

A chance to compete

Penny Shepherd explains how the government's disclosure regulation for socially responsible investment offers companies the chance to build a modern benefits package

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The socially responsible investment (SRI) disclosure regulation is an opportunity, not a threat, for occupational pensions. It offers a mechanism to ensure that pension funds remain alert to social and environmental risks and benefits. And it gives a way to contribute additional value to a modern benefits package.

By considering a policy to take account of appropriate social, ethical and environmental issues, trustees have the opportunity to make sure that financial risks to the fund's investments from emerging social concerns are being well managed and that associated benefit areas are exploited.

In addition, they can ensure proper management of risk to the employer's reputation associated with the investments made by the pension fund. A survey in 1997 for the Future Foundation and British Telecom found that 40% to 50% of the public believed that companies had a high level of responsibility for protecting the environment, opposing discrimination and supporting fair trade and human rights. And public opinion tends to hold large companies responsible for the activities of associated bodies such as their pension fund. For example, a question from a 1996 MORI survey about company investment, "in particular through their pension funds", saw 40% of the public regarding an ethical investment approach as taking precedence over delivering maximum return to shareholders.

Pressures on business

A book published last month illustrates the changing context of pensions investment. Called *When Good Companies do Bad Things - Responsibility and Risk in an Age of Globalisation*, it highlights the increasingly complex social pressures on business and the impacts on companies and their stakeholders if they get their response wrong.

Authors Peter Schwartz and Blair Gibb bring experience of Shell and Amnesty International respectively to their analysis of how respected institutions can be found wanting in response to society's changing expectations of business. They claim that "any organisation with power - governments, civic organisations and corporations - can benefit

themselves and others, in the long term, by identifying and acting on opportunities to improve the societies in which they operate".

They demonstrate the emerging need for industries and institutions to examine their operations "from a long-term perspective in a social context" if they are to remain successful and avoid crises. And the authors point to the following ways to ensure robustness in the face of changing social requirements and priorities:

- building a culture which tolerates dissent and takes non-financial risks seriously;
- looking beyond an exclusive focus on financial measures of performance;
- enabling employees to think about their work as whole people "using their moral and social intelligence as well as their business intelligence";
- including people and organisations who disagree with them and criticise them within their circle of dialogue;
- ensuring that commitment to a particular product or project does not overwhelm all other considerations - financial, ethical or social - and that senior managers do not consider ethical or social issues as matters for somebody else rather than them to resolve.

(Adapted from "When Good Companies do Bad Things"
by Peter Schwartz & Blair Gibb,
pub. John Wiley & Sons, 1999)

The pensions industry should consider these approaches to ensure that they best manage the risks and opportunities of their changing social environment. The SRI regulation will help them to do this.

Corporate competition

The pensions disclosure regulation offers an opportunity to enhance the corporate benefits package. Competing with other employers on corporate social responsibility is one way for companies to attract the best staff. National Opinion Poll's 1997 survey found that 73% of those with or planning a pension wanted it to have an ethical policy. This support was even stronger among women and part-timers. Responding to this level of concern is only common sense for those seeking to deliver a benefits package which gives the greatest employee value for the expenditure available.

Gradual approach

The investment tactics which can be used most effectively to deliver the "triple bottom line" of financial, social and environmental return will be a matter for continuing debate over the coming months and years. I expect that, for the present, pension funds will chose to dip a toe in the water and take a gradual approach to SRI policies. The preferred strategies are likely to include

- introducing an ethical investment additional voluntary contribution (AVC) to assess employee support;
- exercising shareholder influence on social, environmental and ethical issues;
- taking an ethical diversification approach by screening a small proportion of the fund;
- exploring further ways to integrate social and environmental risks into investment decisions.

The government's SRI disclosure regulation is a mechanism which pension funds can use to ensure that they manage their responsibilities and risks as owners of capital in an age of globalisation, benefit from the changing social and environmental context and contribute to a modern benefits package. The pensions industry should see the regulation as an opportunity.

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