

Summary of student dissertation about engagement

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EXECUTIVE SUMMARY

This thesis provides an overview of the issues relating to the engagement approach to Socially Responsible Investment (SRI) with a focus on institutional investors in the UK. The objective of this research is to provide an understanding of current engagement practices, assess the future of engagement within SRI and provide a basis for the development of this approach to responsible investment.

Context

Engagement describes the process of using shareholder influence, through the legal rights attached to ownership of shares, to help bring about corporate social, environmental and ethical change. Recent developments in legislation and voluntary guidelines, such as the July 2000 amendment to the Pensions Act and ABI (Association of British Insurers) disclosure guidelines have had a substantial impact on the demand for SRI and in particular engagement. Engagement is a dynamic and evolving approach necessitating a greater understanding to ensure its success as it develops and increases in significance.

Research Methodology

An inductive, qualitative research approach was employed. Semi-structured face-to-face interviews, typically lasting one hour, were conducted with 16 interviewees representing key and emerging players in the SRI sector. This included SRI analysts, asset managers, NGOs, research providers and an institutional investor.

Motivation and Attitudes to Engagement

Engagement is viewed positively and widely considered to play a key role in the future of SRI. In addition to fulfilling client demand, engagement presents significant opportunities as a process for effecting real corporate change, to improve understanding of companies, to act as an early-warning system for identifying risks, a framework for strengthening relations and as a method of service differentiation. Future challenges however include the risks of poor quality research, insufficient pressure to effect change, a potential dilution effect, difficulties in measuring performance and increasing scepticism.

Engagement Process

Developments within the process include the recognition of collaborative initiatives as a powerful tool for effecting change; while recognising the issues of credit allocation, its time-consuming nature and difficulties in reaching a consensus need to be addressed. Shareholder voting and public statements are increasingly used as a lever for change.

Engagement Performance

There is a general consensus that engagement is effective, however there are inherent difficulties in measuring performance. Primarily, the issue of establishing causality due to the complex web of factors influencing corporate behaviour, in addition the long-term on-going nature of engagement makes definitive achievements difficult to identify and many benefits of the process are intangible.

Reporting and Communication

SRI teams are increasingly reporting to demonstrate transparency and accountability, although the quality of reporting varies greatly. At present reporting is directed primarily at clients only, rather than wider public disclosure. Communication between SRI teams and mainstream investment teams is currently limited and predominantly informal.

Future Trends

Engagement will continue to increase in significance and become a central SRI approach. Crucial to this development is improved reporting to increase transparency and quality of process, and the integration of engagement into mainstream investment decisions.

Recommendations

The recommendations are focused on improving reporting and disclosure regarding engagement. These include the development of a clearer engagement definition, an engagement framework describing the engagement process and engagement reporting and disclosure guidelines.

Recommendation for Future Research

This research would inevitably benefit from extending interviews to a wider range of institutional investors to identify their requirements of engagement and how engagement by pension fund trustees and asset managers differs and may be improved. Significantly there is a need to look at how industry can work better with the SRI sector to improve the performance of the engagement process with increased benefits to both parties.