

JURAVLE, C. & LEWIS, A., 2008. Identifying impediments to SRI in Europe: a review of the practitioner and academic literature. *Business Ethics: A European Review*, 17(3), 285-310.

UKSIF summary, 2009.

Table of Contents

| | |
|----------------------|---|
| I. Key points..... | 1 |
| II. Key quotes | 2 |

I. Key points

- The 3 themes that feed the debate regarding the impediments to mainstreaming SRI are:
 - **Agency problem:** conflict of interests between the shareholders and the directors, which could be avoided through internal monitoring and flow of information, but are inefficient.
 - **Fiduciary duty:** fund managers and investment consultants must act prudently in the best interests of the beneficiaries. The Freshfields Report states that fiduciaries can use ESG criteria in investment management and defends that they impact on financial performance.
 - **Financial return on SRI:** this is the most controversial aspect and different results are presented in the researches conducted. The relationship between SRI and SRI has been studied from different angles: (i) CSP vs. CFP; (ii) SRI funds vs. conventional funds; (iii) engagement and shareholder activism vs. FP.
- There is a double accountability deficit in the Anglo American capitalism, since executives are not accountable to institutional investors and institutional investors are not accountable to the individuals who invest in pension funds (Monks and Sykes 2006 in Juravle and Lewis 2008).
- Capital markets:
 - Fund managers: often find it difficult to integrate ESG and financial criteria, but are considered the main drivers of SRI, according to some authors
 - Trustees: lack the expertise, time and financial incentives to encourage ESG and leave the decision to other agents
 - Research analysts: are incentivized to analyse shares in the short-term. They have been reluctant to collect ESG information.
 - Investment consultants: encourage fund managers to prioritize risk management and financial performance in the short-term

- Public listed company: the level of ESG reporting from companies is still considered unsatisfactory in general
- The Marathon Club highlights 3 factors of short-termism: quarterly performance, overuse of stock market indices and measurements of long-term liabilities on a short-term basis.
- Impediments to SRI:
 - **Individual:**
 - Cognitive systems: investors display human flaws, such as overconfidence, emotion-based judgements
 - Belief systems: ESG concerns are considered incompatible with financial decisions
 - **Organizational:** short-termism performance evaluation and remuneration system as one of the internal processes
 - **Institutional:** organizations are faced with 3 types of pressuring mechanisms: coercitive (regulation), normative (from peers) and mimetic (derived from uncertainty).
- Solutions: The authors believe that the solutions must come from the individual level.
- Best practice: "Generation Investment Management have introduced 3-year rolling performance appraisals and have fully integrated SRI experts into their investment team." (Juravle and Lewis 2008, p. 303)

II. Key quotes

- "Fund managers are one of the key players in the SRI market as they are often with the final investment decisions" (Juravle and Lewis 2008, p. 290).
- "There is a great need for research into the development of a set of agreed extra-financial factors that can become the core of ESG valuation models." (Juravle and Lewis 2008, p. 295)
- "It is common among SRI practitioners to engage with large companies in the FTSE100, while ignoring engagement with smaller. This practice is quite unfortunate because active ownership might be more successful in smaller companies." (Arthur D. Little 2003 in Juravle and Lewis 2008, p. 296)
- "Most academic researchers pursue theoretical progress as a main objective, whereas SRI practitioners and advocates design the research within with the aim of persuading the reader of the merits of SRI." (Juravle and Lewis 2008, p. 287)
- "As long as the mainstream finance community believes that incorporating ESG criteria into investment decisions comes at the cost of portfolio performance, mainstreaming of SRI is uncertain." (Derwall et al 2005 in Juravle and Lewis 2008, p. 288)
- "...stick analysts have misaligned interests with investors' interests (their clients) for the simple reason that they are caught up in countless conflicts of interest as companies that should be impartially evaluated and rated usually 'pay the bill'" (Davis et al 2006 in Juravle & Lewis 2008, p. 291)

- “Information is the lifeblood of financial markets.” (Juravle and Lewis 2008, p. 294)
- “In reference to the desired level of disclosure, the pan-European survey of 319 sell-side analysts, covering 15 countries, finds that analysts believe that companies’ ESG reporting has improved, but the level of reporting is still unsatisfactory (ECC 2007 in Juravle and Lewis 2008, p. 294).
- “However, among the buy-side institutions the demand for, and satisfaction with, current corporate reporting on ESG factors is uneven: whereas more than half of surveyed Dutch pension funds express their satisfaction with the ESG information they receive from companies, the majority of UK trustees show the opposite (Gribben & Olsen 2003, Hummels & Timmer 2003)” (Juravle and Lewis 2008, p. 294)
- “...there is a disparity between what the factors analysts research and the factors fund managers incorporate into investment decisions (O’Loughlin and Thamotheram 2006 in Juravle and Lewis 2006, p. 295).
- “There is wide consensus among academic and practitioner researchers that short-termism is a strong and pervasive impediment to SRI in financial markets throughout the world.” (Juravle and Lewis 2008, p. 296)
- “Information in organizations can be collected and treated as symbols of power, competence and rationality as opposed to instruments for more efficient decisions.” (Juravle and Lewis 2008, p. 299)
- “External fund managers usually perform under a three-year mandate, face dismissal in case of poor quarterly performance, are typically evaluated on a quarterly basis and are annually compensated against benchmarks” (Brammer et al 2003 in (Juravle and Lewis 2008, p. 299)
- “...internal fund managers have the status of paid employees, have more stable mandates and are compensated in the form of salaries rather than short-term bonuses or percentages for assets under management.” (Juravle and Lewis 2008, p. 299)
- “At the level of investee companies, a recent survey conducted by McKinsey & Company reveals that corporate executives also feel pressured by **short-termism**. The pressure comes from investors and analysts themselves who request companies to maintain the business tradition of issuing short-term earnings announcements.” (McKinsey & Company 2006 in Juravle and Lewis 2008, p. 296-297).