Summary of *Envisioning Socially Responsible Investing: A Model for 2006*

Synopsis:
Envisioning Socially Responsible Investing: A Model for 2006 is a bold forecast and a call to action for the fields of socially responsible investing (SRI) and corporate social responsibility (CSR). It identifies the trends that are likely to occur over the next five years, and ways in which the SRI community can help shape these trends. Its proposals range from creating new niche-market research firms and centralized sources of social and environmental data to incorporating CSR and SRI into business school curricula and the training process for financial analysts.

Executive Summary:
Can corporations' potential to do good — provide food, clothing, entertainment, and employment in a world whose population will reach 8 to 11 billion by the middle of this century — be realized? Can corporations' potential to do harm — pillage natural resources, exploit the defenseless poor, create inequitable disparities in wealth, and destroy local cultures — be tamed? Can the for-profit goals of transnational corporations be reconciled with the social objectives of national governments?

After three decades of laboring to win recognition and acceptance, socially responsible investing (SRI) now stands at a crucial juncture. It has emerged from what was essentially an obscure niche financial market to become a potentially important player in a major political debate about globalization, the relationship between corporations and society, and the role of capital in creating both social and financial value.

However, if SRI is to realize its potential to influence corporate behavior toward the creation of a just and sustainable society, it will need to capture the gains it has already made and realize new initiatives that will bring about meaningful change. With this paper we hope to set the stage for further debate on the usefulness and effectiveness of various near-term initiatives, and on the allocation of resources necessary for their realization.

The paper recommends a number of major initiatives that need to take place in three communities: the corporate community, the institutional investment community, and the financial community, including its academic and SRI analogues. These recommendations may be summarized as follows:

Corporations

1. Corporations should state clearly and specifically their social and environmental values, and adopt specific management practices to integrate these values into their operations.

To this end, values models should be developed and promulgated, an effort already being undertaken by organizations including AccountAbility, the Natural Step, SustainAbility, Warwick University in the U.K., and various business schools in the U.S. and around the world. Governments and non-profits should create resources so that employees, consumers, and communities can ask corporate managers the right questions, assess the significance of the data they receive, and interpret conflicting claims. Researchers and philosophers will need to address the theoretical and practical challenges of allocating scarce resources among competing stakeholders.

Finally, the SRI community should involve itself in the complicated debate over the best ways to balance governmental regulation and market mechanisms, and to achieve strong and fair governmental structures and regulatory frameworks.

2. Corporations should disclose comprehensive data on their actual social and environmental impacts.

As reporting initiatives take hold around the world, the SRI community should consider ways to ensure that the wealth of data generated will be centrally available. It should strengthen the work of independent research organizations, encourage a diversity of approaches among SRI analysis firms, support the creation of niche-market firms that focus on specific issues or industries, and help corporations with the often confusing task of reporting various data in various formats to different audiences.

Institutional Investors

1. Institutional investors should be required to adopt comprehensive voting policies on social, environmental, and corporate governance issues, including guidelines for voting and the disclosure of actual votes. Regulators should require pension funds, mutual funds, and other institutional investors to publish their proxy voting guidelines as well as their actual votes. The SRI community can continue to develop model investment and proxy voting guidelines for these investors to use.

2. Institutional investors should be required to state publicly the extent to which they incorporate social and environmental issues in their investment practices. Regulators should consider requiring pension funds (and later, banks, foundations, universities, and other institutions) to state their commitment (if any) to address social and environmental concerns. The SRI community can aid this effort by developing a range of consulting services and models.

3. Institutional investors should initiate ongoing dialogue among themselves on social and environmental issues, as they have begun to do on corporate governance issues. As this occurs, the artificial distinction between corporate governance and corporate social responsibility will begin to blur. The SRI community can help develop associations of institutional investors concerned with social and environmental issues, and can help educate financial consulting firms on issues ranging from fiduciary obligations to the effect of social screens on investment performance.

The Financial, Academic, and SRI Communities

1. Mainstream financial firms should train their analysts to routinely incorporate corporate governance and CSR considerations into securities analysis for stocks and bonds. The SRI community can help develop financial valuation models that incorporate social and environmental data, include the fundamentals of SRI and CSR in the training and self-certification process for financial analysts, and can help educate senior executives and boards of directors of financial services companies.

2. The academic community should offer courses and degree programs in CSR and SRI. The SRI community can help to develop curriculums and degrees, new research centers, and new research initiatives.

3. The SRI industry should develop quality standards, undertake theoretical research on topics of communal concern, and create a network of issue-specific, niche-market research firms to analyze particularly complicated sets of social and environmental data.

One key task could be the creation of a think tank to tackle issues that individual members lack the resources to address. Such topics might include developing a social “accounting” system, creating a more coherent vocabulary for social investing, and publishing background pieces on emerging issues such as genetic engineering, privacy in the electronic era, and international labor standards.

New niche-market research firms might help in the task of analyzing the voluminous data on toxic chemicals, bank lending patterns, union relations, military contracting information, and labor practices of companies operating in developing countries.

Conclusion

Envisioning Socially Responsible Investing: A Model for 2006 is intended to bring together a vision of the developments and initiatives that may occur over the next few years.

Progress toward the goals described in this paper will not be easy. Dead ends will be encountered. Debates on difficult issues will need to be resolved. Without the considerable efforts and skills of many people and organizations, these projections will not be effectively realized. However, the momentum behind the global experiment with market economies currently underway appears so strong that — barring unforeseen disasters — many, if not all, of these developments will take place. We hope this paper will help set the stage for debate on goals and strategies, and on the allocation of resources needed to realize them.