How Socially Responsible Investment Is Defined
- An analysis of how SRI investment management firms put ethical criteria into practice

Therese Asplund

Bachelor of Science Thesis, Environmental Science Programme, 2007
Preface

Two years ago, I was introduced to the field of environmental economics and ethical investment in a lecture held by Robur at Linköping University. I decided to keep my new interest in mind and I’m grateful for the opportunity given to explore the field of socially responsible investment.

I would like to thank the four respondents for their time, interest and useful contributions.

I am particularly indebted to the teachers at the Environmental Science Programme for their knowledge and never-failing commitment, and for this thesis a special thanks to my supervisor Anna Jonsson for valuable feedback.

Norrköping 2007-05-25

Therese Asplund
Abstract

Several organisations have called for clarifications on sustainable investment. The aim of this study is to map and compare the ethical criteria used by Socially Responsible Investment (SRI) funds in their assessment of companies. My attention is also to seek for clarifications on the definition on SRI. A theoretical framework has been used to identify core issues of socially responsible investment. The areas of interest are charitable giving, environmental technologies, negative and positive screening and shareholder activism. The empirical material consisted of qualitative interviews with 4 fund managers from 5 investment management firms in addition to written documents on the funds’ ethical criteria. The conclusions are that all of the funds use negative criteria in their assessment of companies, with similarities in what may be considered as unethical activity and differences in the extent. Most of the funds also seek to identify better-managed companies through an assessment of how companies comply with international agreements. Differences occur in the choices of international agreements as well as the minimum criteria for investing. Most of the investment management firms engage in shareholder activism with the aim to influence the companies’ corporate behaviour, thus with different levels of engagement. Some have dialogue with whom they invest in, some favour the idea of communicate with companies they do not invest in as well. Furthermore, the results of this study show that investments in environmental technologies are rare since these companies are too small. When it comes to charitable giving, donations to charity may be seen as SRI or may not be seen as SRI depending on if the concept refers to investment criteria.
Contents

1. Introduction ............................................................................................................... 5
  1.1 The purpose of the thesis .......................................................................................... 6
2. Background ................................................................................................................ 7
  2.1 Corporate Social Responsibility (CSR) .................................................................... 7
  2.2 Theoretical framework .............................................................................................. 8
    2.2.1 Definition ............................................................................................................. 8
    2.2.2 Charitable giving ................................................................................................. 8
    2.2.3 Environmental technologies .............................................................................. 8
    2.2.4 Negative and positive screening ......................................................................... 9
    2.2.5 Shareholder activism ......................................................................................... 9
    2.2.6 Future of SRI .................................................................................................... 9
    2.2.7 Research questions .......................................................................................... 10
  2.3 Socially Responsible Investment (SRI) ................................................................... 10
    2.3.1 United Nations ................................................................................................ 10
    2.3.2 The Swedish Financial Supervisory Authority, FI .............................................. 11
    2.3.3 The Swedish Social Investment forum, Swesif ................................................ 11
3. Methodology ............................................................................................................. 12
  3.1 Reliability and validity ............................................................................................ 12
  3.2 Respondent selection ............................................................................................... 13
  3.3 Analysis ................................................................................................................... 14
4. Findings ..................................................................................................................... 15
  4.1 Charitable giving ..................................................................................................... 15
  4.2 Environmental technologies .................................................................................. 15
  4.3 Negative screening .................................................................................................. 16
  4.4 Positive screening ................................................................................................... 18
  4.5 Shareholder activism .............................................................................................. 22
  4.6 The future of SRI ................................................................................................... 24
  4.7 How SRI may be defined ....................................................................................... 25
  4.8 Comparison with the US and UK SRI market ....................................................... 26
    4.8.1 United Kingdom ............................................................................................... 26
    4.8.2 USA .................................................................................................................. 26
5. Conclusions ................................................................................................................ 28
6. References .................................................................................................................. 30
   Appendix 1 Interview guide ......................................................................................... 33
1. Introduction

Over the last twenty years, there has been a significant change in environmental thinking (Sparkes 2002, p 145f). In the 1970s and early 1980s the majority of environmental problems could be solved by specific “clean-up” measures, so called end of pipe solutions. Worried about the cross-boundary effects of environmental problems such as acid rain Sweden took initiative to the first UN international conference on environment in 1972 (Corell and Söderberg 2005, p 18). Ten years later, a commission was established by the United Nations Environmental Programme to analyse the evidence of environmental change. The commission published a framework for environmental thinking that has been used ever since; the concept of Sustainable Development. The report brought forward the global relation between the ecological crisis and the social and economical classes and stated that environment and development were intimately connected (Corell and Söderberg 2005, p 31f). Sustainable development constitutes a vision and points out a direction for how we should improve the conditions of life but there is no standard recipe for the practical application. The concept of sustainable development is to be adjusted to the conditions at the particular level. The significant change over the last twenty years considers the fact that since the problems are on a global scale there is now a totally different dimension to environmental thinking (Sparkes 2002, p 145f).

The 1990s continued with a more holistic view on the environment. Regulations aim towards a sustainable development and call for nations to consider environmental, social and economical perspectives in decisions. The United Nations Conference on Environment and development (the Rio Conference) held in 1992 meant an enormous international advance in environmental managing and the concept of sustainable development (Corell and Söderberg 2005, p 20). The conference resulted in a number of documents, the Rio Declarations and the Agenda 21 among them. To the declaration belong different principles, for example Polluter Pay Principle, the Precautionary Principle which later on have been used in both Swedish and international legislation. The profound global policy statement of the relationship between sustainable development and socially responsible investment made at the time of the 1992 Earth Summit in Rio must be noted (Sparkes 2002, p 167). The Rio Resolution was the first significant occassion when socially responsible investment became a force working on a global scale. The resolution was drafted by UK, US, Canada and Australia and calls for financial institutions to begin the process of integrating environmental and social considerations into the investment analysis process.

Socially Responsible Investment has, unlike mainstream investors, a direct interest in the specific nature of the firm’s interactions with society (Hockerts and Moir 2004) and due to the increase in society’s interest in the environment, communicating their environmental performance has become increasingly important for companies (Cerin 2002). The problem for socially responsible investors is how to assess the success of companies in integrating sustainability into their operations (Sparkes 2002, p 148,171).

According to the Foundation for Strategic Environmental Research (Mistra 2007) the vague nature of the concept of sustainable development leads to a lacking definition of sustainable investment. Therefore they seek for a clarification and an operational definition of sustainable investment in relation to sustainable development. The Mistra financed research programme has mainly focused on finance and investment, accounting and reporting and economics (SIRP 2007). My intention is therefore to clarify the ethical dimension of sustainable investments.
1.1 The purpose of the thesis

The purpose of this study is to:

(i) Map the tools used by Swedish Socially Responsible Investment management firms
(ii) Compare similarities and differences in the attitudes of fund managers towards socially responsible investment
(iii) Investigate fund managers perceptions of future development

The thesis continues with a review of the existing literature on Corporate Social Responsibility and Socially Responsible Investment and also presents the theoretical framework used for the study. Section 3 reports on the methodological approach to the study and section 4 provide the results. The thesis concludes with a discussion on the aspects of Socially Responsible Investment and a comparison of the results with investment strategies in UK and USA.
2. Background

2.1 Corporate Social Responsibility (CSR)

Due to the increase in society’s interest in the environment, communicating their environmental performance has become increasingly important for companies and corporate reporting has become the key channel for communication (Cerin 2002). Corporate Social Responsibility (CSR) is a concept that more frequently circulates when companies are involved. The definitions vary widely but are understood as the companies’ methods to besides their economic perspective also consider environmental and social issues relating to their activity (Hill et al 2007; Dahlsrud 2006).

Investors are increasingly interested in the ability of firms to meet the expectations of various stakeholders on important social issues (Hill et al 2007) and as investors increasingly consider non-financial aspects in their assessment of companies, corporate social responsibility has therefore received a particular amount of attention (Hockerts and Moir 2004). However, balancing between the often-conflicting concerns of the different stakeholders is a challenging task (Dahlsrud 2006). In the context of Socially Responsible Investing a focus is that the investors judge a company partly in terms of the firm’s response to multiple stakeholders (Hockerts and Moir 2004). As the growth of socially responsible investment has led to pressure on firms to address issues of CSR, firms now increasingly produce social reports as a way of communicating their perspectives on their responsibility. To this study it is relevant to see if communication is a key channel for the SRI analysts and since it is suggested that it can be a often-conflicting activity for companies, the particular engagement issues for SRI is of interest.

Corporate reporting is an important channel for communicating company environmental issues and performance (Cerin 2002). On a voluntary basis companies produce environmental reports independently from their financial reports. Cerin (2002) discusses in his paper the credibility of these reports and illuminates the gap between messages in the environmental reporting, on one hand and corporate behaviour on the other hand. There are several examples of discrepancy between what companies report and what they actually do in reality. As several funds base their evaluation on the companies’ own communication (Cerin 2002) the reliability of corporate reporting is of interest to this study.

Cerin (2002) also points to the fact that there are primarily the giants among corporations that produce environmental reporting and there are entire sectors that usually do not conduct external environmental disclosure, for example in mining and metal industries and agriculture. Despite the increase in reporting during the 1990s, there are still very few companies producing reports, meaning a small proportion of companies listed on either the New York or London stock exchanges with a similar occurrence on the Stockholm Exchange. The dilemma is illuminated by the New Economics Foundation (2000 cited Cerin 2002): ‘…we reward a company which manufactures harmful chemicals by placing it at the top of the Dow Jones Sustainability Group Index. Why? In part, because it produces a social report’. This suggests that smaller companies and entire sectors are left out of the SRI – analysts table because they do not provide written documents. Of interest is also the criticism suggesting that SRI funds may invest in the same companies as non-SRI funds.
2.2 Theoretical framework

It is not only Mistra that calls for more information about socially responsible investment. From a UK and US perspective, relatively little thought has been given to a deeper analysis of the basic ideas and concepts of socially responsible investment (Sparkes 2002, p 21). With his book “Socially Responsible Investment: A Global revolution” Sparkes aims to fill that gap by attempting to categorise the different types of activity that make up socially responsible investment. As it is a pioneering development, Sparkes is not surprised if some people disagree with its conclusions. His attempt to identify and define what socially responsible investment might mean constitute the theoretical framework for this study. The different types of activity Sparkes have categorised will in this study be analysed to see if applicable to a Swedish context. It is suggested that national culture may influence socially responsible investing (Hill et al 2007) and that western cultures seem to be more focused on equality. I will not give this so much attention than have in mind that SRI may vary from one culture to another and that the cultural differences may have an influence on how SRI is practised.

2.2.1 A definition of SRI
There have been a few attempts to define socially responsible investment with the most precise definition as follow (Sparkes 2002, p 22):

“Ethical investment may be defined as the exercise of ethical and social criteria in the selection and management of investment portfolios, generally consisting of company shares (stocks). This contrasts with standard depictions of investment decisions, which concentrate solely on financial return. Ethical investors care not only about the size of their prospective financial return and the risk attached to it, but also its source – the nature of the company’s goods or services, the location of its business or the manner in which it conducts its affairs” (Cowton 1994 cited Sparkes 2002, p. 22).

2.2.2 Charitable giving
Sparkes gives Cowton credit for the precise definition on investment- the use of ethical and social criteria in the selection and management of investment portfolios. Earlier attempts had been vaguer and not so precise in the description on the term ‘investment’. For this study it is relevant to investigate how ethical criteria are used by investment management firms and if there are different strategies to the socially responsible investment. Sparkes as Cowton argues for the importance of financial returns but Sparkes also argues that the financial aspect is one key factor distinguishing SRI from charitable giving. On the contrary, Folksam (2006) describe in a report on Swedish SRI funds that charitable funds are counted as SRI. This is the first aspect of Sparkes theory to apply to a Swedish context.

- SRI and charitable giving are two different things.

2.2.3 Environmental technologies
Sparkes (2002, p 24) include funds investing in environmental technologies within the SRI universe on the grounds that they do so for environmental reasons. There is a difference between investment in activities carried out to maximize profits and investment in environmental activities carried out to encourage sustainable development. This is the second aspect of socially responsible investment to seek answer for.

- Environmental technologies are counted as SRI
2.2.4 Negative and positive screening
Cowton’s use of the term source, defined as the activity, location or manner of business indicates that things are more complicated than describe SRI as based on the avoidance of certain activities (Sparkes 2002, p. 22-25). Alongside the older negative exclusions of tobacco, defence etc the public regards the environment as a core issue. Virtually, all SRI funds use environmental criteria. Common strategies in Europe are both negative and positive screening (Eurosif 2007). The question of whether both of these tools are used by Swedish SRI funds are examined in this study.

- SRI may be based on more than the avoidance of certain activities.

2.2.5 Shareholder activism
Shareholder activism simply means the use of voting rights attached to facilitate change (Sparkes 2002, p. 29). It occurs when shareholders get together to raise awareness of something that a company is doing. Shareholder activism differs between NGOs and SRI. NGO campaigns may seek to close down a particular company or cause them financial harm by encouraging boycotts. Confrontations and publicity are standard tools for campaigning groups whereas discussions with the company are more characteristic for SRI. They both use their voting rights to assert non-financial objectives, but in different ways. An increasingly popular variant on the SRI market in UK is to emphasize dialogue with companies, the so-called engagement approach.

- SRI investment management firms affect corporate behaviour by using the power and influence of shareholders.
- SRI shareholder activism uses dialogue to improve corporate behaviour

2.2.6 The future of SRI
The future of SRI may be predicted in many ways. Historically there have been variations in ethical criteria. In the 1970s Americans were keen to exclude any investment holding that could be profiting from the Vietnam War (Sparkes 2002, p. 27). More recent additions to the exclusion criteria are the environment, human rights or pornography.

- Negative criterias change over time

This theoretical framework is interesting when compared to a report presented by Folksam (2006) on the Swedish SRI-market. According to the report, the most common criteria concerns human health, such as no investing in tobacco and alcohol but also weapons and gambling. Instead of the avoidance approach, it has become more common to engage in shareholder activism. Furthermore, environmental funds are a subgroup in ethical investing with special funds including environmental technologies such as wind-power stations, solar collector and waste disposal.

Sparkes (2002, p. 40) stress the importance of not forgetting the investment in socially responsible investment. Investment refers to investment in shares in limited companies quoted on a stock market. What is a well-managed company then? Corporate social responsibility and social responsible investment can be seen as mirror images of each other with that business should generate wealth for society but within certain social and environmental frameworks. Corporate social responsibility looks at it from a company perspective while SRI takes the viewpoint of investors. There are three mechanisms to assert CSR: avoidance,
engagement and shareholder activism and this study aims to map the differences and similarities in the approaches of investment management firms to the concept of socially responsible investment.

2.2.7 Research questions
1. Are SRI and charitable giving two different things?
2. Are environmental technologies included within the SRI universe?
3. Is SRI based on more than the avoidance of certain activities?
4. Do SRI investment management firms as shareholders try to affect companies?
5. How is the future of socially responsible investment predicted?

2.3 Socially Responsible Investment (SRI)

The majority of “ordinary” or mainstream investors are likely to be interested in social responsibility only when it affects the firm’s capital or result. SRI has a direct interest in the specific nature of the firm’s interactions with society (Hockerts and Moir 2004). In SRI, the ability of firms to meet the expectations of various stakeholders on important social issues is assessed through their social performance (Hill et al 2007). An increasing emphasis is being placed on social and environmental concerns (Friedman et Miles 2001).

There are several stakeholders that influence and get influenced by responsible investment. The core issues and/or statements of important stakeholders are presented below. The United Nations is an important global organisation with universal norms and guidelines on responsible investment. The guidelines can be seen as a global framework for investors. It is also of interest to look upon the ethics of socially responsible investment on a national level.

2.3.1 United Nations
In 2005 the United Nations invited institutional investors to develop “Principles for Responsible Investment” (UN 2007a). Representatives from 20 institutional investors from 12 countries agreed to participate. With support from a multi-stakeholder group the Principles for Responsible Investment (UNPRI) emerged as a result in 2006. The Principles provide a framework for appropriate consideration to environmental, social and corporate governance and aim to help institutional investors to integrate these issues into investment decision-making. The principles are not designed to be relevant only to SRI products but do point to a number of approaches that SRI managers also practice. Signatories of the Principles believe that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios. The signatories commit to the following:

1 incorporating ESG issues into investment analysis and decision-making processes.
2 be active owners and incorporate ESG issues into their ownership policies and practices.
3 seek appropriate disclosure on ESG issues by the entities in which they invest.
4 promote acceptance and implementation of the Principles within the investment industry.
5 work together to enhance the effectiveness in implementing the Principles
6 report on activities and progress towards implementing the Principles.
The Principles suggest a policy of engagement with companies rather than screening or avoiding stocks based on ESG criteria. In signing the Principles, investors commit to adopt and implement them. They also commit to evaluate the effectiveness and improve the content over time. Relevant Swedish signatories for this study are: Banco, Carlson Fonder and DnB NOR. Robur will sign in a near future. The principles are designed to be voluntary and there are no legal sanctions associated with the Principles but it is suggested to be a reputational risks associated with signing up and then failing to take any action.

2.3.2 The Swedish Financial Supervisory Authority, FI
There is no legal definition of what can be considered as an ethical fund and charitable giving but the criterias for investment shall be clear (FI 2006, p 41-42). It should be evident that the fund invest or reject to invest in certain companies that are seen as unethical. An ethical fund may for example invest in a company that work for a better environment but may not invest in a company producing tobacco or war materials. Charitable giving supports certain organisations such as the Red Cross or WWF.

If the funds do not apply a zero tolerance towards activities they consider as unethical, the level of tolerance shall be stated.

2.3.3 The Swedish Social Investment forum, Swesif
Swesif is the Swedish forum for organizations that work with, or promote sustainable investment (Swesif 2007a). According to them, socially responsible investing usually includes companies quoted on stock markets. The companies are in the screening process analyzed according to a set of defined criteria. The compositions of SRI funds thus vary because of differences in SRI criteria. Sustainable investments take consideration of long-term effects of companies’ environmental, social and ethical activities (Swesif 2007b). There are several variants of ethical investment but they are usually divided in negative and positive screening. The purpose of positive screening is to select those companies that in the best way work with sustainability and therefore is best suited for the criteria. Although the criteria may vary between the funds, the purpose of identifying what is best is the same. An analysis of the companies’ methods of dealing with the environment, human rights and corporate governance is conducted by the analyst (GES 2007). The analysis of each specific company is based on official company document and dialogue. Non-governmental organizations and the media are also providers of information. In the negative screening companies are excluded (Swesif 2007b). This approach is the oldest and has traditionally excluded companies with activities in production or sales of weapons, tobacco, pornography and gambling. There are variations between negative criterias and what is accepted. This study maps the negative and positive screening of five SRI funds.
3. Methodology

Interviewing is the most widely applied technique for conducting systematic social inquiry (Holstein and Gubrium 1998, p 113-116). Interviews are special forms of conversation that may vary from highly structured survey interviews to semi-formal conversations and free-flowing informational exchanges. No matter how the narratives are produced, they all are constructed, as a product of the talk between interview participants. The trick is to formulate neutral questions and create an open atmosphere. To avoid leading questions in this study, the interviewees were asked to make a step-by-step presentation of the analysis process. Then I was during the interview able to discuss, relate and go back to what they had presented but also bring forward new aspects.

In an active interview both the interview and its participants are constantly developing, meaning that the subject is fleshed out in relation to the give-and-take of the interview process (Holstein and Gubrium 1998, p 121-123). The focus and data of the research project provide resources for developing both the subject and his or her responses. The active interview can be seen as a kind of improvisational performance. The production is spontaneous, yet structured – focused within loose parameters. An interview includes themes and suggestions on questions that can be put forward (Kvale 1997). Different themes, derived from the theoretical framework were in focus in the interviews. The formulation of questions and their order were not decided beforehand. See appendix 1 for the interview guide.

3.1 Reliability and validity

Reliability can be explained as the extent to which questioning yields the same answers whenever and wherever it is carried out (Peräkylä 1998, p 201 - 207). Validity can be explained as the extent to which inquiry yields the “correct” answer. The issues of reliability and validity are important since they handle the question of ‘objectivity’ of research. In research practice, enhancing objectivity involves efforts to assure accuracy in recordings as well as efforts to test the validity of the analytic claims that are being made. The quality of tapes and transcripts has important implications for the reliability. The advantage of tape-recorded conversation is the possibility to study it over and over again and also the possibility for others to listen to. The key aspects of reliability lie in 1. the selection on what is recorded, 2. the technical quality of recordings and 3. the adequacy of transcripts. The first aspect is overcome by record the whole interview. The technical quality is secured by instead of tape-record the interviews; they are recorded with the help of a computer. The recording and the sound are tested before conducting the interviews. For the third aspect, the adequacy of transcripts, utterances and quotations were sent to the respondent for approval.

Deviant case analysis constitutes a central resource for testing of hypotheses (Peräkylä 1998, p 212-214). A central dimension of validity involves the correspondance between a theoretical paradigm and the observations made by the researcher. One dimension of validity concerns the generalizability of the research findings. It is not sufficient to say that a particular context is oriented to ‘in general’ by the participants in the interaction. This study is truly a contribution to the overall perceptions on socially responsible investment. To compare similarities and differences of investment management firms criteria direct tackles the question on generalizability. The results are generalizable as descriptions of how other Swedish SRI- funds may perceive the concept of socially responsible investment. The variation in different cultures can only be tackled through gradual accumulation of studies.
3.2 Respondent selection

A total of 5 Swedish investment management firms have been selected to this study. They are chosen because of their differences in analysing criteria. All of the Swedish SRI funds can be categorised depending on their SRI-approach such as negative criteria, screening based on international conventions, best in class, funds giving money to charity, or clean-tech funds (Folksam 2006). I wanted in this study to include as many perspectives as possible and therefore two fund managers that uses negative criteria in their screening and two fund managers that also look upon how companies manage international conventions were asked to participate. These are also the largest and the smallest asset managers at the Swedish market. Eldsjäl and Skandia have 3 SRI funds each with a capital of 198 respectively 1122 million Swedish crowns, SEK (Folksam 2006). Banco has 19 SRI funds and manages assets of 10 008 million SEK, Robur manages 7 SRI funds (Folksam 2006) with a total asset of 12 000 million SEK (Robur 2007). The Sweden registered SRI funds have assets under management for 123 billion Swedish crowns (Folksam 2006). In relation to the total amount of fund saving the SRI funds proportion are 11. Consequently, in terms of assets under management the sample of this study represents ~20 % of the sector. The Seventh Swedish Pension Fund represents it self 55 % of the total SRI sector but is not included since it is a part of the pension system.

DnB NOR manage the assets of Skandia but also have their own funds. Thus, the study includes 4 fund managers representing 5 investment management firms. These are: Banco Fonder, Carlson Fonder, Eldsjäl Fond, Swedbank Robur and Skandia Fonder. By conducting interviews with these I will get a good picture on how they from a company perspective perceive SRI. Data were collected through 4 individual interviews. The interviews lasted on average 40 minutes. All interviews were computer-recorded and subsequently transcribed. The interviewees’ approval was obtained for quotations and the respondents were given the possibility to have their statements anonymous.

Alongside the interviews, written documents such as investment criteria and policies have been used for clarifications on the interview conversations. The documents have not been subject to analysis but have functioned as complementary information to the research question.

The composition of portfolios has not been given attention. Unit trusts, interest funds, investment on a global or a local market etc are not discussed but are shown in aspects where the importance is obvious. Nor has any attention been given to specific investments done by order of for example organisations. The SRI-funds included in this study are open for everyone to invest in; the pension funds AP 1, 2, 3 and 4 are for example for that reason not included. By making this choice this study will not only be of interest to the research clarifications on SRI but also of interest to every individual investing, or planning to invest in SRI.

It is important to handle the data in a way that guarantee confidentiality and therefore the identity of individual persons cannot be revealed (Linell 1994). Thus the respondents have been presented by the company name, not with their individual name. For the same reason I have not transcribed other personal names nor company names.
3.3 Analysis

Analysis entails coding, grouping or summarizing the descriptions and providing a framework that explain aspects of the social world that respondents portray (Holstein and Gubrium 1998, p 127). With illustrations and reference to records of talk, the analyst describes the complex activities. The content is thematized by the analyst who categorizes it (Baker 1998, p 130). Since the analysis is conducted in a partly deductive way, with the theoretical framework in mind the themes are already settled and the analysis focuses on the similarities and differences that constitute the Swedish context of SRI.

A transcription can vary in the extent of details (Linell 1994). The transcript depends on the aim of the analysis and is by necessity selective. Half sentences, repeatings, interruptions, hawkings, etc are not transcribed since they do not contribute to the specific aim of this study and make the transcript harder to read. Since quotations demand a verbatim translation, they may never be changed (Schött et al 1998, p 115; Silverman 2001, p 228). In this study, paraphrases ‘ ‘ have been used. Since the interviews are conducted in Swedish and translation can be done in several ways paraphrases instead of quotations are used for that reason as well. The Swedish versions are in footnotes. The paraphrases are rendered with the spelling of written language but as literally as possible. Since it is of more importance for this study what the respondents say and not how they put forward the subjects, the discrepancy in the translation does not affect the results. If some words are not translated it is marked with […], if a sentence is left out it is showed with /---/. Furthermore, explanations are in square brackets, for example [negative screening] all according to Schött et al (1998, p 116-117).

The method used for the analysis is an attempt to concentrate the meaning of the interview (Kvale 1997, p 177). The method may be divided in 5 steps and is applied to this study:

1. Read through the interview with the aim to get a general impression
2. Divide the meanings of the respondents answers into groups
3. Interpret the respondents answers form his/her point of view
4. From the aim and the theoretical framework of the study ask for new meanings

As a number of questions may be applied to a text, the meanings of the text may vary (Kvale 1997, p 187-190). The analyst’s theoretical approach influence the way the interviews are analysed. Questions asked in this analysis are:

What does this statement tell about the tools (negative screening, positive screening, shareholder activism, environmental technologies, charitable giving and the future of SRI)?
What attitudes are mirrored in these statements?

5. Summarize the meanings to a descriptive text
4. Findings

The results presented are a compilation from the interviews and in addition, documents on ethical principles from the investment management firms. The main pillars of ethical investing is presented; negative and positive screening alongside more specific issues of interest to the theoretical framework; shareholder activism, environmental technologies and charitable giving. With the starting point of the results I will discuss and compare the theoretical framework and the definition on SRI to see whether it may be falsified, verified or rewritten. In the end of this section a global overview is presented to see in which areas the results of the Swedish SRI differs from SRI sectors in other countries.

Since the respondents were chosen because of their different SRI approaches, there are expected differences in their answer. It was possible to recognize similarities in the matter of negative screening and charitable giving. While the largest investment management firms emphasise positive screening the smaller investment management firms stress the importance of negative screening. Socially responsible investment was in general named as ethical investment but with the same meaning.

4.1 Charitable giving

Banco, Eldsjäl and Skandia donate to charities (see table 1, p 16). All of the charitable funds have, or if they do not exist anymore, had the same criteria as the other SRI funds.

Sparkes (2002, p 22) suggested that SRI and charitable giving are two different things but since this study has shown that the criteria for charitable giving are the same as for all SRI funds the conclusion is that they should be considered as SRI. On the other hand it is argued that charitable giving and SRI are different things:

‘We have funds with an ethical investment but furthermore we engage in charitable giving but in fact that has nothing to do with the ethics’ Eldsjäl

This is supported by the Swedish Investment Fund Association (2004). According to their guidelines on ethical investment, charitable giving does not refer to the investment criteria. In that case, the conclusion is that charitable giving should not be considered SRI.

4.2 Environmental technologies

Only one investment management firm include environmental technologies into their portfolios (see table 1). These companies are gathered in a particular fund, counted as the only fund (open to the public) coming from positive screening. It was a general consensus among the interviewees that investments in environmental technologies are rare and that investment is only done if a company’s turnover exceeds a predestined limit:

‘We have almost no pure environmental technologies in our funds because unfortunately there aren’t that many we can invest in.’ Robur

---

1 ‘Vi har fonder som placerar etiskt som dessutom är ideella fonder men egentligen har inte det med etiken att göra’
'Companies with environmental technologies are often of a smaller size and we mainly invest in medium-sized and large companies.' Banco

Of interest is that although companies with environmental activities carried out to encourage sustainable development too often are to small they are recognized to be hot investment objects. In the Netherlands environmental technologies account for 50% of the SRI sector (Eurosif 2007) and this because of governmental support to so-called “Green projects” (Scholtens 2005). This illustrates how different SRI is in practice and how it may depend on national culture as reflected by Hill et al (2007).

Sparkes (2002, p 24) argue for including environmental technologies in SRI because their activities are carried out to encourage sustainable development. What we have seen in this study is that in practice, they are not included in most funds. These companies are assessed as every other company and too often fail on the bottom financial aspect: they are to small.

Table 1. SRI funds with environmental technologies and charitable giving. An X means that the investment management firm uses the tool described. Cells with no X mean that the firm do not use the tool described.

<table>
<thead>
<tr>
<th>Investment firm</th>
<th>Environmental Technologies</th>
<th>Charitable Giving</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banco</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Carlson Fonder</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Eldsjäl</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Robur</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skandia</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

4.3 Negative screening

Ethical investment can be divided into negative and positive screening (Swesif 2007b; Folksam 2006; The Swedish investment fund association 2007). All investment firms uses so-called negative criteria in their analysis. It enables the investor to avoid investment in business activities that can be regarded as controversial (GES 2007). Examples are production and/or sales of: weapons, tobacco, alcohol, pornography and gambling. Although all of the funds use negative criteras in their assessment (see table 2), there are a few differences in the tolerance (%) of unethical activities in a company’s total turnover and the question of production, sales and distribution.

---

1 Vi har nästan inga renodlade miljöteknikföretag i våra fonder för det finns tyvärr inte så många vi kan placera i’

2 Miljöteknikföretag är ofta mindre till storleken och vi investerar huvudsakligen i medelstora och stora företag.’
Table 2. Acceptance of a company’s extent and turnover (%) in business activities that can be regarded as unethical. In cells consisting of only one figure, it is unclear if they refer to production and/or sales and in cells with an X, the acceptance limit is unclear.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Banco</td>
<td>5/5</td>
<td>5/5</td>
<td>5/5</td>
<td>0/5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carlson Fonder</td>
<td>5-10/100</td>
<td>5-10/100</td>
<td>5-10/100</td>
<td>5-10/100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eldsjäl</td>
<td>1/1</td>
<td>1/1</td>
<td>5/5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Robur</td>
<td>5/5</td>
<td>5/5</td>
<td>5/5</td>
<td>0&quot;marginal&quot;</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Skandia</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td></td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>

Some investment management firms (Carlson Fonder) exclude companies with a production in what is considered as unethical industries, some (Banco, Robur, Eldsjäl) choose to widen the exclusion criteria to be intended to sales as well. The reason why there are differences in production and/or sales and the maximum allowed percentage can be explained by the width on the portfolio investment universe:

‘Our funds do not invest in companies’ with activities in weapon, alcohol and tobacco and furthermore we only invest in Sweden. Then it is not difficult to avoid these companies. /---/ It is rather easy to be ethical in Sweden.’ Eldsjäl

This suggests that it is easier to focus on a Swedish market where the companies are more regulated by the Swedish law as Robur states. Since Eldsjäl is the only investment firm that solely invests in companies quoted on the Stockholm Stock Exchange, the investment universe might be an explanation why they have a lower limit (1 %) than the other funds. Differences in the production and/or sales can also be explained by the definition on how far it should be looked upon:

‘When it comes to these criteria we do not go back in the chain to those who make filter tips, but to those selling tobacco products. We think that there is a limit there.’ Robur

It is common not go further back in the chain than production. To observe here is that this is not the case in positive screening, rather the opposite. In the positive screening the suppliers are of much interest. In negative screening the focus are on production and sales instead. To be able to invest in for example oil companies with gas stations selling pornographic material or invest in retailer with sales of tobacco, a maximum allowed percentage of a company’s turnover limits the investments. The third reason for the choice of production and or sales depend on how the ethical activity is defined:

‘Sometimes it is not obvious what they produce. Alcohol and tobacco is more often easy. Weapons are quite easy. Other war materials are more difficult because it can be components. /---/ The distinction is sometimes difficult.’ Robur

---

4 'Våra fonder placerar inte i företag som sysslar med vapen, alkohol och tobak. Dessutom placerar vi bara i Sverige och då är det inte så svårt att undvika dessa företag. Det blir relativt lätt här i Sverige'

5 'När det gäller de här kriterierna så går vi inte bakåt i kedjan mot leverantörer av t.ex. cigrettfilter, däremot mot de som bedriver försäljning av tobaksprodukter. Där tycker vi att det går en gräns'
Several fund managers acknowledged that alcohol and tobacco are more easily sorted out. When it comes to weapons and war materials there are more considerations to make. There are a lot of companies producing goods for both military and public use, such as telephones and also companies that mainly produces other goods and has a smaller part of their production into war materials. The investment universe, the opinions on how far it should be looked upon and how unethical activity is defined may therefore explain the differences in negative screening,

The similarities in the allowed percentage of production and/or sale can be explained by the guidelines made by the Swedish Investment Fund Association. Eldsjäl mentions that The Swedish Financial Supervisory Authority influences them for limitations in investment in unethical activities. Thus, when I contacted the Swedish Financial Supervisory Authority (FI) for guidelines, they referred to the Swedish Investment Fund Association. As presented earlier (p 11) there is according to FI no legal definition on the ethics of responsible investment. The Swedish Investment Fund Association has from initiative from the Swedish Consumer Agency adopted guidelines for a clarification on what should be considered as good practice in ethical funding (Swedish Investment Fund Association, 2004). They do not point out certain activities as unethical but considers a zero tolerance as impossible and that a limit of investment in non-acceptable activities is needed. According to the association, an investment that exceeds 10% of a company’s turnover is not acceptable if the fund is called ethical. The question remains why most funds have a limit of 5 %, when they are allowed to have a limit of 10%. The authors own reflections are that it is a consideration between financial aspects and ethical aspects. Since the funds in this study rather not invest at all in what they consider as unethical activity but as zero-tolerance is almost impossible because of the reduced diversification of investment objects and the definition of ethical activity, the funds have assessed a 5 % limit as most acceptable.

According to Sparkes (2002, p 27-28) the avoiding approach has been the basic model of socially responsible investment with more recent changes such as taking into account positive factors when analysing companies. It is suggested that there are more to SRI than the avoiding approach. Most of the respondents do use complementary strategies but it is important to remember that some of the investment management firms use negative screening as the only base in their funds.

4.4 Positive screening

The nature of positive screening is more complicated than negative screening. The idea of positive screening is that although companies are not legally bound to international conventions they shall conduct business in a manner so that they comply with international norms. The conventions, declarations and guidelines differ by the investment management firm but the base is the same for those who uses positive screening as a SRI strategy (see table 3). Skandia and Eldsjäl have no positive screening in their SRI. The results were as expected; the two smaller investment firms do not use positive screening in their assessment while the bigger investment firms do.

---

6 1 Ibland är det inte självklart vad de producerar. Alkohol och tobak är oftast lätt. Vapen är ganska lätt. Övrig krigsmateriel är svåre, då kan det vara på komponentnivå. /---/Den distinktionen är ibland svår"
Table 3. Investment management firms with positive screening as a SRI strategy. An X means that the investment management firm uses the tool described. Cells with no X mean that the firm do not use the tool described.

<table>
<thead>
<tr>
<th>Investment firm</th>
<th>Positive screening</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banco</td>
<td>X</td>
</tr>
<tr>
<td>Carlson Fonder</td>
<td>X</td>
</tr>
<tr>
<td>Eldsjäl</td>
<td></td>
</tr>
<tr>
<td>Robur</td>
<td>X</td>
</tr>
<tr>
<td>Skandia</td>
<td></td>
</tr>
</tbody>
</table>

The UN Global Compact is a key instrument in understanding positive screening. Global compact is an international initiative that brings companies together to support universal environmental and social principles (UN 2007b). Companies are working to advance ten principles in the areas of human rights, labour, the environment and anti-corruption. The ten principles are derived from:

- UN Universal Declaration of Human Rights
- The International Labour Organization’s Declaration on Fundamental Principles and Rights at work
- The Rio Declaration on Environment and Development
- UN convention against corruption

Companies are to “embrace, support and enact” (UN 2007b) in the areas of human rights, labour standards, the environment and anti-corruption. All three investment management firms with positive screening mention several times the environment, human rights and corporate governance as the three key issues in the analysis process. These three areas are the same as those stated in the UN principles (ESG-issues). The areas of human rights and labour belong to the UNPRI social criteria, the environmental criteria consider the Rio Declaration and within the corporate governance criteria is corruption. Although the positive screening is based on Global Compact there are additional criteria depending on the investment firm. Banco has for example 18 international agreements constituting their ethical basis, while Robur has 13. It is not possible to present them all here but examples are the UN conventions on biological diversity and biosafety, international agreements on climatic change and ozone, the UN Convention on the Rights of the Child and the Amnesty Business Groups recommendations to companies, OECD guidelines for multinational enterprises and ILO core conventions on labour standards. Since the ESG issues are assessed from each of the funds ethical criteria the subjects of the screening might vary. Only Banco has additional agreements on the environment. Robur and Carlson fonder include other agreements and therefore the subject of interest may vary. However, most of the international agreements concern social aspects, which propose that social aspects are most important at the moment. This is supported by other studies suggesting that western cultures seem to be more focused on equality (Hill et al 2007).
While it is argued by some that positive screening is the core of socially responsible investment, others remain skeptical of the fact that the companies only shall comply with international norms:

'It is only the basic level. It is like saying that you don’t invest in illegal activities. No, we don’t call them SRI. Then all of our funds would be SRI.’ DnB NOR

DnB NOR suggests that the assessment on how companies comply with international conventions must be added with “stricter demands” such as exclusion criteria to be counted as SRI. Although they stress the importance of negative criteria, they see a problem in the avoidance approach since there is no one trying to affect the companies’ corporate behaviour.

On the other hand, all the SRI funds choose their companies from an evaluation of how well the companies perform their corporate behaviour. All three investment management firms try to identify best practice in the company’s industry to have as a benchmark when evaluating. They put several times focus on the communicative aspects such as information, evidence and documents. If companies do not perform in a good manner they are excluded. This suggests that a good manner is important for engagement. However good manner and what is considered to be a minimum differ:

‘The demand is that they addresses the questions’ Banco

‘It is hard when they are good at one thing and not as good at another. Then it is important to require a minimum in each area. If we have identified that the critical questions for a company is working conditions in China, environmental impact[...] and risk for bribes and corruption in Central Asia, then you establish a minimum for what it takes for them to be approved in each area.’ Robur

Positive screening is a qualitative research and evaluation process that might be easiest to sum up with the words of Schueth (2003): “Screening decisions are never black and white, always gray.” Bancos criteria concerns for example how the company deals with child labour, working conditions, health and security aspects. The criterion of corruption concerns the preventive measures taken, such as policies and education. The environmental criterion concerns how companies comply with international agreements on climatic change, ozone and biodiversity. The criteria for routines and policies pay attention to the quality of the measures taken to the company’s social and environmental risks. They invest in companies with a willingness to change and those who comply with their demands. Robur on the other hand has a more explicit strategy for the companies they choose in their positive screening. They too assess how companies comply with international agreements but define “good companies” as pioneers, those who have a pro-active approach and include sustainability into their business. The mid-companies (those who are not considered as pioneers but still are in interest of investment) have “adequate” risk management, a systematic method of working and transparency in their business. So when Banco assesses companies they do it from how

---

7 Det är som att säga att man inte ska investera i olaglig verksamhet. Nej, vi kallar dem inte SRI fonder, då hade alla våra fonder blivit det’
8 'Kraven är att de ska adressera frågorna’
9 'Det är viktigt att sätta en miniminivå på varje delområde. Om vi har identifierat att de kritiska frågorna för ett företag är arbetsförhållanden i Kina, miljöpåverkan och risk för mutor i Centralasien, då får man sätta en miniminivå för vad som krävs för att de ska bli godkända på vart och ett av de här områdena.’
well they perform and communicate. What exactly lies within “how well” is hard to define. Robur and Carlson fonder have similar strategies as Banco with the difference of a clear “good companies” screening strategy. One thing of interest is that Carlson Fonder does not see their investments as a result of positive screening. They consider only one fund; the one specialized in environmental technologies as a result of positive screening. It is said that positive screening seeks to identify better-managed companies. As this study has shown, better managed have different meanings for different investment firms. Banco even states that positive screening and shareholder activism are the same thing. I would say that screening decisions are not grey just because of their qualitative assessment approach but also due to the fact that positive screening can have considerable variations, from just investing in the absolute best from an international perspective to invest in companies that from the fund criteria have a sufficient corporate behaviour.

All SRI fund managers acknowledged social aspects to be the most difficult aspect of environment, social and corporate governance to evaluate since it is explained as being more ‘subjective’ (Robur), ‘qualitative’ (Banco) and ‘more difficult to measure’ (DnB NOR). There are different aspects why the environment is considered as more easy to assess. Eldsjäl thinks that it is a truly qualitative assessment and sees no possibilities to measure environmental impact; from their perspective the company’s percentage of total environmental impact. Robur on the other hand state that since the companies often bring new technologies when starting activities in another country, the environmental considerations are much the same but the social aspects tend to relate to the culture. By Banco, the environment is explained as more easy to assess because it can be measured.

To conclude, the positive screening considers the general ethical, environmental and social risks based on Global Compact and additional international agreements. The general risks in the company’s industry are assessed alongside the risk level in the particular company, based on preparedness and performance. In the analysis of the particular company, the risk assessment is more specific and includes a geographical risk assessment as well as a valuation on the company’s corporate behaviour towards its competitors. If there is a risk, this is clarified through an analysis of company information and other sources. Of most interest is that Carlson Fonder seems to have another approach to positive screening than Banco and Robur. According to Carlson Fonder, positive screening cannot solely be regarded as SRI, while Robur uses positive screening as a tool but not as an investment criterion since their funds consists of both good companies and mid-companies. For Banco, positive screening and shareholder activism are much the same.
4.5 Shareholder activism

Most fund managers promote active ownership (see table 4) with the aim to improve parts of a company’s management system.

Table 4. The means of communication and the extent of shareholder activism in selected investment management firms. An X means that the investment management firm uses the tool described. Cells with no X mean that the firm do not use the tool described.

<table>
<thead>
<tr>
<th>Investment firm</th>
<th>Telephone</th>
<th>Private Meetings</th>
<th>General Meeting</th>
<th>Engage in companies included in SRI funds</th>
<th>Engage in companies that are not included in SRI funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banco</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Carlson Fonder</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Eldsjäl</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Robur</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Skandia</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>

Eldsjäl is the only investment firm that does not seek to affect a company’s corporate behaviour as shareholders; a strategy that is called shareholder activism, active ownership or the engagement approach. Most of the SRI investment management firms in this study engage in shareholder activism. This is in line with the UN principles suggesting a policy of engagement in responsible investment. All the asset managers in this study that are signatories to the principles are active owners (Banco, Carlson Fonder, DnB NOR and Robur). Skandia has not signed the UN principles but since DnBNOR is a signatory and has demands on the companies they engage in; Skandia practices indirect shareholder activism:

‘Otherwise it is odd. To say that for Carlson Utland we want you to do...we do that for all.’ DnB NOR

Active owners practice engagement through a dialogue with companies with the aim to make companies aware of corporate issues and to encourage them to conduct their business in a responsible way. The UN principles on responsible investment promote engagement in companies rather than avoiding and screening. 2/3 of the Swedish fund managers favour this idea:

‘Then there are industries producing products that are so irresponsible that we don’t want to invest in them, for example tobacco. But in every normal company we believe that it is better to own and to influence than exclude.’ DnBNOR

DnB NOR regard their role as owners to be more responsible if they instead of excluding companies try to influence companies’ corporate behaviour and their awareness of the ESG issues and risks. One thing that distinguishes DnB NOR is their engagement beyond the SRI

10 'Annars blir det konstigt. Att säga att för Carlson Utlands räkning vill vi att ni ska...utan det gör vi för alla’

11 'Sen finns det branscher som gör produkter som är så oansvariga så att vi inte vill investera i dem, som tobak. Men i alla normala fall tycker vi det är bättre att äga och påverka än att utesluta’
universe. They use their shareholding to make sure that companies pay regard to Global Compact, but this is done for all funds, not just SRI. As stated earlier, to comply with international norms is not considered to be sufficient to be included in their SRI funds. Thus, engagement is the preferred approach not just for SRI but for all DnB NOR funds. Robur also favours the idea of engagement rather than avoidance. They have three categories of investment: good companies, mid-companies and “bad” companies. They invest in the first two groups but engage in shareholder activism in all three. In this way they make an estimation of the engagement in relation to investment. They are still able to engage, give feedback and criticism to companies, which they for ethical reason do not want to invest in. Banco on the other hand does not invest in companies with poor corporate reporting and they do not have a dialogue with companies they do not invest in. In this way they do not promote engagement rather than avoidance and screening. On the other hand, positive screening and shareholder activism are much the same for Banco. They use their role as shareholders to seek for better managed companies to make investment in. Banco seems to have only one category of investment and engagement and ‘do not have time’ for dialogue with companies they do not invest in. This might suggest that they engage more but in fewer companies and therefore they do promote engagement rather than avoidance and screening. In relation to the UN principles, all three have an engagement approach, but it is implemented differently.

Similarities in shareholder activism were identified in the number of engagement issues. Since all of the investment management firms with the strategy of positive screening also promote active ownership, all of them engage in environmental, social and corporate governance aspects:

‘---/ Which are the specific environmental risks the company exposes to the environment and the human health? It can be emissions, wastewater, chemicals [...]. We look at the working conditions; what the wages look like is child labour occuring, do they have insurance, health care. Then we look at issues of corporate governance [...]. If there are guidelines for bribes, awareness of cartels, competition law and such things.’ Banco

Similarities in shareholder activism are also seen in shareholder arguments. They seem to be centred on transparency; the larger risk a company has the greater demand on communication. A company with activities on an international arena has more risks both when it comes to human rights, the environment and business ethics. SRI funds tend to demand that a global company should communicate the risks to a greater extent than if the company is based in Sweden.

According to Sparkes (2002, p 36) SRI shareholder activism in contrast to NGO activism uses dialogue to improve corporate behaviour. This is verified by the respondents when asked of the means of communication:

‘Telephone and secondly personal meetings but then it has gone far.’ DnB NOR

---/ Vilka specifika miljörisker utsätter det här företaget miljön och människorna för? Det kan vara utsläpp, avfallsvatten, kemikalier [...] Vi tittar på arbetsförhållanden; hur lönerna ser ut, förekommer barnarbete, är de försäkrade, hälsovård. Sen tittar vi på corporate governance frågor [...] om det finns riktlinjer för mutor, medvetenhet om kartell, konkurrenslagstiftning och sanna saker.’

‘Telefon, sen träffar vi dem men det är om det gått långt’
As suggested above, DnB NOR uses personal meetings as a secondary approach while it is a more common approach at Banco. This might be an explanation of the earlier discussed engagement approach. Banco does not engage in dialogue with companies they do not invest in but instead they seek for personal meetings with targeted companies. Noted that DnB NOR in the first place uses telephone for communication they manage to engage in more companies, suggested that telephone calls take less time. The investment funds practice active ownership through a dialogue with companies with the aim to make companies aware of ESG issues and to encourage them to conduct their business in a responsible way. They communicate in the first place through telephone but also pay visits. The similarities lie in the ways of communication and the differences lie in the extent of active ownership. DnB NOR believes in the strategy to invest and use their power as shareholders to influence a company’s corporate behaviour rather than to not invest at all. Banco has a philosophy based upon investment in companies moving towards best practice in the areas of the environment, human right, corporate governance and stakeholder relationships while Robur’s philosophy is to help companies in their corporate behaviour. During the positive screening Robur identifies the companies with whom they wish to deepen the dialogue. These companies are not only the better managed, but also companies that are not included in investment portfolios.

4.6 The future of SRI

The discussion of the two main pillars, positive and negative screenings are of most interest to the future development of SRI. While Banco considers negative screening old-fashioned and think it will disappear partly because of bad development as shares on the stock market, Robur, Eldsjäl and DnB NOR state that negative screening will continue to be a part of SRI. Eldsjäl and DnB NOR think there will be additions to their negative criteria. The predicted future of negative screening varies while there are more similarities in the predictions of the way positive screening will develop. Both Banco and Robur believe that the future will bring more sustainability and an overall validation and evaluation of activities in a company. This includes companies with a business concept that will do well in the long run as well as to see what possibilities come out of the companies’ corporate behaviour.

Strangely enough, shareholder activism was only mentioned by one fund manager. Focus of future development was on external factors such as changes in what will be of more interest to look upon, societal changes and influence of other markets. There were no statements about how SRI will engage or promote active ownership. Only DnB NOR predicted shareholder activism to increase.

Other suggestions of future development are the UK market influence on the Swedish SRI sector and the increased ethical investing by institutions such as municipalities. Two fund managers believe that attention in media will lead to a change in the aspects of SRI:

‘Let us say that there would be a heated debate about child labour. In that case we would probably step out of the particular company’ Eldsjäl

---

14 Personliga möten, telefon. Det är väldigt mycket one-to-one
15 ‘Låt oss säga att det skulle dyka upp en debatt kring skadligt barnarbete, då skulle vi nog ganska snart kliva ur det företaget’
All respondents suggest that the field of SRI is undergoing changes where attention in media and social movements will lead to a more sustainable approach where companies emphasize on possibilities derived from their corporate behaviour.

4.7 How SRI may be defined

The attempt to clarify similarities and differences in attitudes of SRI fund managers towards socially responsible investment has made it harder to agree upon a general definition. An attempt to rewrite must be done:

“Ethical investment may be defined as the exercise of ethical and social criteria in the selection and management of investment portfolios, generally consisting of company shares (stocks). This contrasts with standard depictions of investment decisions, which concentrate solely on financial return. Ethical investors care not only about the size of their prospective financial return and the risk attached to it, but also its source — the nature of the company’s goods or services, the location of its business or the manner in which it conducts its affairs” (Cowton 1994 cited Sparkes 2002, p. 22, rewritten by the author)

The first definition seems to be so general that it is possible to involve those who do not use positive screening and shareholder activism in their SRI. If a company is excluded on the grounds of negative criteria it is excluded for ethical reason. The environmental aspects cannot be included since there are investment management firms that do not include environmental aspects into their criteria. For the same reason it can be discussed whether the word social should be included. Are social criterias used when avoiding certain businesses? If social is defined as human rights and labour as in the UN principles, then a conclusion of this study is that “social” should be taken away from the definition since there are funds using the strategy of negative criteria only, and since human rights and labour are not included in negative criteria. If the word social is refered to health aspects such as tobacco and alcohol the definition is at that point applicable to the results of this study.

The financial aspect of SRI is not to forget. The funds invest in companies listed on stock exchanges worldwide. Therefore following part of the definition is through this study verified “generally consisting of company shares (stocks)”.

Every fund manager assesses ”The nature of the company’s goods or services,” However, to which extent “the location of its business or the manner in which it conducts its affairs”, is assessed varies with the investment firm so much that it is almost impossible to draw any general conclusion. In my opinion, this part of the definition is not valid for funds using the strategy of negative screening only. They do not look at the location of the business nor do they have any social (manner) aspects in their screening. One thing is thus clear: the SRI sector needs to be more homogeneous to make a more concrete definition. As Mistra calls for a clarification of socially responsible investment and the Swedish Investment Fund Association (2004) state that with consideration to the relative and subjective meaning of the word ethics, they recommend the fund managers to give clear information on their investment criteria and develop strategies for how it is followed up I start to believe that the confusions are not overcome by information, especially since the future of SRI are predicted in many ways. There is a need for standardization and harmonization of the tools and methods used by SRI.
4.8 Comparison with the US and UK SRI market

The hypothesis that SRI might vary from one country to another and the fact that the UK SRI market is suggested to influence the Swedish market motivate a comparison with other countries. Nations are not expected to have a completely homogenous national culture (Sirmon and Lane 2004) but national differences are seen in for example economic and political systems and as suggested by Hill et al (2007) also in responsible investment. This section aims to compare the Swedish market as it has proved to be in this study to the oldest and largest markets; the ones in UK and USA (Sparkes 2002, p 277).

4.8.1 United Kingdom

A feature of the UK SRI sector is the number of support groups established to provide information, research backup and voting advice (Friedman et Miles 2001). The UK Social Investment Forum, UKSIF, have for example been instrumental in the growth of the SRI sector. When it comes to shareholder activism, the number of resolutions filed in the UK is minor but organisations are lobbying to lower the threshold required to lodge a shareholder resolution. Moreover, most SRI funds in the UK do not currently engage in constructive dialogue, thus when used, the constructive dialogue with companies within which an investment is held is more successful than boycotting investment. Success is more evident where a strong position of power is held as investment in mid-cap companies. When comparing shareholder activism in UK and Sweden, it is more common with resolutions in the UK. Swedish investment management firms tend to focus on engagement and through dialogue affect companies’ corporate behaviour. Investment in mid-cap companies seems to be the preferred approach in both countries. Some SRI experts suggest that the US market heavily influences the UK SRI sector (Friedman et Miles 2001). This would imply an increased emphasis on constructive dialogue and shareholder activism. Since it was suggested by one Swedish fund manager that the UK market will influence the Swedish market, it indicates that the global SRI market is dynamic both in time and space. There is an awareness of a wider social movement impacting on the UK sector (Friedman et Miles 2001). Interest continues to increase amongst the general public and the media coverage has increased awareness of SRI issues. The future of SRI is predicted in similar ways by both British and Swedish SRI experts. The future will bring more shareholder activism and more media attention.

4.8.2 USA

In the US, SRI has matured to a point where virtually any investment need can be met through portfolio design that integrates an investor’s personal value (Schueth 2003). The origins of socially responsible investment can still be seen in the widespread avoidance of alcohol, tobacco and gaming industry with later addition of labour issues, environmental concerns and more recently human rights. There are several similar SRI approaches between US and Sweden. In common is a widespread sector with both negative screening and most efforts on not just social aspects but to environmental concerns as well. The Swedish sector seems to put more emphasis on corporate governance. US social investors employ the basic strategies: screening and shareholder advocacy (Schueth 2003). Generally, investors seek to own companies that make positive contributions to society and the process seeks to identify better-managed companies. The Swedish respondents acknowledge this but also favor the idea of investment and engage as shareowners rather than not invest at all. Shareholder advocacy in the US includes engaging in dialogue with companies on issues of concern and submitting and voting resolutions (Schueth 2003). Swedish investment firms practising shareholder
activism engage in dialogue, with resolutions as an unusual strategy. Furthermore, screening only is the most common approach in the US (more than half of the SRI) with shareholder advocacy only as second (30 % of SRI) (Schueth 2003). Investors using both screening and shareholder advocacy held about 12 % of the total SRI (1999 figures). It differs a bit from investment strategies in Sweden where the screening process might be divided into those who have the strategy of negative screening only and those with both negative and positive screening. It also seems like the investment management firms with the strategy of positive screening also engage in shareholder activism. This approach is the most common if counted to the total assets under management (Banco, Robur; Carlson). The growth of socially responsible investment in the US is suggested to come from the fact that US investors are better educated and informed today but is also seen as a consumer-driven process (Schueth 2003). Another part of the answer lies in the influence of women since they are thought to have “brought a natural affinity to the concept of socially responsible investing [...]”. The influence of media and consumers are predicted in similar ways in the US and on the Swedish market. None of the Swedish respondents mentioned any influence from neither more educated investors nor women.
5. Conclusions

The general aim of this study has been to clarify the ethical dimension of socially responsible investment. This has been done by comparing differences and similarities in the tools used by SRI investment management firms. The conclusion is that the firms have different approaches to SRI (see table 5).

Table 5. Summary of tools used by fund managers. An X means that the investment management firm uses the tool described. Cells with no X mean that the firm do not use the tool described.

<table>
<thead>
<tr>
<th>Investment firm</th>
<th>Negative Screening</th>
<th>Positive Screening</th>
<th>Shareholder Activism</th>
<th>Environmental Technologies</th>
<th>Charitable Giving</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banco</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Carlson Fonder</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Eldsjäl</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Robur</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skandia</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

Sparkes (2002, p 27) raises the question if there is more than the avoidance approach in SRI. Negative screening is the one thing all funds have in common. For some of SRI funds negative screening is the only tool used. What should be considered as an unethical activity are very similar to the SRI funds and also that a 5 % unethical activity by a company is allowed. There are differences in the choice made by the funds to include sales as well in their exclusion criteria. The core of the positive screening is to evaluate how clearly companies translate ESG issues to their corporate governance agenda. The ESG issues are primarily based on the UN Global Compact but also to additional international agreements. These vary from one SRI investment management firm to another. The SRI investment firms that represent the majority of assets under management in Sweden have a commitment to influencing companies on environmental, social and corporate governance issues. Since the additional criteria differ by fund, the subject of engagement might differ. In the aspect of shareholder activism, the fund managers seek to affect corporate behaviour by using constructive dialogue with the companies. Engagement and active ownership is the preferred investment approach of most fund managers.

Charitable funding may be considered as SRI since they are managed on the same principles and criteria as other SRI funds, but may not be considered SRI if the concept does not refer to investment criteria. Sparkes (2002, p 24) suggests that environmental technologies are included in the SRI universe but in practice they are too small to be included.

The future of socially responsible investment is predicted in many ways. The fund managers have suggested everything from considering including more negative criteria, to suggesting that negative criteria will disappear as an aspect of SRI. The major catalysts to drive the SRI forward lies in media attention and in the positive screening with more active ownership in environmental, social and corporate governance issues.

In a comparison with the UK and US SRI market, the main similarities and differences lie within shareholder activism with similar attention to it as SRI approach but with differences in shareholder strategies. Shareholder activism in the form of shareholder resolutions is more common in United Kingdom and in the United States than in Sweden.
In the attempt to clarify differences and similarities in the Swedish SRI market, this study discusses whether all SRI funds include social criteria. Further discussion is needed whether the word social should be included in the definition on socially responsible investment. It is also discussed whether the location of a company’s business and the manner in which it conducts its affair are applicable to all Swedish SRI funds.

I would like to conclude with very wise words from one of the fund managers:

‘One can be SRI in many different ways.’ Eldsjäl\textsuperscript{16}

\textit{Further research}

Since the pension funds AP 1, 2, 3 and 4 have a new “consultative body” for ethical issues, research in ethical issues for pension funds would contribute to the overall picture of SRI.

Community investing is also a part of SRI, further research in ethical criteria in relation to community development and “ethical banking” is essential for understanding the SRI sector.

Finally, an investigation that considers the relevance of various aspects of socially responsible investment strategies across nation states may provide useful insights before any conclusions on national differences can be attained.

\textsuperscript{16} ‘Man kan vara SRI på många olika sätt.’
6. References


Kvale, S., 1997. Den kvalitativa forskningsintervjun. [The qualitative research interview] Lund; Studentlitteratur

MISTRA, the Foundation for Strategic Environmental Research, 2007. Research programmes/ Sustainable Investments


Swesif, 2007a. Welcome to Swesif/asset classes/ statistics, trends and links

Swesif, 2007b. Metoder [methods]

UN, United Nations Principles for Responsible Investment, 2007a. About/ the Principles/FAQ/Signatories

UN, United Nations Global compact, 2007b. What is the global compact?/Ten Universal Principles
## Interviews:

<table>
<thead>
<tr>
<th>Company</th>
<th>Date</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banco</td>
<td>20070405</td>
<td>20070503</td>
</tr>
<tr>
<td>DnB NOR</td>
<td></td>
<td>20070502</td>
</tr>
<tr>
<td>(Skandia, Carlson Fonder)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eldsjäl</td>
<td></td>
<td>20070424</td>
</tr>
<tr>
<td>Robur</td>
<td>20070405</td>
<td>20070424</td>
</tr>
</tbody>
</table>
Appendix 1 Interview guide

<table>
<thead>
<tr>
<th>Research questions</th>
<th>Interview questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Which are the tools used by SRI funds?</td>
<td>&gt; Would you like to tell me of the steps and the consideration done before investing?</td>
</tr>
<tr>
<td>Is charitable giving included in SRI?</td>
<td>&gt; Do you donate to charities?</td>
</tr>
<tr>
<td></td>
<td>&gt; Are they seen as SRI funds?</td>
</tr>
<tr>
<td></td>
<td>&gt; In what way are the fund ethical? - May it include any company as long as it donates to charity?</td>
</tr>
<tr>
<td></td>
<td>&gt; Since 2005 the UN has principles for responsible investment, have you signed?</td>
</tr>
<tr>
<td>Are environmental techn. included in SRI?</td>
<td>&gt; Do you have environmental technologies in your funds?</td>
</tr>
<tr>
<td></td>
<td>&gt; Are these in separate portfolios?</td>
</tr>
<tr>
<td></td>
<td>&gt; Do you count them as SRI?</td>
</tr>
<tr>
<td>Is SRI based on more than avoidance?</td>
<td>&gt; Do you exclude certain companies?</td>
</tr>
<tr>
<td></td>
<td>&gt; Advantage and disadvantage of avoidance?</td>
</tr>
<tr>
<td></td>
<td>&gt; How do you know that the company’s activity may relate to for ex. alcohol?</td>
</tr>
<tr>
<td></td>
<td>&gt; Does it count to suppliers as well?, for ex those who produce glas bottles?</td>
</tr>
<tr>
<td></td>
<td>&gt; What is allowed?</td>
</tr>
<tr>
<td>Does SRI try to affect corporate behaviour?</td>
<td>&gt; Do you engage in companies corporate behaviour?</td>
</tr>
<tr>
<td></td>
<td>&gt; In what ways? Dialogue, General meetings?</td>
</tr>
<tr>
<td><strong>Dilemmas reporting</strong></td>
<td>&gt; Do you use environmental reports in the analyses?</td>
</tr>
<tr>
<td></td>
<td>&gt; The credibility in these reports are discussed, what do you do to handle the fact that they might report one thing but in reality the emissions are much higher?</td>
</tr>
<tr>
<td></td>
<td>&gt; And to the fact that they are in some cases not objective? Do you demand validation from a third part?</td>
</tr>
<tr>
<td><strong>Dilemmas ESG-aspects</strong></td>
<td>&gt; Are the aspects often in conflict to each other?</td>
</tr>
<tr>
<td></td>
<td>&gt; May you give me an ex.? What is given priority?</td>
</tr>
<tr>
<td></td>
<td>&gt; Is it harder to assess one aspect than another?</td>
</tr>
<tr>
<td></td>
<td>Is it for ex. harder to assess the measures taken to reduce environmental impact than measures taken to ensure the employees health?</td>
</tr>
<tr>
<td>What does the future look like?</td>
<td>&gt; What do you think about SRI in the future?</td>
</tr>
<tr>
<td>Do negative criteria change over time?</td>
<td>&gt; What companies do you think will be considered as unethical</td>
</tr>
</tbody>
</table>