

**Socially Responsible Investment: A Global Revolution**  
**- Russell Sparkes -**

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**Russell Sparkes, Wiley, 5.12.02, hbk £24.95**

Do you know anyone who makes anything for a living? I don't. Britain, along with most of the developed world, is increasingly an economy of services, trading information and ideas instead of widgets. No part of this service economy is more arcane than the financial sector. Yet this impenetrable maze of pensions, life insurance, mortgages and unit trusts accounts for a large part of the impact we make on the world - the 'financial footprint' of our lives. In the UK, for example, pension funds hold 35% of the shares in publicly quoted companies - the workers, via their retirement plans, are well on the way to owning the means of production. Karl Marx, eat your heart out!

In *Socially Responsible Investment: A Global Revolution*, Russell Sparkes records the heroic, and potentially historic, effort to make the impact of such investments work for the long-term benefit of society. The Socially Responsible Investment (SRI) movement is young but growing fast, driven by the great geopolitical causes celebres of recent decades - the Vietnam war, apartheid, environmental concern, human rights and worries over globalisation. In the UK alone, Sparkes puts the total assets involved in SRI at £225bn in 2001 - roughly £4,000 for every person in Britain.

SRI is a broad church, covering a range of approaches such as screening out 'sin stocks' such as tobacco and arms; shareholder activism through resolutions at company AGMs - the first of which in 1969 questioned Dow Chemical's production of Agent Orange and Napalm for the Vietnam war; and lower-profile 'engagement' between institutional investors such as pension funds and the companies whose shares they hold. Many of the SRI movement's founders were church organisations such as the US-based Interfaith Center on Corporate Responsibility and Sparkes' own employer, the Methodist Central Finance Board.

This is a practitioner's book, aimed at trustees and investors with some knowledge of City lore. As both participant and observer, Russell Sparkes is a familiar figure in the UK SRI movement. The book often borders on a memoirs-style, dotted with first person observations, quotes from the author's speeches, and first-hand reminiscences which enliven what can be a fairly dry topic. Sparkes is a crusader, but also a hard-headed numbers man, aiming to convince trustees and investors of the soundness of the business case for taking social and environmental issues into account in their investments.

The arguments for doing so are both positive (improved employee morale, new ideas and opportunities for business) and negative (safeguarding your brand name from press scandal when an investigative journalist finds children working in your supply chain). To illustrate his case, he gathers a wealth of case studies, covering everything from the human rights violations committed by the Burmese junta, to the business opportunities presented by the impending shift to clean, hydrogen-burning cars.

Sparkes also has a keen sense of history, charting a movement which has evolved and expanded at extraordinary speed. In its early days, 'ethical investment' revolved around the sale to concerned individuals of ethical unit trusts, based on screening out so-called 'sin stocks', such as arms or tobacco. Over time, new entrants to the market offered 'positive screening', finding and investing in 'companies of the future' involved in areas such as renewable energy production. Screened funds grew tenfold over the 1990s, and are still growing at twice the speed of the market as a whole.

Most recently, however, government action has helped expand the field beyond retail investment products into the world of occupational pension funds, administered by large companies on behalf of their staff. From July 2000, all such funds have a duty to state the extent of their social and environmental investment policies, such as they are. This 'light touch' legislation - there is no obligation on funds to adopt such policies, merely to state if they have any - helped trigger a new wave of interest in the big City investment houses, some of which established teams of SRI analysts to work alongside their conventional investment managers. So pleased was the government with the impact of its legislative tweak, that it is now proposing to apply the same reporting requirement to UK charities' £65bn of assets.

The terminology has changed as practice has evolved. 'Ethical Investment', with its connotations of individualised ethics and negative screening, has given way to 'Socially Responsible Investment', a family of approaches including both screening and 'engagement', in which investors establish a dialogue with investee companies on SRI issues, rather than merely disinvesting in the bad guys. When the Universities Superannuation Scheme, one of the UK's largest schemes with £22bn in assets, announced that it would henceforth take social and environmental issues into account in its investments, SRI was clearly heading for the mainstream.

Sparkes is proud of what he sees as British leadership in SRI, but is also a close observer of the US scene, where SRI assets are ten times his estimate for the UK. He deftly charts the difference in culture and

practice between the US and UK - the US with its emphasis on 'shareholder activism' involving set piece confrontations at company AGMs, while the UK opts for a combination of activism and quiet diplomacy in the more genteel environs of City boardrooms. Recently, Institutional Investors in the UK have been opting for a more aggressive approach, particularly over their frustrations with notorious 'fat cat' pay awards. In November, GlaxoSmithKline CEO Jean-Pierre Garnier was forced to forego his £11 mn pay award after a public row with the firm's big institutional shareholders.

In both style and structure, *Socially Responsible Investment* has some weaknesses. At times it subsides into City jargon, while the writing is at times a little rambling. Its account of the newer forms of investor engagement with companies is much less detailed than the sections on screening. Sparkes is strong on the environment, but his treatment of human rights issues is patchy, and the book lacks a broader understanding of the impact of private investment in economic development, particularly in the Third World.

Perhaps the biggest disappointment is the lack of a proper conclusion - the book ends rather abruptly after a chapter on SRI in Japan and continental Europe. Insights are dotted around the text, but not brought together in any clear exposition of the likely development of the SRI industry, its strengths, weaknesses and limitations.

Nevertheless, Russell Sparkes is superbly placed to chronicle the birth of an economic movement. *Socially Responsible Investment* will be an invaluable resource for the economic historians of the future. And in the meantime, if you need to convince a trustee, or an investor, of the case for SRI, this is the book you need to do it. Read it, and you should be able to run rings round the sceptics, dazzle your independent financial advisor, and add your voice to one of the most important economic movements in recent years.

*(Book review by Duncan Green, Head of Research, Just Pensions, for 'The Tablet', 4 January 2003)*