# Ethical Investment

For many companies the primacy of the shareholder is unchallenged and is seen as a reason why other dialogue with stakeholders such as employees, consumers and those whose lives are affected by the company cannot redefine for whose benefit the company is run. Therefore some people wish to use whatever investments they have in a way that reflects their values. There are three main approaches to ethical investment: ethical screening, positive investment and investor engagement, which may or may not be adopted in combination.

## Ethical Screening

Investors choose **not** to invest in particular types of company which are involved in activities incompatible with the investors' values. For example, companies which are involved in:

- The arms trade
- Nuclear power/fuel
- Repressive regimes
- The tobacco industry
- Anti-Trade Union activity
- Animal experimentation
- Third World debt/exploitation

## Positive Investment

Investors actively seek to invest in companies which do business in areas and in a manner that most promote their values:

- A good safety record
- Openness about activities
- Social Housing
- Energy conservation products
- Production of recycling equipment
- Equal Opportunities Policy
- Environmentally Friendly Technology

## Investor Engagement

Investors use the influence afforded them as shareholders or potential shareholders to persuade companies to adopt more ethical policies. Investors or potential investors can influence companies in the following ways:

- Shareholders can propose resolutions at the Annual Meeting of companies
- Asking companies for information about their CSR activities and policies
- Informing companies that they have not been invested in because of their ethical stance
- As ethical investment funds develop expertise on responsible business practices, fund managers and their staff are often well placed to advise businesses in which they invest on best practices

The information that potential investors have to make ethical decisions on is based upon the information that companies themselves provide, unlike the financial information, which is subject to regulation and audit. This information includes the social reports (see Briefing Paper 2) and other information that companies publish or volunteer.

CSR widens the responsibilities that business has beyond shareholders and investors to include other stakeholders such as employees, neighbours and consumers. Ethical investment has a role to play in ensuring that these other stakeholders are engaged by the business, but the extent to which ethical investment challenges the primacy of the shareholder is debatable.

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***Questions:***

- What are the relative merits of ethical screening, positive investment and investor engagement as investment strategies?
- How important is it that investors can access reliable information about companies in order to make ethical investment decisions?
- What problems are there likely to be when comprehensive comparable information is not available?
- How should this information be made available (consider Briefing Paper 2)?
- Could some companies benefit from adopting a specifically not-for-ethical-investment business strategy?
- Can ethical investment ever reach a scale where it can influence all companies' behaviour?
- What should be done to tackle the behaviour of companies that do not attempt to attract ethical investors?
- What is necessary to attract more investors to adopt an ethical approach?
- What actions by governments would aid ethical investment?
- Can all types of company be considered against the same ethical criteria? How?
- What responsibilities should financial regulators have with regard to ethical investment?
- How can ethical investment be regulated to ensure it reflects customers' wishes given their varying ethical concerns (e.g. an animal rights activist and human rights activist might have different criteria for their investments)?
- Should investors be the ultimate guardians of business behaviour?