Lessons schedule
(Part I - business ethics)

Tuesday 18/09 8,30-10,30 Rusconi
Friday 19/09 14,30-16,30 Rusconi
Tuesday 2/10 8,30-10,30 Rusconi
Friday 10/10 14,30-16,30 Signori
Tuesday 16/10 8,30-10,30 Rusconi
Friday 17/10 14,30-16,30 Rusconi
Tuesday 23/10 8,30-10,30 Signori
Friday 24/10 14,30-16,30 Rusconi
Tuesday 30/10 10,30-14,30 Signori
Friday 31/10 10,30-14,30 Signori

I part of the exam: 19/11/2014 h. 9.30
Agenda

Lessons on:

- Socially Responsible Investments (SRI)
  Seminar: “The process of ethical investing: the case of Etica sgr” with Francesca Colombo ESG Research Unit - Etica sgr
- Corporate Social Responsibility (CSR): Mapping the territory
- Ethical Thinking in the Italian Economia Aziendale
What is a socially responsible or ethical investment?

When an investment is ethical (or socially responsible)?
Terminology

- Ethical
- Socially responsible
- Social
- Responsible
- Green
- Alternative
- Targeted
- ... investing or investment

A definition

“Ethical investment” or “socially responsible investment” is broadly defined as the integration of personal values, social considerations and economic factors into the investment decision”.

(Michelson et al., 2004, p. 1)
Another definition

In a broad sense ethical investment is “the exercise of ethical and social criteria in the selection and management of investment portfolios, generally consisting of company shares (stocks)”.  

(Cowton, 1994)

“Ethical investment refer to a set of approaches which include social or ethical goals in addition to more conventional financial criteria in decisions over whether to hold a particular investment”  

(Cowton, 1999, p. 99)

“There’s nothing wrong with making money but it’s how you make the money that counts” (Murray, 2003)

“In ethical investment we are interested in how a company makes its money, not just how much”  

(Cowton, 1999, p.99)
Selection and management

TO HOLD

= 

To buy
To sell
To maintain
To manage

…

Ethical investors

- Individuals - private investors
- Groups
- Institutions
- Public investors
- ...
- Religious organization
- Pension funds
- University (foundations)
- ...

- Financial and non financial institutions
- Managing their own or someone else money
Development of SRI

The *prima facie* ethical case for SRI is that investment should not be immune from ethical scrutiny, for there is nothing special about investment in general that warrants its exclusion from the ethical considerations that are brought to bear on other areas of life.


Ethics and investments

Any individual or group which truly cares about ethical, moral, religious or political principles should in theory at least want to invest their money in accordance with their principles” (Miller, 1992, p. 248).

→ approving of an immoral action is immoral
→ making profit from it indicate acquiescence …
A brief history (Schueth, 2003)

- Religions (Jewish, Christian and Islamic laws)

- Social, political and environmental movements (e.g.: Apartheid in South Africa)

Two investors’ motivations

- “Feel good” investors
  → Feel the need to put their money aligned with their personal values and priorities

- “Social change” investors
  → Feel the need to support and encourage improvements in quality of life (or in corporate behaviour)
Three strategies

Screening
is the practice of including or excluding companies (or States) based on social and/or environmental criteria.

Engagement (or shareholder activism)
is an activity that investors undertake to influence companies’ behaviour. These efforts include dialoguing with companies, filing, co-filing and voting resolutions.

Community investing
provides capital and other services to communities underserved by traditional financial services institutions.

Screening
Screening is the practice of excluding or including companies from investment portfolios based on a range of social and environmental criteria.

(Michelson et al., 2004)

- Negative screening = “never if”
- Positive screening = “only if”
Negative screening = avoidance

AVOIDANCE

WHAT?
- Tobacco
- Alcohol
- Gambling
- Military contracting
- Pornography
- GMO
- Etc.

HOW?
- Working conditions
- Advertising practices
- Environmental concerns
  Etc.

WHERE?

Common negative screens

- Armaments and nuclear weapons
- Alcohol
- Hazardous substances (such as pesticides, chlorine)
- Environmentally damaging practices
- Poor employment practices
- Animal exploitation (e.g. fur industry, factory farming)
- Activities, processes or products that have a major impact on climate change (e.g. automobile, oil and gas industry, road building, etc.)
- Ozone-depleting substances
- Nuclear energy
- Gambling
- Animal testing
- Genetic engineering
- Tobacco
- Oppressive regimes
- Pornography
- …
Positive screening = supporting

SUPPORTING

WHAT ?
- Healthy food
- Green energy
- Organic producing
- Pollution control equipment
- Etc.

HOW ?
- Working conditions
- Advertising practices
- Environmental concerns
- Etc.

→ Stakeholder analysis

Common positive screens (1)

<table>
<thead>
<tr>
<th>Human Resources</th>
</tr>
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<tbody>
<tr>
<td>Integration of human resources issues into corporate strategy,</td>
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<tr>
<td>Promotion of labour relations,</td>
</tr>
<tr>
<td>Encouraging employee participation,</td>
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<tr>
<td>Career development,</td>
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<tr>
<td>Training and development,</td>
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<tr>
<td>Quality of remuneration systems,</td>
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<tr>
<td>Improvement of health and safety conditions,</td>
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<tr>
<td>Respect and management of working hrs,</td>
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<tr>
<td>Non discrimination policies,</td>
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<tr>
<td>... Source: Vigeo</td>
</tr>
</tbody>
</table>

Source: Vigeo
### Environment
- Environmental strategy and eco-design,
- Pollution prevention and control (soil, accident),
- Development of "green" products and services,
- Protection of biodiversity,
- Protection of water resources,
- Minimising environmental impacts from energy use,
- Management of atmospheric emissions,
- Waste management,
- Management of local pollution,
- Management of environmental impacts from transportation,
- Management of environmental impacts from the use and disposal of products/services,

... *(Source: Vigeo)*

### Customers and Suppliers
- Product safety,
- Information to customers,
- Responsible Contractual Agreement,
- Sustainable Relationships with suppliers,
- Integration of environmental criteria in the purchasing process,
- Integration of social criteria in the purchasing process,
- Prevention of corruption,
- Prevention of anti-competitive practices,

... *(Source: Vigeo)*
Human Rights
Respect for human rights standards and prevention of violations,
Respect for freedom of association and the right to collective bargaining,
Elimination of child labour and abolition of forced labour,
Non-discrimination.

Community involvement
Promotion of social and economic development,
Societal impacts of company’s products and services,
Contribution to general interest causes.

Corporate Governance
Board of Directors,
Audit & Internal Controls,
Shareholders’ rights,
Directors & Key Executives remuneration.

Silvana Signori – University of Bergamo
Negative and positive screening

1) Negative + positive selection

2) Trade off between good and bad features

The application of screening

- Not static
- Extension
- Primary and secondary involvement
- Significance/threshold
- Best-in-class or best-in-industry approach
Best-in-class approach

A best-in-class or best-in-industry approach allows to compare companies within the same industry sector (usually a “critical” sector) and ranked against each other, not against those outside the industry.

- To seek good financial returns
- To improve the overall social performance of firms in particular sectors (chemical, mining, automobile, etc.)

The question of information

Information is vital for the successful implementation of ethical investment criteria.

Sources: corporate annual reports (financial and ethical/social reporting), press releases, newspaper articles, statistics, etc.

- Reliability, availability and cost
  → social rating agencies
The need of transparency

Ethical investment as a process...

The identity of specific criteria might become less important than “… the way in which issues are identified and considered, the degree of information obtained, (and) the action that is taken in response”

(Taylor, 2001, p. 59 quoted in Michelson et al., 2004, p. 4).