



ABSTRACT “ THE ETHICAL FOUNDATIONS OF RESPONSIBLE INVESTMENT “

In the area of investment, responsibility may be expressed via four types of ethical concern: value-based ethics resulting in the exclusion of so-called “vicious” companies from the investment portfolio; fructification-oriented ethics with a view to long-term investment; consequence-based ethics aimed at initiating a behavioural change in the investment target; and ethics envisaged as a discriminating criterion in the search of the best financial performance. No single formula of responsible investment is available, and the “responsible” approach necessarily implies the active involvement of a free acting subject striving to tackle fundamental ethical issues. The practice of responsible investment cannot be reduced to simply applying a particular legal rule or mathematical formula.

***The ethical foundations of
responsible investment***

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*This document is a point of access, offering a base from
which any person or institution can begin their own reflection
concerning the ethical stakes involved in any particular
responsible investment process. It is thus intended, on the
one hand, for fund-holders (individuals and pension funds)
endeavouring to give meaning to their savings and, on the
other hand, suppliers of financial services (finance and asset*

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management companies, financial intermediaries, company evaluators, rating agencies, non-governmental organisations) which accompany, in one capacity or another, the process of responsible investment. This document should also interest industrial concerns, particularly those which are the target of responsible investment, and international circles – public and private – where « best practice » codes or examples are prepared. It therefore completes other works recently published by the Observatoire de la Finance²

The following text is the result of discussions within a group of a dozen people concerned or involved in various capacities with the area of responsible investment. The group met on the initiative of the Observatoire de la Finance with the aim of structuring ethical questioning as it arises in relation to the responsible investment process. The Observatoire de la Finance – a foundation established under Swiss law, based in Geneva – acted as the group's secretariat by preparing intermediate documents. The group, of an informal nature, met four times between the months of November 2001 and February 2002; those taking part did so in a personal capacity, and this document is thus the sole responsibility of its authors³.

1. Saver or responsible investor?

The reflection starts with the realisation that more and more of us have idle cash reserves, that is cash we do not need immediately, but which we will be more or less likely to need in a more or less long term. Several methods exist to

² *L'investissement responsable en Europe*, report prepared by P. Morand, Observatoire de la Finance, December 2001, 80p ; the autumn 2001 edition of the review *Finance & the Common Good/Bien Commun* focused on the subject of socially responsible investment.

³ At the beginning of 2000, another document entitled «*Les enjeux éthiques des activités financières*» had also been produced under the patronage of the Observatoire de la Finance, it is also the result of the work of a group of professionals (*Finance & the Common Good/Bien Commun*, no 4, spring 2000, also published in the *Journal of Business Ethics*, no 37, 2002.

transfer « purchasing power » into the future : building up of capital, bank deposits, investing on the stock exchange – liquid by definition – and investment with, as a result, a relation of actual and direct ownership. Several considerations are going to decide the choice of methods, four of which seem the most important :

- the type of need which the resources will have to fulfil in the long run;
- the preference for preservation or necessity of multiplication according to the appropriateness of the assets possessed to future anticipated expenses;
- the degree of familiarity with the realities of each of the methods;
- the degree of certainty as to the exact moment and amounts necessary at precise dates.

The first problem confronting a saver is the formulation of his expectations – in the long run – regarding the temporarily idle cash reserves. It is through such analysis that he assumes his responsibility as saver. It is thus easy to imagine situations where the saver, because he assumes his responsibility, gives up the idea of resorting to certain methods of transferring his assets into the future. In other words, a responsible saver does not necessarily have to become a « responsible investor».

Unlike English, the French language makes a distinction between « placement » and « investissement ». Therefore, according to « Le Petit Robert », the term « investissement» designates the action of acquiring capital goods for the running of a company, as well as the physical capital thus acquired; whilst « placement » refers to the action of investing money, of using it to earn a profit, a plus-value or to preserve value. This distinction is fundamental : it reminds us that in the original sense of the term, « investissement » implies the investor's direct exploitation of production tools, whilst « placement » is situated at the level of the passive possession of certain rights with a view to remuneration.

Responsible investment may imply the choice of financial products or adhesion to a set of criteria bearing a certain

label, but the exercising of responsibility can under no circumstances be reduced solely to these decisions. Therefore, to encompass the problem in its entirety, it is more judicious in this text to refer to « responsible investment» to avoid confusion with «socially responsible investment». Indeed, SRI is an accepted term to describe a range of standards, criteria or values which a family of specific financial products is attempting to promote among companies quoted on the stock exchange. Thus defined, socially responsible investment becomes included in the wider set of problems of responsible investment.

The question which concerns us is thus to know how – in the area of investment - an actor can first express, and possibly promote, certain ethical values through his choice of financial instruments. How is the consideration of ethical values then conveyed and put into practice by the financial intermediation sector, what are the possible distortions? What is the impact of this consideration and its ultimate effectiveness?

2. Responsibility : notion and putting into practice

The notion of responsibility comprises three dimensions :

- the freedom of an acting subject;
- the arbiter (authority) to which the subject answers for his action ;
- the way the relationship between these two poles is expressed.

The subject's decision to exercise his freedom is thus the starting point of any relationship of responsibility. However, depending on whether the subject is an individual, a legal entity (institution) or an individual acting within the framework or in the name of a legal entity, he is called upon to « answer » to different arbiters and according to different processes. Indeed, the responsibility of institutions is exercised on a more limited number of levels than individual responsibility. Consequently, the way in which an institution's responsibility

is defined does not relieve individuals acting in its name of their own responsibility.

The arbiter to which the subject answers for his action constitutes the second dimension of the notion of responsibility. Briefly, three types of arbiter, not mutually exclusive, are taken into consideration: the subject's own conscience, his direct and indirect principals and the common good. Conscience refers primarily to moral values or convictions, the principal as « answering » arbiter places primary importance on legally based relationships, whilst the reference to the common good – whatever the extent of the community considered - implies taking into account the consequences which the actions will have on absent third parties. Of these three arbiters, only the relationship of the subject to his principals is the concern of the statutory and institutional framework external to the subject, whilst the other two authorities, both conscience and concern for the common good, are rooted in the characteristics of the subject himself and depend on his predispositions.

The nature of the relationship between the subject and the arbiters he has to answer to is the third dimension of responsibility. It depends heavily on both the quality of the subject and of the arbiters to which he has to answer. In theoretical terms, this relationship can take two pure forms: either it is experienced by the subject from within, or it is imposed on him from without. Whilst the responsibility experienced from within permeates every act expressing the subject's freedom, the external intervenes, in the form of a penalty or claim for financial compensation, only after the subject has infringed a standard or rule. This external intervention, connected with the result of the action, can lead to an awareness inciting the free subject to deal with his responsibility better. The relationship of responsibility is not in fact static and deepens as a result of contacts between free subjects and the arbiters they answer to. This particularly applies when a continuous dialogue is established between the two poles of the relationship of responsibility.

Every time responsibility is taken, each of the three dimensions assumes concrete significance and it is possible to give a detailed reply to these three key questions:

- who is the subject responsible ?
- to whom is he responsible ?
- how is the relationship of responsibility expressed?

Since the variety of concrete situations is infinite, it would be futile to aspire to exhaustiveness by constructing a typology combining all possible answers to the three questions. In each concrete situation, it is up to the subject himself to provide the answers to the three questions in order to clarify the ethical stakes of his actions.

As far as responsible investment is concerned, two general conclusions may be drawn at this stage. Firstly, the responsibility motivating the investor is experienced from within, it is based on his continuous involvement in the activity of investment to the extent of the time and competence available. Consequently, the exclusive reference to principals and the surrounding statutory framework does not suffice to make an investment responsible, it must be completed by recourse to conscience or consideration of the common good. Thus, the legislative changes recently introduced in England, and in preparation in France, obliging pension funds to explain their attitude concerning ethical values may prompt subjects to new awareness, but cannot be a pure and simple substitute for the subject's own assumption of responsibility.

The second conclusion resulting from analysis of the notion of responsibility is that the investor's responsible behaviour cannot be summed up by or reduced to the obligation to resort to a particular investment method, or a particular financial product bearing an «ethical» or «responsible» label. Conversely, it is not the qualities (claimed or real) of the product or method which reflect on the subject using them, but rather the free and assumed relationship which the subject maintains with the products he deals with which determines the investment's ethical quality. Consequently, the exercise of responsibility in the activity of investment does not consist of applying a particular legal rule or mathematical formula. Indeed, the free subject (individual or institution) is the beginning and end of any application of responsibility – including in the area of investment.

Investors with strong moral convictions, followed by certain pension funds, have been the first to give responsible investment the visibility it enjoys today, particularly by developing specific competences and extensive means of investigation and analysis. Through the size of their portfolios, their concern for durability and their sensitivity to non-financial dimensions, they have been the source of what today appears as an evolution of mentalities.

More recently, anticipating the effect of an emerging trend, banking institutions and other financial professionals have begun to set up investment instruments – investment funds – claiming ethics and responsibility as their label. There is a variety of such offers available, enabling the ethics-conscious investor to compose his own menu of values by buying financial products bearing a particular label. By subscribing to such products or services, the investor is actually appointing the management of the purchased fund to use all its technical competence to maximise financial performance within constraints stipulated on the label. The setting-up of indexes with ethical and societal connotations to draw the boundaries of a « nice » investment sphere is based on the same logic as the setting-up of investment funds mentioned above. These services offer the subject the opportunity of handing over the effort of discernment and decision-making – in return for payment – to specialists. Although the increasing number of labelled products is enjoying a certain success with the public, it poses at least two questions to the subject who is the investor. The first concerns the degree to which it is morally acceptable to « subcontract » one's own responsibilities as investor by buying a particular product. The fact of reducing the ethical question to semi-automatic mechanical devices – ratings, indices, weightings – does not exhaust the problem. The second question concerns the validity of a decision which would consist of submitting only a part of one's assets to ethical principles in the name of a diversification strategy. The answers to these questions will vary from one subject to another, particularly according to the arbiters to whom he will have to « answer » for his choices and the way in which he will make them.

3. Typology of ethical concerns

The notion of responsible investment refers to the subject who considers that the act of investing is not neutral from the ethical point of view, and thus intends subjecting it to ethical criteria. Ethical criteria are not necessarily the same for all subjects however and, even if they do converge, they are not expressed in the same way. At the risk of generalising, in the area of investment, responsibility may be expressed via four types of ethical concern, separated here for reasons of analysis. The practical expression of each leads to a specific range of possible links between the three dimensions of the notion of responsibility discussed above. From the point of view of marketing and the offering of « ethical or responsible » financial products, each type of ethical concern corresponds to a segment of market or clientele to which products with specific characteristics will be offered.

3.1. Value- or conviction-based ethics

In this case, ethical concern is expressed by refusal to support or contribute to activities, practices or systems of which the investor disapproves. This can range, for some, from refusal to invest in the stock exchange or to resort to certain financial practices or instruments, to refusal to be a holder, directly, or via institutional investors, of shares issued by companies involved in certain practices or activities. Value-based ethics lead to the exclusion from the investment sphere of companies, but also intermediaries and practices, which betray the investor's convictions. These exclusion decisions presuppose a process of analysis going beyond what is considered important by the risk/return paradigm.

A step taken in the name of value-based ethics is unilateral, aimed at the investor's «peace of mind» and not motivated by any attempt to have an impact on the company. It is, by its very nature, uncompromising because it draws an absolute boundary and permits no « trade-off » between convictions and financial profitability; inside the investment sphere, on the other hand, anything is possible. Its sole objective is to ensure coherence between the subject's

convictions and his financial choices. In this sense, in this configuration of responsibility, the subject's conscience is the only arbiter « to be answered to » which is taken into account.

The practical application of such an ethical attitude is not as simple as it seems. Indeed, if the disapproval concerns certain goods or services produced by particular companies (weapons, games, tobacco etc.), identification of the sectors and companies to be avoided is relatively simple. If, on the other hand, the disapproval concerns practices such as respect for the environment, non-discrimination, use of certain types of marketing, etc., identification and definition of the investment sphere authorised are definitely more delicate. Furthermore, whether products, practices or, a fortiori, both, are involved, the investor must define «purity thresholds», that is, decide the weight which a disapproved activity or practice can carry in a company without it being excluded from the investment sphere.

3.2. Fructification oriented ethics

The investor acting with the intent of earning a profit becomes a partner of the company in which he invests. Therefore, he sets up the other parties in the company as the arbiter to be answered to. Such a partnership necessarily covers the time period which the investor considers essential to fructification, that is for the results to reward the effort and risk involved. Fructification oriented ethics arise more naturally in investments which place financial means at the disposal of unquoted companies or initiatives. However, they can also motivate purely financial investments. The common factor shared by these two instruments is the subject's moral commitment « to hold out» for the time it takes for the investment project to yield a profit, whether it involves small companies or multinationals.

The fructification option requires an initial commitment which can only be made on the basis of confidence. It thus implies that the investor assumes the risk linked with his choices and abandons the idea – in any case to a reasonable extent – of too easily taking advantage of any exit opportunities which the market might offer him. Such a choice implies that the investor renounces the possibility of getting

rid of the shares onto other market participants as soon as the company runs into problems. By thus blocking the escape option, fructification oriented ethics fully expose the investor to the economic consequences of the recommendations he might be tempted to make to the company because of his ethical convictions. In fructification oriented ethics, there is consequently no room for an uncommitted investor who would invest in companies in fits and starts, reserving the right to jump ship should the opportunity arise.

An investment made with a view to profit and establishing a long-term partnership may lead to the rediscovery of older forms of investment in unquoted micro-enterprises and SMEs. In this process, the social fabric of which the company is part is just as important as its purely economic substance. In a word, the fructification option results in higher initial transaction costs than standard stock-exchange investment, but in the long term, financial intermediation and management costs should be lower.

3.3. Impact- or consequence-based ethics

In this case, the investor's ethical concern consists of wanting to induce both financial intermediaries and quoted companies to adopt practices and activities corresponding to his own ethical requirements. It is less a matter of approving an established fact than of initiating a change in the behaviour of the investment target in accordance with selected moral values. From the purely tactical point of view, this is a behaviour similar in every respect to that of any minority shareholder who has other than purely financial interests in the company. However, unlike the traditional minority shareholder owning industrial interests, the responsible investor does not attempt to create an added value for himself, nor to improve the company's financial performance, but to arrange things so that the target improves its behaviour, thus producing an added value for society, contributing to the common good. Therefore, in the case of consequence-based ethics, the investor's idea of the requirements of the common good becomes the main arbiter « to be answered to ».

Consequence-based ethics attempt to have an impact on the company – and more generally on the whole investment sphere – which is tangible and, as far as possible, more than proportional to the investor's purely financial weight. In this case the investor tries to create a «leavening effect» by resorting to various methods of action : regular dialogue with companies, activism amongst shareholders by speaking at annual general meetings to occasionally state disapproval or fundamental disagreement, media campaigns possibly combined with other protagonists such as consumers or NGOs which are the mouthpiece of civil society. In other words, the choice of means is vast : it ranges from conviction to power struggle.

The company's reputation with investors, but also in the eyes of a wider public, is the main stake involved in the power struggle. The latter is instituted not in the name of economic interests, but in the name of the common good, for which the investor proclaims himself the spokesperson. This attitude poses the question of the grounds on which is based the certainty of working for the common good, particularly the actor's legitimacy, and the ethical limits of an attitude which is, in some respects, similar to a form of constraint or blackmail. The notion of responsibility used to describe this sort of practice assumes, in this case, special significance. It suggests that the superior interests of which the investor is considered the guardian justify the means employed.

When the investor contemplates using his position as a lever he must be aware of the level of risk he is willing to take to activate this lever. At one extreme, the investor can see his outlay as irretrievable, which gives him a great deal of room to manoeuvre ; at the other, the risk taken may be reduced to some marginal corrections of weighting coefficients in a share portfolio. Consequence-based responsible investment in most cases fits into the logic of effectiveness, which demands the economy of means. The investor cannot, except in extreme cases, avoid the question of the acceptable « cost » expressed in terms of risk and its relationship to the anticipated financial return. Paradoxically, the greater the number of companies concerned by the desired change in behaviour, the lower – in relation to the market - the

additional risk connected with responsible investment. Thus, in the name of the principle of effectiveness – also considered a means of reducing this specific risk – the responsible investor will naturally seek strong alliances outside the financial market and financial institutions in general. Thus, consequence-based ethics can lead the investor to become involved in political action aimed at legislative change. In an extreme situation, if all the ethical investor's postulates were adopted by the law, ethical investment would cease to have any reason to exist.

3.4. Ethics as financial selection criterion

The relationship of responsibility discussed above presupposes a subject whose exercise of freedom is deeply implanted in a concern for ethics. The first three ethics presented here are in keeping with this tradition since they integrate the three poles of the relationship of responsibility. The fourth type is a different matter, where ethics are envisaged as a selection criterion for the investment portfolio and not as the motivation inspiring the subject's actions. Indeed, these are situations where the investor attaches no ethical significance to the act of investing in itself, but assumes that, in the medium and long term, economic actors who respect a certain number of ethical values have a strong probability of obtaining better economic performance than those less strict in this respect. Thus, the investor is going to favour in his policy companies and intermediaries which respect the values in question because, in this way, he increases the likelihood of improving his own performance in the medium term. By resorting to ethical criteria and values, the investor hopes to gain additional information, unexploited by the market, and whose use would give him an advantage. From this point of view, ethics become an additional criterion for share selection and a technical reason for differentiating the structure of the portfolio from that of the reference index. Ethics are perceived as an advanced indicator of performance, thus a factor reducing investment risk. They are therefore used purely as a means of obtaining a profit, which appears to be the ultimate goal of investment.

Unlike other approaches to responsibility, it is not in the interests of such investors for the criteria used or indicators developed to become public knowledge. Were this to happen, the responsible investor's competitive advantage would tend to disappear. Such an attitude poses an ethical problem in itself on account of the possible search for exclusive information.

In reality it is rare that the various types of ethical motivation appear in their pure form. The above typology allows the motivations of each person to be clarified and organised, it also permits a clearer understanding of the extent to which these attitudes are compatible amongst themselves. Indeed, responsible investment implies an overall coherence right down the line, from expectations in relation to savings and ethical motivations to intermediaries and instruments used.

4. Financial intermediation: a question that is to be addressed

The recent advancement in finance has been stimulated by two parallel developments. On the one hand, in OECD countries, a growing proportion of savings is collected by pension funds and insurance companies and then placed in the hands of financial intermediaries for investment. On the other hand, during this same period, companies and governments have made massive use of financial markets to make investments. The increased demand for financial intermediation services results particularly from reinforcement of the role of institutional investors who are, moreover, restricted by actuarial constraints specific to their activities, but also benefit from preferential tax treatment which emphasises the special character, particularly in the long term, of their social mission. The extraordinary increase in the number of other financial instruments, such as investment funds, has also contributed towards increasing the demand for intermediation services, whose added value consists of proposing to each subject a selection of shares corresponding to his risk/return profile. Bearing this in mind, the buying and selling of shares – facilitated by market liquidity – serve the function of protecting the client's

risk/return profile from fluctuations in rates or forecasts. From the point of view of companies whose shares are quoted, this development has increased the importance of the volatile shareholder fringe which, by its very nature, has only a very limited interest in the functioning of the company, but who, through frequent decisions to buy or sell, lend the share liquidity, synonymous with security.

In many cases, financial market expansion has gone hand in hand with that of large companies. Due to their size, companies have become more and more difficult to control by stable groups of shareholders with an industrial interest, and more and more exposed to the purely financial demands shared by most « nomadic or wandering » shareholders. Theoretically, this development could have « freed » managers from shareholder pressure. Providing they offered the latter large returns, managers would thus have regained a certain liberty in their long-term industrial choices. This is not at all the case, however, since these same managers have grown to rely on the way companies are perceived by the « leading lights » of the financial markets (analysts, rating agencies, specialised press) who control the contents of the nomadic shareholder's portfolio. Dependent on image, fashion and also the remuneration system (in stock options), confined to an increasingly limited time frame, in reality managers do not resist the temptation to manipulate in their turn these same elements which put them under pressure.

Trends in responsible investment, its products and its methods express an intention to go beyond financial intermediation depending exclusively on the risk/return paradigm and create (restore) a direct (responsible) relationship between financial investment and the company reality underlying it. Responsible investment – in the multiplicity of its accepted senses – often expresses the refusal of the ultimate shareholder to allow himself to be locked into the risk/return dilemma. Not only is the reference to reality restored, but it is enriched by the explicit integration of the investor's ethical preferences.

That being so, financial intermediation services remain essential for practically all products and practices bearing the « responsible » label. As an intermediation professional, the

financial institution enjoys the confidence of the investor, in comparison with whom it has specific expertise and competence. Indeed, it is the financial intermediary who will have the delicate task of translating his client's principles and convictions into action. However, any intermediation practice entails a certain amount of leeway where conflicts of interest may appear between intermediary and client. This particularly applies to decisions concerning management methods, type and frequency of share substitution, etc. Indeed, certain technically justified practices – such as, for example, short selling – may present points of conflict with the principles which the responsible investor wishes to promote. Therefore, before placing his confidence in a particular intermediary, it is up to the client to ensure that the way in which the intermediary exercises his profession is in harmony with the client's values and ethical convictions.

Paradoxically, in its infatuation with responsible investment, the public neglects to look into the professional practices of the financial intermediary, this essential link in the chain connecting the investor to the company. It nevertheless remains a fact that responsible investment would contradict its own principles if it forgot to closely examine the professional practices of financial intermediaries in the light of ethical questioning. This particularly applies to the degree of independence enjoyed, within large financial institutions with multiple interests, by company analysts, whether financial analysts or ethical evaluators. Conflicts of interest can result in distortion of evaluators' appraisals to the detriment of the ethical investor's interests.

5. The structure and cost of information

Each of the ethical motivations presented in the typology is going to give rise to a different strategy on the part of the investor, in his expectations regarding the intermediary, the choice of financial products used, and the alliances or synergies he will develop with other actors not only in the financial arena, but also in civil society or the political world. However, responsible investment, on its own behalf or on behalf of a client, implies recourse to more information than that usually available to financial operators. This poses two series of questions : how to acquire and structure the information to make it operational and how to distribute the costs of this extra effort, whilst safeguarding the impartiality of the information.

5.1. Operationalising information

Every responsible exercise of investment activity implies resorting to information going beyond that commonly accessible in company financial statements. Consequently, a specific effort must be made to collect and structure the information to orient choices and decisions. In view of the volume of work necessary, specialised agencies have started to spring up over recent years. Their vocation is to collect and structure information and then transmit it to decision-makers in the condensed form of ratings, recommendations, lists or indexes. The various agencies each operate in their own way, but the acquisition and processing of company information always pose a certain number of questions of an ethical nature which must be specified.

The first question concerns the investor or his principal. It focuses on the nature of the information which the investor needs to make his financial choices. In an ideal world, the answer would be sought exclusively in the grid of ethical values close to the investor's heart. In reality however, the investor's desires are defined by indicators supplied by rating agencies. The vaguer the investor is regarding the precise

impact of the values important to him, the greater the risk of incompatibility between the investor's ideal vision of his ethical choices and the information summarised by various indicators and provided by specialised agencies.

The second question concerns the methods enabling the information to be summarised and structured. Indeed, the job of rating agencies consists of seeking out a large amount of specific and fragmented information regarding numerous aspects of company life (relationship to biosphere, governance methods, relationships with employees and authorities, etc). For this myriad of elements to be useful for making investment decisions, it is essential to organise it with the help of a grid making sense of it. In reality, the investor or his principal are looking for clear recommendations concerning companies. By structuring their services accordingly, rating agencies propose that investors should rely on their competence and ethical assessment method. From the technical point of view, a vast number of methods for collecting and structuring information may be envisaged. Nevertheless, the philosophical validity of this reduction process as such remains uncertain, as does the question of delegation the ethical validity of discernment to third parties in the name of a better exercising of responsibility.

The third question concerns the validity of the rush towards standardisation of ethical considerations. The clarification of non-financial information is making progress. It results from a convergence of interests : companies want the criteria used for their evaluation to be stabilised, those offering products claimed appropriate for responsible investment are scrutinising a more and more extensive population of companies and consolidation in the sector of rating agencies will lead to a standardisation of practices, as occurred in the domains of accounting or financial evaluation. However, standardisation is based on two postulates : on the one hand, that particular ethical values can be assigned non-ambiguous indicators, and on the other, that the technical aggregation of indicators does not leave the result thus obtained devoid of ethical meaning. Recourse to the norm usefully allows this background discussion to be

overshadowed under the pretext of the generalisation of its use.

NGOs play a significant role in the race for establishing standards. As mouthpieces, often self-proclaimed, of universal goodwill, they enjoy an especially strong legitimacy in the eyes of investors, public authorities and companies themselves. In this race, however, considerable interests are at stake both for organisations offering alternative standards and for companies conforming to them. When a set of private rules becomes a widely accepted standard, their author acquires recognition, in terms of both prestige and finance, a prospect which, not surprisingly, stimulates numerous appetites. For companies – which are in the final analysis the target of responsible investors – the emergence of standards increases the predictability of the resulting ratings and, consequently, enables companies to concentrate their efforts where changes in behaviour will have the greatest effect on evaluation results. Thus, companies have everything to gain by the expectations of responsible investors being expressed in standardised indicators. Any standardisation, like that of accounting norms, may have perverse effects by inciting companies to concern themselves with the level of indicators rather than the reality they are intended to indicate.

5.2. The cost of information and transparency

The claim to a concern for ethics cannot be dissociated from the subject's own acceptance to make a « personal » effort, the cost of which cannot be shifted onto a third party. Anyone reading this document is already investing his time, as did the group which contributed to clarifying these ideas. Beyond the effort of clarification required for any responsible attitude towards investment, the acquisition of company information and its structuring also entail cost. Without this information, responsible investment in quoted companies is impossible. Consequently, it is important to question how the cost of the information is distributed. Depending on the precision of the investigation, the cost of an expert ethical evaluation may amount to several million USD (Nike for example) and imply the employment of huge numbers of experts for a long-term project, or amount to merely a few

hours' work if it involves publishing data and information supplied by the company.

Regardless of the fact that each method of collecting information poses the question of its intrinsic validity, in the final analysis, the cost can be borne by two parties: either investors and their principals (administrators, rating agencies or manufacturers), or companies themselves. In the short term, if the cost is borne by the investor, the investment's financial performance will be reduced accordingly. Therefore, in all probability, the extent of the ethical investigation will - indirectly - depend on the level of business success. If, on the other hand, the cost of collecting information is paid by the company, it will indirectly be met by the company's other partners, including shareholders. Things may change in the medium term. Indeed, companies may, for reasons of reputation, seek a particular label. If this is the case, they bear the cost of the expertise with good grace and consider it an investment. The more famous the label or index, the greater the companies' interest. According to prevailing practice, the assessor receives a fee from the company evaluated, which inevitably creates a conflict of interest between the pursuit of remuneration and the accuracy of the evaluation. There is a danger that this practice will end up once again confirming the saying « Tell me who pays you and I'll tell you whom you serve».

6. The effectiveness of responsible investment

The question of the effectiveness, that is the impact of the investor's concern for ethics, is posed in very different terms depending on the type of motivation. For motivations inspired by value-based ethics, the question is secondary. Fructification oriented ethics is aimed only at the company concerned, in the same way as ethics conceived as financial selection criterion. The question of effectiveness is envisaged in a much broader way in the framework of consequence-based ethics. Indeed, investors inspired by consequence-based ethics attempt to incite all companies to adopt behaviour corresponding to their ethical convictions.

All responsible investors do not inevitably adhere to the same hierarchy of values, which exposes companies to a great number of expectations, not necessarily compatible amongst themselves. The question is posed particularly to multinationals confronted with a great variety of cultures in which the same terms « ethical » or « responsible » do not refer to the same contents or convey the same expectations concerning company behaviour. Technically, to escape this discord and thus increase the effectiveness of the pressure of responsible investment on quoted companies, it would suffice to standardise expectations and encourage the appearance of new actors who - like the large financial rating agencies - would assume the role of spokesmen for responsible investors, or even for the civil society as a whole. However, this technical evolution, already beginning to make itself felt, is based on the hypothesis of not only the existence of universal ethical values, but also the possibility of formulating ethical company practices which would be universally valid. Before it is considered verified, this hypothesis calls for thorough debate. Doing without this demonstration is to risk seeing responsible investment play into the hands of an ideology, admittedly generous, but potentially totalitarian, making us fear the claim by certain actors in the responsible investment arena to « set forth the common good » and impose it on companies.

The responsible investor who has opted for investment on the stock exchange has in fact less freedom of choice than it first appears. Indeed, like the master and slave, neither can do without the other. This situation severely restricts the room to manoeuvre regarding ethics as the investor is dependent on the market. In this context, constructive dialogue – and not a power struggle – with companies would be the only feasible way of making ethical convictions influence behaviour. Companies seem to have understood the message and are attempting to regain the initiative. Rather than waiting for external operators to come and give them lessons, they are taking initiatives proposing codes and labels of the socially responsible company and promoting Corporate Social Responsibility. They are going further by developing methods (the standards of tomorrow) regarding reporting and information on the environmental and

societal dimensions of their activity. Subject to more careful verification of the content of these initiatives and their actual impact beyond the simple publicity effect, they tend to reinforce the effectiveness of responsible investment. However, the price to be paid for this increased effectiveness is the risk of seeing the concern for ethics become standardised and reduced to a few abstruse ratios.

This document clearly shows that the « responsible » approach is laborious and responsible investment is no exception to the rule. It demonstrates that the responsible practice of investment requires bearing in mind numerous questions of which only a small number has technical answers. As far as more fundamental questions are concerned, there are no « off-the-peg » final answers. Consequently, anyone wishing to invest in a responsible manner must demonstrate perseverance, since the responsible investment formula which we would like to see recognised is still to come.