

# JUSTPENSIONS

SOCIALLY RESPONSIBLE  
INVESTMENT  
**AND** INTERNATIONAL  
DEVELOPMENT

**A GUIDE FOR TRUSTEES  
AND FUND MANAGERS**

**MAY 2001**

[www.justpensions.org](http://www.justpensions.org)

## THE JUST PENSIONS PROJECT

This booklet forms part of a two year project funded by the Community Fund and managed by Traidcraft Exchange and War on Want. Both of these non-governmental organisations (NGOs) have decades of experience working with poor communities around the world. The project is guided by an advisory group of experts from both the investment and development constituencies, many of whom have contributed to this booklet.

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## HOW TO USE THIS GUIDE

*Just Pensions* can be read in its entirety, but its different sections are designed to be read independently by those without the time to take in the full text. Wherever possible, checklists of sample questions are provided as a toolkit to help trustees and fund managers implement social responsibility policies in practice.

**2 Introduction:** Sets out the background to Socially Responsible Investment (SRI) and positive engagement, including the new legislation affecting occupational pension funds.

**4 The Business Case for Social Responsibility:** Surveys the evidence for claims that social responsibility is fast becoming an essential part of long-term business development and risk management, and that companies which adopt such policies produce improved returns in the medium term.

**7 Is it Legal?** Trustees concerned that adopting SRI policies may be in breach of their fiduciary duty should read this section.

**8 Getting Engaged: A Toolkit for Trustees:** Provides advice for trustees wishing to introduce SRI policies. Based on the experience of pension funds that have introduced SRI policies, it gives concrete examples of pension fund engagement, and a checklist to help trustees review their existing, or proposed fund managers on SRI.

**12 Guide to Company Best Practice:** Gives background information and checklists of questions to fund managers and trustees wishing to engage with companies on international development issues. These cover both a general approach to risk assessment, establishing properly monitored policies, and reporting and responsibility, and specific questions on company policies on corruption, labour rights, conflict, human rights and access to medicines. Each section has links to sources of further information and advice.

**18 Useful Links:** Websites for the *Just Pensions* project advisory group and other sources of information on SRI.

## A SUSTAINABLE PARTNERSHIP

Those who believe that pension investors should do more to change the world ignore at their peril the principal aim of pension funds to ensure that poverty and old age are no longer synonymous. However, if pension promises are to be honoured, we need a peaceful world, an environment that is revered and human dignity that is respected. Successful pension investors take a long-term view. Their ultimate clients, pension scheme members, are driven not by greed but by the twin aims of affordability and security.

Investors in the world's financial markets are not all alike. Their timescales vary, their risk tolerances differ and their desire to punch their weight is by no means uniform. Pension fund investors have the longest timeframe of all. As a result, share price volatility due

to short-term sentiment or market fashion is not too disturbing. Because, in many markets, pension investors are substantial shareholders, simply walking away from an under performing company is seldom an option. Improvement by engagement is increasingly the order of the day.

While leaving company managements to nurture their enterprises, pension

fund investors will ensure that enlightened corporate values are honoured. Such values and the creation of shareholder value go hand in hand. Those who care about pensions care about the world. Enlightened corporate values and shareholder value are by no means incompatible: on the contrary, they constitute a powerful and sustainable partnership.



Alan Pickering  
Chairman, National Association of Pension Funds

## I: INTRODUCTION

*The global fund management industry is having to pay increasing attention to the complex issue of ethical, or socially responsible investment (SRI). Until now, ethical investment has been primarily the concern of private investors. If international fund managers agree standards, they could become an important benchmark for industry.*

Financial Times leader, 28 February 2001

Companies and their institutional shareholders are under increasing pressure to take social criteria into account in their operations and investments. For many, the main obstacle to doing so is not opposition to the idea, which can often make good business sense, but the apparent difficulty of putting it into practice with the limited resources available.

This booklet provides practical guidance to pension fund trustees and fund managers on how to address these human development issues in their approach to socially responsible investment (SRI). While the potential range of such human development issues is vast, *Just Pensions* discusses some examples of those most immediately affected by foreign trade and investment, and therefore potentially by the activities of institutional investors in the UK.

In providing an initial toolkit for dealing with human rights, labour standards, access to essential medicines and the prevention of conflict and corruption in the developing world, this booklet argues that such development issues should constitute a vital element in any proper SRI policy. While many investors and companies have already adopted policies in favour of 'sustainable development', in practice these have often concentrated largely on environmental issues, neglecting the social aspects which are a vital part of any model for truly sustainable development.

### What is Socially Responsible Investment?

*SRI is investment where social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investment, and the responsible use of rights (such as voting rights) attaching to investments.<sup>1</sup>*

SRI includes a range of different approaches such as negative or positive screening of particular sectors, but *Just Pensions* concentrates on the approach of *positive engagement*, discussed below.

<sup>1</sup> Socially Responsible Investment: A Guide for Pension Funds and institutional investors, Mark Mansley, Monitor Press, 2000, p3

## New legislation on SRI

SRI has been growing for 20 years, but has hitherto been largely associated with specialist retail funds. In mid-1999 the UK Government transformed the SRI landscape by requiring all occupational pension funds to report on the extent to which they take into account ethical, social and environmental considerations (see box).

### Text of the Amendment to the Pensions Act

*The matters prescribed for the purposes of section 35(3)(f) of the 1995 Pensions Act (other matters on which trustees must state their policy in their statement of investment principles) are –*

- (a) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments; and*
- (b) their policy (if any) in relation to the exercise of rights (including voting rights) attaching to investments.*

Although the new legislation, which came into force on 3 July 2000, does not oblige trustees to adopt SRI policies, it increases their transparency on the issue. Provided they are prudent, seek advice and follow due process, trustees can adopt SRI policies without contravening their fiduciary duty to maximise benefits for members. The government would hardly be likely to encourage trustees to break the law!

The amendment reflected a growing body of official advice on the need for pension funds and fund managers to intervene in an appropriate manner in the companies in which they invest. As the Myners report<sup>2</sup> noted in 2001:

*It would be helpful if pension funds themselves recognised the possibility of added value through intervention, and regularly sought evidence from managers to demonstrate that they were active in this way. The pension fund clients of investment managers have a right to expect them to have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy.*

The early signs are that the transparency requirement, allied with other forms of pressure, has ushered in a new era – the adoption of SRI policies by mainstream occupational Pension Funds.<sup>3</sup> The impact is potentially vast. While specialist SRI retail funds accounted for £3.3bn in 2000, they were dwarfed by the total Pension Fund market of £800bn.<sup>4</sup> Developments since the announcement of the new legislation included:

- The £29 billion BT Pension Scheme published its updated Statement of Investment Principles in December 1999. It states that, when selecting shares, every investment manager of the Scheme should consider that *'A company run in the long-term interests of its shareholders will need to manage effectively relationships with its employees, suppliers and customers, to behave ethically and to have regard for the environment and society as a whole.'*
- The £22 billion Universities Superannuation Scheme announced in the same month that it would adopt a Socially Responsible and Sustainable Investment strategy. This strategy will integrate SRI into its mainstream investment activities, covering corporate governance, environment and social responsibility.<sup>5</sup>
- A number of fund managers are now carrying out engagement on SRI issues across all their investments, not just their screened SRI funds, and/or incorporating the issues into their corporate governance policies.

A survey of the 500 largest UK pension funds and 97 UK local authority pension funds in mid-2000 by the UK Social Investment Forum found that 59%, representing 78% of the assets surveyed, were incorporating SRI principles into their investment process.<sup>6</sup>

### Example of Statement of Investment Principles incorporating SRI

*As responsible investors, the Lothian Pension Funds wish to promote corporate social responsibility amongst the companies in which it invests. There may be risks to shareholders in companies that do not conduct business in a socially responsible manner. Accordingly the Fund will pursue a policy of constructive shareholder engagement with companies on such issues where they are consistent with the Fund's fiduciary responsibilities, using their own efforts, their investment managers and alliances of other like-minded investors.*

From SIP of the Lothian Pension Funds, April 2001<sup>7</sup>

### Positive engagement

This booklet sets out the case for positive engagement: funds can use their influence as major investors across their whole portfolio (not just an ethical fund segment) to encourage companies to improve their performance on social responsibility issues. It does not discuss other approaches more traditionally associated with 'ethical investment', such as stock selection, or negative screening on issues such as arms or tobacco. In practice,

<sup>2</sup> Institutional Investment in the UK: A Review, 2001

<sup>3</sup> For a survey of the extent of SRI adoption by UK Pension Funds, see Response of UK Pension Funds to the SRI Disclosure Regulation, Eugénie Mathieu, UKSIF, October 2000

<sup>4</sup> Response of UK Pension Funds to the SRI Disclosure Regulation, Eugénie Mathieu, UKSIF, October 2000

<sup>5</sup> Industrial Society, Managing Best Practice no. 81 - Managing Pensions Change, Industrial Society, 2001

<sup>6</sup> Response of UK Pension Funds to the SRI Disclosure Regulation, Eugénie Mathieu, UKSIF, October 2000

<sup>7</sup> www.lpf.org.uk/princ.htm

SRI may involve a combination of such approaches, with divestment as the final step if a company refuses to engage seriously with its institutional investors. Some large pension funds have adopted a limited screening approach – in particular, several offer members the option of paying Additional Voluntary Contributions into separate ethically screened funds.

### What is Positive Engagement?

*A conscious process in which areas of improvement are identified for individual companies; the investor then seeks to persuade these companies to commit themselves to change and then monitors the implementation of any commitments made.*  
Source: the Ethical Investment Research Service

Positive engagement tries to improve the overall level of company performance rather than ‘cherry picking’ only those companies that have already taken a lead in this field. Furthermore, for those funds that have adopted passive investment approaches such as index trackers, positive engagement allows investment managers and trustees to influence a company without requiring stock selection.

## II. THE BUSINESS CASE FOR SOCIAL RESPONSIBILITY

*There is a correlation between good practices and good investment results. People in the investment industry often want to put up a wall between the two things, but they are related.*  
Philip Angelides, state treasurer of California and a board member of Calpers, California’s \$165bn public employees pension fund and the nation’s largest investment fund of any kind.

Why include international development issues such as human rights, labour standards or corruption, in a pension fund’s SRI policies?

For long-term investors such as pension funds, there is clearly a case for encouraging companies to pursue a model of development which strengthens, rather than undermines the social and environmental fabric in which they must operate. The evidence is also growing that a positive attitude by companies to their corporate social responsibilities (CSR) brings more immediate benefits in terms of growth, staff morale and reputation.<sup>8</sup> The evidence is even stronger that a *negative* attitude to CSR brings serious reputational and other risks for a company and its shareholders.<sup>9</sup>

The drivers behind the growing pressure for CSR include:

- **The rise of the global company:** As the largest companies become ever more multinational, their operations in developing countries are growing. The vulnerability of people living in extreme poverty and the problems of operating in an impoverished environment have drawn increasing public attention. British clothes imports, for example, have trebled in the last decade as retailers have increasingly sourced from suppliers in Asia, Eastern Europe and North Africa, where wages are a fraction of the UK rates.<sup>10</sup>
- **Public opinion:** Public concern is high about issues such as child labour and human rights abuses. As international communications improve, companies ignore violations of labour rights in their overseas suppliers, or do deals with unsavoury governments, at their peril. They can expect public condemnation from both the media, and the increasingly sophisticated watchdogs among human rights and development organisations.

<sup>8</sup> For recent surveys of the evidence see Mark Mansley, op. cit. and Conversations with Disbelievers: Persuading Companies to Address Social Challenges, John Weiser and Simon Zadek, The Ford Foundation, November 2000

<sup>9</sup> Buried Treasure: Uncovering the Business Case for Corporate Sustainability, Sustainability, 2001

<sup>10</sup> Fashion Victims, CAFOD, 1998

## Talisman Oil's Share Price

The Canadian Oil Company, Talisman Energy, saw its share price fall by 15% following a commitment by the Canadian government to launch an investigation into accusations of human rights irregularities surrounding its Sudanese operations. The subsequent report concluded:

*The evidence we have gathered directs us to conclude that oil is exacerbating conflict... and the oil operations in which a Canadian company is involved add more suffering.*<sup>11</sup>

Talisman was forced to prop up its share price with a C\$250m share buy-back, and had to repeat the exercise in February 2001. Despite spending over C\$500m which could have gone on exploration, expansion or acquisition, Talisman's shares remained at prices below the level the market would normally establish for such a highly profitable company. The 'Sudan discount' is likely to dog the company's shares for some time to come, following further media exposure in a Christian Aid campaign in March 2001.<sup>12</sup>

## Assessing the evidence<sup>13</sup>

The evidence to date on the business case for (or against) CSR is patchy and mainly based on the US experience. Nevertheless successive studies, combined with the direct experience of numerous business leaders, are starting to come together:

### Reputation

In a recent study by the US *Chief Executive Magazine*, 96% of CEOs said they believe that reputation is very important, and 65% dedicate more time to this subject than they did five years ago. Failure to protect reputation can be considered a management failure by institutional investors who seek out companies with demonstrable good governance structures. Unexpected and unwelcome media attention can be interpreted as poor management. Reputation affects a corporation in several ways:

- a government's decision to grant a license to operate, and the wider community's readiness to welcome such operations
- an individual's decision to seek a job (or an employee's decision to leave)
- a consumer's decision to buy their product

Fombrun<sup>14</sup> tried to put a figure on the 'reputational capital' of major companies and came to \$52bn for Coca Cola, \$12bn for Gillette and \$11bn for Eastman Kodak. Reputational capital, he said, stems from higher than average stock value, easier recruitment,

and the ability to charge premium prices. Reputation obviously matters more for a retailer than a manufacturer, and is particularly important for big brand names such as Nike or Shell. Experience shows that reputations built up over many years can be tarnished in a matter of weeks by negative headlines, and that putting right such damage can require huge investment and effort.

In the words of PricewaterhouseCoopers

*As forces of globalisation continue to gain momentum, society increasingly demands that large multinational corporations improve their performance in areas of human rights, the environment, worker health and safety and other governance issues. Failure to address these demands has proved damaging to a company's most important asset – its reputation.*<sup>15</sup>

### Employee recruitment, satisfaction and loyalty

CSR leads to improved recruitment (crucial in a tight labour market). Senior managers at Shell reported a tremendous loss of morale and a significant downturn in recruitment in 1995, when Shell suffered its difficulties in Nigeria and with Brent Spar. However, once Shell had made its commitment to CSR, through much greater transparency and engagement with external stakeholders, it found itself swamped with potential employees. A 1999 survey by Cone/Roper found that good corporate reputation came second only to career growth potential as the most important consideration for people when choosing a new employer – ahead of starting salary, fringe benefits, or sports and social facilities.

CSR can also lead to a greater staff commitment and a better attitude, with an immediate impact on the bottom line. In research conducted in the US by the Sears company and published in the Harvard Business Review in 1997, Sears developed a rigorous quantitative model to analyse the links between management quality, employee behaviour and financial performance. Based on its employee and customer surveys, it found:

- Improving employee attitudes by 5% improved customer satisfaction by 1.3%
- Improving customer satisfaction by 1.3% led to a 0.5% increase in revenues. At Sears that means \$65m a year, increasing its market capitalisation by \$80m.

### Stock Price

Several studies in recent years suggest a positive link. Wright Ferris, Hiller and Kroll<sup>16</sup> found that stock prices rose when companies announced they were the recipient of an award for managing and promoting

<sup>11</sup> Human Security in Sudan: The Report of a Canadian Assessment Mission, John Harker, prepared for Canadian Ministry of Foreign Affairs, 2000.

<sup>12</sup> See Scorched earth: oil and war in Sudan, <http://www.christian-aid.org.uk/>

<sup>13</sup> Based on Zadek, op.cit.

<sup>14</sup> Reputation: Realizing value from corporate image, Charles J Fombrun, Harvard Business Press, 1996

<sup>15</sup> Glen Peters, partner, PricewaterhouseCoopers, quoted in Human Rights: Is it any of your Business? Amnesty International/PWBLF, April 2000

<sup>16</sup> cited in Zadek, op.cit., p78

diversity. They fell when companies announced discrimination suits.

Talisman is only the latest of a long list of companies which show the downside risks to share prices of poor performance on social responsibility issues. A 1997 analysis by researchers at the University of Pittsburgh<sup>17</sup> of stock market reaction to 27 incidents of socially irresponsible and illegal behaviour, involving lawsuits, fines and product recalls, found that such companies suffered very significant losses in shareholder wealth, which were not subsequently recovered.

#### *Availability of Capital*

The rise in SRI will to some extent become self-perpetuating. As pension funds reward companies for good performance on social responsibility, those companies will prosper, and the risk for companies of *not* adopting SRI policies will grow. In the US in 1999, funds using either screening or positive engagement accounted for \$2,200 bn, constituting 13% of total investment assets under management. Socially screened funds are growing twice as fast as the rest of the market. Stan Litow, Vice President of Corporate Community Relations at IBM, reports that IBM's top ranking in a number of studies of corporate social responsibility has helped him to persuade colleagues of the value of the approach, since it helps demonstrate the connection with stock purchases by investment funds.<sup>18</sup>

#### *Licence to Operate*

Adopting CSR policies can improve companies' relations with Third World governments and societies and reduce the number and cost of regulatory challenges and public opposition to their activities.

#### *Sales revenue*

The evidence for a positive impact is generally weak, except in the case of cause-related marketing. The evidence for a negative impact stems from previous consumer boycotts (e.g. of companies involved in South Africa under the apartheid regime) and surveys: MORI surveyed 1,935 adults in 1998 and found that, within twelve months of the survey date, 30% had bought a product or service because of a link to a charitable organisation, and 28% had boycotted a company's product on ethical grounds.

#### British Government Position on CSR

*The private sector has a key role in making globalisation work better for poor people. In recent years, there has been growing public interest in corporate social responsibility. This has brought issues such as child labour, corruption, human rights, labour standards, environment and conflict into trade, investment and supply chain relationships.*

*By applying best practice in these areas, business can play an increased role in poverty reduction and sustainable development. Many companies have also realised important commercial benefits, in terms of reputation, risk management and enhanced productivity. Greater business engagement can be encouraged by improving understanding and raising awareness of the potential benefits for business from socially responsible behaviour.*  
Making Globalisation Work for the Poor, White Paper, December 2000

#### Conclusions

*I believe that it is part of building good sustainable businesses to help establish safe, secure, stable and peaceful societies. Business thrives where society thrives.*  
Peter Sutherland, Chairman BP and Goldman Sachs

Most surveys conclude that the strongest evidence of a business case for corporate social responsibility lies in the areas of corporate governance and environmental management. This is hardly surprising, since social and developmental issues are relatively new arrivals on corporate radar screens. The strongest evidence of a business case on international development issues surrounds social *irresponsibility* - companies with bad performance are punished, both internally (through staff morale and recruitment) and externally (reputation and share price). The strength of the business case varies according to sector, being stronger for extractive industries and retailers buying significant amounts of goods from developing countries.

As leadership companies develop CSR, pressure for international regulation is likely to grow, if only to discourage free riders. Those with CSR already in place will have an edge when such regulation is put in place. Examples of likely legislation include carbon taxes, the introduction of core labour standards in international trade agreements, and home country liability over corruption and human rights abuses.

If the emerging business case for companies described above proves correct, then SRI should lead to improved returns for institutional investors over the medium and long term. In a world in which reputation is an increasing part of corporate value, pension funds cannot afford to take the risk of being without an SRI policy.

<sup>17</sup> 'Socially Irresponsible and illegal behaviour and shareholder wealth', *Business and Society* Vol 36, No 3, pp 221-249

<sup>18</sup> Re: 'Corporate Citizenship activities supporting corporate reputation', Stan Litow, 9 June 2000, cited in Zadek, op. cit.

### III: IS IT LEGAL?<sup>19</sup>

As with other investment strategies, the motivation for an SRI policy and the process by which it is adopted, executed and monitored appear to be the critical issues legally. Deviations between the projected and the actual investment outcome are not.

There is general agreement that trustees cannot

- Put their own personal values ahead of acting in the interests of the beneficiaries
- Take account of remote or imperceptible benefits to beneficiaries
- Follow investment strategies which they are conscious will be to the financial detriment of beneficiaries having no investment choice
- Make specific investment decisions as opposed to setting the policy framework for those decisions, (this only applies to trustees of occupational pension schemes, and trustees can sometimes be given special authorisation to make investment decisions by the financial services regulator)

However, lawyers and others suggest that trustees

- Can take account of SRI to deliver improved financial returns, added non-financial benefits or as a means of promoting the objectives of the scheme, e.g. as a means to encourage employees to join or remain in the scheme, where this is compatible with acting in the best interests of the beneficiaries
- Are not restricted to acting *exclusively* in the financial interests of the beneficiaries and should deliver non-financial benefits which are valued by a significant proportion of beneficiaries, where they can do so in parallel with delivering unchanged financial benefits to all beneficiaries
- Are not required to have the benefit of hindsight about future financial performance – what matters is acting in good faith after having taken proper advice
- Should not fetter their discretion in setting future investment policies
- Should act as prudent business people, balance risk and return in the best interests of the beneficiaries and set, and monitor performance against, appropriate benchmarks as the basis for measuring future financial performance. Prudent business people balance long term and short term return; many are

on record as believing that social and environmental performance is important to business success.

- Should ensure that their advisers and fund managers are properly skilled in SRI issues and are taking due account of the impact of social, environmental and ethical issues on long term financial performance
- Can properly take account of the views of the employer, for example where the employer wishes to see its pension scheme having a policy consistent with its own position on, for example, ethical trading or environmental issues so long as there is no adverse impact on financial return
- Can properly offer one or more appropriate SRI options, for example as one of a choice of funds in a money purchase scheme, so long as appropriate guidance is given to beneficiaries about the fund's financial characteristics

Going further, there is an emerging view (articulated by the Myners Review) that trustees have duties to ensure that more active monitoring takes place and that investment managers are undertaking engagement with companies. Drawing on best practice from the US, Myners argued that investment managers should monitor and intervene with companies on aspects of both financial and non-financial performance.

Yve Newbold, who chaired the NAPF Committee of Enquiry into Voting Execution argues that trustees may be in danger of incurring legal risk by *not* considering social issues:

*The requirement to state in the SIP the extent to which social, environmental or ethical consideration are taken into account in investment decisions means that for all but the smallest trust funds a position of having no such policy would or could be called into question as being unsound in the climate of today's heightened awareness of the influence of such issues on corporate reputation and value.<sup>20</sup>*

## IV: GETTING ENGAGED: A TOOLKIT FOR TRUSTEES

Shareholders such as pension funds have a variety of methods, both public and private, to exert influence at their disposal. Private methods include:

- raising questions or discussion of social issues in routine meetings between institutional investors and company management;
- writing to company management about issues of concern;
- arranging special meetings to discuss such matters;
- writing to other shareholders to express concerns;
- joining with other like-minded investors to undertake some or all of the above.

More public mechanisms based on shareholder rights enshrined in law include:

- attendance at annual general meetings to ask questions;
- proposing shareholder resolutions;
- exercising voting rights, e.g. on the adoption of the report and accounts or the re-election of directors;
- calling an extraordinary general meeting.
- issuing press briefings.

### Shareholder Resolution at Shell

The Local Authority Pension Fund Forum and the Ecumenical Council for Corporate Responsibility, respectively a grouping of 25 public sector pension funds and an association of religious institutional investors, were in dialogue with Shell from 1995-1997 following Shell's well-publicised problems in disposing of the Brent Spar oil platform and more particularly its involvement in Nigeria, where there were widespread accusations of environmental degradation and collusion in abuses of human rights. After a number of meetings with senior management, LAPFF concluded that Shell needed to review its environmental and human rights policies to demonstrate it was dealing effectively with the accusations. After further negotiation failed, approaches culminated in a shareholder resolution put to the company's AGM in May 1997 seeking implementation of new group-wide environmental and human rights policies and an independent audit. The resolution received nearly 20% backing. Within a few months of the AGM, Shell had responded to all the proposals.

Often the latter type of activity is a means of escalating engagement, when corporate management does not respond to approaches or its response is deemed

inadequate. In general, institutional investors prefer to use more private methods.

However, there are some potential problems:

- engagement, if carried out assiduously, can be labour intensive and time consuming;
- the results of engagement are not always clear;
- individual pension funds or investment managers acting on their own may not be of a sufficient size to have an impact.

In deciding on how to implement an engagement strategy, there are a number of issues to consider.

### ***Policy development and engagement: who should do it?***

Pension fund trustees are responsible for their Statements of Investment Principles (SIPs) and therefore for developing their SRI policies and cannot simply delegate all responsibility to external investment managers.

If the chosen policy is one of engagement, the question arises whether this approach is best pursued by the pension fund itself or whether this should be delegated to the external investment manager. The main argument against pension funds undertaking activity themselves is that only the largest pension funds and those which are internally managed will have the in-house resources to devote to the necessary background research, correspondence, company meetings and follow-up involved in an engagement process. Moreover, only the largest funds will command the kind of resources necessary to exert significant influence on individual companies.

However, delegation to managers raises a number of issues. Only a small (though growing) number of investment managers currently have the specialist staff and research capacity to undertake effective engagement with companies. Investment managers who are acting on behalf of multiple clients, may find it difficult to represent the views of individual funds to companies, if funds have widely differing requirements. Additionally, investment managers may be reluctant to raise difficult issues with corporate managements if that might jeopardise other commercial relationships with companies such as corporate pension fund mandates or corporate advisory work.

For medium-sized or smaller pension funds one option may be to work through a separate body or association.

Examples include the Local Authority Pension Fund Forum or the NAFI. Another option is to use a specialist third party agency. Alternatively, trustees can introduce SRI criteria into their selection and review processes for fund managers and advisers. They may want to introduce a specific 'SRI manager' post, which might be housed with the fund manager, the scheme, or a mixture of both.

## Examples of Pension Fund SRI Policies

### Universities Superannuation Scheme SIP

*The trustee company pays regard to social, ethical and environmental considerations in the selection, retention and realisation of fund investments to the extent that it is consistent with its legal duties to do so. To this end, having consulted with the participating employers, it has adopted a policy of active engagement with those companies in which the fund is invested concerning the ethical, environmental and social policies pursued by those companies. The trustee company will accordingly aim to use its influence as a major institutional investor to promote within those companies those policies which will meet best practice in those areas. The trustee company pursues this policy with a view to protecting and enhancing the value of the fund's investments in those companies.*

**TIAA-CREF (largest US private sector pension fund)**  
*TIAA-CREF believes building long-term shareholder value is*

*consistent with directors giving careful consideration to social responsibility issues and the common good. Boards of both US and international companies should develop policies and practices to address the following issues:*

- *The environmental impact of the corporation's operations and products;*
- *Equal employment opportunities for all segments of the population;*
- *Employee training and development*
- *Evaluation of corporate actions that can negatively affect the common good of the corporation's communities and constituencies.*

*Each company should avoid the deliberate and knowing exploitation of any of the non-shareholder constituencies and should establish open channels of communication permitting employees, customers, suppliers and the community to express their concerns.*

## Examples of Fund Manager Engagement

### Fund manager A: supply chain management

Peacock's is a UK-based clothing and home textiles retailer with 300 stores throughout the UK. Peacock's was contacted by an SRI Fund Manager in early 2000. The firm was already aware of potential risks in this area, and willingly set up meetings with key personnel.

At the time, Peacocks had not yet established formal policies and practices to manage its supply chain risks effectively. Following the meeting, Peacocks took up several of the Fund Manager's recommendations. Within two months, it had developed a formal Policy and Code of Practice for its suppliers that met best practice in the sector, and the Board had formally adopted the policy. The company also agreed to many other suggestions, including the need to inform all of its suppliers of the new Policy, and will in the near future include a questionnaire for all suppliers to establish baseline information on the existing working conditions in its supplier factories.

### Fund Manager B: environment

This fund manager was approached by The Hong Kong and Shanghai Hotels company for advice on its environmental practices. After in-depth discussion and a visit to the company it was apparent that the company could benefit from better environmental management in its Hong Kong operations as this could be a potential risk to its tourist business. Following the fund manager's report to the

company on improvements that could be made the company has designed a Sustainability Policy. This includes energy saving, staff education, management accountability, supply chain management and adopting the guidelines of the International Hotels Environmental Initiative.

The same fund manager has worked with a leading university to develop a methodology for companies to report publicly on their greenhouse gas emissions. This has been taken up by the UK Government's Department of the Environment, and is now used by a number of major companies. The United Nations Environment Programme has also taken up and developed the initiative.

### Fund Manager C: labour standards

Fund Manager C is a major shareholder in the bicycle manufacturer, Tandem, which sources many components from the Far East. As part of its regular meetings with the company, the Fund Manager raised the issue of the reputational risk associated with possible labour rights violations. The Fund Manager provided advice on best practice in codes of conduct and audit procedures. Tandem has committed to measure supplier performance through six-monthly audits and is currently considering suitable codes of conduct. The same fund manager has been advising the JJB Sports retail chain on best practice in supply chain issues. At the same time, the Local Authority Pension Fund Forum was making similar recommendations to the company.

Whether engagement is to be undertaken by in-house executives, the external investment managers or by third party organisations, there are common issues which must be addressed.

#### ***Willingness to engage***

Engagement can represent a new approach. The fund's policy and expectations must be fully explained in order that any initial uncertainties on the part of those expected to operate the policy can be overcome. This can be particularly acute in the case of fund managers whose main business does not include SRI engagement.

#### ***Process***

Trustees need to be clear about the engagement process to be used. This could include identifying types and sources of research to be used, the criteria for selecting companies for engagement, the scope of issues to be raised, the engagement strategy (letters, meetings, any escalation process), frequency of meetings, and types of follow-up, together with any exceptional strategies such as AGM attendance or shareholder resolutions.

#### ***Programme of activity (general and priority)***

If engagement has been identified as an appropriate strategy, trustees will already have decided that SRI issues are relevant for the fund. However, such discussion may only have been undertaken at a general level. In recognition that the agenda of potential issues is very wide, it is usual for pension funds to identify priority areas and within these to identify particular issues they wish to pursue. For example, the environment may be regarded as a general area of activity with reporting or carbon emissions as a specific issue. Another example would be to look at human rights issues in general but focus on security policies.

Trustees are responsible for determining the focus areas of activity for the fund but in doing so they should seek both consultation and professional advice. Trustees are able to consult members and beneficiaries, and a number of pension funds have undertaken such exercises via questionnaires or focus groups, though they cannot be bound by the results. Equally the fund's professional advisers, managers and the employing body should be consulted for their opinions. Several specialist advisers on SRI issues are also able to provide ongoing advice or one-off consultancy on developing SRI strategies.

If trustees choose to delegate the determination of

policy issues to fund managers or third parties, they should make clear to the trustees how they go about identifying priority issues and their rationale for this choice. They should also be able to justify why they have identified particular companies, what they are seeking from them, and what steps they will take to pursue the engagement process. It might well not be possible for a fund manager to identify in advance all the issues and companies for engagement. There will need to be flexibility in responding to emerging issues.

#### ***Direct Engagement by Sainsbury's Pension Fund***

Following the raising of the issue by a management trustee, the J Sainsbury plc pension fund undertook a letter-writing initiative to encourage environmental reporting. It used an external research provider to identify companies in environmentally-sensitive sectors which made no report on their environmental policies or impact. The fund wrote to these eleven companies and has been following up with the four which failed to respond positively.

#### ***Dealing with conflicts of interest***

If the pension fund uses its fund managers, it needs to recognise that they may face conflicts of interest through a variety of causes. They could find themselves engaging with a company whose pension fund they manage or wish to manage. They could also be undertaking activity in relation to a corporate management where their corporate finance arm provides advice. Pension funds too may face difficult situations if they are raising an issue which has not been addressed by the fund's own sponsoring company. A policy for dealing with these situations is needed.

#### ***Decision-making and measuring success***

If engagement is successful, progress will be made. At the very least, additional information will be provided by the company concerned. If trustees have decided to pursue an engagement strategy themselves, rather than requiring it of their fund managers, they will need to be clear where authority lies to consider this and to make a decision whether to continue with engagement. This is important because decisions on engagement may have to be taken according to a timetable which does not enable a trustee meeting to be called.

Shareholder engagement strategies can often involve lengthy discussions about issues which do not have a simple resolution. Other institutions may be involved in dialogue on the same issue and companies may also be

subject to pressure from NGOs, customers and the press. As the number of actors grows, simple causality for particular changes in company behaviour will become increasingly hard to prove. Nevertheless, the fund must be clear about how it will assess progress and make decisions on future engagement with particular companies.

### **Reporting mechanisms**

Whether it is by internal officers, an external agency or by fund managers, reporting of activity to the trustees is essential so that they can satisfy themselves that their policy is being carried out consistently and rigorously. In the same way that a record of investment transactions is provided, there should be a periodic description of engagement in terms of companies affected, issues raised, outcomes and proposed follow-up. If produced by fund

managers, this should be tailored to the policy priorities of the individual fund rather than being an identikit report for all pension fund clients.

### **Review mechanism**

Trustees should periodically review their policies and the processes in place to implement these policies in order to identify any necessary changes in approach. This would normally take place annually in line with SIP reviews, or perhaps following the occurrence of a major market development, such as the publication of new guidelines or regulations. Trustees may also wish to consider a periodic independent review of engagement activity undertaken on the fund's behalf in order to ensure that activity as reported accords with that actually undertaken.

### Sample Questions to Fund Managers

For many trustees, especially those of small and medium-sized funds, SRI will largely consist of selecting and monitoring appropriate fund managers to carry out the requirements of the fund. Engagement can be rather intangible. How do trustees know that fund managers really are engaging with the companies they invest in? How do they do performance measurement for engagement? There are four different categories within which to measure engagement success: inputs, outputs, outcomes, transparency. Trustees may wish to consider the following kinds of questions to fund managers during selection or review processes.

**Inputs:** What resources and thinking go into the engagement process?

- How much money is spent?
- How many staff are involved in the process?
- What levels of qualification and experience do they have?
- Are SRI issues dealt with by a separate unit or integrated into each analyst's/manager's brief?
- If there is a separate unit, how are its recommendations and findings used by the rest of the house?
- What research is conducted in house? What is bought in?

**Outputs:** What engagement work is carried out?

- Which issues does the fund manager cover under its SRI policy? Does it cover international development issues as well as environment and corporate governance?
- How many companies are contacted?
- How intensive are contacts?
- How many specific requests are made for change?
- Are any substantial projects undertaken?
- Are investors included in major debates and initiatives

- undertaken by government, NGOs, trade associations etc?
- Are any exceptional strategies employed, such as AGM attendance or shareholder resolutions?

**Outcomes:** How successful is the engagement process at achieving its objectives?

- How many companies have changed following engagement?
- How substantial are these changes?
- What other signs of change in the corporate sector are linked to engagement activity?
- How well substantiated are claims of engagement success?
- What is the fund manager's most significant SRI achievement over the last year?

**Transparency:** How clear is the communication of engagement activity?

- How detailed is the fund manager's reporting of engagement activity?
- How frequent?
- How well substantiated is it?

In a relatively new field, where only a handful of fund managers have established track records on SRI engagement, it would be rather premature to seek to assess performance across all these dimensions. However, it is already possible and quite reasonable to evaluate anyone who makes engagement claims on the Input dimension. The answers to these questions should help trustees identify those fund managers that are genuinely committed to, and able to implement, their SRI policies. It may also be useful to seek expert independent advice on the performance of the various fund managers in this area.

## V. GUIDE TO COMPANY BEST PRACTICE

Engagement is complicated. Fund Managers or trustees wishing to engage directly with companies face constraints on time, capacity and their ability to research often complex issues. This section brings together the experience and advice of a number of specialists from non-governmental organisations with track records in working with different corporate sectors.

There is a good deal in common between best practice on issues such as conflict, corruption or labour standards. These common themes are addressed first, followed by the specific questions to be considered under five headings: corruption, labour standards, conflict, human rights and access to medicines. Despite the wide variety of topics covered, the list is far from exclusive.

For reasons of space, other issues (e.g. marketing practices of powdered milk and tobacco companies) and sectors (tourism, water) have not been discussed.

### Common themes

Companies which are serious about their corporate social responsibility should first of all be able to give a satisfactory answer to the question

*Has your company considered the implications of this issue for shareholder value?*

If the answer is 'no', then the evidence laid out in this booklet and the organisations and sources of information listed under the links sections may be of use. If the answer is 'yes', companies should be able to explain satisfactorily their policies and practices in three principal areas: risk assessment, establishing properly monitored policies, and reporting and responsibility (see box).

### General Questions to Companies on CSR Issues

#### 1. Risk Assessment

- What procedures are in place to assess risk in current and proposed operations?
- Does risk assessment include the company's joint-venture partners, subcontractors and suppliers?
- What sources of information does the company use to inform this process?
- What level of dialogue is there with other relevant bodies, be they local communities or specialist NGOs and other institutions?
- What court cases or negative press coverage has the company or its joint venture partners, subcontractors and suppliers been involved with in recent years on this issue?

**Comment:** An absence of clear risk assessment should concern investors

**Comment:** While harder to assess, risks (e.g. on labour standards) can be higher further down the supply chain

**Comment:** A company should be able to demonstrate that it knows where to get good advice and builds it into its decision making process

**Comment:** Such bodies are often good early warning systems for future problems

**Comment:** Legal or media problems, and the company's response, are a good indicator of its overall attitude to CSR

#### 2. Establishing Properly Monitored Policies

- Does the company have a written policy on the issue, available to the public?
- Does it set targets and improvement strategies?
- Is the performance of the policy internally monitored and independently verified?
- What level of training is carried out for staff, both at headquarters and in-country?
- What are the numbers and seniority of staff employed to implement the policy?
- Is there a secure and accessible system in place enabling employees or local communities safely to raise breaches of the policy with management?

**Comment:** Transparency is essential to any credible approach

**Comment:** Shows if a company is genuine about improving CSR performance

**Comment:** Some form of independent checks on a company's performance is increasingly essential to a credible approach

**Comment:** Training programmes are a vital means of ensuring that a CSR policy permeates the whole company

**Comment:** Often seen as one of the best indicators of a company's commitment

**Comment:** This is one of the most effective ways of detecting problems early on

#### 3. Reporting and Responsibility

- Is there a named board level individual with overall responsibility for overseeing the design and implementation of the policy?
- What level of reporting, both internal and public, is conducted?
- Is there a feedback mechanism? (e.g. Shell's 'Tell Shell' programme)

**Comment:** Seen by many organisations as an essential sign of genuine commitment to CSR

**Comment:** Important in enabling a continuous improvement process to be monitored, and ensuring accountability to stakeholders

**Comment:** Established feedback systems are a sign that the company is serious about seeking advice on its social performance

## ISSUE: CORRUPTION

Key Sectors: Civil Construction; Defence; Oil and Gas

*Corruption is the dry rot undermining aid. It destroys development, it frightens away genuine foreign investors, it perverts societies. Corruption also impacts on corporate performance. It adds to shareholder risk.*

Richard Newton, Group Vice President, BP

Across the world, the public, the private sector and governments are increasingly aware of the damage corruption brings to their economies, politics and to the lives of their people. Economic growth and investment levels are lower in countries with high levels of corruption due to the uncertainty created, the costs of bribes and time-consuming bureaucracy.

In 1998, the OECD sponsored a new Anti-Bribery Convention, subsequently ratified by 34 member and associated countries. Signatories are required to 'establish that it is a criminal offence under its law for any person to intentionally offer, promise or give any undue pecuniary or other advantage, whether directly or through intermediaries, to a foreign public official'. The UK is a party to the Convention, and is committed to introducing such legislation in the near future. Other changes in the international regulatory environment already affect UK companies, which can be at risk both of debarment by the World Bank and of limits on the provision of export credits.

Evidence from the US, which has had legislation criminalising the bribery of foreign officials since 1977, shows that success depends on a company's ability to create a culture in which bribery and corruption are not tolerated. In a large multinational company, with subsidiaries and joint ventures in a number of countries, this may not be easy. A comprehensive programme designed to alert all employees to the principle of resisting corruption in its several forms is essential.

### Example

- Four British companies were indicted in the High Court in Maseru in 2000 for alleged payments of bribes to the manager of the Lesotho Highlands Water Project, partly funded by the World Bank.

### Additional questions for companies

(plus general list on page 12)

- Does the company have a policy of not paying bribes in order to win contracts?
- Is the award of subcontracts carried out in such a way

- as to render impossible the recovery of 'backhanders'?
- Does the company pay its agents on a basis which reflects actual services rendered and ensures that no part of agents' fees are paid to a third party?
- Are all agents representing the company required to confirm that they fully understand, and are committed to, the company's anti-corruption policy?
- In the case of joint ventures, does the company make every effort to ensure that its partner is fully aware of its anti-corruption strategy and will not make any payment which may undermine it?
- Are there clear guidelines for the giving and receiving of gifts and entertainment, with such payments openly declared to senior management?
- Does the company make payments to political parties? If so, what steps does it take to ensure that such payments are not made in order to obtain business or other commercial benefits? Are all such contributions publicly reported by the parent company?
- Will the company commit to voluntary (i.e. non-statutory) additional disclosure of revenues, profits and capital employed by country, instead of by region?

Where to find out more

#### Transparency International

[www.transparency.de/organisation/chapters/](http://www.transparency.de/organisation/chapters/)

#### OECD anti-corruption (and Convention)

[www.oecd.org/daf/nocorruption/](http://www.oecd.org/daf/nocorruption/)

#### International Chamber of Commerce

[www.iccwbo.org/home/extortion\\_bribery/rules.asp](http://www.iccwbo.org/home/extortion_bribery/rules.asp)

## ISSUE: LABOUR STANDARDS

**Key Sectors: High Street Retailers; Garment, Shoe and Food Brand Names; Mining**

*Reebok's experience is that the incorporation of internationally recognised human rights standards into its business practice improves worker morale and results in a higher quality working environment and higher quality products.<sup>21</sup>*

Many high street retailers and big brand names source an increasing proportion of their goods from developing countries such as China (toys), Bangladesh (garments), or Kenya (horticulture). Such international trade and investment can bring much-needed jobs and new technology, but abuses sometimes occur. If the jobs created are dangerous, badly paid, or the workers are forced to live in appalling conditions, the benefits may be minimal.

International standards exist to guide companies on labour issues. Almost every country in the world has signed up to the international 'core labour standards' agreed at the International Labour Organisation (ILO), covering issues such as forced labour and non-discrimination, health and safety, freedom of association and collective bargaining, and child labour. Unfortunately, many governments do not enforce these standards, sometimes because they fear that international investors will be deterred by such laws.

Faced with the risks posed by media exposés of poor working conditions, many high street retailers and big brand names have adopted codes of conduct setting out the minimum labour standards they expect in their supply chain. However, such codes vary widely in quality and effectiveness.

### Examples

From the mid 1990s onwards, both Nike and The Gap have faced a series of consumer campaigns and boycotts, highlighting poor labour practices in some of their supplier factories. Even though both firms have adopted codes of conduct, doubts over their effectiveness remain and the campaigns continue to damage both the bottom line and staff morale.

In July 2000, 3,000 South Africans were granted leave by the House of Lords to bring an appeal for compensation in the English courts against UK company Cape Plc. Cape mined and milled asbestos in apartheid South Africa and thousands of Cape's workers have sought compensation for asbestosis through the British courts.

### The Ethical Trading Initiative

The Ethical Trading Initiative (ETI) is a UK body which brings together businesses, trade unions and non-governmental organisations with the aim of improving working conditions in supply chains of member companies. It has the support of, and is partly funded by the Department for International Development.

Companies joining ETI sign up to its 'base code' of conduct, based on the ILO core conventions. Companies agree to work towards the attainment of these standards throughout their supply chain. It is accepted that none of the companies will meet all the standards all the time, but each year they report on the progress they have made.

The ETI also runs pilot projects which seek to develop good practice in monitoring labour standards throughout supply chains.

### Additional questions for companies

(plus general list on page 12)

- Is your code of conduct based on the core ILO conventions? If not, which issues are missing?
- Does it apply to all or only part of your supply chain. If the latter, what proportion of your supply chain is covered?
- How is the code communicated to suppliers and subcontractors?
- What policies are in place for the welfare of under-age workers if they are found in supply chains?
- To what extent have the policies been discussed with/explained to employees?

### Where to find out more

**Ethical Trading Initiative** [www.ethicaltrade.org.uk](http://www.ethicaltrade.org.uk)  
**Social Accountability International** [www.sa8000.org](http://www.sa8000.org)  
**International Labour Organisation** [www.ilo.org](http://www.ilo.org)

<sup>21</sup> Excerpt from Reebok's Human Rights Production Standards

## ISSUE: CONFLICT<sup>22</sup>

Key Sectors: Mining; Oil and Gas; Water

The UN High Commissioner for Refugees estimates that 30 million people world-wide have been forced to flee their homes because of war. Armed conflicts currently affect 36 countries. This situation poses considerable risks to companies attempting to do business in countries experiencing conflict. Extractive industries in particular suffer intense criticism for their attempts to operate a policy of 'business as usual' in countries such as Angola, Sudan, Colombia and Nigeria, where this is alleged to have resulted in perpetuation of the conflict, or complicity in human rights abuses.

Firms can have a negative impact on conflict through a variety of mechanisms. They may generate resentments that fuel conflicts. Business links frequently add to the value of resources over which armed groups are fighting. Security arrangements to protect a company may lead to charges of complicity in human rights abuses. And finally the lack of transparency concerning the use of funds generated by business in conflict situations may lead to or exacerbate corruption.

There are three main arguments for companies to develop transparent policies to ensure that their presence in conflict areas is not negative. The first is a moral argument. Like anyone else, members of the business community have a moral responsibility to ameliorate the suffering of their fellow human beings and since businesses inevitably have an impact on conflict, they have an additional responsibility to limit any damage they do.

The second is in response to a growing trend demanding legal liability of companies operating in conflict situations. Although governments are rightly responsible for ensuring that human rights and humanitarian standards are implemented, there is a growing recognition that companies are likely to face increased legal obligations in relation to conflict.

The third reason is reputation with consumers and shareholders. High profile campaigns have damaged the reputation of companies unable to demonstrate what they are doing to ensure that their presence neither exacerbates nor profits from violence. (See discussion of Talisman Energy and Sudan, page 5).

### Examples

De Beers (conflict diamonds, Angola and Sierra Leone); BP and Talisman (Sudan)

### Additional questions for companies

(plus general list on page 12)

- Has the risk to local communities affected by the business been assessed? What knowledge has been sought and from whom?
- Did the company seek to mitigate any negative impacts?
- Does the company undertake training of all personnel and subcontractors on these issues?
- Is the company involved in any development initiatives in conflict areas?
- Does the company report against impact on conflict or potential conflict? If the company's presence in a particular area is perceived to be leading to deterioration in the conflict, does it have any means of acting promptly?

### Where to find out more

**International Business Leaders' Forum** [www.iblf.org](http://www.iblf.org)

**International Alert** [www.international-alert.org/corporate](http://www.international-alert.org/corporate)

For a copy of the recently published report *The Business of Peace: the private sector as a partner in conflict prevention and resolution*, please email: [iblf@mmcltd.com](mailto:iblf@mmcltd.com)

## ISSUE: HUMAN RIGHTS

Key Sectors: Construction; Oil and Gas; Mining

*We can't stand passively by when these [human] rights are breached or international law is ignored in countries where we have operations.*

Staffan Riben, president of Statoil Venezuela

The globalisation of the world economy in the post-Cold War era offers unprecedented opportunities to business. But in many countries, companies can also find themselves caught up in situations where human rights are violated. This is a threat to the stability of the investment climate, to the physical security of employees and installations, and to corporate reputation, if companies lack the appropriate policies and practices which today's informed and critical society expects of them.

The internationally accepted standard for human rights is the UN's Universal Declaration of Human Rights (1948) (UDHR), together with related international treaties and protocols. This framework should form the basis of a company's human rights policy to be implemented across all its spheres of influence. A number of major transnational companies such as Shell, Rio Tinto, BT, Novo Nordisk, Statoil and BP have now incorporated these standards into their Business Principles and Codes of Conduct. This is an essential first step even if there is still a long way to go for some of these companies in implementing these principles and putting in place the necessary education, monitoring and auditing frameworks.

### Examples

BP (Colombia), Rio Tinto (Indonesia), Balfour Beatty (Ilisu Dam, Turkey), Premier Oil (Burma) and Shell (Nigeria) have each suffered reputational damage because of real or perceived mismanagement on human rights.

In March 2001, the US Supreme Court cleared the way for relatives of Ken Saro-Wiwa to proceed with a civil action suit against the oil multinational Shell for alleged complicity by its Nigerian subsidiary in Saro-Wiwa's execution and the oppression and deaths of other Ogoni activists. If successful this case could pave the way for multinationals to be brought to account in the US for alleged human rights violations committed overseas.

### Additional questions for companies

(plus general list on page 12)

- Does the firm explicitly incorporate the UN UDHR,

associated treaties and protocols, and a commitment to abide by national human rights requirements into its business principles and practice?

- Are country managers required to demonstrate that the company has taken steps to avoid complicity in human rights violations; e.g. through an annual letter of assurance to the Board?
- Are human rights impact assessments integrated into pre-investment risk analysis and into every element of the project cycle including employment practices, use of natural resources which local communities depend upon, production, waste disposal, marketing and asset protection?
- Is the company committed to raising human rights concerns with host governments? Where quiet diplomacy fails, is the company prepared to speak out publicly either alone or in concert with other companies?

### Where to find out more

**Amnesty International UK Business Group**

[www.amnesty.org.uk/business](http://www.amnesty.org.uk/business)

**Business and Human Rights Resource website**

[www.business-humanrights.org](http://www.business-humanrights.org)

**International Business Leaders Forum** [www.iblf.org](http://www.iblf.org)

## ISSUE: ACCESS TO MEDICINES

Key Sector: Pharmaceuticals

One third of the world's population do not have access to basic medicines. Each year 11 million people die from infectious diseases – the vast majority of them are poor. In developed countries, on the other hand, major breakthroughs in the detection and treatment of disease are increasing life expectancy and reducing vulnerability to sickness.

Inequalities in the provision of health care pose a growing risk to the reputations of pharmaceutical companies. The industry has come under intense pressure since the late 1990s both to increase access to affordable medicines in developing countries and to spend more on research and development into diseases associated with poverty.

While poor nutrition, inadequate water and sanitation, and low-quality public health education all contribute to ill health, the price of medicines is also a major obstacle. This has led to growing calls for companies to change their pricing policies, especially on anti-AIDS drugs. Companies have responded by offering substantial discounts on anti-retrovirals in certain countries. Critics argue that such voluntary schemes should be replaced by a system of differentiated patent application that would allow greater market competition in poor countries from firms producing cheap generic medicines.

### Examples

Sub-Saharan Africa provides the starkest example of the failure of the market to link supply to need. Despite the existence of anti-retroviral treatments capable of alleviating symptoms and prolonging life, UNAIDS predicts that over 25 million people living with the virus will die in the next decade due to lack of medicines. Pharmaceutical companies recently launched (and were subsequently forced to drop) a court case against the South African government to try to prevent it from acquiring AIDS drugs through other, cheaper, routes. This situation, combined with campaigning by NGOs such as Oxfam and Médecins sans Frontières, has led to global media scrutiny of the industry's response and considerable public criticism.

### Additional questions for companies

(plus general list on page 12)

- Does your company have a written policy on maximising access to quality medicines in developing countries? E.g. differentiated patent enforcement;

tiered pricing according to ability to pay/public health needs. Is it publicly available?

- Does your Board consult with independent public health specialists from developing countries on the impact of your practices on public health priorities?
- Do you report on your written policy? If so, do you evaluate performance against policy by providing information about why intentions to make available particular drugs in specific markets succeeded or failed? Do you provide clear disaggregated information about the percentage of total R&D expenditure that is dedicated to tropical diseases?
- Is your company involved in any legal or trade dispute relating to protection of intellectual property rights in a developing country? If so, what evaluation has been done to assess the negative reputation risk this may constitute?
- Does your company monitor the application of internationally agreed ethical standards to clinical trials in developing countries? e.g. WHO Guidelines for Good Clinical Practice for Trials on Pharmaceutical Products? Do you allow for third party verification?

Where to find out more

**Médecins sans Frontières** [www.msf.org](http://www.msf.org)

**Oxfam** [www.oxfam.org](http://www.oxfam.org)

**Global Treatment Access Campaign**

[www.globaltreatmentaccess.org](http://www.globaltreatmentaccess.org)

**International Federation of Pharmaceutical**

**Manufacturers Associations (IFPMA)** [www.ifpma.org](http://www.ifpma.org)

## VI. USEFUL LINKS

### Project Website

[www.justpensions.org](http://www.justpensions.org)

### Project Managers

Traidcraft Exchange

[www.traidcraft.co.uk](http://www.traidcraft.co.uk)

War on Want

[www.waronwant.org](http://www.waronwant.org)

### Advisory Group Members

Amnesty International UK Business Group

[www.amnesty.org.uk/business](http://www.amnesty.org.uk/business)

Department for International Development

[www.dfid.gov.uk](http://www.dfid.gov.uk)

Ecumenical Council on Corporate Responsibility

[www.quaker.org.uk](http://www.quaker.org.uk)

Ethical Investment Research Service

[www.eiris.org](http://www.eiris.org)

Friends Ivory & Sime

[www.friendsis.com](http://www.friendsis.com)

Friends of the Earth

[www.foe.co.uk](http://www.foe.co.uk)

Henderson Global Investors

[www.henderson.com/global\\_portal/index.asp](http://www.henderson.com/global_portal/index.asp)

Jupiter Asset Management

[www.jupiteronline.co.uk](http://www.jupiteronline.co.uk)

Oxfam

[www.oxfam.org.uk](http://www.oxfam.org.uk)

International Business Leaders' Forum

[www.iblf.org](http://www.iblf.org)

Trades Union Congress

[www.tuc.org.uk](http://www.tuc.org.uk)

UK Social Investment Forum

[www.uksif.org](http://www.uksif.org)

Universities Superannuation Scheme

[www.ussfq.co.uk](http://www.ussfq.co.uk)

Worldwide Fund for Nature

[www.wwf-uk.org](http://www.wwf-uk.org)

### Links on Specific Issues

#### Corruption

Transparency International

[www.transparency.de/organisation/chapters/](http://www.transparency.de/organisation/chapters/)

OECD anti-corruption (and Convention)

[www.oecd.org/daf/nocorruption/](http://www.oecd.org/daf/nocorruption/)

International Chamber of Commerce

[www.iccwbo.org/home/extortion\\_bribery/rules.asp](http://www.iccwbo.org/home/extortion_bribery/rules.asp)

#### Labour Standards

Ethical Trading Initiative

[www.ethicaltrade.org.uk](http://www.ethicaltrade.org.uk)

Social Accountability International

[www.sa8000.org](http://www.sa8000.org)

International Labour Organisation

[www.ilo.org](http://www.ilo.org)

#### Conflict

International Business Leaders' Forum

[www.iblf.org](http://www.iblf.org)

International Alert

[www.international-alert.org/corporate](http://www.international-alert.org/corporate)

#### Human Rights

Amnesty International UK Business Group

[www.amnesty.org.uk/business](http://www.amnesty.org.uk/business)

Business and Human Rights Resource website

[www.business-humanrights.org](http://www.business-humanrights.org)

International Business Leaders Forum

[www.iblf.org](http://www.iblf.org)

#### Access to Medicines

Médecins sans Frontières

[www.msf.org](http://www.msf.org)

Oxfam

[www.oxfam.org](http://www.oxfam.org)

Global Treatment Access Campaign

[www.globaltreatmentaccess.org](http://www.globaltreatmentaccess.org)

International Federation of Pharmaceutical Manufacturers Associations (IFPMA)

[www.ifpma.org](http://www.ifpma.org)

#### Other SRI Links

Business for Social Responsibility

[www.bsr.org](http://www.bsr.org)

Institute of Business Ethics

[www.ibe.org](http://www.ibe.org)

Pensions Investment Research Consultants Ltd

[www.pirc.co.uk](http://www.pirc.co.uk)

US Social Investment Forum

[www.socialinvest.org](http://www.socialinvest.org)



**Traidcraft**

*Fighting poverty through trade*

**War on Want**  
FIGHTING POVERTY THROUGH TRADE

# JUSTPENSIONS

**SOCIALLY RESPONSIBLE  
INVESTMENT  
AND INTERNATIONAL  
DEVELOPMENT**

**Just Pensions**

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