CMI WORKING PAPER

WP 2014: 3

Three myths about engagement and exclusion in responsible investment

Ivar Kolstad

CMI CHR. MICHELSEN INSTITUTE

Chr. Michelsen Institute (CMI) is an independent, non-profit research institution and a major international centre in policy-oriented and applied development research. Focus is on development and human rights issues and on international conditions that affect such issues. The geographical focus is Sub-Saharan Africa, Southern and Central Asia, the Middle East and Latin America.

CMI combines applied and theoretical research. CMI research intends to assist policy formulation, improve the basis for decision-making and promote public debate on international development issues.

Three myths about engagement and exclusion in responsible investment

Ivar Kolstad
Chr. Michelsen Institute, Norway
and the Norwegian School of Economics and Business Administration

WP 2014: 3
April 2014

CMI CHR. MICHELSEN INSTITUTE

Keywords: Responsible investment, engagement, exclusion, negative screening

Contents

Abstract

There is a move towards more use of engagement strategies in responsible investment. This change in strategies is motivated by a number of claims about the effectiveness of engagement versus exclusion of companies from the investment universe. This paper examines the basis for three central claims: i) That engagement, in contrast to exclusion, does not reduce the investment universe; ii) That exclusion reduces an investor's influence on a company; and iii) That engagement with exclusion is necessarily a more effective means of influencing companies than pure exclusion. All three claims are argued to be open to challenge. It is possible that the move towards more engagement reflects bureaucratic incentives and political considerations among institutional investors, rather than arguments about the effectiveness and efficiency of engagement.

About the author

Ivar Kolstad is a senior researcher and coordinator of the natural resources research cluster at CMI. His current research focuses on natural resources and development, poverty dynamics, and corporate social responsibility. Kolstad has also done research on corruption, inequality, FDI, trade, aid and public financial management. He has managed a number of major research projects, funded by the World Bank, the Norwegian Ministry of Foreign Affairs, Norad, the Government of Malaysia, Irish Aid, and more. He has substantial experience from research in developing countries in Africa and Asia, in particular Angola and Bangladesh. Kolstad has a PhD from the Norwegian School of Economics and Business Administration, where he currently teaches business ethics.

Acknowledgements

The author thanks Arne Wiig for comments. All remaining errors are the responsibility of the author.

Introduction

There can be little doubt that the phenomenon of responsible investment, i.e. investment where non-financial considerations are included in the management of financial assets, has grown considerably in recent decades (Scholtens, 2014; Scholtens and Sievänen, 2013; Vandekerckhove et al, 2007; Sparkes and Cowton, 2004). It is estimated that in 2011, a total of 13.6 trillion USD (or almost 22 per cent) of the money under professional management in the world included environmental, social, or governance criteria in their management (GSIA, 2013). In the major markets, Europe and the US, responsible investment has increases more than the total market under professional management (Eurosif, 2012; USSIF, 2012) Some large institutional investors have received a lot of attention for introducing these kinds of principles in their management strategies. One prominent example is the Norwegian oil fund (or formally the Norwegian Government Pension Fund Global) which introduced ethical guidelines in 2004, guidelines which have been revised several times since. Despite the overall growth of responsible investment, there are questions about the depth of the phenomenon. Ethical investment criteria are not always very strict, and often do not entail that large a change in investment practice.[1]

In recent years, there has been a trend towards the use of more use of engagement strategies in responsible investment (Scholtens, 2014; Scholtens and Sievänen, 2013; Goodman et al, forthcoming; Vandekerckhove et al, 2007, 2008). While early approaches tended to focus more on negative screening (exclusion of companies that do not meet social or environmental criteria from the investment universe) or positive screening (inclusion of companies that excel on these types of criteria), there is now more of an emphasis on interaction or dialogue with company management to attempt to change company activities and/or practices.[2] The Norwegian Government Pension Fund Global is a case in point. Both exclusion and engagement have been part of the responsible investment guidelines of the fund from the start. However, with changes in guidelines in 2010, there has been more emphasis on how integration of the two can be more effective in changing corporate behaviour (Norwegian Ministry of Finance, 2009, 2010). In addition, recent recommendations for further reform essentially advocate seeing exclusion even more as an integral part of an engagement process, to be used only if engagement fails to yield satisfactory results (Dimson et al, 2013a).

How do we assess and understand this move towards more use of engagement strategies in responsible investment? Arguments about the shortcomings of exclusion, and corresponding advantages of engagement, are often used to motivate the increasing emphasis on engagement. But how good are these arguments? This article examines three central claims that are often used to support a transition towards greater use of engagement. The three claims are: i) That engagement, in contrast to exclusion, does not reduce the investment universe; ii) That exclusion reduces an investor's influence on a company; and iii) That engagement with exclusion is necessarily a more effective means of

---

[1] The Norwegian Government Pension Fund Global, for instance, currently only excludes 63 companies from its total investment universe of about 8000 companies, see http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/responsible-investments/companies-excluded-from-the-investment-u.html?id=447122, accessed 22 March 2014,

[2] Goodman et al (forthcoming) distinguish three approaches in engagement; the use of shareholder resolutions, dialogue between shareholders and management, and public confrontation. See also Sjöström (2008) for an earlier review of the literature on engagement.

influencing companies than pure exclusion. The first of these arguments is one of efficiency, about attaining an impact on corporate behaviour (or other objectives of responsible investment) at a lower cost to investors. The other two are about effectiveness, or how to have a greater impact on corporate activities and practices.

All three claims are argued to be open to challenge. The first claim by not fully appreciating the implications engagement, if successful, would have on the corporate activities and practices observed and hence available for investment in financial markets. The second claim by not considering the opportunities an institutional investor has to influence a company even without shares in it, what we term extra-investment engagement or strategies. And the third by taking a too unidirectional view of the process of engagement, assuming that investors can influence company management, but not vice versa. If these key arguments are flawed, this raises the question of what the real underlying logics of a move to engagement are. One possibility discussed in this paper, is that the current change in approach seen in institutional investors may have something to do with bureaucratic incentives among their staff, or as in the case of sovereign wealth funds like the Norwegian Government Pension Fund Global, with political disincentives to use exclusion as a main approach to responsible investment.

The paper is structured as follows. In the following three sections, each of the three claims made for an engagement approach is presented and examined. Section 5 then discusses the possible motivations behind the transition to a greater use of engagement. Throughout the paper, we focus on large institutional investors, as they dominate the field, represent the segment where engagement has come the most to the fore, and are the investors most likely to have any real influence on how the world of finance looks. We use the Norwegian Government Pension Fund Global as our primary example, since its recent development makes it a particularly relevant illustration. Section 6 concludes.

First claim: Engagement does not reduce the investment universe

A common argument for engagement is that it does not reduce the investment universe, defined as the set of investment objects available to an investor. In other words, if engagement is at least as effective in reaching the objectives of responsible investment as a strategy of exclusion, the objectives can be met at a lower cost to the investors, as there is less of a reduction in diversification opportunities, and hence less of an adverse impact on risk-adjusted returns. We see this claim made in the scientific literature on responsible investment. Vandekerckhove et al (2007:403; 2008:78) state that with engagement "the reduction of the potential return to investment caused by an [exclusionary approach] reduction in the investment universe is avoided". Solomon et al (2004) use this argument as a basis for seeing a strategy of engagement as advantageous over screening, describing exclusion as an "outdated" approach. And Sparkes and Cowton (2004:50) similarly state that a "more common approach for institutional investors is to abandon … avoidance policies… so that there should be no investment penalty".

To look at this in detail, we should distinguish between three different approaches to responsible investment: Pure engagement, where the investor in various ways addresses the company management on its activities and practices, but no companies are excluded. Engagement with exclusion, where the investor addresses company management, and in cases where engagement does not succeed in influencing activities or practices, the investor divests its shares in the company. And pure exclusion, where an investor does not interact with company management (beyond possibly getting some facts checked), but divests (or chooses not to invest) based on company activities or practices. It is obvious that both engagement with exclusion, and pure exclusion, can entail reductions in the investment universe available to the investor. Here we discuss pure engagement, which on the face of things does not reduce the investment universe, since no companies are excluded.

It is obviously true that pure engagement does not reduce the number of companies that an investor has available for investment. The only unlikely exception is the case where engagement with a company results in the company management deciding to let the company fold. So if we view the investment universe in terms of companies, the argument that engagement does not reduce the investment universe seems almost tautologically true.

However, this is not the only way we can view the investment universe available to an investor. We can also view it as the set of activities (including products and services), and practices (including management practices) that are available among the companies an investor can choose to invest in. If engagement is successful in changing corporate behaviour, this will lead to companies with irresponsible activities and practices changing these activities and practices into more responsible ones. In other words, it will lead to more responsible activities and practices among the companies in the investment universe, and hence to a homogenization of the investment universe in terms of activities and practices. Even though the opportunity for diversification across companies is not changed, this homogenization of companies does in realistic cases actually reduce the possibility for diversification across activities and practices in its investment universe. Investors whose engagement strategy is effective in changing the activities and practices of companies in its universe hence have fewer opportunities to diversify risk by investing in irresponsible companies, and hence face a higher level of overall risk than it would without engagement.

This puts proponents of engagement in something of an odd position. The point they often make that engagement has the advantage of not reducing the investment universe, is only valid if engagement is an ineffective way of addressing corporate activities and/or practices. If engagement is as effective strategy as the proponents believe, and more so than exclusion, this means that the investment universe may potentially be reduced more in any financially important sense with engagement than with exclusion. So it’s hard to reconcile an idea that engagement provides a less risky investment strategy with an idea that engagement it effective or superior in attaining responsible investment objectives. There is hence a fundamental contradiction in arguments for engagement here. It seems you have to choose between believing engagement to be effective, and believing it to offer a less risky investment universe, you cannot believe both.

This line of argumentation does not hinge on any premises of whether investing in responsible companies offers more or less of a return than investing in irresponsible ones. It focuses merely on the universe available to the investor, and how engagement affects this universe, and hence the potential for diversification and reduction of overall risk to the investor’s portfolio.

Second claim: Exclusion reduces an investor's influence

A common argument against exclusion of companies from a portfolio is that an investor thereby forgoes opportunities to influence the way the company is run, by not being able to engage with the company management. An investor in a way shuts itself out of influence by not being invested in a company. In interviews conducted by Gond and Piani (2012) of institutional investors associates with the UN Principles for Responsible Investment this is stated very clearly, "once you divest, you no longer have any influence over the company" (ibid:88). Louche and Lydenberg (2011:75) similarly argue that "[a]fter selling one's stock, shareholders typically lose their ability to continue dialogue with management". These types of arguments have led Ransome and Sampford (2010:112) to characterize exclusion as a "bystander approach" to responsible investment. Moreover, as stated by Rivoli (2003:284), since by using screening "[responsible] investors only invest in 'good' firms, investors cannot use [responsible investment] techniques to attempt to transform bad firms into good firms" (see also Sparkes and Cowton, 2004).

This sentiment is mirrored in the commissioned report of Dimson et al (2013a:11) to the Norwegian government on the management of the Norwegian oil fund, which notes that divestment is problematic for institutional investors since they forgo "opportunities from active ownership to influence change". Earlier government documents on the management of the fund make similar points, exclusion can mean that the fund can "no longer exercise its rights to influence the company as an owner, by exercising influence at general meetings and through direct contact" (Norwegian Ministry of Finance, 2009:129), and reference is made to arguments that "a risk of exclusion is losing influence on the situation and that in the worst case the conditions deteriorate for those who are affected" (ibid:138).

In a certain sense, this is also almost tautologically true. By excluding a company from its investment portfolio, an investor does forgo the opportunity to approach management as a shareholder. You do not have the opportunity to approach the management in all the ways a shareholder does, at shareholder's meetings and through other forms of shareholder communication with the company. This does not imply, however, that all forms of communication between the investor and a company vanish with exclusion.

With exit, you still have other opportunities to interact with a company management, even though you do not own shares in the company. One way you could interact with the company is as a potential investor. It is by no means obvious that interacting with a company as a prospective investor than as a current investor, is any less effective in influencing the activities and practices of a company. We do know that in addition to attending to current investors, companies do also court prospective investors. This is in the end an empirical question, which deserves attention, but it is hard to conclude that in all cases one strategy is less effective than the other. But the general point is that by not excluding companies, you are also forgoing an opportunity to approach a company as a prospective shareholder, which could have an effect on the activities and practices of a company.

Though unconventional in the world of finance, you can also address a company in other ways than as a shareholder. These extra-shareholder strategies can take many forms, including use of the media or other types of influence, or strengthening or joining forces with key stakeholders of the companies.[3] It can be argued, however, that these types of strategies would also be available to shareholders, offering them a superior tool-kit in terms of influencing a company. One might ask here, however, whether divestment from a company might also open up channels and modes of influence that would be unavailable to the investor as a shareholder. One way exclusion could do so, is through signalling a lack of vested interest which could make the investor appear a more credible partner to other stakeholders seeking to influence the company. Some NGOs may for instance be reluctant to work with someone who is seen as part of the company establishment.[4] And if prospective investors have an influence of the kind argued above, other stakeholders might see leveraging this influence as a more attractive option than interaction with existing investors who appear more tainted by association with the company.

There is hence potential for what we might term extra-investment engagement that needs to be considered when assessing the effect of exclusion on corporate activities and practices. Again, it is not given that the net effect here is always and obviously on the side of retaining investment. This is also an empirical question, which may be hard to address, but nevertheless deserves analysis. But in any case, the possibility for extra-investment engagement indicate that the Hirshman (1971) framework of exit, voice and loyalty which is often used to characterize the options open to investors in affecting company behaviour, provides an incomplete representation of the available set of choices. There is also a possibility of exit with voice to be considered. This is consistent with the observation made by Goodman et al (2013) in a study of responsible investment approaches used by three religious organizations, that organizations of this type sometimes continue to use voice after exit.

[3] The argument presented by Hebb et al (2012:109) that while engagement can be done in many ways, “exit on the other hand, has one simple option, divestiture”, seems to ignore these possibilities.

[4] NGO skepticism of shareholder engagement is noted e.g. by Sparkes and Cowton (2004).

Third claim: Engagement with exclusion is always more effective than pure exclusion

The above forms of extra-investment engagement are typically not considered in assessing the merits of engagement and exclusion. A common view now is that engagement with exclusion is a more effective strategy than pure exclusion to influence company management, as it adds an extra means of influence. In a sense, engagement with exclusion is seen as a less blunt tool than exclusion, which permits exploration of less drastic avenues to make a company change its activities and practices, before exclusion is considered. In an engagement with exclusion approach, exclusion becomes more of a means to make engagement effective, as an ultimate consequence when engagement does not have the desired results (Dimson et al, 2013a). This line of thinking clearly also underlies earlier changes to the guidelines of the Norwegian Government Pension Fund Global, where it is assumed that an “instrument chain where ownership is included and exclusion is the last resort” is assumed to be more effective in influencing company behaviour than exclusion (Norwegian Ministry of Finance, 2009:139). Here reference is also made to the views or experiences of several Norwegian financial institutions that “the most efficient route is to combine the exercise of ownership rights and exclusion”, that “exclusion by itself is of little value” but must be “linked with exercising ownership rights [to] really achieve results in social responsibility” (Norwegian Ministry of Finance, 2009:107).

In their early assessment of the potential of engagement, Sparkes and Cowton (2004:54) argue that engagement by institutional investors “is likely to prove the most powerful way in which [socially responsible investment] will influence corporate executives to engage in corporate social responsibility”. Similar sentiments can be found in later studies, suggesting that engagement is particularly “proactive” or that “shareholder activism is the most progressive option for institutional investors” (Sandberg, 2011:157). Ransome and Sampford (2010:112) contend that “[o]ne powerful reason in favour of engagement over … screening is that it is more likely to be effective, because it entails direct involvement in an attempt to cause change.” Louche and Lydenberg (2011:77) argue that exit and engagement “can gain in effectiveness if used in combination”. A related perception is found among institutional investors interviewed by Gond and Piani (2012:88), “The implicit threat of divestment was regarded as more effective than divestment in itself in attracting managers’ attention to the group’s demands and for creating the conditions for a constructive dialogue with corporations on the issue”.

But is engagement with exclusion necessarily more effective than pure exclusion in making corporations more responsible? At the very least, this seems to require that investors are able to commit to disinvesting if a company management does not make the necessary changes to activities and practices. It is a well-known result from the foreign aid literature that an altruistic donor may threaten to cut aid if a recipient does not make the necessary reforms, but this threat is not credible as it will be in the donor’s interest to keep giving aid even after the reforms have not been implemented (Buchanan, 1975; Pedersen, 2001). Similar kind of commitment problems as this Samaritan’s dilemma problem might easily arise when a responsible investor interacts with the management of a company. If, however, the investor finds a way of committing to exclusion in these cases, then engagement with exclusion seems a more effective approach than pure exclusion.

Maintaining this form of commitment may be harder to reconcile with an ongoing engagement process than commonly thought, however. A basic idea behind engagement is that investors can exert influence on the way that corporate managers think and behave. It is strange that the standard model of this interaction is so unidirectional. Why would the only people influenced by engagement be company management? Why would not also the investor, or the fund manager, similarly be influenced by company management? If there is also influence from the management to the investor, this could lead to a backtracking on principles, where less and less is demanded from corporations, and exclusion becomes a more and more remote possibility. If this reverse influence from engagement is sufficiently strong, it can mean that an investor tying itself to the mast through pure exclusion (and hence largely shutting its ears to the arguments of corporate managers), could have more of an effect on corporate behaviour, than an investor using engagement with exclusion.

One can of course argue that the problem of reverse influence also arises for investors who attempt to combine an exclusion strategy with extra-investment engagement, as discussed above. However, there are reasons to believe that extra-investment engagement may be less vulnerable to this problem than engagement while invested. If it is the case that exclusion makes you a more credible partner for other stakeholders, and more likely to interact with them, this means that you would likely also be influenced by these stakeholders. Extra-investment engagement could hence to a greater extent bolster the principles underlying a responsible investment approach, compared to a strategy of engaging when invested. Exclusion with extra-investment engagement could therefore be more effective than engagement with exclusion in making companies behave more responsibly.

Why the move to more engagement?

The above arguments for engagement, and the counter-arguments presented, are of more than intellectual interest. These arguments have been used as a basis for a substantial shift in approach among institutional investors, altering the responsible investment management approach used for billions of dollars in investment. It is hard to understand why these claims for the superiority of engagement have not been examined with a bit more care and distance. There may be many reasons for this. But in a public choice perspective, it is perhaps less difficult to understand why arguments like these are propagated by the decision makers in institutional investment organizations.

Bureaucracy arises in institutional investment organizations to manage responsible investment strategies. While work with exclusion is not exactly simple and limited, there will be a larger need for bureaucrats when the strategy is one of engagement with exclusion. That engagement is time-consuming is documented for instance in the study of Dimson et al (2013b).[5] With engagement, it is also much harder to measure staff efforts as the outcomes are much less clear. In a way, therefore, a move to engagement appears to be a bit of a bureaucrat's dream. Even when compared to extra-investment engagement, there could be a preference for the relative lavishness of working with corporations as opposed to the more austere and adversarial nature of working with other stakeholders. Understanding bureaucratic incentives is hence probably important in assessing reasons behind the move towards greater engagement.

For some of the institutional investors, and maybe in particular sovereign wealth funds such as the Norwegian Government Pension Fund Global, there are also international political implications of the responsible investment strategy chosen.[6] When the American retailer Wal-Mart was excluded from the investment universe of the Norwegian oil fund, it caused a non-trivial rift with the American government. The Norwegian government, which has the final say in exclusion decisions, also shied away from excluding the Chinese company PetroChina that the fund's Council on Ethics recommended be excluded. In addition, we see that innovative new strategies are included as alternatives to exclusion, the Norwegian Government Pension Fund Global for instance chose to put Siemens on an observation list due to corruption, rather than excluding the company outright. Political expediency appears to override other concerns in such matters. While retaining an appearance of responsibility, the loopholes that are created appear to undermine responsibility in any real sense. Whether this is limited to this particular fund is an open question, but it is hard to imagine that other institutional investors are immune to lobbying from corporations and their home country governments.

The problem created by this gradual shift in approach is not only that the potential for influence on corporate behaviour potentially suffers. Some institutional investors have introduced responsible investment policies not to affect corporate behaviour, but to retain public or investor confidence in the management of the funds, or to avoid complicity in corporate misdeeds. However, any credibility in meeting these other objectives is also reduced, an investment strategy that is more responsible in name than in actual terms does not really convincingly ensure clean investor hands, or informed confidence

[5] See also Michelson et al (2004) and Sandberg (2011).

[6] In their report to the Norwegian government, Dimson et al (2013a) also notes the political sensitivity of exclusion decisions in the management of the Norwegian Government Pension Fund Global.

in the management of investor funds. For the Norwegian Government Pension Fund Global, for instance, where these types of objectives have been central, the recent and current shifts in management approach could in many ways to signal an end to an experiment into real responsibility that the fund embarked upon in the 2000s, if it was ever real in the first place.

Concluding remarks

There are reasons to believe that increasing emphasis on engagement may be driven more by institutional logics in institutional investor organization, than by solid and well-proven arguments that this shift in focus will be a beneficial one, one that credibly helps the organization meet the objectives of ethical investment specified, be they to influence company behaviour, prevent complicity in corporate misbehaviour, or instil confidence in the management of funds. An analysis based on bureaucratic and political incentives provides a radically different understanding of the recent shift to engagement among institutional investors than the perspective of Clark and Hebb (2004), which sees the move to engagement more as a result of changing social pressures and trends and a greater potential for institutional investors to influence corporate behaviour.

If it is the case that these types of institutional logics prevail, it is also less likely that the arguments given for engagement will be examined sufficiently carefully to provide an evidence base for decisions on ethical investment approaches. The first claim for engagement presented above is challenged on logical grounds alone. However, the other two require empirical examination, where there can be no prima facie presumption that the second and third claims are correct. As noted by Hebb et al (2012:125), while institutional investors often believe that engagement is a superior strategy in influencing companies, "engagement impacts lack detailed academic research to back the claim of their effectiveness". Whether this form of analysis will be performed is another matter. Given the incentives discussed in relation to institutional investors, there seems to be little reason to believe that these organizations will have these questions analyzed in more detail. Support for this type of research would therefore have to come from elsewhere.

References

Buchanan, J. M., (1975), "The Samaritan's dilemma", in Phelps, E. S. (ed.), *Altruism, morality and economic theory*, New York: Russel Sage Foundation, pp. 71-85.

Clark G, and Hebb T. (2004), "Pension fund corporate engagement. The fifth stage of capitalism", *Relations Industrielles/Industrial Relations* 59, 1, 142–171.

Dimson, E., O. Karakas and X. Li, (2013), *Active Ownership*, Working paper, Cambridge Judge Business School, www.ssrn.com/id=2154724

Dimson, E., Kreutzer, I., Lake, R. Sjo, H. and Starks, L. (2013), *Responsible Investment and the*

Norwegian Government Pension Fund Global, Main report, Strategy Council 2013 of the Norwegian Government Pension Fund

Eurosif (2012), *European SRI Study 2012*, Brussels: Eurosif

Gond, J. P. and Piani, V. (2012), "Enabling Institutional Investors' Collective Action: The Role of the Principles for Responsible Investment Initiative", *Business & Society*, 52, 1, 64–104

Goodman, J., Louche, C., van Cranenburgh, K. and Arenas, D. (forthcoming), "Social Shareholder Engagement: The Dynamics of Voice and Exit", *Journal of Business Ethics*

GSIA (2013), *Global Sustainable Investment Review 2012*, Global Sustainable Investment Alliance

Hebb, T., Hachigian, H. and Allen, R. (2012), "Measuring the Impact of Engagement in Canada", in Hebb, T. (ed.), *The Next Generation of Responsible Investing*, Dordrecht: Springer

Hirschman, A., (1971), *Exit, Voice and Loyalty: Responses to Decline in Firms, Organizations, and States*, Cambridge, Mass: .Harvard University Press

Louche, C. and Lydenberg, S. (2011), *Dilemmas in Responsible Investment*, Sheffield: Greenleaf Publishing

Michelson, G., Wailes, N., van der Laan, S. and Frost, G. (2004), "Ethical Investment Processes and Outcomes", *Journal of Business Ethics*, 52, 1-10

Norwegian Ministry of Finance (2009), *On the Management of the Government Pension Fund in 2008*, Report No. 20 (2008–2009) to the Storting, Oslo: Norwegian Ministry of Finance

Norwegian Ministry of Finance (2010), *On the Management of the Government Pension Fund in 2009*, Report No. 10 (2009–2010) to the Storting, Oslo: Norwegian Ministry of Finance

Pedersen, K. R. (2001), "The Samaritan's dilemma and the effectiveness of development aid", *International Tax and Public Finance*, 8, 693-703

Ransome, W. and Sampford, C. (2010), *Ethics and Socially Responsible Investment – A Philosophical Approach*, Farnham: Ashgate

Rivoli, P. (2003), "Making a Difference or Making a Statement? Finance Research and Socially Responsible Investment", *Business Ethics Quarterly*, 13, 3, 271-287

Sandberg, J. (2011), "Socially Responsible Investment and Fiduciary Duty: Putting the Freshfields Report into Perspective", *Journal of Business Ethics*, 101, 143–162

Scholtens, B. (2014), "Indicators of responsible investing", *Ecological Indicators*, 36, 382-385

Scholtens, B. and Sievänen, R. (2013), "Drivers of socially responsible investing: A case study of four Nordic countries", *Journal of Business Ethics*, 115, 605-616

Sjöström, E. (2008), "Shareholder activism for corporate social responsibility: What do we know?", *Sustainable Development*, 16, 141–154

Solomon, A., Solomon, J. and Suto, M. 2004. "Can the UK experience provide lessons for the evolution of SRI in Japan?", *Corporate Governance: An International Review*, 12, 4, 552–566

Sparkes, R. and Cowton, C. J. (2004), "The Maturing Of Socially Responsible Investment: A Review Of The Developing Link With Corporate Social Responsibility", *Journal of Business Ethics*, 52, 45-57

USSIF (2012), Report on Sustainable and Responsible Investing Trends in the United States 2012, Washington D.C.: USSIF

Vandekerckhove, W., Leys, J. and Van Braeckel, D. (2007), "That's not what happened and it's not my fault anyway! An exploration of management attitudes towards SRI-shareholder engagement", *Business Ethics: A European Review*, 16, 4, 403-418

Vandekerckhove, W., Leys, J. and Van Braeckel, D. (2007), "A Speech-Act Model for Talking to Management. Building a Framework for Evaluating Communication within the SRI Engagement Process", *Journal of Business Ethics*, 82, 77–91

CMI WORKING PAPERS
This series can be ordered from:

CMI (Chr. Michelsen Institute)
Phone: +47 47 93 80 00
Fax: +47 47 93 80 01
E-mail: cmi@cmi.no

P.O.Box 6033 Bedriftssenteret,
N-5892 Bergen, Norway
Visiting address:
Jekteviksbakken 31, Bergen

Web: www.cmi.no

Printed version: ISSN 0804-3639
Electronic version: ISSN 1890-5048
Printed version: ISBN 978-82-8062-482-6
Electronic version: ISBN 978-82-8062-483-3

This paper is also available at:
www.cmi.no/publications

INDEXING TERMS
Responsible investment
Engagement
Exclusion
Negative screening

There is a move towards more use of engagement strategies in responsible investment. This change in strategies is motivated by a number of claims about the effectiveness of engagement versus exclusion of companies from the investment universe. This paper examines the basis for three central claims: i) That engagement, in contrast to exclusion, does not reduce the investment universe; ii) That exclusion reduces an investor's influence on a company; and iii) That engagement with exclusion is necessarily a more effective means of influencing companies than pure exclusion. All three claims are argued to be open to challenge. It is possible that the move towards more engagement reflects bureaucratic incentives and political considerations among institutional investors, rather than arguments about the effectiveness and efficiency of engagement.

CMI CHR. MICHELSEN INSTITUTE