with shareholders' longer run interests. The UK think tank SustainAbility cites a University of Pittsburgh Business School Review, of studies done from 1971 to 1997. "Of those undertaken in the 90s, when the data and methodologies were most advanced, the review found that 10 out of 12 studies reported a positive relationship between CSR (Corporate Social Responsibility) and financial performance, one study found a negative relationship and one found no effect".[1]

Sustainable Business is important for shareholders, because companies' activities can create frictions with their stakeholders, namely customers, employees, and the wider public.[2] *Un*sustainable business practise can build up a risk of tensions with global stakeholders that will manifest further into the future. When those tensions do manifest, the speed at which information is disseminated, means that affected parties (say employees and customers) can readily communicate with each other. Such tensions are often very damaging.[3] In the words of one paper: "As a result, for global companies, hardly any decision is purely local any more."[4]

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[1] Source: online resource www.sustainability.co.uk
[2] For example, see *Putting the P Back in PLC* Will Hutton, The Industrial Society 2001
[3] A prime example here is the catastrophic effect on the American tobacco industry when states sued, after it became public that the companies had misled consumers.
[4] *Sustainability and the Accountable Corporation: Society's Rising Expectation of Business* Allen L White, Vice president Tellus Institute, Boston; also Vice Chair of steering committee of Global Reporting Initiative.

When companies anticipate the reaction of stakeholders, this often reveals new business opportunities. For example, companies that *can* point to a long record of responsible behaviour, can make an extra effort to do this, when their industries become affected by controversy. Businesses that foster good relations with their companies through environmental responsibility are less vulnerable, when the regulatory situation becomes more bracing.

Given this backdrop, the role of Ethical Investment is as follows. Ethical Investment can spur companies to make changes that will not significantly effect current performance, but which they choose not to make. Ethical Investment also helps to facilitate business changes that could be difficult within the current framework of some common forms of investor behaviour. Where the risks of companies' policies stretch beyond a certain point into the future, it is particularly the *ethical* investors that will have the foresight to permit changes for the better.[5]

Balliol College can contribute to both of the above things. It can promote change that is compatible with longer run success. But by leading by example, it can also support the trend towards Ethical Investment more generally. This would help permit companies to make a more radical switch towards Sustainable Business that would be in the interests of the whole of society. Thus by moving towards Ethical Investment Balliol would truly be acting in the interests of its members who are, after all, part of that wider society.

Three Principles

The college has a wide range of options, comprising both the use of its rights as a shareholder[6] and adjusting its portfolio, which it could use if it so chose. The College plainly cannot do all it can legally to discharge its duties, until it has clarified what its duties are.

[5] The degree of corporate changes that are permissible depend on the strategies of investors. Some investors look to the flow of future company profits; others undoubtedly speculate on current share price performance. Where the latter is form is prevalent, modest business change may still be possible. Ethical Investment is one of the more long-termist approaches to investment. This facilitates bigger changes that fosters long run success. Those investors who *already* take a long-termist view then, should *not* find there is a big change in their financial performance if they incorporate ethical and environmental concerns.
One can go further than all of the above, and demand that companies contribute in ways that confer so-called externality benefits – make the whole of the economy and society stronger. But this will only be in the shareholder's own interests if the private sector make such a contribution in unison. As Ethical Investment moves towards universal adoption this will become feasible.

[6] In this respect, Balliol is legally entitled to enter dialogue with management, liase with other investors, and exercise its rights at AGMs in the form of voting and bringing motions.

Below I outline three starting principles that provide a good basis for discussion. The affirmation of these principles could be accompanied by the setting up of an Ethical Investment Committee. This committee could be charged with examining whether Balliol's shareholdings have any relevance to those principles; and to develop plans of action to be recommended to college.

"Companies should ensure that their activities and their supply chains do not facilitate coerced labour"

'Coerced' labour may or may not include prison labour.

"Arms companies should only supply those states that meet certain minimum standards of human rights practise"

There does of course need to be a readily agreed standard of definition. This could be the Universal Declaration of Human Rights.[7]

"Companies should make reports, in a manner useful and meaningful to their shareholders, on their environmental performance and procedures"

Since universally accepted norms for environmental reporting are currently under development, Balliol could aim to support this trend by ensuring that all companies have moved towards giving some substantial information, and encourage them to take part in initiatives to widen and standardise the reporting.[8]

It seems there is a great deal of scope for greater transparency, upon which all prudent investment decisions depend. In a study conducted by the World Resources Institute, a selection of thirteen US paper companies freely consented to take part in an assessment of the regulatory and legal risks of their activities (provided it was not made public which companies had which results). It was found that "few of the companies disclosed any details about the financial risks or potential impact arising from their

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[7] Article 3 – Everyone has the right to life, liberty and security of person; Article 4 – No one shall be held in slavery or servitude…; No one shall be subjected to torture or to cruel, inhuman or degrading treatment.

[8] In the US currently, environmental reports are considered as such only if they stand separate from the financial reports, and often detail pollution discharge volumes, the structure of the environmental division, awards won and management approaches.
A high profile standardisation initiative is the Global Reporting Initiative (GRI). High profile participants include BASF (Germany), Ford Motors, Panasonic Matsushita Electric, TotalFinaElf (France) and Rio Tinto (UK).

exposure to ‘known environmental uncertainties’”. There was no attempt anywhere to give quantitative indications.[9]

Conclusions

I make the following recommendations:

1.) That College affirm the principles above as the basis for the action.
2.) That an Ethical Investment Committee is set up with the ability to examine Balliol’s shareholdings in the light of these.
3.) That the Ethical Investment Committee should bring together Fellows, the Senior Bursar, and representation from the Investment Committee; and representatives of the JCR and MCR as appropriate; and be enabled to seek outside advice where necessary.

Espen Collins
JCR Charities and Environment Officer
3 May 2001

[9] Source: B Herbert, Newground Investments; Seattle and Investor Responsibility Research Center. He is currently running a shareholder campaign with institutional investors on this issue.

Appendix 4

The Legal Considerations

1. Charity Commissioners

Colleges' obligations as charitable trusts can be found in the booklet, "CC14 – Investment of Charitable Funds: Basic Principles", published by the Charity Commissioners. Section 40-42 cover the issues that must be considered when exploring the possibility of adopting a socially responsible investment plan:

Section 40: The interests of a charity are, in general, best served by the trustees seeking to obtain the best financial return from the charity's investments, consistently with commercial prudence. Any decision by the trustees to invest "ethically" by avoiding certain investments, or certain institutions, must be centred on the interests of the charity and not of the trustees. Trustees may exclude investments on this ground only if it leaves them with a wide range of investments to produce an acceptable investment performance.

- A charity is obliged to obtain the best financial return from its investments in order for it to successfully pursue its objectives. Investments *can* be excluded on ethical grounds, provided it is shown to be <u>in the charity's interests</u> and that divesting <u>does not result in an overall loss or decline in investment performance.</u> In order to ensure this, the charity should maintain a range of investments wide enough to secure good returns.

Section 41: If trustees are satisfied that a particular range of investments would directly impede the furtherance of the objects of a charity or be of financial detriment then they may exclude that range. <u>For example, investments may be excluded if they would result in a loss of financial support from subscribers.</u>

- An entire sector, as opposed to just one company, can be excluded from an investment portfolio if it can be shown that these investments directly affect the ability of the charity to pursue its objectives or would be of financial detriment. The underlined sentence (our emphasis) is particularly important. If trustees are aware that subscribers or donors to a charity may with draw their support or funds having been made aware that it holds investments in a particular sector, then investments in that sector may be excluded.

Section 42: Trustees of a charity should decline to invest in a particular company if it carries out activities which are directly contrary to a charity's purposes and, therefore, against it's interests and those of its beneficiaries…. However, trustees may not exclude, to the financial detriment of the charity, a particular range or class of investments in order to give effect to some moral or political belief held by the trustees but not directly related to the interests of the charity and its beneficiaries.

- Investments in companies that, through their activities, directly impede the fulfilment of the charity's objectives should be avoided. For example, a charity for the relief of cancer sufferers would be justified in avoiding investments in tobacco companies, even if this may result in a financial loss. However, excluding certain investments on moral or political grounds not directly related to the interests of the charity is not allowed if this will result in a financial loss.

2. Bishop of Oxford vs. the Church Commissioners *(1991).*

This case set a precedent for ethical investment when the Bishop of Oxford took the Church Commissioners to High Court regarding its investment policy in light of the objects of the church. The outcomes were:

- *Where* "trustees were satisfied that investing in a company engaged in a particular type of business would conflict with the very objects their charity is seeking to achieve, they should not so invest" *even if this* "would be likely to result in significant financial detriment".

- *When* "holdings of particular investments might hamper a charity's work either by making potential recipients of aid unwilling to be helped because of the source of the charity's money, or by alienating some of those who support the charity financially" *the trustees* "will need to balance the difficulties they would encounter, or likely financial loss they would sustain if they were the hold the investments, against the risk of financial detriment if those investments were excluded from their portfolio."

- *Trustees* "would be entitled, or even required, to take into account non-financial criteria" *where* "the trust deed so provides."

- *The law does not require trustees* "to behave in a fashion which would bring them or their charity into disrepute (although their consciences must not be too tender…)"

- *When* "those who support or benefit from a charity take widely different views on a particular type of investment, there is real difficulty"*, but trustees* "may, if they wish, accommodate the views of those who consider that on moral grounds a particular investment would be in conflict with the objects of the charity, so long as the trustees are satisfied that course would not involve risk of significant financial detriment."

The first point is significant in that it clearly states that a charity should not invest in companies carrying out activities in direct conflict with its objectives no matter what the financial implications of this are. It is useful, therefore, to have a clear idea of what these objects or aims are – some charities do not define them.

The second point is the most important. It clearly suggests that if certain investments might alienate financial supporters of the charity or make the beneficiaries reluctant to receive the help it gives, the trustees are obliged to consider excluding such investments and to weigh up the financial losses they would incur compared with keeping them in the face of such unease. One could interpret this as obliging the trustees to form some kind of ethical investments committee to look into the possibilities of socially responsible investment if asked to do so by concerned beneficiaries or donors. They are not legally obliged to disinvest from certain companies but they are legally obliged to consider *it.*

The third and fourth points state that investment decisions are allowed to be made on the basis of criteria other than financial performance if the trust deed allows – trustees are not chained to the principle of achieving 'the best financial return' and maintaining investments in companies simply because they perform well. An important point to consider might be that particularly controversial companies or sectors (such as arms manufacturers, pharmaceutical companies or tobacco companies) are often subject to much criticism or protest, which may be directed at investors. It could be argued that the negative publicity generated from such investments would not be in the interests of the charity. Again, simply because such companies perform well does not oblige trustees to hold investments in them and trustees should be aware of the delicate position they are in should a wave of criticism start to surface.

Finally, provided it does not result in a significant loss, trustees may disinvest in a company in response to moral objections raised by beneficiaries or financial donors, concerned that such investments are in conflict with the aims of the charity.

Summary

Excluding a particular investment or a whole sector of investments from a charity's investment portfolio is perfectly possible when:

- *those investments are held in companies whose activities directly impede the fulfilment of the charity's objectives.*

- *holding those investments can be shown to be against the interests of the charity in some other way, i.e. they result in a loss of financial support from donors, the alienation of its beneficiaries or are damaging to its reputation.*

- *divesting on political or moral grounds unrelated to the interests of the charity does not result in a financial loss, i.e. the charity must continue to receive a good return from its investments in order to fulfil its objectives.*

Appendix 5

Resources

Here are some websites which you may find useful when researching issues surrounding ethical investment. Also, typing "ethical investment" (include the speech marks) into Google will throw up loads of advisers and financial services companies specializing in SRI. Likewise "Socially Responsible…".

Ethical Investment Research Service practically does the work for you
http://www.eiris.org

Charities Commission information of the legal position on all aspects of not-for-profit organisations. This includes many colleges.
http://www.charity-commission.gov.uk/

Campaign Against Arms Trade ***inlcudes info on the investments of some bodies***
http://www.caat.org.uk/

Stop Esso
http://www.stopesso.org/

People and Planet
http://www.peopleandplanet.org/

Corporate Watch
http://www.corporatewatch.org/

Ethics for USS The Univeristy Staff campaign for ethical investment of their pension funds.
http://www.ethicsforuss.org.uk/

Ethical Money Online Provides online ethical financial advice
http://www.ethicalmoneyonline.com/

UK Social Investment Forum promotes SRI in Britain
http://www.uksif.org/

Edinburgh People and Planet the website of an inspirationally brilliant SRI campiagn in Edinburgh Univeristy.
http://www.edinburghpandp.org/