University of Huddersfield Repository

Cowton, Christopher J.

Coming (again) to SRI: a personal note

Original Citation


This version is available at http://eprints.hud.ac.uk/id/eprint/1683/

The University Repository is a digital collection of the research output of the University, available on Open Access. Copyright and Moral Rights for the items on this site are retained by the individual author and/or other copyright owners. Users may access full items free of charge; copies of full text items generally can be reproduced, displayed or performed and given to third parties in any format or medium for personal research or study, educational or not-for-profit purposes without prior permission or charge, provided:

• The authors, title and full bibliographic details is credited in any copy;
• A hyperlink and/or URL is included for the original metadata page; and
• The content is not changed in any way.

For more information, including our policy and submission procedure, please contact the Repository Team at: E.mailbox@hud.ac.uk.

http://eprints.hud.ac.uk/
Coming (again) to SRI: a personal note

Christopher J Cowton
University of Huddersfield

Contact information:
c.j.cowton@hud.ac.uk
+44 (0)1484 473063

Financial Ethics and Governance Research Group
The Business School
University of Huddersfield
Queensgate
Huddersfield HD1 3DH
United Kingdom

© The author, 2008
Coming (again) to SRI: a personal note

Abstract

This note was prepared as background information for the initial meeting of the EBEN\textsuperscript{1} thematic platform on Socially Responsible Investment, which was held at the BI Norwegian School of Management, Oslo, Norway, 15-16 February 2008. It is intended to provide an overview of the author’s previous writing on SRI,\textsuperscript{2} together with some tentative thoughts regarding possible future research directions.

\textsuperscript{1} European Business Ethics Network.

\textsuperscript{2} My SRI publications are listed at the end of this note, in case platform colleagues should wish to read any of them or follow up with me any of the issues contained in them. The numbers with square brackets in the text refer to the items in the list.
Coming (again) to SRI: a personal note

Overview of my previous research

My interest in SRI – then more usually known as ‘ethical investment’ – dates back to the mid-1980s when I noticed a small announcement about the establishment of EIRIS, the London-based information intermediary that specializes in SRI. After making contact this led, in due course, to a project funded by the UK’s ESRC (Economic and Social Research Council), the main aim of which was to examine the exclusion criteria selected by EIRIS’s early clients. This research into 125 SRI ‘pioneers’, which was subsequently used in my University of Sheffield PhD thesis, resulted in several published papers, sometimes in combination with descriptive material on the UK SRI funds then available. In addition to statistical analyses that identified the principal components underlying SRI investors preferences [9] or clustered those investors into groups [5], papers were published on their attitudes towards company size [11], advertising [10] and military contracting [8]. The project also included a small survey of Anglican monks and nuns [12] – partly because much of the early interest in SRI was in relation to religious communities or other faith-based organizations.

In addition to the empirical research based on EIRIS’s early experience, two other strands of work are evident in my writing on SRI.

First, given that much of my research was conducted at a time when relatively little had been written about SRI, some of my writing attempted to identify and clarify certain basic issues [6,7]. Russell Sparkes has been generous in his compliments regarding some of the clarification that I brought to the field at that time, and my more recent work with him [1,3] can be seen as continuing in that vein, attempting to make sense of a developing phenomenon.

Second, I used the opportunity provided by membership of the advisory committee of an ethical unit trust based in the City of London to gain insights into some of the details of the fund’s operations. Two papers were published based primarily on an

---

3 See, for example, R. Sparkes, *Socially Responsible Investment* (Chichester: Wiley, 2002), p. 22.
analysis of a combination of several years’ minutes of meetings, an in-depth interview and participant observation: an early paper [4] that compared the stated policies with actual behaviour and reflected on the significance of this for codes of ethics as guides to behaviour; and a later one [2] that explored the relationship between ethical policies and financial performance. One of the features of the latter was the identification, not only of challenges to financial performance through the restriction of the investment universe by the imposition of exclusion criteria, but also how financial performance of the fund and some notion of ethical effectiveness might come to be positively correlated.

Next steps?

As the literature of SRI has developed I have been struck by a number of features. The following impressions are somewhat crude and would need to be properly argued – or withdrawn – in a full academic paper, but at the very least they serve to highlight my current perceptions, not to say prejudices!

**SRI financial performance**

There has been considerable investment in researching the financial performance of SRI, particularly SRI funds. That is understandable; people are bound to be interested in its financial impacts, and it used to be supposed that they would be significantly adverse. Notwithstanding the methodological challenges involved, the general conclusion that – if I may put it in basic terms – SRI at least does not seem to entail great sacrifice in terms of return or risk seems to be an important and secure one.

However, I am unsure of the value of future studies. The results will tend to vary in detail according to time period and investment policy (ethical and otherwise) and, as we are often warned, the past is no guide to the future when it comes to the particulars of stock market returns. Perhaps a novel interpretation of the financial performance question or a particularly ingenious research design will yield results of significant value, but otherwise I am broadly sceptical. If particular parties wish to fund such research, I welcome their contribution, but I think there is more important research to do, and SRI research is in need of some re-balancing. Moreover, further studies on SRI financial performance should be better related to other questions and research in the field, so that the conclusions drawn from them might be more insightful.
There is a demand for such studies, but in addition to demand-side reasons, I suspect there are strong supply-side reasons for the preponderance of academic research into financial performance. How SRI funds perform is an interesting question, substantively and methodologically, and finance-based researchers have both the relevant skills and data sources to tackle it. Some of the remaining questions might not be so easy to address empirically.

**Information for SRI**

As someone who has spent much of his career teaching accounting, it is perhaps not surprising that some of my writing has pointed to the centrality of information for the successful implementation of SRI. Indeed, that was what prompted me to contact EIRIS when I began researching this area. My early thinking was framed by a version of the following diagram, which shows the various routes by which data about companies can come to be reflected in the investments held by a particular investor.

![Figure 1: An information map of SRI](image-url)
Figure 1 shows the three options of an investor (i) acquiring the information for himself, (ii) using an information intermediary, and (iii) buying a ready-made product with the information effectively ‘built-in’. As with all models, this simplifies the situation – in particular the relationship between many different sources of data and the nature of the SRI policies being implemented – but I have found it of value.

It seems to be that there is much scope for research which investigates the nature of the information that is, or could be, used in SRI decision-making. Some questionnaire surveys have been carried out in the past, and I would not discount such efforts, but my preference would be for more in-depth studies of the behaviour and attitudes of key players such as SRI fund managers and the advisory committees associated with many of the funds. Stronger links should be forged with the literature on corporate social reporting/social accounting, to the benefit of both.

**Conceptual clarification and development**

Although SRI is now well established and I would not wish to become embroiled in unproductive definitional matters, I sometimes wonder whether the degree of conceptualisation and reflection on SRI could be improved. It is disappointing that, with a few notable exceptions, input from philosophers has been limited. But even without the help of professional philosophers, I think that more could be done. For example: what sorts of SRI strategies are possible or desirable (including mixed cases, not just simple avoidance etc) and how are they best implemented (e.g. avoid a company for ever following one ‘error’?); what are the relationships between them; and why are portfolios based on exclusion more prevalent than those based on a more positive stance? This is not, perhaps, a very good list, but I certainly don’t believe it to be exhaustive. My hope is that one role of the EBEN platform will be to help participants ask good questions, and my feeling is that some of the good answers to those questions will not be based solely, or even primarily, on empirical research.

Finally, my perception is that the literature on SRI is not as ‘joined up’ as it might be. Perhaps this is, at least in part, because the literature has been published in many different journals, but I suspect that it has as much to do with a failure to appreciate the interconnectedness of the issues and questions that different researchers have been examining. As part of the process of ‘tidying up’ and enriching thinking on SRI, I hope these connections will be identified and explored. It is a contribution that a
varied group, such as the participants in the EBEN SRI platform, might be well capable of making.

**A list of my own publications on SRI**

Given the personal nature of this short piece, rather than a conventional bibliography I simply list below my principal publications in chronological order (most recent first) relating to SRI. The numbers are as used in the text.


